

NEWSLETTER

Zürich, June 2023

On Our Own Behalf: To the Point

SFSC strengthens customer advisory service and management

Every company has to adapt to changes. Find out what is changing at SFSC and what is definitely not changing here!

➔ Continued on **page 2**

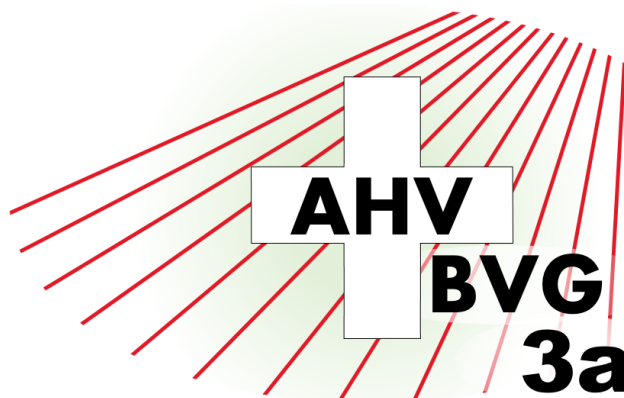


Changes to the Swiss Pension System

This year has once again seen various changes of the key figures of Switzerland's pension system. Depending on whether you are retired, employee or self-employed, these changes may have an impact on the contributions due, on the pension pay-out or on your insurance benefits.

We have condensed the most important changes since the beginning of 2023 for your consideration.

➔ Continued on **page 3**



Wealth Accumulation: Investment Savings Plans and Asset Management Mandates

Knowing what the relevant factors for allocating resources are, can help in staying clear of costly mistakes.

Valuable instruments will be presented which will support and assist you in attaining your financial goals with less effort: Funds, investment savings plans and asset management mandates.

➔ Continued on **page 5**





Manuel Egger, CFP®, Master of Advanced Studies ZFH in Financial Consulting, Deputy Managing Director

SFSC Strengthens Customer Advisory Service and Management

(Continued from page 1)

Since its inception 17 years ago, there probably was no financial year in which SFSC did not need to change and realign in some ways, be it because the needs of our customers or the competitive landscape had changed.

Strengthening of Customer Advisory Service and Management

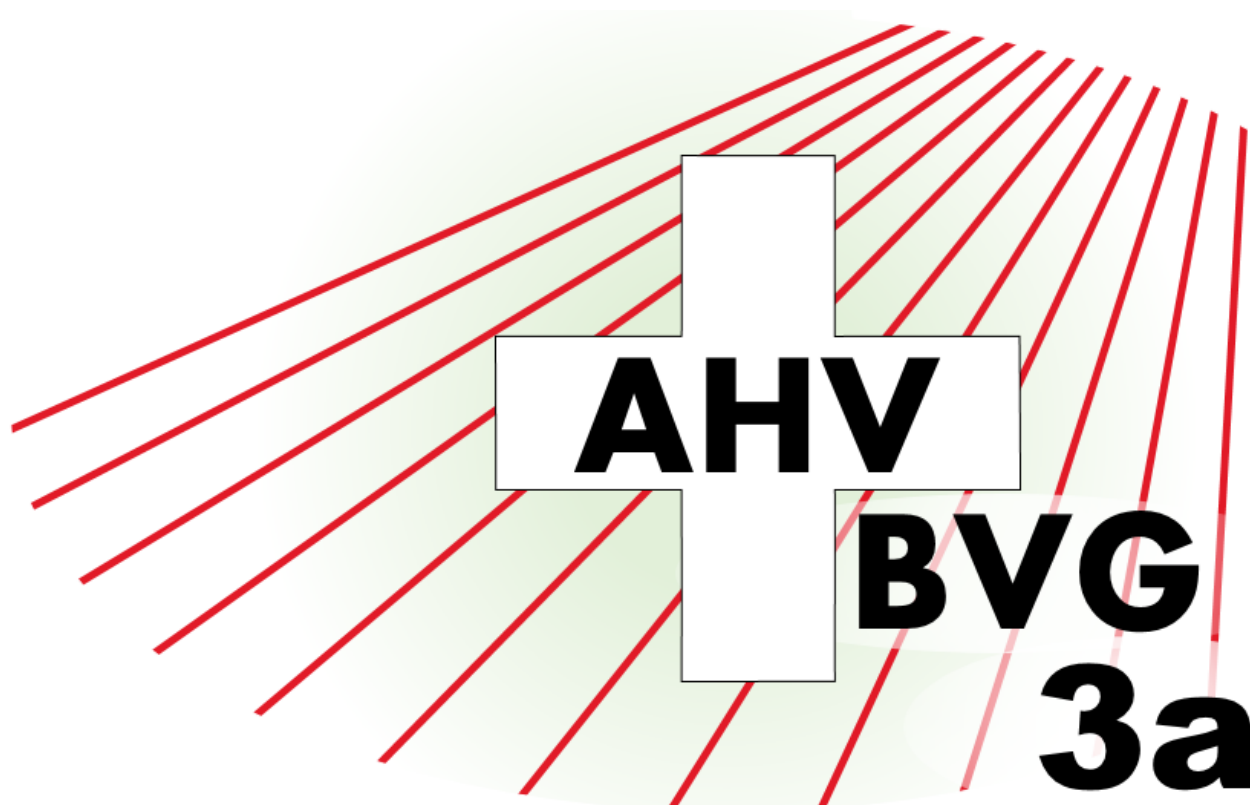
Mr. Manuel Egger joined Swiss Finance Service Center on 01.09.2022. With seven years of experience as a financial and pension planner at a renowned service company and with his Master of Advanced Studies ZFH in Financial Consulting, Manuel Egger brings everything needed for successfully working to the benefit of our customers.

What are the benefits for customers of the Swiss Finance Service Center?

Our customers receive first class and product independent advice, custom tailored to their individual needs and goals. Customers benefit from a holistic advisory approach resulting in objective recommen-

dations. Those recommendations factor in all aspects of financial planning. This offer is possible, because SFSC, as a company, integrates simultaneously both the insurance world and the banking world.

Just as a mountain guide chooses the safest route to the summit, the practical implementation of our concepts enable our customers to achieve their financial goals. As part of our active monitoring, we are constantly looking for innovative solutions for our customers. This means that existing providers and products are regularly put to the test. The consulting and support concepts also undergo scrutiny frequently in order to enable and implement improvements and innovations.



Changes to the Swiss Pension System

(Continued from page 1)

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Maximum Contributions to Pillar 3a

Contributions to pillar 3a reduce the taxable income and thus the income tax. In 2023, employees can increase the voluntary contributions to pillar 3a from the previous amount of CHF 6'883.- to the current maximum amount of CHF 7'056.-.

Self-Employed

Self-employed persons without adherence to a 2nd pillar (BVG) can increase their voluntary contributions into pillar 3a to CHF 35'280.- per year in 2023. The contributions to pillar 3a may not exceed 20% of the net income of the self-employed person.

AHV

Swiss Living Abroad

With each missing contribution year, the future AHV pension will be reduced by approx. 2.3%. Especially for low-income Swiss living abroad (e.g. students, postdocs, etc.), it could be worthwhile to voluntarily

Increasing the voluntary contribution into pillar 3a to CHF 7'056.-

⇒ reduces the taxable income by CHF 7'056.-!

paying the minimum contributions to the AHV in order to avoid the emergence of contribution gaps. For higher earners the closing of contribution gaps can be equally worthwhile. Swiss citizens living abroad can only close such contribution gaps, if they reside outside of EU or EFTA countries.

Retired Persons

Recipients of an AHV pension are affected by the following changes: The minimum AHV pension is in-

creased to CHF 14'700.- per year (in the absence of contribution gaps). The maximum pension for a single person is increased to CHF 29'400.- per year. This maximum pension is reached, when an average income of CHF 86'200.- (over the number of mandatory contribution years) has been earned. The maximum pension for a married couple is now CHF 44'100.-.

BVG, Pension Fund

The salary income components between new CHF 25'725.- and CHF 88'200.- are automatically insured¹ through the BVG mandatory pension fund.

Consequently, a maximum of CHF 62'475.- can be insured in the mandatory fund. Anyone earning less than CHF 22'050.- is not insured under the BVG mandatory scheme. If the AHV salary lies between CHF 22'050.- and CHF 29'400.-, the pension fund insures a BVG minimum salary component of CHF 3'675.-. Salary components in excess of the mandatory of CHF 88'200.- can be insured up to the insurable maximum of CHF 882'000.-.

The minimum interest rate on the mandatory retirement assets remains at 1%. Regarding the extra-mandatory pension plan, the pension fund can set the interest rate at its discretion.

SFSC Retirement Planning

Benefits of SFSC retirement planning:

- Get a valuable overview of the expected income situation after retirement
- receive a tax-optimized plan for capital withdrawal out of 2nd pillar (BVG) and pillar 3a
- identify and close possible pension gaps to increase financial security
- tax optimization, tax reduction
- evaluate the feasibility of early retirement and receive a plan of necessary actions to allow for early retirement
- determine if the financial viability requirements for homeownership are met or conceive an action plan to meet the legal requirements
- align the structure of your investment portfolio with your personal risk profile and reduce risk accumulation
- explore and identify the best course of action to ensure financial protection and make better decisions



How to proceed in four steps:

1. In a first meeting your advisor, who is an expert for financial or retirement planning, will answer many questions that you may have. At the same time, your advisor will clarify his understanding of your life situation, your needs, ideas, family goals and your personal preferences.
2. If you are interested, your advisor will then prepare a tailor-made offer in agreement with your plans and interests. Up to this point, everything remains cost-free for you and you have nothing to lose.
3. Upon you accepting the offer, your advisor will then collect all relevant data upon which he will establish the actual retirement plan and analyze your situation. Your advisor will conceive a step-by-step action plan, that will enable you to meet your goals and objectives, as defined in the offer.
4. Your advisor will then present to you the analysis of your situation and the results of the optimized plan. This plan will provide you with all the answers to your questions: retirement benefits, investments into your retirement plan, etc.. The improvements in assets and income that you will achieve through the implementation of the action plan will be presented transparently. Your advisor will discuss the recommendations and recommended actions with you and explain how the measures will help you in achieving your goals. You will receive the retirement- and action plan in writing.

For a no-cost discussion on whether retirement planning makes sense in your personal situation and what you can expect from such a plan, please contact SFSC: 044 404 10 90 or info@sfsc.ch.

¹ The insured salary is often also referred to as the "coordinated salary". Here and below, the term "insured" is applicable both to the actual insurance benefit (in the sense of an IV-pension from the BVG) and in relation to retirement savings (in the sense of a pension after retirement).



Wealth Accumulation: Investment Savings Plans and Asset Management Mandates

Every investment is a decision. Even those, who "don't want to invest", make an investment decision. Here you may discover, what you should consider, when making investment decisions and why an investment savings plan may be a better answer to you.

The field of tension

Asset Categories

The first thing to remember is that all assets are also investments, no matter whether they are cash assets, account assets, bonds, shares, real estate, company property, jewelry or intellectual property.² Those assets (vehicles) always have different characteristics. Investments can be differentiated and



categorized along different characteristics of the investment categories. Thus, one speaks of investment categories.

Investment Options

Suppose you want to invest a part of your assets or savings. Every investor has to choose from an overwhelming number of investment alternatives. Whatever the allocation choice will be, the investor is exposed to a field of tension amongst those choices.

The relevant characteristics for the investment decision are:

- interest, dividends
- capital appreciation
- risk
- taxes and fees
- inflation
- liquidity

Let's take a closer look at those characteristics.

² Even the proverbial keeping of banknotes under the mattress or in the pillow is by itself an investment; an investment with zero interest and a definite residual risk for loss.

Interest, Dividend and Value Growth

Interest, dividend and appreciation are what you want. There are investments that yield a high interest rate and those that yield a low interest rate. The



effectually realized interest, dividend or appreciation (return or performance) can often only be evaluated in retrospect, for example for stocks. In turn the interest on a savings accounts is usually fixed in advance. There is no guarantee for the rise in value of shares.

Risk

With every investment, the investor is exposed to a certain risk of loss of value. Not all investments have the same level of risk of loss, though. For each investment category, the risk can be statistically expressed by means of a percentage.



Investments in foreign currencies entail an additional currency risk. The overall performance depends on shifts in exchange rates. Those can be advantageous or disadvantageous for the investor (the owner).

Taxes

Different investment categories may be taxed differently. Income tax and wealth tax are the most important taxes to consider. Taxes reduce the (net) return. Unfortunately, when investment decisions are made, all too often too little attention is paid to the tax burden, despite the fact that the tax burden is in most cases quantifiable beforehand. Especially in today's low interest rate environment, it can be a big misstep when ignoring the tax repercussions of investments. Especially in a low interest environment, depending on the situation, the tax burden could eat

away a significant portion of interest gains and the overall performance.

Inflation

Inflation means that over time, less and less can be bought for the same amount of money. In such a situation, the purchasing power of the currency decreases. Inflation is expressed as a percentage and



reduces the value of the respective currency. In Switzerland, inflation has remained comparatively low for many years. Investing in another currency can greatly change the end result in terms of purchasing power of the investment.

Liquidity

Depending on the nature of an investment made, its worth in cash may not be available for other purposes for a certain period of time. Contractual conditions may make it difficult to recover cash from the investment. Furthermore, the actual valuation of an investment may make a sale (divestment) appear disadvantageous.³

Fees

Different investment categories entail different fees. Custody fees or deposit holding fees are charged by the holding bank, typically in the amount of 0.2%. Frequently holding fees were perceived. Although security holding fees have practically disappeared, instead transaction fees are often applied in the form of purchase and sale costs. Such costs are frequently concealed in funds.

Considerations

Interest or Return Rate versus Risk

In practice, a high interest rate is always traded off with a higher risk (risk of loss, ...). The great art consists of achieving a high return rate, while keeping risk as low as possible.

**Lower tax burden often
more important than high
interest income**

³ This would then be referred to as a "realized loss".

When particularly high profit promises are made, caution is advised. Unfortunately, the following is often applicable: *"The higher the promised return, the greater the risk of total loss!"* Unfortunately, there are fraudsters everywhere. Beware of investments in dubious companies, or when money must be transferred to a middlemen first.

Risk Exposure of Bank Account

Alas, even investing into a bank account is not risk-free! But fortunately, assets up to CHF 100'000.- in a Swiss bank (domiciled in Switzerland) are protected by the Swiss Bank Guarantee Fund. In case of total loss (bankruptcy), this guarantee fund steps



in and covers the account holder's losses of up to CHF 100'000.-. An account holder is therefore well advised to distribute bank account balances in excess of CHF 100'000.- to other Swiss banks as to better secure the bank deposits against bankruptcy.⁴

Staggered Purchases against Entry Risk

It lies in the nature of stocks and bonds that their value is subject to large fluctuations. If an investor (owner) invests only when larger amounts have accumulated in the current or savings account, there is entry risk exposure, because temporarily the share or bond price could be high and the investor then would receive fewer shares as a result.

Entry risk mitigation with consistent purchases year after year

If instead, an investor were to invest smaller and constant amounts on a regular basis (e.g. monthly), one would receive more shares when the price is low and fewer shares when the price is high. The advantage of doing so is that over time said securities are purchased at an average price. The investor minimizes the entry risk when staggering purchases.⁵ On average, over many years, the

"good purchases" and the "bad purchases" balance out and the entry risk exposure remains low overall. The more volatile the price developments are and the longer the investment period is, the stronger the positive effect of staggered purchases.

In practice, it is rarely the case, that a very large amount can suddenly be invested and nothing at all during all the other years. In most cases, the savings rate (i.e. the proportion of income that can be invested over many years) remains roughly constant. It is therefore recommended to invest a constant amount year after year and not let accumulate the amounts in an account with little interest, only to make one lump investment after many years.

Investment Horizon

The investment horizon (IH) is probably one of the most important parameters for investment decisions. A long IH means that the invested funds can (or must) remain invested in the asset class for a long time. A small investment horizon means that the invested funds can be withdrawn quickly.



The investment horizon has to do with the personal situation of the investor (owner) on the one hand, but also with the characteristic of the investment category:

a) AH related to the personal situation:

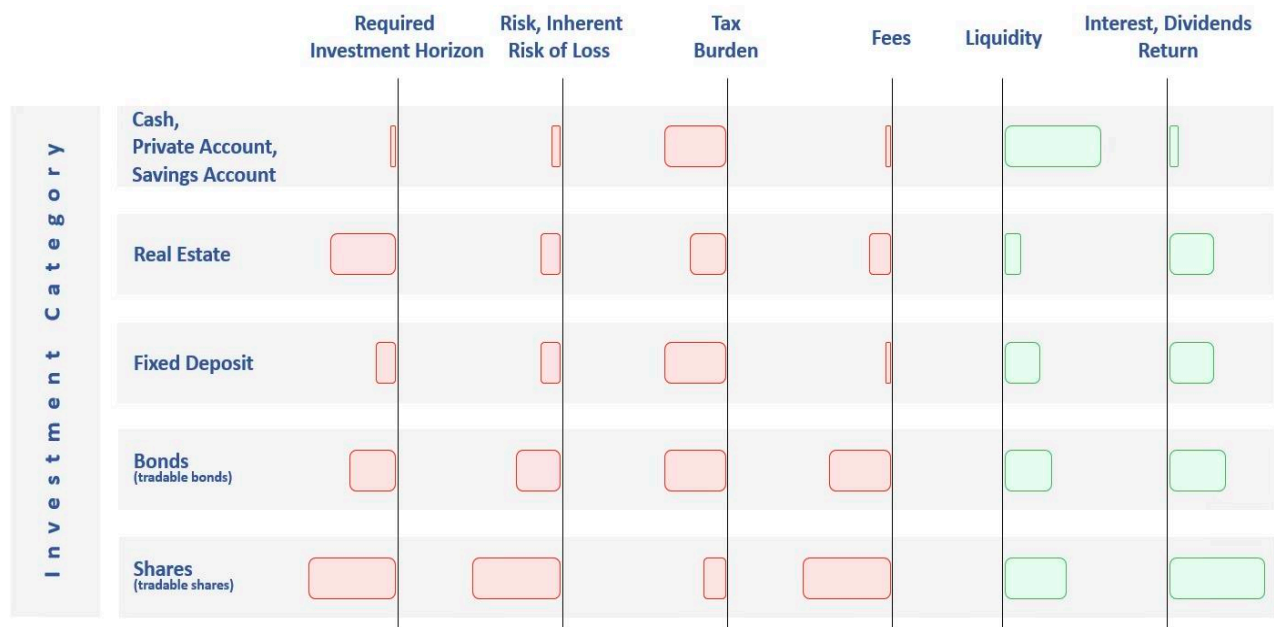
A short investment horizon means that invested funds (or part of them) must be available quickly when needed to cover unplanned income losses (e.g. job loss) or unplanned expenses (e.g. sudden need to replace a car).

b) AH related to the asset category:

A distinction must be made between "can" and "must". There are investments that *can* be liquidated quickly, investments that *must* be liquidated timely, investments that *can* be invested for the long run, and investments that *must* remain invested for the long term. The spectrum is covered by equities (tradable or illiquid), real estate, bonds, time deposits (forward), contracts (tradable or non-tradable), etc.

⁴ Detailed information on deposit insurance; secured deposits, bankruptcy privilege, banking foundation, non-privileged deposits, deposit values, etc.: <https://www.finma.ch/en/supervision/banks-and-securities-firms/depositor-protection>

⁵ So-called *cost average effect*



Graph: Investment categories and how they compare with each other regarding criteria relevant to the investor

Juxtaposition of Interest and Taxes

What always will remain relevant is the bottom line, i.e. return after tax. Especially in the current low interest rate climate, it can be worthwhile to invest in assets with a lower tax burden. In the end, a tax savings can often remain more effective than a high interest rate with a comparatively high tax burden. The decisive factor is the bottom line. Low tax investments frequently are more attractive. In a low interest climate, purchases into the pension fund or into pillar 3a, or investments in real estate can ultimately offer major advantages over other investments for tax reasons.

Approaches and Instruments for "Small Investors"

There is a wide range of instruments available to hedge against various risks. Unfortunately, many of these instruments are not directly available to smaller investors. To give an example, hedging, against currency losses also entails costs. For practical reasons, risk minimizing instruments are usually reserved for professional asset management teams managing large investment volumes (several hundred million Swiss francs, euros, dollars, etc.).

Diversification of Portfolios

The valuation of stocks and bonds undergoes large fluctuations. Individual securities are subject to greater fluctuations in value than the overall market. It is therefore important to diversify portfolios as broadly as possible. The recommendation for investors is: "Don't put all your eggs in one basket!"

Selection of Low-Correlated Stocks

Not all stocks always move in the same direction. A portfolio should be composed of securities in such a

way, that down movements of stocks are ideally canceled or at least balanced out by stocks moving up in value.

The advantage of a portfolio constructed in this manner is, that its performance is more balanced and consequently somewhat less risky, than that of its constituents. The trick is therefore to select from the universe of all stocks those, whose prices have little correlation with each other.⁶



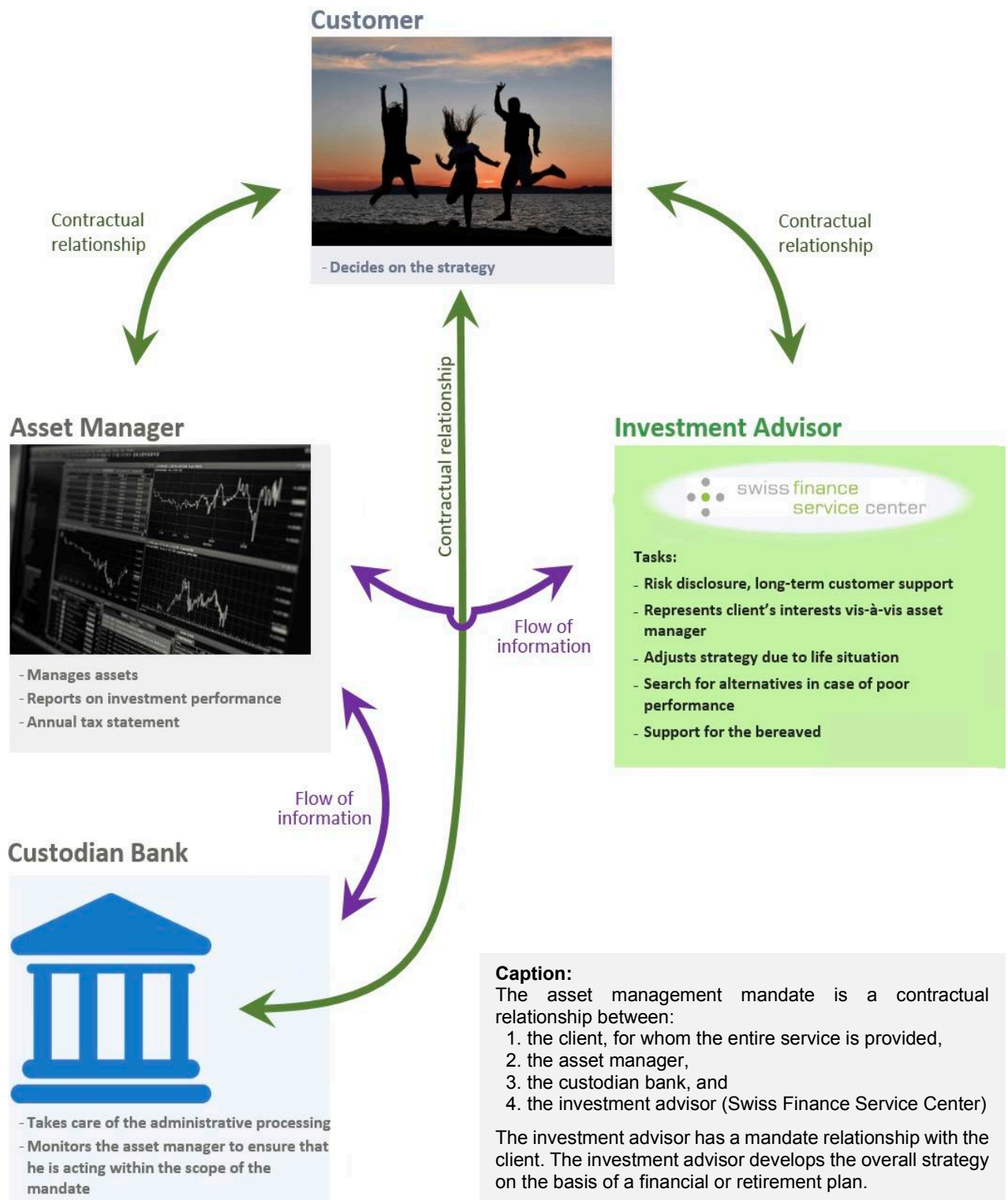
Competent experts can therefore reduce the valuation fluctuations of portfolios by selecting securities with low correlation. Non-professional investors are usually overwhelmed with such tasks. It is far easier to leave such tasks to experienced professionals, who have access to the required tools and data.

Funds: Utility

If a fund is constructed in such a way that the securities contained within (equities, bonds, ...) are combined in the right ratio with low share price correlation, the fund can reduce the risk exposure when compared to portfolios composed few securities not selected in this way. Funds that comprise only low-correlated securities or hedge against currency losses are actively managed and therefore often charge higher management fees.

In most cases, holding individual securities is comparatively cheaper and more efficient. This comes about, as custody fees for individual securities are no longer as disadvantageous as they once were.

⁶ This means combining securities with negative correlation coefficients as much as possible.



As a result, various individual stocks and bonds in small numbers no longer have necessarily higher buying, selling and holding fees than funds composed of such securities.

Nonetheless, funds remain interesting as an admixture, or for certain specialties or passive investments. For example, ETFs (Exchange Traded Funds) as part of an investment strategy can lead to better results in terms of risk/return ratio and reduce the fluctuation bandwidth (volatility). The mix of active and passive investments can also make sense

for high-risk investments, such as in the "private equity" investment category. Fund investments lead to a more efficient risk distribution for private equity.

Private equity is equity capital that is made available to companies that are not listed on the stock exchange. Seed capital for start-ups, but also bridge capital for mergers and acquisitions and the financing of rapid growth fall into the private equity category. The common feature of private equity is very high profit potential but also a high risk of loss.

Advantages and Disadvantages of Investment in Individual Securities, Funds, Investment Savings Plans and Asset Management Mandates

		E v a l u a t i o n C r i t e r i a				
		Currency Risk	Market Risk (Volatility)	Cost (Buying, Selling and Custody Fees, Management Fees)	Return, Performance*	Use, Benefit
Investment Category	Individual Securities (Shares, Bonds, ...)	High	High	Cost-effective, due to lower custody fees	+++	· Interesting as part of an investment savings plan
	Funds, ETFs (Shares, Bonds, ...)	Funds can minimize currency risk <u>if</u> designed accordingly	Funds can reduce market risk <u>if</u> composed of low-correlated securities	Comparable to select securities, but high if currency risk and market risk are hedged	+++	· Interesting as passive investment · interesting as admixture to passive investments · interesting as addition to specialties · interesting as addition to private equity · interesting as part of an investment savings plan
	Investment Savings Plan	Depending on design	Depending on Design	Lower costs than for funds	+++	· Interesting for the active management of assets · systematic asset accumulation · precise, targeted security selection · interesting for decreasing cluster risks
	Asset Management Mandate	Depending on design	Depending on design	Lower costs than for funds	+++	· Relieves the investor, who transfers the management burden to the asset manager

*Depending on the composition of the portfolio. A composition of 50% equities and 50% bonds is assumed (so-called "balanced investment strategy").

Table: Differences between investments in individual securities, funds, investment savings plans and asset management mandates are presented. Properties and features are evaluated amongst various dimensions. The assessment of characteristics is often dependent on the specific design of the individual investment category and can only be regarded as a general classification.

Asset Management Mandate and Investment Savings Plan

Investment Savings Plan

Investment savings plans are used for systematic asset accumulation and creating value. Regular amounts are contributed to the savings plan. These are then invested regularly in accordance with a selected investment strategy⁷. An investment savings plan may include a variety of funds of stocks and bonds.

Investment savings plan means that an investment strategy is in place. Within the constraints of this investment strategy, the investment manager has the freedom to structure said investments. This means that the investments made are actively managed and continuously monitored.

An investment savings has no term limit: For entry, the investor is often required to make an initial deposit of CHF 5'000.-. The investor can withdraw from or cancel an investment savings plan at any time.

Differences between Investment Savings Plans and Funds

Although investment savings plans are basically comparable to actively managed funds, in terms of title selection, investment savings plans are more focused and goal oriented, than funds are.

The costs associated with investment savings plans are lower than the costs associated with funds. Actively managed funds are based on well defined rules. Holding multiple funds may result in compounding unnecessary risks. Those risks can be mitigated by means of an investment savings plan.

Asset Management Mandates versus Funds

The goal of an asset management mandate is, that the investor (owner) no longer has to take care of investments. Asset management mandates are par-

ticularly suitable for investors who want to delegate investment decisions regarding their assets to a specialist: the asset manager.

The owner commissions an asset manager (a company that provides financial services) to invest the owner's assets in the financial market. The asset manager takes into account the investment strategy jointly defined with the investor. Thus, the asset manager independently performs purchases and sales for the owner.

An asset management mandate is a contractual bond between the asset owner, for whom the entire services are provided, the asset manager and a custodian bank.

Hence, the asset management mandate comprises the ongoing monitoring, investment and management of the client's assets (securities, financial assets, investments, real estate, ...).

The Investment Advisor's Role

In the context of an investment savings plan or an asset management mandate, the role of the investment advisor (e.g. Swiss Finance Service Center) is to develop the overarching overall strategy for the investor. For this purpose, the investment advisor creates an overall view of the financial situation (income, expenses, liquidity, ...), the asset situation (real estate, investments, debts, mortgages, ...), but also of the tax situation. In order to properly take into account the time factor, the retirement plan and the situation of descendants and heirs should of course also be considered in the plan.

Based on a well devised overall strategy, the owner can then determine the desired asset management strategy with the help of the investment advisor. In doing so, it is ensured, that the asset management strategy is anchored firmly within the constraints of a sound overall strategy in agreement with the situation and intentions of the owner.

SFSC-Investment-Optimization

Which investment is best for you depends on your life situation, your investment portfolio and your risk tolerance. This statement is equally valid, whether you have already invested in individual securities (bonds, shares, ...), funds, time deposits, real estate, investment savings plans or asset management mandates, or intend to do so.

The *SFSC-Investment-Optimization* offer ensures that your investment portfolio is tailored to your life situation and adapted to your risk tolerance. You will only receive the services that you actually want or need, for example:

- Analysis of your existing investment portfolio and how well it suits your needs and possibilities.
- Creation of an implementation plan to help you accomplish your objectives
- Avoidance of cluster risks, reduction of unnecessary risks while boosting returns
- Support from SFSC to implement your plan

For a no-cost discussion on whether SFSC investment optimization makes sense to you and what you can expect, please contact SFSC at 044 404 10 90.

⁷ As such, investments by currency, ESG (Environment, Social, Governance) criteria, etc., could be defined.