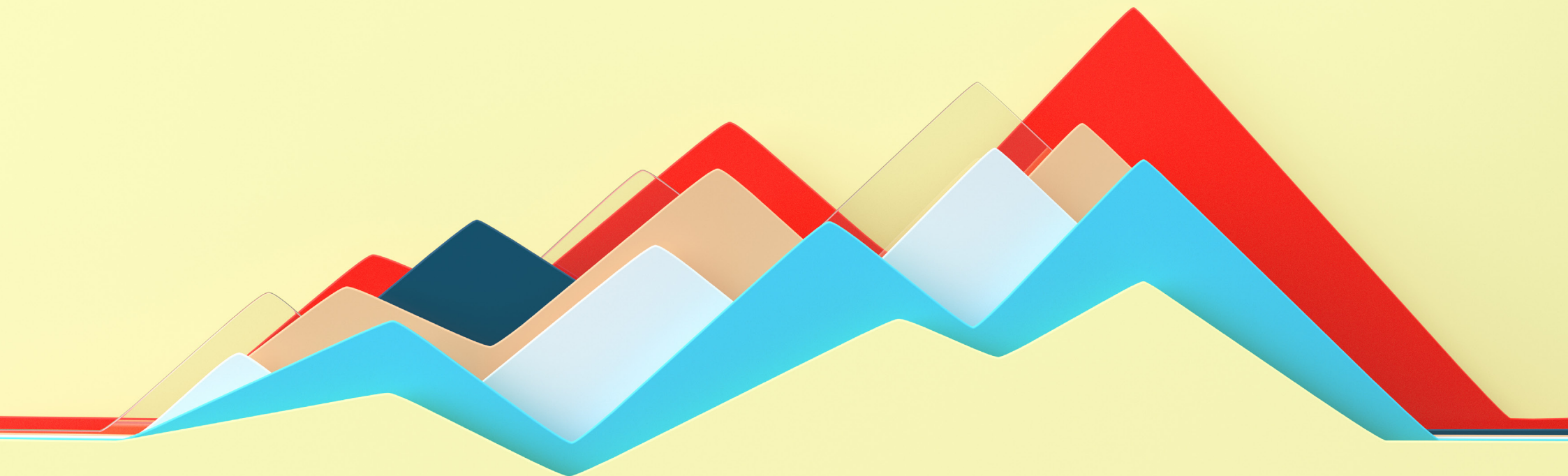


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VSV-ASG Investment Pulse 2023

An investment barometer – exploring how Swiss independent wealth managers invest

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Executive summary

For Swiss independent wealth managers, the past year has been a period of shifting challenges and opportunities. Rising interest rates and cooling economic conditions have led wealth managers (WMs) to adjust their asset allocations and reposition their portfolios for the road ahead.

As a result, bonds are seeing a revival, while US equities are being reduced. Interestingly, the rapid growth in sustainable investments in the broader financial services industry is not reflected among WMs, who are more divided in their approach to sustainability issues. Our survey, now in its second year, offers fresh insights into how WMs are navigating the challenges of 2023.

Asset allocation: bonds are back in play

In last year's survey, we anticipated rising interest rates would lead to shifts in asset allocations. Indeed, this year's survey found that WMs are increasing their weightings in bonds while reducing their exposure to equities. Within their equity allocations, WMs remain overweight in Swiss equities but underweight for all other regions, including US equities. In terms of their fixed income allocations, WMs remain underweight in bonds, but not to the same extent as last year. Demand is increasing for Swiss, European and US government bonds, as well as for corporate bonds.

WMs still tend to favour investing directly in markets that are closer to their home region. In emerging markets and the Asia-Pacific region, WMs prefer investing through funds and ETFs – a trend that is becoming increasingly popular.

For Swiss and European equities, as well as corporate bonds, WMs favour active investments over index and passive investments. However, for government bonds, they prefer index and passive investment options, which are also gaining in popularity in other asset categories as well. ETFs are the most popular option in the market for index and passive investments, although index funds are gaining in popularity, particularly for bond investments.

Interest in sustainable investing remains mixed

Only a quarter of WMs in our survey incorporate sustainability criteria into their investment processes, while more than a third of the respondents do not

consider sustainability criteria at all when choosing their investments. Interestingly, this year's results show growth at both ends of the spectrum, indicating an increased polarisation between adopters and non-adopters of sustainability approaches compared to last year.

WMs perceive two key barriers to implementing sustainability strategies in their asset allocations. Firstly, a lack of reliable sustainability data and standards; and secondly, a belief that sustainable investments may not offer an optimal risk-return profile. Interestingly, WMs 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.

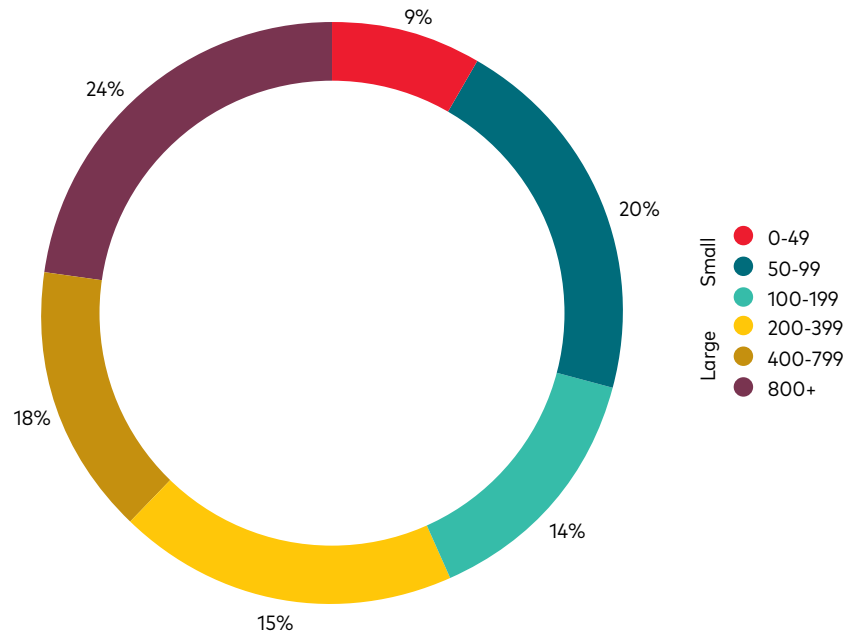
When WMs incorporate sustainable investing, they generally prefer two sustainable strategies: Screening (positive/best-in-class selection and negative selection) and sustainable thematic investments. Positive/best-in-class screenings in particular are more commonly used by WMs who always include sustainability criteria in their investment processes.

When assessing the sustainability of investment products, WMs typically leverage multiple resources for information. In general, WMs rely more heavily on external resources, rather than internal research, to assess sustainability. Larger WMs are slightly more likely to use internal research than smaller WMs.

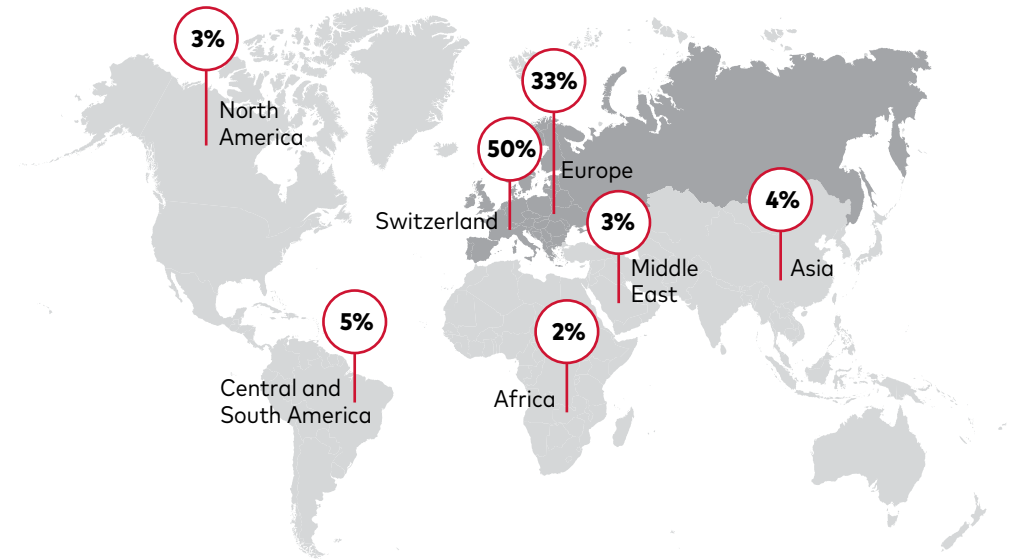
Study setup and methodology

109 WMs* provided insights on their approach to asset allocation and sustainable investing

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



Regional distribution of WM clients



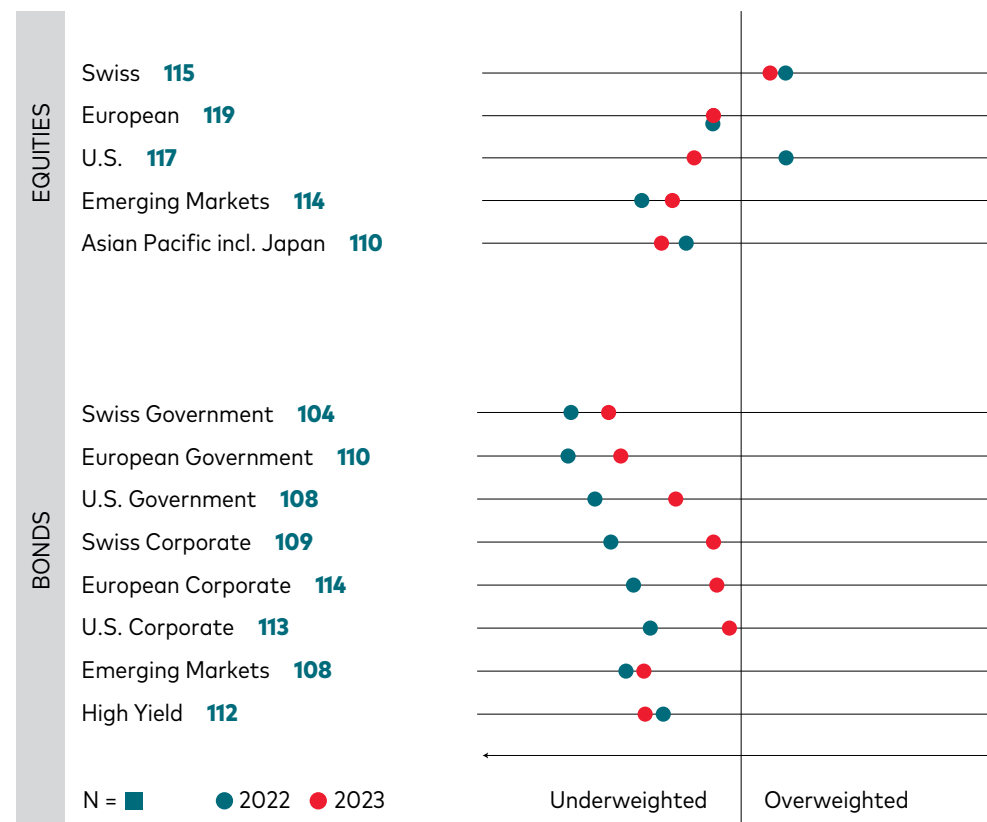
*109 WMs completed the whole questionnaire, plus 14 WMs completed some questions but did not follow through to answer all questions. Half of the WMs serve both institutional clients and private clients.

Equities versus bonds

WMs continue to underweight equities and bonds, with the exception of Swiss equities

- When asked how they are currently deviating from their strategic asset allocation strategies, most WMs said they are continuing to underweight equities and bonds – with one exception: Swiss equities.
- Within equities, WMs are shifting away from US equities in 2023, compared to having an overweight in the region in 2022. They continue to underweight European, Emerging Markets and Asian Pacific/Japanese equities. Emerging Market equities are slightly more favoured than in 2022.
- Within fixed income, WMs continue to underweight all bonds, regardless of their regional focus, although less so than in 2022. Government bonds and corporate bonds are gaining in attractiveness. There is a slight shift in favour of Emerging Markets bonds – similar to equities – and a slight shift away from High Yield bonds.

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.

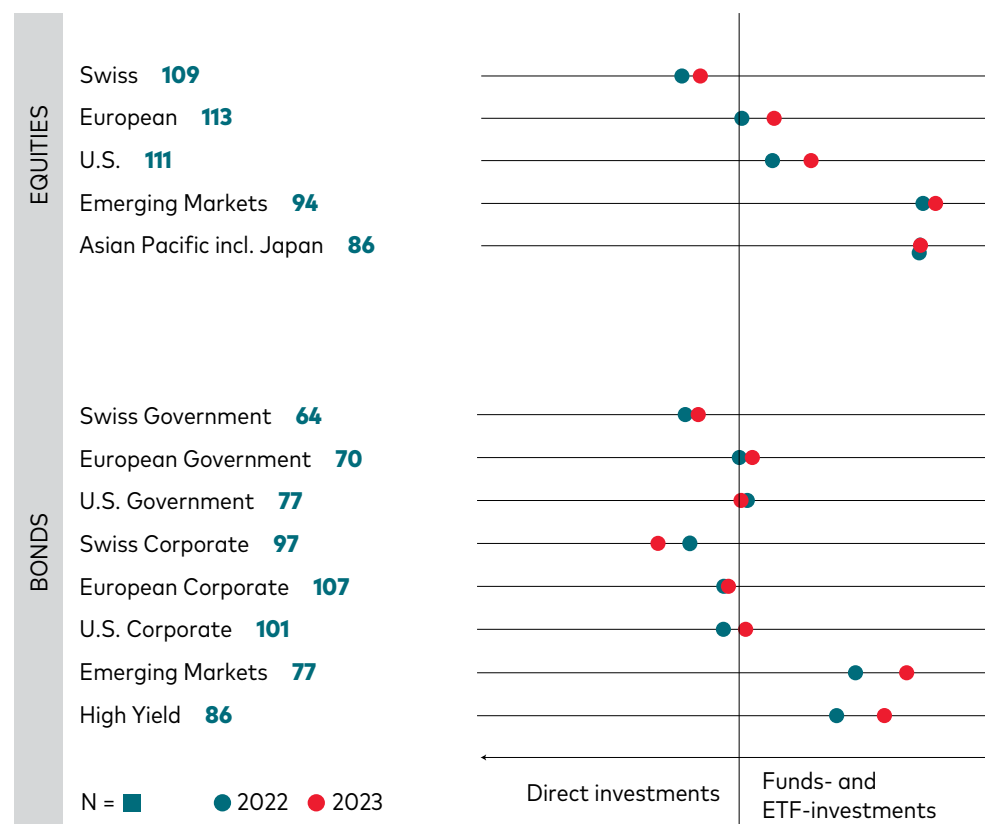
Please note: All results indicate number of WMs and do not reflect assets under management!

Direct versus Fund/ETF investments

WMs continue to prefer directly investing in Swiss equities and bonds, but prefer mutual funds and ETFs for Emerging Markets securities and High Yield bonds.

- In equities, while WMs still prefer to invest directly in domestic Swiss equities, overall they are increasingly using funds/ETFs for investing in all other regions, including Europe, US, Emerging Markets and Asian Pacific equities.
- In fixed income, WMs continue to favour directly investing in domestic Swiss government and corporate bonds. For European and US government and corporate bonds, there is a nearly equal preference for investing directly and using funds/ETFs. For Emerging Markets and High Yield bonds, WMs continue to prefer funds/ETFs.
- It's worth noting that WMs continue to remain underweight in all bonds – regardless of region or sub-asset class type.

**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.

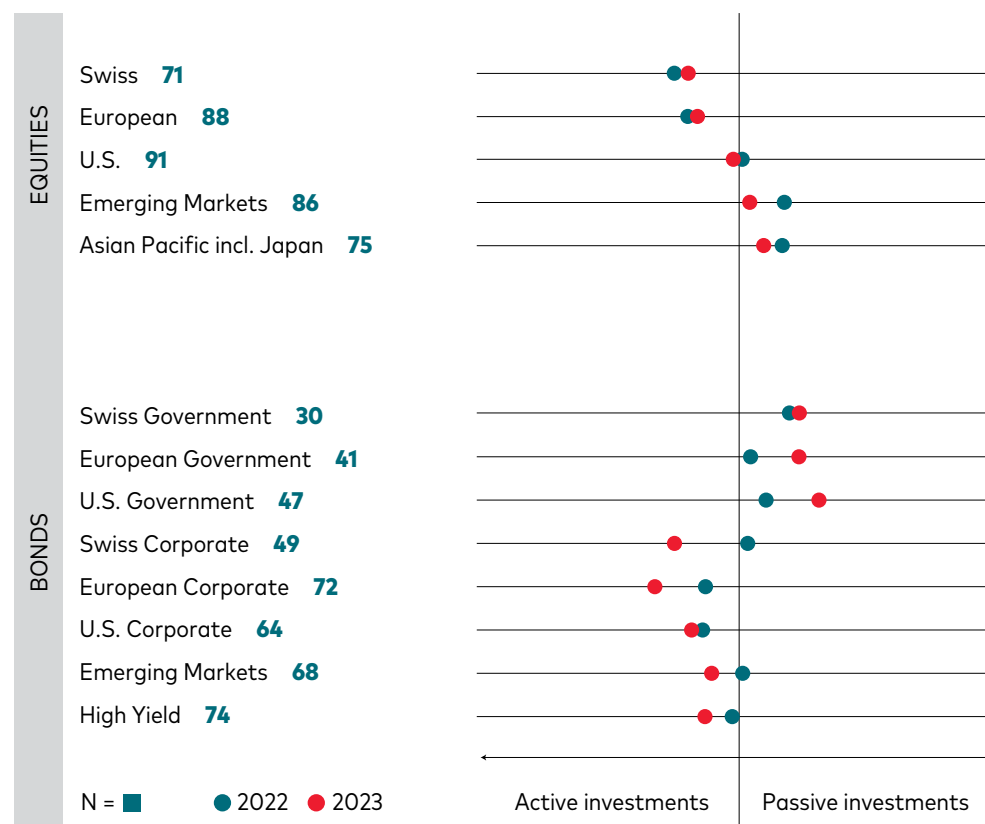
Active versus passive investments

WMs prefer active strategies when investing in Swiss and European equities as well as corporate bonds from all regions, but favour passive strategies for government bonds.

- WMs who use mutual funds or ETFs according to the previous question then shared their preferences for active or passive (index) strategies for each market.
- In equities, the split between WMs who prefer active versus passive strategies has not changed significantly compared to 2022. On average, WMs prefer a more active approach to Swiss and European equities, while they are more balanced in their use of active and passive strategies for US equity investments. However, they are more likely to use passive strategies when investing in Emerging Markets and Asia Pacific incl. Japan equities.
- Within fixed income, WMs prefer index strategies when investing in Swiss, European and US government bonds, but are slightly more likely to use an active approach for corporate bonds. For Emerging Markets and High Yield, there was a slight shift towards a more active approach compared to 2022, when the split was more balanced between active and passive strategies.

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

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



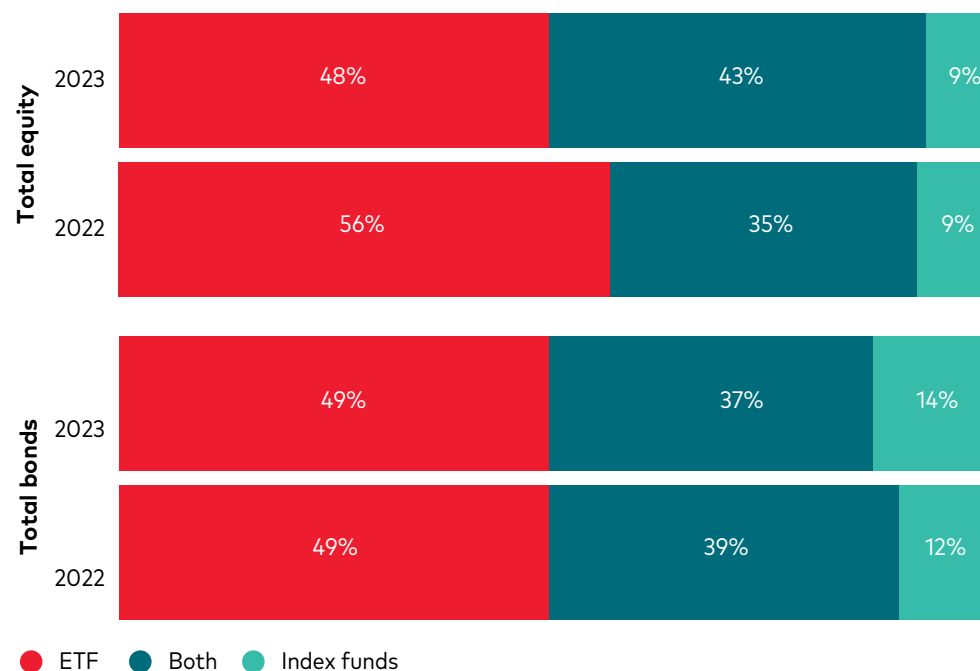
Please note: This question was dependent on the respondent's answers to previous questions; therefore, the sample sizes vary for some categories.

Use of ETFs versus index funds

WMs continue to favour ETFs over index funds for passive strategies.

- When it comes to passive equity investments, WMs continue to prefer equity ETFs over equity index funds. However, the share of WMs who only use ETFs, while still high (48%), declined significantly (56%) compared to 2022, while the share of those using both types of investment vehicles saw a significant increase (from 35% to 43%).
- WMs also prefer ETFs over index funds when it comes to passive fixed income strategies. Overall, the share of WMs using only passive bond ETFs remained relatively unchanged compared to 2022, but there were noticeable shifts within certain categories of fixed income versus last year (not visible on the chart).
- An increasing share of WMs only use passive ETFs when investing in US government and corporate bonds; while index funds are increasingly favoured for Emerging Markets and High Yield investments.

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



n 2023 = 109

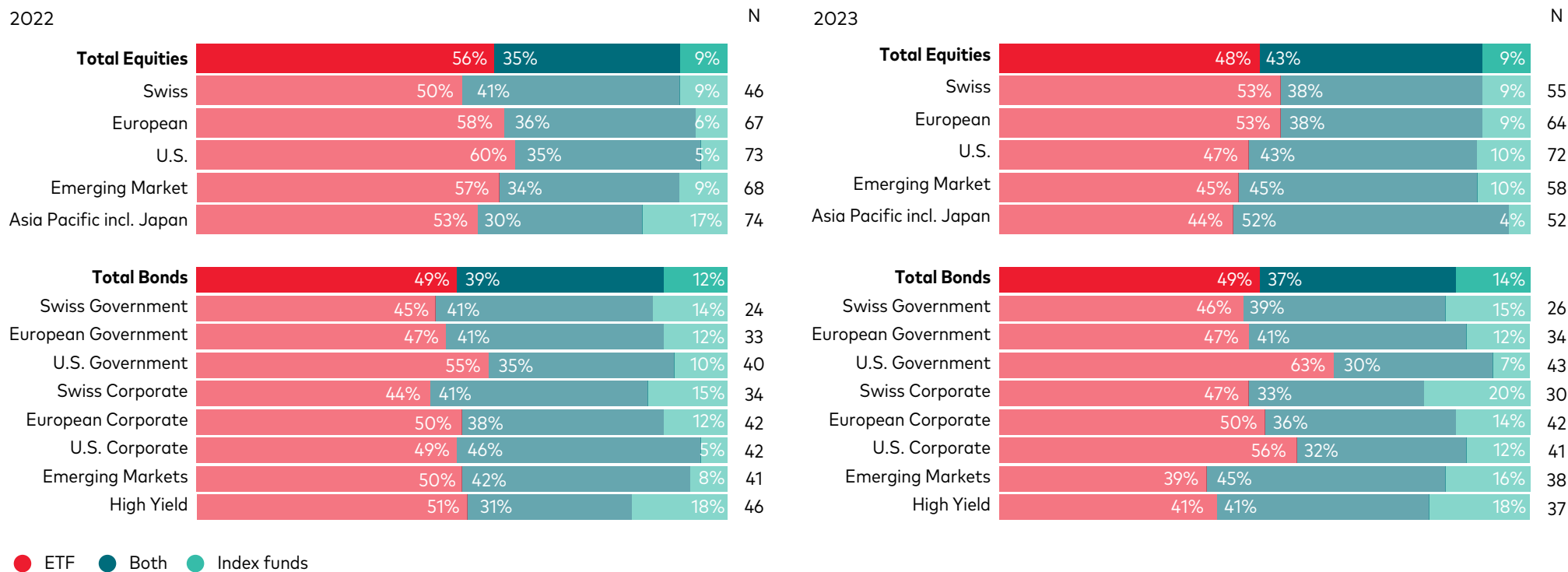
n 2022 = 101

Reading example: For Equities, 48% 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.

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

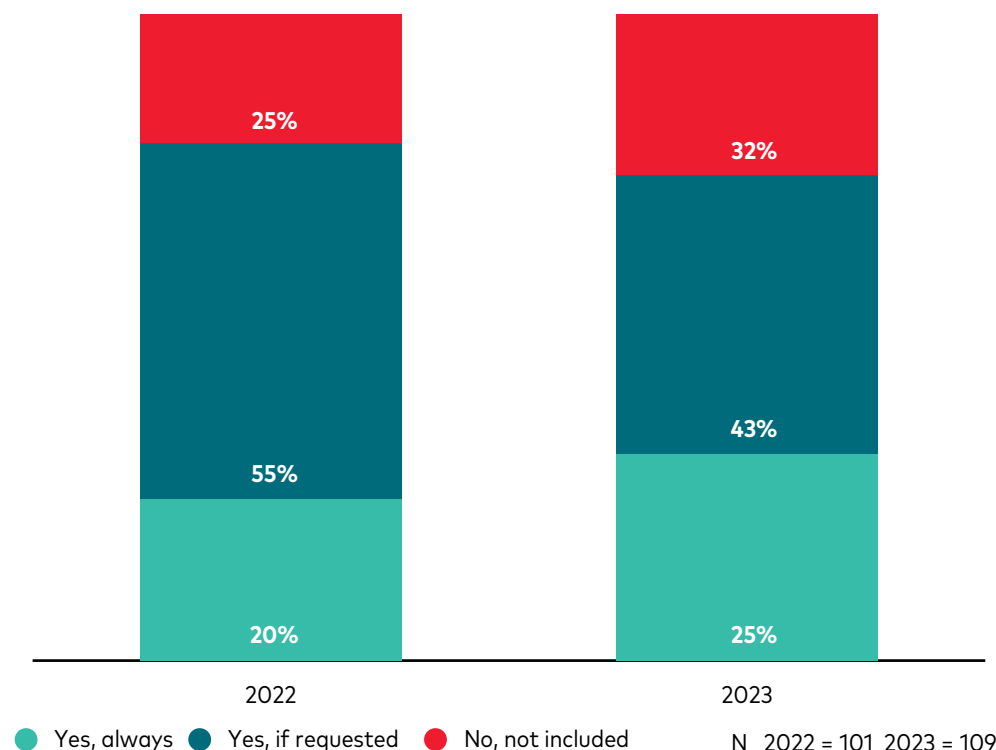


Inclusion of sustainable (ESG) criteria

WMs have mixed views on sustainable investing

- Two-thirds of WMs would consider implementing ESG criteria into their investment process. However, only 25% include ESG criteria by default. This marks a significant shift towards ESG investing compared to last year's survey results (20%). Larger WMs (AUM > CHF 200mn) are more likely (28%) to include ESG criteria in their mandates than smaller WMs (22%). (Data not shown in graph.)
- 43% of WMs say they include ESG criteria only when a client requests it.
- Meanwhile, 32% of WMs do not include ESG criteria at all in their investment approach – a significant, and puzzling, increase compared to last year's survey (25%). Smaller WMs are less likely to include ESG criteria in their investment strategy (37%) than larger WMs (26%).

Do you include sustainability criteria into your investment process?

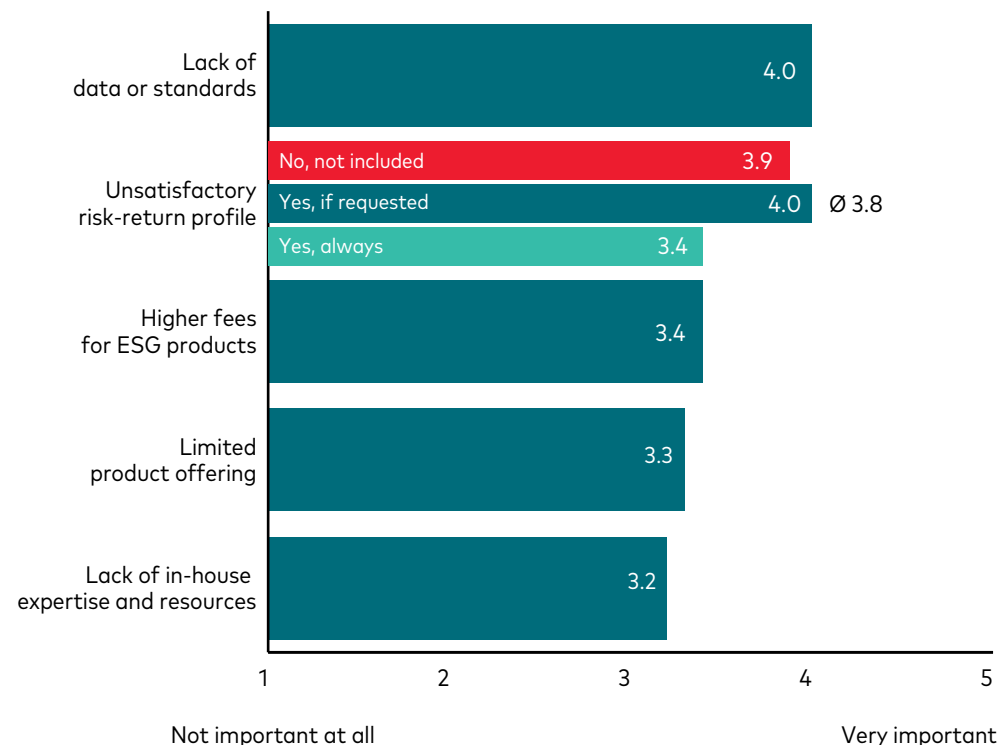


Barriers

WMs perceive two barriers to sustainable investing as particularly important: a lack of data/standards and an unsatisfactory risk/return profile for sustainable investments.

- The lack of sufficient data and industry standards for ESG investments continues to be the most important perceived barrier – in line with our 2022 survey results.
- WMs remain sceptical of the financial performance of sustainable investments, which they perceive as offering an unsatisfactory risk/return profile compared to conventional products. This is significantly more important to WMs who do not currently consider sustainability criteria (or only upon a client's request) in their investment process than those who do integrate ESG criteria in their investments.
- Higher fees for ESG products, a more limited product offering, and a lack of in-house ESG expertise and resources are perceived as somewhat important barriers to sustainable investing – though less so than in our 2022 survey.
- Surprisingly, WMs who do not include sustainability criteria perceive these barriers to be lower than WMs who include sustainability criteria.

How important are the following barriers for sustainable investments?

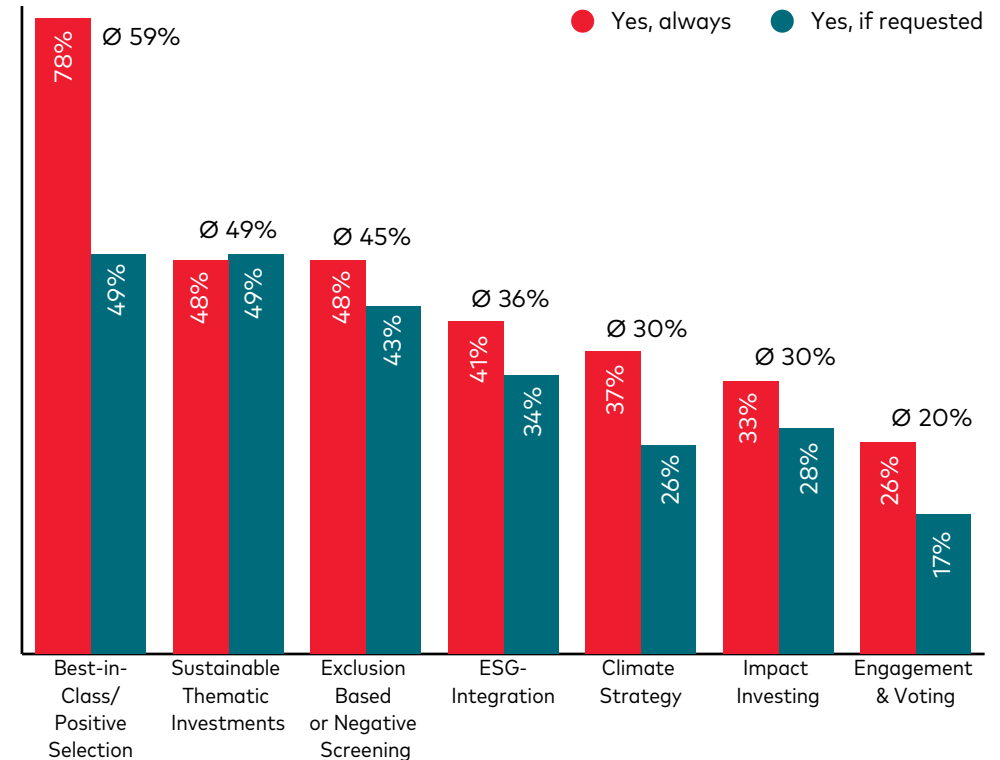


Sustainability (ESG) strategies

When it comes to ESG investment strategies, WMs favour positive/negative screenings and thematic investments

- When WMs include sustainable criteria in their investment process, they are drawing on multiple ESG strategies WMs who always include sustainability criteria typically use a larger variety of strategies (more than 3 strategies, on average) compared to WMs who only include sustainability criteria on request (less than 2.5 strategies).
- Overall, positive best-in-class selection is the most popular ESG strategy among WMs, especially among WMs who always include ESG in their investment process. Sustainable thematic investments and negative/exclusionary screening are also popular with WMs.
- Climate strategy, impact investing and engagement/voting strategies are less favoured, particularly among WMs who only include ESG criteria upon request.

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



Reading example: 78% of all WMs who 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.

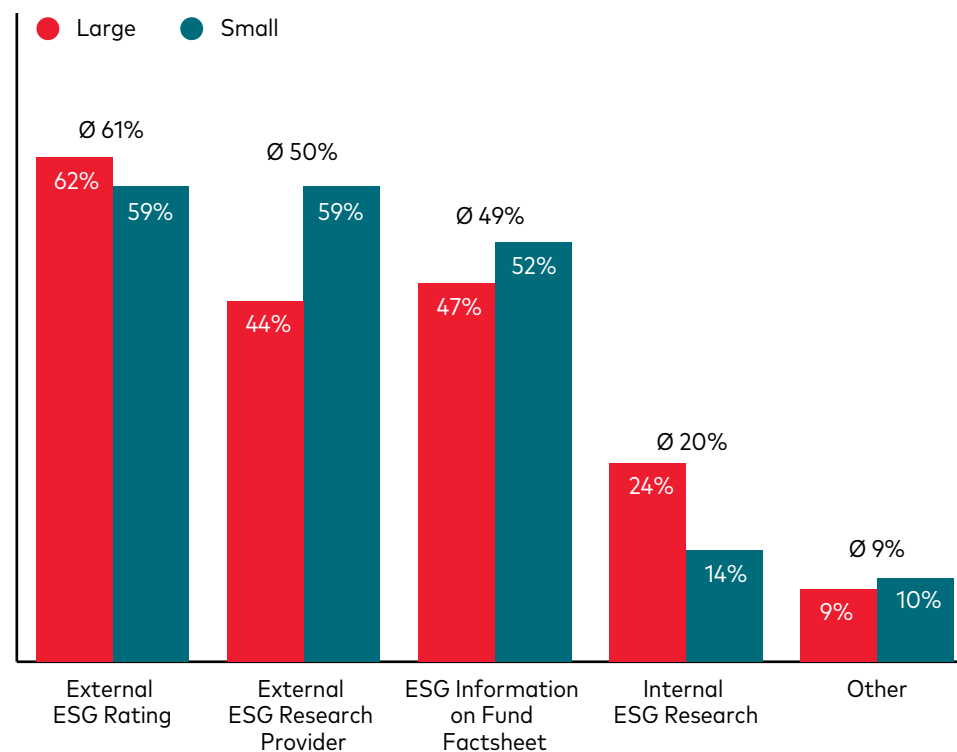
Yes, always = 27 Yes, if requested = 47

Assessing sustainable (ESG) investments

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).
- External ESG ratings are the most popular resource for assessing the sustainability of investment products. External ESG research is also favoured, with more than half of all WMs using external research and/or fund factsheets to assess sustainable products.
- Unsurprisingly, internal ESG research is more common among larger WMs (24%) than smaller WMs (14%).

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



1

Asset Allocation

Bond investments are back in play!

2

Swiss Securities

WMs prefer to invest directly in Swiss equities and bonds.

3

Sustainable Investments

The share of WMs who always integrate sustainability criteria in the investment process is increasing but barriers are still high.

Methodology

The survey was conducted from 1 March 2023 to 31 March 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.

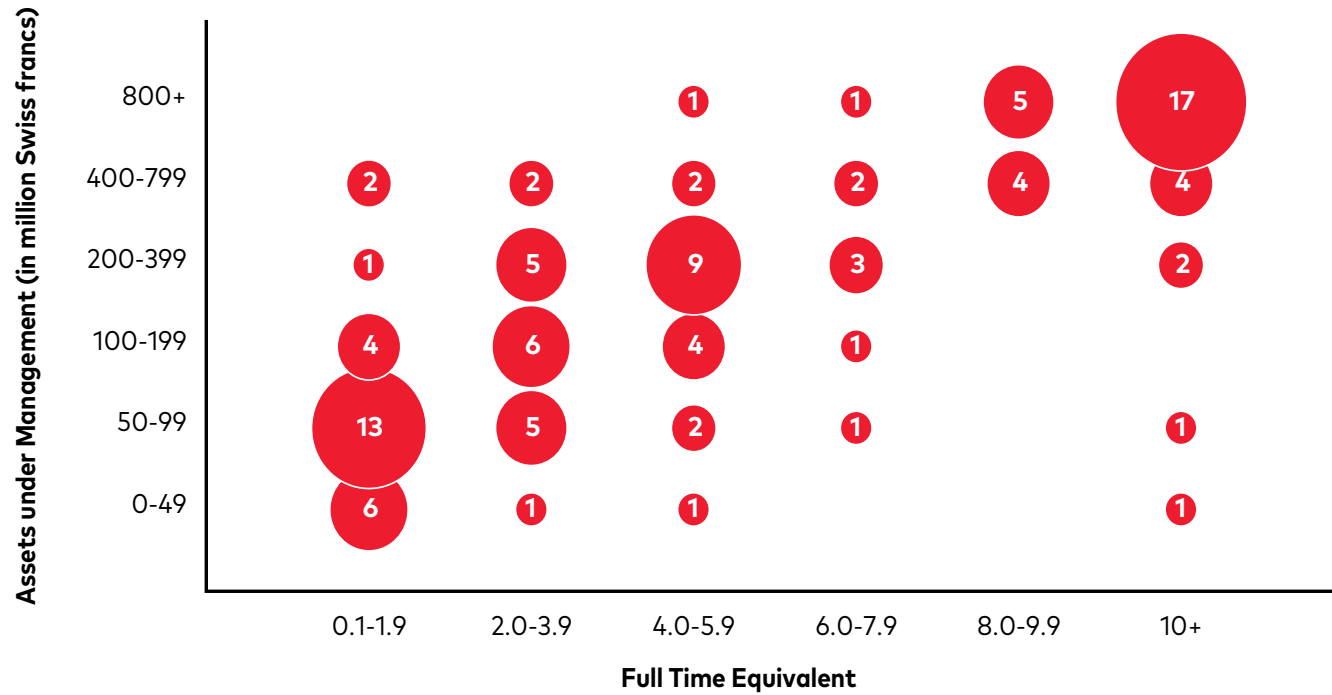
Initially, the survey was directly sent to Swiss wealth managers (WMs) through VSV-ASG and Vanguard. Later, the survey link was published on their websites.

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.

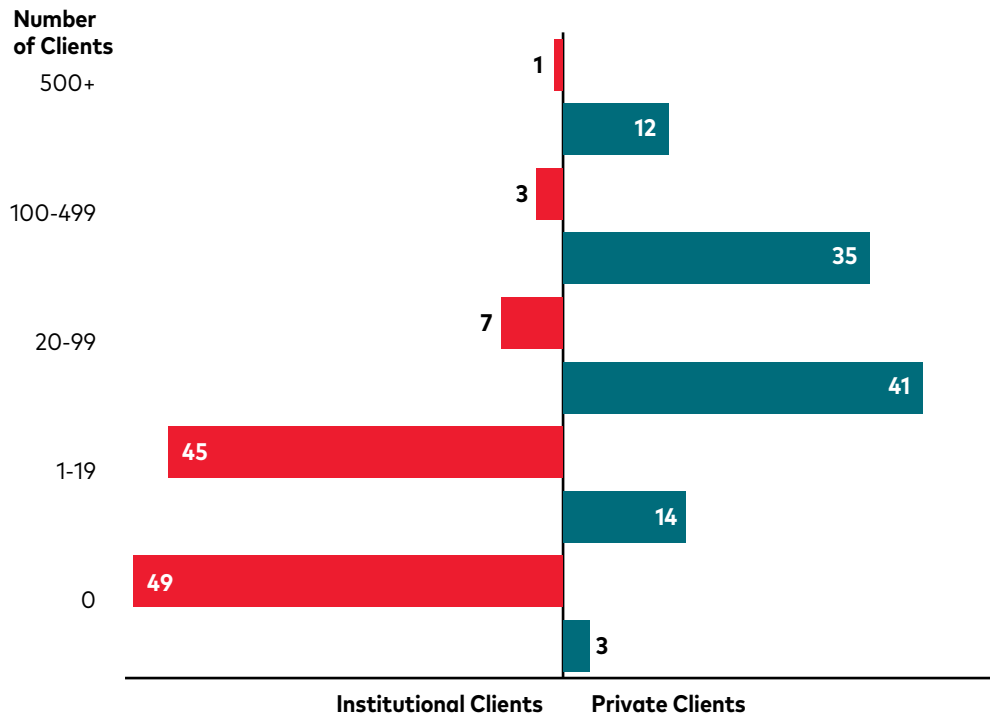
*Source: FINMA Guidance 02/2023. Status of the licensing process for portfolio managers and trustees

Sample Firm Size 1/2

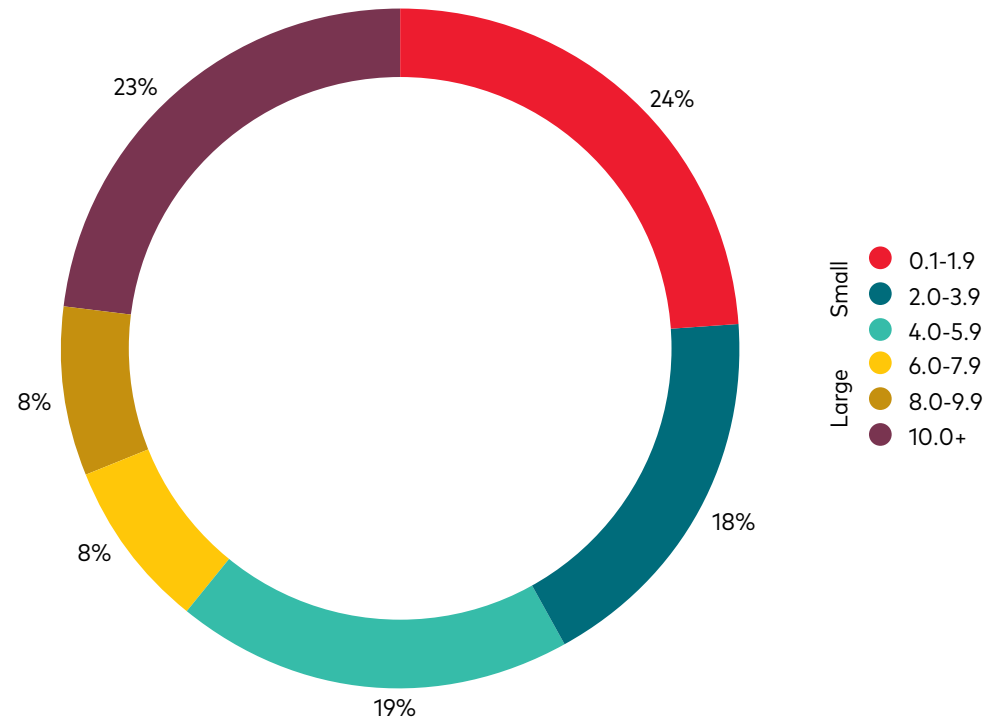


Sample Firm Size 2/2

Number of Wealth Managers
(n = 109)



Firm Size | Full Time Equivalent



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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