

KINGS *of the* HILL

Zugerberg Finanz's Maurice Pedergrana
and Timo Dainese reveal what
propelled them to the top

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REACHING NEW HEIGHTS

Zugerberg Finanz's Timo Dainese and Maurice Pedergrana know how difficult the climb can be in the Swiss wealth management industry. They tell **Margaryta Kirakosian** how luck and hard work got them to the top





It takes just 10 minutes to walk from Zug's main train station to the building at Lütschwilerweg 47. The sunny foothills of Zugerberg form the perfect backdrop as I make the short journey.

I'm heading to the offices of Zugerberg Finanz. The firm's building, with its old wooden beams still proudly on show, dates from the 19th century; a time when Zug was mainly agricultural land, yet to feel the forces of industrialisation that would later transform this spot into Crypto Valley.

The rapid growth of the city is something the firm has felt too. It started life as a one-man show and has since grown into a 27-strong team that manages more than CHF 1 billion in assets.

The company's founder, Timo Dainese, started out on his own in 1998 at the age of just 22, when he set up a branch of a Munich private bank. Back then, Dainese worked 18-hour days to convince potential clients that he could deliver. Managing a branch was a good entry point, but after the first couple of years it became clear that the firm needed to move in a different direction.

Dainese explains that the German bank focused more on brokerage services than on asset management, with clients having to invest at least CHF 1 million to open an account. Spotting an opportunity, Dainese was inspired to start an asset management company catering to small and mid-sized clients.

'For the first few years we were a branch of a well-known company, but that status had its legal challenges. With time, we realised that we wanted to focus on Swiss investors only, which also prompted us to start on our own,' he says. He describes how investing his own and his family's money the same way he invested for his clients helped to demonstrate his commitment.

Dainese is very modest when you mention his achievements. 'Of course we also got lucky – as you have to when you start a business in such a competitive industry. But it's true that we had to work very hard for that luck.'

SWISS DRIVERS

One of the more unusual features of the Zugerberg Finanz office is an asset management barometer – a transparent tube in which stripes of blue, white and grey stones indicate new assets added.

Maurice Pederngana, the firm's CIO, shows off the traditional Swiss cowbell that hangs next to it, which rings whenever the firm reaches a new assets milestone on the barometer.

'Here you can clearly see that the biggest asset growth happened in the past six years. We had to start a new barometer with a top target of CHF 2 billion, which we hope to reach over the next five years,' he says.

The focus on Swiss investors is one of the firm's growth drivers, and Dainese explains that this particular client group requires a special approach.

Swiss investors want to understand what asset managers are doing with

their money, he says. That's why effective communication is very important, particularly in using language that people outside of the industry will understand.

Pederngana adds that when a client goes to a private bank, it is very unlikely that they will be able to talk to the CIO or the chief economist, let alone the CEO.

'At Zugerberg Finanz clients can easily come with CHF 100,000 and get feedback from me or Timo. Over the past couple of years we have been answering questions from clients whenever they arise – even on Saturdays and Sundays.'

Dainese says it is even more important to have a clear line of communication with clients in periods of crisis. 'Our response was faster than that of the Swiss government when Brexit happened. Around 20 minutes after the markets opened the next day we had already published our blog entry.'

The asset managers are not just quick with words. They bought on the weakness of certain stocks on the morning following the Brexit vote, adding names such as employment firm Adecco.

'Some companies will have to relocate departments from London to Paris, Luxembourg or Dublin. That's why you could make 70% to 80% after the Brexit vote with Adecco shares,' Pederngana says.

Dainese explains that being independent enables the team to reallocate a few hundred million Swiss Francs within 36 hours if needed. 'You probably won't find another asset manager that has 27 people looking after just CHF 1 billion, but this set-up allows us not only to grow strongly and attract new clients, but also to make quick changes in the portfolio.'

FORWARD FOCUS

Taking care of small and medium clients is in the firm's DNA, and unlike some competitors Dainese doesn't consider that focus inefficient. As long as you have an appropriate IT system in place and enough clients of the right size, that is.

'We don't offer 200 different strategies for 200 clients. Instead, in terms of risk, we offer 6 portfolios with different bandwidths for the asset classes, for investors with different risk appetites,' he says.

However, Dainese insists that the firm has one overarching macro view across all of its strategies, guided by its investment committee of five and Pederngana as CIO. 'If we were to have different macro views for different portfolios it would be really confusing. It is really important to have one strong view that will guide you through turbulent times,' Pederngana says.

The firm publishes investment views on a weekly and monthly basis, which also helps to strengthen brand recognition. 'On our website you can see how our investment views are changing. We don't believe in



consistency. If indicators are changing, we are changing our investment view as well.'

The asset managers reduced exposure to risky assets in June and July, taking profits from a strong performance over the past six months.

Dainese adds that although the team is bullish on the economy, reducing risk was a tactical decision. It will help them buy good stocks on the back of future weaknesses, he argues, in the same way that the firm bought Swiss travel provider Dufry during its 10% drop.

'If you are in the lead in the football match then it makes sense to put one more player in defence, rather than going on the offensive. This is what we did by taking risk off the table.'

At the moment, the firm's average balanced portfolio consists of 20% equities, 35% bonds, 8% infrastructure, 5% private equity and 32% cash. The high cash quota acts as liquidity for future investment opportunities.

'In the balanced portfolio we are up 12%, which means that if the sun shines on the financial markets, we will benefit from it. However, if we enter stormy weather we will still feel comfortable not being fully invested, unlike our competitors, who are about 6% behind us in corresponding portfolios,' Pedergrana says.

Some of the best performing stocks in the firm's portfolio have been Zurich Airport, Partners Group and Lonza. However, Dainese says that the firm is not yet feeling the pressure to be fully invested in equities, as the bond side of its portfolios still generates good yield.

Indeed, bond investments are one of the firm's specialties, backed up by a team of corporate credit experts. Danilo Zanetti and Fabian Steiner spent more than 10 years working on fixed income at ZKB, and Pedergrana has access to the latest research in the field through the University of Lucerne.

The firm was authorised by Finma in 2014 for the fund launched two years earlier, which Citywire ranks first out of 104 in the Swiss franc bonds category, based on its five-year risk-adjusted performance. Pedergrana explains that this strategy was created in an attempt to make its bond expertise available to its smaller clients. The asset manager describes having been unable to find a ready-made fund matching his criteria.

ALTERNATIVE AVENUES

When it comes to other alternative investments, the asset managers prefer infrastructure to real estate. Pedergrana says that the real estate market has gone too far – not just in Switzerland but also in Hong Kong and New York, where the risk of drawdown is quite high.

By contrast, he adds that infrastructure names such as Italian motorway owner Atlantia perform strongly when there is more economic activity, with more people driving from Bologna to Florence, for example.

'You can monetise on the ECB monetary policy via infrastructure titles, be it highways in Spain or airports in Zurich or Frankfurt,' he says.

Another avenue that the firm likes to explore is private equity. Pedergrana has lectured on the subject of private debt at the University of Lucerne for the past 15 years and is also general secretary of the Swiss Private Equity & Corporate Finance Association.

He believes that private equity and debt make a nice diversifier for portfolios, especially given that he knows the inner workings of the management teams at strong Swiss players such as Partners Group or LGT Capital Partners.

'I have invested in private equity with my parents for the last 20 years. I wouldn't say I made no mistakes over that period, but after you go through several crises you learn how to avoid some of the pitfalls.'

Pedergrana also says that his academic career has helped him in his role as CIO, enabling him to stay informed about the most recent research in the financial industry. In 2008, he published a book – *Strategic investment management: How investors achieve sustainable value gains* – and implements the ideas from it in his asset allocations to this day.

'Having a strong background in academia helps to bring forward arguments for specific themes and build a solid base for investment cases,' he explains.

It works the other way too – managing a real portfolio improves his lectures at the university. 'If you give lectures on fixed income or asset management you can show students how your portfolio is doing on a monthly basis and they can ask questions. This keeps you on your toes, as you don't only have to showcase theory but implement it in practice.'

EASTERN APPEAL

On the fund investment side, both Dainese and Pedergnana say that there is a lot of space for actively managed strategies in corporate credit, be it their in-house strategy or the solutions offered by other asset managers.

'The US insurance high yield market is very niche and professional, and we never claim that we are competitive in that field. However, when it comes to European business models and understanding the complexity of this market, we don't see many rivals,' Pedergnana says.

Another market ripe for an active investment approach is Asia. Pedergnana travelled in India and China for many years and wrote his PhD thesis while in Tokyo.

It's in India that he sees the biggest opportunities at the moment, where there are fewer state-owned enterprises than in China, for example. Here, the firm invests in the **Goldman Sachs India Equity Portfolio** and the **Franklin Templeton India** fund.

Pedergnana also says that he knows the fund's top ten companies very well and has visited all of them with the fund manager. He wanted to know precisely what was in the strategy he was buying.

Zugerberg Finanz does its own due diligence work before investing, and the team holds individual meetings with fund managers to test their dedication to the market they invest in.

'When a fund manager has worked for three or four years, that wouldn't be a good enough track record. I would say you have to experience one or two cycles of crisis in a certain market before you can be called an expert,' Pedergnana says.

Dainese adds that it is important to know fund managers personally and have a firm grasp on the most recent data. Only then can you properly stress-test portfolios.

'It's not a question of whether it's a small or large fund provider – we actually pay more attention to the portfolio concentration.

'If the fund manager has 200 positions in his fund, he obviously doesn't have a very strong conviction compared with one who has only 40 positions.'

HOMETOWN HEROES

Zug may have earned itself the nickname 'Crypto Valley' thanks to its handful of cryptocurrency firms, but the asset managers are still reluctant to take on investments in cryptocurrencies.

They say they don't want to invest in something they don't fully understand.

'One lesson we have learned over the years is that we don't have to be the first to invest in new trends. Our investors are not speculators and first of all they want to preserve money. Cryptocurrencies are still at a very early development stage when many losses can occur,' Dainese says.

The firm's local focus also goes beyond investment opportunities. Zugerberg Finanz organises different events for youngsters in the area, from football matches for clients' children to economics workshops in local schools.

Dainese's eldest daughter, aged 15, had to decide on her major at school recently. One option was economics, but she had never had a single lesson on the subject before.

'We think it's important to show kids early on what financial markets are. We found out during the workshops that if you present abstract things like the economy in an appealing manner, they are very interested,' Dainese says.

The firm has other interesting initiatives in store too. One is a series of country walks intended to help the team get to know its clients in an informal setting.

'The next 11.5 kilometre walk will take us to the Nestlé building in Cham.

'These walks reflect our thinking – that's why we don't go to the office of a blockchain venture but to a company with a 150-year history that was founded in the area,' Pedergnana says.

He adds that these country walks are a natural continuation of what he and Dainese do at the weekend with their families, rather than an attempt to set the firm apart from the competition.

'Sometimes it's important to put your wandering shoes on and talk to clients about their wishes and aspirations with a glass of beer,' he says.

