ZWEI WEALTH

June
2022

Wealth Management

Transparency report 2022

Contents

Preface

Dear Ladies and Gentlemen,

Asset management is an important aspect of life planning, for which most of us like to hire specialists. It is therefore extremely important that clients can rely on high quality of services in this area. With this transparency report, we aim to shed light on asset management for the benefit of our clients and to contribute to further fostering professionalism in the industry with more competition and better comparability.

This report deliberately avoids an overly technical representation of results. First and foremost, this report is written for clients of asset managers. It should enable them to critically question the existing situation in order to entrust the right asset manager.

Two significant trends
A lot has changed in asset management over the past few years. In a business which is not often subject to rapid change, the shifts are not immediately noticeable. Our analysis of client satisfaction and offerings suggests two major trends.

On the one hand, we can clearly observe the trend towards specialisation of providers. While until recently every bank and every asset manager covered as broad a spectrum of services as possible, providers have increasingly specialised in recent years. Today, there are more and more financial service firms who, for example, manage only one type of equity portfolio or specialise exclusively in pension solutions. These providers can introduce cost-efficient processes and benefit from classic economies of scale. The emerging business models like fintech, neo-banks and the like have played a decisive role here. Only very few of these new providers have been able to establish themselves. However, the power of innovation and change created by these start-ups has revealed new solutions and forced the established institutions to specialise. Today, even the largest banks and asset managers with the broadest of servicing spectrums are struggling to keep up with the specialists.

On the other hand, ZWEI Wealth's analyses show that structures independent of banks are becoming more and more important. The model of a universal bank or a private bank, which takes care of all of the wealth matters alone, no longer seems to address the clients' needs as well as it used to. Especially in the area of advisory services and consolidation, independent approaches are increasingly establishing themselves. Generally speaking, this trend is not new. However, the technology is making these innovative solutions more and more attractive for broader customer segments.

We summarise this development under the term Wealth Office. Until recently, professional and independent wealth management structures were reserved for institutional and very large private clients only, but they are becoming increasingly important also for the clients with assets between 2-100 million. We estimate that in the next five years alone, between 3-5 million new Wealth Offices will be created worldwide.

Trust is good, comparing and monitoring is better
One of our findings from prior analyses remains unchanged. The services and prices of asset managers differ greatly. The quality of asset managers has improved steadily in recent years. However, over 60% of the offers still achieve an unsatisfactory overall rating. Clients who trust blindly run a very high risk of disappointing results. The good market conditions of the last few years have certainly glossed over many negative aspects which, on a closer look, already start to surface today.

We would like to express our sincere thanks to the banks and asset managers for providing the data which makes this increased transparency possible in the first place. I wish all of you an interesting read and hope to motivate clients to demand the best from their asset managers. The independent experts at ZWEI Wealth are happy to be at your service with any questions and to assist you further.

Yours sincerely,
Patrick Müller
CEO ZWEI Wealth

Client satisfaction – the more independent, the better

Clients are currently quite satisfied with the services of their asset managers. With an average rating of 3.4, client satisfaction is overall at a good level. Several years of very high returns have certainly had a positive effect on this high level of satisfaction. What strikes is the difference between the service models. Those who have their assets managed using solutions independent of banks, seem to be generally more satisfied.

How satisfied are you with your current wealth management solution?

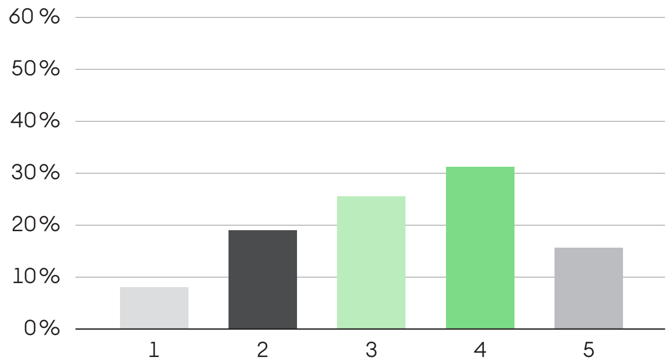
Source: ZWEI Wealth, 2022

ZWEI Wealth conducted a survey on the level of satisfaction with wealth management services in the first quarter of 2022. The survey was conducted electronically. In response to the question "How satisfied are you with your current asset management solution?", participants were able to answer with a rating on a scale from 1 (very dissatisfied) to 5 (very satisfied), with half marks in between.

A total of 213 participants took part in the survey. The survey is not representative and there are no comparative figures for other time periods.

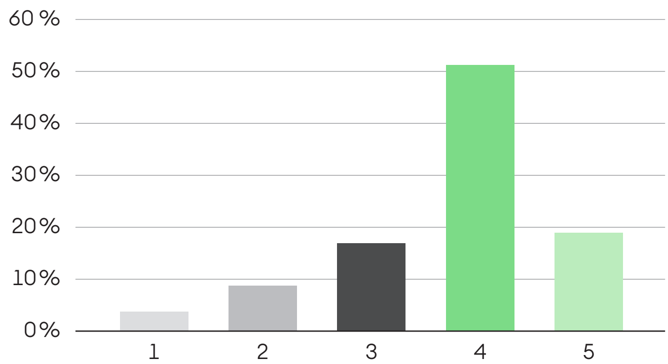
Bank clients

Source: ZWEI Wealth, 2022 (n=89)



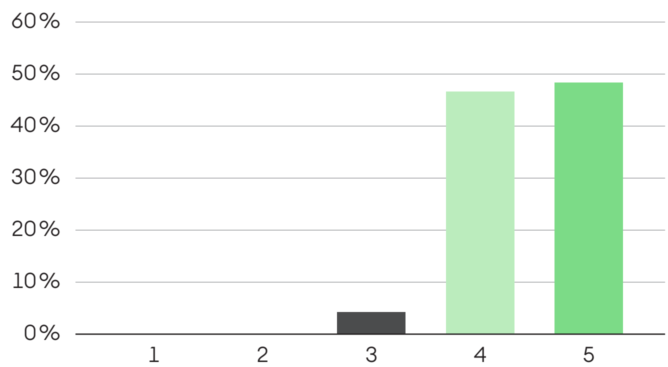
Clients of independent wealth managers

Source: ZWEI Wealth, 2022 (n=47)



Clients of Wealth Offices

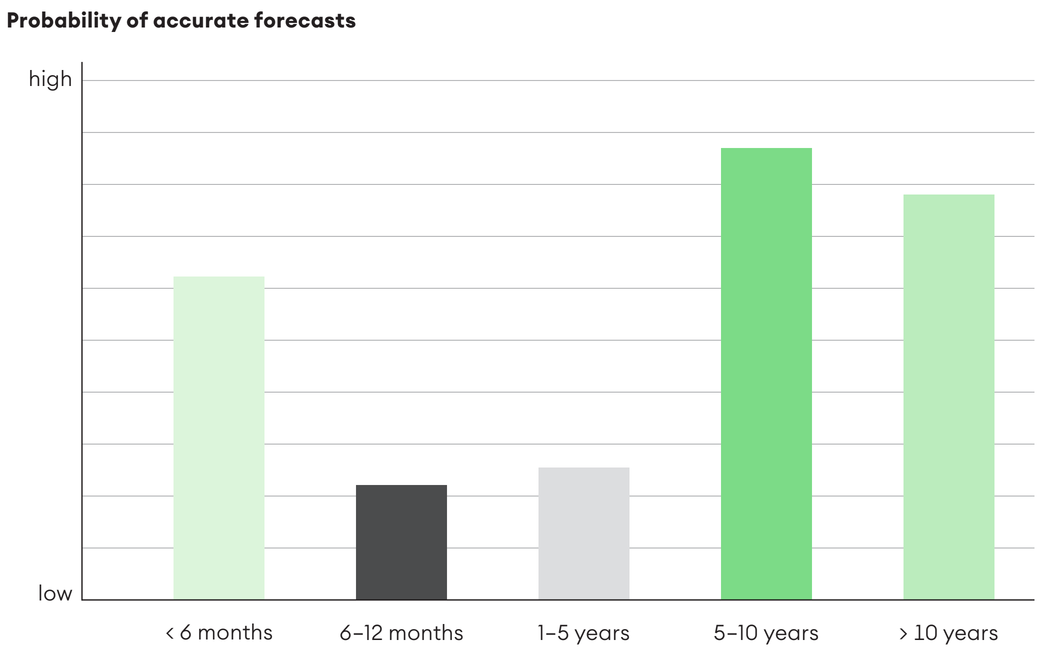
Source: ZWEI Wealth, 2022 (n=77)



Investment strategy – craftmanship beats magic

Sucess in managing assets greatly depends on the quality of the investment strategy. ZWEI Wealth examined the success factors of a good investment strategy. Conclusion: the simplest investment strategies remain the most successful – and for good reasons: forecasts, "new" asset classes and risk management models rarely deliver on their promises.

Forecasting ability on financial markets developments
Source: ZWEI Wealth, 2020



What makes a good investment strategy? Research by ZWEI Wealth shows three factors which distinguish more successful investment strategies. All three factors are derived less from the "magic" of an asset manager, but rather from the good craftsmanship and implementation.

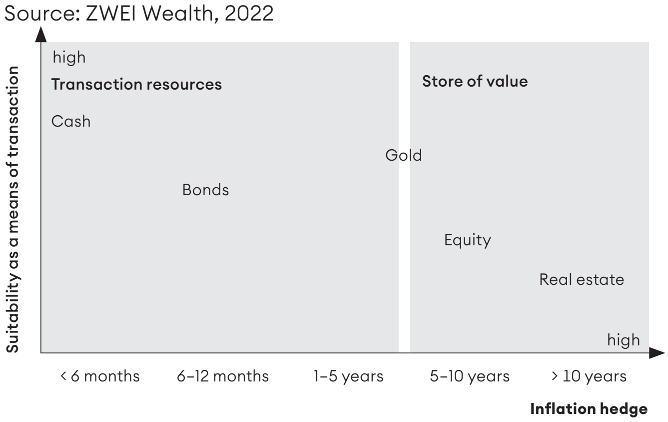
As little short- and medium-term forecasts as possible
Most financial market specialists know it. Forecasts about developments on the financial markets are to a large extent impossible. The chart on the previous page illustrates the results of ZWEI Wealth's research over the last seven years. For the study, we take forecasts from leading asset managers and check them for accuracy. The forecasts for short-term developments still perform relatively well. However, these are reflected in the market prices already, which means benefiting from them is almost impossible. The medium-term forecasts are clearly the most common. However, their probability of occurrence is so low that a coin toss would beat them. Only forecasts over the long term of around 10 years are relatively solid.

The successful investment strategies are therefore hardly based on short- and medium-term forecasts.

Basic ingredients instead of finished products
Another common feature of successful investment strategies seems to come from the asset classes used. We notice that investment strategies based on "basic ingredients" (see chart below "Basic ingredients instead of finished products") such as bonds and equities are significantly more successful than those which largely include "finished products" such as hedge funds, structured products and other so-called alternative investments.

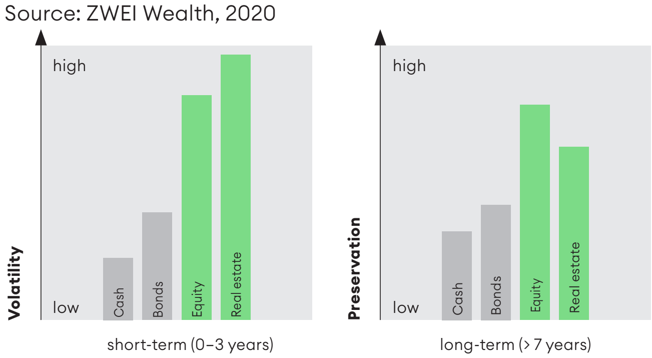
Look beyond volatility as a measure of risk
A third factor which seems to separate successful investment strategies is the consideration of risk. Investment strategies which base their risk assessment solely on the volatility measurements perform worse in the long term than those which include financial planning and purchasing power maintenance as an additional risk factor.

Basic ingredients instead of finished products
Source: ZWEI Wealth, 2022



Asset managers know a myriad of asset classes. However, as in cooking, the range of basic ingredients is limited and their use needs to be planned according to the respective investment strategy. Money and bonds primarily fulfil the function of transaction vehicles, while shares and real estate are suitable for the preservation of value. In most cases, the new or alternative asset classes are only a form of repackaging the basic ingredients described above.

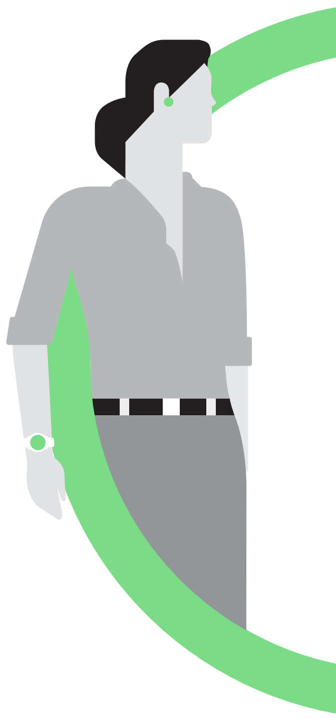
Look beyond volatility as a measure of risk
Source: ZWEI Wealth, 2020



Volatility has established itself in asset management as the standard measure of risk. Unfortunately, it is often forgotten that there are other very relevant risk measures which need to be considered in an investment strategy. The preservation of purchasing power is a prominent example to illustrate the consideration of risk. Equity invesments may be much riskier than cash investments in terms of volatility, but not in terms of preserving purchasing power.

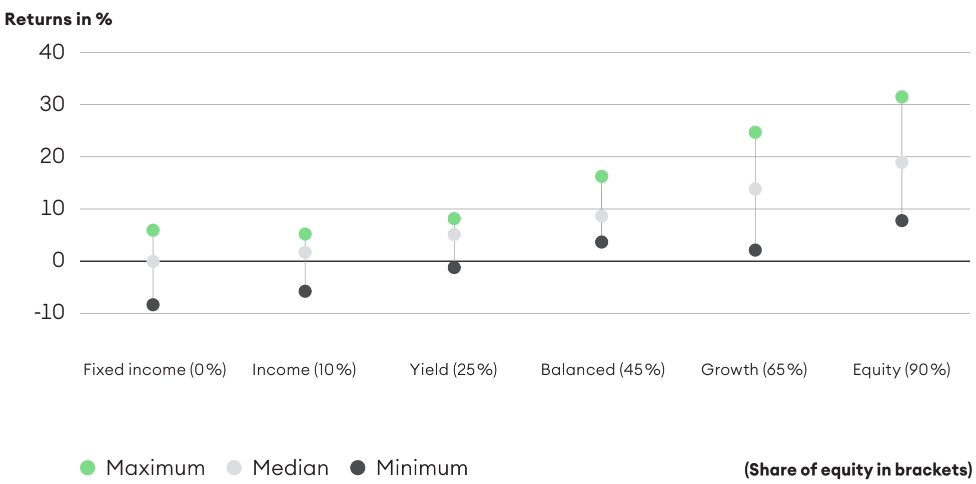
Specialists are the better portfolio managers

The performance of asset managers can certainly be measured and assessed. Every year, ZWEI Wealth awards corresponding ratings which help in the selection of asset managers. The difference between the good managers and the average ones remains significant. Overall, it is clear that the specialised portfolio managers systematically achieve better returns.



Comparison of returns in 2021 (US Dollar)

Source: ZWEI Wealth, 2022



"Past performance is no guarantee for future results". Does this common disclaimer by asset managers mean that the past performance does not provide any insight on the future? And does this also mean that good asset managers cannot be distinguished from bad ones in advance? We know: it is possible to tell the difference.

It depends on the data

The past or the present do provide valuable information for the future. It is just that this data is not available to the customers in a transparent manner. If you have the data, some vast differences become apparent.

The approach developed by ZWEI Wealth for the selection of asset managers is based precisely on such data. The analysis of how the results (risk and returns) of asset managers moved in different market situations in the past, provides pattern for the future. The same applies to the handling of costs.

Specialists with a tried and tested set of rules

This methodology can be used to evaluate which asset managers apply a flawless approach. These so-called top managers have astonishing similarities, which are summarised in the bullet points below.

ZWEI Wealth has been using this approach since 2014 and is constantly developing it further with the newly available data. The success confirms the methodology (see chart below). The results of the managers selected by ZWEI Wealth in 2014 for Swiss franc portfolios with a balanced risk profile were compared with the market median.

During the period from 2010 to 2022, the average of the selected asset managers (top managers) significantly outperformed the median. The top managers also achieve good results compared to a passive benchmark (after costs), but we would not consider them as significant.

A top manager...

Source: ZWEI Wealth, 2022

... is a specialised asset manager

... is focused on the bonds and equity asset classes

... bases investment decisions on a set of rules

... prefers individual securities and ETFs over funds, hedge funds or other collective investments

... charges below average overall fees

Top managers compared to median

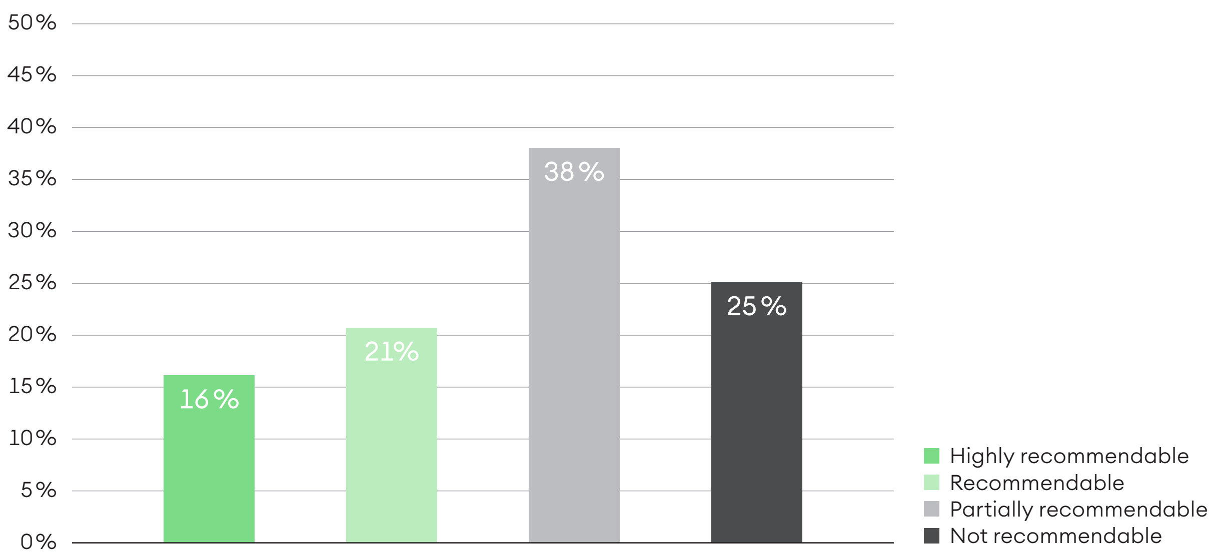
Source: ZWEI Wealth, 2022

Analysing offerings – comparison pays off

The range of asset management services overall can be described as very diverse. However, the quality does not always meet the requirements. Of the more than 3,500 offers surveyed, only 37% were rated "recommendable" or "highly recommendable". Although a slight uptick from the last survey, this result still leaves a lot of room for improvement. Costs remain very high across the board, bearing witness to a still muted competition. Albeit the ratings slightly differ depending on the types of asset management solution, the overall pattern remains intact.

How well do the asset management solutions on offer perform overall?

Source: ZWEI Wealth, 2022

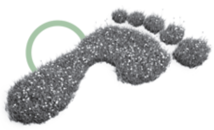


The size of the asset management market is considerable. In addition to the international players, there are many regionally anchored providers. The results shown on the next page are based on the evaluation of the ZWEI Wealth tender platform. Over 400 banks and asset managers provided over 3’500 different offers in the various categories. In addition to the quantitative measurements, the assessment also includes provider evaluation by ZWEI Wealth Experts, who independently advise clients on the selection of suitable options.

The rating approach of ZWEI Wealth		**Weighting**
Manager competency	How experienced and well-proven is the asset manager in regard to the sought-after portfolio structure?	30 %
Track record	How good is the past track record of the proposed portfolio solution?	30 %
Cost	How expensive is the portfolio solution in comparison?	30 %
Quality of the offer	How well does the portfolio solution fit the demanded criteria?	10 %

« Many asset managers still offer the broadest possible range of products and services, even though they lack the required competencies. »

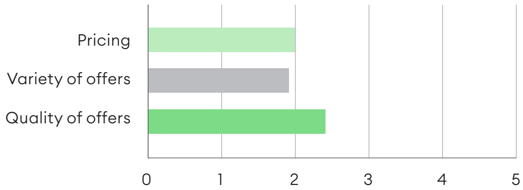
Results per category

Offer category	Description
Liquidity portfolios 	Portfolios for the management of assets which can be liquidated at short notice without a great down-side risk.
Value-preserving portfolios 	Portfolios which are geared towards the general pre-servation of value over a mid-term investment horizon. Risk management and diversification are important components of these portfolios.
Investment portfolios 	Portfolios consisting of individual, primarily long-term oriented holdings in direct equities or real estate investments. The focus is on the long-term value growth.
Impact Portfolios 	Portfolios with a focus on social, community and environmental impacts.
Pension portfolios 	Portfolios which are optimised for retirement plan-ning. In addition to value preservation, the possibility of annuities, insurance-related and tax aspects play an important role.
Digital asset portfolios 	Portfolios targeting investments in virtual asset classes.

1 = insufficient, 3 = sufficient, 5 = excellent

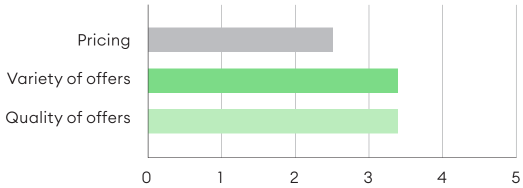
Assessment of the offers	Comment

Liquidity portfolios



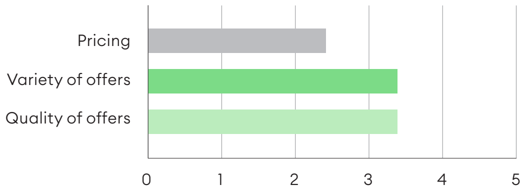
Despite high demand and the issue of negative interest rates, there are only few high-quality offers. There is considerable room for improvement.

Value-preserving portfolio



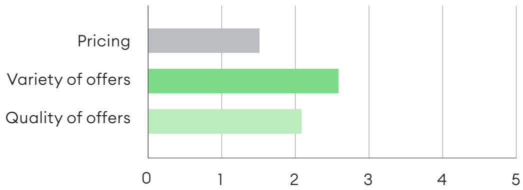
The range is in principle both good and broad. This segment offers one of the widest selections.

Investment portfolios



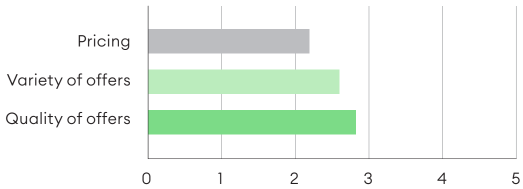
There is a sound and broad spectrum of listed shares on offer. For private equity and direct real estate investments, there is still substantial room for improvement.

Impact portfolios



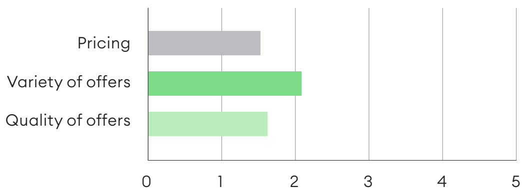
The offer may seem wide in this area but in reality most of the solutions are not very innovative.

Pension portfolios



The offering is slowly improving. There are now a handful of attractive offers.

Digital asset portfolios

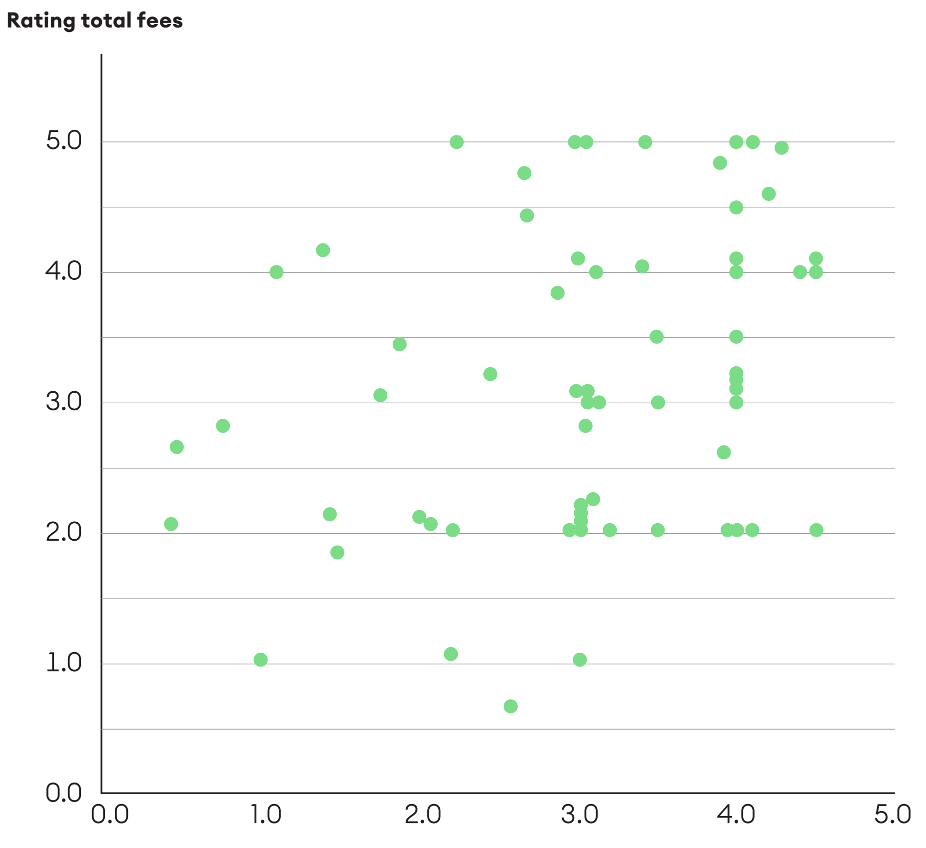


While the offering of virtual assets is currently growing strongly, portfolio solutions are still very scarce. In general, investors should still approach portfolio solutions with great caution.

Do (not) speak about costs

Banks and asset managers do not like to talk about costs. There are good reasons for this, because total costs are usually much higher than expected and high costs are certainly no guarantee for good performance. High time for a little more transparency on the subject. When it comes to fees and costs, it is difficult for an investor to gain an overview. After all, more than a dozen cost factors can be distinguished, and even the often cited all-in fee only covers a part of the costs actually incurred.

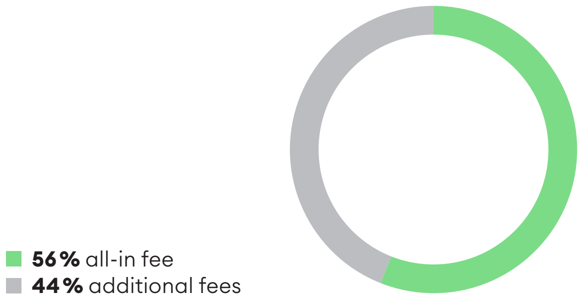
Price is no indicator of good performance



Vertical: 1= very expensive, 5= very cheap
Horizontal: 1 = insufficient, 5 = excellent

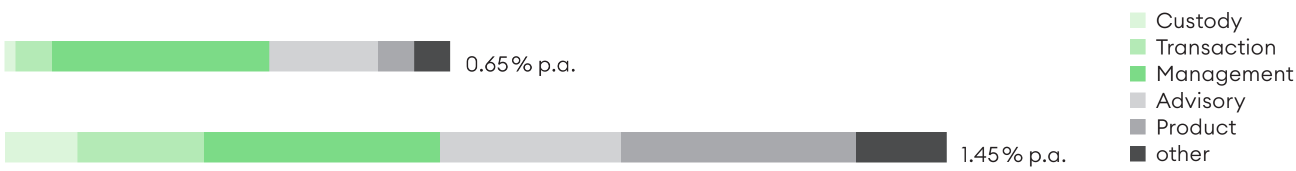
Last but not least, a transparency analysis on costs. Despite increased regulatory requirements, it has not become any easier for investors to gain an overview of fees and costs.

The prices in this study are based on Swiss-domiciled clients with a balanced portfolio. Competitive prices for international clients may vary.
The total costs in the previous graph are depicted on one axis from very cheap to very expensive. The other displays the performance measured in return/risk from insufficient to excellent. The plot shows no correlation between price and performance.



The tale of an all-in fee
It is still difficult for a customer to obtain full cost transparency. After all, the so-called all-in fee only includes part of the costs incurred. On average, the all-in fee covers merely 56% of the effective costs incurred by the client.
The remainder is incurred in product, transaction and other types of fees.

Costs – lower when kept separate



What is a fair price?
In order not to complicate the aspect of costs unnecessarily, we have carried out a simple analysis. We examined the costs of a "standard" asset management solution in detail and summarised all costs.
At the same time, we have compiled and added up each individual cost charged by specialists for every of the services required for asset management. The picture could hardly be clearer. By buying asset management as a package deal, a client pays about twice as much compared to mandating a specialist for each of the individual services.

An overview of the competitive prices presented as an all-in fee*

in mln	p.a.
<2	0.8 %
2–10	0.65 %
10–50	0.45 %
>50	0.35 %

This illustrates the need for transparency and competition among asset managers in terms of costs. There is no question that quality should have its price. And specialists show where this fair price is – at around half of the price charged for standard packaged offers in today's market.

*applicable for Swiss-domiciled clients

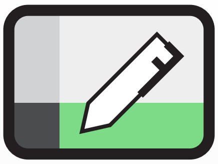
Best Practice:
Yearly cost control and re-negotiation

Benefit from transparency with your own Wealth Office

ZWEI Wealth plans, builds and maintains Wealth Offices for private and institutional investors. The services range from all-round wealth management to special mandates for investment planning, the selection of portfolio managers, and investment monitoring.

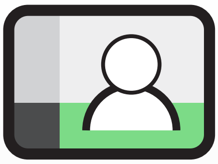
My Wealth Office

We take care of all your wealth matters from start to finish, including a dedicated investment committee.



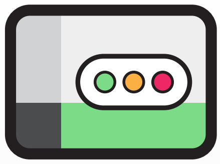
plan.

A planning team develops the investment regulations from the wealth architecture to the requirements for banks and managers.



find.

A tender process is used to find the best asset managers and ensure successful implementation.



control.

Investment benchmarking with consolidated reporting is established and the results of the banks/managers are monitored.

The Liberation of Investing

Facts & Figures

CHF 4.8 bn	of already optimised assets
+67%	average performance improvement
-34%	average cost savings achieved
436	reviewed banks and wealth managers
36	licensed experts

«Check your wealth management solution via www.zwei-wealth.ch/en/check»

About ZWEI Wealth
In 2014, the original idea was to establish a consultancy for wealth management, completely independent of financial service providers and products. Over the years, an entire ecosystem has evolved which is constantly being developed and expanded further. Today, ZWEI Wealth is the largest indepen- dent platform in wealth management. As per the initial principle, this ecosystem is completely independent of banks, asset managers and other providers.

About the transparency report
The analyses in this report are based on the data and compilations of ZWEI Wealth. These include information from real customer situations, information from managers and banks in surveys and when participating in tendering procedures, as well as publicly available financial market data. Unless otherwise stated, the graphics and analyses in this report are based on an average Swiss investor with portfolio assets of CHF 2 million. Further information can be requested from ZWEI Wealth at + 41-43-299 22 22 or info@zwei-we.ch.

Legal disclaimer

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