

As a foundation, how do I select my wealth management bank?





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Introduction



Zurich city centre, view from Schroder & Co Bank AG's premises

This guide has been drawn up in order to provide assistance to foundation boards, chairpersons of foundations, non-profit organisations, charitable associations and other forms of philanthropic organisation in selecting a reliable bank.

The publication is written in the form of open questions and answers and may be used as a checklist.

It is possible that other issues that we have not covered here may be of relevance to foundations, such as questions regarding the organisation of investments, i.e. who on the foundation board is responsible for choosing the bank, investment strategy and investment selection.

A distinction needs to be drawn between asset managers with and without bank status. You will find general information on this topic on pages 12/13. In Switzerland there are around 2000 independent asset managers and about 300 banks, not all of which offer wealth management as a speciality.

Why is Schroder & Co Bank AG issuing this brochure? Schroders has been in stable hands for over two hundred years, is listed on the London stock exchange and our goals are completely aligned with those of our clients: the creation of long-term value to assist them in meeting their future financial requirements. In the United Kingdom, our country of origin, Schroders is the market leader in looking after the needs of non-profit organisations and charitable foundations. We also have a large team that selects many of our investments, meeting environmental, social and corporate governance (ESG) criteria. That means that we have committed ourselves to sustainability in all enterprises.

General questions on selecting a bank geared to foundations



View from the Faulhorn, Bernese Oberland

Define the process of selecting a bank

- Own needs and requirements
 - Safekeeping of assets (custody and reporting)
 - Discretionary or advisory
 - Definition of support in investment decisions by the foundation board; with corresponding requirements with regard to the skills and availability of the foundation board for investment decisions
 - Decision on delegation – issuing a discretionary mandate
- List of candidates (long list and short list)
- Request for tender
- Assessment of offers, presentations, pitch
- Negotiations
- Conclusion of contract

Define the assessment criteria that are relevant to you

- Companies – what are the values, where does the firm come from, where is it going?
- Products – does the bank address foundations as a target group, and does it have an offering specifically aimed at them?
- Processes
- Persons – are there personal contacts that will take your needs seriously?
- Price – is there a pricing geared to foundations, and if so what does it look like?
- Reporting – what does the bank do to meet your needs?

Ask about the fees

- Ask for an overview of what the fees are comprised of and
- what fees and fee models there are that you need to be aware of.

Ask about wealth management mandates:

- Ask for an overview of what mandate types are offered for foundations and what their advantages and disadvantages are.
- Also ask for an overview of active and passive or index-based mandates and what their advantages and disadvantages are for you.

Ask the key question about performance

- How does the bank distinguish between luck and skill? Look at past performance and ask what conclusions may be drawn from this for your foundation.

Services and products

- Think about what sort of investment products you are looking for or willing to accept, e. g. whether you wish to invest in the microfinance sector or not. Not all banks offer this or are familiar with all issues that may be relevant to you.
- Think in advance about what is relevant to you in portfolio management.

- Ask whether the bank effectively pursues a best-in-class approach, with which you receive the best product for you at the lowest price.
- Ask whether your advisor has monthly targets or other goals for sale of the products on offer.
- These considerations will help you to reject investment solutions that the bank wants to sell to you but are not necessarily right for you.

Performance

- Past performance for a single client is not always representative for your needs. Ask questions about sustainability.
- How can the bank meet your needs?

Costs

- Pay attention to cost transparency, always ask what the total costs are (total expense ratio, TER). It is difficult to give a guideline here; however, total costs exceeding 2% are probably not justified, in general. Do not decide on the basis of the costs disclosed to you.
- Ask about kickbacks, commissions and retrocessions and about the bank's pricing for foundations. For a charitable foundation these should either be avoided or reimbursed to your foundation. This applies in particular to investment products such as investment funds, derivatives,

structured products – especially if they have several layers of charges. Funds of funds, for example, may be suited to your foundation but they are more expensive than other forms of investment. Ask about alternatives. The bank's own products may be suitable but ask anyway, because the bank may earn more from these than from alternatives that are offered on the open market.

- Banks have different types of commission and income models. Ask for an overview of different models and their advantages and disadvantages.
- Obtain advice on fees and costs. Set your own limit, such as not paying more than a certain percentage for the services offered by the bank.
- Make sure you understand the difference between active and passive management. Passive management generally makes use of cost-effective solutions that track the selected market, while active management needs individual assessment.
- Pay attention to withholding taxes or other deductions at source. Ask about them and enquire as to what services the bank may offer to request refunds of these levies on behalf of the client.
- Make sure the same service is not offered to other clients on similar terms at a lower price – if it is, ask what the reason is.



Advice

- All your questions should be clarified in full. If your advisor does not readily give information, do not hesitate to enquire further.
- You should be informed by your advisor transparently, proactively and patiently about the recommended investment strategy and the risks – beyond the standard form answers.
- Ask how your bank advisor can be reached. A tip: pay attention to whether he/she has given you his/her mobile phone number so that he/she remains easily reachable for you.
- If you want to assign an independent asset manager with an advisory or a discretionary mandate rather than assigning a bank: ensure that the asset manager is either directly regulated by FINMA – the banking regulator – or is a member of a self-regulatory organisation (SRO). The largest SROs in Switzerland are the *Swiss Association of Asset Managers (SAAM)*, the *Financial Services Standards Association (VQF)* and *PolyReg*.
- You can also ask other foundations who they recommend before you select a manager for your foundation's assets. Do not be afraid to use the services of an experienced external advisor in the initial phase who can help you to select your partner bank. The costs may appear high but they pay for themselves in the long term.

Be aware that the terms asset management, independent asset management, investment consultant and wealth manager are not officially protected in Switzerland – anyone can use them.

When it comes to concluding a contract: Ask for an overview of what points are important to you and that these should be dealt with in the contract.

Define an asset management contract that covers your needs. The bank should not only have a contract signed by you but should also adopt a clearly defined investment strategy from you.

Before any contract is awarded, you also need to clarify the arrangements for the transfer of assets. For instance, will the new bank cover the costs for transferring securities from the old bank?

Finally, you should also consider soft factors, whilst keeping focused on the objective criteria. Your new contractual partner should be compatible with you.

Important considerations



Heidiland, Grisons

Before you begin with your selection, prepare yourself well

- Determine at the foundation board level what your objectives are.
- Be aware that you probably have more investment options available than commonly assumed and that as a foundation you can also support the purpose of the foundation through your investments – or at least not run counter to this purpose (unity of effect).
- Draw up investment regulations following best practice, and if you are not certain ask the bank to assist.
- The investment regulations include not just financial requirements, such as portfolio/asset allocation, but also requirements on appropriate organisational structure and governance that are effective and that seek to avoid conflicts of interest as far as possible.
- Do not forget that the whole foundation board is responsible for the financial management of the foundation, including choosing the bank and asset management mandate or external asset manager.

Ask the following questions:

- Does the client advisor understand my needs as a foundation?
- Is the bank able to ask constructive questions about the foundation's purpose, its current financial health and its investment strategy?

- Does the bank engage with my wishes, requirements and stipulations in the investment regulations or does it just go through its standard repertoire?
- How many other foundations does the bank advise?
- What other specific services does the bank offer for foundations?
- Can I as a foundation benefit from the bank's foundations network?

Define a target return! Not having a target return makes it difficult to implement the investment strategy and also allows no effective assessment of performance. It frequently happens that the defined investment goals differ from the implemented asset allocation. Check this regularly, possibly with assistance from the bank or external experts.

As a foundation you wish to invest at the time the contract is awarded and possibly at a later date in such a way that your foundation's assets support the purpose of the foundation or at least do not run counter to this purpose. So ask before awarding the contract whether, or to what extent, the bank – if requested to do so by you – also effects:

- sustainable/ESG investments;
- thematic investments;
- impact investing / mission investing;

- investments with an optimised CO₂ footprint.
- Often the answer will be: "We've got the lot!" But check whether the bank is really familiar with these investment instruments and can provide you with expert advice. In other words: does the bank understand and support the principle of unity of effect for a foundation?
- In the case of thematic investments / impact investing / mission investing: can the bank demonstrate the effect of these investments?
- In addition to conventional financial reporting, will you also receive footprint reporting?
- You should also pay attention to good customer service, particularly if you are a small foundation. If you are big, it is easier to find a home with large banks. If you are smaller, it may be that you will receive better service from a smaller wealth management bank.

If the foundation board includes a representative from the bank:

- Obtain the services of several custodian banks if possible so that you can compare their performance and service quality and to minimise the effect of possible conflicts of interest.
- Ask for offers for a mandate now and then and compare the terms with those of your existing bank.
- Include an independence and conflicts of interest clause in your investment regulations.

After the foundation has chosen a bank



Brienzer Rothorn, Emmental Alps

Review, assess and evaluate

- Undertake a regular performance assessment of your bank.
- Obtain new offers for the mandate occasionally, even if you are happy with your existing bank.
- Do not switch banks the first time your bank underperforms and do not go straight for a new bank that outperformed in the previous quarter. Every bank has lean periods, and it depends on the investment style. Otherwise you end up just where you do not want to be: selling low and buying high.

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Schroders has developed under stable ownership for over 210 years and long-term thinking governs its approach to investing, building client relationships and growing business. Schroders has been listed on the London Stock Exchange since 1959 and is a member of the FTSE 100.

In Switzerland, Schroders employs over 300 people and has approx. CHF 66.2 billion (31.12.2016) administered and cumulated assets. Schroder & Co Bank AG holds a full banking license and, as a specialised Private Bank, focus solely on the requirements of its discerning clients and external asset managers.

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