

# Deutsche Bank Global Financial Services Investors Conference

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Speeches by **Kirt Gardner**, Group Chief Financial Officer  
Moderator Benjamin Goy, Deutsche Bank

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## Fireside chat and Q&A

### **Benjamin Goy, Deutsche Bank**

Okay, yeah, so good morning and thank you for joining us. It's my pleasure to welcome Kirt Gardner from UBS today. I mean, he's the CFO of the group for the last three and a half years, so I think we can skip a long introduction and directly move towards the fireside chat format. Many of you know it already. We kick off with some questions, and then later on, please feel free to ask as well.

With that, maybe we directly start on Global Wealth Management, Kirt. You recently published your client sentiment survey, so wondering whether you can share some insights here and any recent developments after the more volatile weeks recently.

### **Kirt Gardner**

Yes, thank you, Ben. It's a pleasure to be here in New York to have been able to enjoy a bit of the sunny weather over the Memorial weekend.

If we look at the overall client sentiment and what we're seeing in the business, and maybe of course if you then progress from the fourth quarter where we had the very severe downturn, and that coincided with a peak, a peak in pessimism and negative outlook, lack of optimism about the future. And as we went through the first quarter, as we highlighted during our first quarter earnings, we saw particularly in March a little bit of a pick-up in optimism, as some of the concerns around recession abated. Also, there was a more positive outlook around China's economy, of course, and that thing coincided with a pick-up in activity levels.

We saw that continue into April, as we highlighted. I guess if I would characterize what we're seeing now, I'll come back in a little bit just to how that corresponds with what we heard in our survey, is that April persisted in terms of a continued level of more positive outlook, and that made for better year-on-year comparisons. Now, naturally, we saw the escalation, the adverse escalation in trade talks recently, and we have seen that impact, pretty quickly and pretty directly, client sentiment overall. I don't really yet have a full view on what the impact of that event is in particular. Of course, we saw the Brexit talks and the Brexit situation also

escalate, although I don't think that currently impacts and that is something really that's been fully factored into how clients view the future.

Now, if you look at our survey overall, our survey really corresponds to that pattern. In the fourth quarter, we saw a peak of pessimism. We saw a drop in the optimism that our clients had about the global economy. We saw a falloff in percentage of clients that indicated that they were going to invest. That picked up slightly in the first quarter, so over 40 percent of our clients from our most recent survey indicated that they were going to invest in the near term.

In addition to that, I guess another interesting trend is if you look at cash build-ups, we saw very substantial build-up in cash throughout the second half of the year, and overall globally, cash levels are at 32 percent. So these are wealthy clients that declared the percentage of cash that they have within their investment portfolio, and that is of course extremely high. If you look at the patterns regionally, 36 percent in Asia Pacific versus 23 percent amongst U.S. wealthy individuals, and I think that characterizes the overall difference in outlook by those clients.

Maybe one other point that is also interesting to reflect on, it's the political uncertainty index, which we published, is a new beta factor in our first quarter disclosures. You saw the political uncertainty index at a low point last year first quarter, at around 120. It peaked at 312, so it went up more than 250 percent in the fourth quarter. It actually came down to 184, so we saw that drop 40 percent as of April, and I think that also follows quite nicely the patterns and the perspective and the outlook that our clients have.

**Benjamin Goy, Deutsche Bank**

Very good. As a comment on regional level, maybe can you also add a little bit more color with high net worth, with Ultra, and any major differences here?

**Kirt Gardner**

So the survey is high net worth all the way through Ultra, and there's really no discernible differences from a client segment perspective. Where you do see a difference is with wealthy individuals, and then wealthy individuals that also own businesses. In general, what we saw in our survey is business owners actually were more positive, and they felt better about the economy and they felt better about the future than wealthy individuals that did not own businesses. That's I think indicative of what activity level, willingness to invest in their businesses, and also willingness to more broadly invest in their portfolios going forward.

**Benjamin Goy, Deutsche Bank**

Okay, very good. Maybe turning to the U.S., your largest single GWM market, maybe you can comment a bit here on your approach. Is it fair to say quality over quantity? Any recent trends you see here in retention rates,... maybe you can comment on some market trends.

**Kirt Gardner**

Yes, Ben, I think as we've previously highlighted back in 2016 when Tom came in and he took over the business and he assessed how we wanted to drive growth in performance going forward and made the, what I believe is the right decision to focus on productivity, and therefore, to reduce our reliance on recruiting, just given the high economic cost of taking on new FAs, and as well of course, the lingering costs that you get from the amortization of the loans that you book at that time. And we, indeed, have seen an improvement in our FA productivity from 2016 to 2019, to currently, to the first quarter. Our FAs remain the most productive in the industry. Productivity has improved slightly, although that does tend to be volatile from quarter to quarter.

Now, in addition to that, of course over that same period of time, we set a target to actually have net neutral overall on the recruiting side in terms of inflows. Now that's a target we haven't achieved yet. We still have negative net outflows from the recruiting side, and so we would look to rebalance that going forward. As part of that focus, what you've seen during the course of fourth quarter last year into this year, actually, our recruiting pipeline is at a multiple of what it was last year, so I feel pretty optimistic about the recruiting part of the equation of becoming a little bit more balanced as we go over the next couple of quarters. It may be also an important comment about the characteristics of the current recruiting pipeline. Generally, it comes from more the private banking side, so the likes of Goldman, and I think that's something that's been published in the marketplace. But much more, I would characterize the incoming recruits as teams with a private banking focus, so very much akin to our strategy to continue to build up the Ultra-High Net Worth segment in the U.S., of course is part of one of our core strategies.

Now overall, if you look at the economic impact, our total loan balances have come down by about a third from \$3.3 billion to \$2.3 billion, and our quarterly cost amortization of those loans has actually reduced by about \$55 million, so you are starting to see the impact overall in the business. And what we indicated at our investor update is that we're looking to improve our margins from 16 percent to 25 percent, and there are really four drivers: one is that FA productivity, it's loan growth and increasing lending penetration, it's our mandate penetration, and it's also our Ultra-High Net Worth strategy in the U.S.

### **Benjamin Goy, Deutsche Bank**

Very good, thank you. Then maybe staying with wealth management, but also, the GWM merger, you mentioned Ultra-High Net Worth is a big focus for you in the U.S. Can you maybe comment already some tangible benefits you are now seeing out of a combined approach, whether it's U.S. or, let's say, in the broader Americas region?

### **Kirt Gardner**

Again, if I reflect on the business in the U.S. historically, the PaineWebber merger, if you were to look at PaineWebber's business, they had a higher concentration of affluent than we currently have. And under Bob, he already started to re-pivot the business much more towards high net worth, and we've been quite successful in doing that. Over the last number of years, we've moved the business to very much focus on the \$5 million to \$100 million, and that has been a big driver of actually achieving the best productivity amongst our FAs.

Now, if you though look at the overall segmentation and compare it to our business globally, the above \$100 million segment, it's very clear that we're under penetrated. We have roughly 4,000 clients that have over \$100 million in invested assets, and if we look at our share of wallet with those clients, it's far below what we tend to achieve internationally. And so, therefore, it's clear for us that if we're able to take our global proposition and deploy it in the U.S., that that gives us much more upside in the Ultra segment, which is what we announced during the Investor Day.

So what have we done? We've done a number of things. We've identified our target 1,000 with more than \$100 (million), so a subset of that 4,000. In addition to that, we've deployed our Family Office Solutions Group, which is the part of our proposition away from just investments. It's the advice on philanthropy, on tax, on trusts, on the next generation, on lending, and that group has fully been built out in the U.S.

In addition to that, we are onboarding the U.S. in a more meaningful way in GFO. I think Global Family Office has been one of our most successful segment focuses, and that really speaks to the value of having our IB. So Global Family Office is a full joint venture with the IB. If you look at that segment overall, starting from 2011 to currently 2019 first quarter, we've seen 28 percent compounded annual growth in that segment alone. If

you just look at what happens when we onboard a client into GFO, we tend to see a 20% CAGR overall on the revenue, and most of that CAGR is driven by the IB.

However, if you look at that initiative globally, the U.S. currently represents only half a percent of the total revenue for GFO. So that, clearly for us, is a major growth opportunity, and we're quite excited about how the formation of GWM is going to help us address that segment in the U.S.

### **Benjamin Goy, Deutsche Bank**

Okay, very good. Maybe switching regions a bit and moving to Global Wealth Management in Asia Pacific, of course just comment broader on the region, but also maybe specifically on the trends you're seeing in onshore, what is offshore. You mentioned that for China, but also, I guess in Southeast Asia, it's becoming an increasing new topic, those two and also India, maybe. So what do you see in terms of competitive dynamics and your market position?

### **Kirt Gardner**

Yeah, so if you look at our Asia business, firstly, as we indicated at the end of the first quarter, we for the first time exceeded \$400 billion in overall invested assets. What we've seen, actually, is our leadership position in Asia Pacific over the last couple of years has not only been solidified, but we've enhanced it.

Now, for us, Asia is a higher, much higher concentration of Ultra than any other region for us, and that is just as a consequence of where wealth is coming from. It is the entrepreneurial segment, and that has been our focus in Asia, and hence the importance of the investment bank. Our investment bank, proportionately, is much stronger in Asia than in other regions.

Also, we were of course the first firm to achieve a majority ownership in a securities firm, and that for us is helping to enhance our overall position and what we can do in the region. Since then, there has been an increased focus on driving forward the UBS Securities joint venture in China. And in fact, I think it's particularly helpful if you look at the MSCI rebalancing. Last year, when China was onboarded to the MSCI, we actually had the highest share of any bank of that volume, about 20 percent. So the rebalancing that we expect coming up will also help our position more broadly in the Asia region.

Now, within the Ultra segment overall, firstly, lending is critical for us, and we continue to see growth in lending, but we actually think that there is more upside that we can achieve. As I mentioned, it's the alignment with our investment bank. I highlighted GFO. We onboarded Asia Pacific two years ago in our GFO segment. We've seen a 33 percent overall yearly growth since we've onboarded GFO, and we think there's much more upside in the GFO offering for that region.

### **Benjamin Goy, Deutsche Bank**

Very good. In terms of loan growth, which as you just touched on, is also an important part of your overall GWM growth strategy going forward, maybe you can comment a bit on the underlying assumptions. You said 10 to 15 percent loan-growth CAGR, and you mentioned it for APAC and also I guess a bit for U.S. already, but also where you see, then, regionally the opportunities here for greater lending penetration.

### **Kirt Gardner**

Yeah, thank you, but let me—I didn't fully answer your last question, just the onshore, offshore, so if I can just finish off that comment. So onshore, we also just got our Shanghai license, so we now have a retail license in Beijing and Shanghai. That allows us to distribute renminbi products. So that, combined with our securities firm, which is important because we can't offer brokerage in those entities, will now allow us to

really focus on investing on the onshore presence. Still, the majority of our business is offshore, and it's very weighted towards North Asia. A little over 60 percent of our invested assets are offshore, North Asia for us.

So maybe turning to lending, as we commented at the Investor Day, lending is a really critical initiative for us. It's very clear that we're underpenetrated if you benchmark us against our U.S. competitors or our other international competitors. Now, we do have of course a different risk/reward balance that we expect to maintain. However, within that, there certainly is more opportunity for us to onboard more risk. We do think that our Lombard loan product and securities-based lending product in the U.S. will remain the core, but we are deploying other platforms. We have our Jumbo mortgage product that has been quite successful, and we're seeing good growth in our mortgage lending in the U.S. We also recently launched, and we're still in the early development stages of our commercial real estate lending platform, and we're exploring other potential areas of lending that are relevant to our wealth management business, including small and medium enterprise lending.

Now, clearly for us, the majority of the growth of that 10 to 15 percent is going to come from the U.S. and Asia. I mentioned before that lending for us in Asia Pacific is extremely important, as Asian clients like leverage and they typically, particularly when they're feeling positive about the future, they will take on leverage in order to enhance overall their returns. And so, while we see some volatility directionally, we still see good growth overall in lending in Asia Pacific. That's an area where our structured lending joint venture with the IB is particularly important and where we see and expect good growth in the region going forward.

### **Benjamin Goy, Deutsche Bank**

Okay, sort of structured but cyclical element to it, certainly. Okay, now maybe moving to cost reductions in a moment, and if there are already some questions, then yeah, also feel free to ask, then, in a second. So maybe then first on cost reductions, so in Q1, I see that sort of very positively, the cost reduction. It was even before the tactical cost measures you announced earlier this year. So wondering whether the approach changed, or now do you see the benefits out of investments you made? Yeah, maybe we can start with that.

### **Kirt Gardner**

Yeah, there really hasn't been a change in our approach to costs. Of course, efficiency management and driving cost across our business has always been an integral part of how we manage the group. And I think, as we indicated, that the focus has been much more on investing for structural cost reduction over time, and that's what going to allow us to reduce our Corporate Center costs away from technology by 3 percent a year over the next three years, which we highlighted at our investor day. And also, as we indicated, we expect our costs to be flat over the next three years, away from any variable comp movement, positive or negative—hopefully positive, because that would be indicative of our revenue growing.

As you said, in the first quarter what you saw was a 10 percent reduction of costs away from the one-time reduction year-on-year related to the change in our pension portfolio versus 12 percent reduction in revenue. About 60 percent of that variable comp and the other 40 percent was some of the structural investments that we're making coming through the business, so very consistent with what we would expect over the next three years.

Now, as we saw the significant market downturn in the fourth quarter, you know, clearly we assessed where we were and how we could mitigate part of those headwinds. That's where we identified some, what we characterize as tactical cost actions that would take more than \$300 million out of the business versus what we planned for. Those tactical actions including delaying our pace of investments, doing the typical things that you do around T&E, consulting, marketing spend, and contractors. We're starting to see some of that

come through now, but there was really—those actions are really not reflective yet of the cost results in the first quarter.

However, importantly, the \$300-plus million we would expect, actually, as we see the overall environment normalize, we would expect to re-accelerate our investments, and so that's not something that we've yet included in our permanent trajectory over the next three years.

**Benjamin Goy, Deutsche Bank**

Okay. I mean, now you mentioned throughout Q1, but also then Q2 started a bit better. How many, let's say, more adverse quarters in terms of revenue performance you would need to see to have a bit more strategic response to, let's say, a more challenging revenue environment?

**Kirt Gardner**

Yeah, just to highlight what we're seeing into the second quarter, clearly—and I talked about Global Wealth Management—we saw the improvement. Also, I indicated that—or we indicated that our pipeline was in a bit of a better position for our investment bank on the primary side, and we highlighted the fact that volatility was a little bit more constructive for our Equity business. Now, we continued to see that in April, however we've not see full normalization of the environment for our IB, particularly versus last year. Last year was quite a strong second quarter, so that comparison is going to be a little bit challenging.

In particular, the volatility for our FX business has not been constructive. It's been still a challenging environment for foreign exchange on the FRC side, and of course that's, by far and away, the largest concentration of our fixed income business, and so that's another area where we're not yet seeing full normalization.

Now if we look at the environment more broadly and coming into the air, we really had three different scenarios. The first scenario was that after the downturn we saw in the fourth quarter, we would see markets rebound and at least partial normalization. That's the scenario that we attributed the highest probability to. That's the scenario under which we continue to operate, so we see no reason right now to move to our second or even our third scenario, where we looked at the potential impact of prolonged market turbulence, and in addition to that, continued consistent heightened levels of geopolitical risk.

Under that second scenario, we certainly would contemplate more structural or other actions. And then, the third scenario we looked at was actually a migration towards global recession. And one of the reasons why we wouldn't contemplate more structural actions is because the payback wouldn't make sense. In order for us to do anything more structurally, we'd have to spend money either on redundancies or in other structural cost reductions. And if we didn't see a sustained two-year period where the environment was going to require us to operate at the lower costs levels, then the payback was just not going to make sense. So we're still, again, operating under that first scenario.

**Benjamin Goy, Deutsche Bank**

Okay, well, fingers crossed. Are there any questions from the audience, and then we'll get you a microphone or just speak up in the front row, please, sir?

**Audience Member**

Can you talk more in depth about how increasing compliance requirements with government scrutiny in both you and your clients have permanently changed your business model, such that all these things that you talk about is really—has actually changed?

**Kirt Gardner**

Well clearly, since the crisis, we've seen a continued level of increasing requirements across a broad range of regulatory areas. Within that, compliance is one area particularly related to what we're seeing with MiFID in Europe, what we're seeing in terms of the AML and KYC requirements within the U.S. But of course, then more broadly, there are other areas around prudential requirements, around capital planning like CCAR, LPA, and ICAAP liquidity requirements and the need for daily reporting. Now, the entire portfolio or package of all those regulatory requirements that now are a permanent part of our industry have required that we invest substantially over the years, and we indicated before that we were spending more than \$1 billion a year just on meeting those requirements.

So of course on the one hand, it's increased the cost structure of the industry, because as you go in to meet the new standards, you invest substantially from a program perspective, and you anticipate you're going to get some of that cost reduction. But the level of cost reduction from the program in order to BAU has probably been a little bit less than we expected, so we have a permanent heightened level of overall expense that we have to contend with within our business that certainly has impacted our efficiency levels or the cost of doing business, and that's not going to abate.

I do think, though, that we're going to find ways to create efficiencies around some of the compliance requirements. The pattern is, you invest substantially, you become compliant. You then have your BAU situation, then you look to automate or draw out efficiencies around things like AML and identifying artificial intelligence or other ways to address those requirements at a lower cost level. We're kind of in that third phase now, and hopefully, we won't see new areas of requirements creep back in.

**Audience Member**

I'm actually more worried about the increasing government scrutiny on your clients, such that your value propositions, secrecy, et cetera is no longer what it used to be so your clients don't see the need for your type of products anymore.

**Kirt Gardner**

Well, actually, that's already happened. Our industry is a completely different industry than it was back before the crisis, and we are in a complete—a full transparent world. If you look at the adoption of Automated Exchange of Information, we've already gone through a full, what we called our voluntary compliance program, so we've regularized our entire client portfolio. Now that did result, because some clients said, sorry, we're going to move elsewhere because "that's not what we signed up with, with you", so we lost a couple billion in revenue, and that cost us substantially in terms of our growth trajectory, but the business has stabilized.

It's very clear that an offshore proposition is still highly valuable to our clients. Our clients do want to diversify. They want to find ways to put their money into a safe haven like Switzerland, and also, just the service proposition that we can offer on the offshore side of our business is still highly relevant. We don't believe that there's going to be any further erosion of the offshore part of our business, and we think it remains very much intact and very valuable to our clients going forward.

**Audience Member**

Just one more question. The proliferation of low-cost investment solutions, particular passive low-cost solution, does it have a big impact on your business?

**Kirt Gardner**

Well, naturally, it's had a substantial impact on our asset management business, just as it has had on the

industry, and of course, we've been exposed to that and you have seen our margins come down. Now, we do expect to see some margin stability in our asset management business going forward as we focused on—we highlighted eight areas where we actually think that the margin or the growth trajectory is more attractive than the core part of the business.

The impact in our—on our wealth management business has been less pronounced, just because of, if you look at our under-contract product, that the contract rates overall provide us with some insulation so that we're not directly impacted by passive margins. Now, on the non-contracted part of our portfolio, to the extent that clients are investing in passive products on their own versus active products, it has had some impact on the advisory portion of our business. But, still, the largest concentration of our revenue is in recurring revenue at around 60 percent, and that's the area where we've been more insulated.

**Benjamin Goy, Deutsche Bank**

Yes, please.

**Audience Member**

Hi, Kirt. Since we're on the topic of a regularized business model and a level playing field between offshore and onshore, I just wanted to ask you two distinct questions. So firstly, mainland China, where I think UBS is slightly different from the pack in that you have invested there, but would love to get some more disclosure as to what exactly you've done there from the wealth management perspective. I understand what's going on in the securities venture. And secondly, your kind of ambitions in other onshore markets such as Southeast Asia, Malaysia, Thailand, Indonesia, India, et cetera. Would be great to get some more color on some of these markets and how close or far you are from achieving critical mass.

**Kirt Gardner**

Yeah, that's right, so as we consistently highlight, for us, China onshore is a core strategic focus for us. And as I highlighted before, we just have been granted our license in Shanghai, and so we have a retail license in Beijing and we also now have our retail license in Shanghai. And as you know, this is a city-by-city proposition from a regulatory perspective, and those of course are the two largest and most attractive markets for us. And so, we're now deploying wealth products to—of course, renminbi only. We're not allowed—as you know, China regulations do not allow us to distribute foreign investment products or any non-renminbi related banking products.

And with that, we are deploying—we're increasing the level of CAs we now have on the ground in China, so we are looking to build up through our traditional channel. We see our focus there being much more High Net Worth rather than Ultra, just given the Ultra segment is more a focus of our offshore business with our Chinese clients.

Now, in addition to that, as I mentioned, the combination of having the brokerage license and the retail license is really important because we're able to actually offer them a brokerage product along with more of an investment distribution product, and that's something we look to continue to exploit.

We also have an asset management distribution license, and so we can manufacture asset management products and distribute them through our retail licenses, and so that's another advantage. And so we are taking—we're utilizing all the licenses that we have, and we're finding ways to combine and generate synergies between and amongst those licenses.

Now, importantly, we know that China is not going to only be a traditional channel market for us, so we're also looking at e-commerce and other ways to access the market, including exploring a number of



partnerships with Chinese players. We're fairly progressed in discussions that we think will provide another way for us to access much more of the affluent market, but still to enhance our brand and our broader presence in the China marketplace, so we're exploring a number of different ventures and ways to be able to invest in China. But it's going to take a long time before we really see that market turn profitable, and we don't expect it, certainly within our planning horizon, to see real positive PBT. It's going to be a net investment market for a number of years.

Now in terms of other onshore markets, we remain quite committed to Japan and also Taiwan. In both of those markets, we're the leading global wealth player, non-local players. Those have been profitable markets for us pretty consistently over the years, although it is challenging to scale in Japan just because of the nature of the Japanese market that you're very familiar with. There aren't many foreigners that have been very successful in developing scaled businesses locally in Japan, but we remain quite committed.

There are no other markets in Asia where we have a direct presence, other than an advisory office where we then leverage our offshore presences in Singapore and Hong Kong. So that's how we handle and we serve Indonesia, Thailand, and all the other markets.

Now, India has been one that was mentioned as well, and India is a more challenging market. It's really hard to provide offshore products to local Indians. And so, while we do have an offshore Indian business, we're not doing anything currently on an onshore basis in that market.

And then, away from that, it's in the European countries where we continue to have a focus on the onshore business, including of course priorities are the UK, Germany certainly, France, Spain, and Italy. And then it's Brazil and Mexico that are also important onshore markets for us.

### **Benjamin Goy, Deutsche Bank**

Very good. Maybe one more from my side. Maybe moving to capital management, so introduced the range for the CET1 ratio and, basically, lower or a floor for the CET1 leverage ratio. Maybe you can, in that context, discuss your capital return policy, dividend level, share buybacks.

### **Kirt Gardner**

Yeah, I think personally, naturally, we are fully in a stress-based capital planning regime, and Switzerland has been a little bit late to implement and to require that we have a full stress-based process. It's part of capital planning, what they call their LPA process, their Loss-Potential Analysis, so very similar to CCAR and ICAAP. And as we onboard that and we think about our target capital ratios, and also, as we look at Basel III finalization and its impact, it's very clear that we're going to manage our capital ratios to ensure that we have appropriate buffer capacity to be able to pass the FINMA requirements and to be able to also ensure that we can get full ability to dividend upwards across all our other regimes. And so, we will likely continue to reflect that, as we think about our target capital ratios going forward.

Now within that, as we've indicated, we fully expect to return as much capital as we can away from what we need to support and underpin business growth, and so that gets back to our dividend policy, which has been quite clear, where we have catered for a growing cash dividend and returning any excess in the form of a buyback. What we highlighted during the first quarter, apart from the—just, it was really a clarification on the capital ratio side is we said that we had previously communicated that our target growth range for our cash dividend was going to be mid to high single digits. But I guess if you look at where we're trading, what we acknowledged, and it was mostly just to make a statement that at current valuation levels, we would certainly be at the lower end of that range. And we would put as much within our current policy as we have available

towards a buyback, as we just think a buyback is more attractive for our shareholders, given where we're trading.

Now if you look at the buyback itself, we reiterated the fact that we still are looking to buy back up to 1 billion. We'll pace that on a quarterly basis, depending on what market environment we see. We've already been back in the market accordingly. If you look at our website, we've repurchased 200 million, and so we're making our way towards that. We'll just look at the outlook, and the way I gauge that is, as long as I can hit my target capital range that I've committed to our regulator, we'll take any excess and we'll make that available to repurchase shares this year.

### **Benjamin Goy, Deutsche Bank**

Any other questions? And maybe we come back to the Investment Bank, actually. So you highlighted briefly the context of the Investment Bank in particular for Global Wealth Management and Ultra-High Net Worth. You also emphasized now advisory and execution, so maybe you can first speak a bit about the execution for the investments you need there. And you also touched on the trading environment, so how to balance these long-term investments to stay competitive, or is this, in the end, still a cyclical business?

### **Kirt Gardner**

If you look at our IB, and as we have very, very been consistent in articulating is the strategic importance of having a strong IB, but an IB that is fairly uniquely focused as part of our portfolio, and that's an IB that uses relatively little capital if you compare us with our peers, and one that relies on client transaction volumes; also, one that is fairly well aligned and supportive of our Global Wealth Management business. Now within that, we look to at least achieve our cost of capital, and we want to ensure that we remain very relevant in the areas that we choose to focus. If not, then of course we're not going to have enough of a platform that's also going to be relevant to Global Wealth Management clients.

Now over time, if you look on the execution side, it of course is our Equities business. Within FRC, or fixed income, it's our FX platform. And in order for us to remain competitive and one of the lean players in both of those areas on the execution side, it's critical that we continue to invest in technology. And so, we do have a longer-term, over time commitment to ensure that we're investing in electronic execution and that we remain at the forefront of where the industry is in terms of latency and capabilities around that ability to manage dark pools and the like.

As well, somewhat tangential, but relative to our Equities business in particular and our primary business is our research franchise. We do have a rather unique research franchise in that we invested in data, research primary—primary research capabilities quite early, that others now are copying. We also intend to remain at the forefront of the industry from a research perspective in our data capabilities, and that is a long-term commitment as well.

Now on the primary side, a little bit differently, there it is where we have looked to build out our presence and where we know we're underweight it's the U.S. market, and we remain committed to continuing to build out our primary capabilities in the U.S. marketplace. And, again, that coincides with our GFO focus, as well as our Ultra focus in the U.S. We know it's important and it's critical that we have primary as well as an execution capability for us to be successful with the wealth management segments in the U.S. market.

### **Benjamin Goy, Deutsche Bank**

Particularly on the advisory side, because it's largely still a people's business, so how much is this really long-term investment versus near-term upside? Because I guess it's not on day one necessarily a big deal happening in the targeted sectors. Is that—

**Kirt Gardner**

Yeah, absolutely, Ben. The challenge of course on the IB side—and it is hard to build an organic presence there, we acknowledge that, and it does take time. You have to be committed. You bring in the right bankers, but the bankers take at least 18 months until they're productive, and so that is one where we acknowledge that it's going to be over a period of time. Now we are looking at—and in fact, we are just doing a bit of a deep-dive review around how we're going to think about structuring our CCS business, and this is really just taking advantage of the fact that Rob and Piero of course, they've come in, they've looked at the business now as co-presidents for a couple of quarters, and I think they're coming forward now with some changes and some fine tuning to how we look at that. And so with that, we are going to think and we're going to take the opportunity to step back and to look at which industries do we want to invest in and how do we want to actually commit ourselves over the next two to three years. I think you should expect to hear a bit more around that over the next couple of quarters.

**Benjamin Goy, Deutsche Bank**

Yeah. Maybe touching on that, on the advisory business, so that's clearly a trend that Private Markets are growing and that that in particular companies are staying longer private. How do you view that from the perspective of the IB, which I guess on the primary side, but also on the other hand, offering your Ultra-High Net Worth clients in particular investment opportunities? How do you balance this?

**Kirt Gardner**

We actually think that that trend towards private plays to our strength. We announced recently a joint venture between our IB and Global Wealth Management in the U.S. where we're bringing together one execution platform and we're also making available a mid-market offering on the investment banking side. We're converging our commercial lending with our commercial real estate initiative, and we're also bringing together our munis businesses. We think this will allow us to create a—first of all efficiency, so there's a cost play there, but importantly, a more robust offering for our medium size business clients that we're targeting, which are mostly private market needs. We're looking at a similar structure internationally that we should be announcing.

In addition to that, we've been exploring a Private Markets vertical on the investment banking side to also reflect that increasing trend, and to allow us to be able to make available more bespoke private offerings across our institution and our wealth management clients.

**Benjamin Goy, Deutsche Bank**

Okay. Any last burning questions? Yeah, well done, please, in the middle. Thank you. Or maybe just speak up quickly.

**Audience Member**

(Inaudible) any indication on your considerations for capital return as well?

**Kirt Gardner**

So during the first quarter, after we got the ruling from the first instance court, we went through quite a bit of analysis, as you might expect, to ensure that we fully reflected that, first of all from an account perspective, which resulted in what we communicated and we disclosed, the 450 million Euro, 516 million US of a provision that we booked. In addition to that, we assessed the impact from an operating risk RWA perspective, and that was the \$2.8 billion that we also booked during the first quarter, which was reviewed and accepted by our regulator. And, as you would expect, we did just a refresh of our own stress and scenario outlooks from a forecasting and a capital planning perspective, and all of that gave us the

confidence that we're still very comfortable to be able to repurchase up to the \$1 billion this year, so no impact at all this year on our capital return plans.

You know, naturally, as we go through our next planning phase, we will, as we have done for the last two years, we'll update the market on what we anticipate doing next year in terms of our target buyback. But I'm fully confident that there will be no impact at all on our cash dividend policy and that we will have availability to continue to repurchase, barring very substantial changes overall on the market conditions at this point.

As you know, the timing for us is—the first quarter of 2021 is when we expect the results of the appeal court. I would mention, if I look at our share price certainly, one element of that, and it's pretty clear to me that our share price has actually fully incorporated the worst-case outcome. So if anything, I would see optionality on the positive side in terms of our market cap and how we're trading. And of course, we've also been very transparent around the confidence we have and the facts in our legal position for that case, and the fact that we do believe that as we go through the appeals process, it will be a very, very different overall legal and in-court experience than we saw during the first instance court, and we think that will be favorable to us as well.

Now on the FIRREA side, we're just going through discovery currently, and the discovery process runs through 2022. If we do go to court, it would only be 2023 until we're in the courts, so that's quite far off and there's no impact at all from FIRREA on any of our capital considerations. And unlike France, there is always the opportunity for the DOJ to come back to the table and to re-initiate settlement discussions.

**Benjamin Goy, Deutsche Bank**

Perfect. Well, thank you very much, Kirt, for the very comprehensive insights, and have a good conference.

**Kirt Gardner**

My pleasure.

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