

## **2015 Best of Switzerland Conference**

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### **Kirt Gardner, Chief Financial Officer Wealth Management**

#### SLIDE 0 – Cover slide

Good morning everyone. It's my pleasure to have an opportunity to spend a little bit of time with you and also to be here in this beautiful setting on a nice crisp September day. I'm also delighted to have the opportunity to spend a few minutes on UBS as a group, but then as Thomas mentioned, I'd like to focus on Wealth Management and I want to pick up on a particular theme that has been important in terms of our core strategy and that is our strategy around mandates and how our mandates benefit our clients, you, our shareholders, in an evolving regulatory environment.

#### SLIDE 1 – Cautionary statement regarding forward-looking statements

Before I begin, I'd like to draw your attention to our cautionary statement with regard to forward-looking statements. I am sure that all of you will read this in great detail when you have the opportunity. Thank you.

#### SLIDE 2 – Key messages

As the world's largest wealth manager and the only truly global large-scale bank with a wealth management strategy and franchise at the center of its overall business portfolio, we offer investors a very unique proposition. And in particular, in looking at our wealth management business, our state-of-the-art investment platform is highly scalable and can be leveraged across all of our markets globally, which puts us in a very unique position to seize the wealth management opportunity. And of course, with wealth management being one of the higher growth segments of the financial industry it does represent a very significant opportunity for us as a franchise. The most compelling way that we deliver this investment platform and we seize the opportunity, is through our mandates, which I mentioned at the outset.

Just to clarify terminology: mandates are the primary way and value proposition that we interact with our clients and we expose our CIO offering and our investment product services platform. We have two core types of mandates. There are clients who opt for a fully discretionary mandate where they delegate the management of their assets to us, fully. And there are clients that prefer to be more self-directed in the decision process and they can opt for an advisory mandate and receive tailored proposals from us that reflect our CIO view, but then make informed decisions on their own.

Both types of mandates have similar benefits for clients and shareholders in this evolving regulatory environment.

### SLIDE 3 – UBS – a unique and attractive investment proposition

Just to step back a little bit, from a Group perspective, as I mentioned at the outset, wealth management is not just a business for us. We are really the only global diversified bank that has wealth management as part of its DNA, it's our heritage, it's what we have always been about and it defines who we are.

We are the world's largest wealth manager with CHF 1.9 trillion in invested assets and this year, we were also recognized as the fastest-growing wealth manager.

Our partnership with the Investment Bank and Global Asset Management, so the Group itself, is important from an overall portfolio perspective. While those businesses are attractive on a standalone basis, they very much complement and add to our capabilities in wealth management and they provide a very powerful competitive advantage, particularly of course against those players without those capabilities. And they are particularly important for our ultra-high net worth clients, which has been the fastest growing segment in wealth management and is expected to be the fastest growing segment over the next five years.

It's our strategy, it's our business mix and it's the fact that we are a very highly cash-flow generative business that allow us to pursue growth opportunities globally without the need to invest significant capital; and it therefore -when you combine the attractiveness of the market and the growth dynamics, our strategy, our platform- it allows us to target a 10 to 15% pre-tax profit growth rate for our combined wealth management businesses through the cycle.

From the very beginning of the strategic transformation and post the crisis, we highlighted that our capital strength is one of the key pillars to our overall strategy. We also recognized it was very important to keep ahead of the evolving regulatory environment that will continue to evolve over the next several years. And today we have the highest fully applied Basel III CET1 capital ratio in our peer group. We think that's important to our regulators, important to our shareholders, but also important to our clients, in terms of confidence they can have in us as an institution.

As we focus on the continued generation of cash flows and our business and given the nature of our business, we remain committed to returning it to shareholders while maintaining our capital strength as a key pillar and an element of our success.

We target a 50% of net profit attributable to shareholders payout as long as our fully applied Basel III CET1 ratio is above 13% and the post-stress ratio is at least 10%. At the end of the second quarter 2015, our CET1 ratio was an industry-leading 14.4% and we remained above the post-stress ratio of 10%.

In summary, we have a very strong, stable and growing business with low capital intensity and a very attractive capital returns policy.

#### SLIDE 4 – The world's leading wealth management franchise

Reflecting on the combined wealth management franchise -and just to highlight that I'll talk at this point about the combined Wealth Management America business and our international franchise and then I'll focus in the rest of the presentation on our international franchise. But of course it's the combined franchise which represents our global wealth management strategy.

We are the only large global bank that has this unique footprint. We are well positioned with a very significant presence in the US marketplace as well as Asia Pacific and as well as all the other major growth and large critical mass markets globally. There is no other player that has that presence and that footprint, a very, very strong anchor in the US as well as a very strong international market.

Over the last three years, if you look at the combined performance of this business, we have delivered double-digit profit growth, and that's despite very significant interest rate headwinds, continued client risk aversion, relatively low transaction -but more importantly probably- volatile transaction volumes, significant cross-border outflows and elevated expenses in relation to litigation, regulatory and similar matters.

As we mentioned, we are targeted to deliver 10 to 15% annual PBT growth through the cycle. I think you can see here that we have delivered that over the last four years on a compound annual growth basis.

And we think also importantly our continued success is based on the fact that not only do we have superior growth prospects, but we have a platform and a footprint that is impossible to replicate - I would argue both on an organic and inorganic basis.

#### SLIDE 5 – Wealth Management: key elements of our platform

If we dive in a little bit into our international Wealth Management business and reflect on the platform that we have, as you can see, this platform covers virtually nearly the entire value chain of the investment process.

It's our global footprint and our reach that allows us to capture growth in Asia Pacific, the emerging markets and also key markets in Europe where we are seeing attractive growth, particularly recently. We have a presence in more than 40 countries, we can cover clients in more than 200 domiciles in 25 booking centers; and we are also the only global wealth manager that has both a very strong on-shore presence -true domestic onshore and not just rep-offices- as well as an off-shore presence, and this is really important from a balanced portfolio perspective. The onshore markets are expected to outpace the offshore markets over the next five to six years. That presence allows us to capture that growth. We have meaningful businesses in markets such as the UK, Germany, France, Italy, Taiwan, Japan, Mexico and Brazil, among others.

Our investment and advice offering is highly scalable and, when you combine that with the Investment Bank and the Global Asset Management business and partnership, we offer an unrivaled products and solutions shelf in terms of breadth and depth, our coverage of single assets as well as complex alternatives, and also our geographic and local market coverage. And this, with -more recently- the emphasis on sustainable

investment and philanthropy services offering and capabilities is the core of our service offering.

We also believe that our execution, custody and reporting capabilities are unrivaled. In 2014, we executed an order flow of more than CHF 2.3 trillion across all asset classes. We can also provide our clients with global customized reporting including in-depth performance analytics, it includes the ability to provide tax reporting across multiple jurisdictions.

We have a truly robust global compliance and risk management framework, which is absolutely critical and core to our industry to support our front-to-back offering across multiple jurisdictions. This includes a very automated product and investment suitability rules engine, which reduces the error, and our ability to ensure our clients are compliant and we are compliant across multiple jurisdictions.

We have also taken a leadership role to improve the transparency in the industry and this is something we very much believe in and we know it's undeniable and irrevocable that that's where the industry is headed. Most of our clients in Europe are now regularized -and we believe that we are a leader in being able to state that- with Italy and the emerging markets being well on their way. Since we were at the forefront of these regularization efforts, we are now in a position to state that the majority –the majority, I emphasize- of the economic impact of this regularization process will be reflected in our P&L by the end of this year.

Within the medium-term, we are also planning to migrate all of our platforms to one global Wealth Management platform. This allows us to better take advantage of scale, to ensure that we have a common value proposition and service model, and to further improve our regulatory and compliance processes.

Our Wealth Management platform is comprehensive, it's best-in-class and it's virtually impossible to replicate or to build.

#### SLIDE 6 – Clear strategic priorities to drive growth

Turning to our strategic priorities: during our Investor Update in May 2014, we outlined our key strategic priorities to address the challenges of the profound transformation that is taking place in our industry and also we outlined how through these strategic priorities we were going to take advantage of these growth opportunities. We continue to have the right strategic priorities, we adjust and refocus them as appropriate, and we are very much focused on execution.

I'd like to –in the next couple of pages- turn to the first two of these priorities as I mentioned at the outset: That is, placing investment management at the heart of our service offering and do this in a scalable way. Our second priority is to offer our clients advice beyond investments to ensure that we meet their needs on a holistic basis.

And beyond that, just to comment quickly on a couple of the others:

We continue to adapt our operating model and part of our focus in the operating model is to very much embrace digital technology. We have done significant investments and incorporated digital into our core platform as well as the development of online

channels that provide a full range of information and transaction capabilities and allow us to distribute tailored information through multiple channels to our clients.

By investing in ultra-high net worth, but also importantly for us, reinvigorating high net worth, which has traditionally been the core of our business, and also ensuring that we are relevant in covering the affluent client segment, we feel comfortable that we capture the full range of the market opportunity.

And finally, I have already touched upon our global onshore footprint, an area where we will continue to invest.

### SLIDE 7 – Our investment engine

The most differentiating component of our strategy and what we offer to our clients is our state-of-the-art investment engine.

Our investment engine is comprised of three core capabilities:

- Our client advisors, most importantly, how we interface with our clients
- Our global CIO-office, and
- Our Investment Products and Services platform or IPS

Of course, it's our client advisors where the process always focuses and starts and is maintained. It's through our client advisors and the processes that we deploy that we develop an in-depth understanding of our clients' financial needs, their wealth management objectives and their unique investment preferences and how these fit into our overall risk-return profiles and also how they need to be incorporated into the solutions that we provide.

Our global CIO-office, something that we have invested in significantly in developing over the last years, is responsible for developing a single, coherent and dynamic market view –which we refer to as the “UBS House View”– as well as the resulting asset allocations; this view is developed through a very rigorous and institutionalized *[process]*, it's not developed through one key person or a couple of key people, it is very much an institutionalized, analytical process that's informed by extensive research and tested by world-leading investment managers. Our CIO-office is a 365-day, 24/7, real-time capability and we have hubs around the world, globally, which means that we have access and we are in touch with all events that could have relevance to our clients and to how we think about investing. A recent example of one such event was on January 15, I think we all recall very well, the day of the decision of the SNB to remove the peg: we were out in the market and we were the first ones with content to assess the implications. On that same day, we repositioned our client portfolios and we were out with a perspective to our clients on what we felt it meant in terms of their investment decisions.

IPS, or Investment Products and Services, then takes that House View and translates it into customized strategic asset allocations through the selection and the assessment of the most appropriate investment products that reflect that House View. These customized strategic asset allocations are tailored at the individual mandate level to incorporate specific client instructions, such as their investment preferences for certain geographies or industries, their intent to have sustainability as part of their investment portfolio etc.

And this is what becomes unique: we can actually tailor our mandates to each individual client and come up with a tailored solution for them and we can do this on a highly scaled basis.

So, this investment engine benefits all of our Wealth Management clients:

- For our clients, who are not on a contract, we still use that intelligence, that perspective, that intellectual capital, to assess their portfolios and to push out investment ideas to better align their investment portfolio with how we believe they should be invested given their risk-return profiles.
- Of course, our clients in mandates receive an optimal investment selection process covering a variety of styles reflecting their unique preferences and needs and we then reposition their portfolios accordingly; all of these enable our clients in mandates to essentially invest as institutions would.
- When we look at the performance of this investment engine and of our CIO for 2011 to 2014, the analysis of historical performance suggests that only a very limited proportion of self-directed portfolios outperformed our investment mandates on a risk-return basis.

#### SLIDE 8 – Mandates – a compelling value proposition

Turning now to what we think this means: what does this all mean for our key stakeholders?

We talked about our clients, but very succinctly the investment process and engine delivered through mandates -simply put- positions our clients best to achieve their wealth management objectives and positions us to deliver more consistent outcomes to help them achieve those objectives.

From a shareholder perspective, mandates are also very compelling:

- Our premium offering, our premium brand, our premium capital position allows us to price on a premium basis.
- Mandates generate recurring revenue streams that provide consistency and predictability.
- The investment engine is highly scalable at low marginal cost, so we can deliver growth with minimum additional cost; and
- Better risk-adjusted performance of their portfolio should help us to drive greater growth and greater recurring revenue in the future.

When we consider the evolving regulatory environment, mandate products allow us to more flexibly customize the investment offering to a particular client's financial needs; this provides clients with greater investor protection, delivers a more customized product offering, and ensures that compliance and regulatory requirements are met – and again in a fully automated way, so it reduces the human error.

## SLIDE 9 – Steady progress towards our aspirational book structure

With all of that in mind, it's quite natural that one of our clear strategic priorities is to continue to focus on exposing our clients and migrating our clients into mandate products.

At the end of 2013, 22% of our invested assets were in a mandate relationship. During the Investor Day in May 2014, we announced our aspiration to increase this penetration to 40%.

We made significant and steady progress since that Investor Day: if you take us from the end of 2013 to the end of the second quarter 2015, we have generated CHF 51 billion in mandate sales. We have increased our mandate penetration by 4% to over 26% and this remains a core focus going forward as we approach our medium-term target of 40%.

## SLIDE 10 – Wealth Management: high-quality revenues and profits

The economic benefits, of course, from the discretionary and advisory mandates, are similar, as I mentioned at the outset, they both benefit shareholders and they benefit our financials.

Also in general, as I mentioned, mandates have a higher gross margin, the revenues are recurring. When we analyze our clients with mandates, we find that we have greater penetration of wallet, we have higher cross-sell; also, clients with mandates are much less likely to leave the bank over time, so we increase relationship durability and longevity.

If you look at the recurring revenue performance, which is something I watch closely, at the end of the second quarter 2015, 76% of our Wealth Management's total operating income was of a recurring nature.

It's our global footprint, it's our presence in high-growth markets that requires limited capital investment, together with the intent to achieve 40% penetration in mandates along with the cost savings targets from our Corporate Center that are expected to continue to support our delivery of the 10 to 15% pre-tax profit growth target that we have established -through the cycle.

## SLIDE 11 – Key messages

In closing, I'd like to highlight the key messages from the outset: UBS represents a truly unique and attractive investment proposition. With our strategy that is unique among large global banks including our capital position and liquidity, we're the world's leading wealth manager, we're in a high-growth business, relatively speaking, with a clear strategy, proven execution capability and a firm commitment to deliver attractive returns to shareholders.

With that I'd be happy to take any questions.