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Wealth Management

Transparency report 2020/21

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Preface

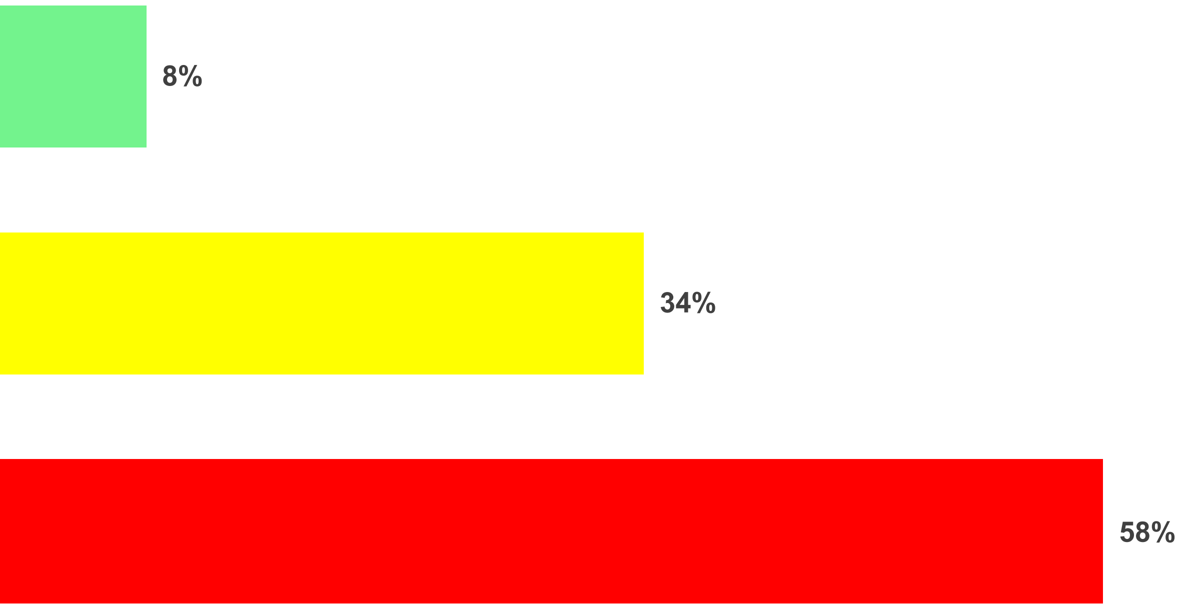
With the transparency report, we shed some light on asset management once a year. The aim is not to denounce institutions or anybody specifically. Rather, we would like to initiate discussions which will help the clients of wealth managers and banks to regain confidence in the services offered. This requires transparency which promotes competition in a way that customers benefit from good services at fair prices.

We would like to thank the banks and asset managers for their cooperation and wish you an interesting read.

Best regards,
Patrick Müller
CEO ZWEI Wealth

Still many conflicts of interest in governance

It is futile to talk about the conflicts of interest of banks and asset managers. The misconduct of the last decades (e.g. retrocessions) has brought the issue to the attention of all parties involved and led to a flood of new regulations. But where does asset management stand today? Have more professional and transparent structures been introduced for clients and providers? No. ZWEI Wealth's analysis shows that there is still much to be done in terms of structures and governance.



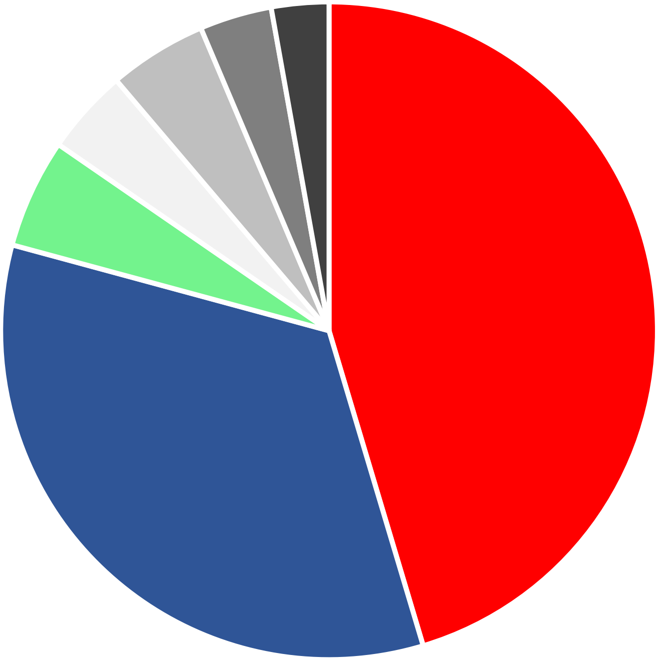
Only 8% have a formalised governance
The chart summarises the results of the analysis. Only 8% of private investors today have a complete and formalised governance model. In 34% of the cases, elements of a governance model have been implemented to some extent. In this group, for example, several similar portfolios at different banks and asset managers serve as benchmarks. In 58% of the cases, there are still hardly any aspects of control mechanisms established.

Banks and asset managers cannot monitor themselves
Of course, there is little incentive on the part of providers to encourage independent governance for their clients. In practice, the independent investment committee has proven to achieve good results and has established itself as the best possible protection of client interests.

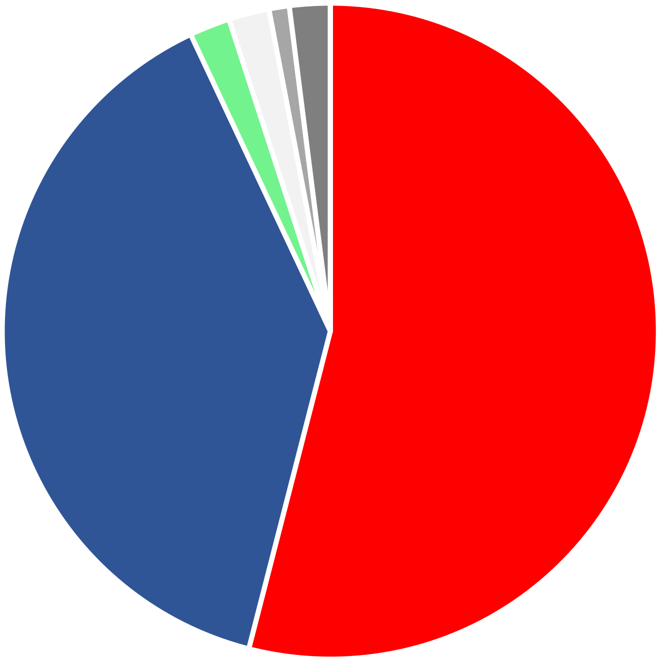
Best Practice: Investment Committee

The simplest remain the best investment strategies

'The investment strategy is the most important part of asset management. That is why we tailor the strategy to your individual needs'. These or similar sentences can be found in almost every asset management brochure. We investigated the question of how well the promises are implemented in reality. The comparison shows that simpler strategies fare better than (overly) complicated ones.



Sector average asset allocation



Asset allocation of the strategies in the top quartile

in %	Equity	Bonds	Cash	Real Estate	Hedge Funds	Metals	Others
Sector average	45	34	5	4	5	4	3
Top quartile	54	39	2	2	1	2	0

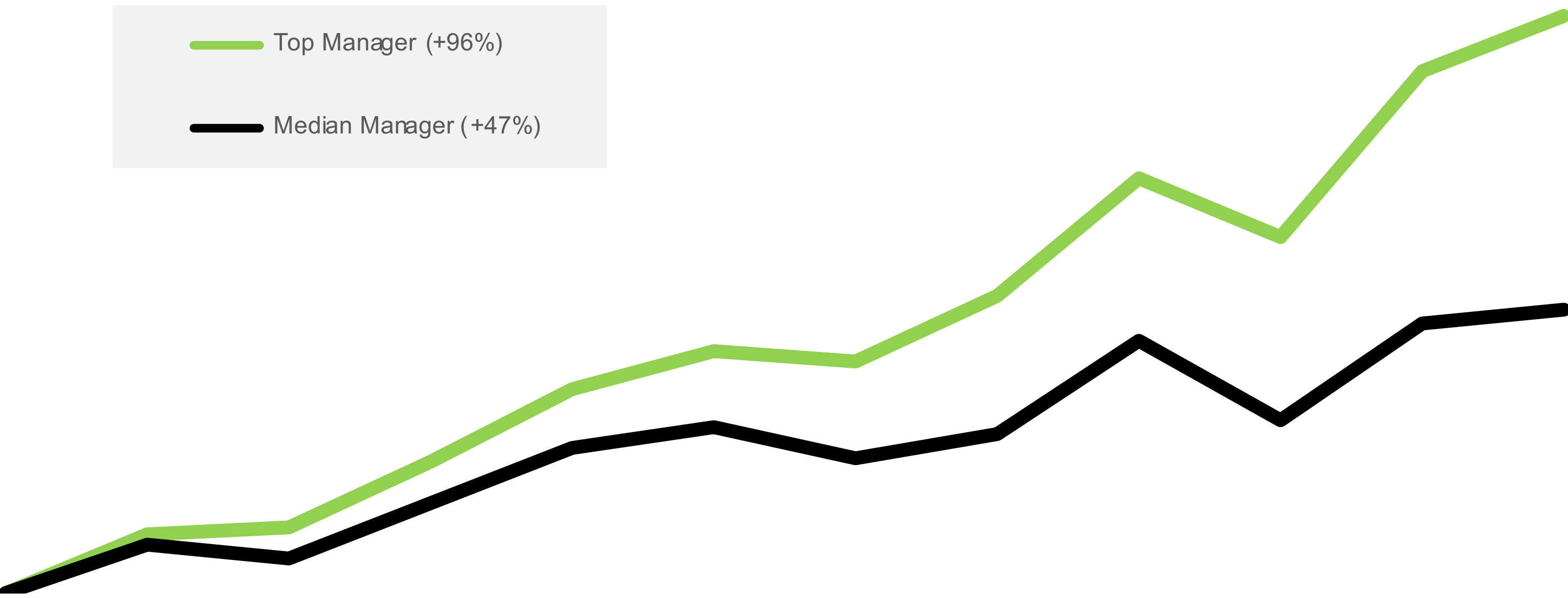
Small differences between providers
When analysing investment strategies, the similarity between providers quickly becomes evident. Regardless of which risk profiles are examined, the differences between the weightings of the asset classes are rather small from one provider to the next. This finding is not new, but it is essential for investors. The phenomenon that investment strategies are so similar is incidentally described in professional circles under the term 'career risk'. This means that it makes more sense for portfolio managers to do the same as everyone else in order to avoid attracting negative attention.

Simple strategies do better
The analysis of the investment strategies nevertheless shows a very interesting difference when the industry average is compared with the top quartile. This analysis shows that the managers with the most successful investment strategies concentrate their portfolios almost exclusively on equities and bonds and invest very little in so-called alternative asset classes.

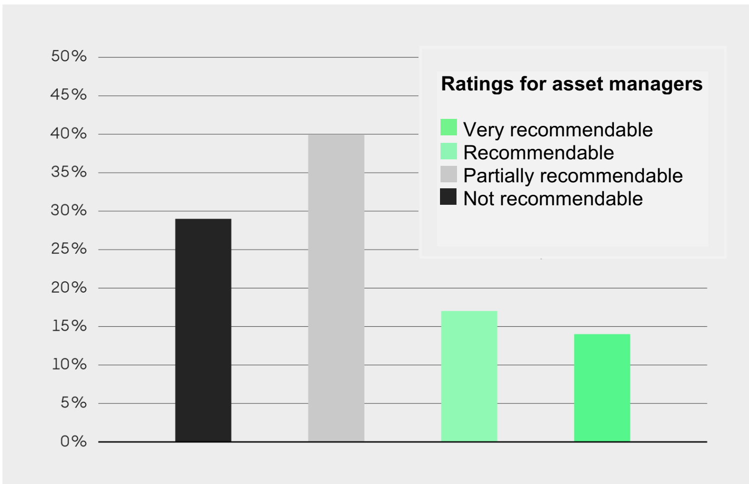
Best Practice: Goal-based strategies

Around 31% of asset managers meet the requirements

ZWEI Wealth produces an independent rating for asset managers on an annual basis. In the process, the competences of asset management providers are objectively classified according to a specially developed qualitative and quantitative methodology. Of the 327 institutions examined, 31% achieve a rating of "recommendable" or "very recommendable". Many asset managers still offer the broadest possible range of services, but do not possess the necessary competencies.



Finding the good managers is worth it
The graph above shows the difference in return between good and average managers for a Swiss franc portfolio with a balanced risk profile. Experience shows: if you try to find THE best manager for the next year, you will fail miserably. But if you try to select one of the good ones, you will find what you are looking for and will most likely be rewarded with good to very good results. In practice, the tendering process for manager selection has proven itself.



Best Practice: Tender process

Benchmarking as the new standard in wealth management

Measuring and comparing is a standard procedure in many areas of life. So-called benchmarking is still not very widespread in wealth management. To change that, ZWEI Wealth started comparing the annual returns achieved by banks and asset managers six years ago. This year, a record number of over 100 asset management providers took part and faced the comparison. Thanks to the data, offers can be compared and results evaluated. This helps clients to assess and choose their asset managers based on facts.

2020 – a very good vintage
Despite or perhaps because of the pandemic, the majority of asset managers can look back on good to very good results in 2020. In the investment portfolios with balanced and growth-oriented risk profiles, the majority of the managers can report returns which are above a generic benchmark portfolio. This shows that a large proportion of the managers knew how to take advantage of the opportunities that arose in the context of the turbulent investment year 2020.

In order to obtain a more reliable statement about the quality of asset management, benchmarking should typically comprise of four levels:

- **Manager Rating:** How experienced and competent is the asset manager? Benchmark against other administrators of similar solutions.
- **Track Record:** How good were the results (return, risk) of the asset manager in the past? Benchmarking against risk / return characteristics of similar portfolios.
- **Cost:** What are the total costs of the asset management solution? Benchmarking of the entire cost structure against alternative offers.
- **Fit:** How well does the solution meet customer-specific requirements? Benchmarking against your own level of aspiration.

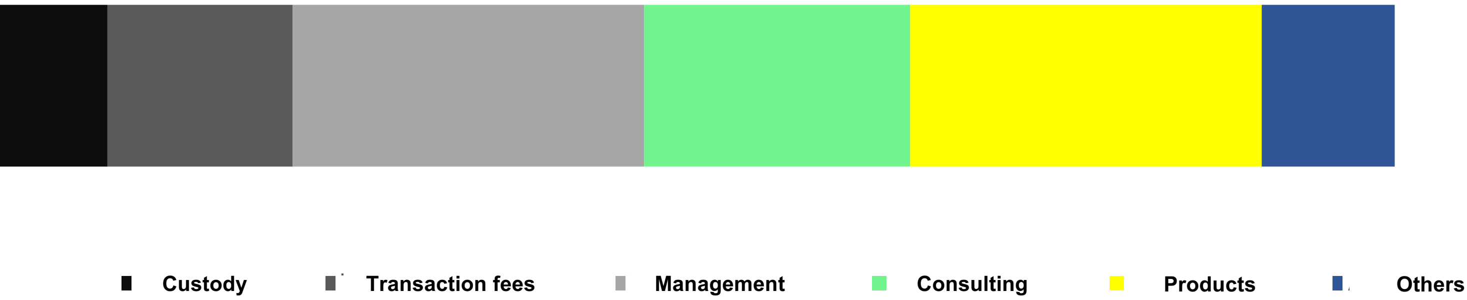
Best Practice: Portfolio Benchmarking

Cost structure – cheaper separately

And finally, a transparency analysis of the costs. In terms of fees and costs, it has not become easier for an investor to gain an overview despite the increased regulatory requirements. After all, over a dozen cost factors can be differentiated and even the much cited all-in fee only covers part of the actual costs.

Costs when implementing specialist solutions

Costs of a standard wealth management solution



What is a fair price?
In order not to unnecessarily complicate the aspect of costs, we have made a simple analysis. We have examined the costs of standard wealth management solutions in all details and summarised all costs. In contrast, we have compiled the individual prices for each of the services required for a respective wealth management solution. The picture could hardly be clearer. Anyone who buys wealth management solutions at a bundle price today pays around twice as much as if he / she had commissioned the specialist for the individual services.

This illustrates the need for transparency and competition in wealth management with regard to costs. No question about it, quality should have its price. The specialists show where this fair price lies – at around half of the current standard offers.

Best Practice: Avoiding bundles

How can you benefit from transparency?

ZWEI Wealth offers private and institutional investors services ranging from all-round wealth coverage through to special mandates for investment planning, the selection of portfolio managers and investment monitoring.

My ZWEI System

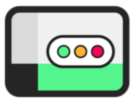
We take care of all wealth affairs for you from A-Z, including a dedicated investment committee

plan.

A planning team develops the investment regulations from the wealth architecture to the detailed requirements for banks and administrators

find.

The best asset managers are found in a tender and successful cost-efficient implementation is ensured



control.

An investment monitoring is established and the results (strategy, return, risk, costs) of the banks / managers are systematically checked

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.

About ZWEI Wealth

ZWEI Wealth was founded in 2014 by Prof. Dr. Klaus Wellershoff and Patrick Müller founded. It all started with the idea of establishing a consultancy for asset management that was independent of products and banks. Over the years, this has resulted in an entire ecosystem that is continuously being developed and expanded. Today, ZWEI Wealth is the largest ecosystem in wealth management that is independent of banks and asset managers.

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