VISION

Julius Bär

THE BUSINESS OF THE FUTURE
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Technological developments, major generational shifts, and exponential population growth are fundamentally changing how we live and work. These developments are giving rise to new products, new demands, and a new breed of clients; a potentially daunting reality for existing businesses looking to stay ahead of the curve, and an opportunity for new entrants with innovative business ideas. So what factors will determine business success down the road? And what will the business of the future look like?

Banking, like every other sector, is not immune to the many changes currently under way. At Julius Baer we are of the firm conviction that, as they evolve, businesses need to focus on their purpose. At the heart of that purpose must be a company’s clients, which is why our advice to them always focuses on one question: What is important to you?

It is a simple question. But the answers help us to truly understand who they are, their current situation, and how they envisage the future, setting the guideposts so that we can support them throughout the different stages of their lives. We can’t know exactly what the world in general or business in particular will look like in five, ten, or 20 years. But we know that clients come to Julius Baer because they want personal advice they can trust. And that is where we will continue to invest in order to ensure we remain relevant in changing times.

This issue of ‘Vision’ takes a closer look at the business of the future: how companies can survive in a changing world, and which trends will shape the decades to come. We speak to successful venture capitalist Klaus Hommels about how to spot the next big thing, examine the growing importance of responsible and sustainable business practices in the private banking industry, and give you a taste of what the working life of a young professional could look like in the year 2030.

I hope that this issue of ‘Vision’ provides you with some valuable insights and I wish you an enjoyable read.

Yours sincerely,

Bernhard Hodler
Chief Executive Officer
Insect burgers and teriyaki crickets – will dishes like these soon be a normal part of everyone’s diet? To many people in the West, it may sound far-fetched, but slowly businesses are emerging that believe entomophagy (the human use of insects as food) is the solution to the world’s growing protein shortage.
Visualising sound

The intersection between sound and silence may seem daunting, obscure, and even impossible to portray. Enter Swiss-American artist Christian Marclay, whose vibrant pieces depict an astounding level of sound all the while being completely inaudible.
There are 1.3 billion tonnes of food waste produced each year. One third of all food is wasted from farm to fork.

Lab-grown meat could be on plates in 2018.

Most owned cars spend 95% of their time parked.
If Moore’s Law holds, an iPhone will be as smart as all human brains on earth put together by 2030–2035.

Producing one kilogram of beef takes 20,000 to 40,000 litres of water.

There are 2,100 edible insect species and at least 2 billion people around the world eat them regularly.

Millennial investors are nearly twice as likely as other generations to invest in companies or funds that target specific social or environmental outcomes.
It’s Monday morning and you’ve just arrived at the office. In fact, this is the first time you’ve been in for two months. Of course, you’re not an employee (very few people are these days); rather you’re an ‘associate’ who has a long-term relationship with the company. It’s not your office either: it’s a shared, flexible space. The company itself is a medium-sized wearables consultancy called InfoDress and you’ve been a tier-2 associate for four years now.
A DAY AT WORK IN THE FUTURE

Your relationship started when the firm was much smaller and was still incubating within its parent business. You were a customer back then, but the company’s AI noticed how insightful your product reviews were. They asked you along to a group meeting and you were taken on as a tier-4 customer insight associate. Now, you’re their consumer anthropologist.

A tier-1 associate walks in. She’s your proximate senior and has just been to a meeting with the head of HR about the company’s diversity problem. For years now, men have been falling behind women in terms of promotion and connections and there are concerns that the company is becoming less relevant to male stakeholders. It was, she says, a very difficult meeting; she needed a power ten minutes with her virtual coach afterwards to de-stress.

You were going to tell her about the problems you’ve been having with the alternative currencies broker who is trying to find you a crypto that is likely to move against public sentiment in the upcoming US elections so you can hedge movements in the value of your data. But you judge it more empathetic to display constructive ambiguity. So you ask the office AI to set up a meeting later on with you, her, and an augmented reality expert who has the best score in the industry for delivering positive outcomes.

You both buy a coffee from the shop in the foyer, which is run as a cooperative. As you drink, you discuss topics ranging from implantables to smart dust to the recent wearables spying scandal that, more through luck than design, has resulted in a social media win for your organisation. You like the tier-1 associate. She is what the Gen-Zeders call a ‘workmate’, having reprised this old term to mean someone who is both colleague and friend.

After the coffee, the associate (who is fully employed by InfoDress) heads off for an hour’s me time. You order a self-driving car to a nearby smart-infrastructure multi-venture where you are working on a short-term ethics contract. It’s likely to be another tough conversation: they don’t seem to understand that their mindset, which is still very millennial, is why they are struggling to attract the best Gen-Z associates. It’s no longer just a case of having the right values.

Finally, it’s off home to work on your side project, a purpose-driven foods business. Two years ago, your own coach suggested you set this up because you needed more entrepreneurial experience to round out your professional profile. It would, he said, make you relevant to a new audience and address gaps in your network. Now, it looks like it might actually become profitable.

THE FUTURE OF PROFESSIONAL LIFE

Of course, this is all conjecture about how a working day might look from the position of a successful professional, some time around 2030. But while the detail is invented, it draws strongly on trends that are already all around us.
The person is not employed in the traditional sense. Rather, she has an association with the company that is a mid-point between a traditional job and ‘gig’ work. She also runs a small business and does contract work. The industry she works in is wearable high tech and has one foot in consumer electronics and the other in the data these devices generate.

The lines between customers, suppliers, and staff are very blurred indeed – as is the line between work and play. Millennials are now well into most management tiers, but they are starting to worry about attracting the very best members of Generation Z, who don’t share their world view.

THE INDUSTRIES OF THE FUTURE

There’s a pretty good consensus around what the current big drivers of change in the business world are. The first is the digitisation and connection of everything via the Internet of things. The second is AI, machine learning, and robots. And the third is genetics. It may be that in the years to come the last of these really takes off. As Alec Ross, author of The Industries of the Future and member of Julius Baer’s Global Advisory Board, says, “The last trillion-dollar industry was made out of computer code. The next one will be made of genetic code.” (You can read more about the biotech industry starting on page 24.)

This is not quite the whole picture, though. There are also societal trends that are reshaping the way we live – and will interact with these drivers in unpredictable ways.

These are factors such as an ageing population, particularly in Europe. In the EU-28, the share of people aged 65 and over is projected to increase from 18.9 per cent in 2015 to 28.1 per cent by 2050, while the percentage of people 85 and over will grow from 2.5 to 6. Thus, it is a pretty good bet that healthcare for the elderly is going to be a big – if unglamorous – growth sector. The Internet of things and robots are both likely to have a significant effect on how the growth of elderly care pans out.

It’s a similar pattern with other big change industries. If you take the automotive sector, the technology already exists to deliver driverless cars (and countries such as the UK are preparing legislation to deal with them). Early last year Elon Musk said, “My guess is that in ten years it will be very unusual for cars to be built that are not fully autonomous.” But what will this mean for the world of business? Proximate effects such as the disappearance of taxi driving and truck driving as professions are easy to predict. Others, though, are far less obvious. If – via pools of hailable cars – driverless cars lead to a huge fall in auto ownership, what will all that free space on the roads mean (as most owned cars spend 95 per cent of their time parked)? And will driving become like flying, where people take productive work along to do? Will meetings in cars become the norm?

Genetics is perhaps the biggest ‘what if’ of all. It holds out the potential to deliver everything from plastic-eating caterpillars bred to clean up the world’s waste, to algae producing bio-oil, to the end of conditions such as deafness. How changes such as these will mix with other
factors is still a big unknown. Here it’s always worth remembering that, in the early days of social media (way back in 2007), nobody imagined that armies of Russian bots would be affecting US elections.

WHICH SECTORS ARE RIPE FOR DISRUPTION?

For these reasons, it is also difficult to predict which industries will be disrupted next. There are plenty of sectors that one would expect to have been disrupted but haven’t yet. Real estate is one. Most people still use traditional estate agents (despite their high fees), largely because of the peculiar economic incentives around buying and selling houses. But, when change comes, it can come very fast. For years the taxi and minicab business was viewed as reliably low-tech. But Uber changed all that – and practically overnight in many places.

Similarly, many professions such as law and accountancy are not so different from ten years ago. Here, however, it seems likely that we are going to see large swathes of relatively low-level jobs (such as paralegal work and repetitive accountancy roles) taken over by machines. This will be the white-collar equivalent of the robotisation of automotive assembly lines.

Jobs much, much further up the value chain may be ripe for disruption too. Sudhir Nanda, head of the quantitative management arm of T. Rowe Price, recently told the UK’s Financial Times: “Humans aren’t going to be completely replaced [in fund management], but they will be mostly replaced.” Indeed, many have been arguing for years that vast areas of financial services are ripe for disruption as soon as the technology gets good enough. It hasn’t happened yet – but it never happens until it does. (Read more about fintech starting on page 49.)

THE MANAGEMENT OF THE FUTURE

If you want to see how the business of the future might look, you could do worse than visit one of the co-working spaces that have sprung up in cities like London and Berlin. These have quickly become ecosystems. The branding consultants on the second floor refer people to the app design start-up a floor down, who are clients of the delivery business in the space next door. Perhaps the most interesting recent development here, though, is that traditional companies (such as KPMG and HSBC) are now setting up outposts in these places because they want to be part of this ecosystem and they want to work with the new businesses emerging from it.

More generally, says Cary Cooper, professor of organisational psychology at Manchester University business school, the world of work is going to be more malleable, more technologically enabled, and companies are likely to be more dispersed. “The leaders of the future need to be more flexible, more empathetic, and more socially skilled,” he says. “They’ll need to manage relationships with people, with technology and, eventually with machines.” They will
also, he adds, need to manage people’s fears about the accelerating pace of change and the rise of smart machines.

Companies are also more likely to be asked to provide a sense of purpose and have values that customers and employees agree with. In a recent survey undertaken by EY’s Beacon Institute and Harvard Business Review Analytic Services, 90 per cent of executives said their companies now recognise the importance of having “an aspirational reason for being which inspires and provides a call to action for an organisation... and provides benefit to society”. These companies tend to be better run and attract better staff.

Along with this meaning, those who work for the companies of the future will expect greater flexibility in their working patterns, greater autonomy, and far more feedback. Professor Cooper believes that all these changes point in one direction. “What we really need more of,” he says, “is people with higher emotional intelligence. I think the future of work is female.”

“THE LEADERS OF THE FUTURE NEED TO BE MORE FLEXIBLE, MORE EMPATHETIC, AND MORE SOCIA LLY SKILLED.”

PROFESSOR CARY COOPER

PREPARING FOR THE FUTURE

Regardless of the industry you work in, you should be expecting disruption and change and looking to future-proof your business. But here, the odds are against you. According to Julius Baer’s Next Generation research analysts Fabiano Vallesi and Alberto Perucchini, dominant internet and digital players with an edge in data capture, Al and big data analysis can leverage their capabilities to enter and dominate nearly every industry, to the detriment of incumbent firms.

So what can you do in a world where change is accelerating and is often so multifaceted that it is virtually impossible to predict? The first step that you should take is to expect change and have the flexibility to deal with it. This can mean everything from greater diversity to being close to your customers to collaboration with competitors to being able to make decisions quickly. The second (closely related to the first) is to build resilience.

Of course, all this is easier said than done. But as they say, “It’s tough to make predictions, especially about the future.”
Insect burgers and teriyaki crickets – will dishes like these soon be a normal part of everyone’s diet? To many people in the West, it may sound far-fetched, but slowly businesses are emerging that believe entomophagy (the human use of insects as food) is the solution to the world’s growing protein shortage.

AUTHOR: Janet Anderson
Around the world, insect-based start-ups are emerging from their cocoons: Essento, in Switzerland, is selling insect burgers in supermarkets across the country and Flying SpArk, in Israel, is producing powders and oils made from fruit flies. Top chefs, including Alex Atala of the Michelin-starred D.O.M. in Brazil, are also beginning to experiment with insects. Insect recipes are available for home cooks, and Finnish company EntoCube can provide budding farmers with specially designed containers to produce food-grade insects. These entrepreneurs are all driven by a similar conviction – that the way we eat now is not sustainable.

A LOOMING PROTEIN GAP

By 2050, there are predicted to be 9 billion people on the planet. To feed the world’s population, food production will need to almost double, according to the UN’s Food and Agriculture Organization. “Demand for meat products will increase by 70 or 80 per cent, yet current livestock production already takes up around 70 per cent of all agricultural land. Bringing more land into production is not possible and the scope for increasing production per unit of land is limited,” says Professor Arnold van Huis, a tropical entomologist from Wageningen University in the Netherlands.

What is more, the environmental costs of today’s agriculture are high. Meat production alone is responsible for around 15 per cent of greenhouse gas emissions and 60 or 70 per cent of all ammonia emissions. Producing one kilogram of beef takes 20,000 to 40,000 litres of water. We have already overfished our oceans, yet meat and fish are the principal sources of protein for many people on the planet.

So how can we produce additional protein in a sustainable way? Professor van Huis believes insects will be an important part of the solution. “In terms of feed conversion efficiency – meaning how much feed an animal needs to produce an edible product – insects are the best. And whereas you can only use about 55 per cent of a chicken, with insects like mealworms and crickets you can almost eat the whole thing,” he says.

Insects are not the only potential alternative source of protein, of course. From pulses and algae to lab-grown meat, other solutions exist or are being developed, but Professor van Huis believes insects have by far the best prospects. The beauty of insects is that they are a highly abundant resource – there are 2100 edible species and at least 2 billion people around the world eat them regularly today. So what is holding us back?
Today’s ‘entopreneurs’, as they have been tagged, face an uphill battle in the West, where most people think insects are a pest and eating them is disgusting. There is a reason for this, says Dr Julie Lesnik, a biological anthropologist at Wayne State University in Michigan, US, whose research focuses on the evolution of the human diet. “Humans have eaten insects for millions of years. Before sophisticated weapons were developed, insects were a reliable source of food. It’s easier to visit a termite mound than to go hunting, especially for a mother carrying her children,” she says. “But when humans left Africa and went north to non-tropical environments they had to rely more on hunting, because in the cold winters there were fewer insects available.”

INSECT-BASED FEED

If the Western reluctance to see insects as food is so deep-seated, perhaps there is another way: feed the insects to the animals we normally eat. This is the approach taken by Bühler, a global leader in providing plants and processes for food and feed products. It has teamed up with the Dutch company Protix, one of the pioneers in insect products, to offer automated insect rearing and processing facilities to clients around the world.

“We face two major problems,” says Andreas Aepli, CEO of Bühler Insect Technology Solutions. “We have not only a demand for more meat, but also a shift from grain-fed to protein-fed animals like fish and chicken. Our traditional sources of protein – soybean meal, fishmeal, and other animal meals – are all problematic. Using insects as an ingredient not only solves this problem but also transforms organic waste into high-value nutrients. Insects are the right solution. They have the least environmental impact in terms of water, land, CO₂, and energy.”

At the new plant, high-quality insect ingredients are produced at an industrial scale. “Separating and extracting the proteins and lipids at scale, efficiently, reliably, with full traceability and feed safety – that’s where we are breaking new ground,” says Aepli.

Indeed, Aepli believes we could be witnessing the birth of a whole new industry. He estimates that by 2050, insects could account for 15 per cent of global protein production, with the market expanding beyond feed and into human food. “We are already getting interest from all over,” he says. “The Asian market will probably grow fastest, but demand will not be saturated any time soon.”
One hurdle yet to be overcome is legislation, which until recently did not really take into consideration the use of insects for food and feed. For example, in Europe unused food from supermarkets, restaurants, and homes can’t be fed to insects yet – even though this would constitute an efficient way of recycling. However, there are also promising signs in legislation: the European Union has recently started to allow insect-based products for fish and pets.

CHANGING ATTITUDES IN THE WEST

Meanwhile, insects are slowly appearing on menus and in supermarkets in the West. Could food preferences change? Sushi was unknown outside Japan until recently – now it’s ubiquitous. Shrimps are enjoyed around the world, in spite of their close resemblance to insects. “There is proof that tastes can change,” says Dr Lesnik. “Grasshoppers have been offered as a novelty food at sporting events in the US and sold out, so it can happen.”

But Professor van Huis says it’s difficult to predict how quickly public opinion will change. “A company in the Netherlands tried to introduce burgers made with insects a few years ago, but they were not tasty enough and didn’t catch on,” he says. “It requires good products and strong role models to promote the idea.”

Aepli agrees: “Demand for insect-based food will increase if the food industry develops products with a distinct taste that do not try to imitate something else and bring added value. That’s the challenge.”

“IT REQUIRES GOOD PRODUCTS AND STRONG ROLE MODELS TO PROMOTE THE IDEA.”
PROFESSOR ARNOLD VAN HUIS
Q&A WITH MARC ZORNES, CO-FOUNDER OF WINNOW, ABOUT FOOD WASTE

WASTE NOT, WANT NOT

In addition to producing more food, reducing waste will be key. From solar-panelled refrigeration units to recycling schemes, businesses are starting to tackle the 1.3 billion tonnes of food waste produced each year. One such company is Winnow, a tech start-up developing ‘smart scales’. Here we talk to co-founder Marc Zornes:

How did you become aware of the problem of food waste?
I used to work at McKinsey, where I co-authored a research paper on resource productivity. I was struck by the food waste statistics: one third of all food is wasted from farm to fork and food waste costs the hospitality sector over USD 100 billion.

What does the Winnow technology do?
Kitchens using Winnow know exactly what they’re putting in their bins. They use a touchscreen tablet to identify what they’re throwing away. An electronic scale records the weight and sends a message to the user, giving the cost of the food they’ve put in the bin. Cloud software then records and analyses the day’s waste. This gives chefs the information necessary to improve their production processes to cut food waste in half, save money, and reduce their environmental footprint.

What impact has it had so far?
We have saved 4300 tonnes of food a year from landfill and 18,600 tonnes of CO₂ emissions, while delivering GBP 11.5 million savings to our customers. We are operating in thousands of kitchens in 30 countries, saving 22 meals every minute. In a relatively short period of time we have demonstrated that digital tools can help chefs drive significant change within kitchens that benefits both business and planet.
For almost two decades now, the next breakout sector has always been some permutation of the current breakout sector. Which is to say, in the mid 90s, the Internet took off and kept on taking off. First we had web 1.0 (the dot.com boom), then we had web 2.0 (mobile and social media), and next up is web 3.0 (the Internet of things). It has, to be fair, been a pretty all-encompassing revolution. But what about the next breakout that isn’t some new take on communications technology?

AUTHOR: Rhymer Rigby
In the early 90s, many people thought the next breakout sector wasn’t going to be the Internet. Rather, they expected it to be biotechnology. Indeed, inasmuch as science fiction often reflects societal concerns, the film ‘Gattaca’ predicted a future where genetic discrimination was the norm and genetic perfection (or lack thereof) determined people’s education and careers.

WAITING IN THE WINGS

‘Gattaca’ wasn’t wrong. Indeed, many people still have these worries, but it was rather premature. Biotech is in the strange position of having advanced hugely over the past 20 years, but not having changed the world nearly as visibly as the Internet. There is no Facebook of genes.

Partly this is because of the products biotech delivers. Silicon Valley delivers a lot of consumer technology. Whenever the next Instagram arrives, we’ll be able to download it on to our phones and start playing with it immediately. What biotech delivers – new methods of editing genes, new drugs, and disease-resistant plants – tends to be less consumer-facing. We usually benefit from these advances without really knowing about them unless they affect us in a direct and personal way (for example, a new heart drug). But all this could be about to change.

In 2016, Mark Zuckerberg made an extraordinary announcement. With his wife Priscilla Chan, he pledged USD 3 billion with the goal of eradicating all diseases within his newborn daughter’s lifetime. “It’s easy to imagine modern tools that could unlock progress in each of the four major disease categories today,” he said. “AI software to interpret brain imaging or datasets of cancer genomes, a chip to diagnose any infectious disease, continuous bloodstream monitoring to identify diseases early, and maps of all the different cell types and states to help design drugs to combat any given disease.”

This announcement highlights one of the key trends in biotech – that we are looking at the merger of what is considered ‘normal’ tech and biotech. In a 2017 EY report on biotech, Lisa Suennen of GE Ventures noted that ‘digital health’ is rapidly becoming a non-category. Technology is a key part of healthcare as it is of any other industry. We don’t call banking ‘digital banking’, and we won’t long call this intersection of technology with health ‘digital health’.

“It’s easy to imagine modern tools that could unlock progress in each of the four major disease categories today.”

MARK ZUCKERBERG
The extraordinary advances in computing power in areas such as AI, cloud computing, and big data are already transforming biotech, healthcare, and life sciences. In the way that many communications and electronics companies have effectively become data companies, so too healthcare and pharmaceuticals companies will become as much about the information they hold as the products they make and the patients they care for. In the longer term, this blurring is likely to become even greater.

Similarly, from the other side, the tech giants (notably Google and Apple) are increasingly interested in becoming big players in the multi-trillion-dollar health market.

It’s not just the intersection of health and data, though. Numerous other biotech developments are changing the world of medicine. We already have a Swedish company, called Cellink, which makes bio-ink for 3D printers. Soon we are likely to see the printing of tissues such as skin and muscle and, after that, the 3D printing of replacement organs. We currently have artificial limbs that can be controlled (somewhat) by the brain, but we are only at the very start of this technology.

In the longer term we could be looking at augmented thinking with brain plug-ins straight out of science fiction. Meanwhile, the understanding of disease and ageing means biotech is likely to radically lengthen our lifespans. The greatest proponent of this is Aubrey de Grey of SENS, who has suggested that the first person to live to 1000 has already been born. Dr de Grey is not without his critics, but this is by no means ridiculous. If you are 20 today, all you have to do is live long enough for technology to continue lengthening your lifespan. It is not impossible that, in some of the world’s wealthier regions, there are people alive today who will live forever.

LOOKING BEYOND HEALTHCARE

The promises that biotech holds out are not just about healthcare, either. The industry will begin to visibly affect every aspect of our lives. The Silicon Valley firm Just, Inc. has said it hopes to have lab-grown meat on the shelves in 2018, while Memphis Meats (a ‘clean meat’ start-up) says it will have products in the stores by 2021. Even if artificial meat only started to nibble away at conventional meat production, the potential ramifications are huge. Around 30 per cent of the world’s ice-free surface is used (in some way) to raise the animals we eat. Moreover, cows, which produce methane, are huge contributors to global warming.

“Even if artificial meat only started to nibble away at conventional meat production, the potential ramifications are huge. Around 30 per cent of the world’s ice-free surface is used (in some way) to raise the animals we eat.”
ENVIRONMENTAL SOLUTIONS

Biotech holds the key to solving numerous problems, too. A pair of breakthroughs occurred in 2017, both of which could be the start of something enormous. Researchers at Cambridge University discovered that the wax worm, a moth caterpillar, has the ability to chomp through polyethylene at ‘uniquely high speeds’. The larvae can make holes in a plastic bag in less than an hour and, potentially degrade plastic more than 1000 times faster than was previously thought possible.

Dr Paolo Bombelli, a biochemist at Cambridge who is working on the study, says, “This discovery could be an important tool for helping to get rid of the polyethylene plastic waste accumulated in landfill sites and oceans.” Yes, caterpillars could solve our garbage problem.

As well as getting rid of the plastic waste that is one of oil’s unfortunate end products, biotech in the form of modified algae could help produce oil itself. In mid 2017, a joint venture between ExxonMobil and Synthetic Genomics announced a breakthrough. The team has used genetic engineering to boost the oil content of an algal strain from 20 to 40 per cent, without slowing its growth. This is serious stuff: ExxonMobil has invested hundreds of millions of dollars in algal oil research.

Obviously, these are just a few of the possibilities that biotech holds out. But only a few of the sector’s possibilities need to come good for it to really start changing the world around us.

Over the past 20 years, the Internet has revolutionised the way we communicate, how we deal with information, and how we entertain ourselves. But a biotech revolution could make this look trite and superficial. In the medium term, biotech is likely to begin changing the living world and the way we relate to it. Ultimately, it is going to change us, as part of that living world.

If biotech is the next big thing, it’s going to make all the previous big things look very small.
Finding the next big thing in the tech industry isn’t easy. With thousands of start-ups clamouring for capital and investors’ attention, how do you know where to put your money? Klaus Hommels, one of Europe’s leading venture capitalists and a regular on the Forbes Midas list, shares his thoughts on VCs, spotting winners, and the European start-up scene.

INTERVIEW: Emily Rookwood
As an investor Klaus Hommels started young. When he was a teenager, his grandmother gave him USD 20 000 and told him to buy shares. Any money he made, she said, was his to keep, while she would absorb any losses. The idea was that, at the very least, it would make him sceptical about banks and the financial industry. However, he wound up investing in the sportswear manufacturer Puma’s IPO and tripled his investment – not a bad boost to his DM 10 per month pocket money. He was hooked.

Having been bitten early by the investing bug, over the next few years Hommels developed an interest in technology. In 1994, he joined AOL as its fifth employee. He was a main board member when he left AOL in 2000 to become an independent investor – just a few months before the dot.com bubble burst. He suddenly found himself unemployed with three children and a mortgage. It was touch and go for a while but, a few years later, his bets began to pay off. Early stage investments in companies such as Skype, Facebook, and Spotify helped to boost his profile and now, 15 years down the line, he is one of Europe’s leading venture capitalists (VCs).

How do you see venture capitalism developing over the coming years?
Venture capitalism is driven by innovation, and innovation is driven by Moore’s Law, which states that the number of transistors on a chip doubles roughly every two years. This means that for the first few years growth is slow, but then the exponential curve kicks in. If you think of the changes that took place between 1995 and 2005, they were fairly small, but the changes that occurred between 2007 and now, particularly with devices like the iPhone and the opportunities they have opened up, have been huge.

We are now on the steeper part of the Moore’s Law curve. Mobile phones that are currently available have a processing capacity that is somewhere between the brain of an insect and a mouse. By 2023, or thereabouts, we’ll probably see devices that will have the capacity of a human brain. If Moore’s Law holds, by 2030–2035 an iPhone will be as smart as all human brains on earth put together. This is the underlying reason why the speed of innovation will only increase – and this amazing development will continue to fuel the growth of venture capitalism.
“I think there are big trends, but I don’t believe you can construct an intellectual model to help you identify growth areas or companies.”

KLAUS HOMMELS

Considering the speed of innovation, how do you spot emerging growth industries?
I think there are big trends, but I don’t believe you can construct an intellectual model to help you identify growth areas or companies. If you could, then there would be huge numbers of smart people investing more successfully than me or my fellow VCs. When it comes to finding growth, it is less about applying a model and more about gut feel and imagination – you need to be able to imagine where current developments might go.

When you’re looking at growth industries, how do you identify the company that will become the next big thing?
You look at growth sectors like drones or mobility and then you try to understand the value chains of the companies within these sectors. Once you have achieved a good understanding of this, you identify your favourite part in that value chain. Next, you try to meet everybody who has some sort of business idea in the area of the value chain that you like.

The overall goal is to find entrepreneurs who are on a mission to solve a problem, a problem which they are totally passionate about. Nobody who founds a company just because they want to get rich, gain social status, or look chic will ever succeed. The entrepreneurs who build great companies are always the ones who are on a mission to solve problems.

When it comes to investing in promising new businesses, what is the relationship between an initial high valuation and long-term success?
With internet businesses, entry valuation doesn’t really matter. It is simply the means to find a hygienic formula to integrate people who help you into your capitalisation table. As a VC, it doesn’t help to give low valuations and small amounts of money because then the entrepreneurs can’t do their magic. If you do this, you strangle them twice: first, because they lose so much of their own equity that they are no longer motivated, and second because you will probably have to give them a boost through stock options later anyway. The art of valuation is to understand the scope of the product and then give them enough money so you hit the sweet spot for developing the company.
In the US, companies tend to have higher valuations and VCs invest more. While it doesn’t really matter what the entry valuation is, you need to ensure that you give a good entrepreneur enough so that they can run for longer, hire stronger people, and achieve more. This will mean that the next valuation is much higher and underpinned by a better business and, it will over-compensate you for being a little bit over-generous in the early stages. And if we don’t give start-ups in Europe more money, American competitors will always be better funded and we will never be able to create a level playing field.

Switzerland is ranked number one in many innovation indices. Do you think this is reflected in the start-up scene?
I believe Switzerland is lagging behind when it comes to tech in general, but if FINMA (the Swiss Financial Market Supervisory Authority) is smart we could create a ‘Crypto Valley’ in Zug. This would change the face of Switzerland as far as the tech industry is concerned.

Obviously, there are regulatory issues that need to be tackled, but this is a new sector and one where Switzerland is perfectly positioned to become a global hub. There’s structural support and, because it is an intermediaries business, companies will be prepared to relocate here. You don’t need to be physically close to big markets to make investments and Switzerland has a number of advantages, including the ability to create a great legal environment. It’s a huge opportunity.

What challenges will businesses face in the coming decades?
When it comes to business in Europe, we have to take back control of our digital destiny. We can do this by becoming stronger on the regulatory front, or by becoming better when it comes to actively taking part in the development and financing of the businesses of the future. What we need to do is both.

In the past, 20–25 years ago, you could buy shares and take part in tech value creation. But now, high IPO prices mean the value creation happens mainly in private markets. Swiss private banks have been pretty good in this area and are helping to make these asset classes accessible to their customers. But still, Europe as a whole has a long way to go.

To give you an idea of where we are today: the top 30 non-listed digital companies in the world have collected some USD 60 billion in financing over the past eight years. European money took part in just 14 per cent of the rounds, invested 1.9 per cent of the capital, and is represented with a mere 1.4 per cent in the cap tables of these companies.

This is basically an insolvency declaration. When you look at Europe’s place in the world in terms of population or GDP, this figure should be between 20 and 25 per cent, not 1.4 per cent. We need to address this issue very quickly in Europe – otherwise we will become slaves to the big platforms which will be run from the US and China.
New forms of mobility are an important issue for businesses, governments, the scientific community, and society at large. As the founding global partner of the ABB FIA Formula E, Julius Baer has invested in one of the megatrends that will shape our future. Since its inception, the first fully electric racing series combines the thrill of automotive sport with a role as a test bed for innovations in technology, mobility and the conceptualisation of ‘smart cities’. It is a pioneering commitment that reflects our belief that how we invest today determines how we will live tomorrow.

Dive into the world of Formula E with our exclusive glossary on the electric street racing series, which explains all you need to know about the world’s first fully electric international single-seater category in motorsport – from A as in ‘acceleration’ to Z as in ‘Zurich’.

**Acceleration:** A Formula E car is able to accelerate from zero to 100 km/h in only three seconds, before reaching 225 km/h (140 mph), the maximum speed allowed by the rules of the ABB FIA Formula E Championship. The racing cars could, in theory, run much faster, but the top speed has been capped for safety reasons.
Battery: Every team uses the same battery technology – lithium-ion batteries with a capacity of 28 kWh. With the arrival of new 54 kWh batteries during the 2018/19 season, capacity will nearly double and the current mid-race battery swap will be eliminated. The racing cars will then be pushing out at around 220 kW, a 30 per cent increase in output. That means higher speeds and, hopefully, even more excitement.

FANBOOST: Formula E fans can support their favourite driver through this unique online voting system. The three drivers who obtain the most votes ahead of a race are awarded a ‘FANBOOST’ – a power boost of 100 kJ – a great advantage when attempting a crucial overtake. You can cast your vote through Formula E’s website (fiaformulae.com/fanboost) or the official app.

Gears: Electric cars do not necessarily need gears. Formula E racing cars do, however, use a gearbox to make the most efficient use of the power delivered from the battery via the motor. During the first Formula E season, all teams used a five-speed gearbox. The rules have since been opened up, enabling the teams to choose between having a single gear all the way up to four gears. Some teams have chosen to keep the original five gears.

Julius Baer: As the exclusive global partner of the electric street racing series, Julius Baer has been present since the inaugural race of the ABB FIA Formula E Championship, which was held in Beijing in September 2014. Julius Baer recently extended its global sponsorship until the end of the 2020/21 season.

Kilowatt: Formula E cars have 200 kW, equivalent to around 270 brake horsepower, at their disposal throughout the practice and qualifying sessions. During the ‘E-Prix’ – the race itself – the maximum power is limited to 180 kW, which is 10 kW more than the championship’s previous seasons.

Manufacturers: Racing cars from nine renowned manufacturers from seven countries lined up for the fourth season of the Formula E championship as it kicked off in December 2017. BMW and Nissan have announced they will be joining in season five, with Porsche and Mercedes slotted to join in the sixth season.

Cooling systems: One of the biggest challenges faced by Formula E engineers is offsetting the excess heat generated by the electric motors. Simultaneously, inbuilt safety systems automatically restrict the performance of the racing car when it gets too hot, slowing it down while it cools. To prevent the loss of speed during a race, cooling systems using radiators and cooling fluid in closed loops have been designed to maintain ideal operating temperatures.

Drivers: Many drivers have experience in other categories of motorsport, including Formula 1. One of the most successful drivers to date is Switzerland’s Sébastien Buemi, who won the Formula E championship in season two. In season three, he came in second behind Brazil’s Lucas di Grassi. Both are competing in season four, which started in December 2017.

Engine: A Formula E motor not only needs to be able to deliver top speeds and increase overall efficiency, it must also be reliable under racing conditions and consistent in its power delivery, as well as remain small and light enough to fit into the single-seater racing car. As the FIA’s regulations have become more lenient, each team is now allowed to develop its own engine solution, with a maximum of two motor generation units (MGUs) linked to the rear axle of the racing car.
**Noise:** Contrary to popular belief, Formula E cars are not totally silent. They produce a unique, futuristic sound reaching around 80 decibels. The reduced noise is one of the reasons why Formula E can race in the heart of cities as it causes less disruption.

**Overtaking:** As batteries used in Formula E cars are all the same, the racing is highly competitive and results in great viewing for fans across the world. Racing on tight street circuits can cause mayhem on the first few laps of the race – sometimes finishing up with a lot of carbon fibre on the track!

**Powertrain:** When the fully electric ABB FIA Formula E Championship was launched in 2014, all powertrains – the engine, inverter, and gearbox – had to meet a fixed set of specifications. The rules have since opened up and the teams are allowed to design their own powertrains.

**Qualifying:** The starting grid of the E-Prix race is determined by the qualifying session, where the cars go out in four randomly selected groups of five. Each group has six minutes on track, which boils down to an out-lap and an in-lap, as well as one ‘flying’ lap. The five fastest drivers proceed to the Super Pole, which allows the top five drivers to go out one by one to set their fastest lap time and compete for the Julius Baer Pole Position.

**Race:** The results of the qualifying sessions set the formation for the E-Prix starting grid. The race drivers line up on a dummy grid – a short distance behind the actual race grid – and then slowly file into position to
start the race. A race lasts approximately 50 minutes, with each driver making one mandatory stop to change cars. This mid-race car change will be eliminated as of the 2018/19 season, when a new standard battery will be used.

**Street circuits:** The current Formula E season features 12 races, including two double-headers, all set in different inner-city venues. One of the USPs of the championship is that Formula E races are almost exclusively held in urban settings rather than on traditional racing tracks. The newly added locations of the fourth electric street racing season are Santiago (Chile), Rome (Italy), and Zurich (Switzerland). The season ends in New York (US) on 15 July 2018.

**Teams:** Ten teams are competing in the championship – MS & AD Andretti, Audi Sport ABT Schaeffler, DRAGON, DS Virgin Racing, Mahindra Racing, NIO Formula E Team, Panasonic Jaguar Racing, Renault e.dams, TECHEETAH, and Venturi.

**Vehicles:** During the inaugural Formula E racing season, all teams raced with an identical racing car. Formula E cars still look the same from the nose to the roll hoop, all the way to the rear arrow. They do, however, now differ below the chassis, as manufacturers can use their own drivetrains, motors, etc. The upcoming 2018/19 season will also see the debut of the newly designed Formula E car, produced by Spark Racing Technology. Its shape was inspired and defined by the FIA with the aim of having a futuristic and appealing design.

**Wireless:** Wireless charging is already a reality on the Formula E circuit for the Qualcomm safety car, a BMW i8. The driver simply parks the car above the ground-based charging pad and as soon as the two are aligned the car’s battery starts charging without any cables involved. This is clearly technology of the future!

**Zurich:** 10 June 2018 is the date of the first Formula E race to be hosted in Zurich, with a circuit running along the shores of Lake Zurich. Racing had previously been forbidden in Switzerland for decades, with the last event taking place at Bremgarten circuit in 1954. Restrictions on fully electric racing were, however, lifted in 2015, paving the way for Formula E to bring electrifying wheel-to-wheel action to the streets of Zurich.
Infighting, succession issues, and an aversion to innovation: family-owned companies are often criticised by proponents of modern business practices as having inherent weaknesses that inevitably lead to their demise. Yet some of the world’s biggest household names – think Walmart, Volkswagen, or L’Oréal – provide strong evidence to the contrary. A growing body of research shows that these companies have many strengths that can put them ahead of the competition and perhaps even teach it a lesson or two.

AUTHOR: Corene Sullivan
Family-owned businesses come in all shapes and sizes, from your local convenience store to international conglomerates. They can be privately or publicly held, and cover the full spectrum of products and services. Accounting for 80 to 90 per cent of the world’s companies, they are the pillar of most economies. The Global Family Business Index, a study published by the Center for Family Business at the University of St. Gallen in Switzerland, examines the largest 500 family-owned businesses worldwide in terms of revenues. It found that these companies contributed USD 6.5 trillion to global GDP and employed almost 21 million people in 2015. Could it be that the family business model contains elements that can help businesses in general endure long into the future?

LONG-STANDING RELATIONSHIPS AS SOCIAL CAPITAL

Founded in 1610, Japan’s Takenaka Corporation is the oldest firm featured in the Global Family Index, and speaks to the incredible staying power of well-run family companies. The architecture, engineering, and construction company is owned by the latter generations of the founding family and reports annual sales of around USD 9 billion. Its 400-year legacy would suggest that the concept of ‘shirtsleeves to shirtsleeves in three generations’ is by no means a foregone conclusion.

Marc van Essen, Professor at the University of South Carolina and Professor and Lecturer for the Global Center for Entrepreneurship and Innovation at the University of St. Gallen, has interviewed and researched hundreds of family-owned companies. He sees their strength in factors such as their focus on the history and tradition of the firm, as well as their long-standing relationships with customers, suppliers, and employees. In his view, these relationships are a form of social capital that provide continuity, and as a result a high level of commitment and loyalty from the various stakeholders. He says the success of family-owned companies can also be attributed to their often efficient leadership in the form of lean organisations and swift decision-making processes that keep them flexible and agile.
“The long-term orientation is a crucial factor in my view,” says van Essen. While many non-family-owned companies are under pressure to deliver results within a short time frame, when successful, the family-owned model can give a business the luxury of patient capital, which translates into enough time to pursue long-term strategies. This also allows them to implement and see longer projects through to completion while learning from failures along the way.

But the family-owned model also has its challenges. Although 44 per cent of the companies in the Global Family Business Index are owned by the fourth generation or older, longevity is not a typical hallmark of family-owned firms. In fact, many of them struggle to survive past the first generation.

NEW IDEAS AND CLEAR DIRECTION

Past success does not guarantee future prosperity. Keeping a step ahead of changing consumer behaviour, shifting markets, and technological developments is important for any business and requires openness to change and an ability to innovate. In its 2016 Family Business Survey, PwC canvassed 2800 family businesses across 50 countries and found that the biggest challenge identified by respondents over the next five years is the need to innovate continuously. “Because innovation and long-term commitment to R&D appear to be the most important drivers of family-firm performance, second-generation leaders should emphasise innovation over legacy preservation,” says van Essen.

A study co-authored by van Essen, entitled ‘Doing More with Less: Innovation Input and Output in Family Firms’, found that family companies invest less in innovation than other firms and that on average, they have smaller R&D budgets than other companies of a similar size. Interestingly, however, the study reveals that family firms are more efficient in their innovation process. This is in part attributed to their perspicacity in terms of risk; being highly invested in a single company often translates into particularly careful investment in new ideas. The high level of control families have over their companies also allows them to closely monitor and influence processes, and finally outcomes. The study concludes, “For every dollar invested in R&D, they get more innovative output, measured by number of patents, number of new products, or revenues generated with new products.”
Ermenegildo Zegna, the luxury fashion brand run by the fourth generation, embodies the ability of a company to innovate while upholding its tradition of quality. Zegna invests continuously in R&D to produce cutting-edge materials unique to the company. It has also developed a process that gives it a high level of control across the entire production chain; the company owns sheep as well as a wool mill, which helps ensure the high quality of its products.

**FORMALISING THE FUTURE**

But families are by definition complicated constructs. Differing visions, abilities, and objectives – particularly between one generation and the next – can pose a major challenge and lead to internal conflicts and succession issues. “Leadership transitions are an important cause of family-firm failure,” says van Essen. With one of the world’s biggest generational changes in recent history just around the corner, this matter is now more timely than ever.

While, according to PwC’s 2016 Family Business Survey, 43 per cent of respondents do not have a succession plan in place, van Essen is seeing a rise in the number enrolling in workshops and courses geared towards managing family-owned businesses. In addition, he notes that the popularity of consulting services in this area is also increasing. If family businesses can ensure smooth transitions between generations, they can find themselves in a very strong position – a position that many other businesses would be envious of.

**BUSINESS MODEL OF THE FUTURE?**

Family-owned companies have brought us revolutionary innovations such as the moving assembly line (Ford) and low-cost furniture in a box (IKEA). Some of the world’s finest wines are produced by estates that have been handed down the generations for centuries. The fact that many of these companies continue to thrive in this age of fast-paced change and digital disruption is reflected in the countless products and services they deliver to consumers around the world every day. Other companies might do well to look at the strengths of their family-owned counterparts and see whether these could also benefit their own models as they look to the future.
As the fintech movement approaches its tenth birthday, do the financial services have as much to fear from this disruptive technology as first thought? We talk to Dr Thomas Puschmann, Head of the Swiss FinTech Innovation Lab, who shares his views on the changes to come in the next decade.

AUTHOR: Emily Rookwood
Fintech was born in the aftermath of the 2008 financial crisis. Banks and financial institutions were forced to let staff go in droves just as technologies such as Bitcoin, blockchain, and smartphones were hitting the market – black or otherwise. The convergence of these two events led to a flood of new financial start-ups and the fintech revolution began.

But ten years on, how much has fintech actually changed the financial landscape? Dr Thomas Puschmann has been following the development of fintech since 2008. When he began the Swiss FinTech Innovation Lab at the University of Zurich in 2016, Dr Puschmann and his team expected most of the disruption to take place on a customer interface level. Yes, clients are able to have new experiences via their smartphones, but despite all the hype around robo-advisors we are yet to see them taking clients away from the incumbents in large numbers. Indeed, many of the online financial providers have instead hired human advisors, indicating that perhaps a hybrid model where fintech is used to support and improve the services provided by traditional bricks-and-mortar banks is more promising.

“The majority of fintech start-ups who tried to focus specifically on the client interface area found that it was more successful to work with rather than against the incumbents, as they had the clients,” explains Dr Puschmann. While robo-advisors and crowdfunding are still of interest, “there is a broader, bigger picture that seems to be guiding us towards the future and that is the idea of networked digital ecosystems.”

THE RISE OF THE DIGITAL ECOSYSTEM

It is the belief of those in the know that these digital ecosystems will cause the biggest disruption in the years to come, and the creation of the infrastructure and standards required to implement such a wide-scale, cross-industry collaboration will be hugely important. “New digital infrastructures like blockchain are the backbone of these digital ecosystems. They require new standards and open APIs to function. Banks will also have to open up somewhat so that they can collaborate with new players,” Dr Puschmann says. “What we are now interested in is how this new platform, or layer of infrastructure, will look and work, particularly as there are a number of legal, technological, and economic issues that remain unsolved.”

Of course, it is impossible to discuss digital ecosystems without considering blockchain and cryptocurrencies. Bitcoin has been the subject of an enormous amount of media hype in recent months given its spectacular rise in value and subsequent volatility. Where does Dr Puschmann see these two areas going? “Obviously you have to separate the two. Blockchain has multiple applications and is essentially a platform that allows for decentralised transactions and contracts. Bitcoin just happened to be the first application for that blockchain layer, and it gained so much attention because for the first time in history there was a web application to transfer ‘money’ on the Internet without banks.”

While Bitcoin was initially seen by many as a way to launder money and conduct criminal transactions on the dark web – you could exchange it anonymously and without authentication – its longevity is prompting countries all over the globe to have a closer look at the applications of cryptocurrencies. Indeed, the EU has recently made it illegal to exchange money without authentication, and Dr Puschmann believes other countries will follow suit. The hope is that this, along with a number of other measures, will create a much stronger legal basis for digital currencies.

A SECOND CRYPTOWAVE

In addition, Dr Puschmann explains, we are now seeing central banks experimenting with their own digital coins. This can be seen in Singapore, and the Bank of England also has a trial running. “On top of that we might then see new cryptocurrencies evolving which are not backed by central banks but are within a legal framework that is compliant with EU regulations or those of other countries,” he says. “This is the same development that we had with music exchanges many years ago. Napster was the starting point, and after that was shut down, others came along to take its place. They further developed the platform within new, legal frameworks and now you can have all your music online. There is the same potential for a second wave with cryptocurrencies.”
For this second wave to really take hold, the conditions for that from a legal and regulatory perspective need to be set. Dr Puschmann explains that this is already happening in Switzerland, where there is a blockchain taskforce in place to provide a framework for ICOs (initial coin offerings), enabling them to happen in a legal and regulatory environment which is compliant with the country’s rules. In addition, the country has created a new standardisation committee which is part of ISO (the International Organization for Standardization), and the academic research taking place at the University of Zurich and its partner universities worldwide can help to find answers for some of the open questions while providing a much-needed interdisciplinary overview.

This is all good news for Switzerland. As a result, Zug has become home to ‘Crypto Valley’, Silicon Valley’s fintech counterpart, and the smartest minds and most promising start-ups within the crypto and blockchain space are flooding to the area. Dr Puschmann, like Klaus Hommels (see article starting on page 31), sees real potential for Switzerland to develop into the world leader in this area of technology: “This is a great opportunity for Switzerland to establish something like we did with private banking in the past. Sure, there is competition from Singapore and Hong Kong, but I think we are in a better position.”

A NEW FINANCIAL LANDSCAPE

What does all this mean for the traditional banking industry? Like many others, Dr Puschmann predicts a change in the landscape where banks will no longer control all of the value chain. “The banking industry was always very good at keeping 100 per cent of all services, especially here in Switzerland. There has been no breaking-up of the value chain – until now.” So how will this play out? “I think in some areas fintech – and also ‘techfin’ companies like Google and Amazon – might replace parts of a bank’s business, when it comes to transactions, for example. It will become a question of which areas will stay with the banks, which will go to start-ups, and which will go to the big platforms. There will be a new landscape for banking, much like we saw with the travel and music industries a few years ago.”
Private banking is a business deeply rooted in tradition. The rise of digitalisation and changing client needs, however, mean the industry is undergoing a significant transformation. In an interview, CEO Bernhard Hodler talks about Julius Baer’s culture of anticipating and ushering in change, how he sees private banking of the future, and the importance of personal relationships.

**EVOLUTION AS A CONSTANT**

Mr Hodler, you have been working at Julius Baer for 20 years. During that time how has the company evolved to stay ahead of the industry?

Julius Baer has always been a dynamic and forward-looking organisation; it was the first Swiss private bank to change its legal structure and the first to be listed on the stock exchange. I joined the company in 1998 and this constant evolution continued with the sale of our international brokerage business in 2003 and North American interests in 2005, as neither fell within our core ‘pure private banking’ strategy. The biggest change came when the Baer family decided to give up their controlling stake and changed the voting shares to one share one vote to allow the company to grow. This was transformative, and significant acquisitions, including ING (Switzerland) and IWM Merrill Lynch, propelled Julius Baer into a new era of growth. Evolution is a constant at Julius Baer – we are a traditional business but one that is always looking to the future and anticipating change.

**To what extent are changing client needs shaping the industry today?**

They are having a substantial effect, but it is also a question of chicken and egg; we see technology influencing people’s behaviour but also behaviour influencing technology. We have spoken in previous issues of ‘Vision’ about how millennial preferences are driving changes in communication and business practices – from social media and the demand for a broader range of communication channels to sustainable business models. These preferences, and those of the generations to come, will play a significant role in the development of every industry, but particularly for us in financial services. We need to be aware of how our clients’ needs are changing, think about what that means for us as a business, and adapt accordingly.

**How is Julius Baer meeting these changing needs?**

We have defined a strategic roadmap, Transformation 2020, to ensure that we have the right tools, the right processes, and also the right people to make sure we are fit for the future. It addresses digitalisation, but also
how we can improve the advisory experience for our clients and client knowledge, as well as the strengthening of our investment management capabilities.

We understand the current need for change, but – to really look at the longer term – we need people in the organisation to think about what could make a real difference in their specific areas in the years to come. This could also involve working more closely with the disruptors, for example those in the fintech industry, to make sure that we are keeping pace with all new developments.

When looking to the future, how do you see private banking changing?
I am sure we will see lots of changes. When I look at how my children, who are now no longer children, behave and use technology, it is clear how far-reaching the internet revolution has been. That said, I’m sure we have not reached the end of the digital revolution and we therefore need to be open, observant, and agile so that we can not only react to it but address it proactively.

With regards to the financial industry in particular, I think that in our area of private banking you will see fewer financial service organisations providing all services from A to Z. Fintech is enabling disruptive new businesses to break up the value chain, which will lead to there being specialists in each of the different areas; some will provide access, others will offer different client interfaces, and the fintech companies working with blockchain will revolutionise the custodian business and transaction process. Private banks will still have an important role to play, however – the key consideration will be how and where we want to position Julius Baer within that whole value chain.

Within this new value chain, where do you see Julius Baer, and will our offering move from a product-led to a service-led approach?
If we ask ourselves what clients want from Julius Baer today and tomorrow, I think the answer lies with our pure private banking approach and our open architecture when it comes to investment solutions. We can offer a vast universe of both in-house and third-party solutions to our clients in a way that is unbiased, ensuring they are provided with the most appropriate solutions for all their needs. We have been very successful with this approach in the past, and I think that is also the key going forward.

However, to be able to do that, we have to understand the individual needs and values of our clients, their current and future circumstances, and how we can advise them holistically. That is why our advice to clients is centred around the question: “What matters to you?” As a trusted advisor, we do not want to simply respond to their immediate financial needs, but also provide guidance that is attuned to what they value and aspire to, possibly across different stages of their life.
Even if technology will inevitably fragment the financial value chain, at the end of the day there is an interaction between human beings, built on trust. These personal relationships are at the heart of private banking and our approach at Julius Baer, and I believe they will endure and become even more important in the future. As we see other elements of banking become increasingly commoditised, with more and more free information readily available, having someone you trust to coach you or even challenge you and help you identify what is important and relevant to your specific situation will be vital. For me, as a client, as an investor, this is where the value of personal advice plays out, and this is where we will carve out our niche within the new world of finance.

Agility is often cited as a key characteristic that businesses require to survive. How are we ensuring this quality permeates the corporate and management culture at Julius Baer?

It comes down to attitude and approach. We encourage every single employee to be curious, to ask questions, and strive to be better. Those qualities enable you to be agile and anticipate and deal with change quickly and efficiently. When it comes to the organisation as a whole, we need to have our eyes open, to watch what is going on in the industry and more broadly in geopolitics, global trends, and society. Our objective to be the trusted advisor to our clients remains constant, but the way in which we do that will need to adapt according to the changing expectations of our clients. This is why we place such emphasis on listening to and understanding our clients.

**On a personal note, you have continued your education throughout your career. How do business leaders stay agile and curious?**

The most important source of information for me is communicating with other people. It is great to talk to other bankers and have discussions within the Bank, but what I find most interesting is talking to our clients. We are proud to have a very interesting and diverse client base at Julius Baer, and we therefore have clients who are active in many different fields. By listening to the experiences of our clients I am able to learn a tremendous amount, and it is these discussions that give me the most input on how the world is changing. This exchange of information and experiences is hugely important to me. As a human being I am just curious; I want to learn and listen to people.

Of course, our clients also want to learn, and not only from their advisors but from each other. This is something we actively encourage at Julius Baer by bringing our clients together for round-table meetings and events. It is all part of our holistic approach, ensuring that our clients have access to networking opportunities that will benefit them not only financially but also personally.

**Since taking the helm in November 2017, what have your main priorities been?**

One constant priority has been and continues to be meeting clients and employees. But looking back at my first-100-day plan, it essentially had three phases. The first phase was all about communication with stakeholders, employees, clients, investors, and the press. My goal there was to
explain the leadership change at Julius Baer and reassure them on the continuity of our strategic direction. Phase two was to think about the strategy. I have been a member of the management team for 16 years and with the Bank for 20 years, so I helped to shape our current strategy. It is a good strategy, but nevertheless a leadership change is always a good opportunity to reflect on what to retain and what to do better. We did that in our executive team, taking a very honest look at ourselves. We agreed that we would not change our strategy, but rather sharpen its focus on being the trusted advisor to our clients.

We will also adopt a more focused approach for the markets we serve, thereby continuing to drive our proven growth strategy of organic development and targeted M&A. Another thing we worked on in the executive team was the development of our longer-term vision for the company – and this brings me to the third phase, which was again all about communication: I travelled to all our major locations to explain the cornerstones of our vision to our employees and asked them to participate in shaping it and helping us to realise it.

**So what is your vision for Julius Baer?**

We have identified three qualities that reflect who we are: pioneering, personal, and our focus on pure private banking. These are the cornerstones that will guide us into the future: we want to lead the way with our pioneering spirit and always ensure that our advice is personal and our connections human. That’s our vision of pure private banking in the world of tomorrow.

**“THE MOST IMPORTANT SOURCE OF INFORMATION FOR ME IS COMMUNICATING WITH OTHER PEOPLE. IT IS GREAT TO TALK TO OTHER BANKERS AND HAVE DISCUSSIONS WITHIN THE BANK, BUT WHAT I FIND MOST INTERESTING IS TALKING TO OUR CLIENTS.”**

BERNHARD HODLER
A RESPONSIBLE BUSINESS MODEL

As business models evolve to meet the rapidly changing needs of stakeholders, employees, and customers, we are seeing a clear shift towards responsible and sustainable business practices. It is no longer enough for a company to produce good financial returns for its shareholders; it should also produce returns for its other stakeholders. Amara Goeree, Corporate Sustainability Programme Manager at Julius Baer, examines how this increased focus on creating value for all stakeholders is materialising within businesses, and what this means for the private banking industry.

It is safe to say that business models as we know them are evolving. Whereas in the past topics like employability, resource scarcity, climate change mitigation, and income inequality were seen as the responsibility of a country’s government – with non-governmental organisations filling in the inevitable gaps – society now considers them to be the responsibility of businesses and society more broadly.

What, though, does that mean for businesses, and specifically the private banking industry? First and foremost, it represents a cultural shift that is reflected in consumer expectations. Recent research has shown that younger generations, millennials in particular, have a much greater interest in sustainable and responsible business practices. They want to support companies that share their values, and the same is true when it comes to investing – millennial investors are nearly twice as likely to invest in companies or funds that target specific social or environmental outcomes.¹

ADDRESSING CHANGE

Given the future economic power of the younger generation, businesses that want to thrive in years to come need to address these changing client expectations and operate in a way that reflects the growing importance of sustainable and responsible practices, especially within the financial sector. At Julius Baer, we asked a number of millennial investors with a clear and well-defined interest in sustainable finance – be it impact investing, sustainable investing, or ESG integration – to share their thoughts and insights on what private banks should be delivering, to help us shape our business strategy over the coming years. All of them agreed that sustainability should be fully integrated into how businesses are run in the future.

¹ Sustainable Signals: The Individual Investor Perspective. Morgan Stanley, February 2015
One noted that, just as grocery stores clearly label their organic and fair-trade products, financial institutions could implement a number of product labels in the future to make it easier for individual investors and their relationship managers to find the right investment based on the client’s needs. Another mentioned the importance of providing products and services that matched the values of the client by pointing out how each investor will have slightly different sustainability needs, depending on their background, culture, and life experiences. Finally, all the investors we spoke to highlighted the importance of clear messaging around the topic of sustainability; not only do they expect a broad range of responsible investment opportunities, they also expect their advisors and banks to share their values and operate accordingly.

A CROSS-GENERATIONAL SHIFT

Of course, it is important to take the needs of all investors into account, not just the younger generation. During a stakeholder panel in September 2017, the consensus was that private banks should focus more on creating not only direct financial, but also direct societal returns through their products and services, as well as through their managerial approach. They agreed with the millennial investors that responsible investment should be embedded in the standard offering.

That is exactly the business approach to sustainability that Julius Baer takes: we offer a broad range of products and services that are in line with our clients’ values and aim to embed these principles across our business model. This includes, but is not limited to, buying CO2 certificates to offset our carbon footprint and following the UN-supported Principles for Responsible Investment (PRI), bottom-up initiatives from employees worldwide aimed at supporting local and international charities, and demonstrating our dedication to sustainability and innovation as the global sponsor of the ABB FIA Formula E electric car racing series.

In addition to a responsible investment strategy and business model, it is clear that financial institutions, like all businesses, should be working to promote a broader cultural shift towards corporate sustainability. This type of change cannot be achieved simply by top-down implementation, though – it needs to be embraced by each and every employee.

This is why sustainability strategy discussions at Julius Baer include our employees and focus on the areas they have identified as being important, such as human capital management (including diversity, learning and development, and engagement), business conduct, integrity, corporate governance, and digitalisation. Diversity, learning and development, and digitalisation will play an increasingly important role in our business model as a direct result of employee input, and we will further strengthen the emphasis that we place on operating and investing in a sustainable and responsible manner to create value for our shareholders and society as a whole.

It is clear that corporate sustainability and responsible investment will be a key facet of all businesses in years to come, including in the private banking industry, where demands for transparency and sustainable practices are constantly growing. As a result of changing consumer expectations and a growing number of international initiatives, including the UN’s Sustainable Development Goals, a sustainability strategy is no longer a luxury but a requirement, and it is the responsibility of each and every business to promote sustainable development and practices as best they can.
Regulation-driven challenges, rapidly advancing technology, and changing expectations – in a world full of uncertainties, what do the coming years hold for the investment management industry? Yves Bonzon, Chief Investment Officer and Head Investment Management at Julius Baer, talks us through the trends shaping the industry, the importance of a business that endures, and the concept of a zero marginal cost society.

When we consider how the financial industry will change in the coming years, it is increasingly clear that we will see a bifurcation. You will have businesses – like ours – where the human touch will become increasingly important and command a premium, while at the other end of the spectrum, business models will emerge that take full advantage of technological innovations, are fully automated, and operate at very low marginal costs. Accordingly, we will witness a major redistribution of resources across the financial sector and the emergence of a very different financial industry landscape.

**ZERO MARGINAL COST SOCIETY**

The extreme vision of this future landscape is that, driven by technological innovation and connectivity, many industries and activities will experience ever lower capital intensity. Lower capital intensity means lower capital needs and therefore lower intermediation demand. In finance, we are essentially in the intermediation business; matching savers and investors; channelling capital from savers to invest into projects run by investors. In a zero marginal cost society with ever lower capital intensity, the demand for intermediation diminishes and that might lead to a profound reshaping of the investment management industry. Initial coin offerings, where the intermediary is essentially bypassed, give us a taste of potential changes for our industry.

This vision is most famously championed by American economist and writer Jeremy Rifkin. Obviously, this is an extreme, science fiction-style scenario, and while I am an intuitive believer in the trend towards a zero marginal cost society, I only see it playing out selectively in some industries. One of the key differentiating factors among sectors will be corresponding regulations, as the disruptive power of new technologies can only fully deploy its impact if the regulatory framework allows it to happen.

**INDUSTRY HEADWINDS**

We are, however, currently experiencing zero interest rates and financial repression. We can probably recover from this phase at a later stage, but if you study the case of Japan, which has been experiencing zero interest rates for some time now, you can see that it is not conducive to a very broad expansion of the financial industry. As long as zero interest rates and financial...
repression continue, they will represent a considerable headwind for the industry.

In assessing how the industry will change in years to come, it is crucial to take into account the influence of regulation. Since the 2008 financial crisis there has been an unprecedented bull market in regulations of all kind. Unfortunately, when it comes to regulation, the impact can only be as good as the implementation is effective and, critically, it will be subject to the law of unintended consequences. Of course, this has a material impact on our industry – consider the British regulator’s suggestion to regulate prices for financial services, capping revenues on a balanced multi-assets mandate for instance, to understand the impact that regulation could have on our business. But while I’m not sure we have reached peak regulation yet, there are emerging signs that we have reached the regulatory apex. I can only emphasise how important regulation is when it comes to shaping our industry – and indeed all industries – with both short and medium-term consequences.

A SAFE HARBOUR IN A STORM

We often have very little insight into the true intentions of regulators, which creates an air of uncertainty. In addition, all these regulatory decisions play out against a backdrop of broader global uncertainty caused by phenomena such as growing inequalities and relentless globalisation. These global issues are problematic as they trigger political responses which are by definition hard to predict. Few expected Brexit or the election of President Donald Trump in the US, for example.

In a world fraught with so many uncertainties and such rapid technological innovation, human beings need a reference point – something stable and long-lasting that they can rely on.

RESILIENT STRUCTURE

If you can create an institution, a tradition, and a brand that people throughout generations have always been familiar with, something that no matter where the world or society goes is still there for them – in our case a lasting, sustainable bank – that will be valuable for our clients.

If we look at what our industry has been through in the past ten years – including the crisis in 2008 and its fallout – its resilience and capacity to adapt is actually amazing. These abilities will continue to shape the investment management industry in an increasingly digital world and help us navigate the challenges to come, be they regulatory, geopolitical, or technological.

In the information age, as I have highlighted on several occasions, the killer combination will be man plus the machine. The reality is that, even enhanced with artificial intelligence, the machine will remain a tool. It therefore still comes down to how effectively man uses the machine. A builder who handles his trowel well will do a better job than a builder who handles his trowel poorly, and the same is true with advanced technology. It is the people who use the tool that will make the difference, and the successful financial business models of the future will attract the right people with the right skill set to thrive. The combination of such talents joining a flexible and resilient company will be the key to navigating the changing financial industry landscape in years to come.
BANKING ON CLIENT-CENTRICITY

As client expectations and regulatory requirements evolve, the private banking industry needs to adapt to a new landscape. In this issue’s expert column, Philipp Rickenbacher, Head Advisory Solutions, discusses changes affecting the industry and how to better serve clients by putting their needs first.

Before we consider the private banking models of the future, we must first analyse the situation we face right now. Not only are regulatory requirements becoming more extensive, but also the lives of our clients are becoming increasingly complex as families scatter in different countries and established work and life patterns change. However, as the bar for knowing your client (KYC) from a regulatory perspective continues to go up, we are presented with a valuable opportunity: to use the information that we are required to collect to create a positive impact for our clients.

Good relationship managers have always had an in-depth knowledge of their clients, but this knowledge has not necessarily been gathered in a structured manner and analysed to the advantage of the individual client. By taking a systematic approach to truly understanding the needs of each individual client – their ambitions, mission, vision, but also their situation and future goals – relationship managers can serve their clients much more effectively, especially when they are equipped with a dedicated toolkit to help them translate a client’s needs into financial solutions.

UNDERSTANDING WHAT MATTERS

This is why we are introducing Your Wealth. It is our promise to put our clients at the heart of everything we do and provide holistic advice tailored to their individual needs and objectives. By asking our clients the question “What matters to you?” and listening carefully to their answers, our relationship managers can apply the Your Wealth holistic advisory approach to translate those requirements into the best possible solutions. In addition, they can use their enhanced knowledge of their clients’ world to offer complementary services, such as networking and educational opportunities, that match their interests.

Of course, offering holistic advice is nothing new and many companies claim to offer such a service. However, I believe very few of our com-
petitors are living up to that claim. Yes, all banks have come a long way from simple product brokerage into a portfolio view, but that is not holistic. Offering holistic advice is not something that can be done within five minutes just by talking about it. It’s a long-term journey where all the different elements of our clients’ lives and the services we offer as a bank have to come together.

To be able to advise clients from a holistic perspective and provide them with real added value, you need to combine a systematic analysis and in-depth understanding of the client with profound financial expertise and the kind of long-term relationships that we are privileged to have with our clients at Julius Baer. While we have always put the client at the heart of our business – it is not just something that’s said in a marketing brochure, it’s how our bank functions – going forward, we want to place an even greater emphasis on understanding and meeting the individual needs of our clients.

When I think about how the private banking industry will develop in the coming years, I believe we will see the role of the relationship manager transform to match changing client expectations. Clients want their advisors to understand their needs and advise them accordingly, in addition to providing them with a broader understanding not only of their financial situation, but the financial landscape as a whole. Relationship managers will need to be able to envisage the bigger picture and draw up the financial blueprints for their clients; they will become wealth architects, if you will, devising a plan perfectly in tune with their clients’ vision.

I believe there is a big future for this type of client-centric service. Is this personal relationship model going to be the only way financial services will be delivered in the future? I’m sure it will not. I believe we’ll have other offerings, be they completely digital offerings or offerings that are so integrated in other services that they may not even be perceived as banking any more. But I believe the trust between human beings, and trust-based relationships, will always persist.

RECIPE FOR THE FUTURE

Of course, it is difficult to paint an accurate picture of the industry landscape ten years down the road. That said, I think the ingredients that a business needs to stay ahead in the years to come are clear: first, you need to have the right team around you – a team that is flexible, open-minded, motivated, and most importantly, dedicated to meeting and exceeding the needs and expectations of their clients; second, it takes great clients who help you to grow and transform as a business.

We are proud to have these clients and colleagues at Julius Baer. When you combine these ingredients with the recognition we have from our shareholders and our holistic approach, it is clear that Julius Baer is very well placed on this journey to the future.
The intersection between sound and silence may seem daunting, obscure, and even impossible to portray. Enter Swiss-American artist Christian Marclay, whose vibrant pieces depict an astounding level of sound all the while being completely inaudible.

**AUTHOR:** Zoë Wälchli
Christian Marclay, Actions: Splat Splooch Whap Blub Squich, 2014, ink and acrylic on paper, 213.5 x 148.2 cm
Born in 1955 in San Rafael, California, to a Swiss father and an American mother, Christian Marclay was raised in Geneva, Switzerland. His fine art studies took him from the École supérieure d’art visuel in Geneva to the Massachusetts College of Art in Boston to the Cooper Union in New York. As a student he was drawn to the Fluxus movement of the 60s and 70s, which allowed him to explore and define his artistic techniques using a wide array of media. Having won international acclaim in 2010 for his looped 24-hour film montage ‘The Clock’, Marclay now divides his time between London and New York, finding inspiration in the sights and sounds that surround him.

NOT YOUR TYPICAL ARTIST

Although Marclay has worked with varying media, including sculptures, performances, sound-based collages, ready-mades, videos, and paintings, he is often touted as a ‘sound artist’. Music critic Thom Jurek describes Marclay as the ‘unwitting inventor of turntablism’ for his early work using records and turntables (in which he recorded himself with a revolving turntable strapped to his chest while smashing the Jimi Hendrix LP it played). He is also celebrated as an avant-garde DJ – he was one of the first to use a turntable as a musical instrument, scratching records to produce alternative sounds. Indeed, his repertoire of record-related works is extensive – he has stacked records in massive black columns, scarred them with images, and even melted them into cubes.

3, 2, 1 – ACTION!

When the Julius Baer Art Committee saw the opportunity to acquire a key piece from Marclay’s ‘Action Paintings’ series, there was no hesitation. Barbara Staubli, Curator of the Art Collection, explains, “Christian Marclay is one of the most exciting artists of our time. He explores the relationship between art, music, and pop culture in his multi-layered work and has received international recognition for his pieces.” The Committee, responsible for the acquisition of new pieces for the ever expanding

Christian Marclay, Fwaash!, 2006, pigment print on Arches paper, 109.9 x 122.7 cm
collection, is well versed in recognising artists who push the boundaries of innovation and creativity. This newest acquisition’s grandiose expression of real-world sounds makes us aware of how phenomenally pleasing it is to ‘hear’ with our eyes.

Displayed on paper with mechanically silk-screened text, ‘Actions: Splat Splooch Whap Blub Squich’ incorporates sound mimesis from comic books and ultimately challenges silence in its very presence. Given Marclay’s penchant for collecting comic books, his bold displays come as no surprise. Sharis Alexandrian, Director at White Cube art gallery in London, explains, “With the ‘Action Paintings’ Marclay explores the representation of sound through the visual arts in a totally unique way; through onomatopoeia taken from comic books...in these paintings he focuses solely on the wet sounds suggestive of the action of painting.”

Hand-designed using ink and acrylic, the texts vary in size, colour, and form, and represent sound dynamics in a similar fashion to musical notation, appealing to one’s auditory senses in the absence of noise. Painted using mops, sponges, and even water guns, the masterpiece nears completion once the screen printing overlay has been applied. The final step may manifest itself as a performance – Marclay often collaborates with musicians who interpret his pieces as graphic scores, making him, in addition to an artist, both a performer and composer.

This piece, however, is not the first by Marclay that the Julius Baer Art Committee has acquired. Back in 1998 the Committee obtained its first video work, titled ‘Telephones’ (1995). Interested in the principle of ‘sampling’, which, for Marclay, consists of reassembling fragmented objects such as LP covers, vinyl records, and musical instruments, he compiled brief clips from various Hollywood classics.

The emotional seven-and-a-half-minute storyline montage features film stars making and receiving phone calls. Much like ‘The Clock’, which made its world debut 15 years later using the same technique, ‘Telephones’ is a story told by unified fragmented clips which results in a graceful, overarching conversation for Marclay to call his own.

**THE STORY CONTINUES**

Marclay’s script does not end there. Heavily focused on upcoming exhibitions, he undoubtedly has a long list of visionary ideas waiting to be realised. And with the recent acquisition of ‘Actions: Splat Splooch Whap Blub Squich’, it is no surprise that the Art Committee is eager to see what he will come up with next. Staubli explains: “Having had the opportunity to acquire a second piece by Marclay, we are excited to see his upcoming exhibitions that will surely inspire a revolutionary way of viewing, and listening to, the world.”
Christian Marclay, Untitled, 2004, photogram on c-print paper, mounted on cintra board, 50.8 × 61.0 × 5.1 cm
Art is no longer the preserve of the traditional collector. With the rise of online platforms, subsidiary businesses, and new philanthropic outlets, the nature of collecting, supporting, and investing in art has changed dramatically. Rebecca Jennings from The Fine Art Group explains all.
The art market is often viewed through the romantic lens of great art collectors like Peggy Guggenheim, patrons who contributed to huge cultural movements – in some ways as much as the artists themselves. These people are regarded not simply as ‘buyers’ but as mavericks who emboldened and enabled artists to explore the further reaches of their creative drives, forever altering the artistic landscape.

OUT WITH THE OLD, IN WITH THE NEW

With collectors being increasingly led by value, the art market has evolved beyond recognition with subsidiary businesses emerging alongside it, changing the infrastructure of the art market. One example of this is the art fair industry, while a more recent development has seen the emergence of online art platforms. In addition, the art-backed lending market has gone from strength to strength, giving investors the opportunity to gain liquidity and potentially invest elsewhere, and galleries and dealers the option to take out loans on stock that it is too early to sell so that they can continue trading.

Each new business offshoot affects and shifts the market, and thanks to these huge developments the art world has had to adapt. While demand for the traditional and historical remains strong, the most lucrative section of the market has shifted towards contemporary art.

Works by great Impressionist or Modern artists such as Monet or Picasso might seem the obvious choice, but most of their finest works are already owned by public or private collections and therefore the paintings available on the market are rarely of the highest quality or value and have often come up for sale more than once. As a result, collectors are turning to fresher works, buying pieces that are coming to auction for the first time or directly from galleries or art fairs.

It is not only the art market that is championing emerging and contemporary artists. Philanthropy within the art sector is also evolving to reflect the changing face of artistic expression. We are all familiar with major collectors making public donations to museums, funding new wings of galleries, or allowing access to their private collections, but individuals, and also business and foundations, are now building collections, hosting exhibitions, and working with new talents to help support their creative development.

The Julius Baer Art Collection is one such example. While the collection began back in 1930, the past 35 years have been dedicated to acquiring young, contemporary art as part of its philanthropic strategy to support up-and-coming artists with a Swiss connection. Acquisitions are made not as financial, but rather cultural investments, as they give young talents support and visibility at this crucial early stage. The collection, which boasts more than 5000 pieces, now features some of Switzerland’s best-known artists.

TIME TO DEVELOP

One such artist is Christian Marclay (see page 62). Attracted by his innovation and creativity, the Julius
Baer Art Committee acquired one of his early works in 1998. Over the years his oeuvre demonstrated an exciting artistic development, and with the 2010 piece ‘The Clock’, Marclay became a contemporary art world sensation, winning the Golden Lion award at the 2011 Venice Biennale.

When Julius Baer first acquired one of Marclay’s works, he was a relatively unknown artist, and his success since then illustrates how significant this type of philanthropic support can be for a young artist’s career.

Marclay’s career is also an interesting example of how the art market has embraced new creative trends. His video art is a great example of a person working in a contemporary medium, challenging the conservative view of fine art and thriving thanks to the art market’s forward-thinking approaches.

It is this flexible approach that will ensure that the art market, along with its growing number of offshoot businesses – art advisory, the art-backed lending space, and online platforms in particular – will continue to thrive in years to come. Far from being an industry of dusty, gilded frames and even dustier collectors, the art market is evolving to embrace new trends, digital advancements, and young, experimental artists.
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Julius Baer Group1 / December 2017

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BIS total capital ratio 22.0%

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