CORE DATA research

NGAM Global Advisor Study 2016

Key messages - Switzerland

August 2016

Contents

Executive Summary

Strong communication between financial advisors and clients is fundamental to supporting resilient advisor business in an ever-evolving market.

In an environment dominated by volatility and low yields, advisors face both challenges and opportunities. To overcome the former and take advantage of the latter, advisors need to demonstrate value beyond portfolio construction and offer insight which helps clients focus on their financial goals, rather than on making emotional investment decisions led by a short-term outlook.

The challenge of managing clients in unsettling markets is set against a backdrop of on-going regulatory change as advisors globally transition from a product-led approach to operating a business model based on financial planning. Advisors acknowledge their models are likely to change significantly in the future and while many who refuse to adapt will fall away, those who remain will sit atop a business model where the client, and not the product, are center stage. In order to succeed in this environment, advisors globally will need to educate, communicate and empower their clients in order to demonstrate value and justify their fees.

Business growth

Despite the various challenges, there is optimism among the 2,550 advisors we spoke to across the Americas, Asia and Europe. Financial advisors are both optimistic, yet realistic about business prospects over the next 12 months and expect growth of 9.4%, a slight decrease on the 12.3% recorded in 2015.

Advisors in Switzerland expect to grow by 8.3% on average; supported by new assets from new clients (76%) and new assets from existing clients (64%). Market performance is also set to play a role (47% globally and in Switzerland).

Market volatility

Despite the overriding confidence of business growth among advisors, there remain a number of real challenges facing their businesses models. Market volatility (88%) headlines this challenge, although this concern is ably supported by fears over heightened regulatory demands (81%), low yields (74%) and downward fee pressures (62%).

Nine in 10 (90%) Swiss advisors cite market volatility as a challenge to business growth; this is followed by the low yield environment (89%) and heightened regulation/disclosure requirements (78%).

Downward fee pressure is less of a concern in Switzerland (51% vs. 62% globally).

Investors' mistakes and mis-matched expectations

Advisors believe market volatility is the harbinger of investors reverting to type and repeating past mistakes. Of greatest concern is investors' quick-set ability to switch from their long-term planning outlook to become 'short-termist'.

Almost three in five (58%) advisors in Switzerland say this vulnerability in making emotional investment decisions is the biggest mistake investors (aside from their own clients) are making right now. This compares to 61% globally.

Investors recognize markets have become more volatile in the past 12 months and have asked their advisors to act accordingly. But there appear to be knowledge gaps among investors, highlighted strongly by the mis-match of investor unrealistic return expectations over the long-term (9.5%) and what advisors believe their clients can realistically achieve over the long-term (5.3%).

Swiss advisors think their clients can realistically achieve a 5.9% return over the long term. Yet, investors in Switzerland report needing a 7.9% annual return to achieve their investment goals.

Goals-based planning

Advisors globally are moving towards a goals-based financial planning model (88% vs. 90% for Swiss advisors), but there remain numerous challenges in keeping clients happy in this new guise.

Managing client expectations leads the way in terms of these worries (59%), maintaining clients' focus on goals in volatile markets (48%) and turning goals-based plans into existing investment strategies (31%) are other advisor hurdles.

When it comes to integrating goals-based planning into their business, advisors in Switzerland cite managing clients' performance expectations (63%) as a challenge. This is followed by clients' ability to maintain focus on goals in volatile markets (43%) and translating goals-based plans into investing strategies (36%).

Advisors believe there are a number of key pillars which will lead to their future business success, with 91% citing a need to gain a picture of a client's risk tolerance. This is followed by demonstrating value beyond portfolio construction/asset allocation (90%) and the ability to manage client expectations (86%).

Swiss advisors cite demonstrating value for clients beyond portfolio construction/asset allocation (90%) as an important element of their business growth. They say managing clients' return expectations (85%) and preventing clients from making emotional investment decisions (81%) are also crucial.

Generational shift

Establishing relationships with clients' next generation heirs (75% vs. 71% for Swiss advisors) is also a prominent challenge when advisors try to highlight the value of advice. However, there seems very little inclination among advisors to remedy this concern, as only 34% consider having a specialized niche (such as millennials) to be an important part of their success, this rises to 40% for Swiss advisors.

This concern is compounded as 53% (61% for Switzerland) of advisors globally say the availability of products and support needed to attract younger investors is a challenge to the growth of their business.

Retirement

As retirement reform continues to sweep the globe and state pension provision withers, advisors are being tasked with helping investors build low risk, diversified retirement portfolios that generate reliable income streams.

Advisors are struggling with the challenge of shifting clients from the accumulation phase to the distribution phase in retirement (55% globally vs. 66% for Swiss advisors).

Generating stable income (55% for Switzerland vs. 45% globally) is the greatest challenge Swiss advisors face in building retirement income portfolios. This is followed by generating sufficient income to fund personal life goals above and beyond basic needs (44%) and generating returns that will beat inflation (39%).

Automated advice

Despite this phenomenon growing globally and taking many guises, many financial advisors do not believe automated advice poses a threat to their business model. This is despite automation being a likely home for many small and mid-income clients who prioritize low-cost investing and do not have the volumes to qualify for a full-fledged advice service.

A tenth of advisors in Switzerland (11% vs. 13% globally) say they plan to add an automated front-end advice service in the next three years.

Three quarters (76%) of Swiss advisors believe the automated advice model provides greater access for low balance clients (vs.73% globally). There is more skepticism towards automated advice among Swiss advisors as more (81% vs. 72% globally) say automated advice cannot deliver the tactical asset allocation needed, especially during down markets.

However, a greater number of advisors in Switzerland believe automated advice will make traditional advisors better by encouraging them to work harder to demonstrate value to clients (74% vs. 58% at a global level). Only 22% globally and just 7% in Switzerland believe automated advice is the future of financial advice.

Regulation

Advisors expect pending regulatory tightening across various parts of the globe to hit them and their clients hard. They expect increased regulation to limit access to advice for low and mid income clients (78%) and increase cost for clients in general (76%).

Advisors in Switzerland also believe regulatory requirements will limit financial advice for low and middle income clients (86%). They are also feeling the pressure to change their business model to remain sustainable (54% vs. 48% globally).

Almost half (49%) of Swiss advisors expect to disengage with certain low-balance clients within the next three years, compared to 42% globally.

Active vs. Passive

Cost and regulatory pressures are pushing advisors towards using passives to a greater degree, something which is set to increase in the next three years (31.6% in 2016 vs. 37% in 2019). Advisors in Switzerland currently have 32% of their portfolios allocated to passive investments; however, this is set to rise to 34.1% in the next three years.

However, advisors remain confident in the plaudits of active management with 78% (76% for Swiss advisors) believing they have an important role to play in volatile markets such as these. There is also a strong belief among advisors globally that investors do not see the drawbacks of passive investing with two-thirds (66%) of advisors saying investors are unaware of the risks associated with passive investing (70% for Switzerland) and 68% claiming passive products give investors a false sense of security (66% for Swiss advisors).

Alternatives

Market volatility and low yields have opened advisors' eyes to the idea of alternative approaches as the once reliable equities and bonds portfolio can no longer be depended upon.

The current market is endemic with low-yielding products pushing advisors to seek and find returns elsewhere. As a result, 69% of advisors globally (vs. 60% for Swiss advisors) admit their peers need to replace traditional diversification and portfolio construction techniques with new approaches to achieve results.

78% of Swiss advisors say a traditional 60/40 portfolio allocation is no longer the best way to pursue returns and manage investment risk for most investors, compared to 73% globally.

ESG

Advisors are not registering an uptick in demand for ESG products. 68% globally and 74% in Switzerland say they are not experiencing more requests for these types of strategies than they were three years ago.

Swiss advisors tell us ESG does not have sufficient track record of performance (76% vs. 64% globally), however 48% (vs. 40% globally) believe ESG investing mitigates governance and social risks.

Volatility to continue

The UK's decision to leave the European Union and the on-going US presidential election campaign reinforce advisor belief that market volatility is set to continue.

Seven in ten (72%) advisors in Switzerland believe market volatility will continue to run at high levels for the foreseeable future following the Brexit decision (78% globally).

Sixty-five percent of Swiss advisors (71% globally) say also managing client emotions has become a bigger challenge for financial professionals post-Brexit, while 53% (43% globally) believe Brexit will contribute to the rise of political populist candidates in their country.

Project background and methodology

CoreData Research was commissioned by Natixis Global Asset Management to conduct an international study of financial advisors, with the aim of better understanding the contemporary attitudes and needs of this key collective of individuals to the financial services industry.

Financial advisors are the bridge between product manufacturers and retail investors and many small, medium and in some cases, large corporations and it is therefore imperative to assess the opportunities and challenges facing this group of professionals.

Specifically, this study assesses advisor attitudes to a range of topics such as business growth, portfolio construction (including volatility, risk and income), client service, advice proposition and investment challenges.

Data was gathered over a five-week period spanning July and August 2016.

The survey was delivered through an online quantitative survey of 37 questions and was hosted by CoreData Research.

Globally, the study involved 2,550 financial advisors in 15 countries and across four continents. This report specifically looks at advisors in Switzerland, which had 150 respondents.

Introduction

Globally, the financial advice landscape is changing in response to evolving client needs, expectations and market dynamics.

The new reality of financial markets is volatility, uncertainty and complexity (globally connected geo-political events, Brexit, Central Bank policies, political changing of the guard, global growth shifts). Market trends don't always follow historical patterns and traditional approaches don't produce predictable or sufficient results.

Heightened regulatory standards are focused on the delivery of impartial advice, fair pricing and assurances investors understand the risks and related fees for products and services they use.

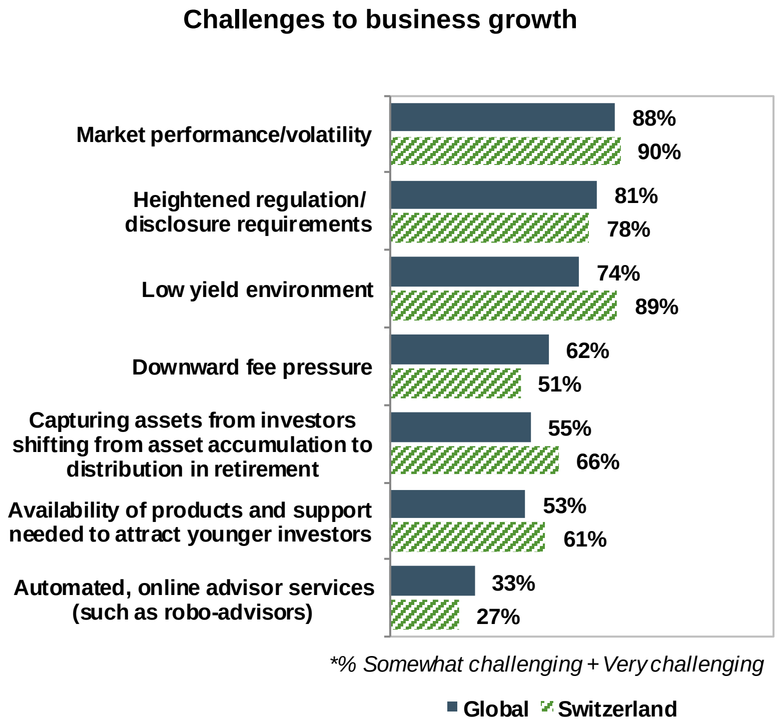
Financial advisors are under pressure to deliver better value, achieve investment returns more efficiently and appropriately allocate the time necessary to deepen client relationships while also building their businesses.

New business models have emerged (namely automated advice platforms) that can address the needs of a certain segment of the market (low-balance investors). At the same time, there is an on-going shift away from active to passive investing, as both advisors and investors seek easy, low-cost access to efficient asset classes. Both of these trends could serve to strengthen advisor businesses or further disintermediate advisors who continue to compete primarily on the increasingly commoditized part of their service offering: Researching, recommending and allocating stocks and bonds.

At its core, the role financial advisors play – helping clients manage their money and meet their financial goals – hasn't fundamentally changed and may be more crucial than ever in this new market dynamic. As such, many financial advisors are changing their game plan to adapt to a new field, new rules, new players and goals.

New Field: Macro trends and business threats

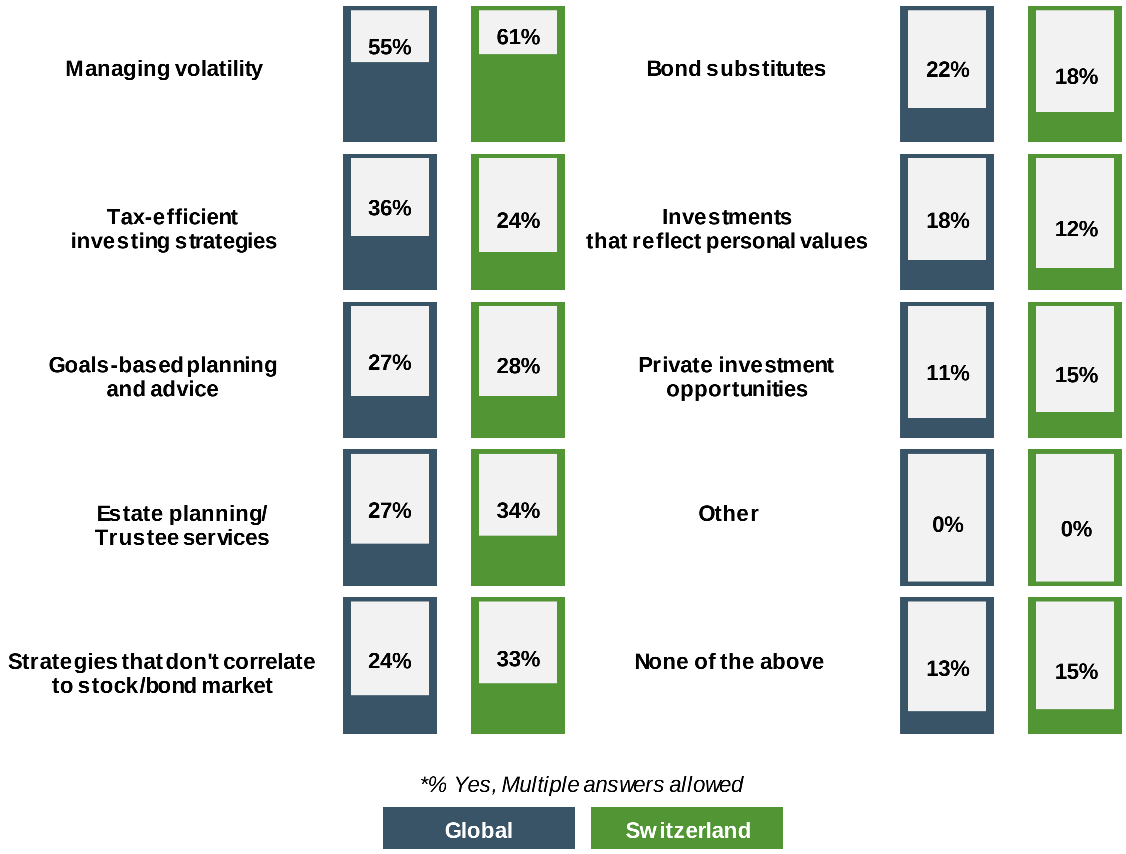
Advisors globally are concerned about unsettled markets, the rising threat of risk and nervous investors who struggle to control their emotions. Market volatility remains high on the list of challenges for advisors and clients alike.



- 90% of Swiss advisors (88% globally) say market performance/volatility is a challenge to their business growth.
- 89% of advisors in Switzerland (74% globally) say the low yield environment and 78% (81% globally) say heightened regulation/disclosure requirements are challenges to growth in their business.
- Fewer advisors in Switzerland are concerned about downward fee pressure (51% in Switzerland vs. 62% globally).

As volatility continues to dominate the investment landscape, advisors say investors realize this market turbulence is likely to have a significant impact on their portfolio. Consequently, clients are placing an increasing focus on their advisors to manage said volatility.

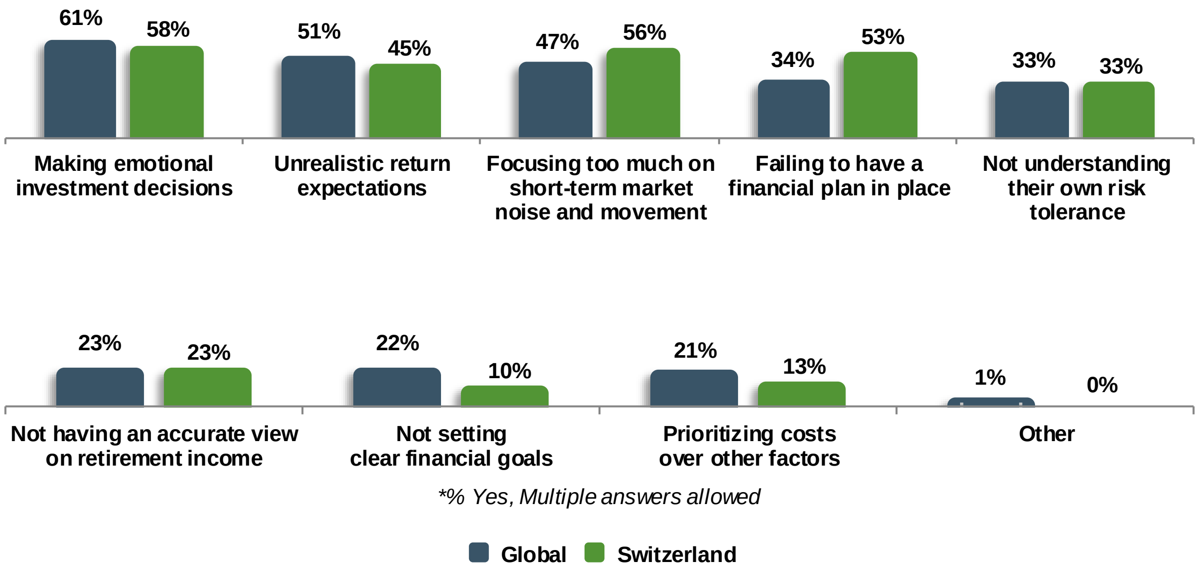
Clients are asking about / demanding more of in the last 12 months



- Managing volatility (61%) and estate planning/trustees services (34%) are what clients have been asking about / demanding more of their Swiss advisors over the past twelve months.
- Globally, managing volatility (55%) and tax-efficient investing strategies (36%) are what clients have been asking about / demanding more of from their advisors over the past twelve months.
- Fewer Swiss clients are demanding more tax-efficient investment strategies (24% vs. 36% globally).

The persistent market volatility tends to highlight knowledge gaps and investor missteps.

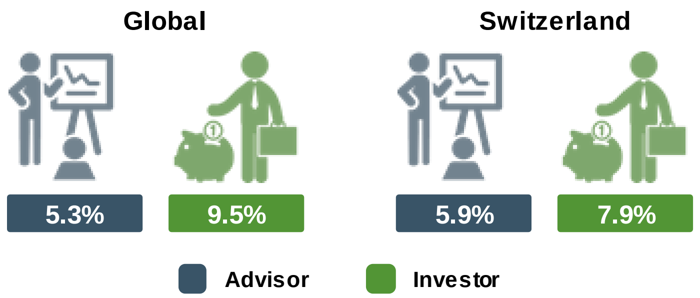
Biggest investor mistakes



- Making emotional investment decisions (58%), focusing too much on short-term market noise and movement (56%), and failing to have a financial plan in place (53%) are the biggest mistakes Swiss advisors think individual investors are making.
- Globally, making emotional investment decisions (61%), unrealistic return expectations (51%) and focusing too much on short-term market noise and movement (47%) are the biggest mistakes advisors think individual investors are making.
- Fewer Swiss advisors think unrealistic return expectations is one of the biggest mistakes individual investors are making (45% vs. 51% globally).

Advisors face an uphill battle in managing clients return expectations.

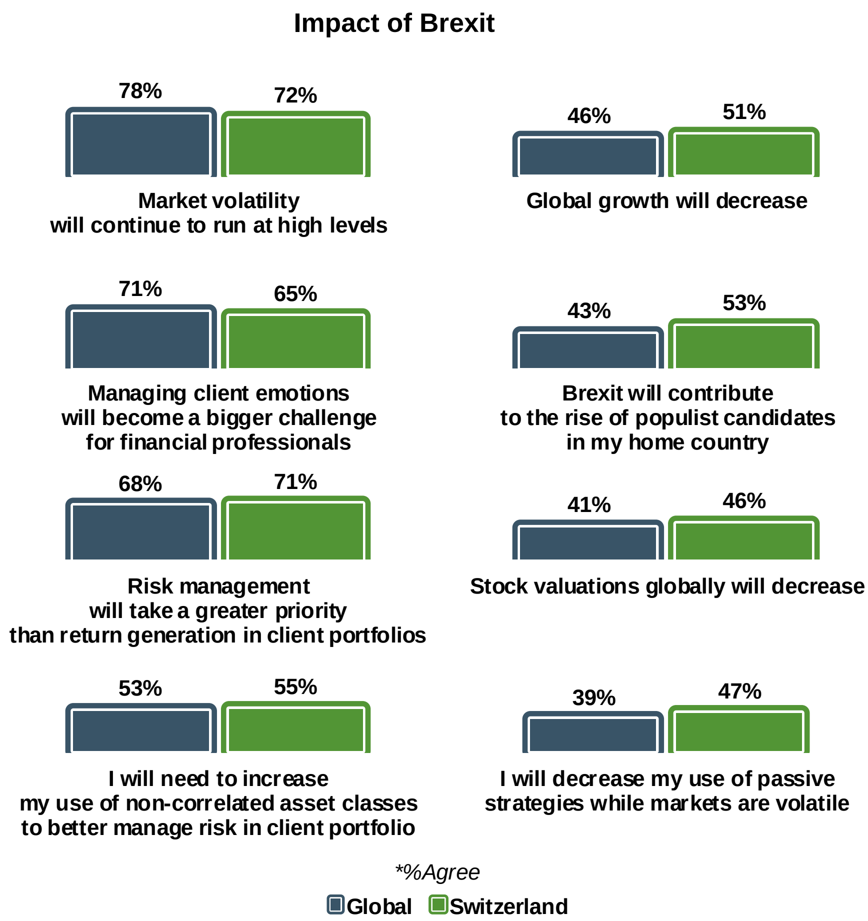
Annual return expectations



- 85% of Swiss advisors say managing clients' return expectations is important to their success, compared to 86% globally.

- Swiss advisors think their clients can realistically achieve a 5.9% return over the long term. Yet, Swiss investors report needing a 7.9% annual return to achieve their investment goals.
- Globally, advisors think their clients can realistically achieve a 5.3% return over the long term but investors report needing a 9.5% annual return to achieve their investment goals.

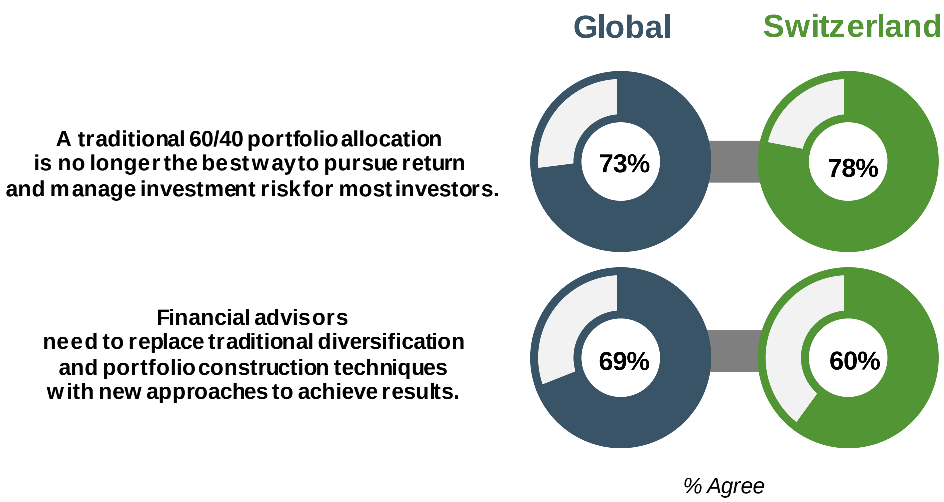
As a result of UK's decision to exit from the European Union, advisors agree that market volatility is likely to continue.



- 72% of Swiss advisors agree that market volatility will continue to run at high levels, compared to 78% globally.
- 65% of Swiss advisors say managing client emotions will become a bigger challenge for financial professionals, compared to 71% globally.

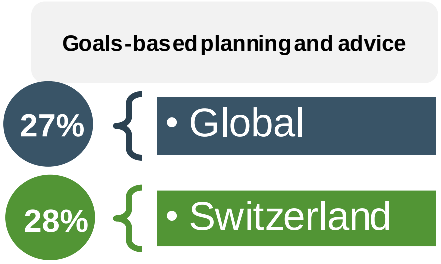
Given new market dynamics, clients are demanding new products and portfolio construction techniques, and goals-based planning.

Looking beyond traditional diversification approaches



- 78% of Swiss advisors say a traditional 60/40 portfolio allocation is no longer the best way to pursue returns and manage investment risk for most investors, compared to 73% globally.
- 60% of Swiss advisors say financial advisors need to replace traditional diversification and portfolio construction techniques with new approaches to achieve results, compared to 69% globally.

Goals-based planning



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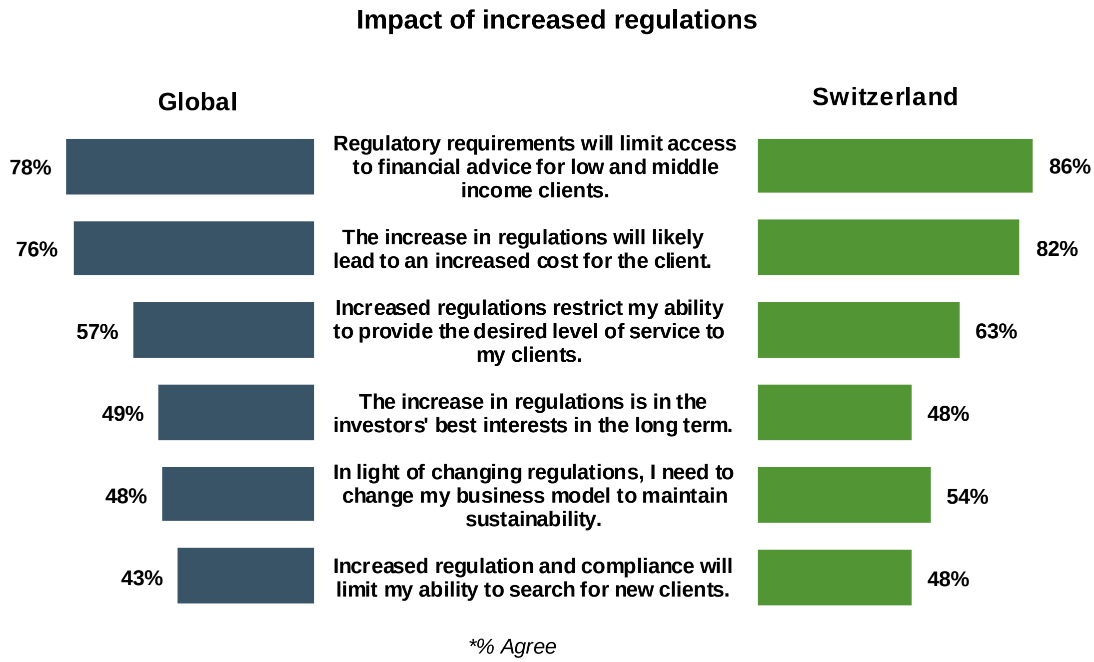
- Over the past 12 months, 28% of Swiss advisors' clients have been asking about goals-based planning and advice, compared to 27% globally.

New Rules: Regulation and disclosure requirements

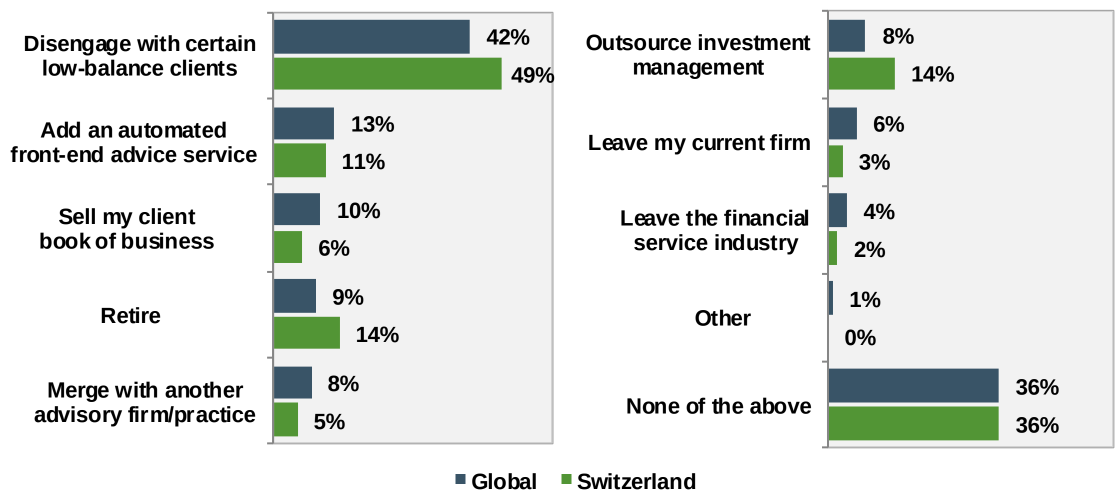
Regulation threatens to spoil advisors' plans to grow their business with many expecting the financial cost of advice to increase.



- 78% of Swiss advisors say heightened regulation/disclosure requirements are a challenge to their business growth, compared to 81% globally.
- 86% of Swiss advisors say regulatory requirements will limit access to financial advice for low and middle income clients, compared to 78% globally.
- 82% of Swiss advisors say the increase in regulations will likely lead to an increased cost for the client, compared to 76% globally.

Advisors are already on course to change their business models and leave low end clients out in the cold.

Business actions in the next three years



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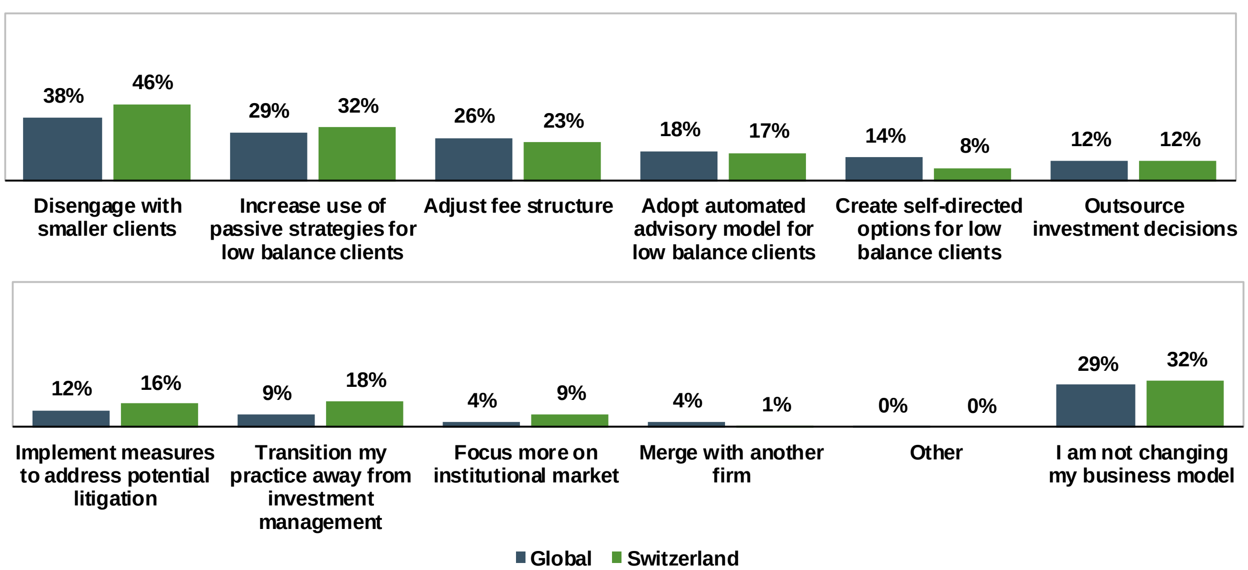
- 49% of Swiss advisors expect to disengage with certain low-balance clients within the next three years, compared to 42% globally.

Regulation is set to further hurt smaller clients and will result in many increasing their use of passive strategies.

Changing business model due to new regulation



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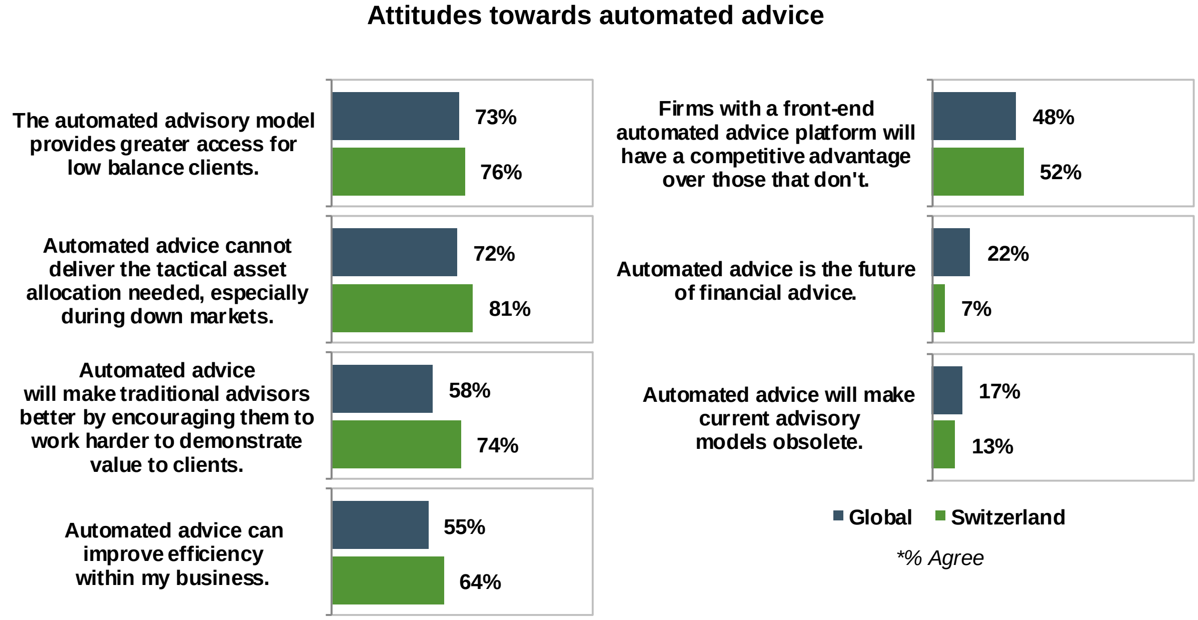
- Due to new regulation, 46% of Swiss advisors expect to disengage with smaller clients, compared to 38% globally.
- Further, 32% (29% globally) expect to increase the use of passive strategies for low balance clients and 23% (26% globally) expect to adjust their fee structure.

New Players: The rise of automated advice and passive investing

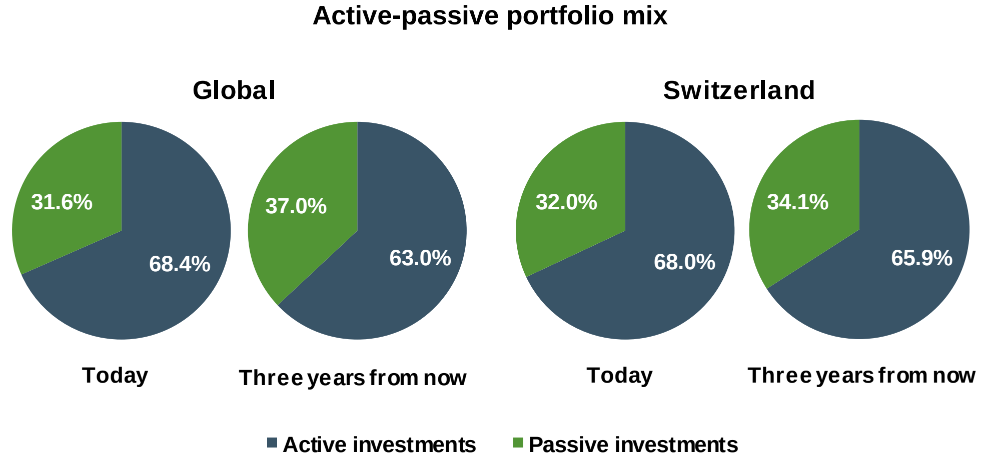
New Players: The rise of automated advice and passive investing

Advisors say there are many pluses to using automated advice platforms, but few see them as an opportunity for growth and are potentially closing the door on new generations of clients.



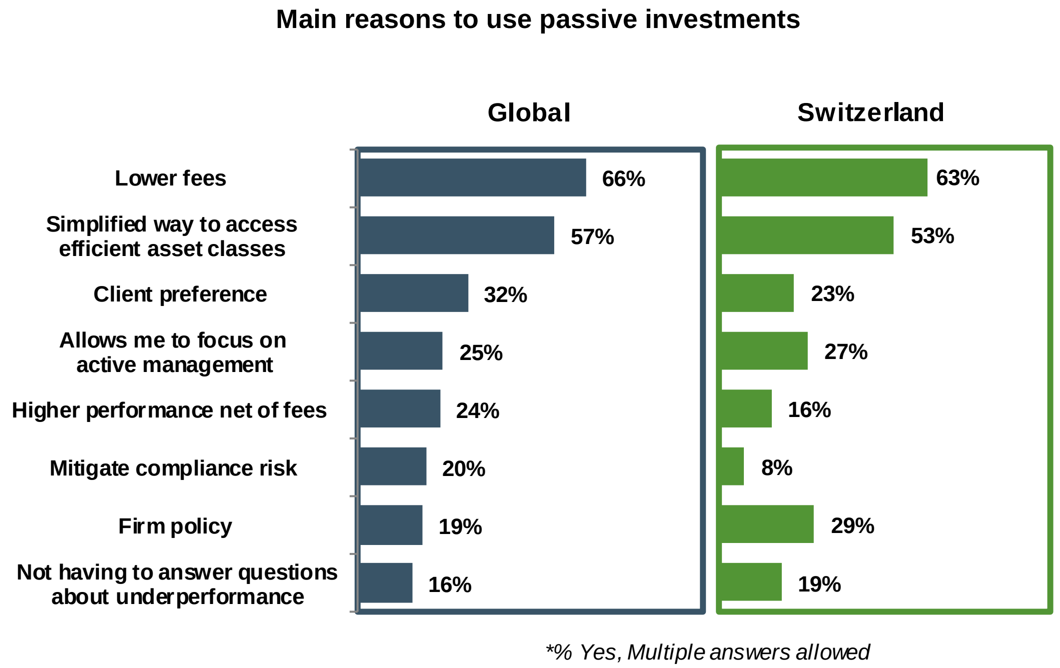
- 81% of Swiss advisors say automated advice cannot deliver the tactical asset allocation needed, especially during down markets, compared to 72% globally.
- Only 7% of Swiss advisors say that automated advice is the future of financial advice, (22% globally). Further, 13% of Swiss advisors think that automated advice will make current advisory models obsolete, compared to 17% globally.
- 63% of Swiss advisors say that offering an automated advice platform is at least somewhat important to their success, compared to 53% globally.

Despite the potential shortcomings passive strategies may have, advisors expect the portion of their portfolio dedicated to passive investments to grow.



- Today, passive investments make up 32% of Swiss advisors' portfolios. In three years, passive investments are expected to grow to 34.1% of Swiss advisors' portfolios.
- Globally, passive investments make up 31.6% of advisors' portfolios today. In three years, passive investments are expected to grow to 37% of advisors' portfolios.

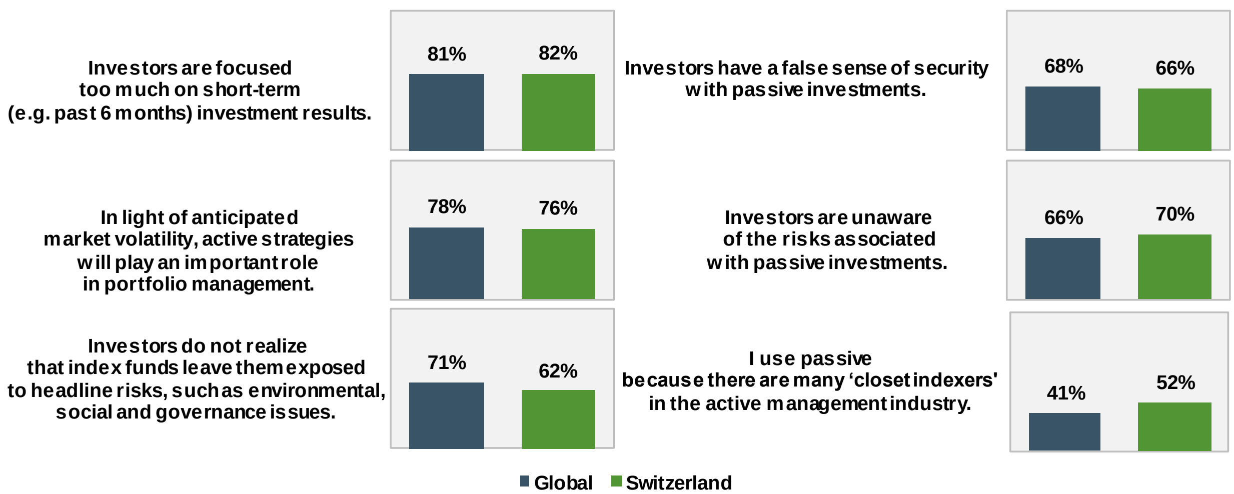
Investors do not fully understand the risks associated with passives, yet the promise of lower fees, especially given the regulatory environment, means advisors feel compelled to use them.



- Lower fees (63%), being a simplified way to access efficient asset classes (53%) and firm policy (29%) are the main reasons Swiss advisors use passive investments.
- Globally, lower fees (66%), a simplified way to access efficient asset classes (57%) and client preference (32%) are the main reasons advisors use passive investments.
- Fewer Swiss advisors say client preference is a main reason for using passive investments (23% vs. 32% globally).

Despite the expected uptick in passive strategies, the outlook for active management remains strong. However, over-reliance on passive investments, or using them simply because they are lower in costs, could prove dangerous.

Advisor perceptions of passive investment



*% Agree

- 76% of Swiss advisors say in light of anticipated market volatility, active strategies will play an important role in portfolio management, compared to 78% globally.
- 70% of Swiss advisors say investors are unaware of the risks associated with passive investments, compared to 66% globally.
- A greater number of Swiss advisors use passives because of the many 'closet indexers' in the active management industry (52% vs. 41% globally).

Implications for advisors

The unpredictability seen throughout 2016 across the globe has not dampened financial advisors' confidence. Despite numerous economic and political challenges which could have a significant impact on the financial system, advisors believe their business models are in good condition and have strong prospects for the next 12 months.

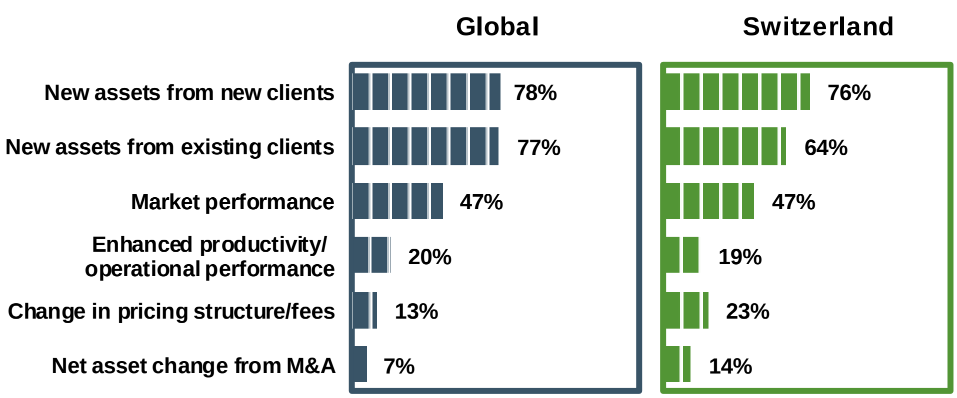
Change in assets under management over the next 12 months

Global	Switzerland
9.4%	8.3%

- Swiss advisors expect their assets under management to grow 8.3% over the next 12 months, compared to 9.4% globally.

Client interaction is expected to drive growth, but markets will play a crucial role as well.

Expected contributions to growth of business over the next 12 months



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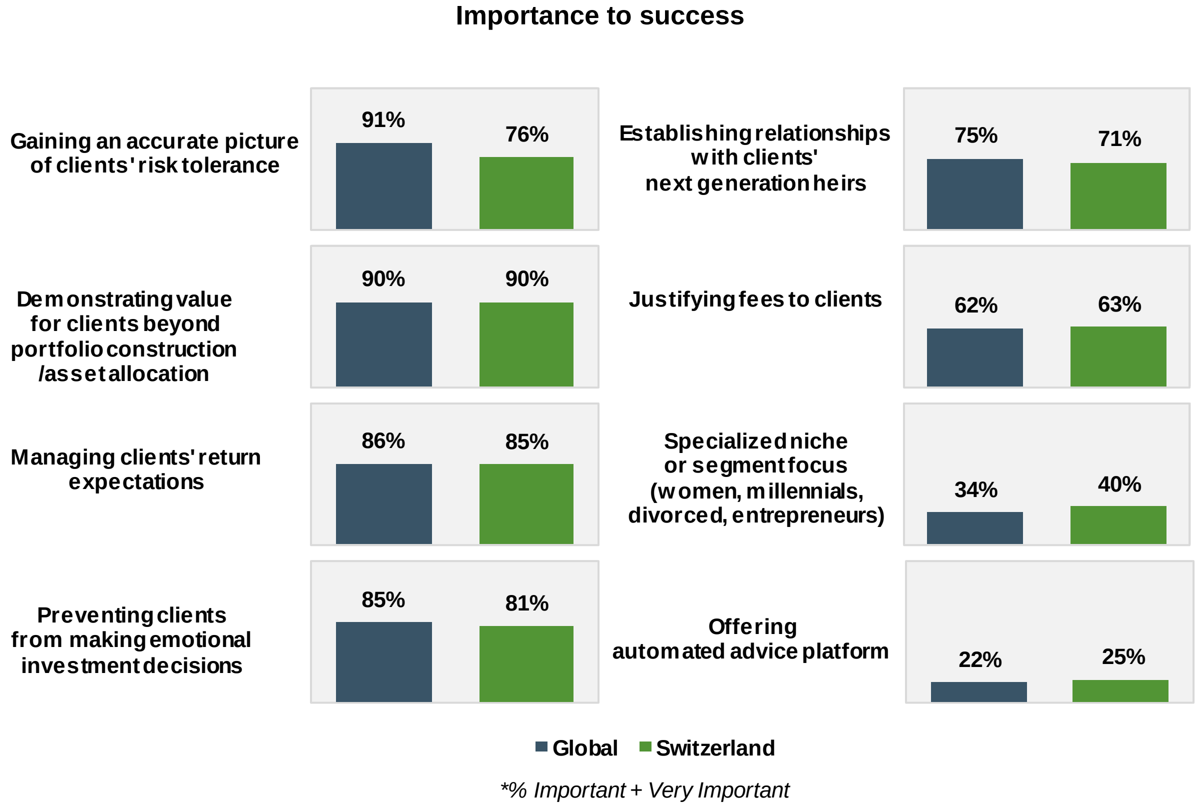
- New assets from new clients (76%), new assets from existing clients (64%) and market performance (47%) are expected to contribute to the growth of Swiss advisors' businesses over the next 12 months.
- Globally, new assets from new clients (78%), new assets from existing clients (77%) and market performance (47%) are expected to contribute to the growth of advisors' businesses over the next 12 months.

Advisors believe client interaction and demonstrating value are the main pillars needed in a successful advisory business.



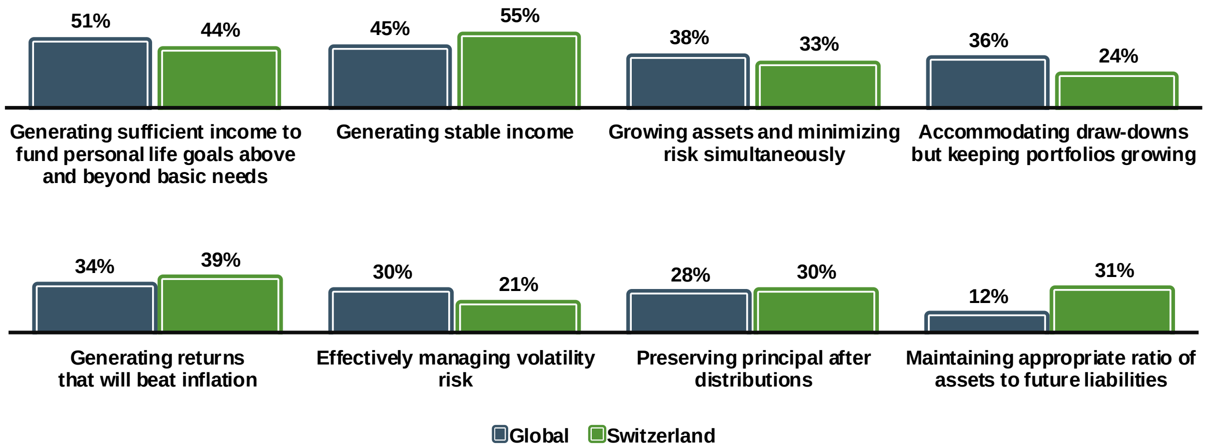
- Swiss advisors report that demonstrating value for clients beyond portfolio construction/asset allocation (90%), managing clients' return expectations (85%) and preventing clients from emotional investment decisions (81%) are the most important factors to their success.
- Globally, advisors report that gaining an accurate picture of clients' risk tolerance (91%), demonstrating value for clients beyond portfolio construction/asset allocation (90%) and managing clients' return expectations (86%) are the most important factors to their success.

Advisors are saying they need to work on building a more dynamic client relationship as their businesses become more goals-focused to meet client needs. For this to happen there has to be a strong line of communication through which advisors can explain the impact of variable market conditions and help manage their clients' expectations.

- Not communicating frequently with clients (77%), not listening to the needs of clients (55%) and failing to meet clients' return expectations (51%) are the top reasons why Swiss advisors believe their peers lose clients.
- Globally, not communicating frequently with clients (71%), not listening to the needs of clients (53%) and failing to meet clients' return expectations (46%) are the top reasons advisors believe clients leave.

As retirement reform continues to sweep the globe and state pension provision fades from grasp, advisors are being tasked with helping investors build low risk, diversified retirement portfolios that generate reliable income streams. They face a host of challenges in doing so, namely the prolonged low interest rate environment coupled with the need for yield.

Biggest challenges to building retirement income portfolios

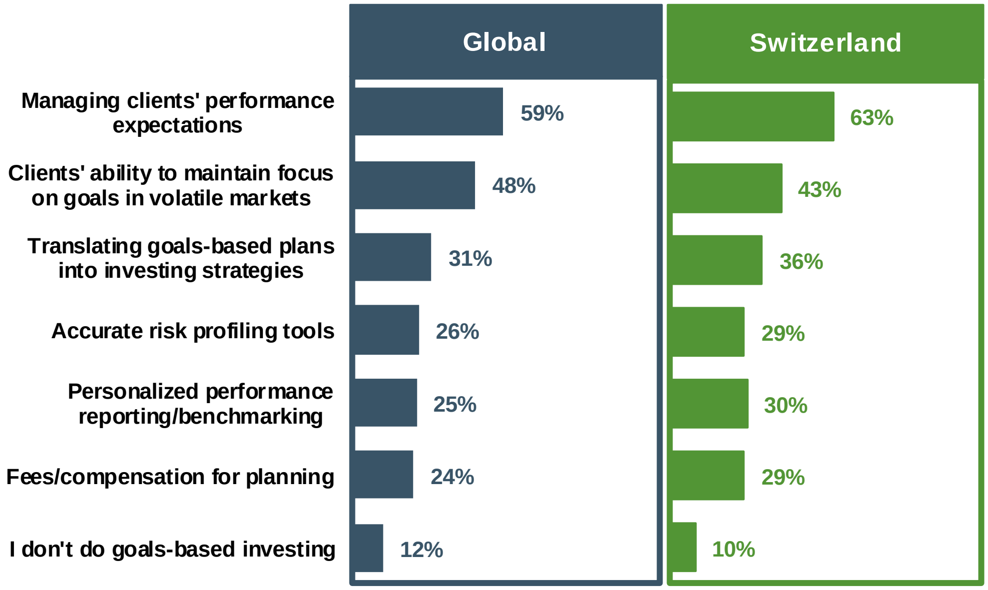


% Yes, Multiple answers allowed

- Generating stable income (55%), generating sufficient income to fund personal life goals above and beyond basic needs (44%), and generating returns that will beat inflation (39%) are the biggest challenges Swiss advisors face in building retirement income portfolios.
- Globally, generating sufficient income to fund personal life goals above and beyond basic needs (51%), generating stable income (45%), and growing assets and minimizing risk simultaneously (38%) are the biggest challenges advisors face in building retirement income portfolios.

The shift in service to include goals-based planning does have its challenges. The need to reign in the client and prevent them from chasing unrealistic market returns is an important role for the advisor.

Challenges to integrating goals-based planning



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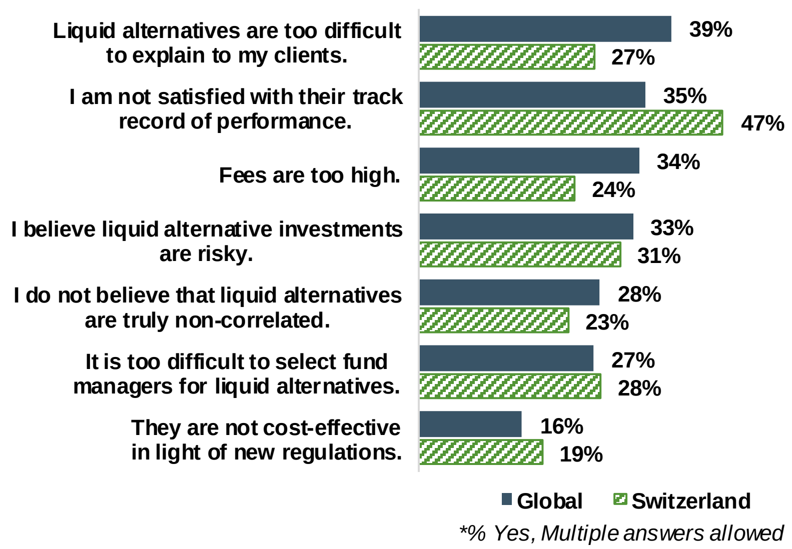
- 63% of Swiss advisors say managing clients' performance expectations (59% globally) and 43% say clients' ability to maintain focus on goals in volatile markets (48% globally) are challenges to integrating goals-based planning.
- A greater number of Swiss advisors (36% vs. 31% globally) struggle with translating goals-based plans into investing strategies.

Innovative products and services

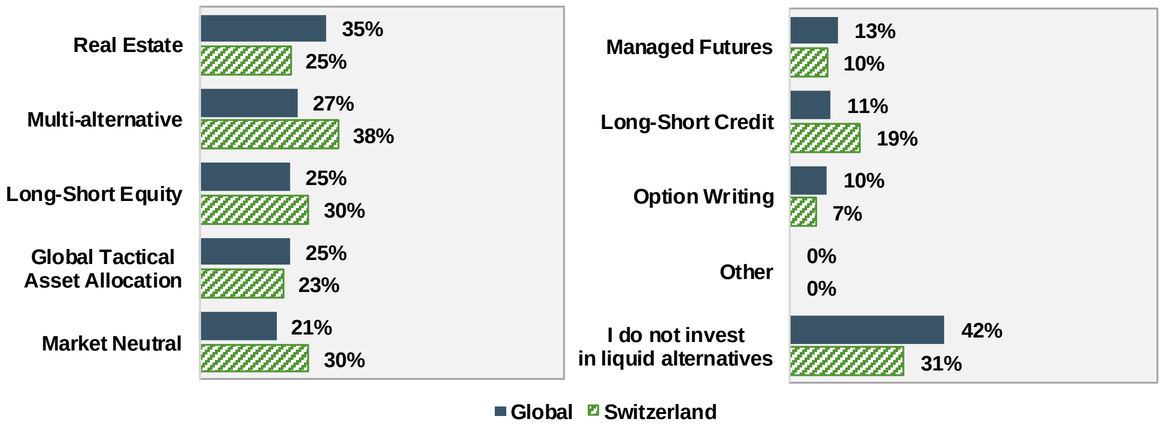
The relationship between advisors and their clients' needs to be strong if they are to succeed in finding yield in non-traditional asset classes.

Main barriers to liquid alternative investment strategies



- Swiss advisors cite not being satisfied with their track record of performance (47%), believing liquid alternatives are risky (31%) and the difficulty in selecting fund managers for liquid alternatives (28%) as the main barriers to using these strategies.
- Advisors globally feel liquid alternatives are too difficult to explain to their clients (39%). Other major barriers globally include not being satisfied with their track record of performance (35%) and high fees (34%).
- Fewer Swiss advisors say liquid alternatives are too difficult to explain to their clients (27% vs. 39% globally) and fees are too high (24% vs. 34%).

Use of liquid alternative investments



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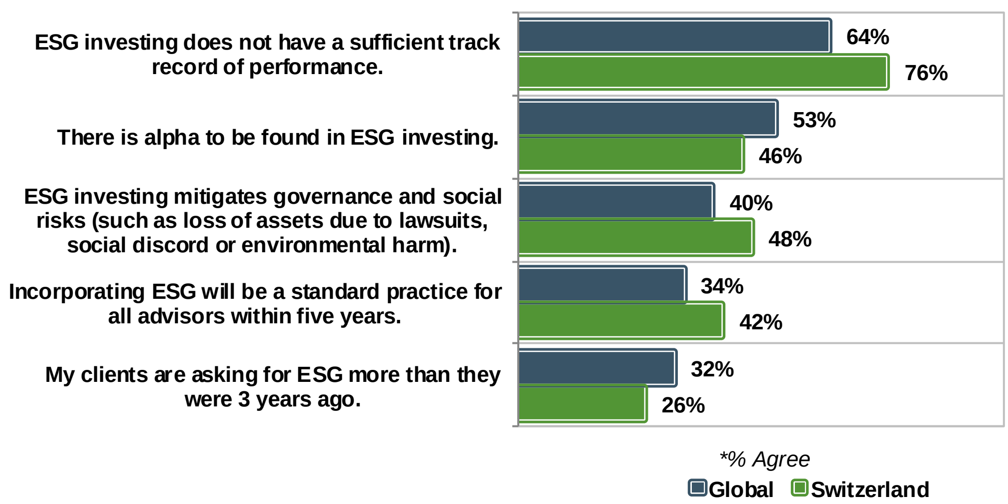
- 31% of Swiss advisors do not invest in liquid alternatives, compared to 42% globally.
- 25% of Swiss advisors invest in real estate liquid alternatives, compared to 35% globally.
- A greater number of Swiss advisors use multi-alternative, market neutral, long-short equity, and long-short credit liquid alternative investments.

Advisors are not registering an uptick in demand for ESG products.

Attitudes towards ESG investing



**% Agree*

- Less than three in 10 (26%) Swiss advisors say their clients are asking for ESG more than they were three years ago, compared to 32% globally.
- 42% of Swiss advisors say incorporating ESG will be a standard practice for all advisors within five years, compared to 34% globally.
- More advisors in Switzerland believe ESG does not have a sufficient track record of performance (76% vs. 64% globally).