

IN-HOUSE FUNDS IN FOCUS

An increasing number of independent wealth managers across Switzerland are launching in-house funds, directed at either internal or external investors. But what are the benefits and challenges of managing a fund, and does it add value to your business? We ask what risks independent wealth managers should evaluate before taking the plunge and launching a fund



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Open the Bloomberg funds screener today and it will display no fewer than 737,012 funds before any filters are applied. The booming ETF universe hit a record 12,526 listings by the end of 2016.

With such an enormous number of investment vehicles already out there, it begs the question 'why add another?' Yet more are launched every day, including by independent wealth managers in Switzerland. What's behind the growth in the funds market, and is it sustainable?

Let's put the funds market into perspective first. All the world's personal money, as defined by Credit Suisse in the Global Wealth Report 2016, rose by \$3.5 trillion to \$256 trillion over the past year.

Considering that the world population has grown from a mere 1 billion in the days when Napoleon was annexing Geneva in 1798 to 7.5 billion today, that means a huge number of new potential investors have arrived. What's also new is that they have growing personal wealth to invest. The world has more than 1% more people every year. The average wealth per person is now \$52,800 according to the report, and nowadays most people are becoming invested.

That probably explains the need for ever more funds to help investors take their capital to market. Furthermore, it was harder for capital to diversify across asset classes even a few decades ago, but now with advances in technology and new markets opening up there are even more choices for investors. That means even more funds.

As an independent wealth manager, what are the benefits of creating a fund either for internal or external investors and what are the risks?

Well, the wealth manager knows his or her clients best and therefore understands what they want. This might mean, for example, a tailored fund that works for a certain group of investors but that might also appeal to a wider group as well.

It may be that by pooling capital the fund can access better investments with high barriers to entry or it might be that lower fees come from having combined scale.

For the wealth manager, a fund can lower costs compared with managing multiple accounts, and there is lower operational risk to consider also. If the investments perform well then there is brand enhancement, which in turn can bring new business.

A fund can scale up with little extra overhead and this is probably the best outcome of all for a wealth manager.

The risks are a bit like setting up any new business: choosing the framework and the right partners to get started, the upfront costs to bear and the breakeven level of assets required. Will your investors invest when the launch date comes?

The likelihood is that if the idea is sound and the plan is well thought through then it will work. After all, the other 737,012 funds can't all be wrong, can they?



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DJD Partners has been managing in-house funds for internal and external investors since its foundation in 2005. The fact that independent wealth managers increasingly opt to run their own funds does not come as a surprise to us, as going down this road can provide several benefits compared with traditional asset management.

Pooling money in the form of a fund provides a standardised and more efficient way of managing assets. This results in proportionally lower trading costs and often better depositary prices.

Another significant advantage is the risk management, compliance and revision provided by the management company. Those services help strengthen investor protection, and they also mean the wealth manager can focus on the actual asset management.

Additionally, due to the official NAV valuation, investment funds are very transparent and can be compared with other similar funds regarding performance and so on.

Alongside the stated benefits, fund solutions also entail some challenges. In a fund, individual asset management responding to customer needs (such as investment restrictions) is no longer possible.

Also, the increased competition due to the comparability of funds leads to higher pressure to deliver above-average performance. This is particularly true when in-house funds are offered to external investors. Those customers will typically prefer fund products from the larger players most of the time, because they don't know about or trust smaller brands.

In order to compete with the big fund houses, smaller fund providers have to achieve significantly better performances and do a lot of marketing to draw attention to their products.

In our opinion though, the benefits clearly outweigh the challenges of fund solutions. That's why DJD Partners offers three equity funds (our DJD IndexTracker Plus series) and one bond fund (KEOX Yield Plus) to internal and external investors.

In addition, we support third parties in setting up a fund and, if they wish, take on the asset management. Our domicile in Liechtenstein means our funds benefit from various site advantages, such as access to the European market as an EEA member, the customs and currency union with Switzerland, moderate taxation, low costs, and a swift licensing process.



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In May 2016, Bellecapital acquired GL Funds AG (renamed Bellecapital Partners AG), which has been a pioneer in Asian markets, commodities and alternative investments with excellent track records since 1995. This asset management platform is, together with our different regulatory licences in Switzerland, the US and Europe, one of the main characteristics that distinguishes Bellecapital from other investment managers in Switzerland.

There are four key reasons why we like to have in-house funds. First, we can use their exceptional know-how for mandates on the wealth management side of the business.

Second, it provides us with the Finma licence and allows us to cater to institutional clients.

Third, many Swiss institutions are increasingly looking to work with Swiss providers due to proximity, flexibility, language and service.

Fourth, it enables us to actively participate in the consolidation of the Swiss financial market.

Our goal is to position Bellecapital Partners as the leading Swiss provider of Asia, commodities and alternative investments.

Many institutions are looking to increase their allocation to those areas. They are currently under-allocated and look for diversification, inflation hedging and/or participation in an inexpensive region with the most promising growth prospects.

With consolidation in sight, we are also in discussion with different fund managers that are interested in joining our platform. We are well positioned to capture current and future growth opportunities.



MAURICE PEDERNANA
Zugerberg Finanz
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Zugerberg Finanz runs one in-house fund: the PPF – Credit Opportunities fund. It is unusual because it is hard to find a strategy that covers bonds that fall between investment grade and sub-investment grade.

Only Swiss customers invest in Swiss francs as their reference currency, and it was extremely difficult to find a fund that suited my investment views and risk budget. That's why we decided to set up one ourselves.

From a statistical point of view, bonds with ratings from BBB- to BB+ are in the sweet spot. Usually, at this level, pension funds wouldn't invest in this part of the market, but Danilo Zanetti, Fabian Steiner and I are doing extensive due diligence. We worked for a long time at ZKB, and were dealing with risk assessments, credit default swaps and bond trading prior to that.

The fund is also a good fit for smaller investors because approximately 70% of the bonds within it are institutional bonds with denomination of 200,000 Swiss francs or euros or more. These are not available for retail investors, but they can access those bonds through our fund. The average duration of the strategy is four years. The return is typically 2% above our benchmark Swiss Bond Index, and bonds are mainly denominated in Swiss francs with some currency-hedged investments in Euro and US dollar.

One example of the sort of names the fund invests in is Canadian firm Bombardier. The company has a fairly low rating B or B-, depending on the rating agency but in general it is doing a great job. Plus, it has an established base in Europe. Above that, it has produced the most efficient aircraft over the past 20 years and is in a typical turnaround situation – as was Glencore a year ago.

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