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# Switzerland – A strong hub for investment management

A symbiosis between institutional and non-institutional investment management

Swiss Bankers Association and Boston Consulting Group

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# Foreword

## Swiss investment management – locally important, globally competitive

As part of the Swiss financial centre, investment management is an international hub that manages assets for domestic and foreign clients in Switzerland and abroad. Its clients are a broad spectrum of institutional and non-institutional investors, ranging from global sovereign wealth funds and Swiss pension funds to wealthy private individuals. Value is created by management or refinement of assets here in Switzerland and by creating specific client solutions.

This activity is associated with international competition with renowned investment hubs on all continents. Although the investment management industry continues to benefit from the reputation of the financial centre, performance, value for money and quality are becoming increasingly important at the same time. Clients' needs may be different, but the demand for value for money is increasingly becoming more homogeneous. The fact that Swiss investment management wants to satisfy many different client needs with value for money in a small space does not make the task any easier.

This study aims to provide facts about the current state of the Swiss investment management industry, to gain insights and to identify the most important challenges. Last but not least, the economic and social significance will also be addressed. In the course of establishing the study, and especially in the interviews with the experts, it also became clear that different business models lead to success and that the industry is proactively addressing the challenges. There is no one-sided investment industry in Switzerland. The industry can tackle the future from a relative position of strength.

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In view of the importance and upcoming challenges of the investment management industry, the study is also a plea for an internationally competitive regulatory framework and maintaining the attractiveness of the business location. The authors of the study are aware that this requires great commitment: from the individual investment management firm to the associations, policy makers and the media. This study is intended to provide the necessary impetus. We wish you stimulating reading and we look forward to many reactions.

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Global investment management is a growing area in the financial industry, and so is investment management in Switzerland. In recent years, investment management in Switzerland has established itself as a value proposition of the financial industry in Switzerland.

The Swiss Bankers Association (SBA) and Boston Consulting Group (BCG) have identified Swiss investment management as a cornerstone of the Swiss finance industry and plan to provide increasing visibility and support to the industry going forward. The authors sought to illustrate the importance of investment management to the Swiss finance industry and, more broadly, the Swiss economy.

Switzerland presides over the conditions – a strong economy, abundant talent, know-how, access to capital, stable political system and independent judiciary – that support a robust investment management industry. However, care needs to be taken that other prerequisites such as the access to European institutional clients, appropriate regulation and tax laws are fittingly crafted to facilitate innovation, attract foreign investment and stimulate the continued growth of the industry.

## 2 Executive Summary

Investment management, as part of the financial industry, is establishing itself as a cornerstone with a differentiating value proposition and needs to be recognised as an influential part of the financial industry in Switzerland.

Both institutional and non-institutional investment management are strong pillars of the Swiss financial market and should therefore be analysed holistically.

Analysis of company-specific data and industry data led the authors of this report to identify trends that are omnipresent in investment management globally and in Switzerland:

- **Symbiosis of institutional and non-institutional investment management** – Switzerland is in the enviable position of having a strong investment management industry servicing both institutional and non-institutional clients; this enlarges the pool of investible assets, incentivises innovation and provides global credibility.



- **Investment management is increasingly focussed on scale or specialised products** – focus is on asset scale (active or passive products) or sophisticated, higher margin products; businesses are increasingly accessing private capital markets for debt and equity, which will increase the share of these products in investment management.
- **Players in the mid-market are at risk** – competition is becoming fiercer, regulatory requirements and technology will continue to exert pressure on margins; firms must identify a sustainable competitive advantage in scalable or non-replicable niche products to materially grow assets under management and remain relevant.
- **Technology presents key risks and opportunities** – on the one hand, technology will require material investment and increase transparency, which applies pressure on margins; on the other hand, technology affords investment managers the opportunity to make their businesses more efficient while providing clients with a necessary integrated investment management platform.
- **Institutional and non-institutional investment management products and solutions becoming increasingly homogenous** – non-institutional clients increasingly expect the same service and performance as institutional clients while investment management's access to critical asset mass drives innovation; non-institutional investment managers will increasingly leverage products and solutions developed in the institutional business.

Switzerland needs to strengthen the prerequisites of a strong investment management industry in order to maintain its position in global investment management. The following points need to be considered:

- **Pro-business conditions in Switzerland** – stable political system, liberal market economy, independent rule of law, liberal immigration law – must be maintained.
- **Investment management conditions** – access to talent, local expertise, high volumes of investible assets, appropriate financial regulation – must be strengthened.
- **Global competitiveness** – Swiss investment management must remain competitive in the dynamic, cut-throat global investment management market.

The Swiss Bankers Association (SBA) and Boston Consulting Group (BCG), found that Switzerland provides investment managers with good conditions – talent, know-how, stable economy and political system, modern infrastructure – to attract domestic and foreign clients with their products and solutions.

Primary research with 47 prominent investment managers in Switzerland and expert interviews were conducted to address 7 core hypotheses held about investment management in Switzerland.

- **Investment management is a core pillar of the Swiss economy (Chapter 4)**

- Investment management plays a central role in the allocation of capital, creation of market efficiency and generation of returns for investors.
- CHF 3.4 tn assets were managed in Switzerland in 2017, which represents about 5 times the Swiss gross domestic product<sup>1</sup> and about 4 times total Swiss pension assets in 2017<sup>2</sup>.
- Swiss investment management generated revenues of between CHF 17 bn and CHF 20 bn in 2017. This represents about 25 percent of revenues generated in the Swiss finance industry excluding insurance in 2017.
- The Asset Management Platform and the Institute of Financial Services Zug IFZ estimated that Swiss asset management employed about 55,000 full-time equivalents (FTEs) directly and indirectly in Switzerland in 2017, which includes only institutional asset management; this implies that total FTEs in Swiss institutional and non-institutional investment management are materially over 32 percent of all FTEs (excluding insurance) in 2017.

- **Swiss investment management is competitive on a global stage, which drives “export” (Chapter 5)**

- Of those CHF 3.4 tn assets managed in Switzerland about 33 percent are managed for contracting clients abroad, which reflects the broader focus on export in the Swiss economy.
- Experts agree that a competitive and saturated Swiss investor market will force investment managers in the country to export to secure future growth.

<sup>1</sup> International Monetary Fund

<sup>2</sup> Swiss Bankers Association (SBA)

- **Switzerland is a hub for innovation in the investment management industry (Chapter 6)**

- The symbiotic relationship between institutional and non-institutional investment managers in Switzerland is growing as banking secrecy is of lesser relevance to private clients. Investors are placing more emphasis on performance. The combined larger pool of investible assets from institutional and private clients incentivises innovation in the industry.
- Experts stated that Switzerland has the necessary infrastructure, talent, expertise, tax legislation, liberal immigration laws and stable political system to support a highly innovative investment management industry.
- Asset volumes in alternative assets remain well below traditional asset classes but a high proportion of investment managers in Switzerland are invested in alternative asset classes.
- The volume of assets in alternative asset classes (~18 %) is significantly above the global average of about 15 percent.

- **The Swiss investment management industry is liberalised and open to foreign products (Chapter 7)**

- Switzerland has a liberal market economy and relatively liberal immigration laws, which has attracted increasing numbers of foreign investment managers.
- Of the top 20 fund managers in Switzerland (by distributed assets), 8 firms are headquartered outside of Switzerland and distribute about 12 percent of assets.
- Investment management products distributed by foreign firms in the top 20 in Switzerland rose from 11.1 percent in 2008 to 15.4 percent in 2017.

- **Strong distribution channels underpin the Swiss investment management industry (Chapter 8)**

- 24 percent of assets managed in Switzerland (CHF 3.4 tn) for institutional and non-institutional clients are distributed with intermediaries.
- Swiss investment managers’ dependency on intermediaries for distribution is positively correlated with their assets under management.
- Export of investment management products and services is very reliant on intermediaries; 35 percent of assets belonging to foreign contracting clients versus 19 percent for Swiss contracting clients are distributed with intermediaries.

- **Sophisticated financial products are key to the success of the Swiss investment management industry (Chapter 9)**

- Switzerland offers sophisticated products and has a legacy of client-focussed and refined client solutions; structured investment advisory processes, a technically sound talent pool and a history of wealth management differentiates Switzerland from other hubs such as Hong Kong and Singapore.
- Swiss investment managers manage greater volumes of investments in alternative assets (~18 %) and passive products (~24 %) than the global averages of 15 percent and 20 percent respectively.<sup>3</sup>
- Experts agree that a continued shift towards polarised investment management – scale (eg. passive products) or niche products (eg. alternative products) – is likely to continue.
- Furthermore, experts emphasise that investment managers will need to embrace technology to improve the administration and management as well as offer integrated and digitised platforms to engage with their clients and vice versa.

- **Government and industry support is necessary to drive a competitive advantage for Swiss investment management (Chapter 10)**

- Switzerland presides over the necessary prerequisites for a strong investment management industry – independent rule of law, stable political system, free market economy, advanced infrastructure, know-how and good living conditions – but both the Swiss government and industry need to manage these conditions appropriately.
- Investment management experts highlighted that maintaining liberal immigration policies, adopting “equivalency” to permit access to European institutional clients, and eliminating stamp duty and withholding tax would improve the competitiveness of Swiss investment managers.

3 Boston Consulting Group, Trends in Asset Management (2018)





### 3 Definition of investment management in this study

This study defines investment management as the management of investment solutions in the form of collective investment schemes (CIS) including exchange traded funds (ETFs) and individual as well as institutional discretionary and advisory mandates.

Investment management is a core element of the finance industry and economy of Switzerland. Switzerland is in the enviable position of having strong institutional as well as non-institutional investment managers who enjoy a symbiotic relationship.

Institutional investment managers benefit from the greater scale derived from a larger pool of investible assets and the credibility with global investors given the cross-pollination of ideas from institutional to non-institutional investment management and vice versa. Non-institutional investment managers benefit from the continuity of products and solutions, innovation and the focus on performance typically found in institutional investment management.

Investment management firms offer their products and services to institutional clients such as pension funds, insurance companies, sovereign wealth clients, governments/municipalities, corporations and multi-family offices. This is the distribution to professional investors. They also offer their services to non-institutional clients such as private clients (retail, affluent, high-net-worth (HNWI) and ultra-high-net-worth individuals (UHNWI)), and single-family offices.

In contrast to the AMP/IFZ Asset Management Study 2018, wealth management firms and private banks are taken into account in this study and form part of investment management. Private wealth management firms materially contribute to the investment management industry through the provision of investment solutions such as discretionary and advisory mandates for non-institutional clients.

This study defines investment management as the functional activity of managing investments in a mandate context in exchange for a fee as opposed to the transaction-oriented advisory relationship where the transaction is the source of income. Spread or commission-based activities or not managed/compensated business is excluded from the definition. We focus on the management of financial products and services in Switzerland and do not draw inference on the distribution of financial products and services in Switzerland unless otherwise stated.

Investment management is defined as the management of collective investment schemes and advisory and discretionary mandates for a fee on behalf of institutional and non-institutional investors.

Discretionary mandates are defined as given by a client to an institute to manage a portfolio of assets and execute orders in compliance with a predefined set of rules and principles at the institute's sole and full discretion.

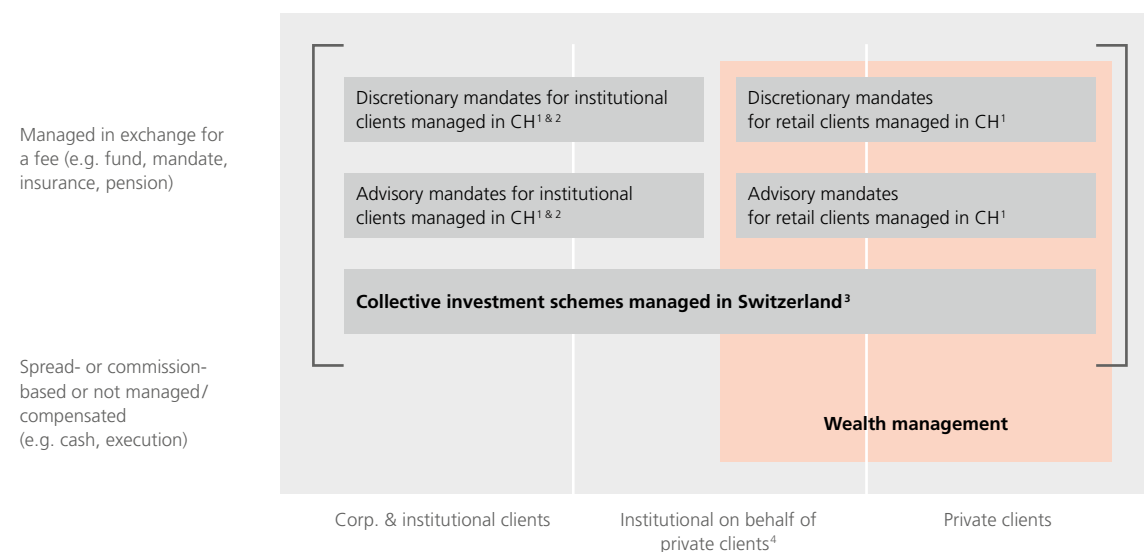
Advisory mandates are defined as those given by a client to an institute to provide advice on a portfolio of assets with only the client deciding on the execution of the advice given by the institute.

Wealth management or non-institutional investment management has significant overlap with institutional investment management.



Fig. 1

**The SBA and BCG study focusses on investment management as opposed to sales of financial products and services in Switzerland**



1 Assets differentiated by end client can be split into retail and institutional assets.

2 Insurance and pension if not unit-linked; corporate/ government pension provisions.

3 Assets managed from a production perspective (i.e. bank, fund manager etc.) can frequently not be allocated to institutional or retail clients.

4 Refers to high net worth and ultra high net worth Individuals who are serviced by asset management directly as opposed of through wealth management.

Source: BCG Global Wealth Management Report; BCG Global Asset Management Report

### 3.1 Investment management performs a key role in global financial markets

Investment management has significant economic relevance both globally and in Switzerland. The primary objective of investment management is to maximise return for clients at an appropriate and predefined level of risk. The efficient allocation of capital, creation of efficient markets and professional management of institutional and non-institutional wealth are vital roles that investment management plays, making it both economically and politically relevant.

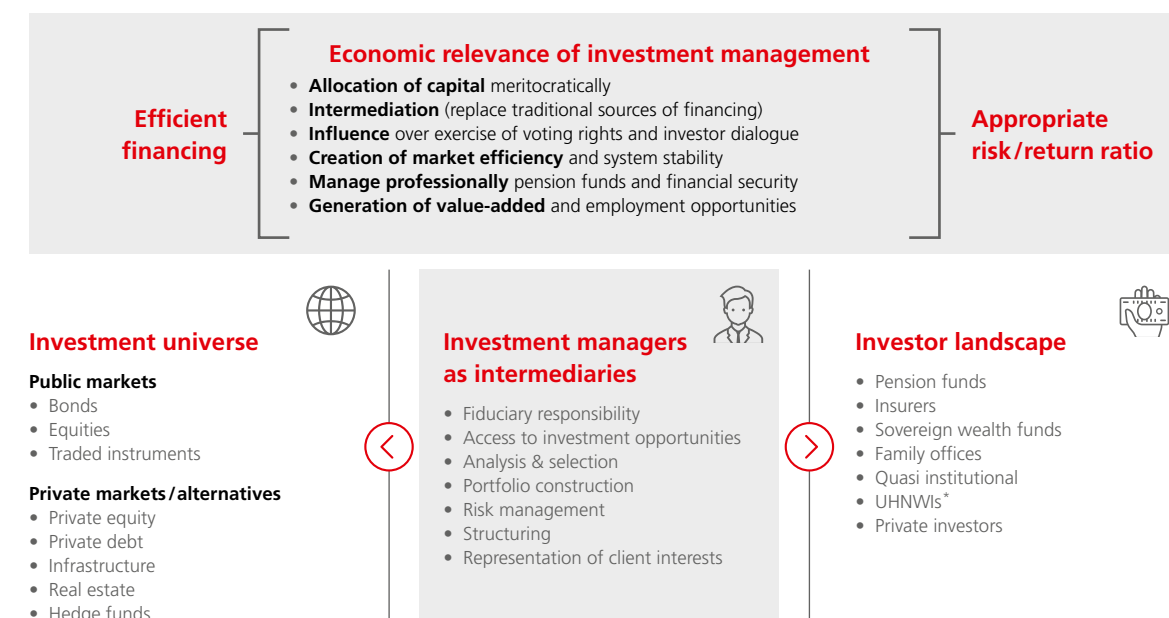
Investment managers have an intermediary function with a fiduciary responsibility to allocate capital to investment classes, identify appropriate investment opportunities, construct portfolios, manage risk and represent their clients. Investment

managers connect investing clients with the investment universe across both private and public markets while representing the entire institutional and non-institutional investor landscape.

Switzerland's strength in both institutional and non-institutional investment management differentiates it from other international investment management hubs. Institutional and non-institutional managers are able to leverage the expertise in each area of activity.

Fig. 2

## Investment management has key roles and responsibilities in financial markets



\* Ultra High Net Worth Individuals

Source: SBA and BCG

3.2 The interlinked and symbiotic nature of Swiss finance provides the Swiss economy, the finance industry and Swiss and foreign contracting clients with material benefits

The SBA estimates that CHF 7.3 tn of investments were booked in Switzerland in 2017. This includes holdings of securities in bank custody accounts (CHF 6.3 tn), fiduciary liabilities (CHF 138 bn) and liabilities to customers (CHF 898 bn).

Swiss retail banks, private banks, institutional investment managers, non-institutional investment managers, investment banks, et al realise material mutual benefits from the density of financial institutions in Switzerland, its strong infrastructure and innovation.

These CHF 7.3 tn of investments which are “taken care of in Switzerland” are a result of significant overlap of services to clients in Switzerland. The investment management industry touches, directly and indirectly, a large portion of the investments booked in Switzerland. This so-called booking centre view of investments in Switzerland does not, however, reflect those investments that are delegated for management in Switzerland but are held in bank accounts outside of Switzerland.

The authors of the study would like to highlight that it is not possible to simply add up various segments of the industry because of the overlaps mentioned previously.

3.3 Investment management in Switzerland is estimated to manage CHF 3.4 tn, of which CHF 2.2 tn are institutional investments and CHF 1.1 tn are non-institutional investments

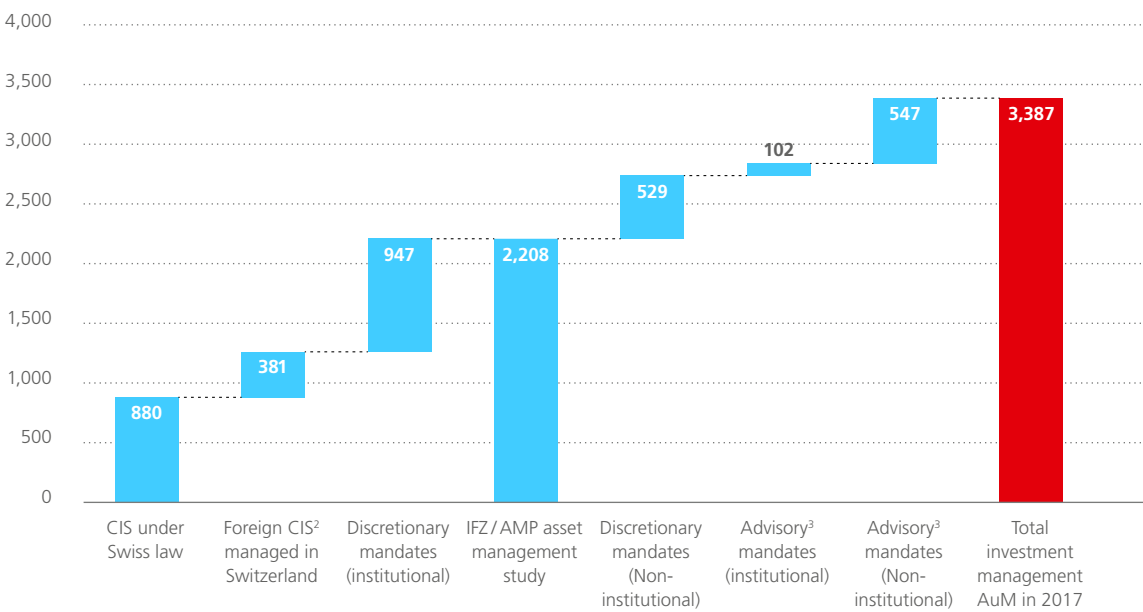
The overall amount under the definition used in this study is CHF 3.4 tn. Institutional investment managers in Switzerland managed CHF 2.2 tn in 2017 of which CHF 880 bn was managed in collective investment schemes (CIS) under Swiss law and we estimate at least a further CHF 381 bn in CIS under foreign law. Non-institutional investments amount to CHF 1.1 tn.



Institutional discretionary mandates grew by about 10 percent to CHF 947 bn in 2017. Non-institutional advisory mandates of CHF 547 bn, which accounts for both centrally managed and relationship manager-led mandates, were managed in 2017. Of non-institutional investment management, only non-institutional investments in discretionary and advisory mandates were taken into account; all cash and self-directed advisory business was eliminated from this analysis.

Fig. 3

CHF 3.4 tn of assets were managed by investment management in Switzerland in 2017, of which approximately CHF 1.5 tn are discretionary mandates<sup>1</sup>  
In CHF bn

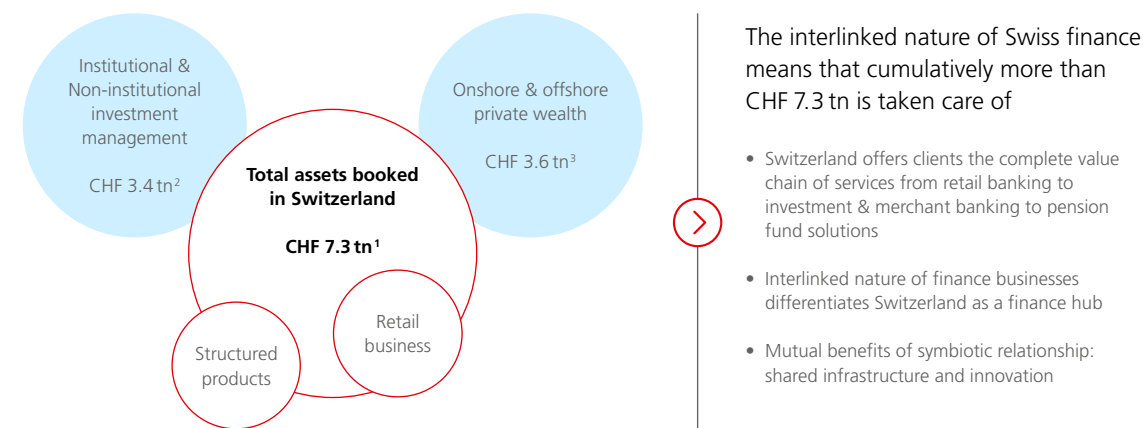


1 Institutional and non-institutional discretionary mandates  
2 Estimates for Foreign CIS managed in Switzerland are considered to be at the lower end of estimates  
3 Advisory mandates exclude cash and self-directed portfolios and reflect only pure mandate business

Source: SBA; Swiss Fund & Asset Management Association; BCG Global Asset Management Benchmarking 2018; BCG Wealth Management Report Benchmarking 2018; BCG analysis

Fig. 4

## The symbiotic and interlinked nature of Swiss finance provides material benefits for clients



1 Includes holdings of securities in bank custody accounts (CHF 6.3 tn), fiduciary liabilities (CHF 138 bn) and liabilities to customers (CHF 898 bn)

2 Assets managed in Switzerland for Swiss and foreign contracting clients

3 Total onshore and offshore private wealth in Switzerland is CHF 3.6 tn of which CHF 0.4 tn is onshore retail banking

Source: SBA; SNB; BCG Global Asset Management Benchmarking, BCG Global Wealth Benchmarking; Swiss Fund & Asset Management Association; BCG analysis



## 4 Investment management is of great importance to the Swiss economy

**4.1 The finance and the investment management industries make material contributions to the strong Swiss economy.**

## Investment management is a significant employer

The finance industry excluding insurance employs about 170,000 full time equivalents (FTEs) while banks in Switzerland employed 93,554 staff in 2017 (101,377 in 2016)<sup>4</sup>. Large banks and cantonal banks accounted for 26,566 and 17,301 of the 93,554 staff respectively<sup>5</sup>.

4 Swiss National Bank

5 Swiss National Bank

The IFZ/AMP Asset Management Study 2018 estimates that the institutional asset management industry in Switzerland directly employs 9,600 FTEs. About 44,500 FTEs are indirectly employed by the institutional asset management industry.

The institutional investment management industry in Switzerland directly and indirectly employs more than 54,100 full time equivalents, which indicates that more than 32 percent of the FTEs employed in the Swiss finance industry (excluding insurance) work in investment management.

Employees at large banks, private banks, non-institutional investment managers and industry-specific service providers must, however, be included to holistically account for total investment management in Switzerland. This study assumes that significantly more than 54,100 FTEs are employed in Swiss investment management when also taking non-institutional investment management into account.

Therefore, it can be deduced that total investment management represents a large portion of the employment in the Swiss financial sector.

## Investment management generates significant revenues for the Swiss government

Investment management in Switzerland generated between CHF 17 bn and 20 bn in revenues in 2017. This range is greater than the revenues generated in the production of consumer durables (CHF 15.4 bn) and electrical machinery and apparatus (CHF 16.6 bn) and is in line with revenues generated in the hospitality industry (CHF 20 bn) in 2017.

Tax contributions to the government are material given the significant employment, relatively high median salaries for direct employees, revenues and historically high profitability in the investment management industry.

Revenues in the investment management industry are estimated on the basis of fees charged for the management of discretionary and advisory mandates and collective investment schemes (incl. exchange traded funds) on behalf of both institutional and non-institutional clients; performance fees are not taken into

account. Weighted average fees by asset class taken from BCG Global Asset Management Benchmarking are applied to the assets managed in the form of CIS and exchange traded funds (ETFs) to calculate revenues.

**Investment management plays a significant role in the management of institutional and non-institutional wealth, particularly pension fund assets**

Wealth generated in Switzerland (including pension funds) requires professional management in the form of financial investment products and solutions. Investment management therefore not only plays a material role from a financial but also from a social perspective.

Large volumes drive domestic demand for professional investment management solutions. Access to large pools of investible assets and the flexibility to appropriately allocate assets to asset classes incentivises innovation and allows managers to maximise returns.

A study by WillisTowersWatson found that assets in Swiss pension schemes reached 133 percent of GDP<sup>6</sup> in 2017 (excluding vested pension assets and 3a pension schemes), which equates to about CHF 890 bn. This is among the highest percentages globally. Returns generated contributed to more than 35 percent of the financing of pension plans over the last 10 years despite the financial crisis and growing impact of the low yield environment.

A high savings rate and median wealth also stimulates demand for investment management products and services. Switzerland's high gross national savings versus GDP of 34.2 percent is the highest in a basket of developed nations including Australia, France, Germany, Luxembourg and the United States<sup>7</sup>. Similarly, Switzerland's median wealth per adult of USD 229,059 in 2017 was double that of the United Kingdom, four times that of the United States and second only to Iceland<sup>8</sup>.

6 WillisTowersWatson

7 WillisTowersWatson

8 Credit Suisse, Global Wealth Databook (2017)

**4.2 Switzerland presides over the prerequisites for a strong investment management industry – a strong economy, independent rule of law, available talent, a stable political system and advanced technological infrastructure**

The finance industry is a strong pillar of the Swiss economy, which grew by 1.4 percent to a GDP of CHF 670 bn in 2017<sup>9</sup>. The Swiss finance industry continues to grow – both institutional and non-institutional investment management experienced double-digit growth from 2016 to 2017.

The well-educated population, historical expertise in banking and wealth management, stable currency, sound political system and unconstrained monetary policy are supportive of the domestic investment management industry, but it is not sufficient to describe the specific conditions applicable to the Swiss investment management industry:

- **Symbiotic institutional and non-institutional investment management** – domestic and foreign clients benefit from the competitive advantage derived from Swiss expertise in both institutional and non-institutional investment management: larger pools of investible assets, cross-pollination of innovative solutions and credibility with clients thanks to an understanding of both client types. A senior leader in investment management stated that the investment management business, which he leads, gains credibility from foreign clients given its exposure to the bank's wealth management business.
- **High savings rate** – the high rate of savings in Switzerland drives wealth creation and enlarged pension fund contributions, which increases investible assets.
- **High standard of living** – Switzerland's good standard of living attracts and maintains talent.
- **Stable political system** – Switzerland is governed by a representative democracy in which laws are made and decided by parliament; the country embraces direct democracy, in which citizens can set political mandates.
- **Strong export** – Switzerland's strong, export orientated industry is highlighted

9 International Monetary Fund



by the value of exports in 2016—46 percent of GDP (imports 41 % of GDP<sup>10</sup>); the focus on export has positive knock-on consequences for the finance industry given the mutually positive interdependence between the real and financial economy.

- **Low unemployment** – in 2017, the country's 3.2 percent unemployment rate was the lowest in a basket of countries including Germany, Luxembourg, the United States and Australia<sup>11</sup>; in 2017 3.9 m FTEs were employed in Switzerland.
- **Available talent** – a strong education system, attractive living conditions, employment opportunities, liberal immigration laws and low rates of income tax ensure Switzerland has a dense population of talent.

### 4.3 Swiss investment management has the necessary access to talent

A strong education system, attractive living conditions, employment opportunities, liberal immigration laws and low rates of income tax ensure that Switzerland attracts talent and has a dense population of technical skilled labour. Switzerland tops the “IMD World Talent Ranking 2018” for the fifth consecutive year confirming its role as an important global talent hub. It ranks 4<sup>th</sup> in investment and development, and 1<sup>st</sup> in both the appeal and readiness factors. In a narrower finance consideration, Switzerland has the 4<sup>th</sup> largest penetration of CFA charterholders in core investment functions and is the 9<sup>th</sup> largest CFA Society by members globally (2017: 2’894 members), which illustrates the level of know-how available in the industry, in particular in relation to the overall population in Switzerland.

Analysis shows that there has been an 89 percent improvement in the ease of hiring staff with higher professional education without difficulties in the finance and insurance industries between 2004 and 2017. In 2004 13.3 percent of staff with a professional education was hired into the finance industry without difficulties and this rose to 25 percent in 2017<sup>12</sup>; data is not available on a more granular level but this offers a proxy for the availability of appropriately skilled investment management talent in Switzerland.

10 World Bank, World Integrated Trade solution

11 Report for Selected Countries and Subjects: Switzerland. Washington, DC, U.S.: International Monetary Fund

12 Federal Statistical Office

This analysis reflects the views of experts interviewed for this study, who highlighted the availability of technically proficient labour in Switzerland and investment management's ability to attract skilled labour from outside of Switzerland thanks to the attractive living conditions, low tax rates and job opportunities.

Arguments could be made that redundancies in the banking sector could weaken this analysis but the 11 percent growth<sup>13</sup> of employment across finance and insurance and 17 percent growth<sup>14</sup> of employment in finance (excl. insurance; incl. auxiliary services to financial services) between 2004 and 2017 pacifies this argument.

The finance industry in Switzerland has seen an 89 percent improvement in the ease of hiring professionally educated staff without difficulties since 2004.

13 Federal Statistical Office

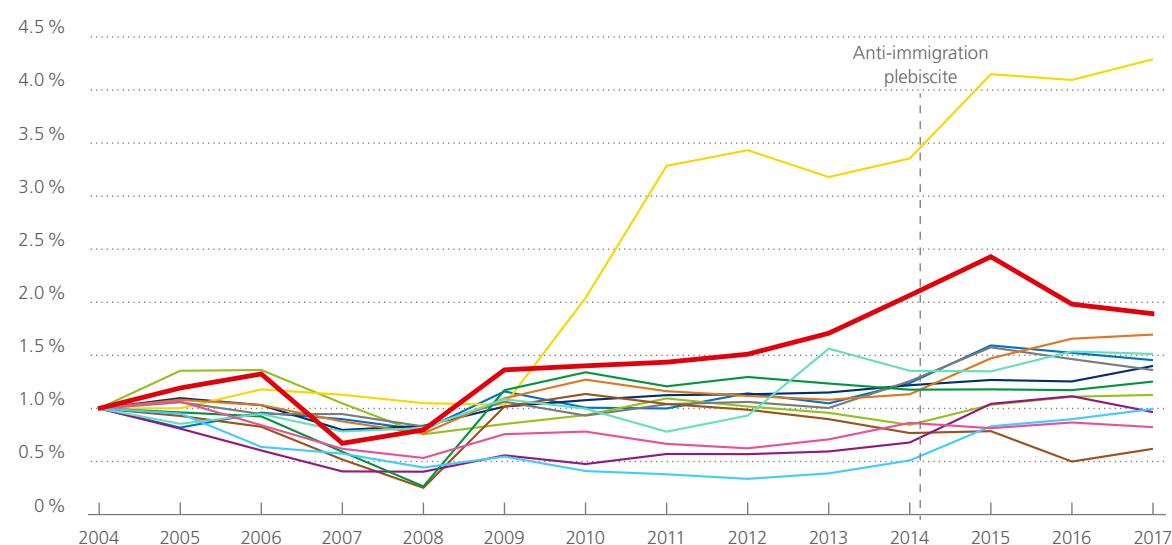
14 Federal Statistical Office



Fig. 5

### Staff with professional education hired without difficulties

In percent



Ease of hiring increased from 13.3 % to 25.1 % between 2004 and 2017

- 11% employment increase across both finance and insurance from 2004 to 2017 eliminates impact of redundancies

- Investment managers attracted to Switzerland by availability of skilled labor

- Since the plebiscite to reduce large scale immigration in February 2014, the ease of hiring has only marginally improved

- Public admin.      ● Admin. & Support Services      ● Hotels & gastronomy  
● Finance & insurance<sup>1</sup>      ● IT & communications      ● Construction  
● Real estate & scientific services      ● Education      ● Manufacturing  
● Trade; trade & repair of vehicles      ● Health & social work      ● Real estate & scientific services  
● Arts & amusement

1 The category finance & insurance from the Federal Statistical Office used as a proxy for “staff with higher professional education found without difficulties” in the asset management industry.

Note: Industry leaders interviewed for the purposes of this study confirmed the view that appropriately skilled labor is readily available in Switzerland and job applications are received from both domestic and international applicants.

Source: Federal Statistical Office; Oxford Economics; Neue Zuercher Zeitung; BCG analysis

#### 4.4 Despite positive growth, material headwinds are persisting against the Swiss investment management industry

Currently there are a number of headwinds impacting the Swiss finance industry:

- ultra-low interest rates
- tightening revenue margins
- fierce competition both locally and globally
- stricter regulation
- substantial investments required to digitise the industry
- stricter immigration laws
- limited banking secrecy
- restricted access to European markets

## Fierce competition, low interest rates and tightening revenue margins

Investment managers need to develop a sustainable competitive advantage by either building a business around scale in active or passive products or alternatively offering specialised, non-replicable products. Both are measures to limit the effects of margin pressure.

Firms that have neither built their business to a large scale (i.e. large asset volumes) nor manage specialised, non-replicable products will become increasingly uncompetitive; this is likely to lead to concentration in the industry and the demise of small and mid-sized investment managers, both in the institutional and the non-institutional segments. Fidelity recently announced that it will offer index-tracking mutual funds with an expense ratio of zero, which illustrates the increasing pressure on margins and the leverage that investment managers with scale, such as Fidelity, have at their disposal.

The lesser relevance of banking secrecy, increased transparency due to regulation and technology, and persistently low interest rates have forced a greater focus on performance in non-institutional investment management. Products and solutions offered to institutional and non-institutional clients are therefore likely to homogenise; institutional and non-institutional investment managers in Switzerland should increasingly leverage their proximity, mutual expertise and the larger pool of investible assets to offer clients differentiated products and solutions. The current



value-for-money discussion in the UK and EU investment management industry further contributes to these developments.

Innovation and asset scale are two key factors that can arrest margin reductions and maintain competitiveness in the highly competitive globalised investment management industry.

### Regulation

Regulation is necessary in financial markets and is instrumental in facilitating innovation but should be at “arm’s length” in order to not impair the competitiveness of an industry. Swiss regulators must ensure that investment managers in Switzerland are not rendered less competitive vis-à-vis their global competition as a result of overly strict regulation.

Regulation such as Markets in Financial Instruments Directive II (MiFID II) is driving increased transparency in European markets. Swiss investment managers are likely to come under similar pressure.

Digital innovation and new technology are further factors that experts stated as necessary to compete both in Switzerland and globally.

Regulators need to work together with industry to craft regulation that supports innovation, access to markets, competitiveness and avoids legal uncertainties.

### Tax laws

Tax laws that require both stamp duty and withholding tax make investment managers in Switzerland less competitive versus foreign competitors. Stamp duty reduces the turnover in the bond market in Switzerland and reduces the effectiveness of technology that allows for more frequent and efficient re-balancing of portfolios.

Eliminating these tax burdens would increase the competitiveness of Swiss investment management and the efficiency in the Swiss financial markets. In the medium term, it would also benefit the overall tax income from corporates and individuals.

### Restricted access to European markets

Regulation that prevents Swiss investment management’s access to European institutional clients creates an unnecessary imposition for the industry and disincentivises investment and innovation. Access to growing markets is essential for the future of the Swiss investment management industry.

## 4.5 Investments managed in Switzerland in 2017 grew by about 13 percent to CHF 3.4 tn

The investment management industry is defined as the management, as opposed to the distribution, of investment solutions in the form of collective investment schemes (CIS) or individual, institutional discretionary and advisory mandates for both institutional and non-institutional clients. Institutional and non-institutional assets under management in Switzerland were CHF 3.4 tn in 2017, which is an increase of 13 percent on AuM in 2016.

On a weighted average basis, we estimate that the performance of Swiss investment management’s investments was about 9 percent across all asset classes in 2017<sup>15</sup>; 4 percent of the increase in assets under management is explained by net asset inflows between 2016 and 2017; overall, the increase in assets under management across institutional and non-institutional investment managers was 13 percent from 2016 to 2017. Non-institutional discretionary and advisory mandates grew by about 16 percent, versus the about 12 percent in the institutional market.

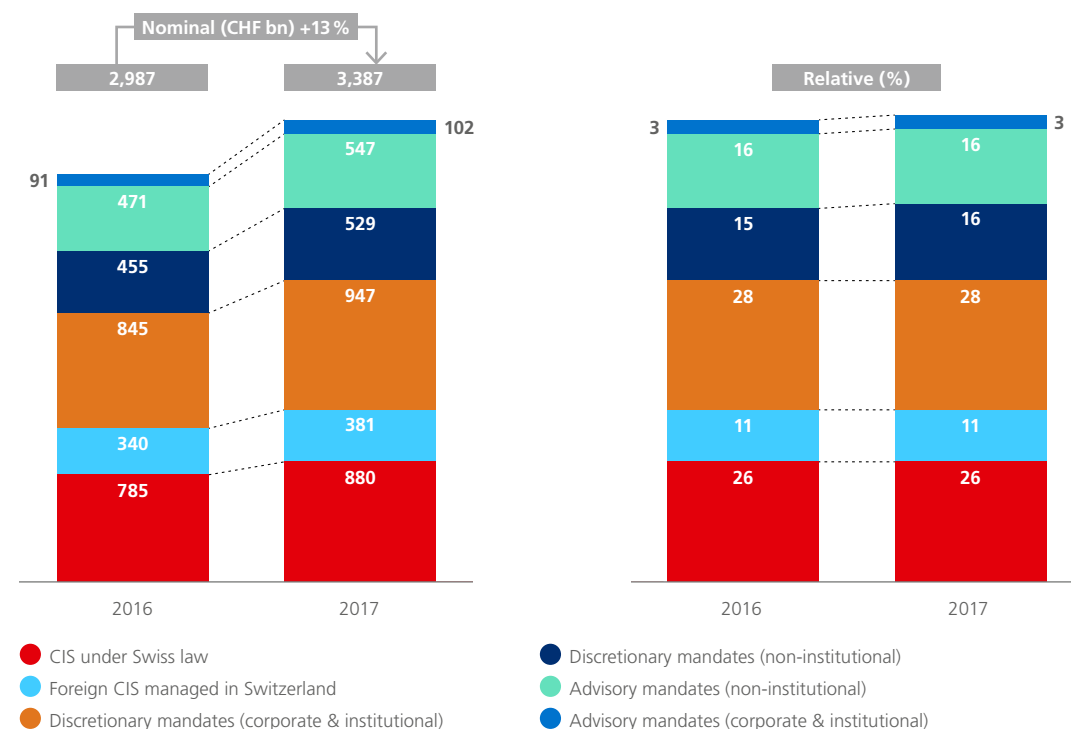
In 2017, investments managed by Swiss investment management were about 5 times larger and about 4 times larger than the Swiss GDP of CHF 670 bn and Swiss pension fund assets respectively.

15 BCG Global Asset Management Benchmarking 2018

Fig. 6

### Total AuM in Switzerland grew by 13 % between 2016 and 2017

In CHF bn



Source: SBA, Swiss Fund & Asset Management Association; BCG Global Asset Management Benchmarking 2018; BCG Wealth Management Report Benchmarking 2018; BCG analysis

### Collective investment schemes

- Collective investment schemes, including exchange traded funds (ETFs), managed in Switzerland are segregated into those managed in Switzerland under Swiss law and those managed in Switzerland under foreign law.
- Collective investment schemes (CIS) under Swiss law<sup>16</sup> as published by the Swiss National Bank and assumed to be produced in Switzerland, grew by about 12 percent from CHF 785 bn in 2016 to CHF 880 bn in 2017.
- Foreign collective investment schemes managed in Switzerland are estimated to

<sup>16</sup> Assumption that assets reported by the Swiss National Bank as managed under Swiss law are effectively managed in Switzerland. This assumption may slightly overstate the volume of assets managed in financial products in Switzerland.

have grown by about 12 percent from CHF 340 bn in 2016 to CHF 381 bn<sup>17</sup> in 2017, but this estimate is considered the lower range of estimates.

- CIS under Swiss Law are not authorised to be sold to clients in the European Union and are therefore almost exclusively sold to Swiss pension fund managers and life insurers. Foreign CIS managed in Switzerland under foreign law, which include funds domiciled in Ireland and Luxembourg (UCITS), are authorised for sale to European clients.

### Discretionary mandates

- Discretionary mandates are defined as given by a client to an institute to manage a portfolio of assets and execute orders in compliance with a predefined set of rules and principles at the institute's sole and full discretion
- Discretionary mandates are broken down into those managed for institutional clients such as pension funds, insurers and corporations, and those managed on behalf of non-institutional clients such as private clients and family offices
- Discretionary mandates for institutional clients grew by about 12 percent from CHF 845 bn<sup>18</sup> in 2016 to CHF 947 bn<sup>19</sup> in 2017
- Discretionary mandates for non-institutional clients grew by about 16 percent from CHF 455 bn<sup>20</sup> in 2016 to CHF 529 bn in 2017<sup>21</sup>
- This study focusses exclusively on mandates managed in Switzerland

### Advisory mandates

- Advisory mandates are defined as those given by a client to an institute to provide advice on a portfolio of assets with only the client deciding on the execution of the advice given by the institute
- Advisory mandates exclude self-directed advisory and cash but include both centralised and de-centralised, relationship manager-led advisory mandates that are contractual and are subject to a fee
- Institutional and non-institutional advisory mandates are reported separately in this report given the different levels of penetration in the institutional and non-institutional investment management business

<sup>17</sup> IFZ/AMP Asset Management Study 2018, An Overview of Swiss Asset Management

<sup>18</sup> Swiss Funds & Asset Management Association report 2016

<sup>19</sup> IFZ/AMP Asset Management Study 2018, An Overview of Swiss Asset Management

<sup>20</sup> Swiss Funds & Asset Management Association Report 2016

<sup>21</sup> IFZ/AMP Asset Management Study 2018, An Overview of Swiss Asset Management

- Advisory mandates managed for institutional clients are estimated to have been CHF 102 bn in 2017
- Advisory mandates managed for non-institutional clients are estimated to have been CHF 547 bn in 2017
- This study focusses exclusively on mandates managed in Switzerland

#### 4.6 The strength of non-institutional investment management differentiates Switzerland from other investment management hubs

Swiss non-institutional investment management accounts for CHF 1.1 tn of assets managed in Switzerland in discretionary and advisory mandates alone (excl. cash and self-directed advisory). Non-institutional discretionary and advisory mandates grew by about 16 percent from 2016 to 2017, which is materially higher than the about 12 percent growth in the institutional market; the volume of assets reflects the strength of non-institutional investment management.

Investment management hubs that have a sophisticated institutional investment management industry give non-institutional investment managers the opportunity to leverage local expertise and infrastructure. Investment management hubs such as Switzerland, which have deep expertise in institutional investment management, provide their non-institutional investment management industries with a competitive advantage.

The low interest rate environment, greater transparency due to regulation and technology and the demise of banking secrecy have shifted the focus of non-institutional clients to be more performance orientated. The typical performance culture of the institutional business is increasingly important for non-institutional clients as they expect the same products and solutions offered to institutional clients. Over time, the increased focus on performance by non-institutional clients is resulting in the homogenisation of investment mandate solutions for institutional and non-institutional clients.

The mandates offering in Swiss investment management is sophisticated and ensures appropriate solutions are created for clients without the focus being on fees generated from products. Value for money is becoming a key consideration in the offering. Increasingly, the products and solutions offered to institutional and non-institutional clients will converge and both sets of clients will benefit from the innovation that is supported by larger pools of investible assets; the greater scale of investible assets in a financial hub such as Switzerland attracts foreign investment and talent and incentivises innovation. However, the pooling of assets is still limited as investors often do not qualify for the same type of investment vehicle.

#### 4.7 Pension funds and insurers are the largest institutional clients of investment managers in Switzerland

About 75 percent of institutional assets managed in Switzerland are managed on behalf of pension funds and insurers. Pension funds make up the largest portion with 44 percent of institutional assets managed in 2017.

39 percent of assets managed for institutional contracting clients abroad are attributable to pension funds, while 46 percent of Swiss institutional assets are from pension funds. Domestic and international pension funds remain the largest clients when analysing data received from both local and foreign institutional investment managers. Sovereign wealth funds make up a large portion of the foreign contracting clients.

Fig. 7

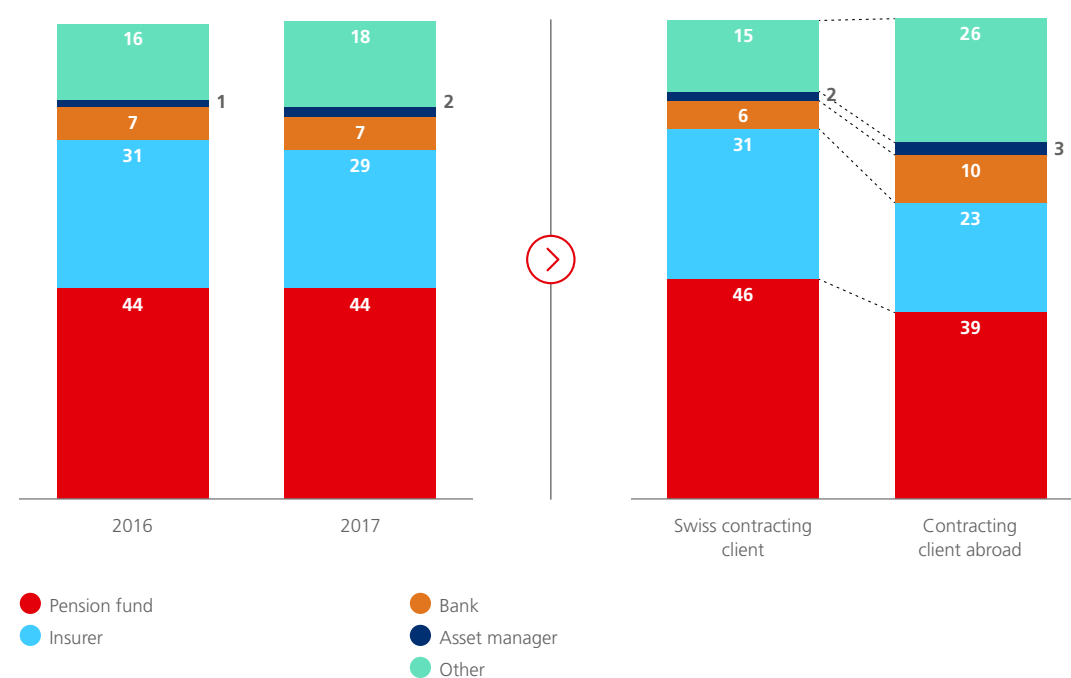
**Pension funds and insurers dominate the Swiss institutional investment management landscape for both domestic and foreign contracting clients**  
In percent

**Pension funds and insurers make up over 70 % of institutional assets ...**

Relative size of institutional investment management client base in Switzerland

... while sovereign wealth funds<sup>1</sup> are a large portion of foreign assets

2017 – Swiss and foreign institutional contracting clients assets



1 "Other" includes sovereign wealth funds and family offices

Note: "Other" includes investment foundations, fund-of-funds, platforms, independent investment consultants, financial advisors, broker-dealers.

Source: SBA; BCG analysis

#### 4.8 Banks control the distribution through intermediaries in Switzerland

Banks are responsible for the distribution of over 50 percent of assets that are sold through intermediaries in Switzerland. "Other", which covers a large portion of assets distributed with intermediaries, includes investment foundations,

fund-of-funds, platforms (e.g. Swissquote), independent investment consultants, financial advisors and broker-dealers. External asset managers were the distribution intermediaries for only a small portion of the assets under management in 2017.

Local and foreign contracting clients are serviced similarly with regards to their distribution channels. Banks in Switzerland control over 50 percent of the assets distributed to both local and foreign contracting clients with intermediaries. One can hypothesise that the large banks (e.g. UBS, Credit Suisse) account for the largest portion of the assets distributed from investment managers in Switzerland given their scale and the interconnectedness of the Swiss financial markets.

Fig. 8

**Banks dominated close to 60 % of the volumes distributed with intermediaries in 2016 and 2017**

In percent

Intermediaries leveraged for distribution by proportion of assets in Switzerland

Intermediaries leveraged in Switzerland for distribution to Swiss and foreign contracting clients in 2017



Note: "Other" includes investment foundations, fund-of-funds, platforms, independent investment consultants, financial advisors, broker-dealers.

Source: SBA; BCG analysis

## 5 Swiss investment management is competitive on a global stage

### 5.1 The large volumes of assets managed for contracting clients abroad illustrate Swiss investment management's expertise

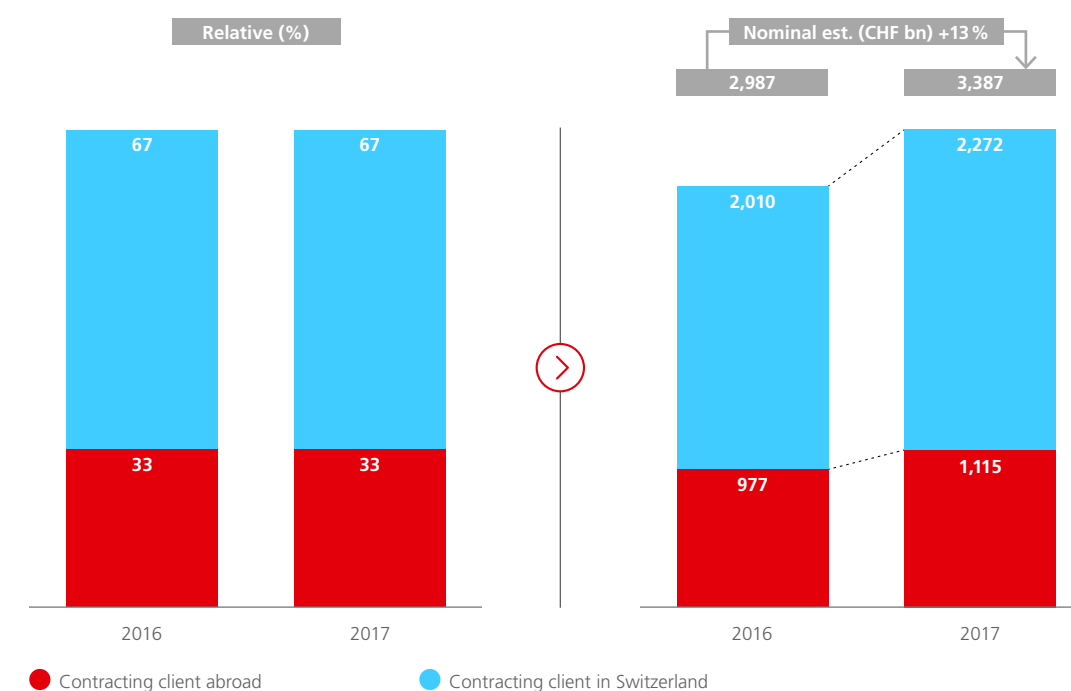
More than CHF 1 tn of assets managed in Switzerland are those of institutional and non-institutional contracting clients abroad; this reflects the same proportion that was observed in 2016. The volume of “export” illustrates the demand for Swiss products and the internationally recognised expertise in Swiss investment management. The investment management industry is very reliant on contracting clients abroad for growth given the competitive and saturated Swiss investment management market.

Revenues generated from investments managed on behalf of contracting clients abroad are expected to be greater than the percentage of investments managed on behalf of contracting clients abroad (2017: 33 %); Switzerland is an importer of lower margin products such as passive products and an exporter of higher margin, actively managed products and mandates.

Switzerland's trade surplus illustrates the economy's focus on export and investment management is not an exception to the broader Swiss economy.

Fig. 9

### One third of AuM in Switzerland managed for clients abroad in 2017



Note: Graphic represents both institutional and non-institutional clients; nominal estimate is based on relative percentages and total estimated assets managed in Swiss asset management.

Source: SBA; Swiss Funds & Asset Management Association; BCG Global Asset Management Benchmarking 2018; BCG Wealth Management Report Benchmarking 2018; BCG analysis

Investment management is a global growth business and the Swiss investment management market is relatively saturated (e.g. pension funds) and ahead of the global growth curve; future growth is therefore heavily reliant on export. The head of investment management for a large bank stated that a global distribution platform is essential for the survival of Swiss investment management because the domestic market cannot guarantee the necessary long-term growth.

The domestic market is highly competitive given the concentration of domestic and foreign investment managers in Switzerland. Thought leaders interviewed for this report emphasised the need for continued export growth to maintain overall growth in Swiss investment management.

The lesser relevance of banking secrecy, increased transparency due to technology and regulation, and persistently low interest rates are forcing non-institutional investment managers to differentiate themselves with investment performance. Further to this, non-institutional clients increasingly expect the same services and investment products as institutional clients.

The founder of Swiss-based digital investment manager Melonport stated that: “In future, performance will be everything. Increased transparency, eliminated barriers to entry, lowered costs and transaction times will force all investment managers to provide a differentiated product and service to remain relevant.”

The convergence of institutional and non-institutional products and solutions establishes a combined asset pool in Switzerland which should drive innovation and make Swiss investment management more competitive globally. Institutional investment management’s significant exposure to sophisticated non-institutional investors in Switzerland also lends firms significant credibility when approaching foreign non-institutional clients.

The availability of talent, access to foreign clients and dense distribution channels are therefore key ingredients for the ongoing success of Swiss investment management.

## 5.2 Investment managers must focus on scale or specialised, non-replicable products to differentiate themselves in the cut-throat global investment management market

Swiss home bias is diminishing, and investment managers must come to terms with global clients, global competition and a global investment universe. Investment management is becoming increasingly competitive and a sustainable competitive advantage is crucial for continued growth and success. Firms need to assess their products, business model, distribution channels and technological capabilities to identify their sustainable competitive advantage and areas for improvement.

Experts pointed out that investment management firms will increasingly need to specialise in products and solutions in which they have a competitive advantage to drive export. Only differentiated products that cannot be easily replicated can demand a price premium and thus counter the likely decline in average industry revenue and operating margins.

The experts identified illiquid assets (e.g. infrastructure), complex products with consistently high alpha and alternatives with higher margins (e.g. hedge funds, private equity, insurance-linked securities), sustainability strategies and thematic investments (e.g. water, driverless mobility) as products in which Swiss investment managers can create a sustainable competitive advantage over international competition.

Focus in alternative asset classes also allows Swiss investment managers to make use of the existing know-how and technically competent labour force that is available locally and which differentiates Switzerland from other export hubs.

Furthermore, experts highlighted that “equivalence”, the ability of Swiss investment managers to access European institutional clients on an equal footing with European competitors, should be a priority of the Swiss government in supporting Swiss investment management’s growth trajectory. Introducing equivalence would make Swiss investment managers more competitive in the short run and stimulate growth and innovation in the long run.



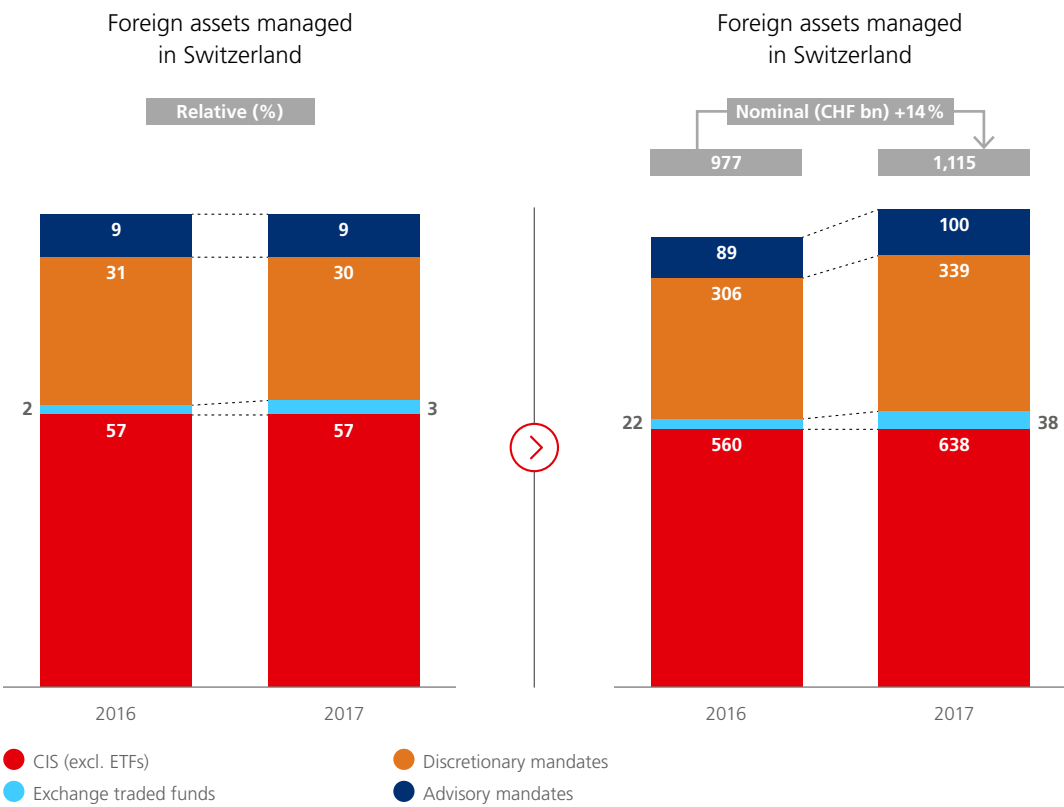
5.3 Swiss collective investment schemes are attractive to contracting clients abroad

- 33 percent of assets managed by Swiss investment management are exported
- Swiss investment management has shown expertise in both products (e.g. collective investment schemes) and mandate solutions (e.g. discretionary mandates)
- 60 percent of these exports are collective investment schemes (CIS) and exchange traded funds (ETFs)
- Discretionary mandates also represent a large component of investments managed for contracting clients abroad (30 % in 2017)



Fig. 10

Collective investment schemes are driving export by Swiss investment managers



About 60 percent of foreign assets were managed in collective investment schemes & ETFs in 2017.

Note: Exchange traded funds are defined as a type of collective investment schemes; nominal estimate is based on relative percentages and total estimated assets managed in Swiss asset management.

Source: SBA; Swiss Fund & Asset Management Association; BCG Global Asset Management Benchmarking 2018; BCG Wealth Management Report Benchmarking 2018; BCG analysis



## 6 Switzerland is a hub for innovation in the investment management industry

### 6.1 High concentration of institutional and non-institutional investment managers in Switzerland drives greater critical mass to incentivise innovation in investment management

Institutional and non-institutional investment management (incl. wealth management) work in close proximity in Switzerland and leverage similar infrastructure. Both disciplines should derive synergies from their symbiotic relationship and increasingly convergent products and services. Swiss institutional investment management's access to non-institutional assets increases the pool of investible assets and increases the incentive to develop and deliver innovative products.

The head of investment management at a foreign bank with asset management and wealth management businesses in Switzerland explained that asset management's access to in-house wealth management increases investible assets for institutional asset management business.

The lesser relevance of banking secrecy, persistently low interest rates and increased transparency in Switzerland have created an increased focus on investment performance in wealth management. Wealth management clients increasingly expect the same service, investment opportunities and returns offered to institutional clients.

The head of investment management at a large bank in Switzerland provided anecdotal evidence that internal wealth management is the largest client to the bank's investment management business. An investment manager's significant domestic exposure to wealth management clients generates credibility when selling to foreign non-institutional clients.

Focus on performance drives an incentive to offer innovative investment products and structures to wealth management clients. Innovation should also bring about developments in terms of technology as clients increasingly expect an integrated and digital platform with which to interact with their investment manager.

### 6.2 Switzerland has the educated workforce and necessary know-how to develop innovative financial products and solutions

Switzerland has a well-educated population and domestic workforce with strong technical know-how. Attractive living conditions and low income tax attract talented foreign professionals and ensure that Switzerland has the necessary talent and know-how to create innovative financial products and solutions.

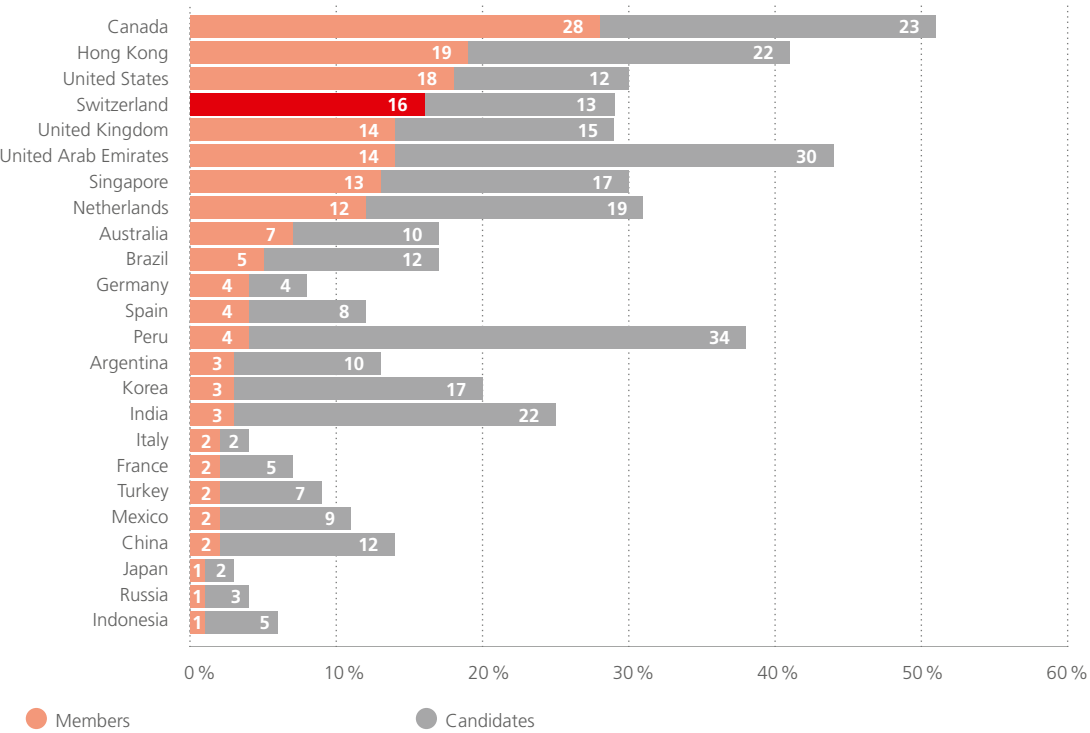
Switzerland has renowned technical universities and colleges such as the ETH in Zurich, from which a high number of highly qualified students with degrees in engineering, artificial intelligence and mathematics graduate. The availability of labour with technical qualifications is a major driver of innovation in investment management.

Switzerland is the 9<sup>th</sup> largest CFA Society by members globally (2017: 2,894 members), which illustrates the level of know-how available in the industry. According to a study done by the CFA Institute in 2016 measuring the CFA charterholder penetration in core investment management activities, Swiss investment management has the fourth position in CFA charterholder penetration globally and is the leader in Europe.

Fig. 11

**CFA charterholder market penetration in core functions of investment management**

In percent



Note: Swiss investment management is the fourth market in CFA charterholder penetration globally and the leader in Europe.

Source: CFA Institute 2016

Experts interviewed for this report unanimously agree that the required talent and know-how to ensure that Swiss investment management can be at the forefront of financial innovation versus other innovation hubs such as the United States is locally available.

Switzerland has the necessary resources to drive innovation in investment management but one expert interviewed for this study highlighted that Swiss investment managers are less innovative than many of the global competitors. More could be done to drive innovation in Swiss investment management.

The Swiss government must, however, maintain liberal immigration laws to give Swiss-based investment managers the necessary access to talent that it requires.

**6.3 Innovation in Swiss investment management drives the allocation of high volumes of assets to alternative financial products**

Traditional asset classes continue to dominate asset allocation, however, experts agree that as investors continue to seek yield in a low interest rate environment, the allocation of assets to non-traditional, illiquid assets is likely to increase.

Over 20 percent of the investment managers who responded to a survey for this report revealed that they allocate real estate, hedge fund, commodity and private equity assets to collective investment schemes or mandates on behalf of clients. Swiss investment management’s willingness to allocate assets to alternative asset classes is supported by the substantial pool of institutional and non-institutional assets to be invested.

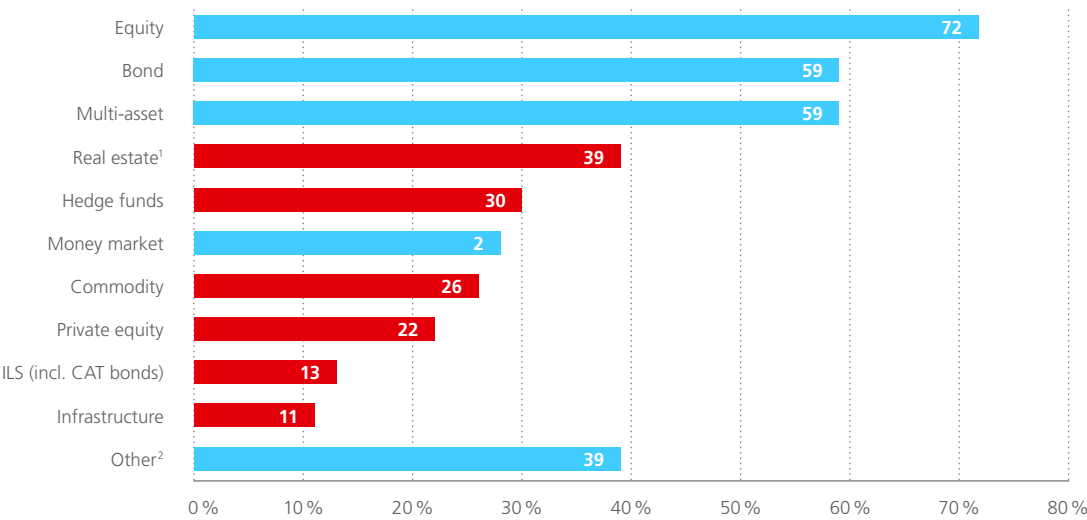
Insurance-linked securities (including catastrophe bonds) and infrastructure assets are also present but are still less pervasive in Swiss asset allocation.

Experts interviewed for this report agree that businesses are increasingly accessing debt and equity capital through private markets, which implies that a larger pool of private equity and debt assets will require management going forward.

Alternative asset classes are well represented in Swiss institutional and non-institutional investment management.

Fig. 12

**Investment managers in sample that managed key asset classes in 2017**  
In percent



<sup>1</sup> Real estate considered alternative asset class  
<sup>2</sup> "Other" may include alternative asset classes

Note: Graphic reflects asset allocation in institutional and non-institutional asset management in Switzerland (domestic and foreign contracting clients).

Source: SBA; Swiss Fund & Asset Management Association; BCG Analysis

Despite a large proportion of Swiss investment managers allocating assets to alternative asset classes, asset allocation to the alternative asset class remains relatively low versus traditional asset classes such as equities, bonds and multi-asset classes. Responses to this survey lead us to believe that about 18 percent of assets in Swiss investment management are allocated to alternative investments (incl. commodities and real estate assets). This materially contrasts with the 7 percent figure that is reported by Swiss Funds Data at the end of 2017.

The difference is driven by two factors:

- Large volumes of assets invested in alternative asset classes and managed in collective investment schemes are included in the data for this survey and are not included in the Swiss Funds Data figures. Assets in discretionary and advisory mandates contain a significant proportion of alternative assets, which is higher than the proportion estimated in Swiss Funds Data figures.
- Swiss Funds Data figures reflect estimated funds distributed in Switzerland whereas data collected for this report is on the basis of investments managed in Switzerland and distributed to Swiss and foreign contracting clients.

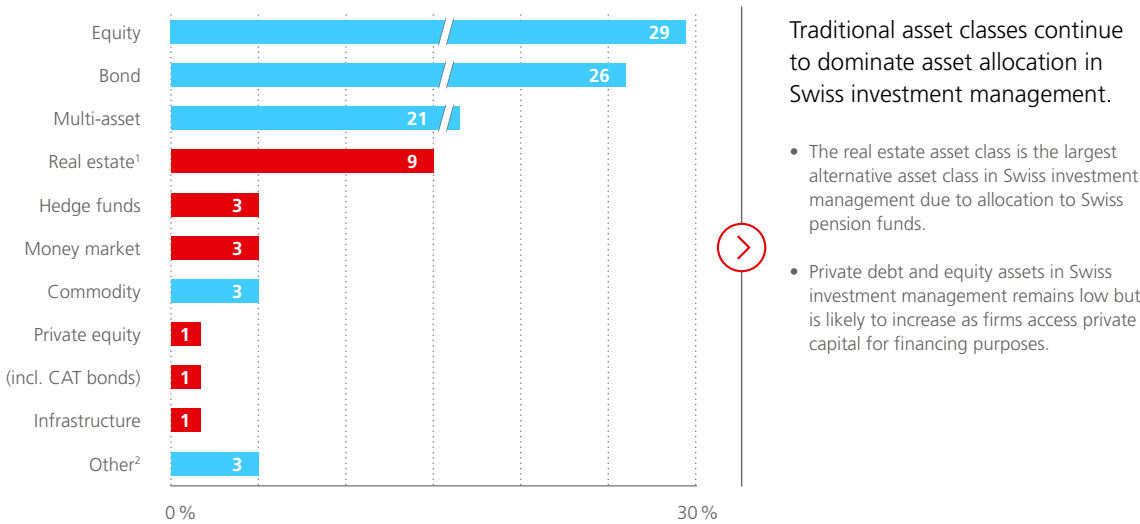
Experts interviewed for this report indicate that many investors remain fearful of non-traditional asset classes given their complexity, which puts pressure on the allocation of assets to alternative assets. Swiss investment managers remain resistant to change and less likely to adopt new assets and techniques without them being tested in other markets.

A senior leader at a large investment management firm in Switzerland also indicated that only a social movement, putting pressure on pension fund managers and consultants to allocate larger volumes of assets to alternative asset classes, will result in alternatives becoming more pervasive in institutional and non-institutional financial products and mandates.

Fig. 13

Asset allocation of investment management in Switzerland 2017

In percent



1 Real estate considered alternative asset class  
2 Other may include alternative asset classes

Note: Graphic reflects asset allocation in institutional and non-institutional asset management in Switzerland (domestic and foreign contracting clients).

Source: SBA; Swiss Fund & Asset Management Association; BCG Analysis

6.4 Swiss investment managers should leverage expertise in sustainability and thematic investment strategies to develop a sustainable competitive advantage

Switzerland has expertise in the area of sustainable investing but continues to lag behind Scandinavian countries and the Netherlands. Expertise in sustainable investing should be leveraged to differentiate Swiss investment management from other hubs. Historically, sustainable investing was an overlay for more traditional investment strategies, however, the approach has been developed to a point where it is a strategy in its own right today. An industry leader interviewed for this report stated that the head of sustainability for the MSCI is in Geneva, which illustrates the fact that Switzerland is a hub for sustainable investing.

A further opportunity to deliver innovation is in thematic investing here in Switzerland. Senior leaders in the industry agree that investors are increasingly looking to long-term products that are strategic as opposed to tactical in nature (i.e. less regular rebalancing or re-allocation of assets). Thematic investments are also popular for distribution to non-institutional clients.

Both sustainability and thematic investing offer Swiss investment management material opportunities to differentiate itself from the international competition.

6.5 Current regulation in Switzerland stunts technological progress and innovation

Given the increasingly digitalised nature of the investment management business and the potential for digital investment management going forward, it is essential that regulation be written to accommodate new technology as opposed to prevent it. The opportunity for digital investment management to positively influence the traditional asset management industry – increased transparency, reduced barriers to entry, the reduction of costs, risk reduction and accelerated transaction times – is significant.

Regulation that is currently in place in Switzerland frequently does not easily accommodate new technology. For example, fund regulation requiring a central custodian is not synchronised with the nature of a decentralised environment promoted by blockchain; current regulation prohibits fund transactions without custodians, which limits the advantages of this technology.

Increased adoption of digital investment management (e.g. transactions over the blockchain) would drive innovation in investment management; investment management over the blockchain forces investment managers to differentiate themselves almost exclusively based on investment performance as costs are reduced, transaction speed increases, transparency improves and the relevance of asset scale diminishes.



## 6.6 Adjustments to pension fund regulations would give managers greater flexibility and provide the incentive for innovation

Pension funds and insurers are permitted to invest only 15 percent of their investments under management in alternative asset classes without special dispensation, which limits their ability to seek yield across the entire risk/return spectrum. The SBA argues that Swiss pension fund portfolios between 2006 and 2015 were unnecessarily accepting a lower than possible rate of return at a given level of risk. These funds could theoretically have delivered higher returns at the same level of risk by allocating a greater proportion of investments to alternative asset classes<sup>22</sup>.

Experts stated that changes to the regulatory frameworks governing pension fund asset allocation would incentivise innovation and increase the competitiveness of investment management in Switzerland. Reducing fund managers' discomfort with alternative asset classes by highlighting the risk premia of alternatives is a means of driving innovation in alternative products and improving returns across all managed investments. An important beneficiary would be Swiss pension funds. Currently, pension funds in Switzerland utilise less than half of the 15 percent allocation limit (BVV2) for alternative asset classes (excl. Swiss real estate)<sup>23</sup>.

Modernisation of pension fund regulation in Switzerland, to allow for greater flexibility in asset allocation, could increase the contribution to pension fund assets from capital markets.

22 The 3<sup>rd</sup> contributor to occupational pension plans, SBA (2017)

23 The 3<sup>rd</sup> contributor to occupational pension plans, SBA (2017)



# 7 The Swiss investment management market is liberalised and open to foreign products

A significant increase of fund assets distributed to clients in Switzerland by both local and foreign investment managers in 2017 (+4 % of AuM<sup>24</sup>) drove the increase of invested assets in funds to above CHF 1 tn<sup>25</sup>.

Fund assets distributed in Switzerland are made up of funds managed under Swiss law and those managed under foreign law (e.g. UCITS). Swiss Funds Data reflects only those assets in the form of funds approved by the Swiss Financial Market Supervisory Authority (FINMA) that are distributed in Switzerland by both Swiss and foreign investment managers.

## 7.1 Swiss investment management has realised significant inflows of assets since 2008

Swiss investment management's home bias is declining as the industry comes to terms with a global client base, global competitors and a global investment universe; this underpins the increasing openness to foreign investment managers and products.

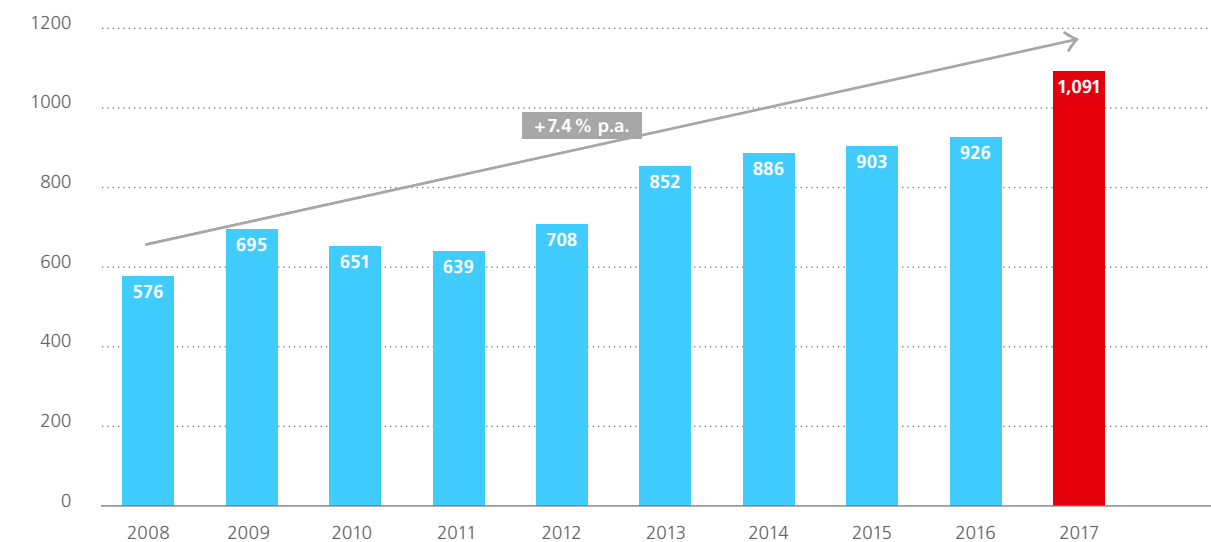
24 The 3<sup>rd</sup> contributor to occupational pension plans, SBA (2017)

25 Swiss Funds Data

Fig. 14

### Fund assets distributed in Switzerland rose to CHF 1,091 bn in 2017 propelled by record flows into investment managers distributing their funds in Switzerland

In CHF bn

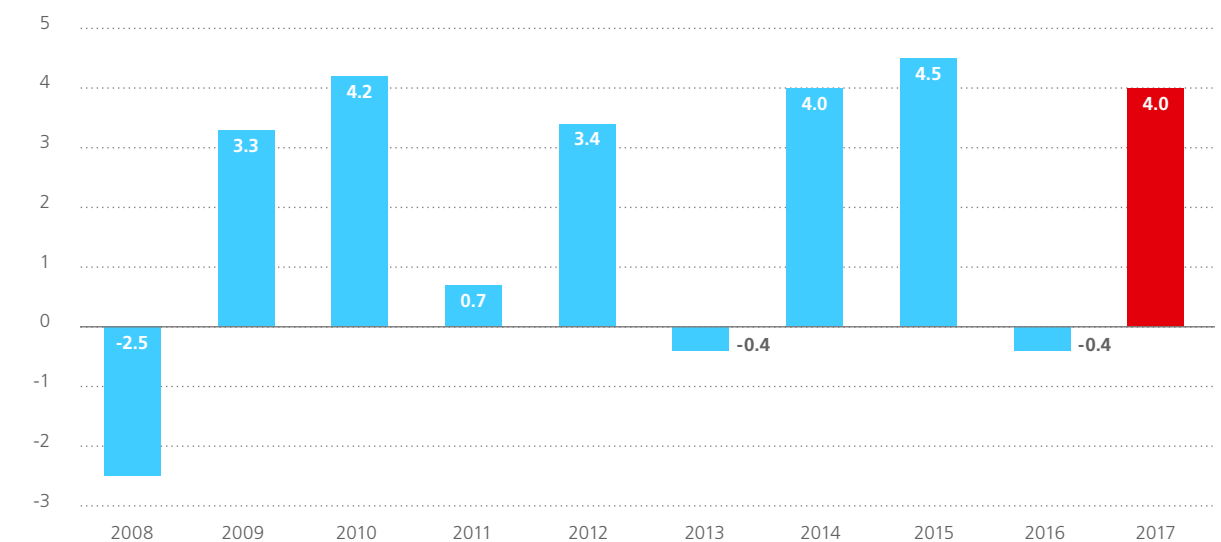


Assets distributed in Switzerland rose to CHF 1,091 bn in 2017 ...

Notes: Swiss Funds Data reflects only those assets in the form of funds approved by FINMA that are distributed in Switzerland by both Swiss and foreign investment managers.

Source: Swiss Funds Data; BCG analysis

Net asset flows per annum as a percentage share of end of year AuM in percent



... driven by record inflow of CHF 44 bn in 2017.

## 7.2 Foreign products and investment managers pervasive in Swiss investment management

This study finds that in 2017 CHF 880 bn was managed in Swiss collective investment schemes under Swiss law while foreign CIS managed in Switzerland was CHF 381 bn, which is at the low end of estimates. Therefore, at least 30 percent of CIS managed in Switzerland are managed under foreign law. This illustrates the high interest in foreign CIS in Switzerland and the relative openness of Swiss investors to foreign products.

Assets managed as funds distributed in Switzerland have, according to Swiss Funds Data, grown 7 percent per annum since 2008. Swiss Funds Data indicates that the distribution of funds in Switzerland is highly concentrated with a small group of

large Swiss and foreign investment managers; 80 percent of fund assets are managed by only twenty businesses.

8 out of the twenty largest fund managers by fund assets distributed in Switzerland are headquartered outside of Switzerland, which illustrates the openness of the Swiss investment management market and potential for foreign investment managers in Switzerland. This is further supported by the fact that the 8 largest foreign fund managers distribute about 12 percent of all funds in Switzerland.

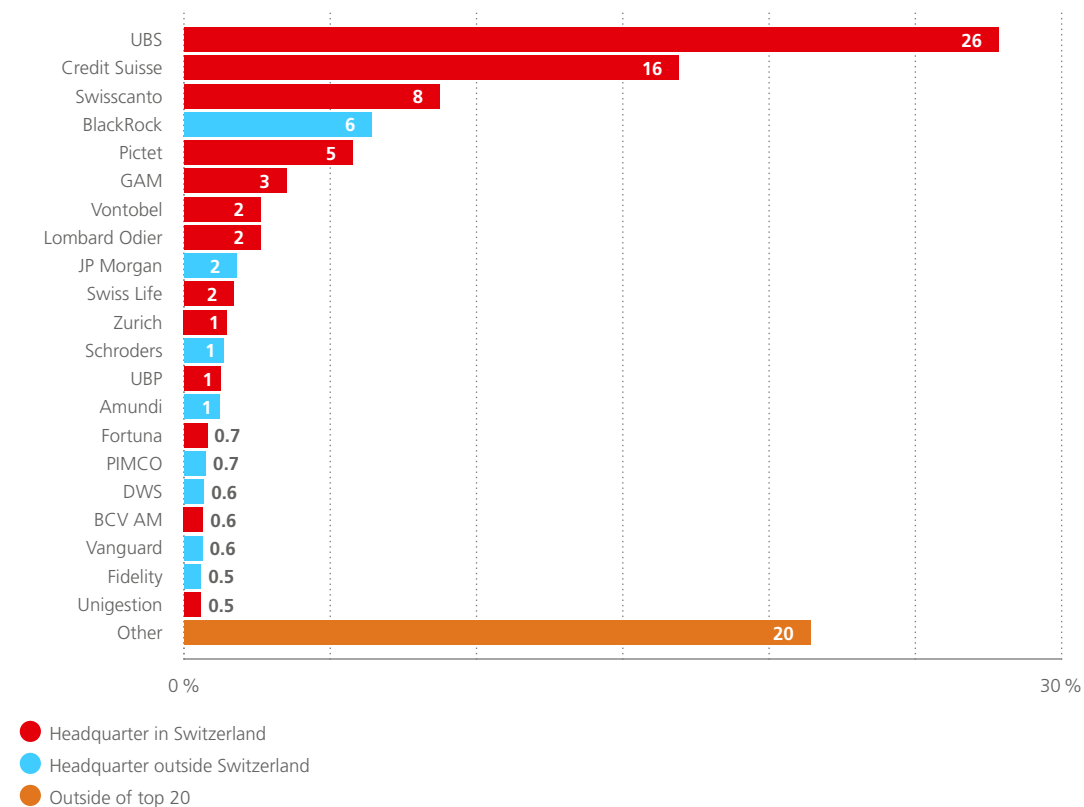
Eight of the 20 largest fund managers distributing their funds in Switzerland are investment managers with headquarters outside of Switzerland.



Fig. 15

### 20 largest fund managers in Switzerland distributed 80 % of fund assets in 2017

Net total fund assets distributed per fund manager in Switzerland  
(Market share in percent)



Note: Swiss Funds Data reflects only those assets in the form of funds approved by FINMA that are distributed in Switzerland by both Swiss and foreign asset managers.

Source: Swiss Funds Data; BCG analysis

### 7.3 Swiss investment management is more consolidated than the global average

The Swiss fund management business is more concentrated than investment management on a global level. WillisTowersWatson estimated that in 2016 only 42 percent of global investments were managed by the top 20 investment managers



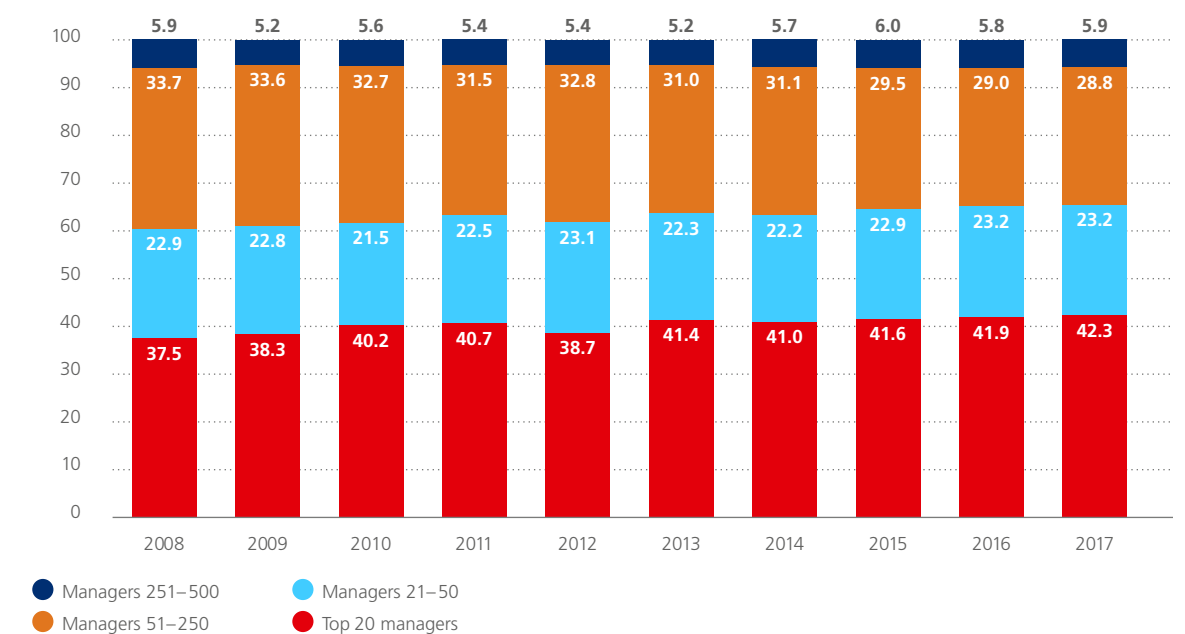
ranked by assets under management<sup>26</sup>. This is in sharp contrast to 80 percent of funds distributed in Switzerland being controlled by the largest twenty investment managers according to Swiss Funds Data. According to WillisTowersWatson, only 2 of the largest 10 investment managers globally (Allianz Group and AXA Group) were not from the United States in 2016 (24 of the largest 50 investment managers globally in 2016 are not headquartered in the United States).The global fund markets are less consolidated than the Swiss fund market.

Fig. 16

### Distribution of assets across top 500 investment management firms

In percent

Globally 42.3 %<sup>1</sup> of funds were distributed by the top 20 investment managers versus 80 %<sup>2</sup> distributed by the top 20 managers in Switzerland.



1 42.3 % managed by top 20 asset managers globally in 2016

2 80 % managed by top 20 managers in Switzerland in 2017

Note: WillisTowersWatson estimated that USD 81.2 t was managed by the top 500 asset managers globally in 2016.

Source: WillisTowersWatson; Swiss Funds Data; BCG analysis

26 Willis Towers Watson, The world's 500 largest asset managers (2017)

#### 7.4 The contribution of foreign investment managers to Swiss investment management is growing

Swiss investment management is becoming more open to investment managers headquartered outside of Switzerland. Assets distributed by foreign fund managers in the top 20 in Switzerland (8 foreign firms) grew by 4.3 percentage points to 15.4 percent of total assets distributed by the 20 largest investment managers between 2008 and 2017 (12.3 % of total fund assets distributed in Switzerland were managed by the largest 8 foreign investment managers in 2017).

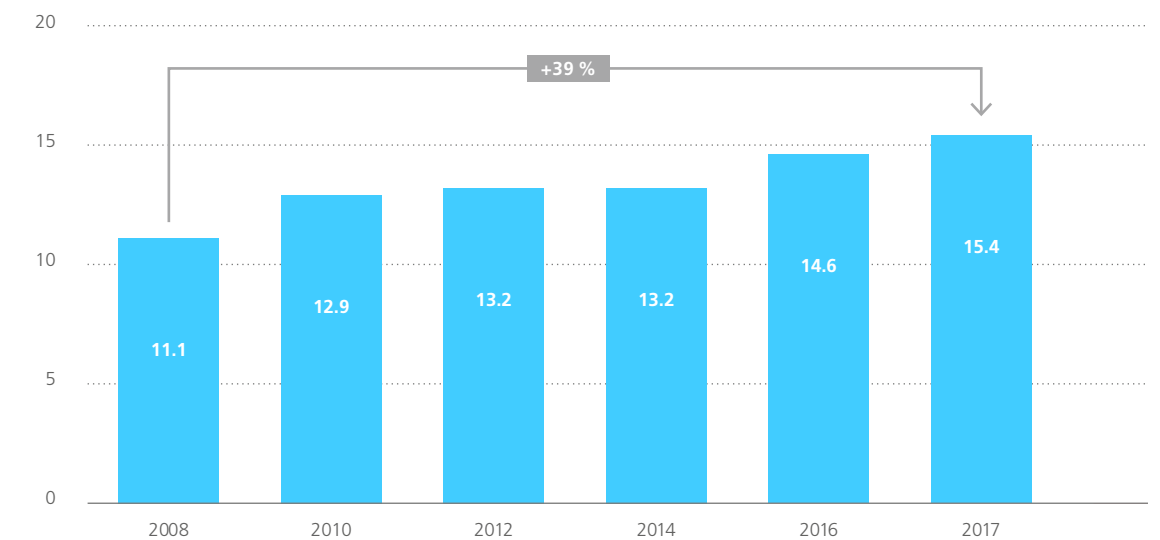
Foreign investment managers materially established themselves in the top 20 between 2008 and 2017 in spite of the fiercely competitive market, which is testament to the openness and attractiveness of Switzerland as an investment management hub. Switzerland's liberal approach to business and the attractive living and working conditions play a material role in attracting foreign firms and talent to the country.

Foreign investment managers in the top 20 in Switzerland grew their AuM managed as a percentage of total top 20 AuM from 11.1 percent in 2008 to 15.4 percent in 2017.

Fig. 17

### Top 20 fund manager's fund assets that are distributed by foreign investment managers in Switzerland

In percent



Note: The AuM managed by foreign investment managers in top 20 as a percentage of AuM managed by top 20 grew by 39 percent between 2008 and 2017.

Source: Swiss Funds Data; BCG analysis

## 8 Strong distribution channels underpin the Swiss investment management industry

### 8.1 A large proportion of investments managed in Switzerland are distributed with intermediaries

24 percent of investments managed in Switzerland for institutional and non-institutional clients were distributed with intermediaries in 2017 (2016: 23 %). Collective investment schemes make up the majority of the investments sold with intermediaries, whereas only a small proportion of discretionary mandates are distributed with intermediaries.

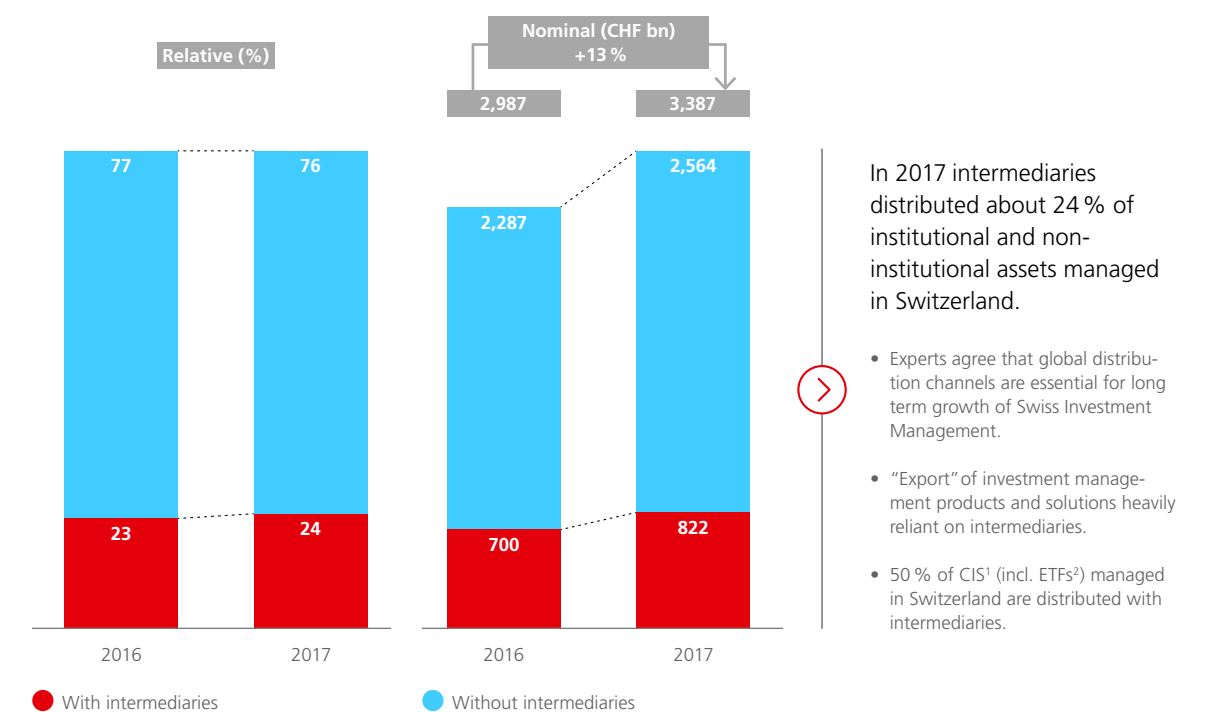


In this study, assets distributed with and without intermediaries spans both institutional as well as non-institutional investment managers; no differentiation between client types was made. Typically, institutional assets are distributed directly to clients without intermediaries, which contrasts with non-institutional investment management, which is more reliant on intermediaries for distribution.

24 percent of assets under management in Switzerland were distributed with intermediaries in 2017.

Fig. 18

### Intermediaries are essential for the success of Swiss investment management



1 Collective investment schemes

2 Exchange traded funds

Note: Nominal estimate is based on relative percentages and total estimated assets managed in Swiss investment management.

Source: SBA; Swiss Fund & Asset Management Association; BCG Global Asset Management Benchmarking 2018; BCG Wealth Management Report Benchmarking 2018; BCG analysis

## 8.2 Large investment managers in Switzerland are most reliant on intermediaries for the distribution of their products and solutions

This study found that 25 percent of large investment managers (AuM > CHF 15 bn) sold their products and services through intermediaries while medium-sized investment managers (CHF 5 bn < AuM < CHF 15 bn) sold 22 percent of their products and services through intermediaries. This contrasts with small investment managers in Switzerland (AuM < CHF 5 bn), which distributed 18 percent of products and services with intermediaries in 2017. Responses to the study questionnaire were received from 22 small investment managers, 6 medium-sized investment managers and 19 large investment managers.

Large investment managers are more reliant on intermediaries for the distribution of their products than smaller investment managers in Switzerland.

One hypothesis stated to explain this difference is that large investment managers have started earlier to establish distribution with intermediaries and have taken advantage of broader brand recognition.

Fig. 19

### Assets managed in Switzerland and distributed with and without intermediaries by size of firm in 2017

In percent



Note: 22 small investment managers, 6 medium investment managers, 19 large investment managers

Source: SBA; BCG analysis

8.3 Intermediaries are essential for the distribution of Swiss investment management’s products and solutions to contracting clients abroad

The distribution of products and services by institutional and non-institutional investment managers to contracting clients abroad is more reliant on intermediaries than the sale of products and services to contracting clients in Switzerland.

35 percent of assets managed in Switzerland for contracting clients abroad were distributed through intermediaries in 2017. Only 19 percent of assets under management for contracting clients in Switzerland were distributed through intermediaries in 2017.

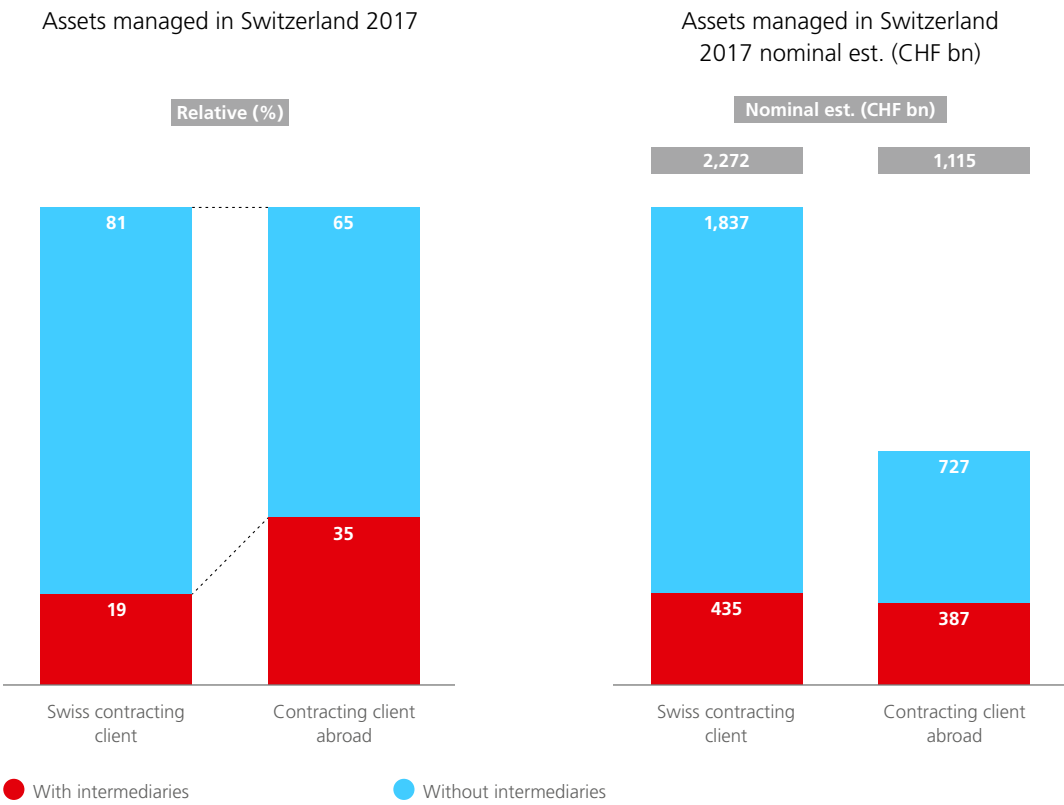
Many investment management firms in Switzerland are international players but require robust distribution channels to access a global pool of clients. A senior leader in Swiss investment management stated that a global distribution platform is essential for survival because the domestic market cannot guarantee long-term growth.

In 2017, 35 percent of foreign assets versus 19 percent of Swiss assets were distributed with intermediaries.



Fig. 20

Foreign contracting clients are more reliant on intermediaries than Swiss contracting clients



Note: Nominal estimate is based on relative percentages and total estimated assets managed in Swiss investment management.

Source: SBA; Swiss Fund & Asset Management Association; BCG Global Asset Management Benchmarking 2018; BCG Wealth Management Report Benchmarking 2018; BCG analysis

## 9 Sophisticated financial products are core to the success of the Swiss investment management industry

### 9.1 Switzerland's investment management industry is driving change with significant investment allocation to both alternative and passive products

The global investment management industry is becoming more polarised as investment managers focus on asset scale or specialised, non-replicable products and solutions to expand their competitive advantage and maintain profitability.

A global study by BCG in 2018 shows that the percentage of assets under management in alternative products (hedge funds, private equity, real estate, infrastructure and commodity funds, and liquid mutual funds) grew from 9 percent in 2003 to 15 percent in 2017 and is expected to grow to 16 percent in 2022<sup>27</sup>.

<sup>27</sup> Boston Consulting Group, Trends in Asset Management, June (2018)

The data leads us to believe that Switzerland is well progressed regarding this structural shift. According to responses to this survey, the percentage of institutional and non-institutional assets managed in alternative investment products in Switzerland in 2017 was about 18 percent, which is about 20 percent higher than the global average (~3 percentage points higher than the global average). This accounts for institutional and non-institutional clients across both collective investment schemes (incl. ETFs) and mandates.

The same global study by BCG shows that the percentage of assets under management in passive products has grown from 9 percent in 2003 to 20 percent in 2017 and is expected to grow to 23 percent in 2022<sup>28</sup>. This study shows that 24 percent of assets managed in Switzerland were invested in passive products in 2017, which is 20 percent higher than the global average (4 percentage points higher than the global average). Of the collective investment schemes (incl. ETFs) managed in Switzerland, our data indicates that about 21 percent are managed passively, which is also above the global average for investment management.

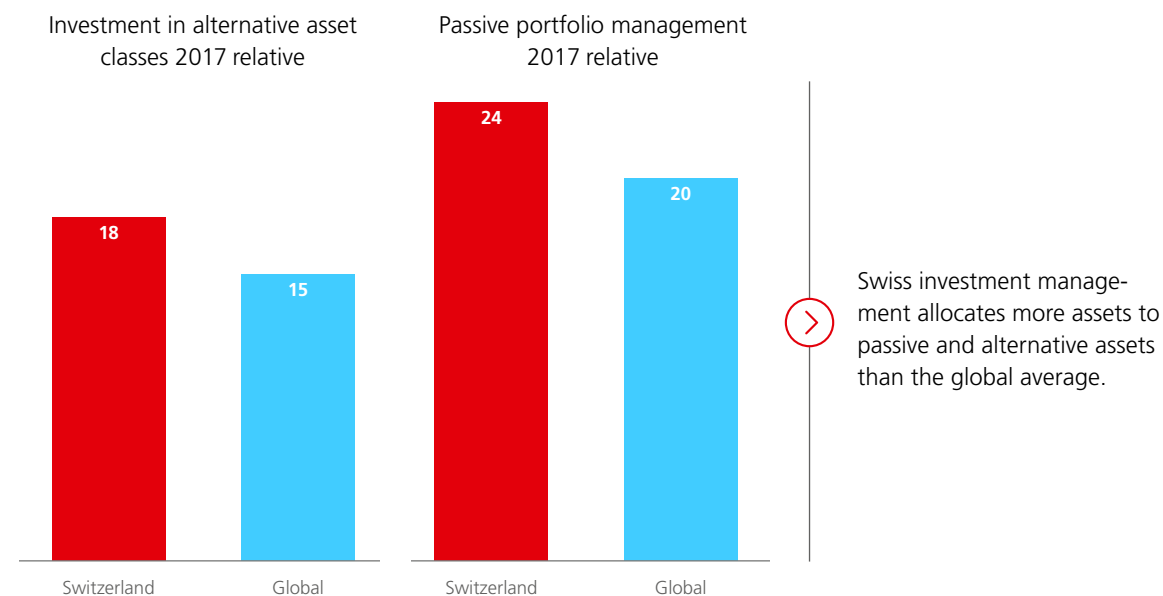
Swiss investment management is ahead of global averages in terms of assets managed in passive products and assets allocated to alternative asset classes.

<sup>28</sup> Boston Consulting Group, Trends in Asset Management, June (2018)

Fig. 21

### Switzerland is a hub for innovation in investment management

In percent



Note: Alternatives includes private equity, hedge funds, real estate, Insurance Linked Securities (including catastrophe bonds), investments in commodities and infrastructure; graphics represent the production and not the distribution of assets in Switzerland in 2017.

Source: SBA; Swiss Fund & Asset Management Association; BCG Global Asset Management Benchmarking 2018; BCG Trends in Asset Management (2018); BCG analysis

## 9.2 76 percent of assets managed for institutional and non-institutional clients are actively managed in Switzerland

Experts argue that investment managers need to focus their products and solutions on 1 of 2 options:

1. scale in active or passive products or;
2. specialised, actively managed products with a superior performance after fees that cannot be replicated by passive products to maintain profitability and build a sustainable competitive advantage.



Given high costs in Switzerland and the know-how available in the local investment management industry, many argue that Swiss investment managers should, but for a select group of large players, focus on specialised, actively managed products to establish a sustainable competitive advantage. Specialised, non-replicable financial products are more likely to command a premium price, which will help Swiss investment managers maintain or even boost their profitability.

Regulation (e.g. MiFID II in Europe) and technology are driving transparency, which is increasing pressure on fees and margins in the investment management industry; delivering non-commoditised products and solutions with superior returns versus index-tracking or other passive products is essential to ensure lasting success.

Fidelity recently announced that it will introduce two new index-tracking mutual funds on large capitalisation equities with an expense ratio of zero<sup>29</sup>; this is only applicable to the index fund suite and not the faster growing ETF product range, but indicates the leverage that providers with scale have at their disposal.

76 percent of assets managed in Switzerland in 2017 were actively managed, of which collective investment schemes and discretionary mandates formed the largest portion.

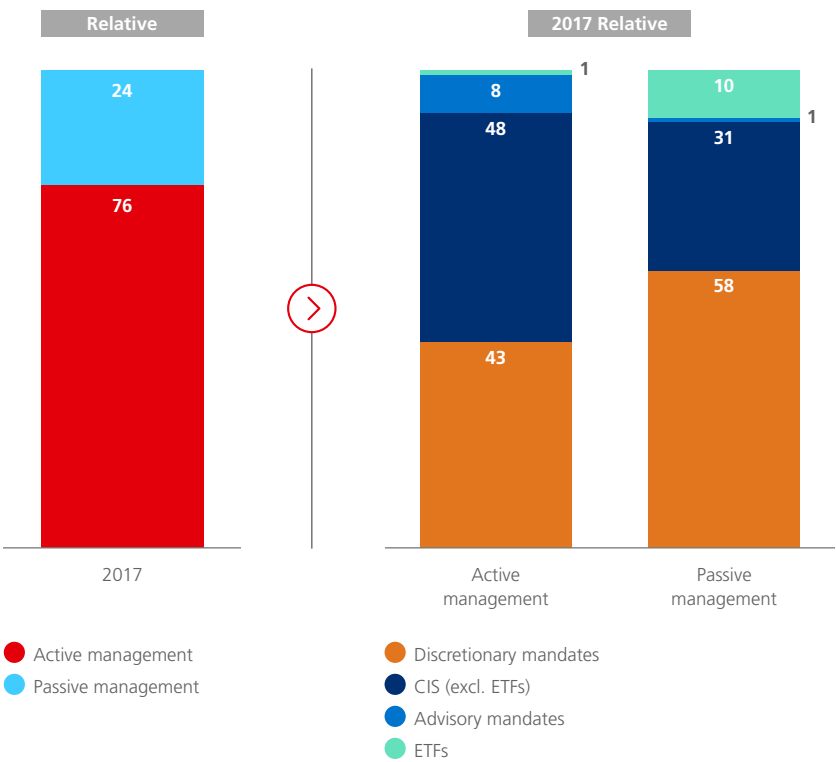
29 Financial Times



Fig. 22

Switzerland’s investment management industry is focused on active asset management

In percent



Source: SBA; Swiss Fund & Asset Management Association; BCG analysis

9.3 Swiss investment management’s allocation of assets to passive products is above average but experts question Swiss investment management’s competitiveness in the production of passive products

24 percent of assets managed in Switzerland are passively managed, which is 4 percentage points higher than the 20 percent global average<sup>30</sup>. Our data indicates that about 21 percent of the collective investment schemes (incl. exchange traded funds) managed in Switzerland, are managed passively. 60 percent of the assets

30 Boston Consulting Group, Trends in Asset Management (2018)

managed passively are in mandates (discretionary and advisory); only 40 percent of assets managed passively in Switzerland are in the form of collective investment schemes (incl. exchange traded funds).

The production of passive instruments such as collective investment schemes is increasingly dominated by large players who have significant scale and maintain low operating costs to compensate for thin revenue margins. An expert interviewed for this report called out that Switzerland is unlikely to become a dominant player in the passive investment management market given that few, if any, firms in Switzerland have the scale to compete with market leaders BlackRock and Vanguard on a global scale.

Additionally, Swiss institutional investment managers are unable to sell collective investment schemes to clients in Europe, which limits their competitiveness. Locations such as France and Germany are more likely to profit from the shift towards passively managed products in Europe but will remain small relative to larger providers of passively managed products in the United States.

9.4 Switzerland has realised significant growth in demand for alternative assets

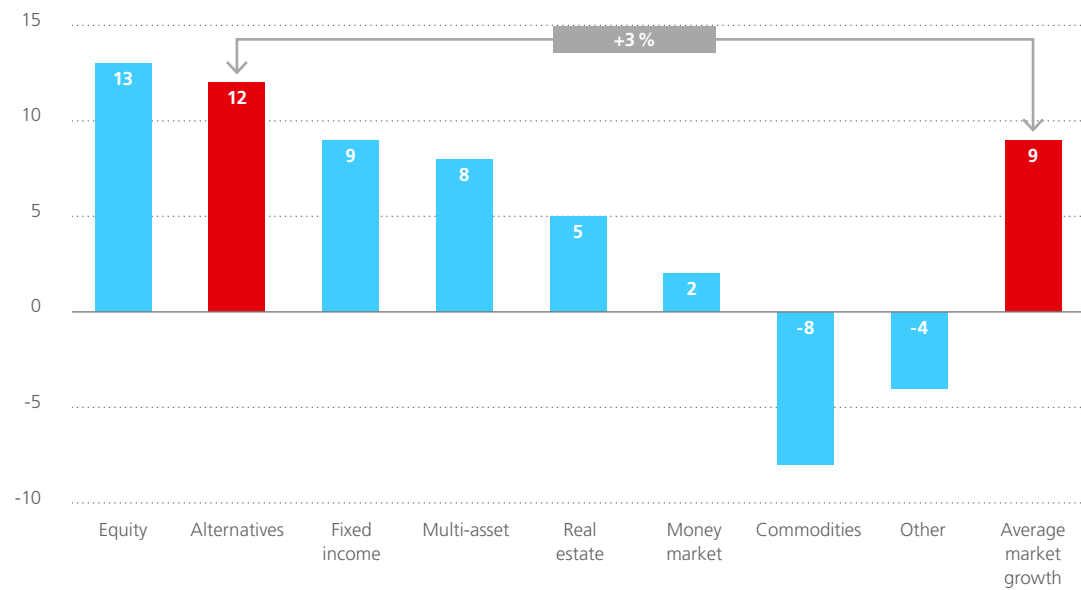
According to Swiss Funds Data, alternative asset classes that are distributed as part of funds in Switzerland experienced the second fastest growth rate of assets amongst all traditional and non-traditional asset classes between 2012 and 2017. This illustrates the high demand for alternative products from clients in Switzerland. The alternative asset class grew by 12 percent between 2012 and 2017 versus the average annual growth rate of 9 percent over the same period; the growth of the alternative asset classes was marginally less than the growth of equities over the same period.

Growth of alternative asset classes in funds distributed in Switzerland grew by 12 percent between 2012 and 2017, which is faster than the 9 percent average market growth.

Fig. 23

**Compound annual growth of asset classes in funds distributed in Switzerland between 2012 and 2017**

In percent



Note: Considers the distribution of products in Switzerland and not the production of assets in Switzerland.

Source: Swiss Funds Data; BCG analysis

**9.5 Focus on specialised, non-replicable products will create a sustainable competitive advantage for Swiss investment managers**

A shift in the investment management industry is underway: the industry is becoming more polarised as investment managers focus on scale (active or passive products) or specialised, non-replicable products that perform better than the market. To remain competitive, investment management firms need to analyse their business models and focus on offerings in which they have a sustainable competitive advantage through scale or differentiation.

Expert interviews conducted for this study, which provided insight into firms that pursue either broad, multi-asset class business models with diverse solutions for their clients on the one hand and niche managers focussing on specific products

including higher margin alternative investments on the other hand, revealed that business conditions and the relative political and financial stability in Switzerland offer a foundation for both business models to flourish. According to one interviewee, Switzerland offers the conditions to be a hub for highly-specialised products that command a price premium:

- an abundance of capital,
- available know-how,
- access to domestic and foreign talent and attractive living and working conditions.

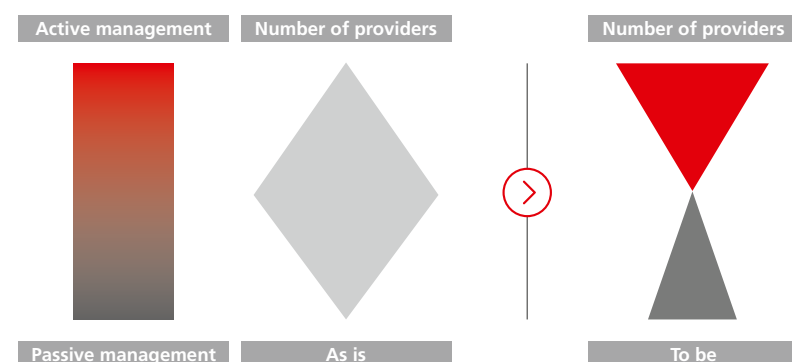
One expert interviewed for this report highlighted that Swiss investment managers tend to offer more balanced products and are less focussed than competition coming from the United States and the United Kingdom; the expert did, however, highlight that some Swiss firms are global leaders in specific products. Firms such as Partners Group, which is a globally leading private equity firm, Schroders, which specialises in catastrophe bonds and insurance-linked securities among other products and UBS Asset Management, which manages a significant real estate business, are 3 clear illustrations of world class alternative investment managers based in Switzerland and managing out of Switzerland.

Competition in ETFs and index-tracking mutual funds, both of which require large volumes of assets to be profitable, is fierce. The increasing pressure on revenue margins in the global investment management industry is not likely to be over soon. Countries such as the United States are likely to dominate the international market for products that require scale to ensure profitability.

Investment managers are likely to focus on high volume business or specialised, non-replicable products to remain profitable going forward.

Fig. 24

**Investment management to become increasingly polarized as margin pressure builds**



Note: Anecdotal evidence based on expert interviews with leaders in the Swiss investment management industry; smaller number but higher asset volume of the passive product providers illustrated by narrower bottom section.

Source: SBA

## 9.6 Swiss pension funds should more readily invest in alternative asset classes to improve returns

This study found that about 18 percent of assets managed in Switzerland were allocated to alternative asset classes; this includes financial products, mandates and products for export, which does not reflect the domestic demand of institutional clients for alternative investments.

WillisTowersWatson found that assets in Swiss pension schemes reached 133 per-cent of GDP in 2017 (excluding vested pension assets and 3A pension schemes)<sup>31</sup> and therefore represent significant investable assets. Investible pension assets of about CHF 890 bn and a cap of 15 percent on non-traditional investments implies that investment managers could allocate about CHF 134 bn to non-traditional investments such as hedge funds, private equity, private debt, commodities and real estate assets.

31 Willis Towers Watson, Global Asset Study 2018

The alternative asset class is under-exploited in Swiss pension funds; experts interviewed for this study indicate that fear of complex financial products and insufficient knowledge of alternative products by the public reduces the propensity to invest in alternative asset classes. Experts interviewed for this study indicated that only public pressure driven by education about the benefits of alternative products and the search for yield in illiquid assets by investment managers will result in an increased allocation of assets to alternative asset classes. Of the funds distributed within Switzerland and available to Swiss pension funds, only a small fraction of the assets are invested in alternative products, which leaves significant potential for expansion by pension fund managers.

**10 Government and industry support for investment management is necessary to drive a competitive advantage for Swiss investment management**

In summary, Switzerland is an attractive location for investment managers, but measures need to be taken to promote innovation in investment management and maintain the competitiveness of Switzerland as a hub for investment management.

Switzerland needs to maintain business-friendly conditions – tax laws, regulation, labour law and immigration – for the investment management industry to remain attractive for investment, clients and talent.

The following initiatives would either support the existing business-friendly conditions or drive changes to improve the competitiveness of the Swiss finance industry and domestic investment management more specifically.

### 10.1 Secure access to international talent by maintaining liberal immigration laws

Human capital is key in the investment management industry. Appropriately educated and technically competent talent is essential for the success of the investment management industry. Access to talent requires a liberalised immigration policy and the free movement of people. The Swiss government must ensure business' access to commensurate talent.

Experts interviewed for this study emphasised that they are able to attract appropriate talent to Switzerland thanks to the attractive living conditions, beneficial income tax laws and interesting employment opportunities. Some interviewees did, however, voice concern about recent immigration headwinds. Stricter immigration policies since the anti-immigration plebiscite is an area of concern.

## 10.2 Incentivise innovation by promoting a level regulatory playing field

A level regulatory playing field vis-à-vis competing finance and investment management hubs is essential for the long-term success of the Swiss investment management industry. Regulation should be at “arm’s length” and, in so doing, not render Swiss investment management uncompetitive.

Furthermore, regulation should be created with the purpose of not only establishing a fair, transparent and de-risked playing field for investment managers, but also attracting and accommodating new technology. Large investments in digital infrastructure and technology such as blockchain will require aligned regulation. It is essential that regulators and industry together meaningfully contribute to regulation to facilitate innovation.

### 10.3 Abolish stamp duty and reduce withholding tax in Switzerland to drive the repatriation of business to Switzerland, deliver more efficient execution of transactions and provide material asset growth potential

Experts mentioned the elimination of stamp duty and the reduction of withholding tax as two measures that would positively impact the industry by improving the competitiveness of Swiss investment management. The abolishment of stamp duty and the reduction of withholding tax would likely lead to the repatriation of business to Switzerland, more efficient execution of transactions and provision of material asset growth potential.

The benefits of abolishing stamp duty and reducing withholding tax would take time to realise and have an asymmetric impact on different asset classes (largest impact on custody business, bond issues and structured products). For example, the Swiss bond market is asymmetric due to stamp duty – bonds are issued and absorbed by the market but the turnover of bonds in the market lies at 25 percent versus 75 percent for equities<sup>32</sup> as a result of the taxes.

An example from a member of the Asset Management Platform illustrates the point:

- The company is investing in digitised solutions for portfolio management including rebalancing.
- Rebalancing is automated and can therefore happen more regularly than when undertaken manually.
- Frequent rebalancing can, if appropriate, optimise the asset allocation in a portfolio and lead to superior returns (before fees and taxes).
- However, stamp duties from the regular rebalancing adds incremental cost to the solution, which renders the technology uncompetitive despite the potential benefits to clients.

<sup>32</sup> Internal SBA study, Abolishment of stamp duty and withholding tax in Switzerland

### 10.4 Increase the competitiveness and support export in investment management by providing Swiss investment managers unrestricted access to European institutional clients

This study has shown the importance of export to the investment management industry in Switzerland. Future growth of the Swiss investment management industry is contingent on access to clients outside of Switzerland given the highly competitive domestic institutional and non-institutional market for assets. Without access, Swiss investment management cannot prevail in its position among leading investment management hubs given the lack of scale in the domestic market.

Implementation of measures that provide “equivalence” – unrestricted access to the European institutional clients – is essential to stimulate further growth of the investment management industry in Switzerland according to experts interviewed for this study. Establishing equivalence would put Swiss investment managers on the same footing as their European competitors. This would create the required platform to attract investment by investment managers and incentivise innovation.

Interviewees provided anecdotal evidence that the lack of “equivalence” with European competitors restricts institutional investment managers from selling their products to European institutional clients. When experts were asked to express two “wishes” regarding the future of investment management, over half mentioned “equivalence” with European competitors as essential for the continued success of the investment management industry in Switzerland.

### 10.5 Support the implementation of sustainable finance in Switzerland

Switzerland is already a leader in sustainable investing. This view is supported by a number of senior leaders in the industry, who suggest that sustainable investing could be a competitive advantage going forward.

Pressure is being exerted on countries to support sustainable finance and in doing so support the measures agreed to in the Paris climate change accord in 2016. Non-compliance in sustainable finance measures will be increasingly costly for

governments in the future. Furthermore, institutional clients (e.g. pension funds) are exerting pressure on investment managers to offer financial products and solutions that reflect the trend towards sustainable investing.

Given Switzerland's expertise in sustainable investing, it is in the interest of the government to support this area and support the creation of a lasting competitive advantage for the investment management industry in Switzerland.

# 11 Conclusion

Two conclusions stand out as a result of this study:

Switzerland is a strong hub for investment management both in the institutional and non-institutional area.

A key factor for this strength is the unique symbiosis between institutional and non-institutional investment management. The two areas clearly benefit from each other and the total for the Swiss financial industry is more than the sum of its parts. Further strengthening should therefore focus on the integral delivery of the finance industry.

## 11.1 Conclusion for the government and regulators

Conditions for investment management in Switzerland – a liberal market economy, attractive working and living conditions, available talent and expertise, stable political system and independent rule of law – offer a good environment for both domestic and international investment managers.

Given the fierce competition in investment management, market conditions and regulation are playing a larger role in differentiating one location from another and defining the attractiveness of individual investment management locations. It is essential that the Swiss government and regulators manage these conditions to attract investment in the investment management industry.

Measures that will compromise the ability of Swiss investment managers to compete in an increasingly competitive global market – overly strict regulation, measures that compromise access to clients and inappropriate taxation laws – should be avoided.

Measures driven by government and regulators that could materially benefit the Swiss investment management industry:

- Liberal immigration law to allow access to international talent
- Elimination of stamp duty and reduction of withholding tax on assets
- Unrestricted access to European institutional clients (“equivalence”)
- Regulation that accommodates evolving technology

## 11.2 Conclusion for investment managers

Investment management is very relevant for the Swiss finance industry in isolation and provides material benefits for other sectors in the financial services industry. Institutional and non-institutional investment managers can mutually benefit from the cross-pollination of innovation, greater scale of investible assets and the enhanced credibility with international clients that the symbiotic relationship between the businesses brings. Performance is growing in importance for non-institutional clients given the low interest rate environment, enhanced transparency and the demise of banking secrecy.



Investment management is a significant employer, generated revenues of between CHF 17 bn and CHF 20 bn in 2017 in Switzerland, ensures the efficient allocation of capital and plays a material role in contributing to social welfare by adding value to Swiss pension funds.

Investment managers must analyse their business models holistically – employees, regulation, technology, client segments – to identify a competitive advantage that can differentiate them from both domestic and international competitors. It is likely that the profitability of small and mid-sized investment management firms with no discernible competitive advantage will continue to decline and that these firms will disappear or succumb to a phase of industry consolidation.

Going forward, investment managers will need to adopt a strategy aligned with assets at scale or focus on specialised products that command a price premium and are not replicable. Creating a sustainable competitive advantage in one of these two approaches will arrest the inevitable decline in revenue and operating margins, which is being driven by regulation and technology-induced transparency in the industry. Experts identified illiquid assets, complex products with consistently high alpha and alternatives with higher margins, sustainability strategies and thematic investments as products in which Swiss investment managers could create a sustainable competitive advantage versus international competition going forward.

The adoption of technology across the entire value chain, including an integrated and digital platform for clients, is a prerequisite for success.

### 11.3 Conclusion for the SBA

The SBA stands at the confluence of the Swiss government, regulators, investment managers and clients. This puts the association in a unique position to influence the success of the industry going forward. This report identifies a number of key initiatives which the SBA could positively influence:

- **Provide unrestricted access to European institutional clients** – export is essential for Swiss investment management – providing Swiss investment managers with “equivalence” to access European institutional clients on an equal footing with international competitors would increase the competitiveness of Swiss investment management.
- **Incentivise the repatriation of assets** – the elimination of stamp duty and reduction of withholding tax in Switzerland would not only increase the efficiency of the Swiss investment management industry but also make Swiss investment managers more competitive vis-à-vis international competitors.
- **Switzerland as a strategic location** – Switzerland should be marketed as a strategic location for investment managers and not just as a sales location.
- **Sustainability** – the Paris climate accord set the tone for climate change targets; investment management clients are increasingly applying pressure on investment managers to provide sustainable investments and the Europe-wide initiative to adopt sustainable finance offers Switzerland an opportune moment to support the initiative.
- **Influencing regulation** – it is key to eliminate overly strict regulation and provide a platform for the industry to influence regulation (e.g. regulation governing new technology such as digital investment management).

# 12 Appendix

## 12.1 Glossary of key definitions

- **Institute** – All legal entities and branches with the same or similar brand as the main entity of the institute, authorised as a bank, securities broker, fund management company, investment manager of collective investments, representative of foreign collective investment schemes or distributor of collective investment schemes by FINMA or a respective supervisory authority abroad, incl. captive fund managers and investment managers of insurers. Therefore, investment foundations and pension funds are excluded from the institute scope.



- **Private client** – A natural person or sole proprietorship directly investing in a product or service or being the beneficial owner of a private wealth structure (e.g. tax wrappers, private trusts and foundations or offshore companies). Important: Private wealth structures are not clients, only their beneficial owner classifies as a (private) client.
- **Institutional investment management** – The management of assets on behalf of corporations with running operations, institutions (e.g. governments, universities), banks and investment managers, insurers and pension funds, external investment managers and family offices, investment foundations, et al.
- **Non-institutional investment management** – The management of assets on behalf of a natural person or sole proprietorship directly invested in a product or service or being the beneficial owner of private wealth structures such as tax wrappers, private trusts and foundations, and offshore companies.
- **Collective investment schemes** – Collective investment scheme (CIS) as governed by Swiss or foreign law on collective investment schemes, passively or actively managed. Exchange traded funds shall not count as CIS in this survey.
- **Exchange traded funds** – Marketable security that tracks a commodity, bond, or a reference portfolio, often an index fund. An ETF trades like a common stock on a stock exchange. In this survey, an ETF shall be distinguished from a collective investment scheme.
- **Discretionary mandates** – Mandate given by an institutional or non-institutional (private) client to an institute to manage a portfolio of assets and execute orders in compliance with a predefined set of rules and principles at the institute's sole and full discretion. The mandate is constituted by a contract between the institutional or non-institutional client and the institute. For corporate and institutional clients, mandates that are executed by the client without further modification classify as discretionary mandates, even if they are labelled as advisory mandates. A mandate has to be distinguished from, e.g. funds or investment foundations.
- **Advisory mandates** – Mandate given by an institutional or non-institutional (private) client to an institute to provide advice on a portfolio of assets with only the client deciding on the execution of the advice given by the institute. The mandate is constituted by a contract between the institutional or non-institutional client and the institute. For corporate and institutional clients, mandates that are executed by the client without further modification classify as

discretionary mandates, even if they are labelled as advisory mandates.

A mandate has to be distinguished from, e.g. funds or investment foundations.

Advisory mandates exclude self-directed advisory and cash but include both centralised and decentralised, relationship manager-led advisory mandates that are contractual and are subject to a fee.

- **UCIT fund** – Collective investment scheme governed by the Undertakings for the Collective Investment of Transferable Securities (UCITS) regulatory framework.
- **Alternative asset class** – All investments belonging to the following asset classes: commodities, real estate, infrastructure, private equity, hedge funds, insurance-linked securities (including catastrophe bonds).
- **Distribution without intermediaries** – Financial products/services that are distributed (sold/self-directed) by your institute without intermediary, e.g. to natural persons and beneficial owners of private wealth structures, insurers, pension funds and family offices or any company that does not redistribute the product/service to their clients. A client's location is the location of the contracting client party, or the beneficial owner's domicile in case of private wealth structures.
- **Distribution with intermediaries** – Financial products/services that are distributed (sold/self-directed) via a third party (e.g. external investment managers, brokers, banks or investment managers, using products/services for their clients). Joint venture channels of the institute are considered indirect distribution channels. A client's location is the location of the contracting intermediary.
- **FINMA** – Swiss Financial Market Supervisory Authority – government body responsible for financial regulation, which includes the supervision of banks, insurance companies, stock ex-changes and securities dealers, as well as other financial intermediaries in Switzerland.
- **Blockchain** – Digital, decentralised, public ledger of all cryptocurrency transactions.

## 12.2 Investment management Study 2018 Process

### 12.2.1 Primary research

- A questionnaire to gather data for primary research was created.
- The questionnaire was structured to provide the data required to prove or disprove the hypotheses held about the Swiss investment management industry.
- 324 financial institutions were contacted by the SBA and Hochschule Luzern of which 47 financial institutions returned a completed questionnaire.
- Questionnaire responses were reviewed and touchpoints with relevant financial institutions set up to question and challenge the data that was provided.

### 12.2.2 Data analysis

- Data received from 47 firms was consolidated and analysed to substantiate or disprove the hypotheses that were created at the outset of the project.

### 12.2.3 Selective supporting data from other resources

- Additional resources – BCG Global Asset Management Report, BCG Global Asset Management Benchmarking, BCG Global Wealth Report, BCG Global Wealth Benchmarking, Swiss Funds Data, WillisTowersWatson – were leveraged to provide supporting evidence and sub-stantiation for the proprietary research.

#### 12.2.4 Expert interviews

- Thanks must be extended to numerous members of the Swiss investment management community, who graciously gave their time to participate in expert interviews for this report.
- Expert interviews were conducted to provide qualitative substantiation for the primary research and further evidence to prove or disprove the hypotheses.
- Expert interviews were conducted with the following experts in the Swiss investment management industry (in alphabetical order):
- Iwan Deplazes (President Asset Management Platform and Head of Swisscanto at ZKB)

- Michael Degen (Head of Credit Suisse Asset Management Switzerland & EMEA)
- Mona El Isa (Founder Melonport AG)
- Dr. Claudia Emele (Avadis on behalf of Schweizer Pensionskassen Verband)
- Felix Haldner (Partner and Member of the Global Executive Board, Partners Group)
- Aleksandar Ivanovic (Head UBS Asset Management Switzerland, Head Global Client Coverage UBS Asset Management)
- Andreas Markwalder (Head of Schroder Investment Management)
- Georg von Wattenwyl (President Schweizer Verband Strukturierte Produkte)
- Marcel Rohner (Vice-Chairman of the Board of Directors Union Bancaire Privée and Chairman of the Association of Swiss Asset and Wealth Management Banks)

### 12.2.5 Contributing financial institutions

Thanks must be extended to the following organisations for kindly participating in this study and for providing their valuable data:

Acrevis, Albin Kistler, Artico Partners, AXA Investment Managers, Baloise, Banque Cantonale Vaudoise, BCGE, Bank Bellevue, BlackRock, Caceis, CISA, Credit Suisse Asset Management, Credit Suisse Investment Management, DWS, Fisch Asset Management, Fontavis, Fundana, GAM Asset Management, GZC IM, Habib Bank, HBM, Henderson Global Investors, Herens, HSBC Private Bank (Suisse), Institute for Financial Research, JP Morgan Asset Management and Wealth Management, Lombard Odier, M&G, Mobiliar, Partners Group, Patrimonium, Pictet Asset Management, PIMCO, Quantica, RobecoSAM, Schroder Investment Management, Symbiotics, Teleios Capital Partners, Twelve Capital, UBS Asset Management, Unigestion, Valres, Vontobel Asset Management, VV Vermögensverwalter, Zarattini, Zürcher Kantonalbank



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