

Asset Management China 2006

The Swiss fund management approach to
wealth management:

What can Chinese fund manager learn
from this model ?

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The Swiss fund management approach to wealth management



If you think about Switzerland ...

The Swiss fund management approach to wealth management

- ✓ 500 Banks
- ✓ over 5200 Funds
- ✓ USD 500 bn Assets
in Investment-Funds



Switzerland represents approximately 20 % of global offshore wealth

The Swiss fund management approach to wealth management

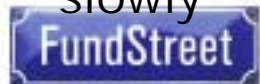
1. The Swiss fund market
2. Evaluating the traditional investment process: matching asset allocation theory to an investors profile
3. Information vs. knowledge: how it can help in selecting the right fund
4. Quantitative and qualitative due diligence: how asset managers can apply each method more affectively
5. Applying Markowitz's portfolio optimization model to achieve best practice
6. Assessing the best mix of distribution methods to market your products both locally and abroad



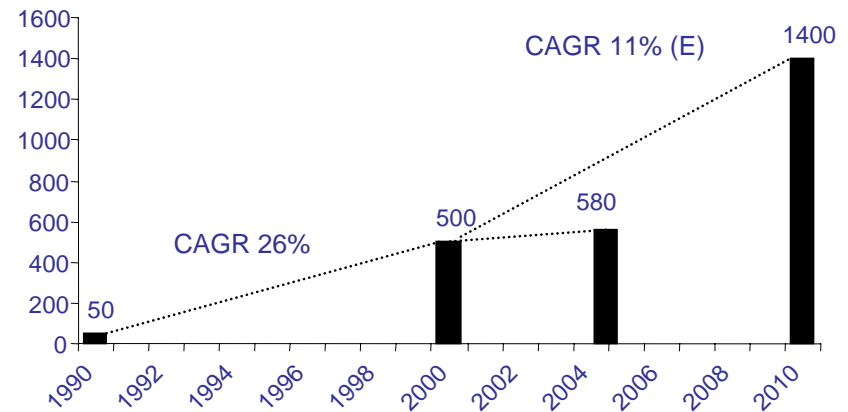
The Swiss fund management approach to wealth management

The Swiss fund market

- ✓ After a strong growth of the fund market in the last decade, the development in the new millennium is stagnating
- ✓ We estimate a CAGR of 11 % for next 5 years
- ✓ However, due to the launch of alternative products (e.g. hedge funds) the total number of available fund is further increasing
- ✓ Investors usually buy funds over their house bank
- ✓ "Open Architecture" is getting promoted but is advancing slowly



Assets of Swiss Investment Funds in CHF bn.

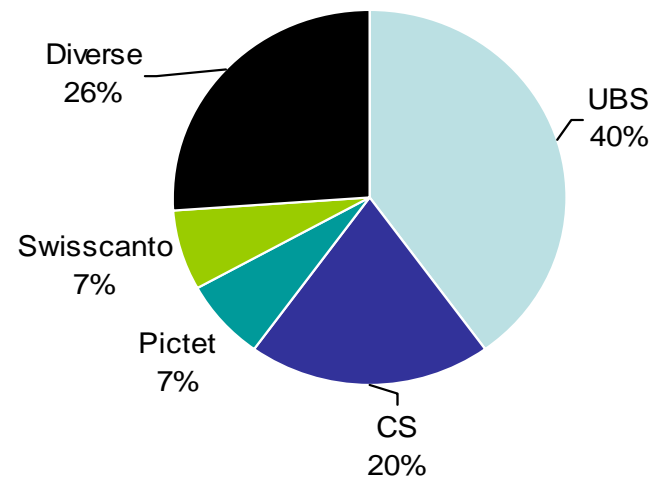


The Swiss fund management approach to wealth management

The Swiss fund market

- ✓ UBS and Credit Suisse are still the undisputable leaders
- ✓ There is a demand for Institutional Funds
- ✓ There is no pressure on the fees related to the fund business – the opposite is the case
- ✓ There is a postulation for greater transparency with regard to fees and costs (TER)
- ✓ The five mega-trends in the fund business in Switzerland are:

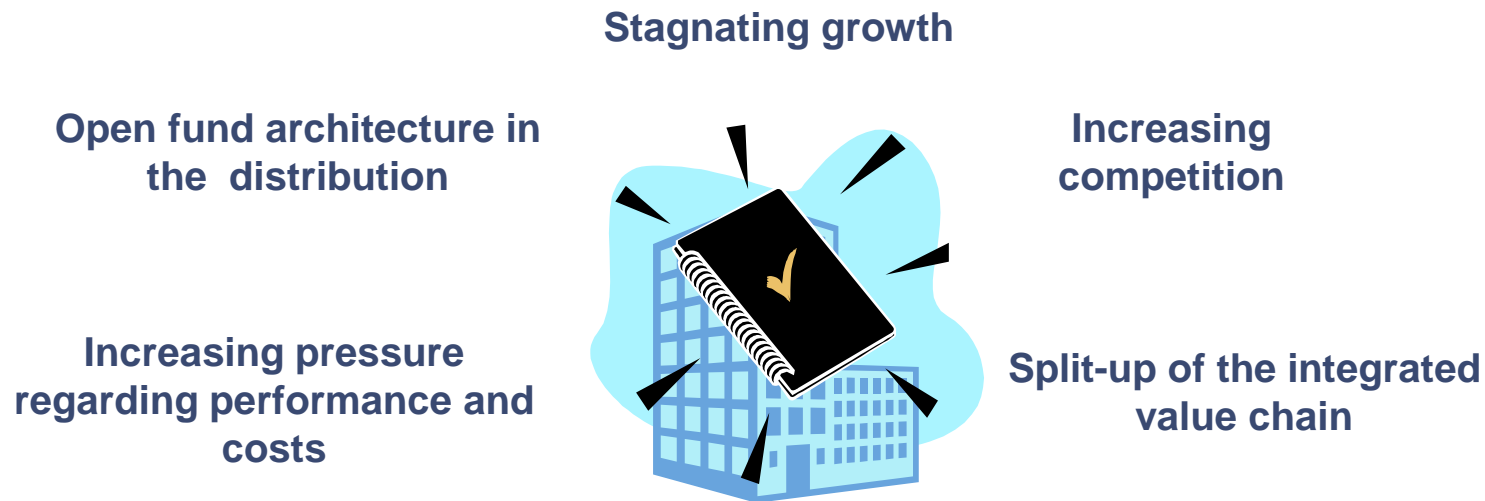
Market share in the Swiss Fund market
as of end 2005



The Swiss fund management approach to wealth management

The Swiss fund market

The five mega-trends in the fund business in Switzerland

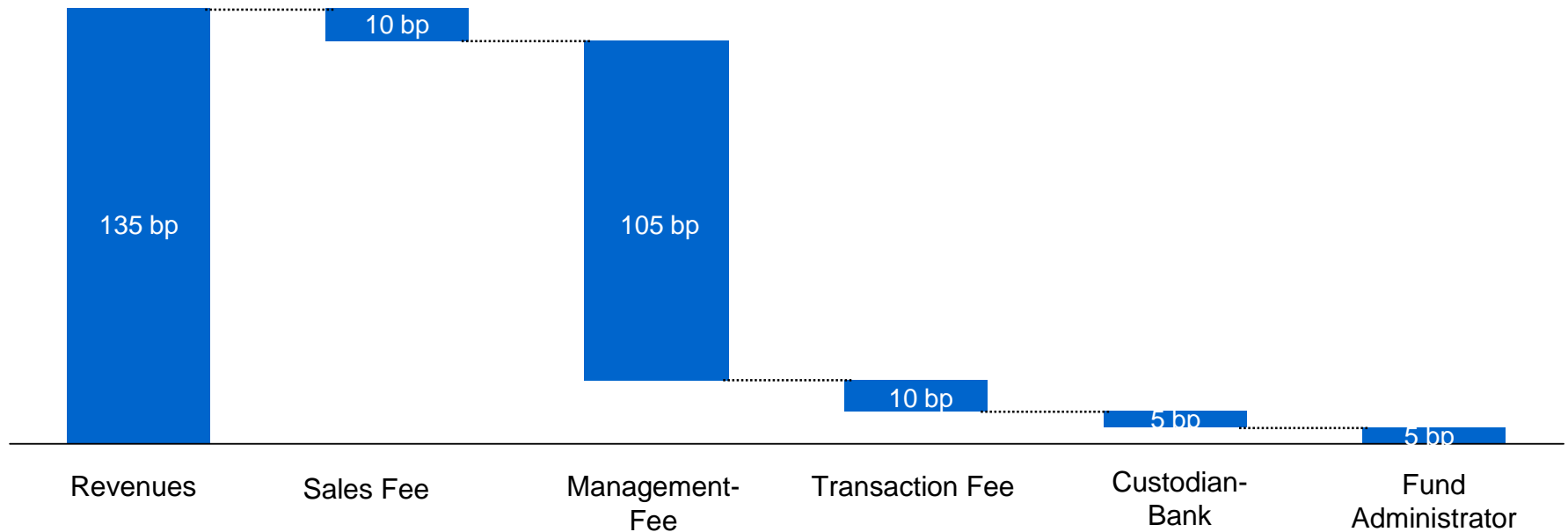


✓ The answer could be: splitting up the value chain

The Swiss fund management approach to wealth management

The Swiss fund market

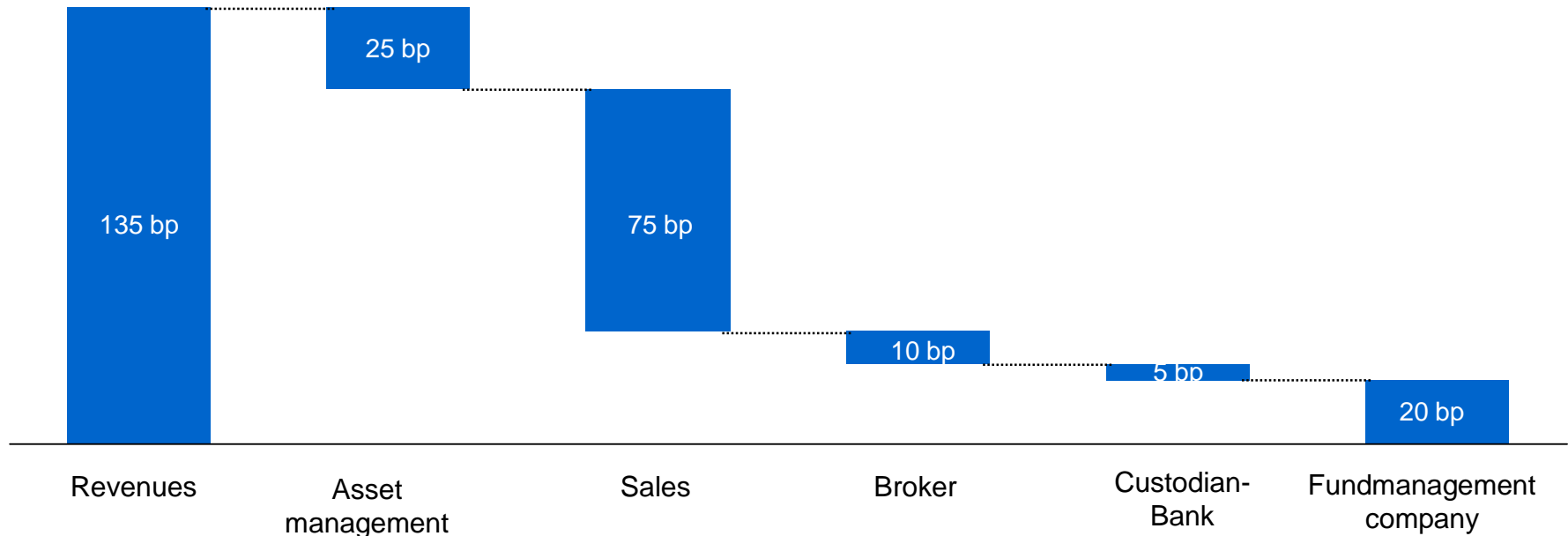
Revenues out of the Swiss fund business (E)



The Swiss fund management approach to wealth management

The Swiss fund market

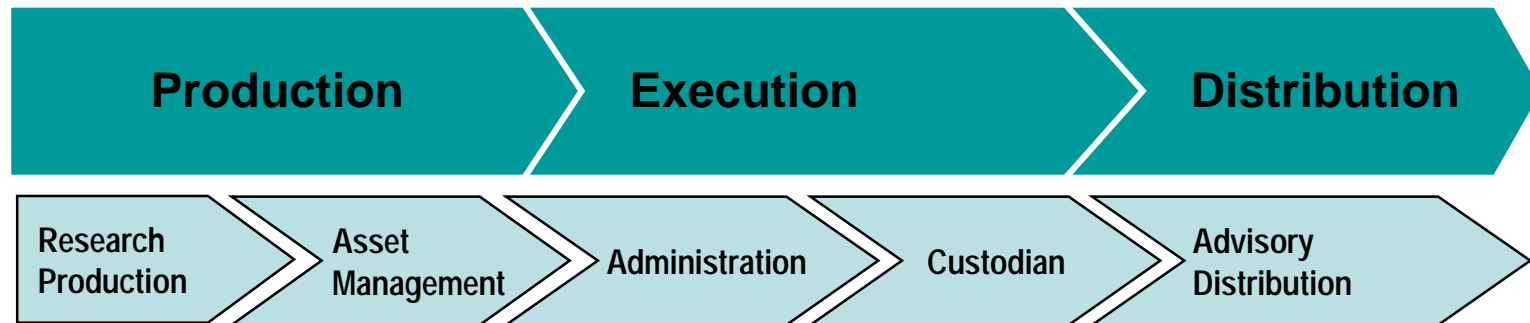
Distribution of the revenues out of the Swiss fund business (E)



The Swiss fund management approach to wealth management

The Swiss fund market

The increasing competition will lead for outsourcing



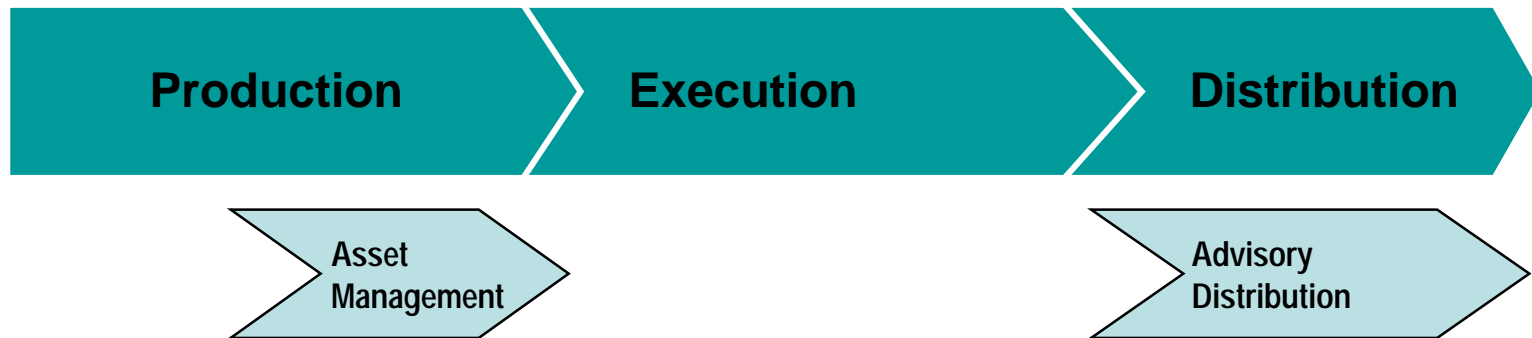
Outsourcing – Offered services by the “consolidator”



The Swiss fund management approach to wealth management

The Swiss fund market

What will bring you the success



- ✓ Search for alpha
- ✓ Sell the funds



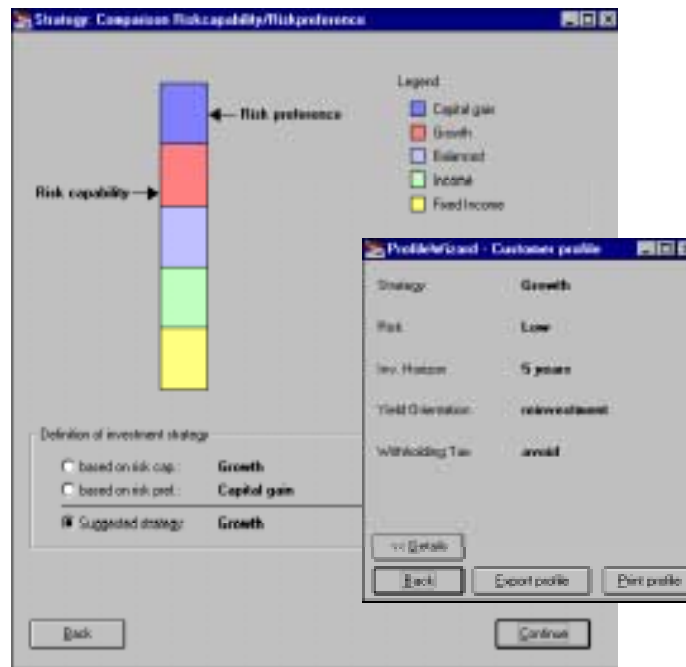
The Swiss fund management approach to wealth management

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The Swiss fund management approach to wealth management

Evaluating the traditional investment process

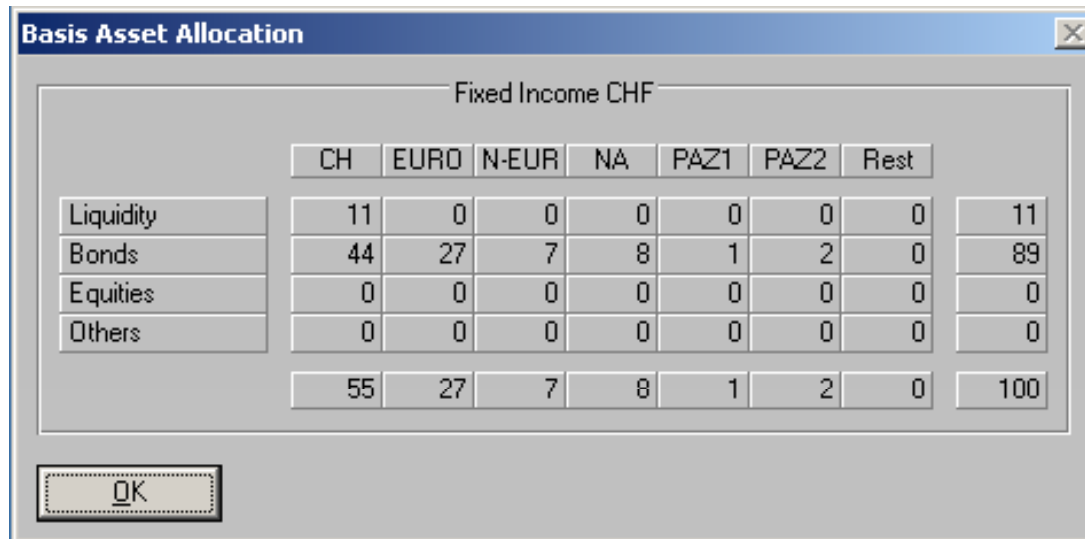
- Investment consulting with an expert system: how it works
- Find the investors profile



The Swiss fund management approach to wealth management

Evaluating the traditional investment process

- Investment consulting with an expert system: how it works
- Find the investors profile
- Determine the asset allocation



The screenshot shows a dialog box titled "Basis Asset Allocation" with a close button (X) in the top right corner. The main content area is titled "Fixed Income CHF" and contains a table with the following data:

	CH	EURO	N-EUR	NA	PAZ1	PAZ2	Rest	
Liquidity	11	0	0	0	0	0	0	11
Bonds	44	27	7	8	1	2	0	89
Equities	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
	55	27	7	8	1	2	0	100

At the bottom left of the dialog box, there is an "OK" button.

The Swiss fund management approach to wealth management

Evaluating the traditional investment process

- Investment consulting with an expert system: how it works
- Find the investors profile
- Determine the asset allocation
- Select securities
- Prepare an investment proposal



The Swiss fund management approach to wealth management

Evaluating the traditional investment process

- Investment consulting with an expert system: how it works
- Find the investors profile
- Determine the asset allocation
- Select securities
- Prepare an investment
- Trigger the stock market
- Perform rebalancing

Portfolio-Analysis

Capital gain EUR

AA
Proposal

	EURO	N-EUR	CH	NA	PAZ1	PAZ2	Rest	
Liquidity	5	0	0	0	0	0	0	5
	0	0	17	0	0	0	0	17
Bonds	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
Equities	45	6	8	20	7	7	2	95
	36	6	8	18	6	7	2	83
Others	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	50	6	8	20	7	7	2	100
	36	6	25	18	6	7	2	100

AA/(Proposal)
 AA/Deposit
 Deposit/Proposal

Aktualisieren OK

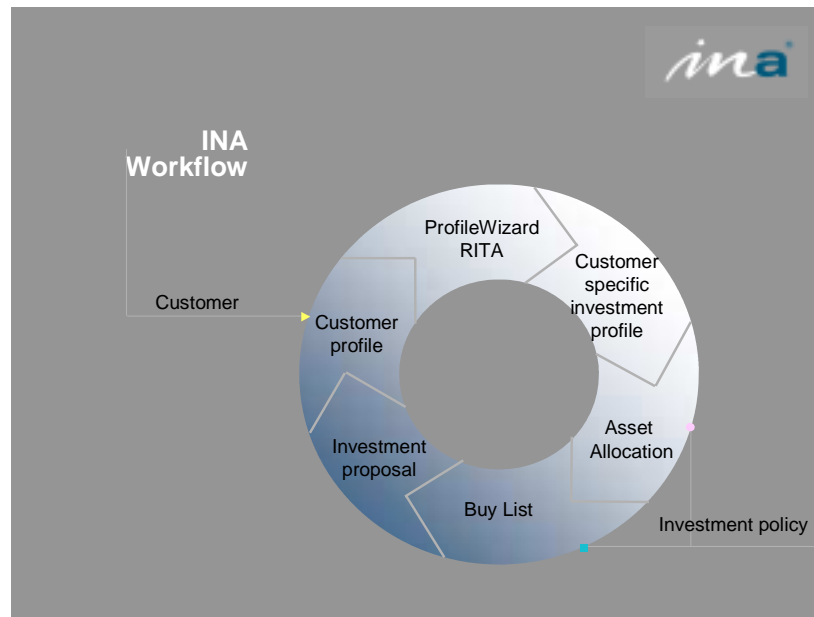
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Information vs. knowledge

- Information is available everywhere
- Investment consulting with an expert system
- how it works - generates usable knowledge



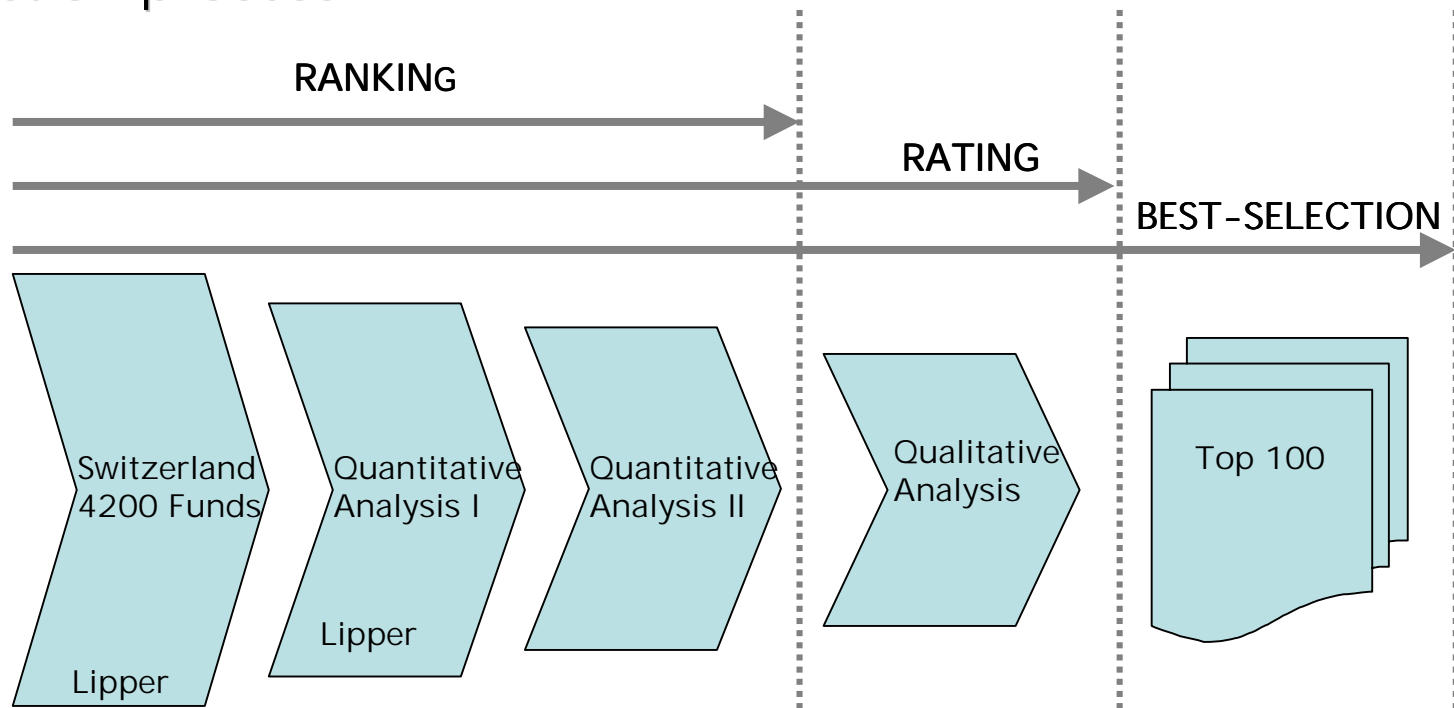
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Quantitative and qualitative due diligence

Selection process I

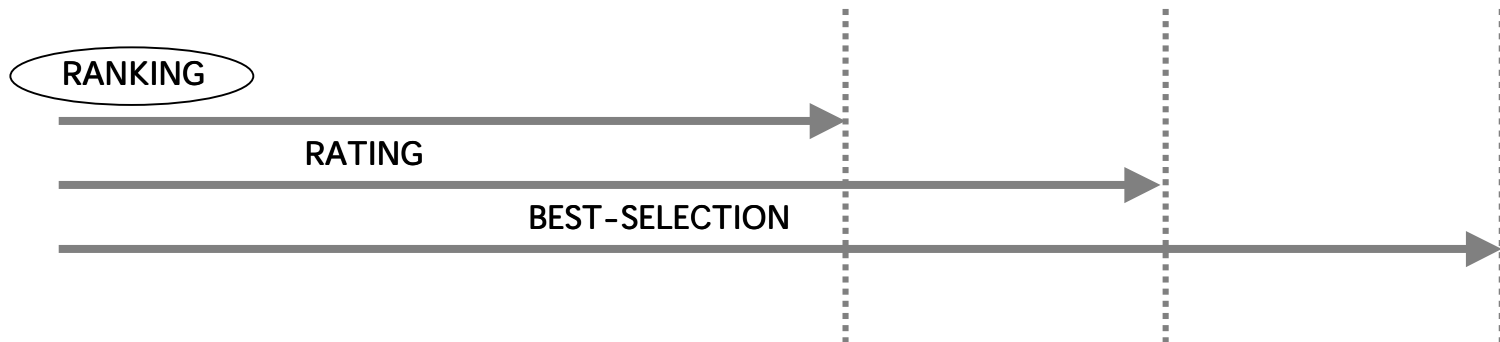


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Quantitative and qualitative due diligence

Selection process II - knock-out criteria for RANKING

- Quantitative due diligence
 - History 3 or 5 years
 - Assets
 - Performance, Alpha, Beta, Sharpe Ratio ...
 - Fund-Management Companies

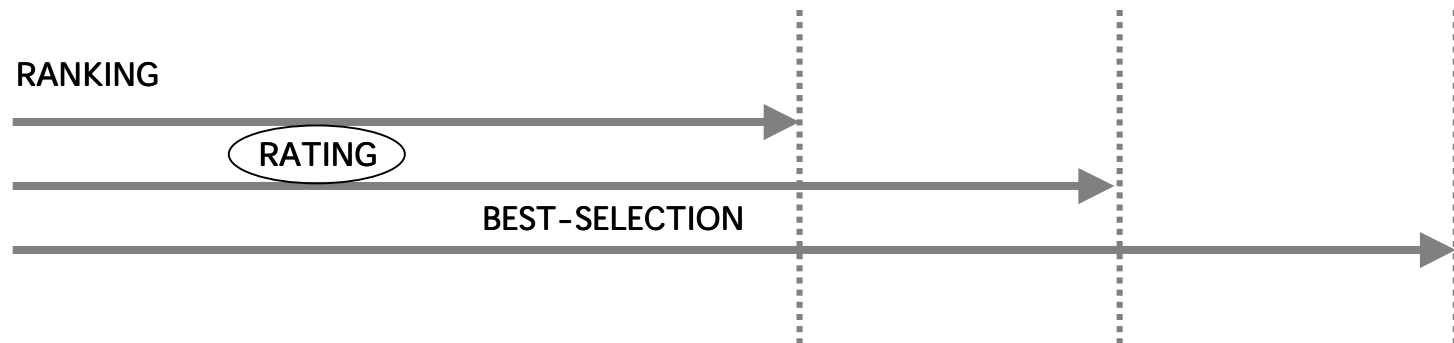


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Quantitative and qualitative due diligence

Selection process III - knock-out criteria for RATING

- Qualitative due diligence
 - Strategy
 - Risk controls
 - Fund formation & structure
 - Manger profile, management team ...

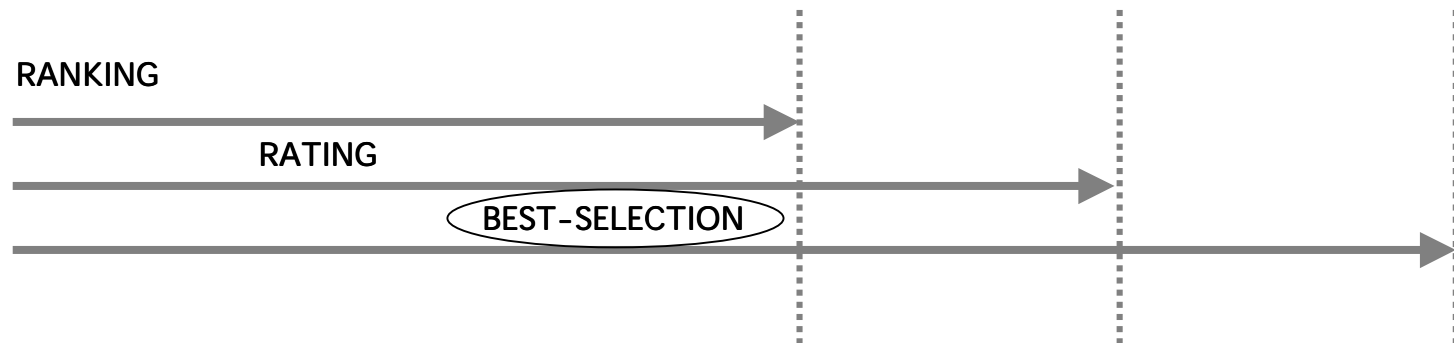


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Quantitative and qualitative due diligence

Selection process IV - knock-out criteria for BEST-SELECTION

- Qualitative due diligence
 - Over 50 due diligence questions ...



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Quantitative and qualitative due diligence

Selection process IV - knock-out criteria for BEST-SELECTION

The image displays three overlapping boxes containing lists of criteria for fund selection. The boxes are arranged in a staggered fashion, with the leftmost box partially obscured by the middle one, and the middle one partially obscured by the rightmost one.

Box 1 (Left):

- 1. **Asset Allocation** - Is the asset allocation in line with the mandate? Is it diversified enough?
- 2. **Investment Process** - Is the investment process clear and consistent? Is it based on a clear and consistent investment philosophy?
- 3. **Investment Team** - Is the investment team experienced and qualified? Is it stable and consistent?
- 4. **Investment Strategy** - Is the investment strategy clear and consistent? Is it based on a clear and consistent investment philosophy?
- 5. **Investment Performance** - Is the investment performance consistent with the benchmark? Is it consistent with the investment strategy?
- 6. **Investment Risk** - Is the investment risk consistent with the mandate? Is it consistent with the investment strategy?
- 7. **Investment Costs** - Are the investment costs reasonable? Are they consistent with the investment strategy?
- 8. **Investment Liquidity** - Is the investment liquidity consistent with the mandate? Is it consistent with the investment strategy?
- 9. **Investment Flexibility** - Is the investment flexibility consistent with the mandate? Is it consistent with the investment strategy?
- 10. **Investment Transparency** - Is the investment transparency consistent with the mandate? Is it consistent with the investment strategy?

Box 2 (Middle):

- 11. **Investment Process** - Is the investment process clear and consistent? Is it based on a clear and consistent investment philosophy?
- 12. **Investment Team** - Is the investment team experienced and qualified? Is it stable and consistent?
- 13. **Investment Strategy** - Is the investment strategy clear and consistent? Is it based on a clear and consistent investment philosophy?
- 14. **Investment Performance** - Is the investment performance consistent with the benchmark? Is it consistent with the investment strategy?
- 15. **Investment Risk** - Is the investment risk consistent with the mandate? Is it consistent with the investment strategy?
- 16. **Investment Costs** - Are the investment costs reasonable? Are they consistent with the investment strategy?
- 17. **Investment Liquidity** - Is the investment liquidity consistent with the mandate? Is it consistent with the investment strategy?
- 18. **Investment Flexibility** - Is the investment flexibility consistent with the mandate? Is it consistent with the investment strategy?
- 19. **Investment Transparency** - Is the investment transparency consistent with the mandate? Is it consistent with the investment strategy?

Box 3 (Right):

- 20. **Investment Process** - Is the investment process clear and consistent? Is it based on a clear and consistent investment philosophy?
- 21. **Investment Team** - Is the investment team experienced and qualified? Is it stable and consistent?
- 22. **Investment Strategy** - Is the investment strategy clear and consistent? Is it based on a clear and consistent investment philosophy?
- 23. **Investment Performance** - Is the investment performance consistent with the benchmark? Is it consistent with the investment strategy?
- 24. **Investment Risk** - Is the investment risk consistent with the mandate? Is it consistent with the investment strategy?
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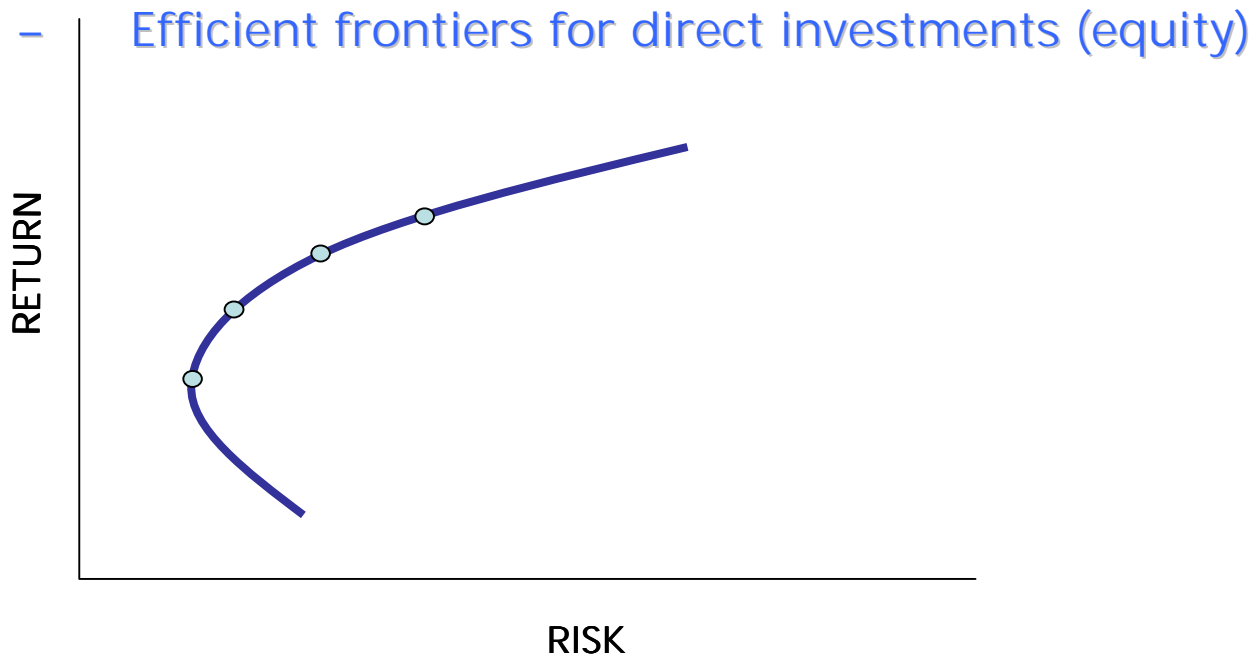
Applying Markowitz's portfolio optimization model to achieve best practice

- Markowitz showed that assets can be combined to produce an 'Efficient' portfolio that will give the highest level of portfolio return for any level of portfolio risk, as measured by the variance or standard deviation. These portfolios can then be connected to generate what is termed an 'Efficient Frontier' (EF).
- But, does that work with funds ?

The Swiss fund management approach to wealth management

Applying Markowitz's portfolio optimization model to achieve best practice

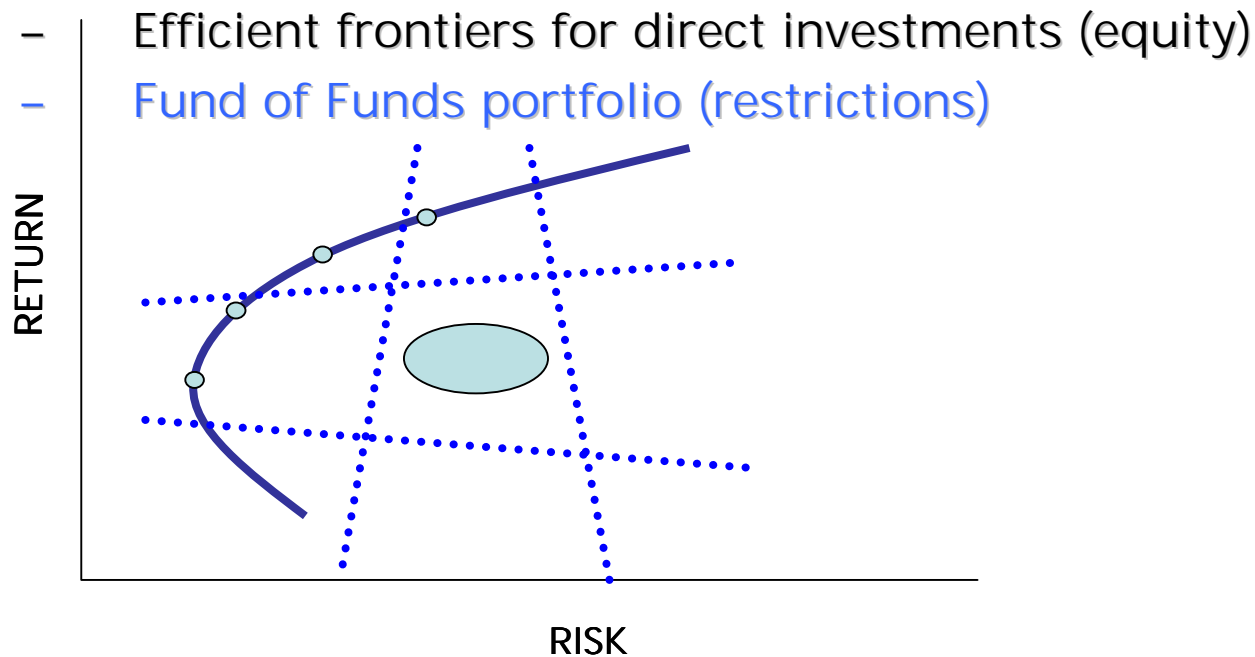
- Direct investments vs. Funds



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Applying Markowitz's portfolio optimization model to achieve best practice

- Direct investments vs. Funds



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Assessing the best mix of distribution methods to market your products both locally and abroad

- Pre-conditions
 - Meet the demand, Performance, Fee-structure, Legal construction
- Locally
 - Position yourself in the Chinese investment advisory market early (targets clients in China with at least USD 25,000)
 - Sales through bank and insurance companies in China
- Abroad
 - Fund of Funds
 - Open architecture with banks
 - Internet-platforms



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Many thanks.

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