

# Shareholders' letter



## Dear shareholders and clients

Vontobel delivered another very solid result in the financial year 2016 despite the challenging operating environment, thus confirming the trend in recent years. With our prudent and decisive actions and our future-oriented business model, we have achieved a 65% increase in profitability over the last three years, adjusted for significant one-off impacts in 2016 that had a positive overall effect. Even excluding exceptional impacts, all Group targets defined for 2017 were already exceeded in the year under review.

2016 was not an easy year for Vontobel. It began with the sad news of the death of Dr Hans J. Vontobel, our patron and longstanding Honorary Chairman. He shaped Vontobel more than any other individual through his entrepreneurial foresight and actions. It was under the aegis of Dr Vontobel that our company developed from a small Zurich-based brokerage firm to a globally active wealth and asset manager.

Global economic and geopolitical uncertainties were constant factors that Vontobel and other companies had to contend with last year. Migration, the Syria crisis, terrorist

threats, Brexit and the US presidential election, as well as the fears of growing populism in response to the loss of identity and certainty in a post-factual era, were and still are topics on the public and political agenda.

In this type of environment, it is crucial that we do not lose sight of our long-term direction. Vontobel is pursuing its own strategy with tenacity. This strategy is designed to successfully capture business opportunities in the wealth and asset management business, which is growing globally, and to continue to actively seek out new chances for our business even in a difficult environment. In 2016, we worked intensively to drive forward the development of Vontobel. Our growth has mainly been achieved organically – by concentrating on quality and innovation. We also made a targeted acquisition as part of the extension of our partnership with Raiffeisen. Our strategy of focusing on delivering top performance in our chosen areas of business while simultaneously achieving a high level of efficiency has helped us to skilfully navigate a difficult environment. In addition, we recorded one-off impacts, such as from the sale of our 4% equity participation in Helvetia Holding AG in November 2016, which had a positive impact of CHF 91 million on our profit after taxes.

## Renewed growth in net profit

Adjusted for one-off impacts, net profit grew by 12% to CHF 201.5 million compared to the previous year. Including all exceptional impacts, net profit was CHF 264.4 million, an increase of 47% compared to the previous year, and earnings per share rose by 48% to CHF 4.72.

Asset Management was once again the main earnings driver at Vontobel in 2016. Compared to the previous year, Asset Management grew its pre-tax profit by 18% to CHF 163.5 million. Despite the adverse impacts of the continued phase of low interest rates, Wealth Management generated a slight increase in pre-tax profit (+3%) to CHF 62.5 million. Financial Products gained further market share in weak markets and delivered an impressive 11% increase in annual profit to CHF 69.3 million thanks to an exceptionally strong performance in the second half of the year.

One of the main pillars of this very solid result was the good net inflow of new money in a market that tended to be characterized by a wait-and-see attitude amid a general climate of uncertainty. In 2016, private and institutional clients entrusted us with CHF 5.1 billion of new money – adjusted for the Quality Growth boutique – corresponding to a growth rate of 5.8%. At the end of 2016, total client assets reached a new record level of CHF 195.4 billion. This reflects the fact that in Asset Management, the CHF 15.7 billion dent in assets under management due to the CIO change was more than offset by the Vescore acquisition in particular, as well as by the good overall performance in the boutiques.

Across all three of Vontobel's businesses, the focus was on qualitative growth and on investing in the future.

## Wealth Management – growth remains above benchmark

In 2016, we once again strengthened our Wealth Management team with the recruitment of further qualified relationship managers in our home market as well as our focus markets. Today, we have 199 relationship managers around the globe to support our clients. In total, Wealth Management clients entrusted us with CHF 2.2 billion of new money in the year under review. This corresponds to growth in new money of 5.3%, which is once again above benchmark and above our defined target range of 3-5%.

Our business performed well in our traditionally strong Swiss market in particular but also in Germany. The numerous prestigious awards that we received in recognition of our private banking services demonstrate that we are on the right track.

Vontobel is harnessing the potential of digitalization to create benefits for clients and to support relationship managers and we will continue to do so in the future. With the help of new technologies – such as our private banking app – we are exporting Swiss private banking to our focus markets. As a Swiss wealth and asset manager, we can, first and foremost, offer clients solutions for global diversification and we are seeing growing levels of demand in this area.

Growth is also a topic in the US. In addition to our presence in Dallas, we have had a private banking operation in New York since 2016. The special structure of our business with US citizens was of particular importance in the assessment of Vontobel's Wealth Management business in the US by the American authorities. As a result, Vontobel was able to conclude the discussions with the US Department of Justice in December 2016 without paying a financial penalty. In this context, Bank Vontobel AG did not seek a non-prosecution agreement or apply for a non-target letter, and has received neither. After Vontobel was able to close the legal chapter with the Munich authorities in spring 2016, the only matter that has yet to be resolved is the proceedings involving the authorities in North Rhine-Westphalia. Like many other banks, Vontobel is currently engaged in discussions to reach a final settlement in order to achieve legal certainty for clients, employees and Vontobel's future-oriented business model. In 2016, Vontobel recorded a provision of CHF 13.4 million in connection with this matter. Vontobel is confident that it will also be able to close this chapter of the past.

We want to continue to pursue our growth strategy in Wealth Management in 2017. In our Swiss home market, we remain committed to our strategy of achieving growth primarily on an organic basis. In this context, we expect to continue benefiting from the "silent consolidation" that is underway in the Swiss private banking market and to gain further market share. At the same time, we are willing to consider acquisitions that create value, as we have done in the past.



### **Asset Management – more diversified and global**

Growth in Vontobel Asset Management was once again driven by strong performance and diversification. Our new sales activities in Taiwan, Scandinavia and the Netherlands have helped to further diversify our business at a regional level. We have also increased the diversity of our products. Today, more than 50% of advised assets originate from the Fixed Income, Multi Asset Class and Thematic Investing boutiques, as well as from the new Vescore Quantitative Investment boutique.

Our fixed income solutions that are offered by the rapidly growing and successful boutique TwentyFour Asset Management, among others, were the main contributors to growth in Asset Management. The Multi Asset Class and Thematic Equities boutiques also generated a significant income contribution.

In the second half of the year – especially after the US election – a sector rotation and shift from “Growth” to “Value” and from Emerging Markets to Developed Markets occurred. Consequently, the Quality Growth investment style remained below benchmark in the second half of the year.

In phases such as this, it is important not to deviate from the investment style. We have confidence in the tried-and-tested and successful investment processes used by the stable Quality Growth team under the new leadership of Matthew Benkendorf, who has many years of investment expertise at Vontobel Asset Management in the US. The outflows in the Quality Growth boutique relating to the CIO change were partly offset by strong growth in certain other boutiques.

The deepening of the partnership between Vontobel and Raiffeisen in the asset management business based on the agreement reached on 29 June 2016 has already begun to have a positive impact. In the investment business, Raiffeisen will focus on advisory services and the client business in the future. Within the scope of the partnership, Vontobel will make its experience in global asset management available to Raiffeisen and will, in particular, support it with its investment process and sales. In addition, Vontobel will continue to be responsible for the development and management of selected asset management products for Raiffeisen. As part of the redefinition of their collaboration, Vontobel acquired the Raiffeisen subsidiary Vescore. The acquisition of Vescore was already completed in mid-September 2016. During the integration of Vescore, Vontobel focused on the Sustainable Investments and Quantitative Investments businesses, which fit very well in the successful international boutique model in Vontobel Asset Management. The other non-strategic businesses have already been sold to third parties. Vontobel gained CHF 7.9 billion of new assets as a result of the transaction.

We have identified opportunities for growth due, in particular, to the broader and deeper access to 3.7 million Raiffeisen clients that we have gained as a result of our new partnership in the investment business, which extends well into the next decade. In 2016, Vontobel Asset Management recorded inflows of around CHF 400 million of assets as a result of this partnership. Furthermore, Vontobel is gaining improved access to the institutional business in our focus market of Germany through Vescore.

The former Vescore business should already begin making a positive contribution to Vontobel's Group net profit by 2018. The return on this investment should significantly exceed the target return on equity of 10%. The costs of the Vescore integration totalled CHF 12.4 million in 2016. Further integration costs – albeit on a smaller scale – are expected for the following year.

In 2017, Asset Management will continue its expansion based primarily on the achievement of organic growth. In this context, we are focusing on performance and on the growth of new money, while seeking to further diversify our business and driving forward the international expansion of our sales organization. While taking all these steps, our stable investment process will serve as a reliable compass to guide us through uncertain markets.

### **Financial Products – growth based on innovation and international expansion**

The growth we achieved in new markets and through the launch of new solutions also helped us to mitigate the effects of difficult market conditions in the structured products business. Thanks to our innovative, open platforms, we generated new turnover that allowed us to offset the impact of the general decline in trading volumes on the exchanges in Continental Europe. In addition to trading volumes in our traditional markets, Vontobel also generated new turnover in Italy, where we began distributing leverage products in the first half of 2016. After only a few weeks, Vontobel was already the issuer with the broadest range of products in the Italian market for factor certificates.

Our state-of-the-art technology underpinned our efforts to develop new solutions for our clients in Financial Products. With our innovative “mein-zertifikat.de” platform for Germany, for example, we have successfully set a new standard and initiated an industry-wide transition from a supplier's market to a buyer's market – in which the offering is driven by clients – by introducing efficient structures for derivative products.

In future, we will continue to focus on achieving growth through innovation and international expansion. For example, we will further drive the transition towards a buyer's market with a new smart app for structured products

in Switzerland and Germany in 2017. We already entered the market in the Netherlands and France in January 2017. We will also make our debut in Hong Kong – one of the world's largest markets for leverage products – with the establishment of a local team and by drawing on all our experience. Through innovation and increased economies of scale, we will further strengthen our cost leadership after already reducing units costs by 95% since 2009.

### **Solid capital base for growth and an increased dividend for our shareholders**

Solid foundations are essential in order to achieve growth. Our robust BIS common equity tier 1 (CET1) ratio of 19.0% – which substantially exceeds the regulatory minimum requirement – forms part of our foundations. The sale of our participation in Helvetia had a positive impact, enabling Vontobel to focus its capital resources on its own operational activities. The transaction generated equity capital, further strengthening Vontobel's CET1 ratio by around 2 percentage points. The return on equity increased to 18% in 2016, significantly exceeding our cost of capital and our own target of 10%.

Based on the very solid financial result for 2016, which represents a further improvement compared to the prior year, the Board of Directors will propose an 8% increase in the dividend to a total of CHF 2.00 per share. It consists of an ordinary dividend of CHF 1.90 and a special dividend of CHF 0.10.

### **Renewal of the shareholder agreement provides stability to promote entrepreneurial freedom**

Our entrepreneurial freedom, which has traditionally been guaranteed by our stable shareholder base, forms another vitally important foundation for growth at Vontobel. In November 2016, the family shareholders further strengthened their commitment to the company with the renewal of their shareholder agreement, the scope of which has been extended. In doing so, they once again underscored their desire to continue giving Vontobel and its employees the stability needed to ensure the company can develop with a focus on the long term.

The Board of Directors was further strengthened in spring 2016. With the election of Dr Maja Baumann and Björn Wettergren, two members of the owner families have



joined the Board of Directors – enriching it with their experience in the areas of legal and regulatory topics as well as digitalization. The third new member David Cole brings to the Board the extensive financial market expertise he has gained over many years in international roles in the finance industry.

**2017 – gaining momentum for the next growth phase**

Issues that shaped 2016 will continue to influence the markets in 2017. With changeable market conditions, low interest rates and the uncertain political landscape, generating returns for clients will prove challenging once again. As a globally active specialist focusing on our three areas of business – Wealth Management, Asset Management and Financial Products – and with our clear commitment to delivering quality for our clients, we are well positioned to achieve this. Our strategy, which has proved effective even in challenging times, will form the basis for our 2020 objectives. These objectives will be defined in the coming months as part of our regular strategy process and will be communicated in August.

Turning to the current year, we know that there will be no recurrence of the exceptional impacts that had an influence on our financial results for 2016. However, we already have a strong basis for our investments in the future and we will take decisive steps in 2017 to reinforce this and gain momentum as we embark on a new phase of strong and profitable growth.

As we do so, we can build on our motivated and highly qualified team of employees. They embody Vontobel's values day after day as they serve our clients. We owe them our gratitude. We also wish to express our thanks to our clients and shareholders for their trust in Vontobel.

Herbert J. Scheidt  
Chairman of the  
Board of Directors

Dr Zeno Staub  
Chief Executive Officer