

# Performance

A triannual topical digest for investment management professionals, issue 13, January 2014



**In focus**

The future of asset management in Switzerland

Regulation is changing the distribution landscape

Europe's M&A recovery: a long-awaited chance for investors

This time it's different—Reshaping the way we look at risk  
Fund governance round-up

Retrocessions—A thing of the past?

Exploring evolving risks and challenge—Perspectives from the investment management industry

Fair value pricing survey, eleventh edition—Finding the formula that fits

Competition, consolidation and change: key considerations in European securities clearance

Who wants to collect millions?

Digital: a potential source of differentiation and/or an effective addition to distribution channels?

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# Foreword



Dear readers and friends,

First of all, we would like to wish you and your families a Happy New Year! 2013 was a challenging year for our Investment Management industry and we expect this New Year will call for the same level of attention from all of us.

It is with particular pleasure that we present this current issue of *Performance*, our leading edge publication where we bring together views, analysis and thought leadership. It is not by chance that this edition coincides with the World Economic Forum, nor a coincidence that within the articles we present here for your perusal and reflexion you will find the themes that form part of the debate at the Forum, and the challenges that make such a Forum essential to the positive evolution of financial markets and institutions.

The objectives of the Forum, and our objectives in reaching out to you with these articles, are very closely aligned. We are living in a period of unprecedented change in the financial world, with innovation and global trends interacting with imperatives that are much closer to home. Cost management and optimisation are as important as wrestling with regulatory change; understanding the dynamics of a changing market place is impossible without understanding the potential of new technologies, of social media and of changing cultural and demographic trends. Decisions taken in any or each of these domains will inevitably impact the lives of our clients, and shape the destiny of generations to come.

In this issue, which is a further step along the path of enriching our own expertise with articles jointly authored by recognised and known market figures to capture their insightful experience and points of view, we examine regulatory change in several key areas. We look at Governance issues and delve into the technical realms of pricing, and in an environment in which a degree of 'normality' if there is such a thing, is returning after the financial crisis we examine developments in the M&A market. Thankfully, we may not talk of death, but we certainly speak of tax! In short, something innovative, something thought provoking and we trust something of interest to you all.

We often hear that we are 'at a crossroads' — either politically, or economically, socially or in whatever context it may be. The image has become so familiar that we rarely think beyond the immediate resonance that it conjures up. And yet a 'cross roads' describes much more than where we stand today, and the choices that are before us. A cross-roads, be it in trade, or geographically or even psychologically, arises when there is an obstacle to be overcome. It may be a path through the mountains that bar the way; it may be the place where trade routes converge, it may be that moment of enlightenment that turns concept into innovation. Whatever it is, a cross roads is where endeavour, and expertise, where initiative and ambition, encounter and overcome impediments to lead to other and brighter opportunities. That is our ambition, both for *Performance* and for you, and we offer it as our contribution to your way forward as you negotiate the way ahead.

Happy and prosperous reading!

**Vincent Gouverneur**  
EMEA Investment  
Management Leader

**Nick Sandall**  
EMEA Co-Leader  
Financial Services Industry

**Francisco Celma**  
EMEA Co-Leader  
Financial Services Industry

*Performance* is a triannual magazine that gathers our most important or 'hot topic' articles. The various articles will reflect Deloitte's multidisciplinary approach and combine advisory and consulting, audit, and tax expertise in analysing the latest developments in the industry. Each article will also provide an external expert's or our own perspective on the different challenges and opportunities being faced by the investment management community. As such, the distribution of *Performance* will be broad and we hope to provide insightful and interesting information to all actors and players of the asset servicing and investment management value chains.

Dear readers of *Performance*,

We would like to welcome you to the 13<sup>th</sup> edition of Deloitte's global magazine for the investment management sector. Much has changed since the first edition of *Performance* in the aftermath of the financial crisis. The global economy is slowly picking up again and most developed economies are growing. While the investment management industry has been able to enjoy progress, many challenges still lie ahead. Regulation is constantly evolving and the cost of being compliant, especially at a global level, has never been greater. At the same time, investors have become increasingly demanding and started taking greater interest in performance and transparency. This more involved approach to investing is putting significant pressure on margins.


In this new environment for asset managers, we would like to give our readers some thought-provoking insights. As such, we have broadened the involvement of our external contributors to further expand our industry knowledge-sharing platform. Furthermore, each edition to follow will be led by a different Deloitte IM practice and have a focus topic that a number of articles will cover.

In this edition of *Performance*, which contains valuable contributions from a range of industry experts, we focus on the future approaches to wealth management in Europe, and especially in Switzerland, in light of European tax and regulatory changes. We also examine some of the regulations impacting (or soon to be) the investment management industry in Switzerland and the EU. For example, we outline the impact of MiFID II and take a look at the debate on shadow banking regulation. A significant contribution to the overall theme will also be made by our external contributors, who will give their views on Switzerland's future as a wealth management centre.

In addition to our main theme, you will find the usual variety of topics ranging from new tax regulations for the distribution of funds to the results of Deloitte's global risk management survey and the implications for investment managers. We also look ahead to the mutual funds markets in 2014.

We wish you all a successful start to the New Year and hope you enjoy reading this edition of *Performance*.

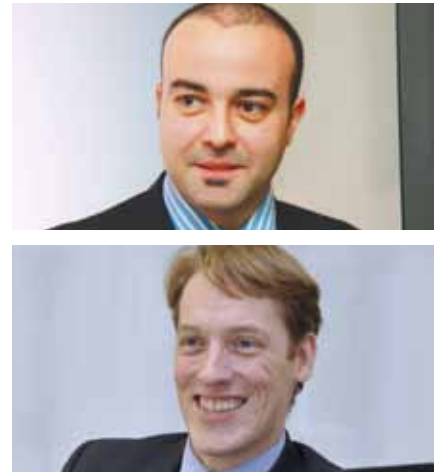
With our best wishes,



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Editorialist



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### **David Blumer - BlackRock**

David J. Blumer, Senior Managing Director, is head of EMEA for BlackRock and is a member of both the Global Executive Committee and the Global Operating Committee. Prior, Mr. Blumer was Chief Investment Officer and a member of the Executive Committee at Swiss Reinsurance as well as Chief Executive Officer and a member of the Executive Board at Credit Suisse's Asset Management.



### **Martin Bidermann - Rahn & Bodmer Zürich**

Martin Bidermann has been partner at Rahn & Bodmer Zürich since 1990 and has had responsibility for the Customer Advisory Services since 2001. Prior, Mr. Bidermann has obtained a vocational qualification in business studies and spent his further training in North America and Japan, gaining in-depth knowledge of international securities trading.



### **Thomas Kubr - Capital Dynamics**

Thomas Kubr served as founding CEO of Capital Dynamics for over 12 years, before taking up his current role as Executive Chair of the Board of Directors. He leads the firm's client development activities and overall strategic development, as well as its investment strategy as a member of the Investment Committee. Prior, Mr. Kubr was Head of Private Equity at Partners Group and a consultant at McKinsey & Company.



### **François Rayroux - Lenz & Staehelin**

François Rayroux is co-head of the Banking and Finance group at Lenz & Staehelin where he leads the Investment Management practice. He is considered by various professional organisations the leading expert in banking and financial as well as capital market law in Switzerland. He has a Masters degree (lic. iur. 1986) and a Ph D (Dr. iur. 1993) from the Zurich University.



### **Petra Reinhard - Credit Suisse**

Petra Reinhard, Managing Director, is the Head Fund Solutions & Client Services at Credit Suisse. Prior, Ms. Reinhard worked as Head Private Label Funds & Fund Projects at Julius Bär. She is an alumnus of the Stanford Executive Program, after having originally completed her studies in law at the University of Basel with a focus on national and international tax law. Since 2010, she represents Credit Suisse in the Board of Directors of the Swiss Funds and Asset Management Association SFAMA.

# The future of asset management in Switzerland

At the time of writing this article, a second Swiss bank had just decided to give up its business in the wake of the U.S. tax investigation. We are not talking about banks with entities and operations in the U.S.; both banks are Swiss-domiciled without any offices or representatives in the U.S. Neither bank is in breach of any Swiss laws and no infringement of the laws of any other country has been established in a court of law.

The financial crisis sent shockwaves around the globe, with the collapse of Lehman Brothers, the bailouts and in some cases the nationalisation of major financial institutions such as UBS, RBS and AIG. It has considerably changed the way investors look at the risk of default of major 'blue-chip' corporations.

As the world, and particularly Europe, tumbled into a recession, unemployment and welfare spending have further increased the strain on national budgets. As the U.S. is moving slowly towards recovery, in addition to the above, it has had to deal with a political stalemate.

The historically low interest rates, as a result of the sustained period of expansive monetary policy, combined with the demographic trend of longevity are both an immense challenge as well as a major opportunity for those who can read the signs of the times.

As a wealth and asset management centre located in the middle of Europe, Switzerland is very much affected by all these developments. But what does the future hold for Switzerland? What challenges and opportunities will the country face as it seeks to maintain its leading position, and how should the Swiss asset management industry prepare for the future?

We have interviewed five experienced representatives of the Swiss asset management industry who offer different perspectives from their various professional backgrounds.

*Interview by Marcel Meyer, Partner Deloitte*

**Q: What makes Switzerland an attractive location for asset management compared to other major wealth and asset management centres?**



**David Blumer**

Switzerland has been a very attractive location for wealth management operations for quite some time, both in the asset management area and within the private banking sector. Private banking has traditionally been the more important pillar, with the international environment, the highly-qualified talent pool, the stability as well as the longstanding tradition and experience in this market being the key factors contributing to this success.



**Martin Bidermann**

We are clearly going through the biggest change of paradigm since the introduction of banking secrecy in 1933. A key factor is the increasing penetration of IT. Data is available everywhere, it can be very quickly copied and transmitted, and it is expensive to keep control over. Since 2008 everybody seems pre-occupied with the regularisation of the past and it currently looks like this process will not be completed before the end of 2014. New money will be flowing into Switzerland, not because of tax advantages or because of Swiss banking secrecy, but because of the traditional 'Swissness': trust, reliability, stability, education and experience.



**Thomas Kubr**

Switzerland's success and reputation as a financial centre is built on trust, strong personal relationships and high-quality service. As a small country in the heart of Europe looking back on hundreds of years of democracy, continuous government and a stable currency, I cannot think of another country that comes even close to possessing that foundation of trust. Switzerland can capitalise on its strengths by positioning itself as the country for long-term stability, where the money investors have here can be protected in the best possible way. I find it very sad that the country is often viewed through the lens of numbered accounts because that part of the banking business has never been a significant contributor to the Swiss economy.



**David Blumer**

Developments over the last few years surrounding tax disclosures and information exchange have, to some extent, resulted in a shift of focus away from private banking and an increased focus on asset management. We see this as a positive development and a trend that is in line with our investments in the Swiss market. BlackRock has acquired the private equity fund of funds business from SwissRe and the ETF business of Credit Suisse, and is in the process of creating a fund management company in Switzerland. As the regulatory environment changes, it becomes more and more critical to be operationally present in a market, as it is no longer possible to be active in a jurisdiction from a distance.

All these developments have been factored into our strategy and will support the growth of our business in Switzerland.

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*Thomas Kubr*





### François Rayroux

When in 2009 it became clear what shape the AIFMD would take, I immediately realised that this was going to have a profound impact on the Swiss asset management industry. It was clear that some activities, distribution as the most prominent example, would have to move abroad as they could not be performed in Switzerland anymore. I understood that cross-border solutions would disappear; as one needs to be where distribution happens. Back then, it looked like Switzerland would be completely locked out of the common market in Europe.

*Q: How do you see the competitive landscape and the major local and international trends at the moment and how do you see them evolving over the next decade?*



### David Blumer

A key factor is the regulatory environment. It has changed considerably in recent years and will continue to do so. Among other factors, this has contributed to increased uncertainty for market participants. Requirements in the area of compliance and risk management are continuously increasing and all firms will incur additional costs, which will increase competition even further. As a result, it will be necessary to have a certain critical mass in order to be successful. The alternative strategy is to focus on a niche and be a specialist for particular investment themes. Regulation has, and will continue to drive this development, and players lacking critical mass or specialisation will struggle in the future.

Another key development is the trend towards passive investment strategies, which is changing the asset management landscape. We are currently seeing significant growth in passive strategies. The question is how to position yourself in this market segment, because with passive strategies there is little scope for distinction. BlackRock follows an approach whereby we offer both active and passive strategies. We see them as complementary and we believe there is a lot of value in this approach.

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## New money will be flowing into Switzerland, not because of tax advantages or because of Swiss banking secrecy, but because of the traditional 'Swissness': trust, reliability, stability, education and experience

*Martin Bidermann*



### Petra Reinhard

The uncertainties caused by globalisation, changing client behaviour and increased regulatory pressure, are seen as the major threats to the asset management industry in Switzerland. However, uncertainty can become a prime source of future profitability for those who read the signs well and position themselves accordingly. Market players will need to develop their value propositions and align their business models based on the right strategic initiatives. The successful asset manager has to define his initiatives as a result of careful analysis: what do we do in our clients' best interest, who do we want to serve with what kind of products and services and where and how can we ensure sustainability?

A convincing value proposition will be key for market players to deliver measurable added value for clients and achieve sustainable growth.



### David Blumer

Independence is also becoming a key topic. There is a trend towards resolving the conflicts of interest that are still present in the investment value chain. Clients are increasingly selecting providers that pursue a distinct fiduciary approach.

**Q: What are the key success factors when developing a new product or deciding to enter a particular segment of the market or asset class?**



**David Blumer**

We address issues that are currently not yet on everybody's radar. If we think it is a crucial topic to think and talk about, then we directly and openly address it, even if it is not at the top of the agenda. One of these topics, for example, is longevity and the ageing of the population. Everybody knows that this will be a huge issue, but for many it is not yet something to be addressed. We think it should be discussed, even if the exact impact and the solution to the problem are not yet fully known. It is important that a common understanding is created. We will all be living much longer, interest rates are currently very low, and so we need to get a common understanding of what this means for our retirement.

Interest rates are another example. For now they are low, but at some point they will increase again. The implications of this should be discussed, and scenarios should be worked out to understand what the potential consequences are and what can be done to prepare investors. We are currently engaging in these discussions with asset and wealth managers. It is crucial that these things are discussed now, because the world of investing will change, and the pace of change will increase.



**Martin Bidermann**

As the oldest private bank in Zurich, with the majority of our clients coming from the region, we are convinced that our future lies mainly in Switzerland. We understand the Swiss market and have the know-how to operate in Switzerland. The three families (Rahn, Bodmer and Bidermann) are represented by five members in total.

In some instances we service as many as four generations of a client's family. The region of Zurich is not too small for us and we see many opportunities here.

As entrepreneurs we are not thinking from quarter to quarter—we are thinking from generation to generation. Our objective is to hand over the bank to the next generation in a good state—just as we took it over from our fathers in the early nineties.



**Petra Reinhard**

The asset management industry is directly and indirectly affected by macroeconomic developments. As a result of these, as well as other external factors such as regulation and government intervention, asset managers need to review and adapt their business model in order to remain competitive. As in many other industries, the power base within the value chain has shifted toward demand.

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**The successful asset manager has to define his initiatives as a result of careful analysis: what do we do in our clients' best interest, who do we want to serve with what kind of products and services and where and how can we ensure sustainability?**

*Petra Reinhard*

**Q: *What strategy do you pursue in order to remain competitive in such an environment and what are the opportunities you see for your company and for the asset management industry in general?***



**David Blumer**

Two key questions are crucial in today's environment: What are the needs of the clients and how are these needs changing over time? This is the basis for our analysis. It is certainly not an easy analysis in the current environment as there are so many factors to consider and they are all interconnected.



**Petra Reinhard**

Asset management today is a global activity and therefore, a competition between financial centres is inevitable. Switzerland is one of the most successful business locations, but all stakeholders need to ensure that it remains a competitive place in financial services and to put forward ideas that will help the country to develop into a globally recognised centre for asset management. The 'Swiss Funds & Asset Management Association' together with the Swiss Banking Association intend to position Switzerland as an important base of operation for the asset management industry.

This SFAMA/SBA initiative has the objective of developing Switzerland into a leading location for asset management.

It is a chance to improve existing frameworks and define new conditions for asset management to give existing Swiss-based asset managers the opportunity to position themselves better and to offer a favourable environment for innovation, which also means establishing excellent connections with research and academic networks, and creating a favourable investment environment for 'angel' investors.

We should use the momentum of the initiative to give greater diversification to the financial business and enhance Switzerland as a place to do asset management business.



**David Blumer**

For Switzerland, it will be crucial to remain competitive and to continue to invest in the existing and future talent pool through education, and to ensure that skills and experienced managers do not leave the country. The asset management initiative of the Swiss Banking Association, in cooperation with the Swiss Funds and Asset Management Association, is a key element to achieving this objective. Other financial centres are working on building their reputation and developing long-standing client relationships, while we in Switzerland already have this; but we need to make sure that we don't lose this asset.

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One of these topics, for example, is longevity and the ageing of the population. Everybody knows that this will be a huge issue, but for many it is not yet something to be addressed

*David Blumer*



**Thomas Kubr**

As an experienced Swiss manager investing in private markets globally we see a lot of opportunities for our clients. There is an illiquidity premium generated by private investments and many reasons, such as preservation of wealth, support an increased allocation to this asset class, provided investment timeframes and liquidity requirements are managed properly. In my view, given the needs of a long-term healthy retirement system, pension funds and life insurance companies really cannot afford not to take advantage of the significant outperformance private investments can generate.



**David Blumer**

Our approach is to remain flexible and to maintain a very broad and deep product range. In this way, we are able to offer products suitable for a wide range of client profiles. And, even more importantly, we are able to offer comprehensive solutions to our clients.

That is the core of our strategy. We want to offer solutions, rather than just products. Solutions are more complete and incorporate areas such as risk management. Comprehensive solutions create closer long-term ties with clients, and this is the most important asset for any business.

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## Asset management today is a global activity and therefore, a competition between financial centres is inevitable

*Petra Reinhard*

**Q: Speaking of regulation, what is your view on the Swiss regulatory environment as compared to the other core markets you are competing in?**



**David Blumer**

The general direction is very similar, be it in Switzerland or the EU, including the United Kingdom. At the same time, there are clearly certain local specific requirements and, of course, Switzerland has its own 'Swiss finish'. But this is the case for most countries and there are often different interpretations for any particular general rule. Admittedly, this doesn't make doing business easier, but it is an environment which is clearly continuing to develop. One has to see this as an opportunity to contribute to the discussions and the reforms.



**Thomas Kubr**

Regulation has a very important role to play: it provides transparency and fraud prevention. However, in Switzerland I see a divergence in a sense that on one hand the regulator is not tough enough in enforcing existing laws in areas like insider trading. On the other hand, Swiss regulation now tends to overprotect sophisticated investors: i.e. forcing them to comply with the same rules as retail investors isn't helping sophisticated investors. For me, regulation is key to providing transparency and a level playing field for competition, and keeping the markets free from fraud, but it should not penalise qualified investors.



#### François Rayroux

One of the key strengths of the country is the long tradition of conceptual law. Swiss law is mostly principle based, and not process driven and derived from specific cases as in the common law tradition of the Anglo-Saxon countries. Financial markets and products have become so complex and innovative that it will never be possible to create a process-based codification for every specific case covering all possibilities and eventualities. Instead, it is important that the main rules and principles are defined and that there is a clear line of interpretation. There is pressure on our legal tradition as it needs to be accepted as equivalent. However, I strongly believe that principle-based regulation is more effective regulation, and we need to continue to explain this to our partners.



#### Martin Bidermann

We are regulated by the Swiss Regulator FINMA. We have personal and unlimited liability for all unpaid debts of the bank. This is a very effective way to regulate our business. If every company was organised like this the banking industry would need much less regulation.



#### François Rayroux

Today, Swiss regulation is seen as mostly equivalent, and the sovereign debt crisis has somewhat counterbalanced the isolating effects of European regulation by presenting Switzerland as an attractive and stable domicile in the heart of Europe. However, as a non-member of the EU, Switzerland's ambition can only be the first place among all the third-party states. This is the joker we have to play.

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*François Rayroux*

