The Asset Management Industry – *A glance backwards and forwards*

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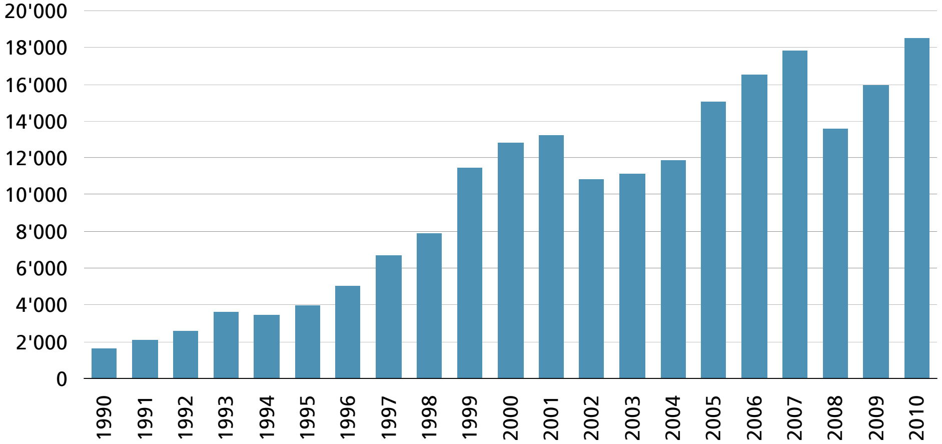
Section 1

A glance backwards

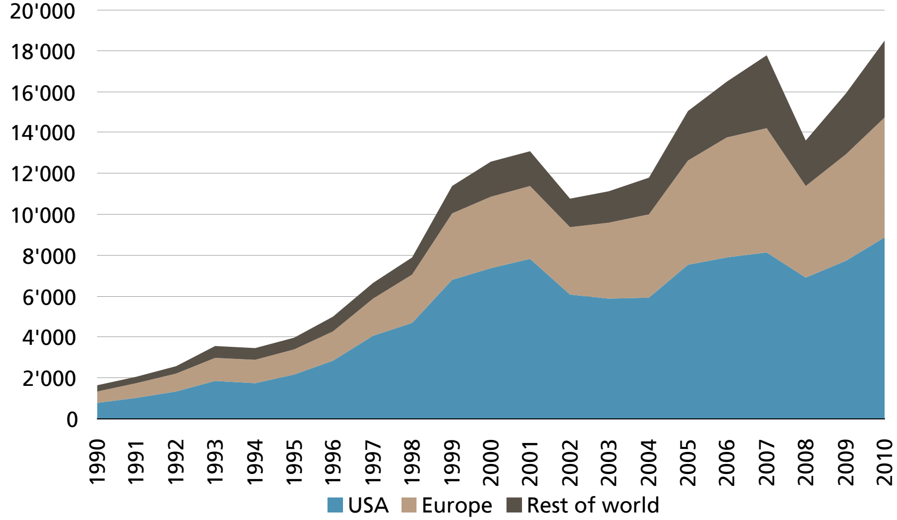
The development of the investment market

Upward trend

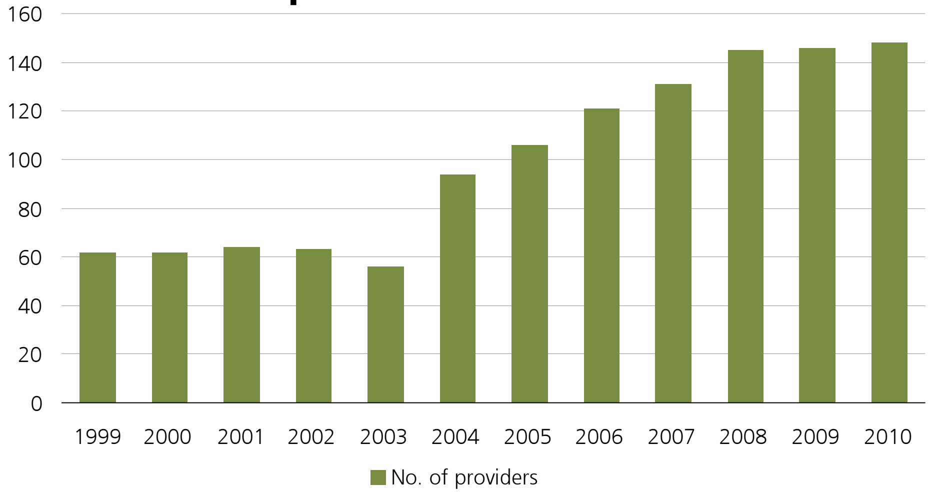
Global investment fund market – Total market growth (EUR bn)



Global investment fund market – Market growth by region (EUR bn)



Number of fund providers in Switzerland



Sources: efama, ThomsonReutersLipper

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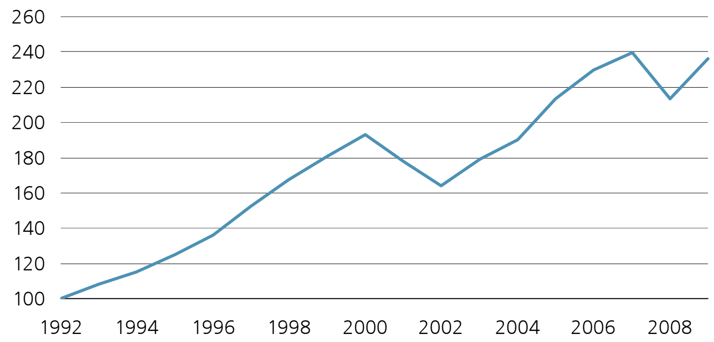
What are the reasons for the upward trend?

Demographics / Markets

- Baby boomers have been saving both privately and institutionally (under the 2nd and 3rd pillars) – a substantial proportion of this money has been invested in the financial market. This development has been boosted by tax-advantaged savings models
- Demand for capital from growing economies and governments
- Relaxation of the free movement of capital since the 1970s

Total assets of Swiss Pension Funds

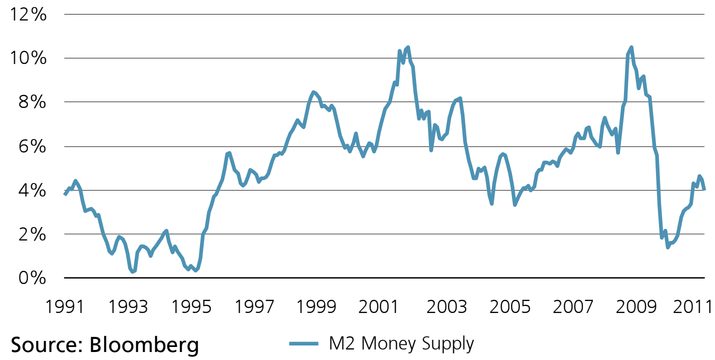


Source: Bundesamt für Statistik

Central banks

- Since the mid 1990s, central banks (including the Fed) have again been supporting the market with greater liquidity, thereby boosting economic growth
- Central banks act as a "safety net" or "lender of last resort" and in so doing have encouraged the trend towards a higher-risk investment policy

Change in US money supply (YOY)



Source: Bloomberg

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What are the reasons for the upward trend?

Technological development / regulation

- Global networking enables business to be conducted from anywhere in the world
- Freely available information paired with tightened compliance rules has created a level playing field

Intellectual basis

- Since the 1960s, investment theory concepts have gained widespread credence
- The “popularisation” of these concepts (e.g. modern portfolio theory, diversification etc.) has changed the investment behavior of people from a wide variety of circles

Where are we today? Interim conclusions

Demographics / Markets

- Babyboomers in developed markets are retiring or divesting their assets (in part) -> asset prices will tend to fall
- Capital less important; labor is becoming important again

Central banks

- Central banks will absorb liquidity out of the system in the short and medium term (deleveraging)
- Danger of slowdown in growth -> impact on asset prices

Technological development / regulation

- Technological development will continue (e.g. algorithmic trading)
- Increased / fragmented regulation is slowing down global development (pooling, cross-border issues, taxation, etc.)

Intellectual basis

- Sophisticated concepts are necessary but the extent to which they can be introduced into practice is not always clear
- Aspects of "behavioral finance" will increase in importance among both private and institutional investors

Section 2

A glance forwards

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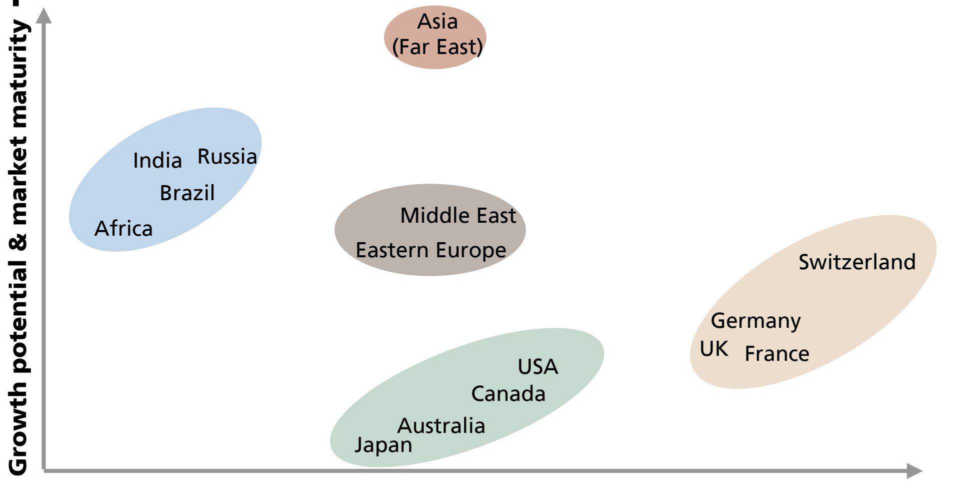
Where do the opportunities lie?

Demographics / Markets

- Emerging markets aspire to develop in a similar way to the first world and therefore offer new opportunities
- People tend to work longer and consequently save more
- Increased labor immigration and pensioner emigration

Map of attractiveness – growth potential and market presence



Source: Ernst & Young, World Bank, McKinsey & Company
Interviews with 25 asset management institutions in CH and FL

Central banks

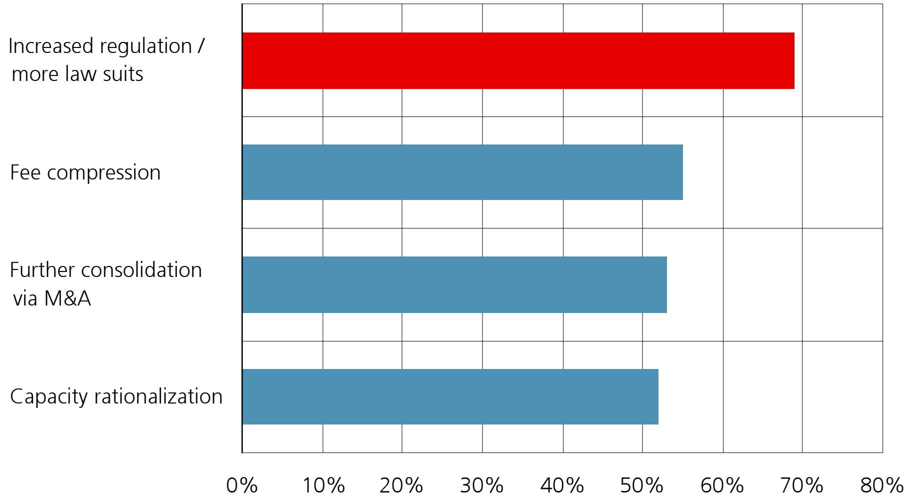
- The central bank "safety net" will continue to exist in future and offers a relative guarantee of stability but it will make much higher demands regarding the risk management and appetite of players
- Opportunities will arise as a result of the absorption of money (rising interest rates)

Where do the opportunities lie?

Technological development / regulation

- Increased regulation raises market entry barriers for global competitors. On a local level, regulation offers opportunities for local players
- The liquidity of markets (capital costs) may change as a result of Basel III and/or Tobin taxes; this in turn will create market niches

Which of the structural changes in asset management will have the biggest impact over the next 3 years?



Source: Citi / Principal / CREATE Survey 2009
Global survey with 225 asset managers and pension funds

Intellectual basis

- New approaches lead to new solutions
- More attention to risk management will continue; sophisticated models can imply a competitive advantage.

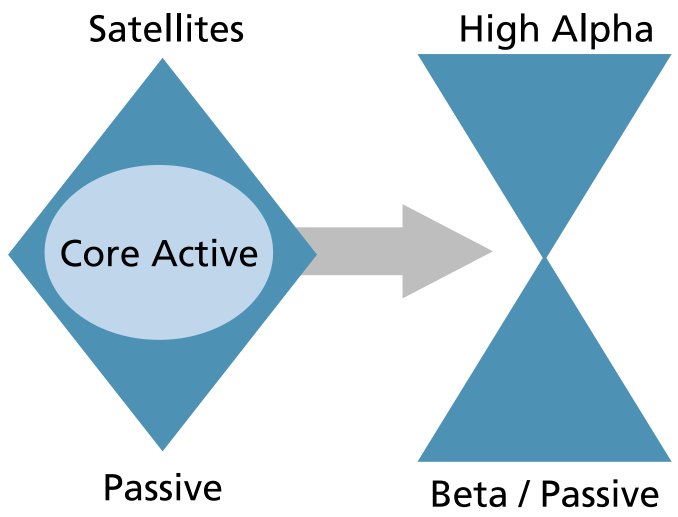
When the facts change, I *change my views*. What do you do?

John Maynard Keynes

"Predicting the present" – our view

Consolidation

- Size matters; medium-sized competitors will experience increasing difficulty, e.g. because of:
  - Economies of scale
  - Costs (as a result of regulatory requirements, risk management etc.)
  - Focus on flagship products
- Outsourcing of non-core business areas (custody, operations etc.)
- Development of investment needs will lead to industry consolidation (High Alpha vs. Beta / Passive)



Distribution / Regulation

- The role of a client advisor is changing: from product orientation / product pushing to investment dialogue with the client (training requirements)
- Increased customization at the distribution end; service and customer proximity is becoming more important
- The regulator will extend his focus to the entire value chain

“Predicting the present” – our view

Investments

- The buy-and-hold approach in liquid assets seems to be a thing of the past. Investment strategies need to take account of increasing volatility and sideways-moving markets
- The Core / Satellite approach will further gain in importance; investments in efficient markets are made with passive instruments (e.g. ETFs)
- Rising demand for non-listed investment opportunities which offer a shelter function from market psychology (e.g. PE, infrastructure)

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