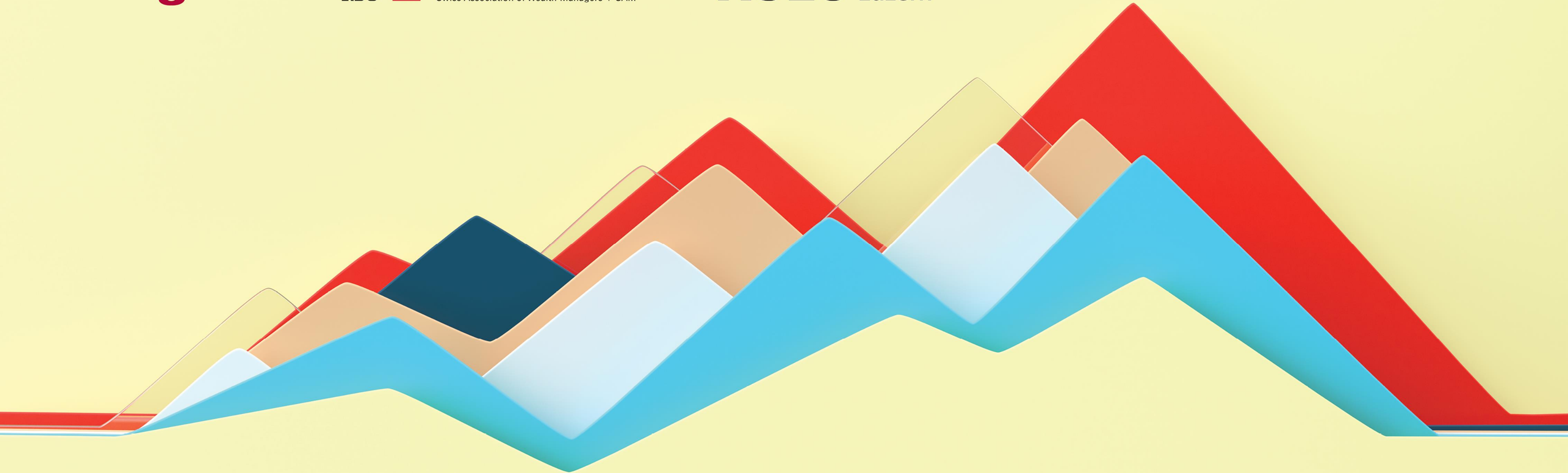


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VSV-ASG Investment Pulse 2023

An investment barometer – exploring how Swiss independent wealth managers invest

Editor: Vanguard

Authors: Prof. Dr. Manfred Stüttgen, Nadine Berchtold – Lucerne University of Applied Sciences

Agenda – VSV Investment Pulse 2023

EXPLORING HOW SWISS INDEPENDENT WEALTH MANAGERS INVEST

- Executive summary
- Study set-up and methodology

ASSET ALLOCATION AND IMPLEMENTATION

- Split Equities versus Bonds plus regional splits
- Direct investments versus Funds-/ETF-investments
- Active versus passive investments
- Product use of ETFs versus Index Funds

SUSTAINABLE INVESTMENTS

- Inclusion of sustainability criteria (ESG criteria)
- Barriers for sustainable investments
- Sustainability strategies (ESG strategies) in the investment process
- Assessing the sustainability of investment products

APPENDIX

- Methodology
- Sample firm size

* ESG = Environmental, Social and Governance

Executive summary 1/3

With interest rates rising Swiss independent wealth managers are reconsidering their asset allocation. China being opened again post Covid, central banks raising interest rates and the recent bank crises have sent mixed signals. Bond investments are seeing a revival, while U.S. equities are being reduced. Surprisingly, the rapid growth of sustainable investments in the broader financial services industry is not at all mirrored in Swiss independent wealth managers' investment approaches. Our survey of more than a hundred independent wealth managers, now in its second year, gives insights into how they are navigating the challenges of 2023.

Asset allocation: bond investments are back in play

In last year's survey we expected rising interest rates would shift wealth managers asset allocations: and indeed, in 2023 we see a reduced tilt towards equity investments and an increased weight of bond investments. While Swiss equities are still overweighted, all other regions' equities are underweighted now – including the U.S.

Although bonds are still underweighted, the extent of underweighting has decreased compared to last year. Government bonds in Switzerland, Europe, and the U.S. are becoming more popular among investors, and corporate bonds are even more in demand.

Executive summary 2/3

Swiss wealth managers still tend to favor investing directly in equity and bond markets that are closer to their home region. In emerging markets and the Asia-Pacific region most wealth managers prefer using funds and ETFs for investment, and this trend has become increasingly popular.

For Swiss and European equities, as well as corporate bonds, wealth managers generally prioritize active investments over index or passive investments. However, for government bonds in all regions, index or passive investments are typically the preferred choice, and they are gaining popularity for other asset categories as well. Among index or passive investments, ETFs are the most favored option in the market, although Index Funds are also starting to gain ground across various asset classes, particularly in the bond market.

Sustainable investing is a polarizing topic among Swiss independent wealth managers

Only a quarter of all wealth managers in our survey incorporate sustainability criteria in their investment processes, while more than a third of wealth managers do not consider sustainability criteria at all. Interestingly, we have observed growth at both ends of the spectrum, indicating an increased polarization between adopters and non-adopters of sustainability approaches compared to last year.

Executive summary 3/3

Sustainable investing is a polarizing topic among Swiss independent wealth managers (continued)

WMs perceive two key barriers to implementing sustainability strategies to be particularly high: Firstly, they note a lack of reliable sustainability data and standards. Secondly, they believe that sustainable investments may not offer an optimal risk-return profile. Interestingly, we observe different perceptions between WMs regarding this latter barrier: Wealth managers who never incorporate sustainability criteria tend to view the risk-return profile as a more significant barrier compared to those who always consider sustainability criteria.

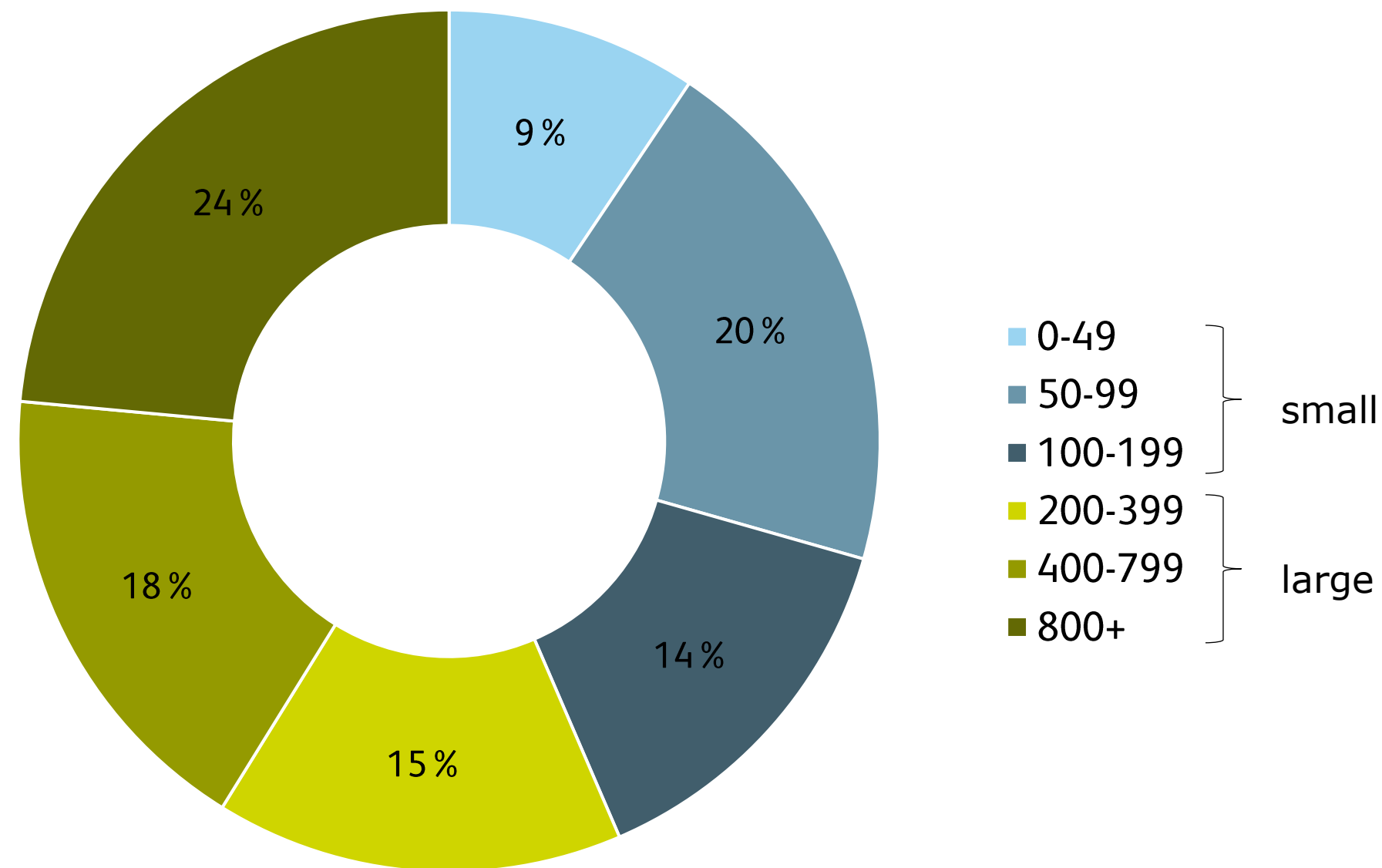
Wealth managers generally prefer two sustainability strategies: screening approaches (positive/best-in-class selection as well as negative selection) and sustainable thematic investments. However, positive screenings in particular are more commonly used by wealth managers who always include sustainability criteria in their investment processes.

When assessing the sustainability of investment products WMs typically leverage multiple sources. Generally speaking, WMs rely more heavily on external sources to assess the sustainability of investment products than on internal research. Differences between large and small WMs can be identified, though, with large WMs slightly more often using internal research than small WMs.

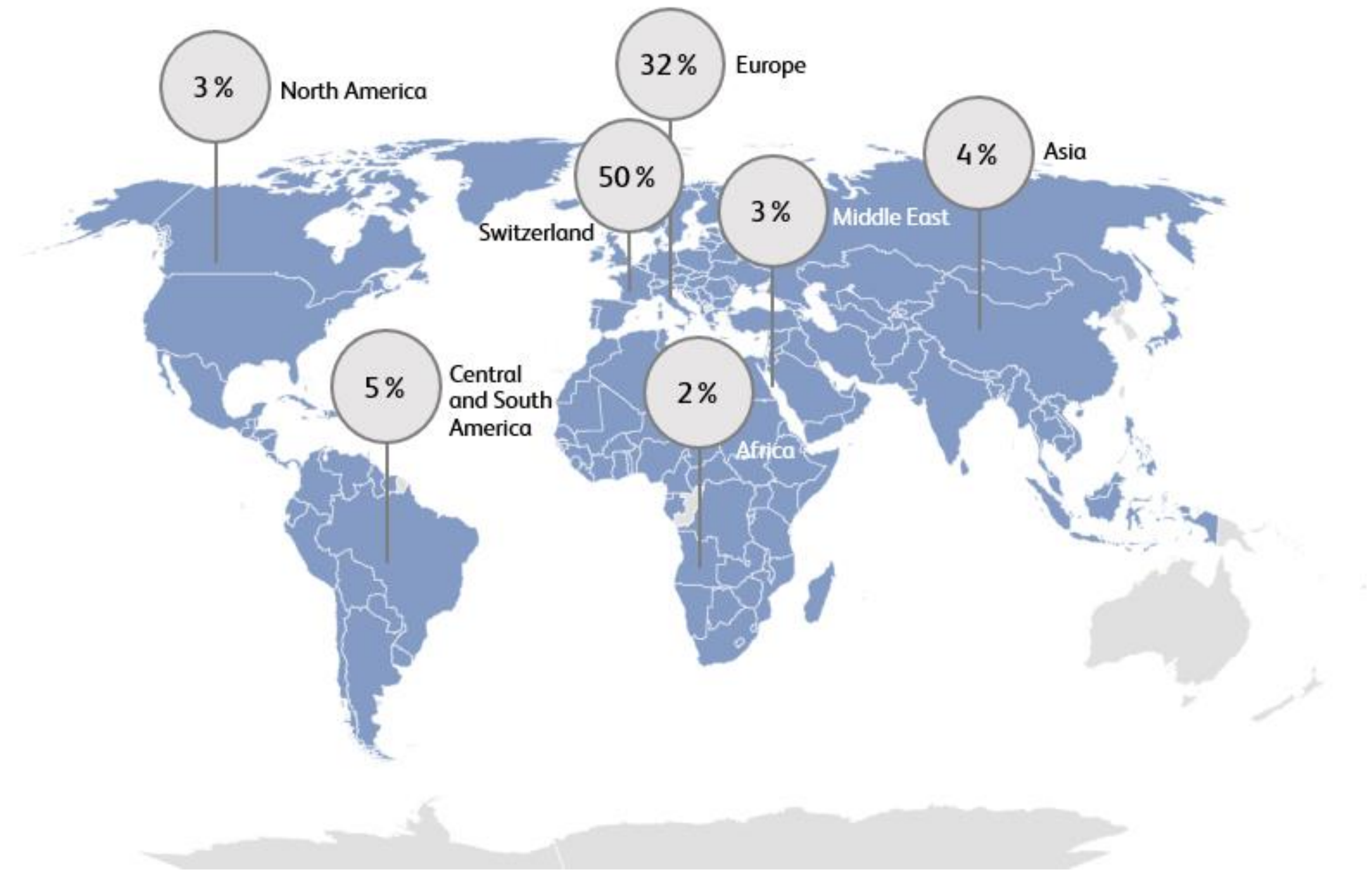
Study set-up and methodology: Exploring how Swiss Wealth Managers (WMs) invest.

109* Wealth Managers disclose their asset allocation and sustainable investment approach

Firm Size | Assets under Management
(in million Swiss francs)



Regional Distribution of End-Clients

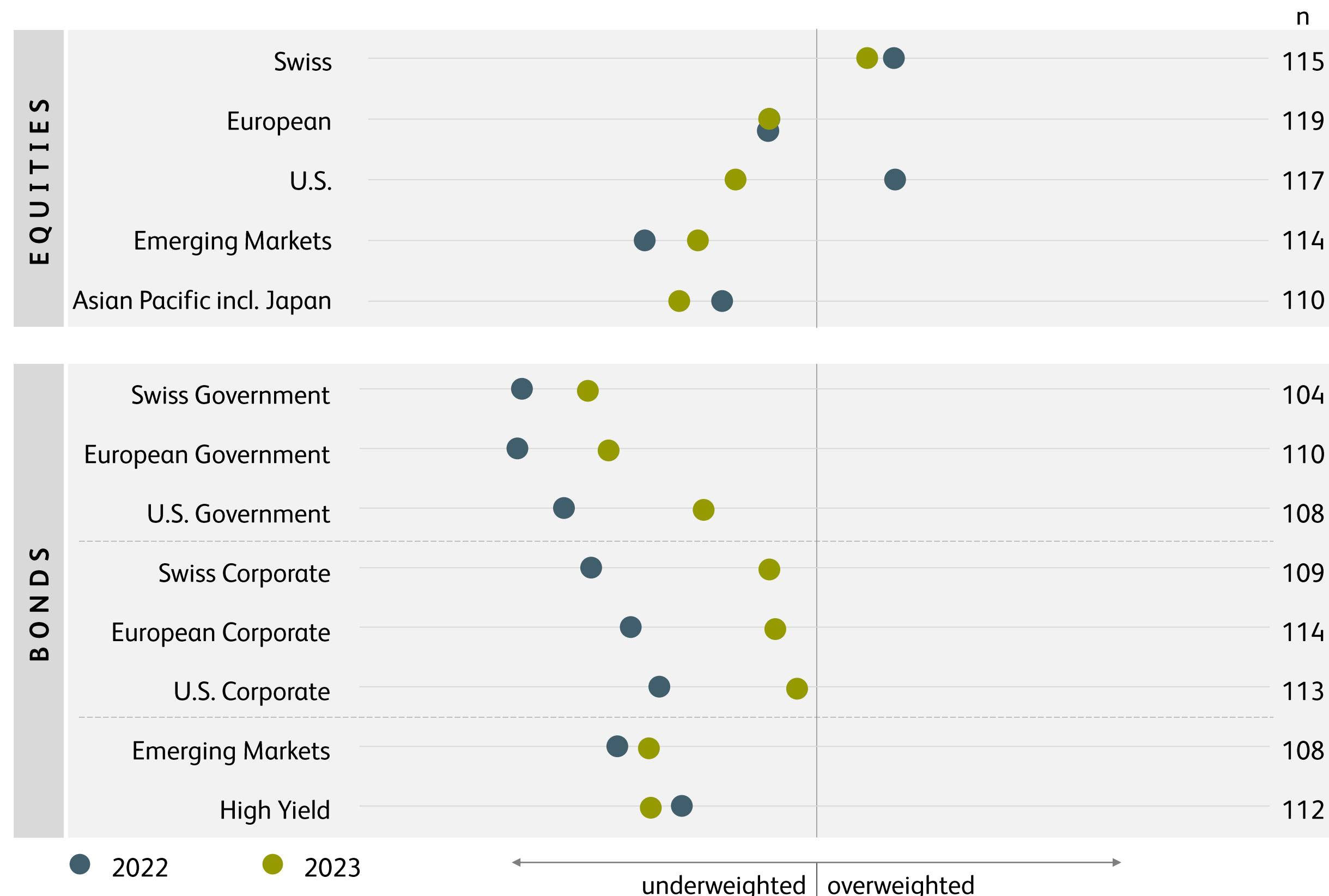


*109 WMs completed the whole questionnaire, plus 14 WMs completed some questions but did not follow through to answer all questions. Half of the WMs serve both, institutional clients and private clients.

Asset allocation and implementation: Equities versus Bonds.

WMs overweight Swiss equities – an underweight on bonds still exists, but it has been reduced

«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.

Overall

- WMs continue to underweight Equities and Bonds still, with one exception, Swiss equities.
- Two significant trends in 2023:
 - WMs shift away from U.S. Equities compared to previous year
 - Government Bonds as well as Corporate Bonds gain attractiveness

Equities

- WMs continue to favour Swiss Equities over foreign Equities: a YoY-change with Swiss equities is hardly visible
- In 2023 WMs underweight U.S. Equities, after overweighting them in 2022
- WMs still underweight European, Emerging Markets and Asian Pacific/ Japanese Equities
 - With European equities there is no significant change visible YoY
 - Emerging markets equities are slightly more favoured by WMs in 2023
 - Asian Pacific/Japanese equities are slightly less favoured in 2023

Bonds

- All Bonds continue to be underweighted – independent of their regional market focus
- However, bonds are less underweighted in 2023 compared to 2022
 - Government Bonds continue to be more strongly underweighted compared to Corporate Bonds
 - Corporate Bonds are only slightly underweighted
- Slight shift in favour of Emerging Markets Bonds – similar pattern as on the Equities side
- Slight shift away from High Yield bonds

Please note:

- All results indicate number of WMs and do not reflect assets under management!

Asset allocation and implementation: Direct investments vs Funds-/ETF-investments.

WMs continue to prefer investing in Swiss equities and bonds directly – in emerging markets' securities and high yield bonds, however, funds and ETFs are the first choice

Overall

- Swiss WMs continue to prefer direct investments for Swiss Securities
 - Swiss Equities
 - Swiss Bonds (Government and Corporate)
- For foreign Equities a trend towards an increased use of Funds- and ETF investments is visible
- Also, WMs invest High Yield and Emerging Markets primarily via Funds and ETFs, and increasingly so

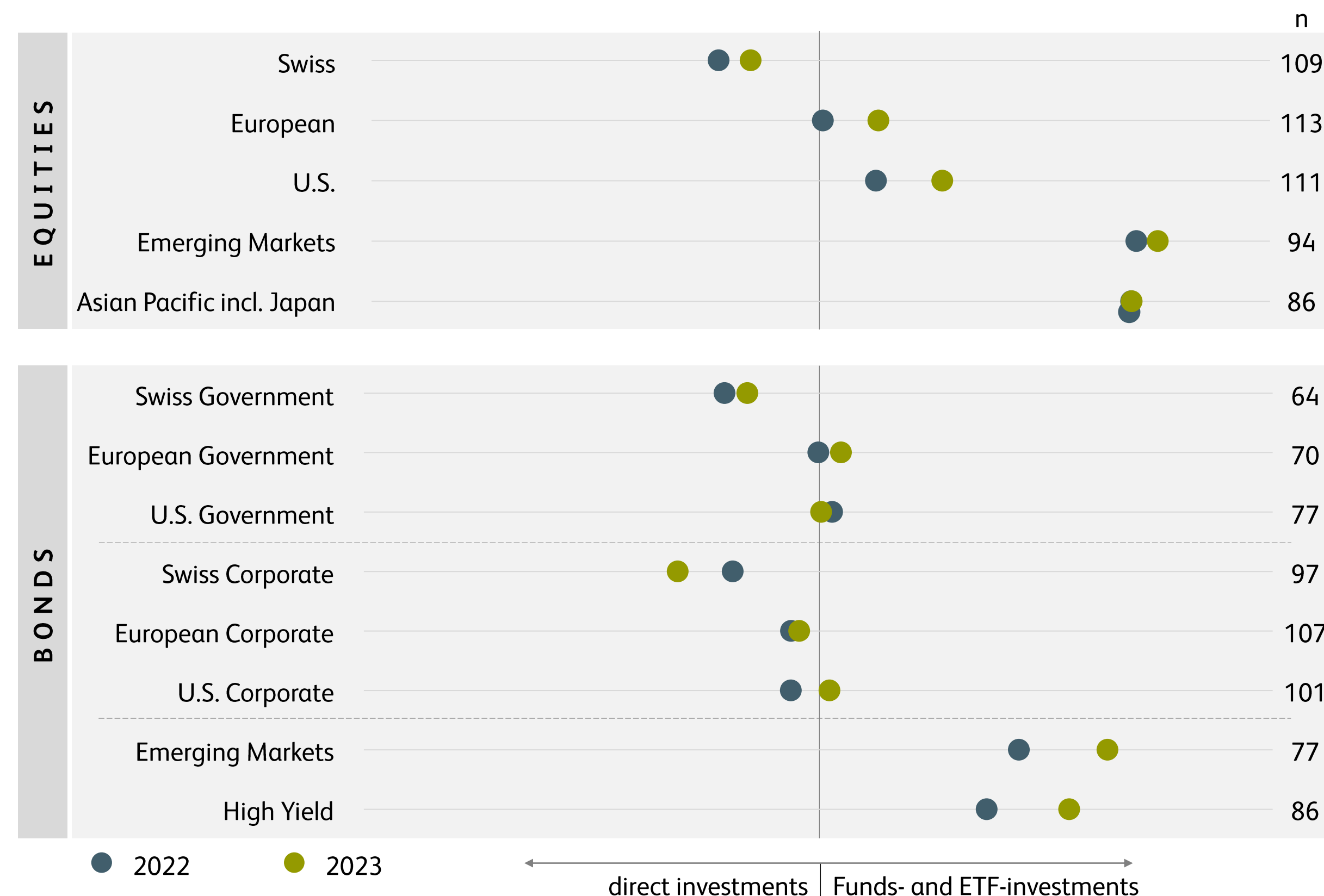
Equities

- WMs' preference to directly invest into Swiss Equities is basically unchanged
- WMs continue to prefer Funds and ETFs on the Equities side, this tilt is further accentuated in 2023
- For European and U.S. Equities slightly more WMs are invested with Funds-/ETF-Investments
- For Emerging Markets and Asian Pacific incl. Japan, most WMs use Funds-/ETF-Investments, and increasingly so

Bonds

- Not only do more WMs shift their asset allocation more towards Government and Corporate Bonds (see previous page), at the same time WMs invest more often directly into Corporate Bonds
- For European and U.S. Government Bonds as well as European and U.S. Corporate Bonds direct investments and Funds-/ETF-Investments are almost balanced with only small shifts vs. 2022
- WMs invest more heavily with Funds and ETFs in Emerging Markets and High Yield Bonds
- Remember:
 - WMs continue to underweight all Bonds – no matter which region – in their asset allocation
 - Results indicate number of WMs and do not reflect assets under management

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

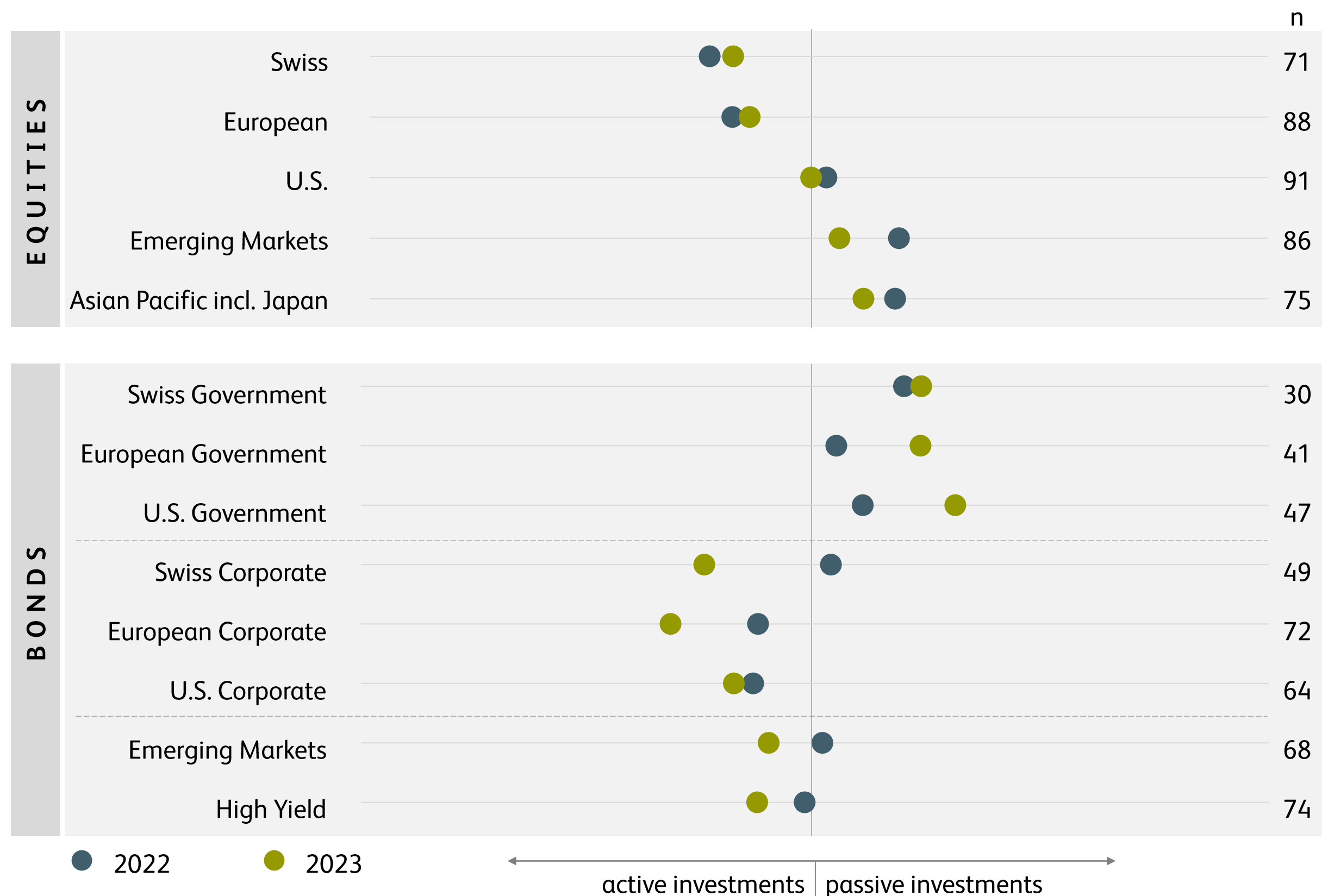


Reading example
On average, for Swiss Equities, independent wealth managers use slightly more direct investments.

Asset allocation and implementation: Active versus passive investments.

Active investments are preferred for Swiss/European equities and corporate bonds – passive investments are favoured for government bonds

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



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

Equities

- The number of WMs who prefer active vs. passive investments in Equities has not changed significantly since last year
- WMs invest Swiss and European Equities more actively
- Active/Passive share is balanced for U.S. Equities
- Emerging Markets and Asia Pacific incl. Japan Equities are slightly more often passively invested

Bonds

- Government Bonds are more often passively invested - in general as well as compared to 2022
- WMs invest Corporate Bonds slightly more often actively
- For Emerging Markets Bonds and High Yield Bonds the active/passive share has slightly shifted towards a more active approach

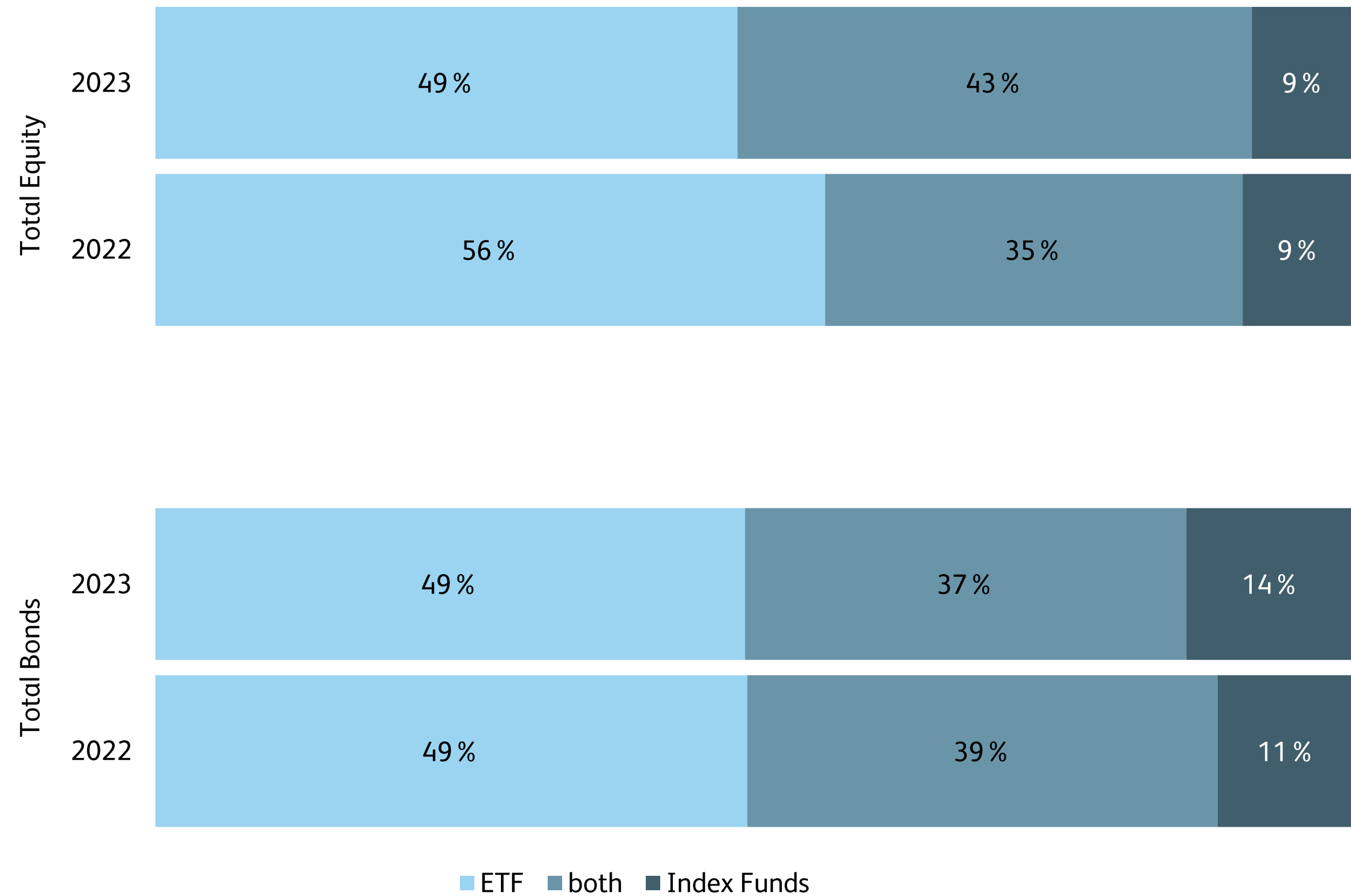
Please note

- This question is dependent on the answers to previous questions. That explains the smaller sample sizes in some categories

Asset allocation and implementation: product use of ETFs versus Index Funds.

ETFs continue to dominate the market but index funds are gaining share

«How do you implement your passive investments?»
ETFs, Index Funds or both



n 2023 = 109 Reading example
n 2022 = 101 For Equities, 49% of all those wealth managers who – at least partly – invest in passive products, use ETFs only, 9% use Index Funds only, and 43% use both, ETFs and Index Funds.

Equities

- In 2023 ETFs continue to be the preferred investment vehicle to implement passive investments
- However, the share of pure ETF investments, even if still high, has significantly decreased: WMs tend to more often use both types of investment vehicles – ETFs and Index Funds – and significantly more so than last year.
- The share of pure index funds investments stays with 9 per cent relatively low compared to pure ETF investments and remains identical to last year

Bonds

- For bonds – like for equities – ETFs are the first choice as a vehicle for passive investments
- For bonds, however, the share of pure indexed investments has increased from 11 to 14 per cent
- Although the share of ETFs for Bonds remained stable, WMs shifted within selected categories (not visible on this chart):
 - WMs increased the share of «ETF only investments» for U.S. Government and U.S. Corporate
 - WMs increased the use of Index Funds for High Yield and Emerging Markets Bonds

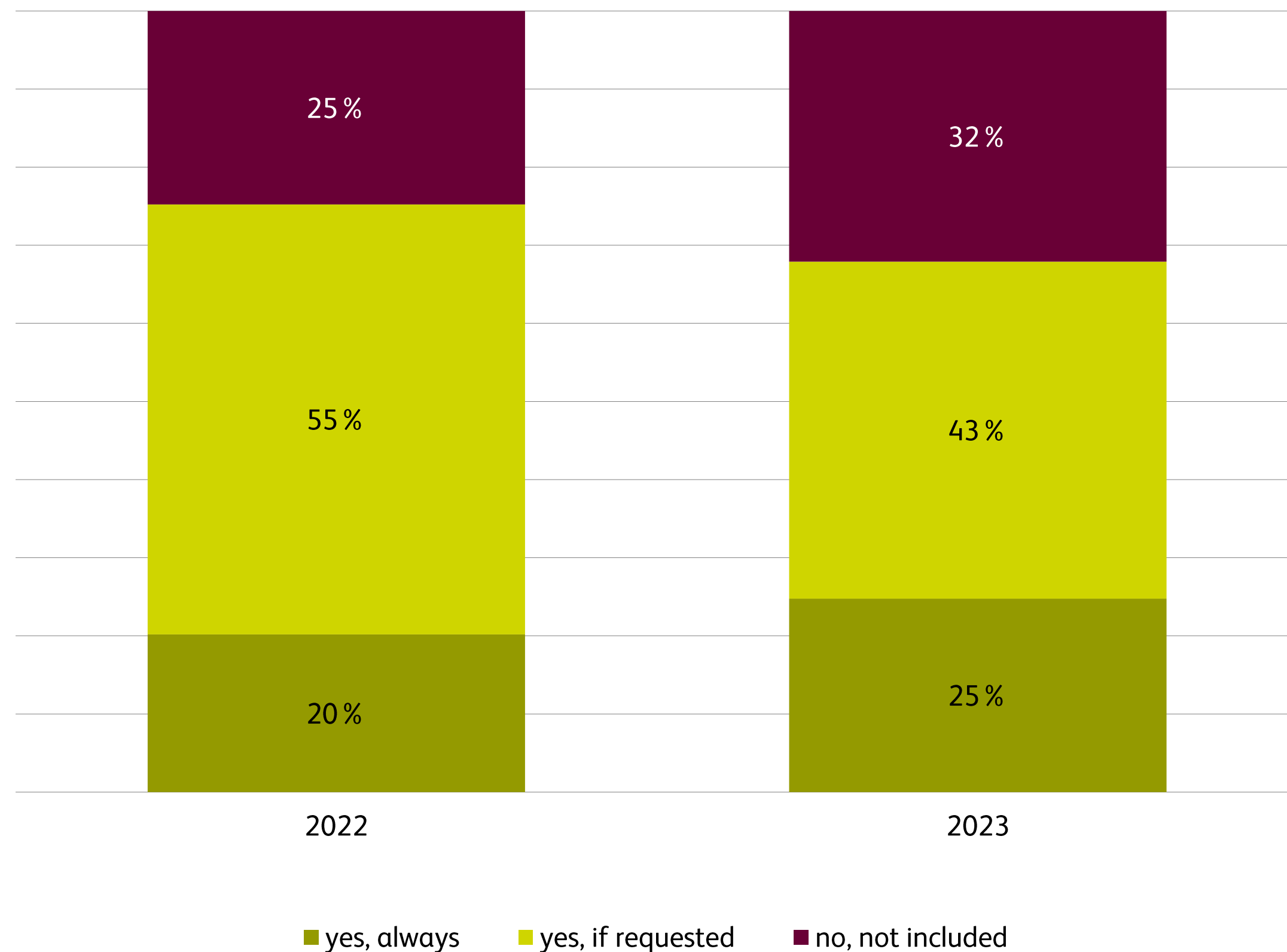
Please note

- Remember that WMs have shifted their investments more into bonds – Government and Corporate – even if bonds are still underweight in the overall asset allocation

Sustainable Investments: Inclusion of sustainability criteria (ESG criteria).

Swiss independent financial advisors have a polarized view on sustainable investing

«Do you include sustainability criteria into your investment process?»



n 2023 = 109
n 2022 = 101

Overall

- Two thirds of WMs would consider ESG criteria in their investments process (25 % plus 43 %)
- However, only a quarter of WMs do include sustainability criteria by default («yes, always»); this share has significantly grown compared to 2022, though

«Yes, always»

- 25 percent of all WMs – a clear minority – does include ESG criteria by default
- Large WMs more frequently include sustainability criteria (not visible on chart)
 - 28 percent of all large WMs (AuM > CHF 200 millions)
 - 22 percent of all small WMs (AuM < CHF 199 millions)

«Yes, if requested»

- 43 percent of all WMs include ESG criteria only if their clients request it

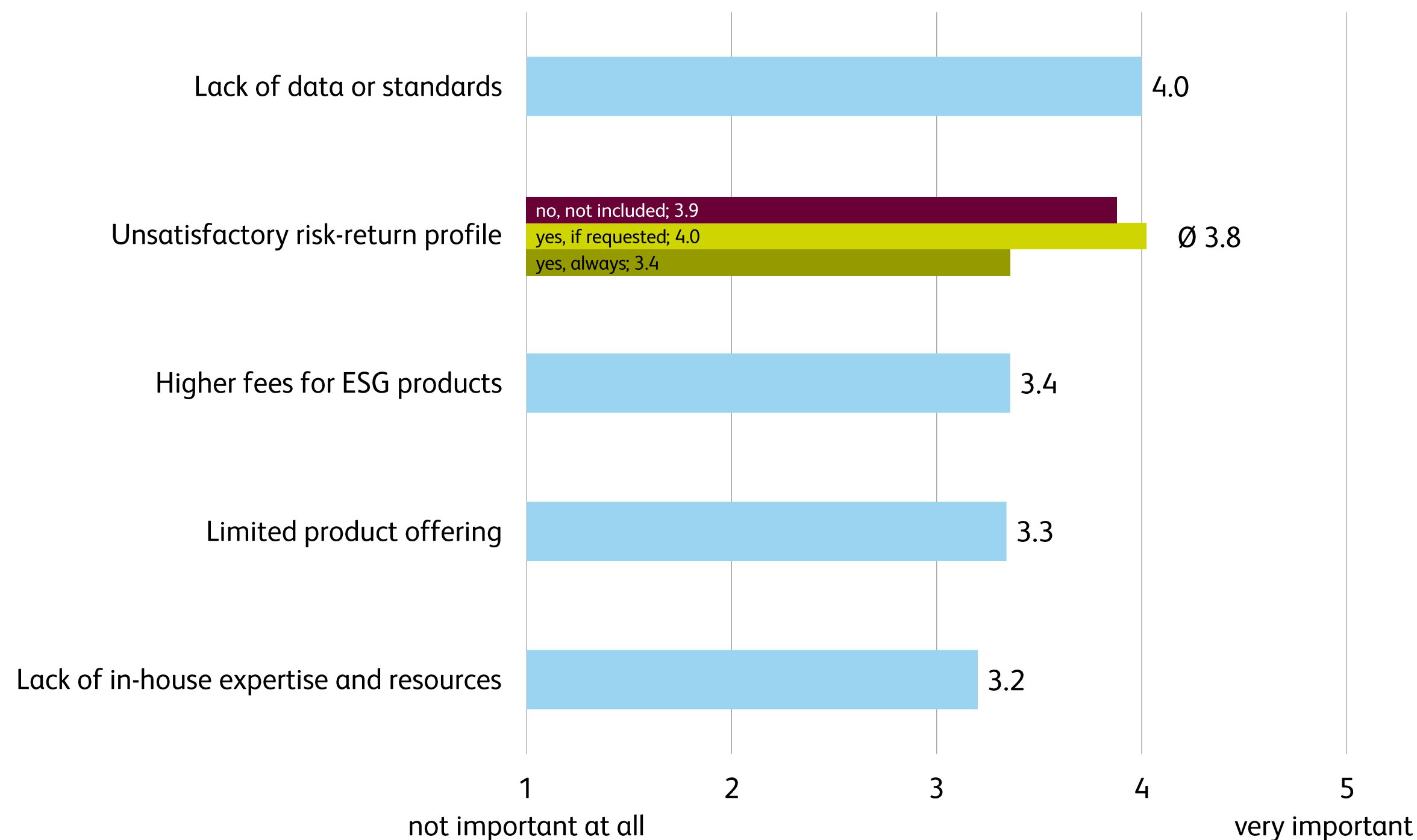
«No, not included»

- 32 percent of WMs do not include ESG criteria at all, a significant – and puzzling – increase compared to 2022
- More small than large WMs do *not* include ESG criteria (not visible on chart)
 - 37 percent of all small WMs (AuM < CHF 199 millions)
 - 26 percent of all large WMs (AuM > CHF 200 millions)

Sustainable Investments: Barriers.

Two barriers to invest sustainably are perceived to be particularly important: a lack of data/standards for sustainable investments and an unsatisfactory risk-return profile

«How important are the following barriers for sustainable investments?»



Key barriers: «Lack of data or standards» and «unsatisfactory risk-return profile»

- «Lack of data and standards» continues to be perceived as the most important barrier – this observation is in line with the 2022 survey results
- Also, WMs are still sceptical about sustainable investments' financial performance: an «unsatisfactory risk-return profile» continues to be the second key argument against ESG-investments
- WMs who do «not include» sustainability criteria as well as those who do «on request», do consider this second barrier to be significantly more important than those WMs who do «always include» sustainability criteria.

Other barriers

- «Higher fees for ESG products», a «limited product offering», and a «lack of in-house expertise and resources» are seen as somewhat important barriers for sustainable investments. All of these barriers are seen as less relevant compared to 2022
- Surprisingly, those WMs who do «not include» sustainability criteria perceive these barriers to be lower than those WMs who «do include» sustainability criteria (not visible on this chart)

n = 109

Sustainable Investments: Sustainability Strategies (ESG Strategies).

Positive/negative screenings and thematic investments are the preferred ESG strategies

WMs with an affinity to sustainable investments are using multiple ESG strategies

- A WM who «always» includes sustainability criteria typically uses more different strategies compared to a WM who does only include sustainability criteria «on client request»
 - On average, WMs who «always» include sustainability criteria use more than 3 strategies (not visible on chart)
 - On average, WMs who only include sustainability criteria «on request», use less than 2.5 strategies (not visible on chart)

Screenings and sustainable thematic investments are popular

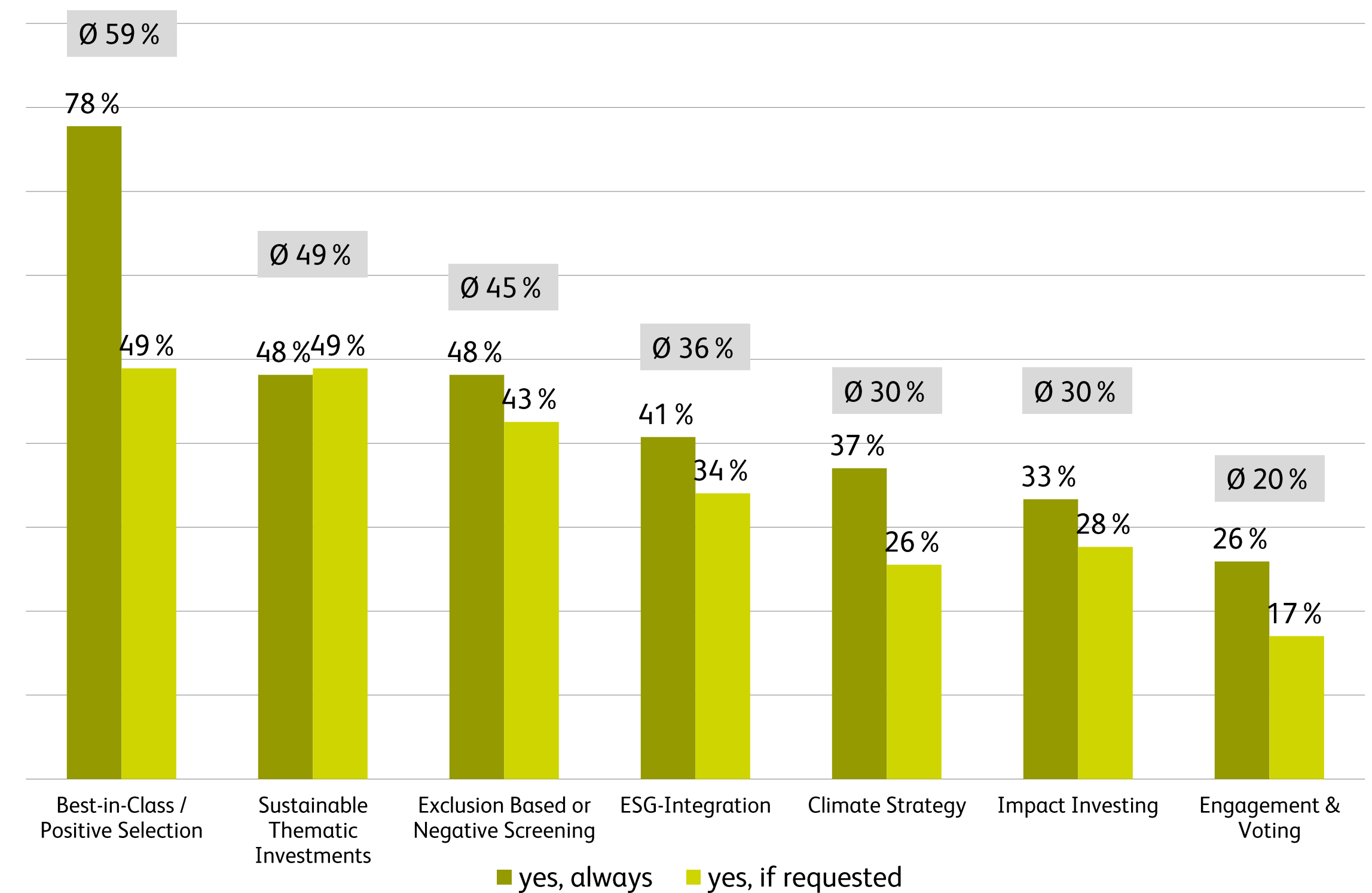
- Overall, «Best-in-Class/Positive Selection» is the most popular ESG strategy
- «Best-in-Class/Positive Selection» is significantly more popular among WMs who «always include» sustainability criteria
- «Sustainable Thematic Investments» is the second most popular sustainability strategy: Almost half of the WMs who include sustainability criteria, apply «Sustainable Thematic Investments» as a strategy – regardless of their general ESG attitude («always» vs. «if requested»)
- With WMs who include sustainability criteria «if requested», «Sustainable Thematic Investments» are equally popular as «Best-in-class/Positive Selection». This pattern significantly differentiates this segment of WMs from the segment of WMs who «always» include sustainability criteria

Climate strategy, impact and engagement/voting are less favoured

- Slightly less WMs apply «Climate Strategy» and «Impact Investing». A smaller proportion of WMs who integrate ESG criteria if requested use these strategies compared to WMs who always integrate them.
- «Engagement & Voting» is the least popular ESG strategy among WMs for both segments. This is plausible given the resources required to effectively implement these strategies

n Yes, always = 27
n Yes, if requested = 47

«Which sustainable investment strategies (ESG strategies) do you apply?»



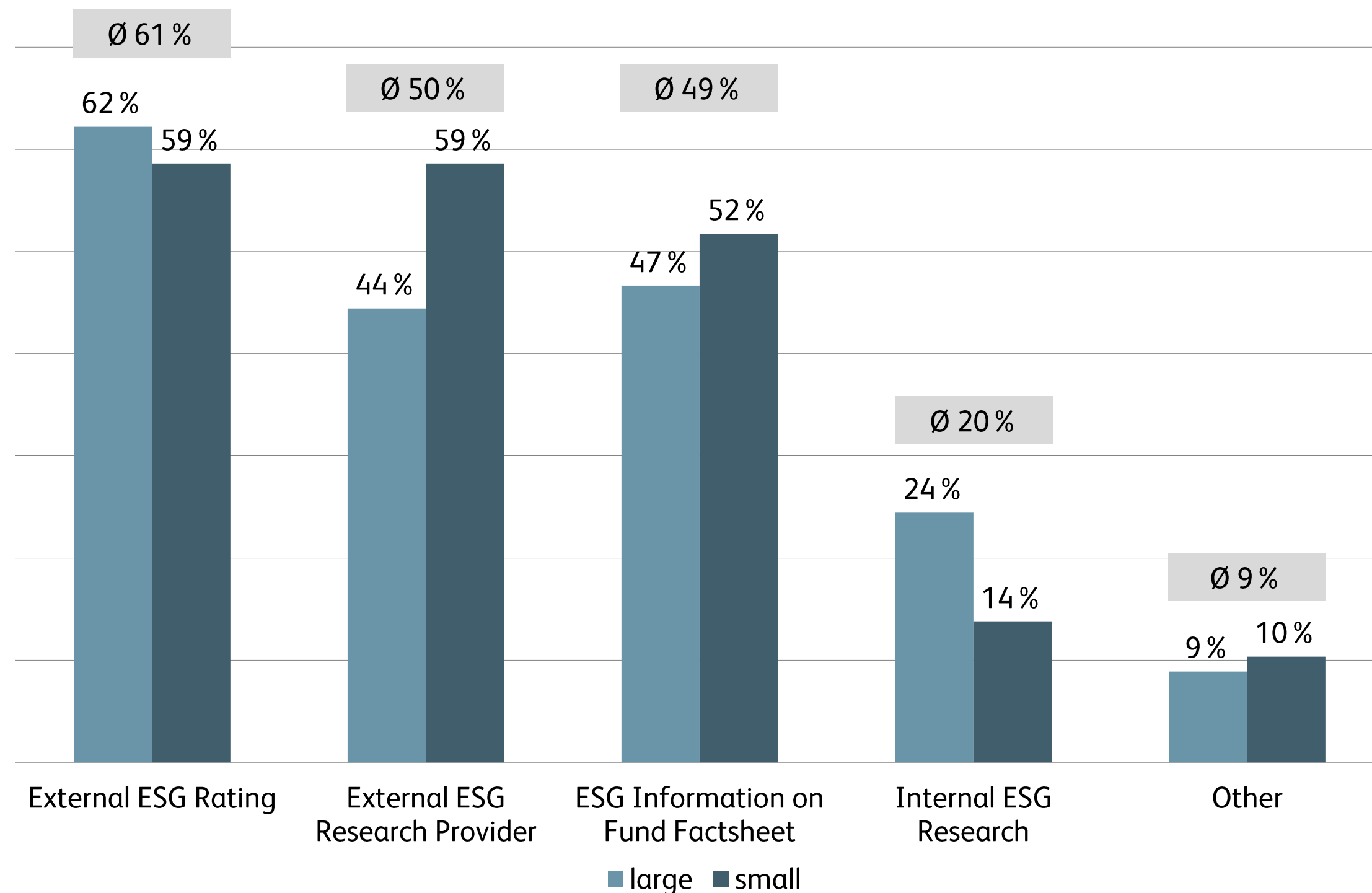
Reading example

78 % of all WMs who always integrate ESG criteria use “Best-in-Class / Positive Selection” as an ESG strategy, while 49 % of all WMs who integrate ESG criteria on request use this strategy.

Sustainable Investments: Assessing the sustainability of investment products.

Internal ESG research is more common among large WMs

«How do you assess the sustainability (ESG) of investment products?»



Reading example
62% of all large WMs, and 59% of all small WMs, use (among other sources) external ESG ratings to assess the sustainability of investment products.

n large = 45
n small = 29

Most WMs use multiple sources to assess the sustainability of investment products

- On average, WMs rely on 1.9 different sources to assess the sustainability of investment products (not visible on chart)

ESG expertise mainly gathered from external sources, particularly from ESG ratings

- Almost two thirds of WMs use external ESG ratings to assess the sustainability of products.
- There is no significant difference in the usage of external ESG ratings between large (AuM > CHF 200 millions) and small WMs (AuM < CHF 199 millions).
- Half of all WMs use external research and/or Fund Factsheets to assess sustainable products.

Internal ESG Research is rare – and somewhat more favoured by large WMs

- One fifth of WMs uses internal ESG research to assess the sustainability of investment products.
- Not surprisingly, large WMs more often rely on internal research compared to small WMs
 - 24 percent of large WMs use internal ESG research to assess the sustainability of investment products
 - 14 percent of small WMs use internal ESG research to assess the sustainability of investment products.

Conclusion

| | |
|--------------------------------|---|
| Asset Allocation | Bond investments are back in play! |
| Swiss Securities | WMs prefer to invest Swiss Equities and Bonds directly. |
| Sustainable Investments | The share of WMs' who always integrate sustainability criteria in the investment process is increasing but barriers are still high. |

Impressum

Vanguard (Editors)

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Zurich, May, 2023

Appendix | Methodology

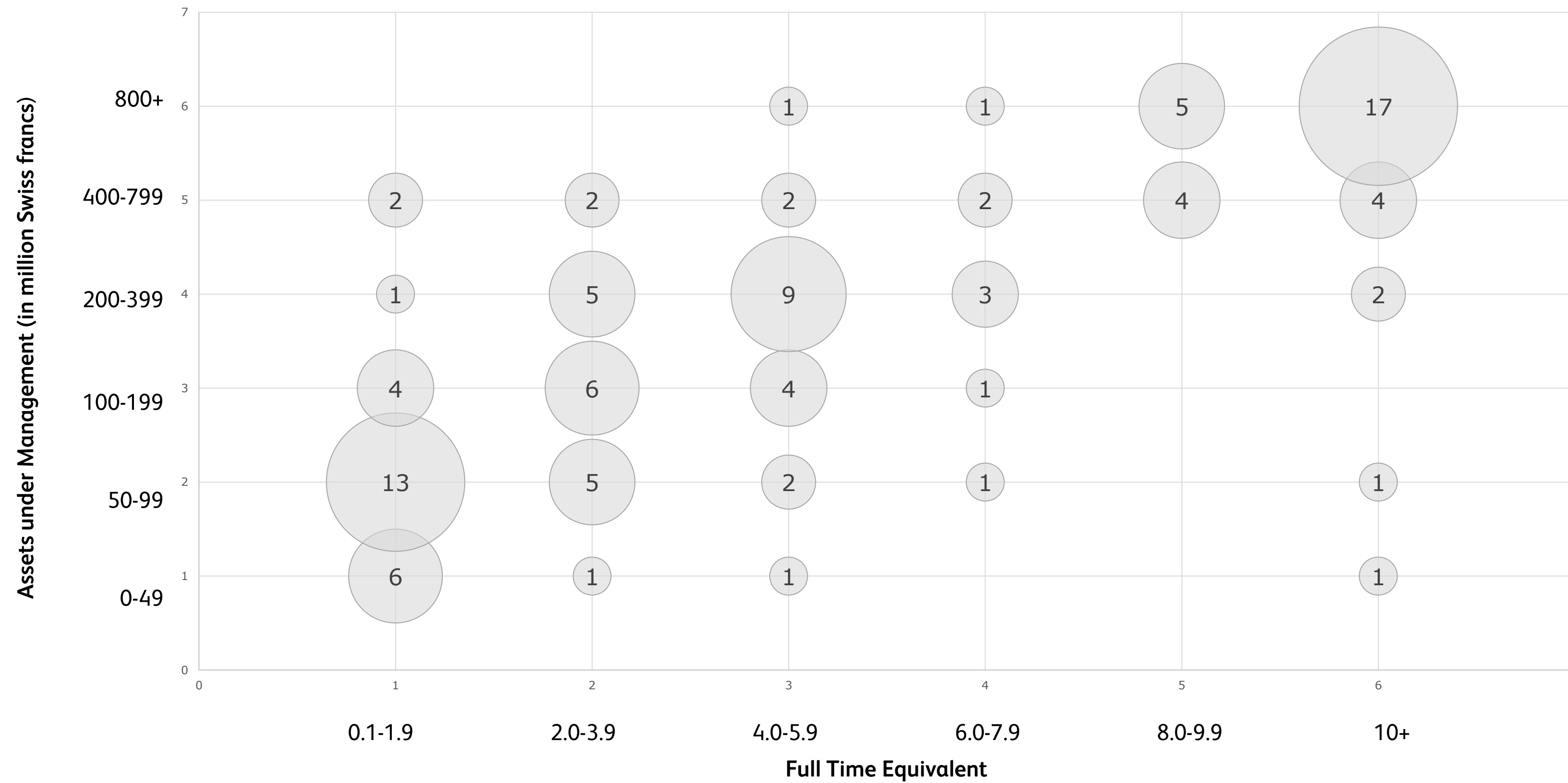
The survey was conducted from March 1st, 2023 to March 31st, 2023 by the Lucerne University of Applied Sciences on behalf of Vanguard as a sponsor. Verband Schweizerischer Vermögensverwalter (VSV-ASG) acted as a facilitator by inviting their members to participate in the survey. The first part addresses the current asset allocation and its implementation (four questions). The second part focuses on the inclusion of sustainability criteria and strategies (four questions). The third part consists of general questions about the survey participants' company (four questions). The questionnaire contains closed questions with either a predefined 5-point scale or predefined multiple or single choice answers.

Initially, the survey was directly sent to Swiss wealth managers (WMs) through VSV-ASG and Vanguard. Later, the survey link was published on their websites. As of January 2023, there are 1,534 independent Swiss wealth managers* and VSV-ASG counts 780 members. A total of 109 WMs completed the whole questionnaire, plus 14 WMs completed some questions but did not follow through to answer all questions.

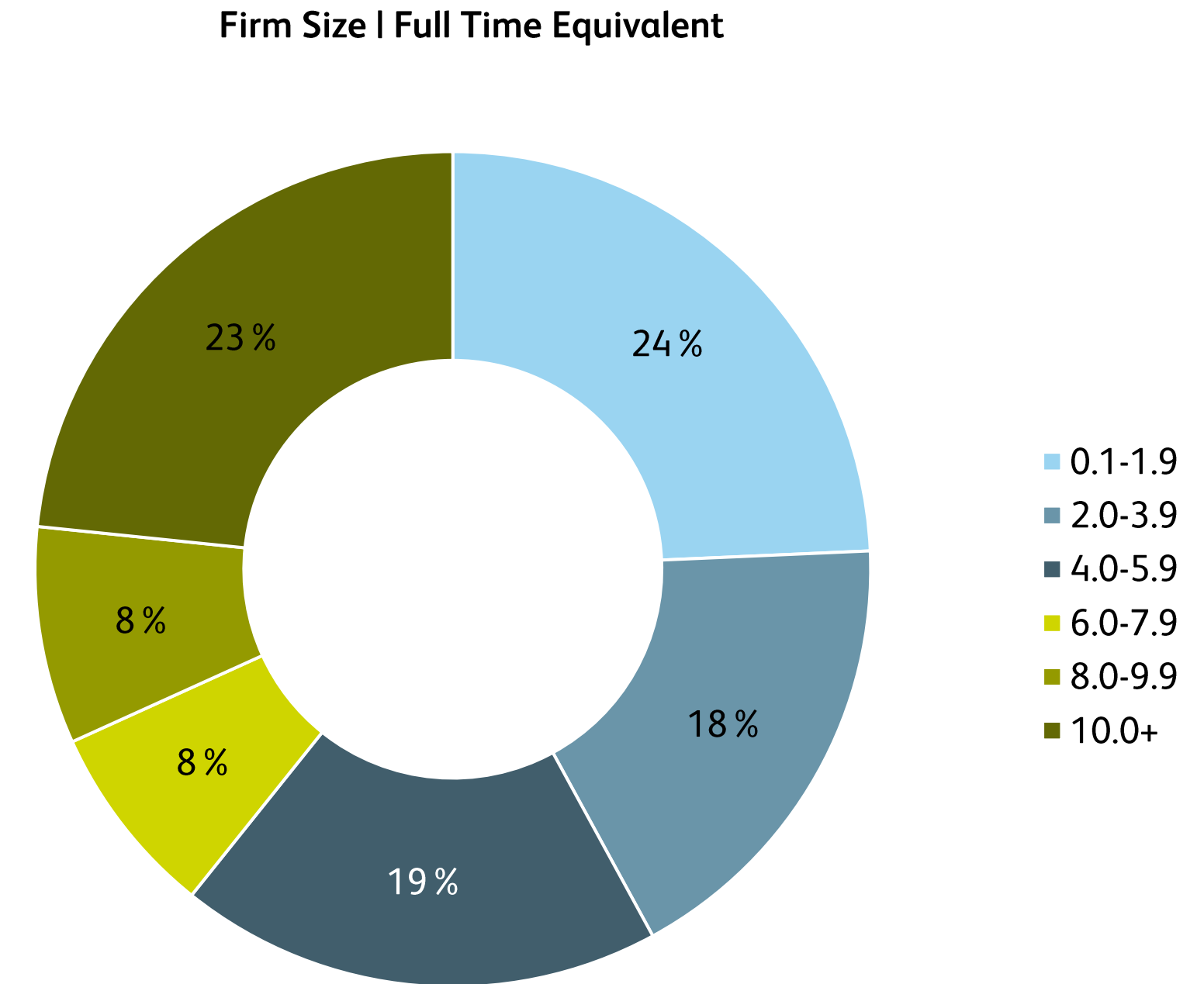
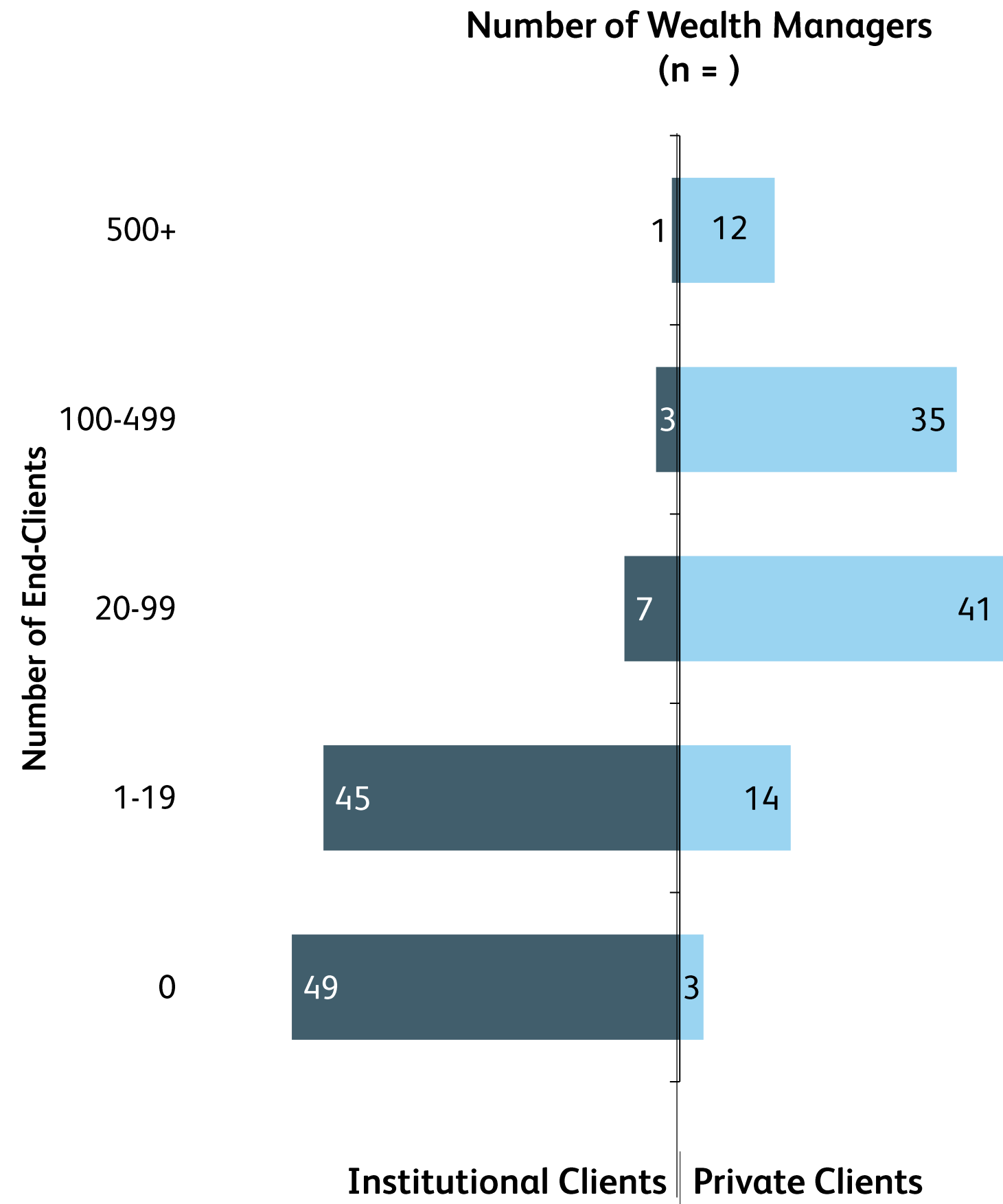
The respondents work at Swiss firms of all size. Due to the fact, that several WMs from the same company were asked to answer the questionnaire, small WMs firms (less than 50 million assets under management and or less than 2 FTE) are slightly underrepresented and large WMs firms (more than 800 million assets under management and or more than 10 FTE) are slightly overweighted (compared to the demography of VSV-ASG members). WMs with private and institutional clients were asked to answer the survey.

*Source: FINMA Guidance 02/2023. Status of the licensing process for portfolio managers and trustees

Appendix | Sample Firm Size 1/2



Appendix | Sample Firm Size 2/2



Reading example
 There are 49 WMs that do not have any institutional clients. 56 WMs serve institutional clients (and might also serve private clients). Only 3 in the sample do not serve private clients.

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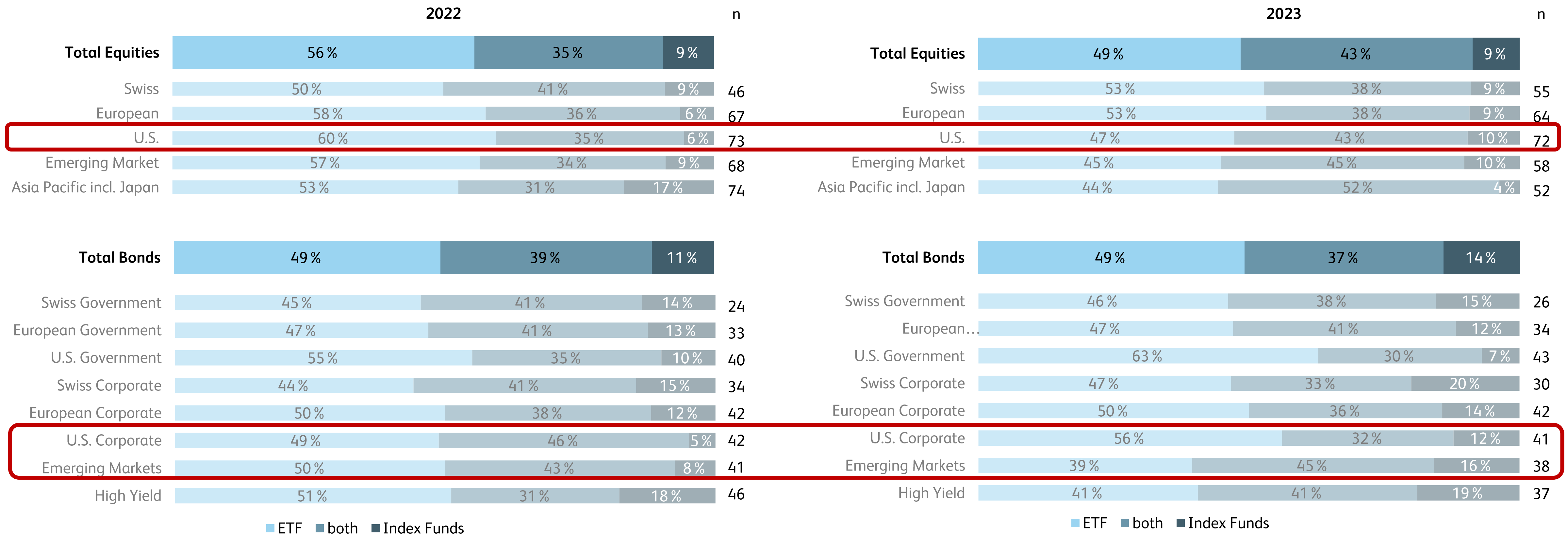
BACK-UP

Asset allocation and implementation: product use of ETFs versus Index Funds.

ETFs continue to dominate the market but Index Funds are clearly gaining share

BACK-UP

«How do you implement your passive investments?»
ETFs, Index Funds or both

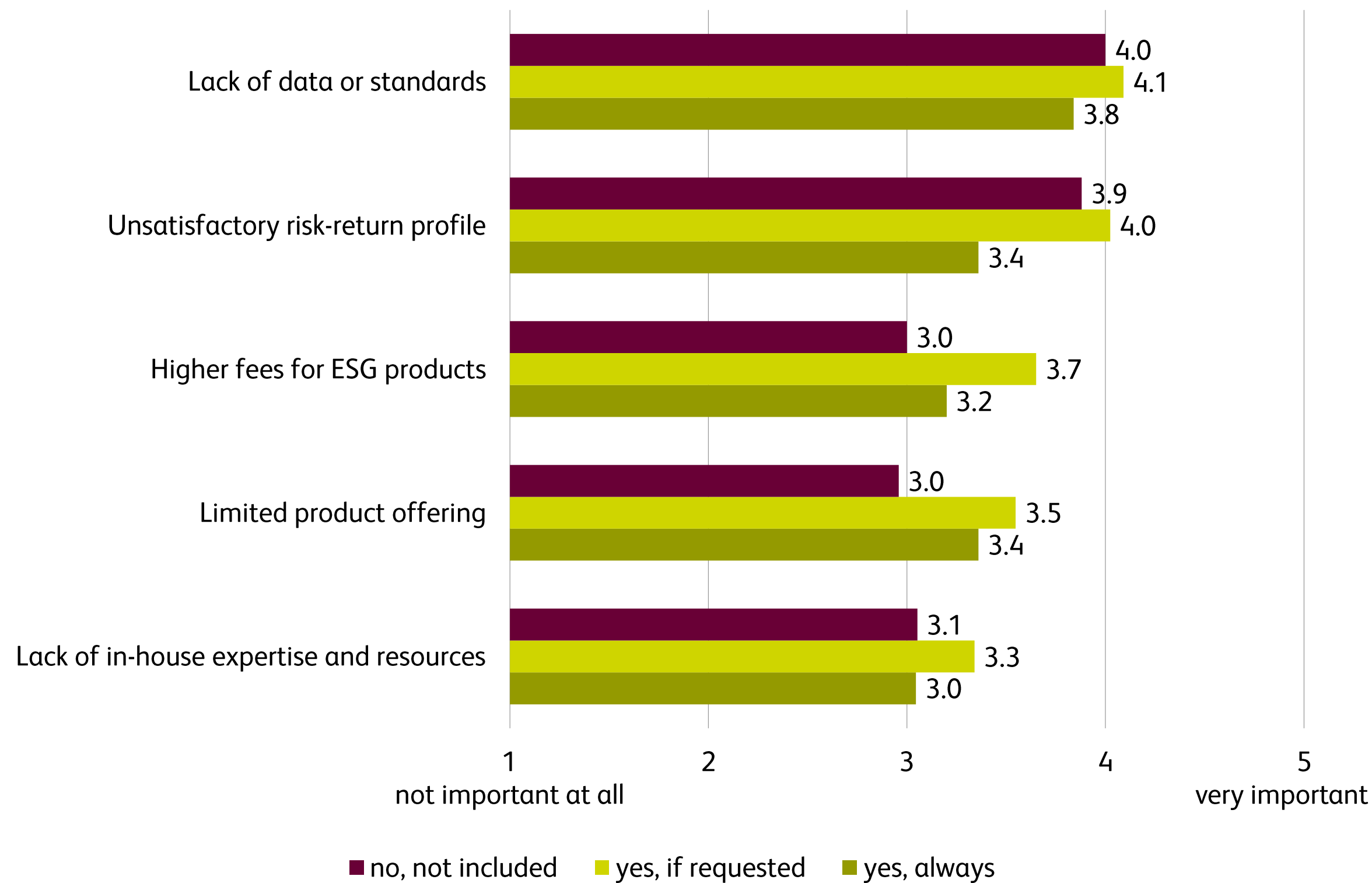


Sustainable Investments: Barriers.

Barriers are somewhat similarly perceived by those WMs who do «always» and those WMs who «do not» include sustainability criteria in their investment process

BACK-UP

«How important are the following barriers for sustainable investments?»



n Yes, always = 27
n Yes, if requested = 47
n No, not includes = 35

Overall

- WMs who always include sustainability criteria and WMs who do not include sustainability criteria agree about the importance of most of the barriers

«No, not included»

- «Lack of data and standards» and «Unsatisfactory risk-return profile» are considered to be the most important barriers
- «Higher fees for ESG products», «Limited product offering», and «Lack of in-house expertise and resources» are seen as equally important barriers

«Yes, if requested»

- WMs who only include sustainability criteria on request consider all barriers more important than the other WMs
- «Lack of data and standards» and «Unsatisfactory risk-return profile» are considered to be the most important barriers
- «Lack of in-house expertise and resources» is the least important barrier

«Yes, always»

- «Lack of data and standards» is considered to be the most important barrier
- «Lack of in-house expertise and resources» is the least important barrier

Sustainable Investments: Sustainability strategies (ESG strategies).

Positive/negative screenings and thematic investments are the preferred ESG strategies

[BACK-UP](#)

«Which sustainable investment strategies (ESG strategies) do you apply?»

ESG-affine WMs are more versatile in using multiple ESG strategies

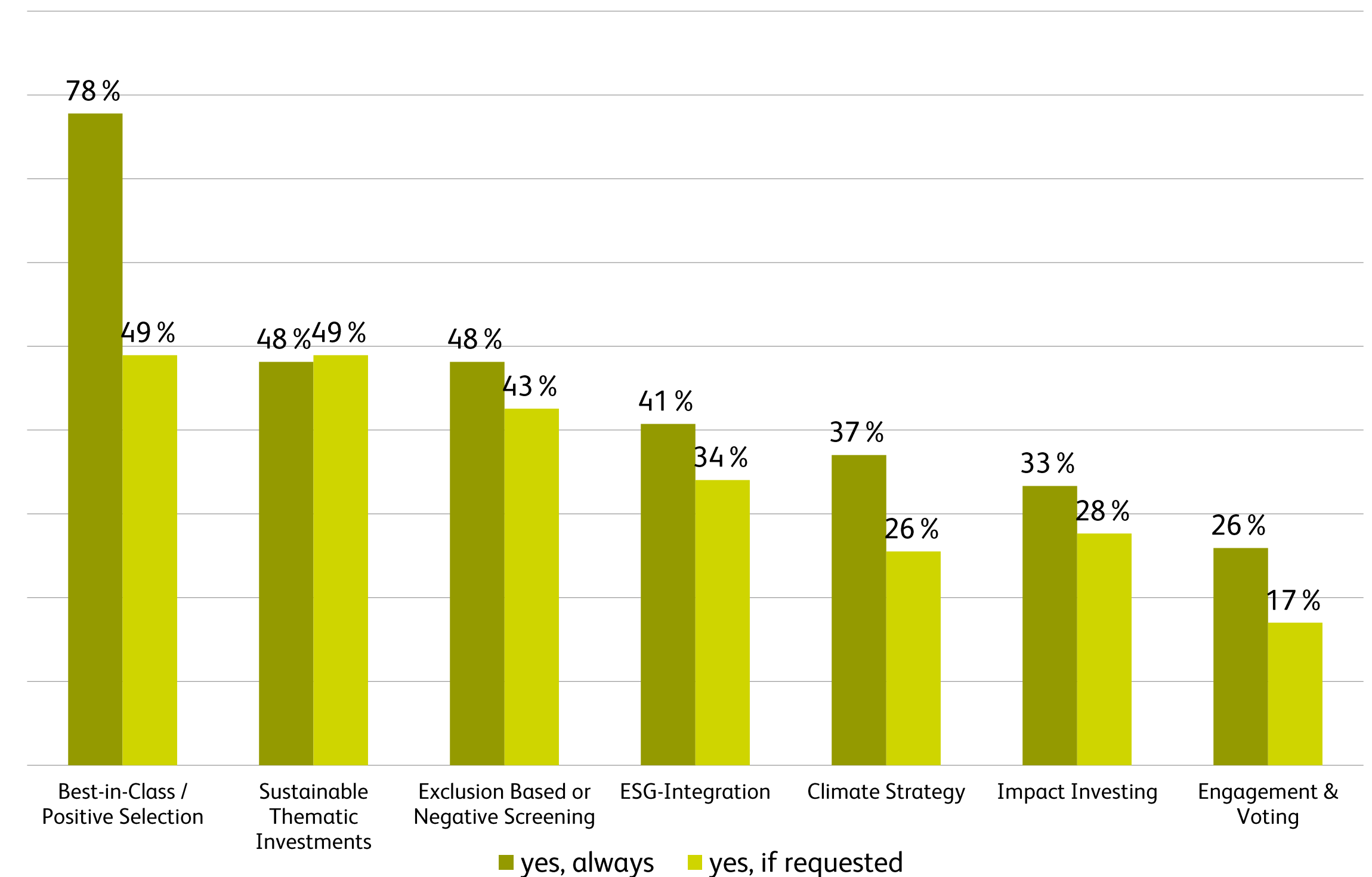
- A WM who «always» includes sustainability criteria typically uses more different strategies compared to a WM who does only include sustainability criteria «on client request»
 - On average, WMs who always include sustainability criteria use more than 3 strategies
 - On average, WMs who only include sustainability criteria on request, use less than 2.5 strategies

Screenings and sustainable thematic investments are popular: Client request makes the difference

- «Best-in-Class/Positive Selection» is significantly more popular among WMs who «always include» sustainability criteria
- Almost half of the WMs who include sustainability criteria, apply «Sustainable Thematic Investments» as a strategy – regardless of the integration approach («always» vs. «if requested»)

Climate strategy, impact and engagement/voting are less favoured

- «Climate Strategy» and «Impact Investing» are slightly lesser applied by WMs. Here again, these strategies are less often used by those WMs who do integrate ESG criteria if requested
- «Engagement & Voting» is the least popular ESG strategy among WMs for both segments. This is plausible given the resources required to effectively implement these strategies.



Reading example

78 % of all WMs which always integrate ESG criteria use “Best-in-Class / Positive Selection” as an ESG strategy, while 49 % of all WMs which integrate ESG criteria on request use this strategy.

n Yes, always = 27
n Yes, if requested = 47