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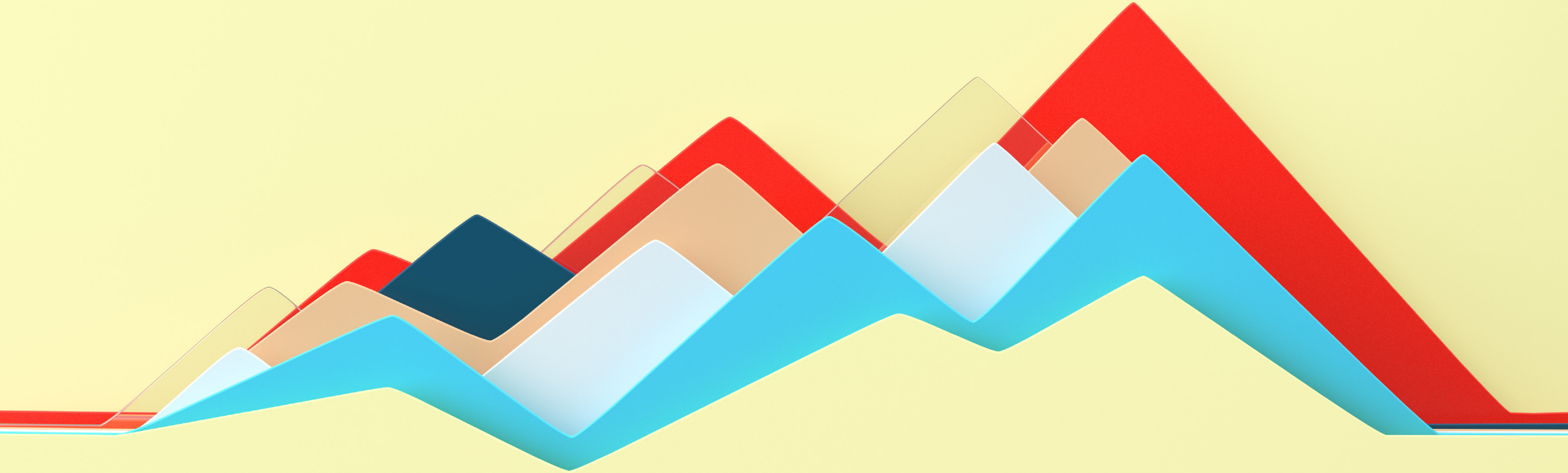

VSV Investment Pulse 2022

An investment barometer – exploring how
Swiss independent wealth managers invest

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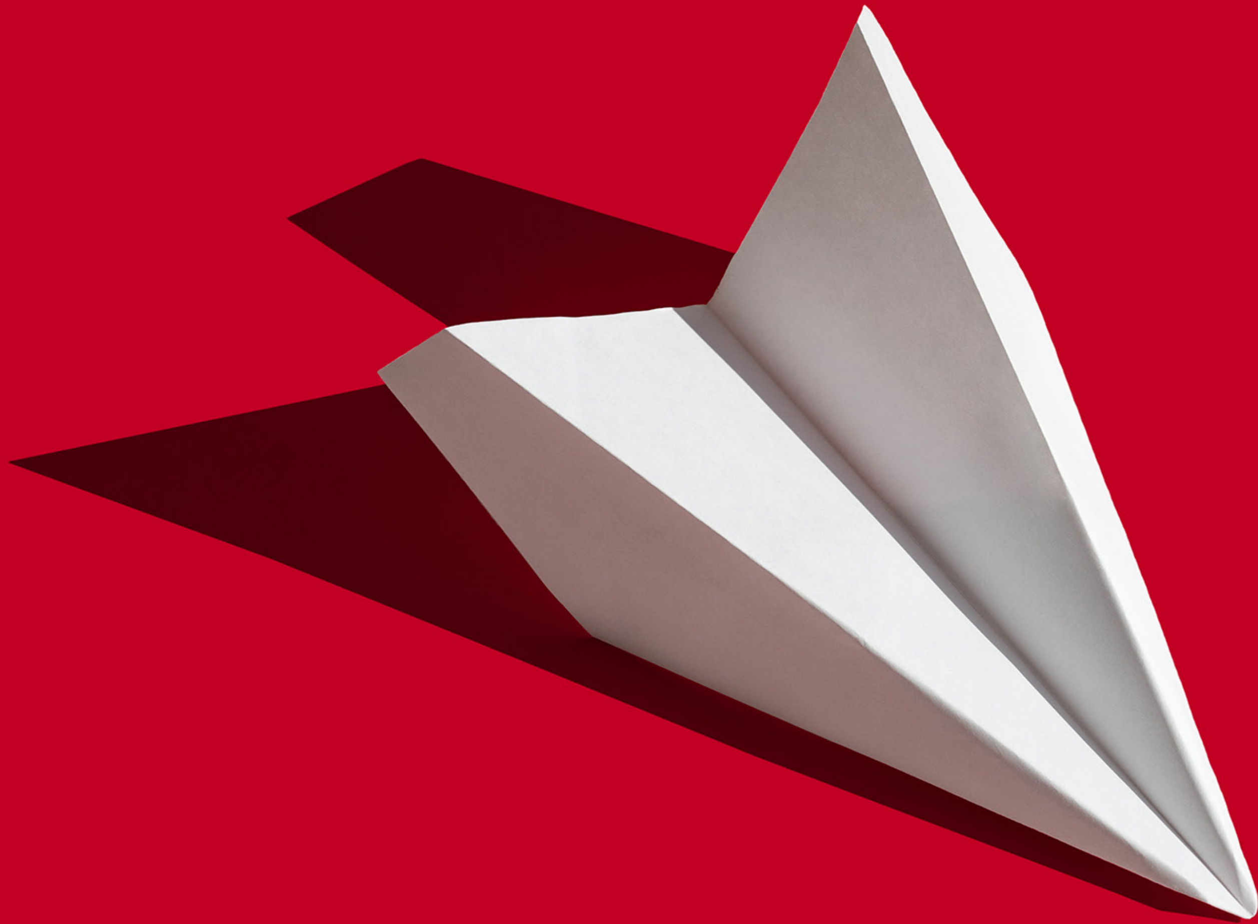


We would like to thank all those that took part in the survey VSV Investment Pulse 2022: An investment barometer – exploring how Swiss independent wealth managers invest.

The study was carried out in cooperation with the Swiss Association of Wealth Managers VSV-ASG, University of Lucerne HSLU and Vanguard. As a facilitator, the VSV-ASG invited their members to participate, the University of Lucerne conducted the academic research and Vanguard supported the initiative as a sponsor and thought leader.

Executive summary

It is an interesting moment to examine how Swiss independent wealth managers invest. High inflation and rising interest rates are posing challenges, while the growth of sustainable investments has introduced a new factor into their decision-making process. Our survey of more than a hundred independent wealth managers gives insights into how they are navigating this environment.

Asset allocations driven by necessity

With inflation at multi-decade highs in Europe and the US, a strong tilt toward equity investments seems to be a necessity for many wealth managers. Participants in the survey were overweight on Swiss and US equities, underweight in other regions, and significantly underweight on bonds. Our follow-up survey next year should show how these asset allocation decisions evolve if rates rise as expected.

Markets that are close to home for Swiss wealth managers seem to present an opportunity for differentiation from the competition. They are more likely to invest directly in Swiss equities and bonds, while funds and ETFs are the preferred vehicle for emerging markets and the Asia-Pacific region.

Similarly, wealth managers prefer an active to an index approach for Swiss and European equities. If they invest in bonds, they tend to invest more actively in US and European corporate bonds. Looking ahead, wealth managers have shared in our survey that they may increase their active investments in Swiss equities.

Low affinity for sustainable investing

One in two wealth managers in our survey includes sustainable investment criteria only on client request, and one in four does not include them at all. This low affinity for sustainable investments comes as a surprise given the continued elevated growth in this segment. However, larger wealth managers are slightly ahead of the curve compared to their smaller peers. "Sustainable thematic or impact investments" are their preferred ESG strategy while "climate strategies" and "engagement & voting" are least favoured.

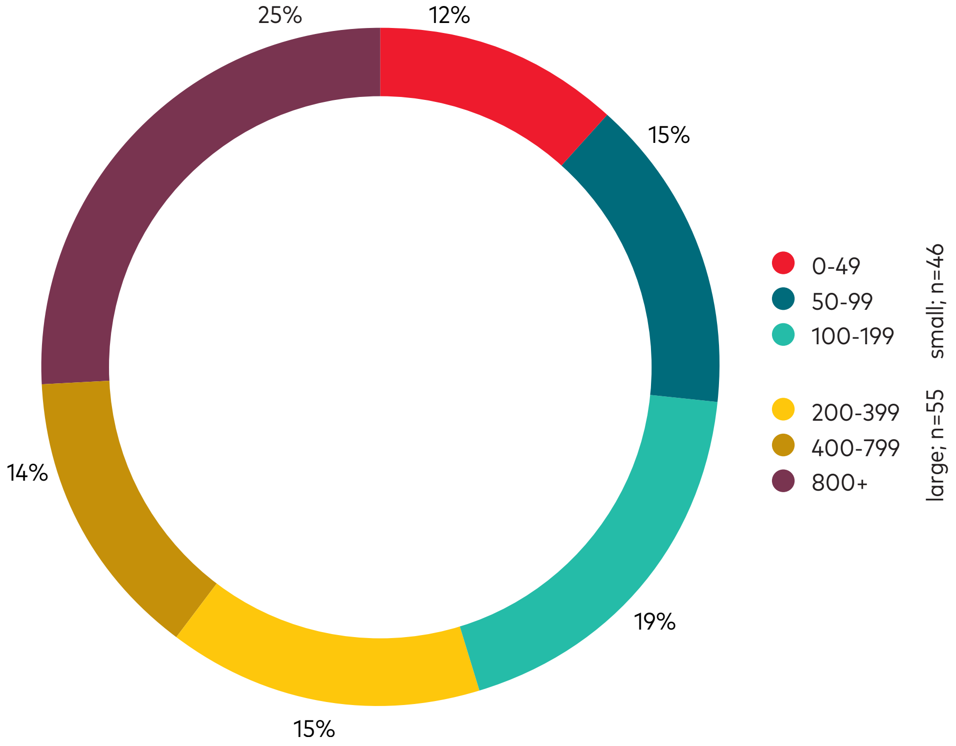
No matter what role sustainable investments play in their strategies, the surveyed wealth managers seem to agree that barriers to implementation remain high. With a lack of data and standards as well as limitations of the product offering named as the predominant barriers, a maturing market may yet bring significant developments in the future.

EXPLORING HOW SWISS WEALTH MANAGERS (WMs) INVEST:

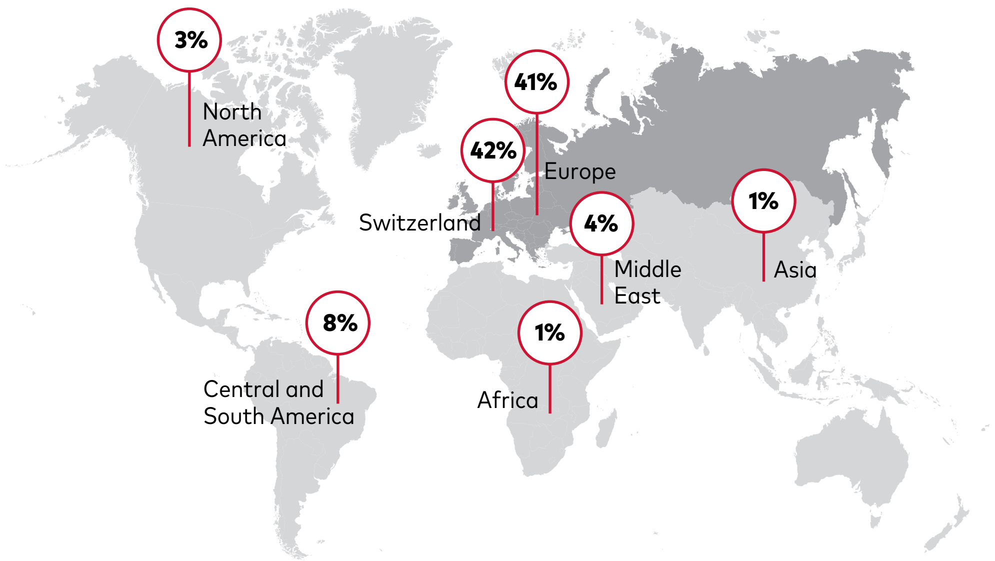
Study set-up and methodology

101 Wealth Managers disclose their asset allocation and sustainable investment approach

Firm size | Asset under management
(in millions Swiss francs)



Regional distribution of WM clients



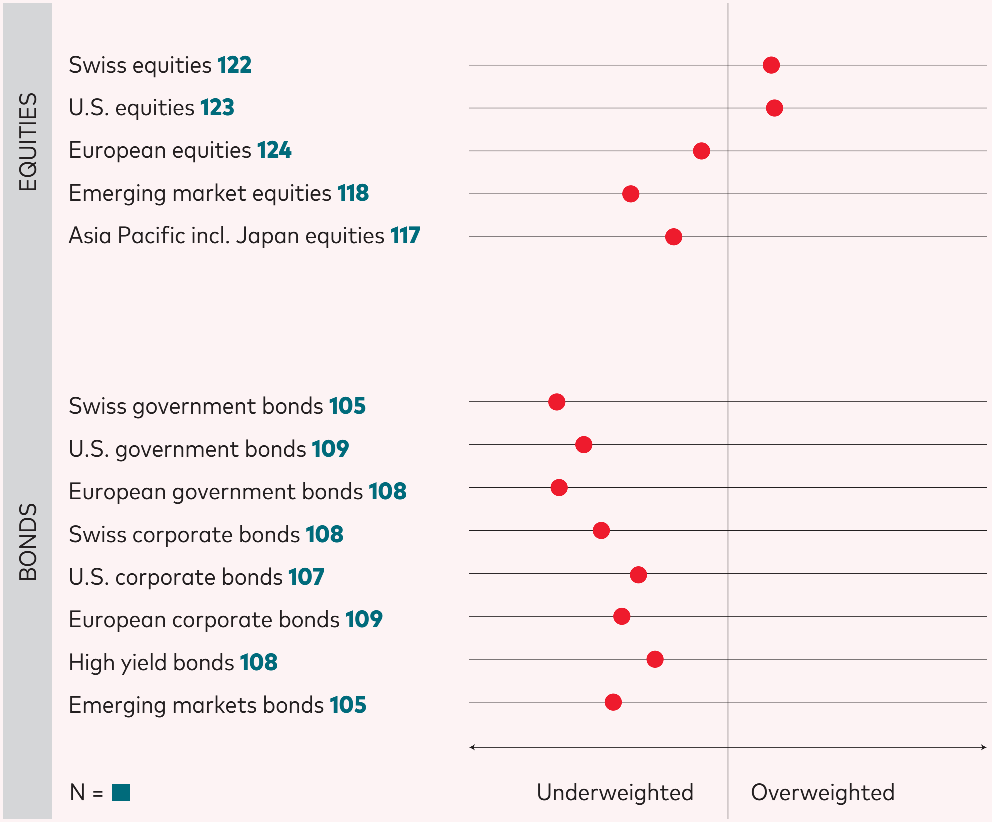
101 WMs completed the whole questionnaire, plus 26 WMs completed some questions, but did not follow through to answer all questions. Half of the WMs serve both, institutional clients and private clients.

Equities versus Bonds

WMs overweight Swiss & U.S. equities and underweight other equities and bonds

- When asked how they currently deviate from their balanced strategic asset allocation, most independent wealth managers indicate they are giving more weight to equities than bonds.
- Within equities, Switzerland and the United States seem more attractive than other regions, with the average wealth manager slightly overweight in these regions. Conversely, European and Asia-Pacific equities are given less weight, with emerging markets seeing a clearer risk-off trend.
- In fixed income, wealth managers underweight all categories, independent of their regional focus. We observe more nuanced views across government and corporate bonds, with the former more underweighted than the latter. In addition, we see less pronounced underweights with US corporate and high yield issuers.

How do you currently deviate from your balanced strategic asset allocation (SAA) for the corresponding markets?



Reading example: On average, Swiss equities are slightly overweighted by independent wealth managers.

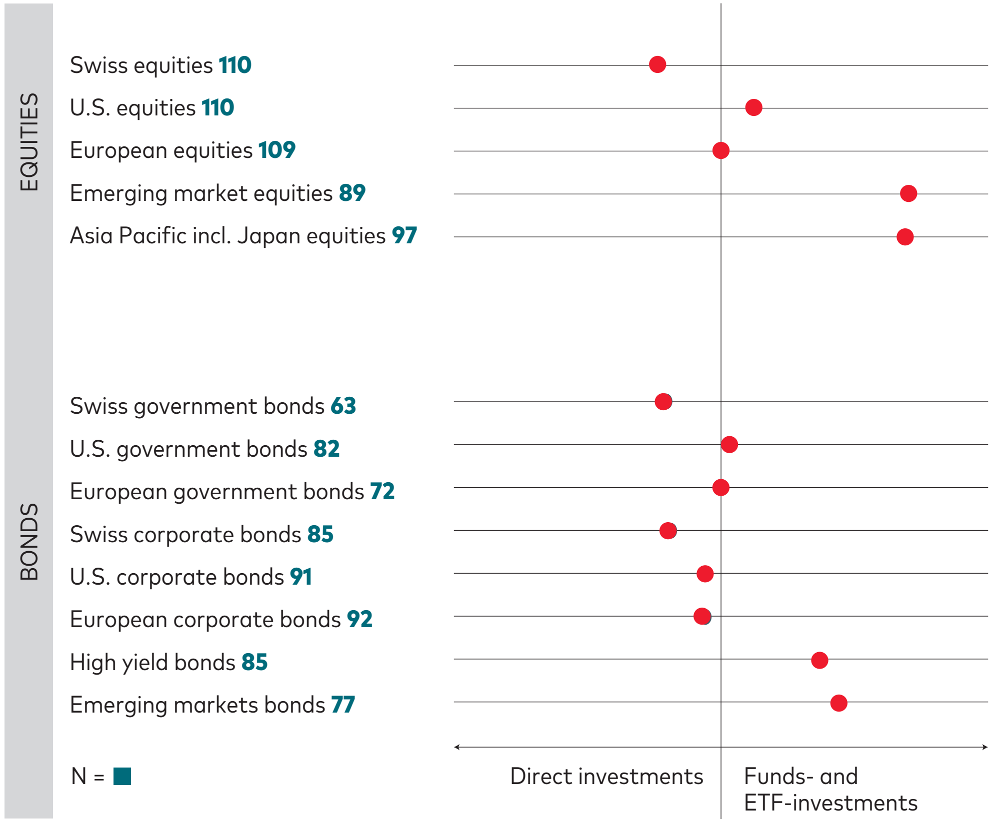
Direct investments versus Funds-/ETF-investments

WMs invest Swiss equities and bonds more directly. In Emerging markets they prefer Funds/ETFs – and also for High yield bond investments.

- Looking at the investment implementation across markets, we observe a large distribution of preferences.
- Swiss domestic exposures are most likely to be implemented through direct investments rather than with mutual funds and ETFs. When investing in European and US fixed income, be it government or corporate bonds, direct investments and mutual funds or ETFs are almost equally popular.
- Meanwhile, wealth managers use more mutual funds and ETFs for US equities, emerging markets and the Asia-Pacific region, with the latter two seeing a clear preference for collective investment schemes. In fixed income, wealth managers strongly prefer pooled investments for emerging-market and high-yield exposures.

Reading example: On average, for Swiss equities, independent wealth managers use more direct investments.

How do you implement the following markets? (direct investment vs. Funds and ETFs)

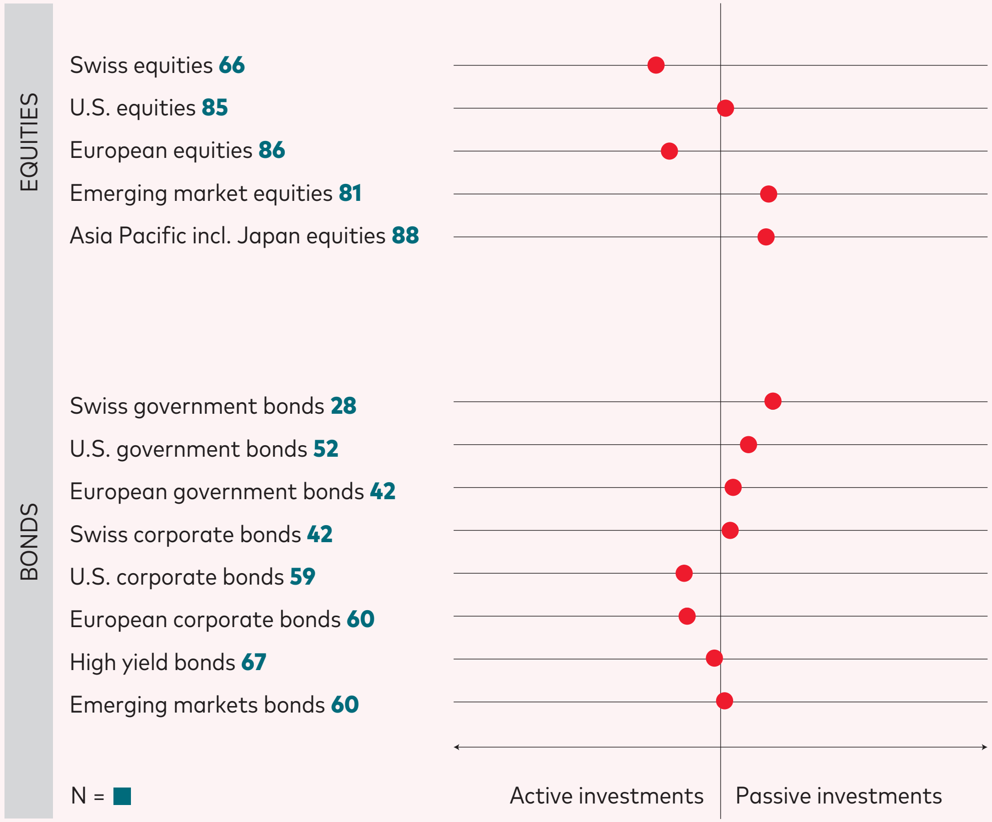


Active versus passive investments (status quo)

WMs more actively invest in Swiss & European equities as well as U.S. & European corporate bonds

- Independent wealth managers who use mutual funds or ETFs according to the previous question then shared details on their preference for active or index strategies for each market. What stands out is that wealth managers on average take a more active approach to Swiss and European equities, while share of active and index choices is surprisingly more balanced for US equities. Meanwhile, emerging-market and Asia-Pacific equities are more likely to be implemented with index strategies.
- Within fixed income, government bonds across Switzerland, the US and Europe are slightly more likely to be covered through index strategies. For corporate bonds, wealth managers use different approaches across regions: Swiss issuers are slightly more likely to be covered with index strategies, while wealth managers take a more active approach to US and European issuers. As for high-yield and emerging markets, the choice between active and index strategies is fairly balanced.

How do you invest in the following markets? (active vs. passive)



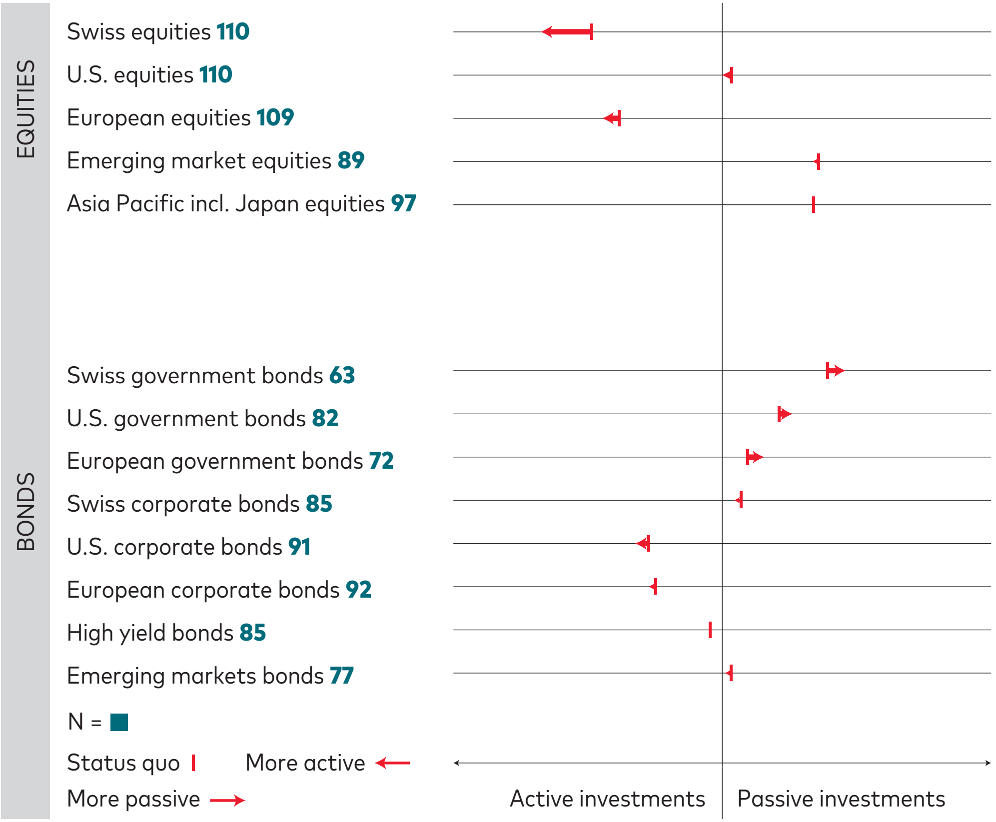
Reading example: On average, for Swiss equities, independent wealth managers that use Funds- and ETF-Investments, prefer active investments.

Active versus passive investments (outlook)

WMs may increase the share of actively managed Swiss equity investments

- We then asked wealth managers to consider how their portfolios may evolve in the future. Overall, it appears they do not plan any significant changes to their choice of active or index strategies.
- The trend we observe is that existing active and index approaches may be slightly reinforced in the future. Most notably, 24% of wealth managers plan to increase the active share of their allocations to Swiss equities. On the fixed income side, wealth managers may move slightly more towards index strategies in government bonds in the future, whereas US credit might see a slight shift towards active strategies.

How will your investment change in the future? (more active, no change or more passive)



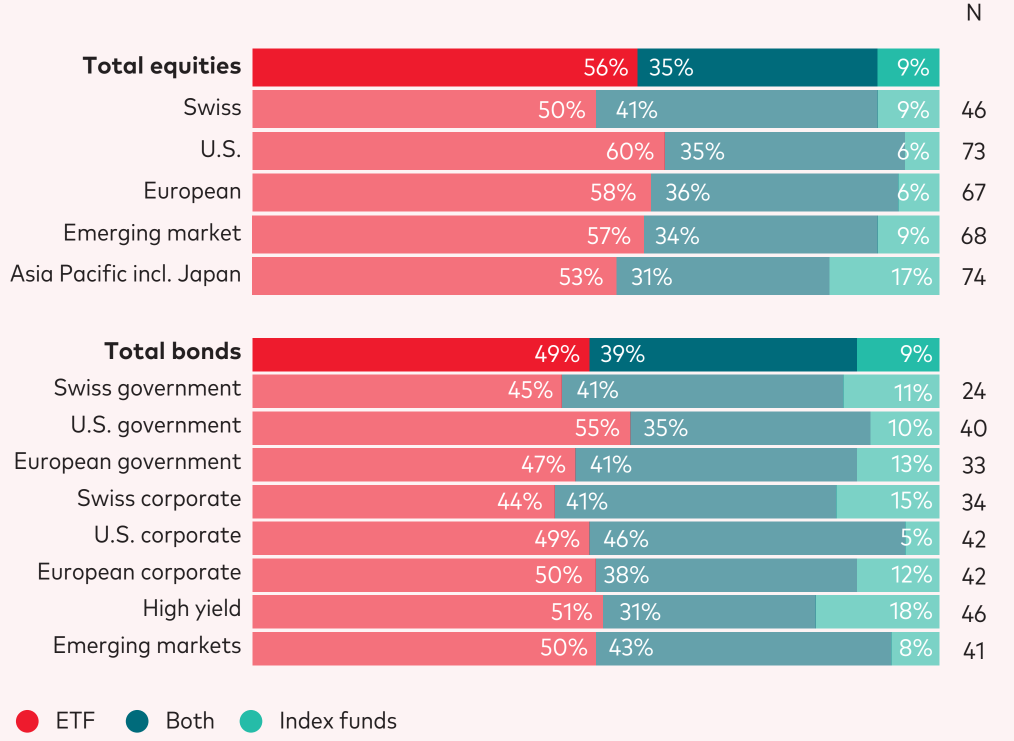
Reading example: On average, for Swiss equities independent wealth managers plan to invest more actively in the future. Today they are already invested more actively.

Product use of ETFs versus Index funds

ETFs dominate over Index funds

- When looking at how independent wealth managers implement their index investments, we observed a clear preference for ETFs over index funds across all asset classes and regions. Use of ETFs is highest for US equities, followed by European and emerging-market equities.
- In fixed income, US government bonds also see a strong preference for ETFs.

How do you implement your passive investments? ETFs, Index funds or both



Reading example: For equities, 56% of all those wealth managers who – at least partly – invest in passive products, use ETFs only, 9% use Index funds only, and 35% use both, ETFs and Index funds.

Independent wealth managers are navigating a complex environment of unusually high inflation, evolving monetary policies and changing investor preferences. The VSV Investment Pulse shows how they meet these challenges and where they are finding opportunities.

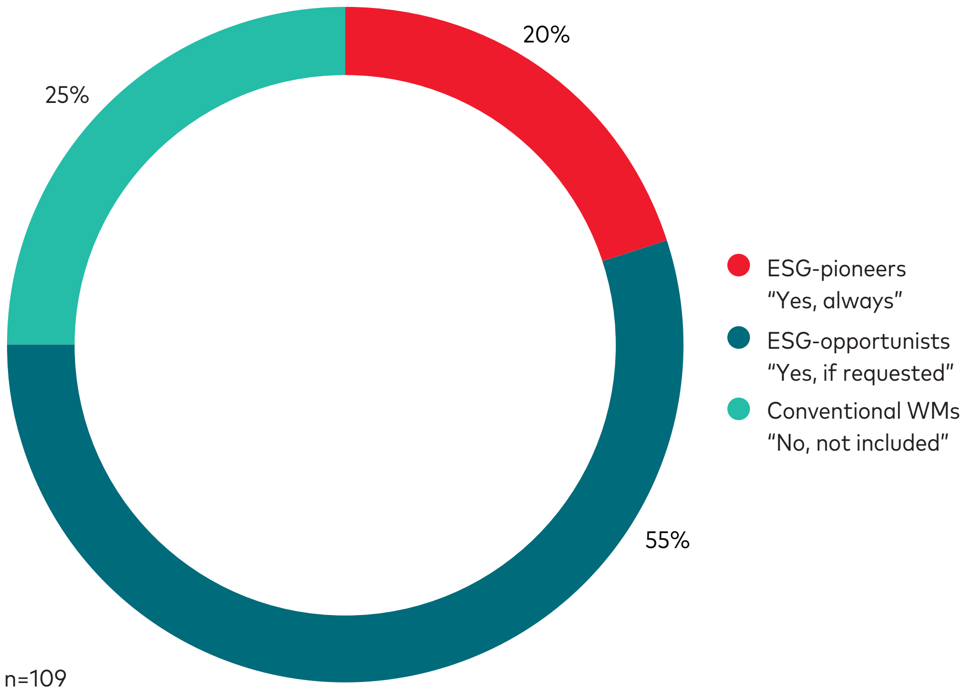
Andreas Zingg,
Head of Switzerland and Liechtenstein,
Managing Officer

Inclusion of ESG-criteria

Most WMs include sustainability criteria (only) on client request, ESG-pioneers are rare

- Three quarters of Swiss wealth managers would consider implementing ESG criteria into their investment approach. The majority with 55% would only do it upon a client's request. Only 20% of surveyed wealth managers would always apply ESG criteria and the remaining 25% indicate that they use conventional products only.
- Larger wealth managers with a bigger asset pool are more likely to always consider ESG criteria in their mandates. Meanwhile, wealth managers with smaller asset pools would mainly use conventional products rather than ones with an ESG strategy.

Do you include sustainability criteria into your investment process?



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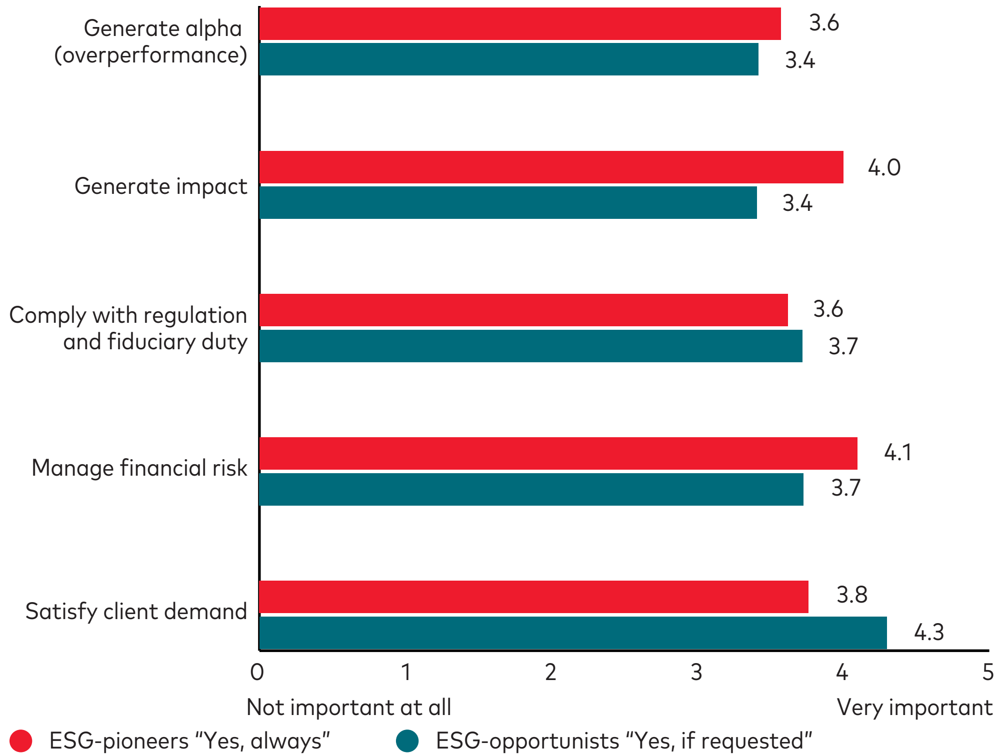
Motivation

Motivations slightly differ between ESG-pioneers and ESG-opportunists

- Swiss wealth managers' reasons for using ESG products are broad. The main motivations are to satisfy client demand, manage financial risks, generate an impact, comply with regulation and generate alpha.
- Wealth managers that always apply ESG criteria in their investment approach mainly seek to manage financial risks and generate an impact. Generating alpha is the least important factor to them.
- Companies that only apply ESG criteria upon a client's request mainly implement ESG to satisfy the client. Generating an impact or alpha are less important to them.

How important are the following motivations for including sustainability criteria into the investment process?

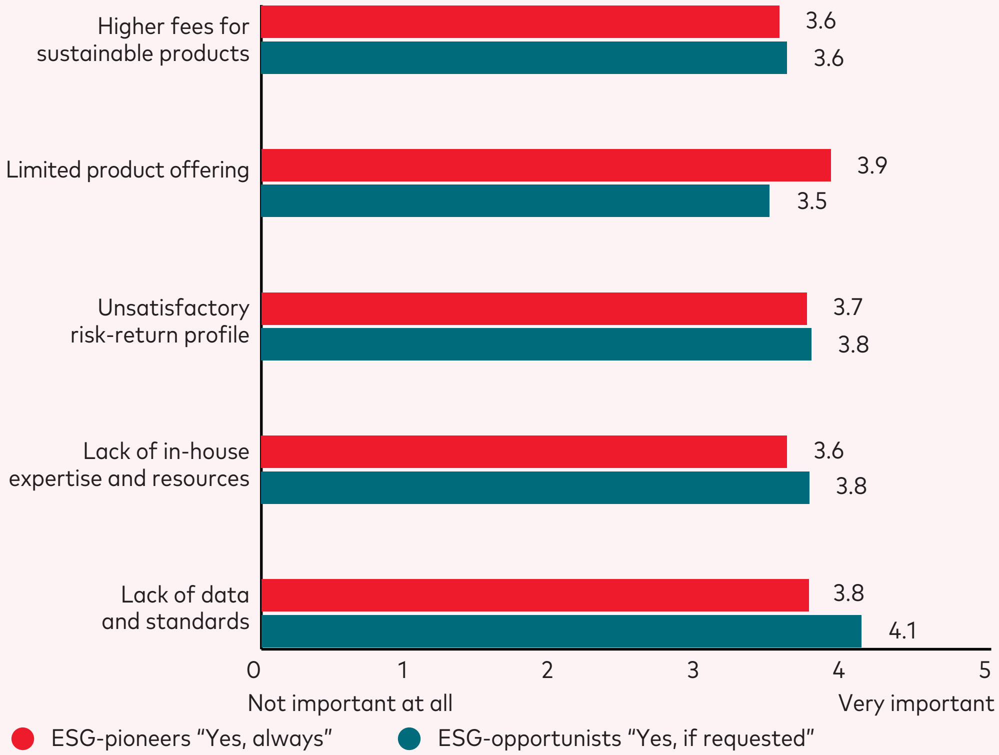


Barriers

Barriers are somewhat differently perceived by ESG-pioneers versus ESG-opportunists

- Swiss wealth managers face various barriers when it comes to the implementation of ESG strategies. Among the chief barriers are a lack of data and market standards, insufficient in-house expertise and resources, unsatisfactory risk-return profiles, limited product offerings and the higher fees charged for ESG products. There is no significant variation among the perception of these barriers.
- Companies that always implement ESG in the investment process name the limited product offering as their main barrier, whereas higher fees for ESG products is the least important barrier. Wealth managers that only apply ESG upon a client's request indicate the lack of data and market standards as their main barrier. The limited product offering is less important to them.

How important are the following barriers for sustainable investments?



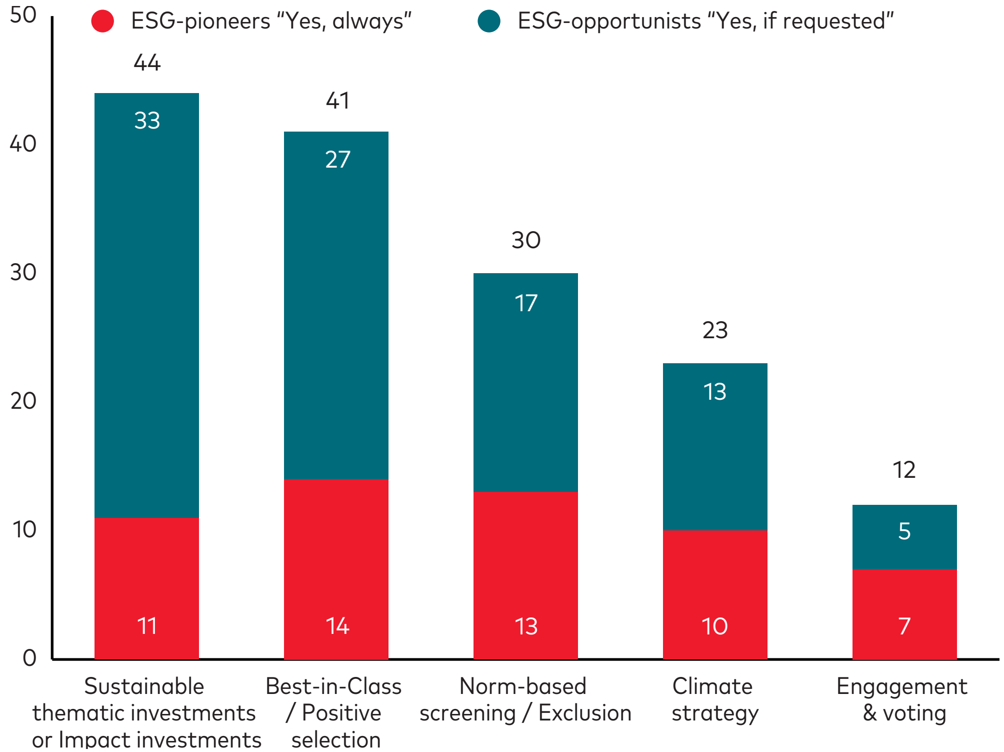
SUSTAINABLE INVESTMENTS:

ESG strategies

Sustainable thematic or Impact investments are slightly favoured as ESG strategies, and Climate strategies as well as engagement & voting are least favoured

- When it comes to the implementation of ESG strategies and criteria, Swiss wealth managers favour sustainable thematic or impact investments and products applying a best-in-class approach. The least frequently applied approach is engagement & voting followed by climate strategies.
- Companies that always apply ESG in their investment approach prefer the best-in-class approach. Sustainable thematic or impact investments are mainly used by wealth managers who only apply ESG strategies upon a client's request. This is also the preferred strategy among small wealth managers with more private clients. Large wealth managers tend more toward climate strategies.
- Other ESG studies such as the IFZ Sustainable Investments Study 2021 have reached somewhat different conclusions about the ESG preferences of Swiss wealth managers. Usually, sustainable thematic or impact investments would rank in the bottom third.

Which sustainable investments strategies (ESG-strategies) do you apply?



Investment risk information

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Important information

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