

## Swiss External Asset Managers Industry Report 2017 Management Summary



The **Swiss EAM Industry Report 2017** was conducted as a collaborative effort between Credit Suisse and the University of St. Gallen with the objective of gaining insights about the challenges faced by the EAM industry and the strategies that had been put in place to meet them. Set against the backdrop of such challenges, the report highlights the developments that are expected over the next three years as a result of changing client needs, the implementation of upcoming regulations, and the opportunities provided by technological solutions. Additionally, some strategic actions were identified.

### General Information

For this report 99 EAMs with a total of CHF 70 billion AuM (representing around 20% of the total market in Switzerland) participated in a survey. In addition, nine handpicked EAMs from various regions were personally interviewed. The main focus laid with larger EAMs which also conduct international business, however additionally some smaller and regional focused companies have been included. As a result three challenges have been identified which are shown in the summary below.

### Trends in the EAM Industry

Over the next three years, the participants expect the industry to grow by 0.3% annually (in terms of AuM). At the same time, they believe that the number of EAM companies will decrease by 3.6% annually over the same period. On average, the EAMs surveyed consider a minimum of CHF 300 million AuM and 4.6 FTEs (full-time employees) as the critical size to stay successful in the industry.

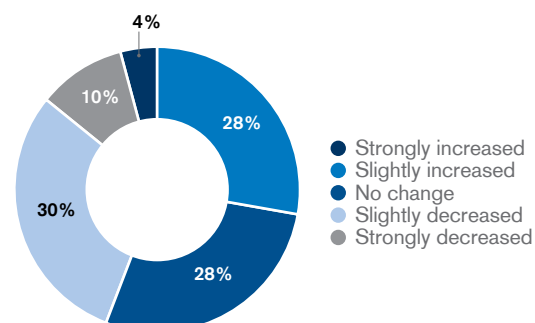
### Profitability Challenge

Currently, EAMs are struggling with rising costs and declining revenues. The profitability and growth potential of EAMs are further threatened by challenges in the market environment, including low interest rates and the ongoing difficulty of achieving the asset performance expected by clients. Another factor that affects EAM revenues is the pressure on prices, which is dependent on the client segment. Price sensitivity is most pronounced among international and younger clients.

Some international clients are no longer willing to pay a premium for a Swiss custody bank. Younger clients with a fairly high digital affinity are more likely to compare prices and seek to invest directly with only limited support from the EAMs.

In order to counter this trend, EAMs will increasingly focus on acquiring new clients, targeting new client segments, and increasing share of wallet with existing clients within the next three years.

Figure 1: EAMs' net revenue change in the past three years

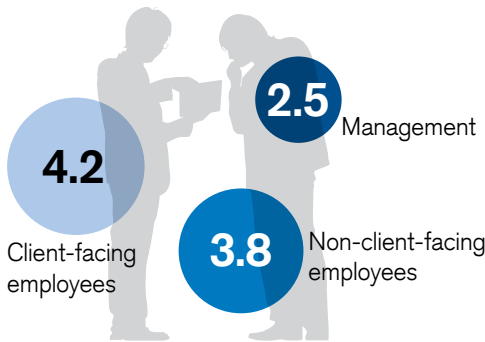


Interviews with EAMs revealed that the source of margin pressure can largely be traced back to increasingly stringent regulatory requirements and costs related to growing business complexity, including the need to manage a multitude of partnerships (mainly with custody banks and related interfaces). As a consequence, EAMs need to diligently assess and manage the following four main cost drivers (staff costs, processes and technology, regulation and partnerships).

### Staff Costs

Staff costs account for two-thirds of an EAM's overall cost base (67%). On average, the EAMs surveyed employ 10.5 FTEs, which are almost equally distributed between client-facing and non-client-facing staff. A possible strategic action is to assess current and potential partnerships (e.g. with other EAMs, investment specialists, or technology partners). Anticipating growth in their business, EAMs expect to invest more in CFEs than in non-CFEs in the near future. This development comes after years of investment in internal specialists.

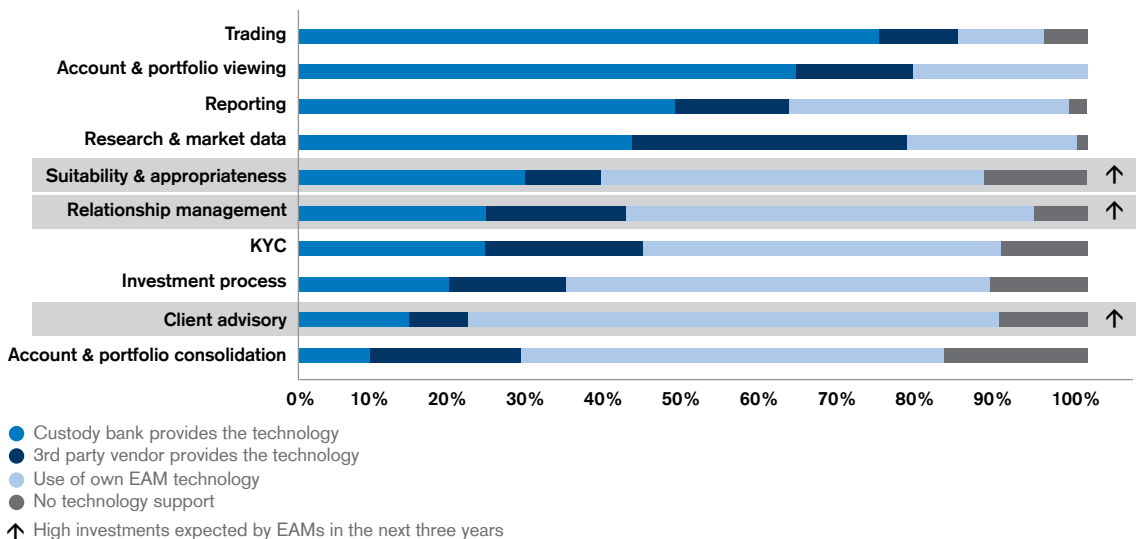
Figure 2: Average number of FTEs across functions



### Processes & Technology

EAMs have a fragmented process and tool landscape (see figure 3). For 31% of key processes, EAMs use self-developed tools and for 15% of processes EAMs have no tool support at all. Therefore, increased investments in technology are expected, most of which will be in the areas of suitability and appropriateness, client advisory and mandate processes, and client relationship management and administration.

Figure 3: Technology solutions EAMs use to support processes

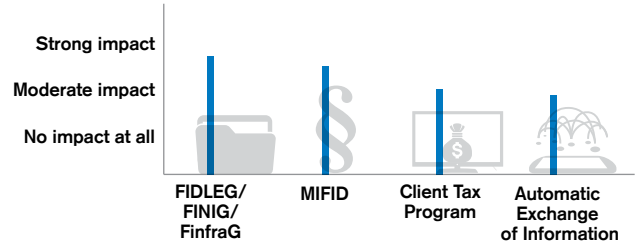


Given its importance in all aspects of an EAM's organization, technology cannot be viewed as a mere cost factor. EAMs use technology as a key lever to not only reduce costs (or comply with regulatory requirements), but also to improve client experience and deliver superior value to clients. Besides implementing "quick wins" by simplifying key processes, EAMs should be exploiting current usage of tools, and/or re-negotiating fees with IT vendors.

### Regulation

EAMs surveyed believe regulations will continue to strongly affect the way they do business in the future. Costs related to implementing regulatory changes are expected to increase. Moreover, restrictions on market access and additional requirements may affect the coverage of certain foreign client domiciles. The three main concerns of EAMs are rooted in the uncertainty as to which new requirements will be implemented, the exact details of such requirements, and restrictions on market access in case of non-compliance.

Figure 4: How EAMs rate the impact of regulatory changes on their business



Uncertainty regarding which requirements will be implemented within the next three years is the main concern of EAMs, followed by lack of information on newly implemented regulatory requirements and the potential restriction of access to markets (loss of market access or need to comply with additional requirements in order to continue serving certain markets, such as the EU). To reduce uncertainty and current concerns, it is advisable to start with the designing of regulatory processes (e.g. S&A) and the definition of possible sourcing options.

## Partner

Participants of this report stated that they work with an average of six custody banks. Depending on an EAM's individual set-up (e.g. origin bank of their CFEs, history of merger with another EAM company, diverse client/market segment structure) this number can be as high as 40. Working with this many custody banks means handling many interfaces and tools and higher complexity when consolidating portfolios. The surveyed EAMs intend to decrease the number of custody banks they work with in the near future (39%) or to stay with the current number of custody banks (54%). A further rationale is provided by the strong negotiating position and improved service offering that follows as a result of a higher concentration of assets.

**Figure 5: EAM expectations from their main custody bank**

- 1 | **Trusted partnership**
- 2 | **Quick resolution of issues with dedicated team**
- 3 | **Long-term service level commitment**
- 4 | **Strong brand and reputation**
- 5 | **Proactive relationship with specialists**

In addition to custody banks, EAMs increasingly work with other partners, including fund managers, IT providers, compliance providers or other specific specialists to deliver their value proposition. It is important to assess current and potential partnerships (e.g. with other EAMs, investment specialists, or technology partners) to support the implementation of the target operating model.

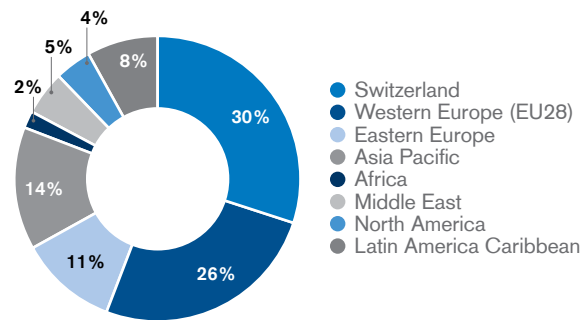
## Unique Selling Proposition Challenge

Independence and having a personal relationship with the CFE are seen as EAMs' two most fundamental unique selling propositions (USPs). Independence gives clients the opportunity to select from a wide range of products and services provided by the different custody banks of an EAM. Without being restricted to a particular bank, the EAM may help his clients with the selection of the appropriate services and products. The CFE of an EAM is less bound to a standardized advisory process than might be the case at some banks, especially for the segments up to CHF 5 million.

## Clients and Markets

On average, a CFE manages CHF 227 million and 83 clients, of which around 49% are Swiss clients and 51% are international clients. Cost pressures arising from regulatory complexity are requiring many EAMs to review the current market and client domicile coverage. Most EAMs see growth potential in Switzerland and Western Europe (see figure 6).

**Figure 6: Client regions where EAMs see the greatest growth opportunities in the next three years**

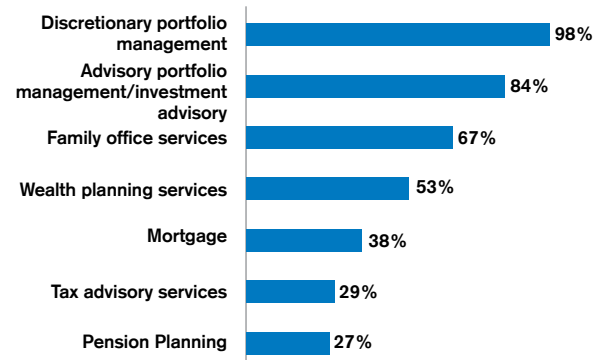


In addition, the next generation of clients should also be in scope, because one of the main reasons that clients leave an EAM is changes in personal circumstances of the client, mainly the transfer of assets in the event of inheritance. The next generations may have a very different investment philosophy, a higher digital affinity, and a desire or need for online access to trading, reporting, and research information. It is therefore advisable to actively evaluate the needs of the next generation of clients and leverage opportunities for new offerings (e.g. digital solutions).

## Products and Services

Traditional service offerings like discretionary and advisory portfolio management (98% and 84%, respectively) followed by family office services (67%) remain at the core of the EAM value proposition.

**Figure 7: EAMs' current product and service offering**



However, the current product and service offering does not appear to be sufficient to cope with upcoming challenges. In fact, most EAMs surveyed (79%) stated that they will upgrade their offering in the next three years as a result of changing client needs (next client generations, increased sensitivity towards performance), new regulatory requirements (including FINIG/FIDLEG/MiFID II), and the pressure to improve EAM profitability. However, depending on the individual situation of an EAM, a differentiation of the offering by focusing on a few specific products and services could be helpful for the future.

## Consolidation Challenge

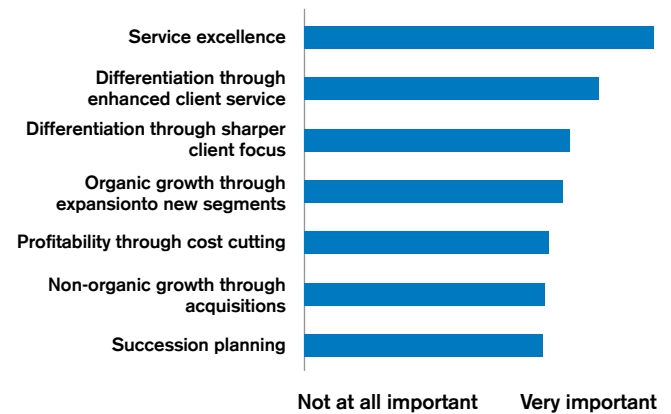
The EAMs surveyed believe that the trend for a consolidation within the EAM market will finally materialize within the next three years. To turn the consolidation challenge into an opportunity, most EAMs surveyed regard acquisition of client books from banks (58%) and strategic alliances with other EAMs (49%) as the most feasible and likely strategic actions. A large number of the EAMs surveyed stated that they are looking at ways to grow their own companies through the acquisition of (39%) or merger with another (32%) EAM. 17% of the respondents consider both mergers and acquisitions to be suitable strategic actions for their organization in the next one to three years.

However, to date, many of the EAMs have expressed little interest in selling their business and, due to the uncertainty of the regulations, are waiting to see how the market develops. General should be considered, that critical steps in meeting these challenges should be taken early on in the process of selecting potential merger candidates. These steps include: making sure the companies are strategic fit and ensuring that they have a similar investment philosophy, a comparable organizational set-up and culture as well as a diligent project management for the post-merger integration.

## Strategic Actions for EAMs

When questioned about their main strategic goals for the next three years, most EAMs answered that their primary focus is to further sharpen their USP by concentrating their efforts on service excellence.

**Figure 8: How EAMs rate the importance of strategic goals for the next three years**



Regardless of the size, the business model, and the individual offering of an EAM, it is important to address the strategic actions. The clear definition of customer core segments and the specific development of the USP could be helpful to stay successful in the future.

As a strong partner bank for EAMs, we look forward to supporting you with the upcoming changes and your individual projects. Visit us at [eamXchange](http://eamXchange) or on our website to get more insights about us and the "Credit Suisse Swiss EAM Industry Report 2017." Your Relationship Manager and our Acquisition Team are available for any further information or questions.

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Source of all data for charts is based on survey carried out between August and November 2016 by Credit Suisse (Switzerland) Ltd., unless otherwise specified.

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