

Julius Bär

# BUSINESS REVIEW 2019

JULIUS BAER GROUP



# ABOUT JULIUS BAER

Julius Baer is the leading Swiss wealth management group. We focus on providing personal advice to private clients around the world, powered by high-end services and expertise. As pioneers, we actively embrace change to remain at the forefront of our industry – as we have done since 1890.

We manage our company for the long term and with an exclusive strategic focus on wealth management.

Our strategy is driven by the desire to achieve unparalleled client satisfaction, to further strengthen the reputation and standing of our Group and to realise sustainable, profitable growth.

We help our clients to achieve their financial aspirations through holistic solutions that take into account what truly matters to them – in their business and personal life, today and for future generations.

With over 6,600 employees, we stand for:

**SOLID** FOUNDATIONS

**PURE** WEALTH MANAGEMENT

**PERSONAL** CONNECTIONS

**INTERNATIONAL** NETWORK

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## KEY FIGURES JULIUS BAER GROUP<sup>1</sup>

	<b>2019</b> <i>CHF m</i>	2018 <i>CHF m</i>	<i>Change in %</i>
<b>Key operating data</b>			
Operating income	3,382.9	3,367.8	0.4
Adjusted operating expenses	2,465.9	2,390.7	3.1
Adjusted profit before taxes	916.9	977.1	-6.2
Adjusted net profit for the Group	772.0	809.7	-4.7
IFRS net profit for the Group	465.0	735.3	-36.8
Adjusted cost/income ratio	71.1%	70.6%	-
Adjusted pre-tax margin (basis points)	22.1	24.8	-
	<b>31.12.2019</b>	31.12.2018	<i>Change in %</i>
<b>Assets under management (CHF bn)</b>			
Assets under management	426.1	382.1	11.5
Net new money	10.6	17.4	-
<b>Consolidated balance sheet (CHF m)</b>			
Total assets	102,035.2	102,898.3	-0.8
Total equity	6,189.4	6,041.9	2.4
BIS total capital ratio	22.1%	18.7%	-
BIS CET1 capital ratio	14.0%	12.8%	-
Return on tangible equity (RoTE), adjusted	24%	28%	-
Return on common equity Tier 1 (RoCET1), adjusted	27%	30%	-
<b>Personnel (FTE)</b>			
Number of employees	6,639	6,693	-0.8
Number of relationship managers	1,467	1,501	-2.3
<b>Capital structure</b>			
Number of shares	223,809,448	223,809,448	-
Market capitalisation (CHF m)	11,175	7,836	42.6
<b>Moody's rating Bank Julius Baer &amp; Co. Ltd.</b>			
Long-term deposit rating	Aa2	Aa2	
Short-term deposit rating	Prime-1	Prime-1	

<sup>1</sup> The document Alternative Performance Measures available at [www.juliusbaer.com/APM](http://www.juliusbaer.com/APM) provides a reconciliation of adjusted performance measures to reported results under IFRS as well as definitions of adjusted performance measures and other alternative performance measures.

# FOREWORD

Dear Reader

Financial markets performed remarkably well during 2019. Many stock indices repeatedly printed new all-time highs, climbing the proverbial wall of investors' worries, which ranged from trade and geopolitical tensions to growth uncertainties. Some relief came at the end of the year with the emergence of an initial deal in the Sino-American trade dispute and the UK finding solid political footing to finally end the Brexit saga. Against this demanding backdrop, Julius Baer's operating performance and capital generation remained robust. With the company's strong financial foundation thus further strengthened, the Board of Directors decided to return excess capital to shareholders via a share buy-back programme.

*'We have opened a new chapter for Julius Baer.'*

In 2019, the Board of Directors fundamentally reviewed the Group's strategy and the strategic framework for long-term value creation. The updated strategy and management's plan to execute it were presented in detail on 3 February 2020. More information is available at [www.juliusbaer.com/reporting](http://www.juliusbaer.com/reporting)<sup>1</sup>. By opening this new chapter for Julius Baer, we aim to enhance client focus, enable fast decision-making and thus substantially increase the bottom line potential of our Group. The execution of the related three-year transformation programme will release considerable resources, which we will reinvest into our franchise along altered strategic priorities: we remain true to our pure wealth management business model, but will change the way and pace of implementation. We will explore the substantial untapped potential to deliver value to our targeted client segments. As the architects of our clients' wealth, we will tailor highly individual solutions in a client-centric, integral way – as personal as possible, yet powered by the best that technology has to offer.

Our future is all about being agile and connected. What applies to our employees and how they collaborate across organisational boundaries equally holds true for clients. Digitalisation will continue to be an important enabler, providing clients with rich channels to interact, and to get information and expert opinion. Internally, our set of digital tools to support relationship managers is constantly expanding. The purpose of such tools is to provide our clients with the best possible support to achieve their goals. The efficiency we gain in the process represents time freed for our front organisation to spend with clients – because personal interaction and true connections remain the key drivers of our business.

<sup>1</sup> For the purpose of the 2019 reporting, this information takes the place of the usual section *Julius Baer's strategic framework for long-term value creation* that is normally provided in the Business Review and the Group's annual report.

<sup>2</sup> Cf. footnote 1 to the table on page 5

At the end of 2019, the three-year client documentation review project was completed successfully. This enables us to control client-related risk even more effectively while at the same time allowing us to provide our clients with more targeted services and advice. The Group will continue to invest in further strengthening its risk management and compliance framework. Running and expanding our business profitably is the key to financial and capital strength. At the end of December 2019, the BIS CET1 capital ratio was 14.0%, and the BIS total capital ratio stood at 22.1%. At these levels, the capital ratios remain comfortably above the Group's floors of 11% and 15%, respectively, and significantly exceed the regulatory floors of 8.2% and 12.4%, respectively. The Board of Directors intends to propose to the Annual General Meeting on 16 April 2020 an unchanged dividend of CHF 1.50 per share. The total proposed dividend payout amounts to CHF 336 million, or 44% of the adjusted net profit<sup>2</sup> for 2019.

Our 130 eventful years of corporate history reflect the stamina of those many 'Baers' whose journey we are proud to continue. Looking forward to the future with confidence would be impossible without the continued support of all those who dedicate their work, trust and capital to Julius Baer. For this, we sincerely thank all our stakeholders.



**Romeo Lacher**  
Chairman

A handwritten signature in black ink, appearing to be 'R. Lacher', written in a cursive style.



**Philipp Rickenbacher**  
Chief Executive Officer

A handwritten signature in black ink, appearing to be 'P. Rickenbacher', written in a cursive style.

# FINANCIAL PERFORMANCE IN 2019

While operating income was stable and the 2019 cost reduction programme started to benefit the expense base, the adjusted result<sup>1</sup> was impacted by an increase in provisions related to legacy legal cases. The Group's capital position strengthened further.



Dieter A. Enkelmann, Chief Financial Officer

This Business Review and other communications to investors contain certain financial measures of historical and future performance and financial position that are not defined or specified by IFRS. Management believes that these alternative performance measures (APM), including adjusting the results consistently for items related to M&A activities, provide useful information regarding the Group's financial and operating performance. These APM should be regarded as complementary information to, and not as a substitute for, the IFRS performance measures. The definitions of

APM used in this media release and other communications to investors, together with reconciliations to the most directly reconcilable IFRS line items, are provided in the Alternative Performance Measures document available at [www.juliusbaer.com/APM](http://www.juliusbaer.com/APM).

*Assets under management (AuM)* increased by 12%, or CHF 44 billion, to CHF 426 billion. The growth in AuM was supported by a strong recovery in global markets, as well as net new money of CHF 11 billion (net new money growth rate 2.8%) and the first-time consolidation of NSC Asesores, which added CHF 3 billion.

Net new money was impacted by outflows at Italian asset and wealth management subsidiary Kairos, following underperformance in its funds in 2018 and a number of management departures in 2019. Excluding Kairos, net inflows for the Group developed at a net new money growth rate of 4.1%, with strong inflows from clients domiciled in Asia and Europe. This was achieved despite the impact of a number of client exits in the context of the client documentation review project (which was completed by the end of 2019), as well as modest outflows following a wider application of negative interest rates to large cash holdings in affected currencies.

<sup>1</sup> Cf. footnote 1 to the table on the next page

## ADJUSTED CONSOLIDATED INCOME STATEMENT<sup>1</sup>

	<b>2019</b> <i>CHF m</i>	2018 <i>CHF m</i>	Change %
Net interest income	792.2	805.3 <sup>2</sup>	-1.6
Net commission and fee income	1,922.9	1,902.9	1.1
Net income from financial instruments measured at FVTPL	618.1	644.1 <sup>2</sup>	-4.0
Net credit losses/(recoveries) on financial assets	9.2	3.0	-
Other ordinary results	58.7	18.5	217.1
<b>Operating income</b>	<b>3,382.9</b>	3,367.8	0.4
Adjusted personnel expenses	1,613.3	1,618.8	-0.3
Adjusted general expenses	683.3	681.4	0.3
Adjusted depreciation and amortisation	169.4	90.5	87.1
<b>Adjusted operating expenses</b>	<b>2,465.9</b>	2,390.7	3.1
<b>Adjusted profit before taxes</b>	<b>916.9</b>	977.1	-6.2
Adjusted income taxes	144.9	167.4	-13.4
<b>Adjusted net profit for the Group</b>	<b>772.0</b>	809.7	-4.7
<b>IFRS net profit for the Group</b>	<b>465.0</b>	735.3	-36.8
Adjusted net profit attributable to:			
Shareholders of Julius Baer Group Ltd.	771.1	809.7	-4.8
Non-controlling interests	0.9	-0.1	-
Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF)	3.55	3.72	-4.3
<b>Key performance ratios</b>			
Adjusted cost/income ratio	71.1%	70.6%	-
Gross margin (basis points)	81.7	85.5	-
Adjusted pre-tax margin (basis points)	22.1	24.8	-
Adjusted tax rate	15.8%	17.1%	-

<sup>1</sup> The document Alternative Performance Measures available at [www.juliusbaer.com/APM](http://www.juliusbaer.com/APM) provides a reconciliation of adjusted performance measures to reported results under IFRS as well as definitions of adjusted performance measures and other alternative performance measures.

<sup>2</sup> The 2018 numbers have been aligned to the improved structure of interest and dividend reporting related to financial instruments measured at FVTPL.

Including assets under custody of CHF 73 billion, total client assets grew by 12% to CHF 499 billion.

*Operating income* increased slightly to CHF 3,383 million (2018: CHF 3,368 million). As monthly average AuM increased to CHF 414 billion (up 5%), the gross margin declined to 82 basis points (bp) (2018: 86 bp).

The financial accounting treatment of interest expense as well as the former line items ‘interest income on trading portfolios’ and ‘dividend income on trading portfolios’ was changed to bring it more in line with common market usage. As a consequence, the former line items ‘net interest and dividend income’ and ‘net trading income’ are no longer in use and have been replaced by the new line items *net interest income* and *net income from financial instruments measured at FVTPL*<sup>1</sup>, and the results for 2018 have been realigned accordingly. The realignment had no impact on the other operating income line items or on total operating income.

*Net commission and fee income* grew by 1% to CHF 1,923 million. This was driven by a modest increase in advisory and management fees, partly offset by a decline in brokerage commissions and income from securities underwriting following a moderate year-on-year decrease in client transaction volumes.

*Net interest income* decreased by 2% to CHF 792 million. The benefit of growth in interest income on loans (on higher average rates) and interest income on debt instruments at FVOCI<sup>2</sup> (on higher average volume despite a decrease in volume towards the end of the period), was more than offset by an increase in interest expense on amounts due to customers (following a year-on-year increase in the average volume of US dollar non-current account deposits).

*Net income from financial instruments measured at FVTPL* declined by 4% to CHF 618 million following a year-on-year decrease in market volatility.

*Other ordinary results* grew by CHF 40 million to CHF 59 million.

*Operating expenses* according to IFRS went up by 14% to CHF 2,817 million. This increase was driven by a 24% rise in *general expenses* to CHF 851 million, a 225% rise in *amortisation and impairment of intangible assets* to CHF 168 million, a 10% rise in *amortisation of customer relationships* to CHF 81 million, and a 160% rise in *depreciation of property and equipment* to CHF 100 million. *Personnel expenses* decreased slightly, by CHF 5 million, to CHF 1,616 million. The first-time application of IFRS 16 (Leases) resulted effectively in a shift of CHF 64 million from general expenses to depreciation.

As in previous years, in the analysis and discussion of the results in the Business Review, *adjusted operating expenses* exclude acquisition-related expenses. In 2019, acquisition-related integration and restructuring expenses amounted to CHF 18 million (2018: CHF 10 million) and acquisition-related amortisation of intangible assets to CHF 81 million (2018: CHF 74 million). In addition, the adjusted operating expenses exclude a CHF 153 million provision related to the claim by the Bundesanstalt für vereinigungsbedingte Sonderaufgaben (BvS) against Bank Julius Baer & Co. Ltd. as successor to Bank Cantrade Ltd. (which Julius Baer acquired in 2005 through the acquisition of Bank Ehinger & Armand von Ernst Ltd. from UBS AG) in relation to alleged unauthorised withdrawals between 1990 and 1992 from a Cantrade account, as well as a

#### BREAKDOWN OF ASSETS UNDER MANAGEMENT BY CURRENCY

	31.12.2019	31.12.2018
USD	47%	46%
EUR	20%	22%
CHF	10%	10%
GBP	4%	4%
HKD	3%	3%
SGD	2%	2%
RUB	1%	1%
CAD	1%	1%
Other	12%	11%

<sup>1</sup> Fair value through profit or loss

<sup>2</sup> Fair value through other comprehensive income

## ASSETS UNDER MANAGEMENT

	<b>31.12.2019</b> CHF bn	31.12.2018 CHF bn	Change %
<b>Assets under management</b>	<b>426.1</b>	382.1	11.5
<i>Change through net new money</i>	10.6	17.4	-
<i>Change through market and currency impacts</i>	38.8	-26.8	-
<i>Change through acquisition</i>	3.0	4.5	-
<i>Change through divestment<sup>1</sup></i>	-4.7	-1.4	-
<i>Change through other effects<sup>2</sup></i>	-3.7	-0.1	-
<b>Average assets under management</b>	<b>414.0</b>	393.9	5.1

<sup>1</sup> Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries and completion of sale of Julius Baer (Netherlands) B.V.

<sup>2</sup> Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland and continental Europe.

CHF 99 million non-cash goodwill impairment charge related to the Group's investment in Kairos, which was acquired in steps between May 2013 and January 2018. The reconciliations to the respective IFRS line items are provided in the Alternative Performance Measures document available at [www.juliusbaer.com/APM](http://www.juliusbaer.com/APM).

*Adjusted operating expenses* rose by 3% to CHF 2,466 million.

*Adjusted personnel expenses* declined by CHF 5 million to CHF 1,613 million. The slight decrease in adjusted personnel expenses was achieved despite the inclusion of CHF 19 million of one-off severance costs related to the cost reduction programme and a 3% increase in the monthly average number of employees. Even with the first-time inclusion of 75 full-time equivalents (FTEs) at NSC Asesores and the internalisation of 112 FTEs who were formerly external employees, however, the number of FTEs was down 1% year on year to 6,638 at the end of 2019 as a result of the 2019 cost reduction programme. The base of relationship managers (RMs) declined by 2% to 1,467 FTEs, with 20 RMs joining through NSC Asesores. The average AuM per RM increased by 14% to CHF 290 million.

*Adjusted general expenses* increased by CHF 2 million to CHF 683 million and *depreciation of property and equipment* by CHF 62 million to CHF 100 million.

Both these lines were impacted by the first-time application of IFRS 16 (Leases), however, which resulted effectively in a shift of CHF 64 million from general expenses to depreciation. Had this shift not happened, adjusted general expenses would have increased by CHF 66 million to CHF 747 million (and depreciation would have declined by CHF 2 million to CHF 36 million). This CHF 66 million is to a large extent explained by a CHF 47 million increase in provisions and losses, related to legacy legal cases. The remaining increase of CHF 18 million, or 3%, was largely driven by a rise in external staff costs for the finalisation of the client documentation review project and a rise in non-capitalised IT spend.

*Adjusted amortisation and impairment of intangible assets* grew by 33% to CHF 69 million, reflecting the rise in IT-related investments in recent years.

The *adjusted cost/income ratio* (which excludes adjusted provisions and losses) was 71% (2018: 71%). The *adjusted expense margin* (also excluding adjusted provisions and losses) improved to 58 bp (2018: 60 bp).

*IFRS profit before taxes* declined by 37% to CHF 566 million. As income taxes fell by 36% to CHF 101 million, *net profit* as well as net profit attributable to shareholders of Julius Baer Group Ltd. decreased by 37% to CHF 465 million, and EPS also by 37% to CHF 2.14.

*Adjusted profit before taxes* decreased by 6% to CHF 917 million, and the adjusted pre-tax margin declined by 3 bp to 22 bp. The related income taxes fell by 13% to CHF 145 million, representing a tax rate of 15.8%, compared to 17.1% in 2018.

*Adjusted net profit for the Group* receded by 5% to CHF 772 million (2018: CHF 810 million). After considering adjusted non-controlling interests of CHF 1 million (negligible in 2018), adjusted net profit attributable to shareholders of Julius Baer Group Ltd. declined by 5% to CHF 771 million, and adjusted underlying EPS attributable to shareholders by 4% to CHF 3.55.

The adjusted return on CET1 capital (RoCET1) was 27% (2018: 30%).

#### BALANCE SHEET AND CAPITAL DEVELOPMENT

*Total assets* declined by 1% to CHF 102.0 billion. *Loans* grew by 7% to CHF 48.4 billion – comprising CHF 39.5 billion of Lombard loans (+10%) and CHF 8.9 billion of mortgages (-5%). As the *due to customers* position (deposits) increased by 2% to CHF 72.9 billion, the loan-to-deposit ratio increased from 63% to 66%. *Equity attributable to shareholders of Julius Baer Group Ltd.* increased by 2% to CHF 6.2 billion.

BIS CET1 capital rose by 5% to CHF 2.9 billion. In June 2019, the Group placed CHF 350 million of perpetual Additional Tier 1 (AT1) subordinated bonds. As a result of the increase in BIS CET1 capital and the AT1 bond issue, BIS tier 1 capital grew by 12% to CHF 4.4 billion and total capital by 13% to CHF 4.5 billion.

#### BREAKDOWN OF ASSETS UNDER MANAGEMENT BY ASSET MIX

	31.12.2019	31.12.2018
Equities	28%	26%
Investment funds	26%	25%
Bonds/convertibles	19%	20%
Client deposits	17%	19%
Structured products	5%	5%
Money market instruments	4%	4%
Other	1%	1%

Risk-weighted assets (RWA) receded by 4% to CHF 20.5 billion. This decline was driven by a decrease in RWA of credit risk positions and lower RWA of market risk positions, following a year-on-year decline in market volatility.

As a result, the *BIS CET1 capital ratio* strengthened to 14.0% (end 2018: 12.8%) while the *BIS total capital ratio* improved to 22.1% (end 2018: 18.7%). The leverage exposure declined by 1% to CHF 101 billion, resulting in a Tier 1 leverage ratio of 4.4% (end 2018: 3.9%).

At these levels, the Group's capitalisation continued to be solid: the CET1 and total capital ratios remained well above the Group's own floors of 11% and 15%, respectively, and significantly in excess of the regulatory minimums of 8.2% and 12.4%, respectively. The Tier 1 leverage ratio continued to be comfortably above the 3.0% regulatory minimum.

On 20 November 2019, the Group commenced the execution of the announced programme to buy back Julius Baer Group Ltd. shares up to a purchase value of CHF 400 million by the end of February 2021. At the end of 2019, 755,000 shares had been repurchased at a total value of CHF 36 million (average value of CHF 47.80 per share).

## CONSOLIDATED BALANCE SHEET

	<b>31.12.2019</b> <i>CHF m</i>	31.12.2018 <i>CHF m</i>	Change %
<b>Assets</b>			
Due from banks	7,082.5	9,228.8	-23.3
Loans to customers <sup>1</sup>	48,427.3	45,323.2	6.8
Financial assets measured at FVTPL	13,776.2	8,415.6	63.7
Financial assets measured at FVOCI	13,166.2	14,587.6	-9.7
Goodwill and other intangible assets	2,866.1	2,932.2	-2.3
Other assets	16,716.8	22,411.1	-25.4
<b>Total assets</b>	<b>102,035.2</b>	102,898.3	-0.8
<b>Liabilities and equity</b>			
Due to banks	3,160.0	6,892.2	-54.2
Deposits from customers	72,913.1	71,506.4	2.0
Financial liabilities designated at fair value	13,281.1	13,703.6	-3.1
Other liabilities	6,491.6	4,754.2	36.5
Total liabilities	95,845.8	96,856.4	-1.0
Equity attributable to shareholders of Julius Baer Group Ltd.	6,180.2	6,039.9	2.3
Non-controlling interests	9.2	1.9	-
Total equity	6,189.4	6,041.9	2.4
<b>Total liabilities and equity</b>	<b>102,035.2</b>	102,898.3	-0.8
<b>Key performance ratios</b>			
Loan-to-deposit ratio	66%	63%	-
Book value per share outstanding (CHF) <sup>2</sup>	29.1	28.4	2.5
Return on tangible equity (RoTE), adjusted	24%	28%	-
Return on common equity Tier 1 (RoCET1), adjusted	27%	30%	-
<b>BIS statistics</b>			
Risk-weighted assets	<b>20,494.6</b>	21,338.4	-4.0
BIS total capital	<b>4,521.7</b>	3,991.2	13.3
BIS CET1 capital	<b>2,876.7</b>	2,731.2	5.3
BIS total capital ratio	<b>22.1%</b>	18.7%	-
BIS CET1 capital ratio	<b>14.0%</b>	12.8%	-

<sup>1</sup> Mostly Lombard lending and mortgages to clients.

<sup>2</sup> Based on shareholders' equity.

# DEVELOPMENTS IN 2019

We further strengthened our Group's positioning along our market priorities and continued to complement our holistic offering. At the same time, we have opened a new chapter for Julius Baer, thus ensuring industry leadership in the world of tomorrow.

## EVOLVING STRATEGIC PRIORITIES

In order to fully capture the attractive long-term growth potential in our industry, our strategy has three elements. Smart market coverage ensures that we grow in or develop those markets that yield the best returns for our company. Holistic and personalised advice differentiates Julius Baer in offering wealthy clients relevant and valuable solutions in an increasingly commoditised world. And technology and digital transformation forms the core of our drive to pioneer innovation in wealth management, in order to fulfil client requirements and to further improve our operational efficiency today and in the future.

These strategic elements were confirmed at the beginning of 2020, and will now be implemented by the newly formed management team. The way and pace at which this will be done, however, will be changed. As the architects of our clients' wealth, we will tailor and deliver highly individual solutions in a client-centric, integral way – as personal as possible, yet powered by the best technology has to offer. This approach will be supported by a simplified organisational model that gives our clients seamless access to our offering. Our strategy is driven by the desire to achieve unparalleled client satisfaction, to further strengthen the reputation and standing of our Group and to realise sustainable, profitable growth.

## TECHNOLOGY, PLATFORM AND INNOVATION

Julius Baer's IT strategy is powered by three operational hubs, located in Switzerland, Luxembourg and Asia. These platforms ensure utmost flexibility in adapting our business model to evolving local and regulatory requirements, client-specific preferences as well as flexible interfaces to proprietary robotics and third-party FinTech solutions.

In all three hubs, digitalisation continues to be the focus of various initiatives towards new and further improved tools and channels. Our digital services enable clients to interact with the Bank in an easier and more convenient way, allowing them to handle administrative tasks directly and access information via the mobile banking applications, while relying on the personal support and competence of the relationship managers (RMs) where needed. In Switzerland, recently introduced additions include personalised trade ideas displayed directly on clients' mobile phones and a chat functionality to interact with RMs in the secure mobile banking environment.

The global roll-out of our *Digital Advisory Suite* (DiAS) reached another considerable milestone at the end of July with the go-live for clients booked in Switzerland. This proprietary platform guides RMs through sharing opportunities with clients, placing orders and performing regulatory duties in an integral way. Its outstanding versatility was recognised by the *Outstanding Wealth Management Technology Platform in Switzerland 2019* award we received by the leading trade journal *Private Banker International*.

Through our partnership with *F10 FinTech Incubator & Accelerator* association, we remain close to the rapidly evolving Swiss FinTech ecosystem and since November 2019 participate as co-founding member in *F10 Singapore*. This allows us to evaluate novel approaches and solutions in a growing number of application areas for possible integration into our business, including our own corporate start-up in advanced analytics. In order to support process automation, many robotic solutions have been deployed in Luxembourg, Guernsey, London, Switzerland and Singapore, which resulted in a significant capacity increase in 2019.

Following the granting of a banking licence to SEBA Bank AG by FINMA in August 2019, the cooperation with Julius Baer as announced in February 2019 was formally launched. It gives Julius Baer's clients the opportunity to access the digital asset universe in a regulated and carefully supervised manner, including secure private key storage and transaction solutions as well as consolidated portfolio overviews across both conventional and digital assets.

The Swiss consumer protection legislation FIDLEG will enter into force on 1 January 2020. Given the large overlap with the recently implemented MiFID II legislation, Julius Baer has already implemented a large number of the new rules. The legal gap analysis was finished in Q4 2019, taking into account the final version of the ordinance. Implementation is expected to be completed well within the two-year transition period lasting until the end of 2021.

Risk management remains an area of focus, embedded in the Group's overall risk management framework and the related risk tolerance framework. The comprehensive three-year client documentation review project was completed at the end of 2019. This enables us to control client-related risk even more effectively and in line with industry standards. At the same time, it will allow us to provide clients with data-driven, more targeted services and advice (see page 15). Information and IT security risks keep being mitigated by technical and organisational means. Continued investments in technical counter measures are complemented by a continuous awareness campaign for employees, making them ambassadors of smart and far-sighted handling of information security.

In parallel, the Group's compliance framework has been further strengthened in both scope and effectiveness. Apart from the increasing use of automated monitoring and sophisticated analytics tools, compliance awareness and knowledge among employees remains key. Related compliance training efforts have been rolled out to the entire Group – RMs and other client-facing staff in particular – including mandatory certification programmes and corresponding refresher courses.

## SWITZERLAND

Switzerland is Julius Baer's home market and the Group's main booking centre. As the leading Swiss wealth management group, we serve a significant number of Swiss domestic clients and resident clients with an international background. The country's location in the heart of Europe makes it easily accessible from all over the world and attracts a diverse population of wealthy individuals. Its notable cultural and linguistic diversity is matched by our broad network of locations, thus ensuring client proximity, which is an important aspect of our value proposition. Switzerland is considered a relatively saturated banking market. However, its high degree of wealth concentration and the level of sophistication that goes along with it provide ample opportunities for us as a pure wealth manager with our comprehensive offering encompassing wealth management, wealth planning and wealth financing.

Our clients value the holistic quality of our structured advisory approach *Julius Baer – Your Wealth*. It also enables us to fully harness the Group's broad range of expertise for the benefit of our clients. In order to sensitise existing as well as new clients to key interdependencies in managing personal wealth and the resulting long-term implications, we ran a year-long comprehensive information campaign for clients in 2019. Topics we covered comprised home market bias, responsible and *Next Generation* investments as well as real estate, including all associated aspects from taxation and succession planning to household diversification. The systematic involvement of subject matter specialists guiding clients towards individual solutions has proven very effective and resulted in a strong increase in wealth planning-related mandates.

# GLOBAL PRESENCE

## EUROPE



## SWITZERLAND



## OUR LOCATIONS IN OTHER PARTS OF THE WORLD



- Location
- Booking centre
- GPS, a fully owned subsidiary
- Reliance Group, a fully consolidated subsidiary
- NSC Asesores, majority participation of 70%  
Julius Baer is present in Mexico City with a representative office
- Strategic partnerships in Bangkok, Thailand, with The Siam Commercial Bank and in Tokyo, Japan, with Nomura Holdings Inc.
- Kairos Investment Management S.p.A., a fully owned subsidiary  
Julius Baer is present in Milan with Julius Baer Fiduciaria S.p.A.

<sup>1</sup> Additional advisory locations in Bangalore, Chennai, Hyderabad, Kolkata and New Delhi

Asset gathering was challenging overall but markedly improved in the second half of the year. Clients' relatively cautious stance held back revenue development despite higher asset levels.

Fully aligned with our *Next Generation* investment philosophy, Julius Baer again opened a window to the future at the second *Julius Baer Swiss E-Prix*, which took place in the country's capital of Berne on 22 June 2019. As part of our global partnership with *ABB FIA Formula E*, it gave us the opportunity to share with a larger audience our ambition to help shape (and benefit from) the sustainable structural changes of tomorrow. Beyond the obvious topic of mobility, our campaign centred on the motto *How we invest today is how we live tomorrow* and touched on topics such as energy transition, future cities and digital disruption.

Recognising our strong domestic franchise, Julius Baer was named *Outstanding Private Bank Switzerland – Domestic Players 2019* by the leading trade journal *Private Banker International*.

## EUROPE

Europe is an important region for our Group where we see good growth opportunities. In line with our clients' preferences, we serve the region both from international Group locations as well as locally from our advisory locations across the continent. While our private client business in Germany is predominantly booked locally, our booking centre in Luxembourg serves as the hub for our other European business, including our growing advisory business conducted out of Luxembourg.

The Luxembourg hub supports our European operating model by providing integrated, steadily expanding booking centre capabilities for private clients and intermediaries. In our effort to streamline our European operations further, the client base booked in Monaco was technically consolidated into our European hub in Luxembourg at the beginning of November 2019, with Monaco remaining an independent booking centre of the Group.

2019 saw a strong continuation of net new money inflows from European clients. The introduction of MiFID II continued to impact client behaviour, which is particularly evident in the increased share of mandate-based solutions. Higher assets under management contributed to broadly stable revenues.

**Germany** is one of the most attractive wealth management markets in Europe and is served from a number of Group locations. Despite being fragmented and mature, the German market continues to show sustainable growth rates.

Against a backdrop of ongoing industry consolidation, we were able to further broaden our base of experienced RMs in 2019, leveraging our strong market standing built over the past years. Our local focus on pure wealth management for private clients and family offices, our outstanding reputation, our solid financial foundation and our excellent client proximity and service offered through our network of ten locations across the country are important factors in retaining existing clients and winning new ones.

Frankfurt-based *Bank Julius Bär Deutschland AG's* locally booked private client business showed robust momentum in 2019. Net new money inflows remained encouraging, albeit at a slower pace than in 2018. Higher assets under management contributed to overall positive development of revenues.

In **Spain**, the seeming dominance of a few large universal banks obscures the true business potential for clients seeking pure wealth management services. Capitalising on Julius Baer's growing reputation in the Spanish market, we complemented our local presence with a new office in Barcelona at the beginning of April 2019. We also broadened our RM base in our Madrid office, including a large team dedicated to the market of **Portugal**. This resulted in continued healthy net new money inflows, contributing to higher asset levels and well supported revenues.

We continued to outpace the overall market growth in **Monaco** in 2019, thus confirming our position as the leading wealth manager in the principality. Business momentum remained strong throughout the year, with healthy net new money inflows contributing to higher assets under management and rising revenues. The new advisory service models we are introducing there will benefit not only our large and growing local client base but also private clients from selected markets in Western and Eastern Europe, the Middle East and Latin America.

**Italy** is served from various Swiss locations. Local activities centre on specialised wealth and asset manager *Kairos* and on *Julius Baer Fiduciaria S.p.A.* in Milan, one of the largest fiduciary companies in the country. Italy is one of the biggest European markets in terms of savings, with significant potential for risk diversification as well as geographic diversification of the local asset base. However, persistent political and economic uncertainty dampened business momentum and net new money development in 2019.

The investment products of our Italian asset management subsidiary *Kairos* performed well in 2019, resulting in a number of industry accolades, for example the *Kairos Pegasus Fund* winning in the category *European equity long-term performance (5 years)* at the *HFM European Hedge Fund Performance Awards 2019*. However, the subsidiary continued to suffer net outflows because of its funds' underperformance in 2018 and management changes throughout 2019. Following a thorough strategic review of *Kairos*, the collaboration and operational alignment with Julius Baer will be intensified by leveraging each unit's strength and targeting revenue synergies.

Our local business activities in the **United Kingdom** showed good overall momentum in 2019. On the back of the prolonged uncertainties related to Brexit, clients adopted a more cautious stance as the year progressed. Following the rapid expansion of recent years both in London and in establishing a comprehensive regional presence, we turned our focus on utilising the strong market standing we have built among high net worth individuals across the UK.

Client proximity remains a distinctive element of our strategy, both in terms of our offering and physical presence. The latter was complemented by a new office in Belfast, which became operational in the second quarter of 2019. Wealth planning solutions remain a central pillar of our high-value services to clients. Consequently, the share of discretionary mandates continued to rise, steadily approaching the 50% mark. This development was well supported by investment performance, which contributed to a number of industry awards, such as *Private Bank of the Year* at the *Magic Circle Awards Results 2019* by industry network *Citywealth*.

Our locally well-connected business in the smaller yet dynamic wealth management market of **Ireland** is served from Dublin. On the back of the country's growing base of internationally oriented investors and entrepreneurs, it achieved very substantial net new money growth in 2019, which contributed to higher asset levels and rising revenues.

#### RUSSIA, CENTRAL & EASTERN EUROPE

This geographic area continues to be a key region for our growth investments. Given persistent geopolitical, regulatory and economic uncertainties, however, the business environment was challenging in 2019. Continued deleveraging in clients' portfolios and the negative interest rate environment weighed on net new money inflows, which nevertheless remained very encouraging. Assets under management remained well supported. The share of mandate solutions grew further, increasingly backed by our wealth planning services.

The size of our franchise, our brand recognition and our market reach combined with exemplary client proximity continue to set us apart. Our aim is to gain market share, also by continuously expanding our base of RMs. Our local presence in **Russia** has been significantly strengthened by the upgrade of our Moscow office with a new advisory licence. This allows us to increase our client proximity and service offering in what is our biggest target market in the region. In Central and Eastern Europe, we focus on serving clients in the Czech Republic, Hungary and Poland. In addition to our office in Moscow, clients from this attractive region are also served from various Group locations in Europe, the Middle East and Asia.

## ASIA

Despite the dampening effect of the Sino-American trade dispute on the overall economic growth in the region, Asia still hosts eight of the global top ten countries with the fastest growing population of ultra-high net worth individuals (UHNWIs) and high net worth individuals (HNWIs).

Julius Baer is one of the region's largest wealth management providers, and therefore we call Asia the Group's second home market. As the region's base of investable assets grows, so does the degree of sophistication of existing and new clients. Their rising propensity for holistic wealth management solutions makes us the first address for private clients in search of a trusted advisor.

Julius Baer serves this diverse region from a number of locations, including local booking centres in **Singapore** and **Hong Kong**, our representative office in Shanghai, our domestic presence in India, and via joint ventures in Bangkok and Tokyo.

## MEASURING THE PULSE AT THE VERY HEART OF CLIENT RELATIONSHIPS

*Know your customer* or KYC has been one of the most prominent areas of tighter regulatory standards across the globe in recent years. At the same time, serving our clients based on a deep understanding of their individual situation has been the very driver of Julius Baer's wealth management business for 130 years now. To close any possible regulatory gaps, to mitigate related compliance risks and to ultimately assure the most accurate client knowledge, we embarked on a comprehensive client documentation review project at the beginning of 2017.

The successful completion of the project at the end of 2019 puts Julius Baer at the forefront of our industry, not only concerning regulatory accuracy of client data. In fact, the depth and breadth of systematic information now available was an opportunity to get to know our clients even better, thanks to a deeper understanding of their backgrounds, wishes and financial aspirations. Maintaining this standard will allow us to measure our clients' pulse where it is essential: at the very heart of our client relationships.

Our detailed knowledge of and privileged access to our clients enables us to provide holistic advice during all stages of their lives, encompassing wealth planning, wealth management and wealth financing. At the same time, the comprehensive client data now available will pave the way for data-driven, more targeted service and advice for clients, thus further contributing to an outstanding client experience.

Client confidence improved as the year progressed, as evidenced in higher transaction activity and rising credit penetration. Individual investment solutions remained in demand, pushing mandate penetration towards one third of assets. Net new money inflows markedly improved year on year, contributing to higher assets under management and rising revenues. Locally booked clients account for about a quarter of the Group's total assets under management.

To complement our organic growth in the region, we seek strategic opportunities via partnerships and other inorganic initiatives. After having received the necessary approvals and licences, our joint venture with The Siam Commercial Bank (SCB) in **Thailand**, *SCB-Julius Baer Securities Co., Ltd.*, opened for business in April with more than 50 professionals. The joint venture combines SCB's strong reputation and deep domestic knowledge with Julius Baer's pure wealth management expertise, resulting in a competitive offering of international wealth management capabilities for Thai clients in Asia. The Thai wealth management landscape and the market for luxury goods was analysed in a dedicated *SCB Julius Baer Wealth Report: Thailand* launched in June 2019.

Our strategic partnership with Nomura in **Japan** showed good momentum as the year progressed. *Julius Baer Nomura Wealth Management Ltd.*'s aim is to introduce our bespoke discretionary mandate services to Nomura's local high net worth client base. At the end of May 2019, the two partners held a joint client event to launch the fifth annual *Julius Baer Wealth Report: Japan* at the Swiss embassy in Tokyo.

Our strong standing in the region also showed in a number of prestigious awards we received in 2019. At the *Private Banker International's Global Wealth Awards 2019*, Julius Baer won the *Outstanding Private Bank for Growth Strategy* award for the fourth consecutive year, highlighting the Group's pioneering and rewarding growth strategy in the region. In addition, Julius Baer was named *Best Boutique Private Bank in Asia* for the tenth consecutive time by *The Asset*.

Julius Baer is one of the largest and best-established foreign wealth managers in **India**. The domestic Indian market is covered from the major cities of Mumbai, New Delhi, Kolkata, Chennai, Bangalore and newly Hyderabad. In addition, Julius Baer serves a large and rising global base of non-resident Indians from different Group locations in Asia, the Middle East and Europe. This *Global India* approach is a key competitive advantage for Julius Baer. It offers clients the best of both interlinked worlds, fosters retention and referrals, and is a significant source of further promising business developments. Despite clients' cautious stance towards financial markets in general and the Indian capital market in particular, business momentum held up well in 2019, as evidenced by very healthy net new money inflows.

*Julius Baer India* excelled in several categories at the *Euromoney Awards 2019*, including number one rankings in *Technology*, *International Clients* and *Social Impact Investing*. In the categories *High Net Worth Clients* and *Best Private Banking Services Overall*, Julius Baer ranked second and third, respectively.

#### EASTERN MEDITERRANEAN, MIDDLE EAST & AFRICA

Despite the challenging geopolitical tensions, subdued economic expansion and ever changing regulatory regimes, we were able to maintain positive business momentum across the Eastern Mediterranean region as well as our chosen markets in the Middle East and Africa. We serve this diverse region primarily from our main regional hub in Dubai, complemented by local offices in Istanbul, Beirut, Manama, Abu Dhabi and Tel Aviv, as well as from a growing number of Group locations in Europe and Asia. Brand recognition continued to rise on the back of the Bank's dedicated offering, further supported by its global reach combined with local proximity. At the beginning of April 2019, we further strengthened our presence in **South Africa** by complementing our existing representative office in Johannesburg with a fully licensed advisory office, enabling a wider offering.

We successfully broadened our base of experienced RMs in several teams in 2019, which contributed to well supported net new money inflows and asset levels, also benefiting mandate penetration. While the negative interest environment proved challenging, demand for credit solutions held up well.

Julius Baer ranks among the top foreign wealth managers in **Israel**. We serve this appealing but highly competitive market from a number of Group locations and locally from our Tel Aviv office. We target Israel's significant wealth creation both domestically and via the global Israeli community. On the back of an expanding domestic economy and particularly tech-oriented sectors, net new money inflows remained very robust in 2019, contributing to record-high asset levels.

#### LATIN AMERICA

Latin America is a demographically young region with a well-educated middle class and rapidly growing population of entrepreneurs. The region's considerable economic progress, however, is clouded by cycles of domestic political and economic obstacles – as witnessed in the period under review. Generally, we view the region's long-term potential as attractive.

We are serving Latin American private clients locally from our offices in Santiago de Chile, Montevideo, São Paulo, Rio de Janeiro, Belo Horizonte and Mexico City as well as increasingly from other Group locations. This combination of local proximity with our international investment expertise differentiates us from most domestic competitors. As a major international wealth manager in Latin America, our holistic approach to investment advice and our comprehensive offering appeal to the region's HNWIs and UHNWIs.

In 2019, we aimed to reduce complexity and risk while realigning our business strategy to focus on core markets and key client segments. As anticipated, 2019 presented limited business potential and net new asset development. Yet, the business overhaul also paved the way for new growth opportunities. We further strengthened our regionalised offering and reinforced our base of experienced RMs covering key markets – such as Chile, where we have the largest local presence of any international wealth manager. Given the many prevailing uncertainties, the performance we achieved in our core markets was satisfactory, and we are poised for solid growth from the base of a sustainable business.

In **Brazil**, Julius Baer is the largest local independent wealth manager. Our two fully owned subsidiaries *GPS* and *Reliance* were operationally combined under *Julius Baer Family Office Brasil* at the end of August 2019. This will foster the collaboration between these two complementary businesses, which combine local proximity with Julius Baer's international investment expertise in an independent multicustody framework. Clients' growing interest in diversifying their assets geographically and by asset classes favoured our comprehensive offering. In addition, we broadened our offering of selected alternative investments. With the emerging segment of younger, tech-savvy investors in mind, at the beginning of May 2019 we joined forces with the leading local digital investment advisor Magnetis. The aim is to create the best digital experience for a broad range of investors.

Our activities in **Mexico** continued to develop very favourably. On the back of our growing RM base and brand recognition, business with Mexican clients yielded substantial net new money inflows. Our cooperation with *NSC Asesores*, one of the largest independent wealth management companies in Mexico, reached a new level at the beginning of March 2019. By acquiring an additional 30% stake, Julius Baer became majority shareholder with a 70% participation. The advancing integration of the business, combined with the opening of a Bank Julius Baer representative office in Mexico City at the end of November 2019, reinforced Julius Baer's brand and reputation within the Mexican market.

## INTERMEDIARIES BUSINESS

In order to further strengthen our collaboration with intermediaries, i.e. external asset managers (EAMs) and external financial advisors (EFAs), the Bank created a dedicated front unit for intermediaries in 2019. The aim is to deploy the Group's solution capabilities – including our investment management and wealth planning expertise, our product structuring capabilities and our connectivity and execution services – to the full benefit of intermediaries and their clients.

During 2019, we were able to grow our Intermediaries franchise further. Particularly strong net new money inflows originated from strategic growth markets in the Asia Pacific region, Emerging Markets and from Europe. In close collaboration with the Bank's private client business, we were able to expand our local activities in Asia, the Emerging Markets and Europe as well as selectively in Switzerland.

Technology is a significant component of our service offering to intermediaries. Julius Baer provides a comprehensive digital platform while simultaneously expanding technological capabilities across the Group's different booking centres. A particular emphasis is placed on connectivity services, which allow intermediaries to connect their systems more efficiently with ours for automated end-to-end processing.

In the course of the realignment of the Bank, the intermediaries business became a distinct part of the Group's Chief Operating Officer organisation. This move will accelerate the technological transformation of this business-to-business (B2B) segment and thus ensure the high level of integrated state-of-the-art services for its clients going forward.

# JULIUS BAER'S HOLISTIC SERVICE AND SOLUTIONS OFFERING

We focus on clients' needs with respect to wealth accumulation, wealth preservation and wealth transfer to future generations. Our holistic advisory approach *Julius Baer – Your Wealth* tailors financial solutions for clients based on their unique situations, encompassing wealth planning, wealth management and wealth financing. By utilising our investment management and advisory solutions capabilities as well as markets teams, complemented by credit and global custody services, we provide solutions that holistically match our clients' individual preferences.

## INVESTMENT MANAGEMENT

Our product and investment experts around the globe are important contributors to our holistic *Julius Baer – Your Wealth* offering. They have decades of experience in managing wealth for our high net worth private clients on a discretionary basis.

Our Chief Investment Officer (CIO) maps out the investment strategy backed by a solid, well-proven investment philosophy and asset allocation process. Investment decisions rely on comprehensive qualitative and quantitative analysis and seek to deliver consistent risk-adjusted investment returns for our clients. Our strong governance framework drives the implementation of our investment decisions in an effective way.

We are taking firm steps to ensure that our investment management solutions remain relevant for our clients, by

- complementing our proven traditional multi- and single-asset-class solutions through value-adding alternative investments such as private equity and hedge funds;
- strengthening our offering of outsourced CIO services, giving third-party providers access to professional support in managing their portfolios in an increasingly complex investment environment;
- expanding our offering with thematic and regionally focused mandates;

- continuously digitalising our investment processes, which provides us greater efficiency and scalability in matching our solutions with client preferences.

## RESEARCH

The *Research* team further leveraged our *Next Generation* investment philosophy to identify, analyse and follow up on the long-term structural changes that are shaping the world. The *Future Cities* theme attracted a lot of attention while established themes such as *Artificial Intelligence*, *Digital Health* and *Future Mobility* remained key topics. In 2020, in a number of dedicated reports we will continue our assessment of how shifting social values and increasingly conscious consumers are changing the way businesses will work in future.

## ADVISORY SOLUTIONS

In assessing our clients' needs for financial solutions, we adopt a structured *Holistic Advice* approach. Our advisory experts support our RMs in this service. The *Holistic Advice* approach is currently in use in Switzerland and the UK.

An important part of *Julius Baer – Your Wealth* is the expert investment advice we provide to clients. Our *Advisory Mandates* form part of this and support its delivery by encompassing portfolio monitoring, personalised investment ideas and tailor-made strategies. Our *Advice Advanced* and *Premium* mandates offer clients financial advice from experienced and dedicated experts. Within a staggered approach, the roll-out of the new advisory mandates for the Middle East offices is in progress.

Our proprietary *Digital Advisory Platform* supports our client advisory approach by enabling us to share opportunities and address risks with our clients, in tune with financial market development. It has been successfully implemented in several European locations with clients booked in Switzerland, Luxembourg and recently in Monaco.

A growing network of internal and external specialists and a wide range of sophisticated solutions support our comprehensive *Wealth Planning* services. We have now developed our local footprint in Dubai, Luxembourg and India and, more recently, Russia and Mexico. This proximity enables us to provide increasingly multifaceted advice relevant both locally and across borders for individuals and families with multinational circumstances.

In Asia, we sustained strong growth in assets under management for both investment advisory and wealth planning solutions. We presented our high conviction ideas and key investment themes to clients at various external events and on social media. We continually look to engage with clients on first-rate private investment opportunities and deals. The collaboration between Investment Advisory and Investment Management in Asia continues to generate meaningful value for clients as well as business volume. At the beginning of 2020, we received the precious award *Best Private Bank – Discretionary Portfolio Management* for 2019 from *Asian Private Banker*.

## MARKETS

The Markets teams deliver trade execution, product structuring and advisory services across all asset classes. Our efficient transaction and risk management infrastructure, combined with comprehensive market access via a large counterparty network, ensures the high-quality level of our execution and trading activities. Between the centres in Zurich, Singapore and Hong Kong, we offer 24-hour availability for our client base. Access to our experts for RMs and clients ensures comprehensive support in all execution, trading and structuring-related matters.

The Markets unit plays an important role as manufacturer of structured products issued from Julius Baer Group's balance sheet. The continued development of our structured products offering across all asset classes is addressing the diverse needs of our global customer base. The *Markets Toolbox*, a real-time platform for structured products, currencies and precious metals, is a key enabler in achieving a high level of service experience and efficiency for private clients and intermediaries. In cooperation with a F10 start-up, we have additionally built a platform for the integral

management of Julius Baer-issued Actively Managed Certificates, meeting the fast growing demand from our intermediaries business.

## CREDIT

As part of our holistic *wealth financing* offering, our private clients have access to a wide range of credit products on a secured basis. We offer Lombard loans to accommodate clients' leverage and liquidity purposes as well as real estate lending in the form of residential mortgages, predominantly in Switzerland. The Credit team also provides our UHNW clients with bespoke in-house solutions such as *Collateralised Cash Flow backed Lending* secured by non-listed securities, and we act as a broker for specific financing services that we do not perform. Our loan book is prudently managed using a sophisticated credit risk framework.

## GLOBAL CUSTODY

As a dedicated provider of custodian services and solutions in Switzerland, this unit enjoys an excellent reputation as a best-in-class global custodian in its well-defined areas of specialised expertise for institutional clients and investment funds as well as for private clients with institutional requirements.

The business covers the full range of country-specific expertise and client-oriented solutions comprising a wide variety of products and services, including custody, centralised asset and depository services as well as transaction banking and access to a wealth of other value-adding bank capabilities such as analytics and reporting. With its modular offering, clients benefit from a high degree of flexibility regarding daily business processes and individualised services to cover their needs.

## INVESTMENT RESEARCH: 2019 AND BEYOND

Every decade in the past hundred years reshaped the world, and financial markets along with it. The decade now drawing to a close has been about cleaning up past excesses and establishing new business models. Doing so has pushed the world into an uncomfortable corner of low growth and low inflation, with interest rates providing an indication of the growth/inflation mix.

### A LOOK BACK AT 2019: US-CHINA TRADE WAR SPURRED LOWER RATES

2019 will be remembered for US-China trade to have triggered a global industrial recession. Central banks then came to the rescue, and the opposing parties eventually agreed on a 'mini deal'.

Financial markets ended 2018 in panic mode. However, global monetary support and the prospects of the trade war easing were supportive of risk assets throughout 2019, despite intermediate setbacks in May and August. Information technology stocks did best during the year, while oil & gas assets lagged. In the fixed income space, corporates outperformed money markets by a large margin. In the alternatives space, real estate benefited from lower rates, while agricultural commodities tanked.

### 2020: NO SILVER BULLET WITH FISCAL POLICY YET

The world economy ended 2019 on a soft note. Looking ahead, we expect the following four topics to define 2020:

**A bottoming economy:** Absent exogenous shocks, a bottoming of the economy is in the cards for the first half of 2020, as

monetary support is back and economic sentiment is improving. The missing ingredient for a more meaningful upturn is government spending. Plenty of governments around the world have a blank cheque to spend, particularly in Europe. Whether governments will dare to promote fiscal spending is one of the wild cards for 2020.

**US presidential elections:** Politics remain in the driving seat. 2020 is a US presidential election year – that says it all. It is still early days to assess the impact on financial markets, as the current roster of candidates in the Democratic nomination race presents rather extreme alternatives. More guidance is expected after the primary elections in Q1 2020.

**Negative yield:** Pressure from negative yield on investors persists, and the longer it lasts, the more it hurts. At the peak of the growth scare in 2019, almost USD 17 trillion worth of global fixed income assets yielded negative rates. Unless governments fire the magic silver bullet to spur growth, negative interest rates will not go away any time soon.

**Innovators/disruptors:** The prevailing theme of the current cycle remains the leadership of innovators/disruptors in the corporate sector. This plays out at the sector level (e.g. information technology), the market level (e.g. the Nasdaq, the Chinese stock market) and the individual equity level (where a competitor has a cutting edge in a traditional industry). Investors will have to decide which levels suit their risk-return requirements best.

## CEO PHILIPP RICKENBACHER ABOUT MAKING A SUSTAINABLE IMPACT AT JULIUS BAER

Philipp Rickenbacher has been an advocate of sustainable development since long before being appointed CEO of Julius Baer on 1 September 2019. Only three weeks into his new role, Bank Julius Baer became one of the founding signatories of the UN Principles for Responsible Banking. In this interview, Philipp Rickenbacher shares his vision for shaping a sustainable future – and the steps Julius Baer will undertake in this regard.

### WHY WAS IT IMPORTANT FOR JULIUS BAER TO ENDORSE THE PRINCIPLES FOR RESPONSIBLE BANKING?

‘At Julius Baer, we believe that sustainability is critical for our future success. Not just for the environment, but for the global economy and for society as a whole. We have effectively “hardwired” the idea of sustainability in our process and thinking across the Bank. As the first Swiss bank to endorse the UN Principles for Responsible Banking and one of the founding signatories, we have demonstrated that we want to take an active leadership role with regard to sustainability. It is the key to ensuring the success and well-being of generations to come.’

### HOW DO THE NEW UN PRINCIPLES HELP JULIUS BAER MEET THE EMERGING REQUESTS OF THE BANK’S CLIENTS, EMPLOYEES AND SHAREHOLDERS?

‘The Principles for Responsible Banking offer guidance on how we can achieve our ambition. They provide independent external feedback on existing gaps, helping

us to improve our way of doing business, and inform how we can meet and perhaps even exceed the expectations of our internal and external stakeholders. Our current strategy is in line with the Principles, confirming that we are on the right track. Further proof was provided by Julius Baer’s inclusion in the SXI Switzerland Sustainability 25 Index at the end of September 2019, which covers the 25 listed stocks from the SMI Expanded Index with the best sustainability scores.’

### WHAT CAN STAKEHOLDERS EXPECT IN TERMS OF CORPORATE SUSTAINABILITY AND RESPONSIBLE INVESTMENT GOING FORWARD?

‘In 2019, we started a new chapter in our sustainability strategy. We carefully listened to our stakeholders and collected their input on what we should aim for. In a stakeholder panel conducted in early September, we gathered input on what is relevant and material to our business and to our clients. And in November, we appointed a new Head of Corporate Sustainability and Responsible Investment, Yvonne Suter.

At the outset of a new decade, we are working on further strengthening our sustainability strategy and defining new long-term targets, in line with the Sustainable Development Goals of the United Nations. Clients and other stakeholders can expect to see Julius Baer taking a much more active role in both corporate sustainability and responsible investment. This will be a cornerstone of our relationship with clients, form part of our product offering and be reflected in the company’s bonds with its employees.’

# CORPORATE SUSTAINABILITY AND RESPONSIBLE INVESTMENT

For Julius Baer, sustainability is far more than a responsibility we have towards our clients, employees, investors and society – it is an opportunity to take an active role in creating value for generations to come. We have embarked on a sustainability journey to strengthen our strategy and to contribute to achieving the UN Sustainable Development Goals.

The urgency surrounding sustainability and climate change as well as the associated responsibility we all carry as a society has gained significant momentum in recent years. As a bank, we play an important role in the transformation towards sustainability. In this context, we are confronted with the following:

- *Societal awareness:* Stakeholders no longer just expect companies to operate responsibly, but to add value to society. The private sector – particularly the financial sector – is increasingly expected to mobilise the necessary resources to tackle issues such as climate change and global wealth inequality.
- *Investing for impact:* In 2019, our relationship managers (RMs) and advisors reported a noticeable increase in the demand for sustainable and impact investment (especially from younger generations). At Julius Baer, we offer a full range of sustainable portfolio solutions, diversified across asset classes.
- *New wealth and changing demographics:* Over the next twenty years, there will be a significant wealth transfer to younger generations, as well as new wealth emerging, for example from the middle class in Asia. For Julius Baer, this means that we need to adjust our product and service offering to the needs of these groups.
- *New digital technologies:* A quick, seamless, secure and technologically advanced service is viewed as a matter of course by clients. Our ongoing investments in this area focus on the technological

support provided to our clients and RMs. Our technology investments amounted to over one billion Swiss francs in the last five years.

- *Regulation:* After a decade of addressing the impact and causes of the financial crisis and establishing new business models, financial institutions are increasingly exposed to a shifting political landscape. Current regulatory issues include an increased need for sustainable finance definitions and guidelines as well as the EU Action Plan for Financing Sustainable Growth.

These developments present challenges and opportunities. Our corporate sustainability and responsible investment strategy guides us in responding to trends as well as to changes in clients' and society's expectations. It also ensures the incorporation of sustainable business practices into our daily investment and business decisions.

## CORPORATE SUSTAINABILITY AND RESPONSIBLE INVESTMENT STRATEGY

In 2019, we embarked on a journey to strengthen our corporate sustainability and responsible investment strategy. To facilitate this process, we launched a dedicated and centralised global corporate sustainability and responsible investment programme to oversee and align the Group's activities. In November 2019, we welcomed Yvonne Suter as our new Head of Corporate Sustainability and Responsible Investment.

The materiality assessment and stakeholder engagement process that has been undertaken helped us to identify those sustainability topics that matter most to our stakeholders. Consultations revealed that internal and external stakeholders are in agreement that climate change as well as the triangle ‘client experience – front training – solutions’ are most critical to our long-term success.

In parallel to these efforts, Julius Baer was the first Swiss bank to endorse the UNEP FI United Nations Principles of Responsible Banking. By becoming a signatory in September 2019, we have demonstrated that we want to take a much more active role regarding sustainability.

### BUSINESS CONDUCT AND INTEGRITY

Our *Code of Ethics & Business Conduct* (the *Code*) guides all decision-making at Julius Baer. It covers topics such as tax, conflicts of interest, combating financial crime, confidentiality, human rights, diversity and environmental protection. Via our Integrity Platform, employees can confidentially report suspected *Code* violations. To further increase its tangibility and ultimately foster a strong individual sense of responsibility and judgement among employees, the *Code* was reviewed and evolved accordingly in 2019.

In addition to the *Code*, we operate under a diverse range of policies to prevent and combat financial crime. Our policies apply to all Julius Baer employees worldwide. Staff are regularly trained on the content and application of these policies.

Furthermore, we have a code of conduct for our suppliers. In 2019, we started in-depth discussions on how to adequately collaborate with our third-party suppliers in order to manage related risks. This will strengthen our framework for managing suppliers and assessing their compliance with the terms stipulated in the *Code* and with international norms on human and labour rights, health and safety, and corruption prevention.

Taken together, these measures ensure full compliance with industry regulations, awareness of potential threats and risks to our business, and application of the highest possible standards of business conduct.

### CLIENT EXPERIENCE

Julius Baer focuses on private clients, providing them with holistic advice and highly individual wealth management solutions. Understanding what matters most to our clients is at the heart of everything we do, resulting in a unique client experience.

Client experience continues to be very strongly impacted by digitalisation in terms of 24/7 availability, communications, personal service and risk management. Digitalisation increases the risk of fraud, identity theft and system downtimes. Julius Baer’s Security Committee oversees these challenges by actively managing these risks and by investing in state-of-the-art defence measures as well as workflows and tools to comply with the EU’s General Data Protection Regulation.

High levels of security and privacy are essential to do business. Given the public perception of cybersecurity, however, security and privacy might grow into truly differentiating factors. At the same time, we are expanding our online banking platform to build on the development of new digital technologies and provide our clients with future-proof services.

### RESPONSIBLE INVESTMENT

In our increasingly connected and fast-paced world, integrating the environmental, social and governance (ESG) perspective is going to be the norm. Julius Baer’s investment process already considers financially material ESG factors in order to achieve long-term economic benefits. We are convinced that such a holistic approach improves our ability to uncover risks and detect opportunities. Therefore, we make sure that the ESG perspective is an integral rather than peripheral part of Julius Baer’s investment process.

Julius Baer currently offers different responsible investment solutions, individually tailored to clients’ requests. Complementing the traditional financial risk analysis, an ESG evaluation is applied to the entire investment universe. In case of controversial findings, they are discussed by the Julius Baer Responsible Investment Committee, which then adapts the ESG rating accordingly.

*Sustainable investing*

In an initial analysis, ESG ratings are derived by selecting the ESG leaders, i.e. those companies with the highest ESG ratings and no public controversies. Investors thus gain exposure to firms with a solid corporate culture based on a long-term oriented business model as well as responsibility towards all stakeholders. Our sustainable investment universe covers equities and bonds as well as parts of the alternative investment segment and related products, enabling diversified, individually structured portfolios.

The United Nations Sustainable Development Goals (SDGs) for 2030 provide important guidelines. To combat issues like climate change and wealth inequality, governments need support from the private sector. Therefore, the SDGs serve as a compass and common language to identify companies whose sustainability originates directly from their business. Investable themes to support the SDGs include, for example, health, nutrition, clean energy and water.

*Impact investing*

Impact investing aims to generate a measurable social or environmental impact alongside a financial return. Impact investing can be done through shareholder engagement, by voting at shareholder meetings or directly by engaging financially in non-listed companies and projects. Listed instruments include green bonds and alternative assets like microfinance funds and private equity investments.

**RESPONSIBILITY TO EMPLOYEES**

Our ambition to be the employer of choice in wealth management is greatly supported by our work culture, which attracts, advances and retains the talent we need to achieve our business targets. We believe that a good and strong culture contributes to high motivation, sparks the willingness to go the extra mile and is the best risk manager.

Excellent training and development opportunities are one major factor to attract and retain outstanding and ambitious employees. To enhance both technical and soft skills, we provide training, promote learning and support performance. Our efforts specifically target the areas of competitive advantage and risk mitigation, which are covered by programmes to strengthen leadership competencies, foster professional skills and develop young talents.

To get an unbiased overview of how our employees feel about their work at Julius Baer, we launched the first-ever global employee survey in 2019. The possibility for managers to directly acknowledge and comment on anonymised employee opinions made the survey an instant success. Our employees' strong commitment to Julius Baer was confirmed by a slightly above-average engagement score within the finance industry. We plan to conduct similar pulse surveys on a regular basis in 2020.

**KEY RESPONSIBLE INVESTMENT INDICATORS**

	2019	2018	Change in %
Assets with ESG integration (CHF m) <sup>1</sup>	52,486	43,537	20.6
As percentage of total assets under management (%)	12.7	11.4	-
Discretionary sustainability mandates (CHF m) <sup>2</sup>	1,625 <sup>3</sup>	973	n.a. <sup>4</sup>
Recommended sustainable and impact investment funds (CHF m) <sup>5</sup>	535	435	23.0

<sup>1</sup> Based on assets under management in central mandates (only front regions, excluding intermediaries).

<sup>2</sup> Including various asset classes and currencies.

<sup>3</sup> Including mandates implemented outside of Switzerland.

<sup>4</sup> Change for mandates implemented only in Switzerland is +23.7%.

<sup>5</sup> Total assets under management invested through Julius Baer in recommended Sustainable Investment and Impact Investment funds on the open product platform.

## RESPONSIBILITY TO SOCIETY

We are active corporate citizens. Our credo is to operate responsibly and with social awareness. That is why we engage in a great variety of ways with the local communities where Julius Baer operates.

For more than fifty years, the *Julius Baer Foundation* has dedicated itself to making a meaningful and impactful contribution to society. In 2019, the Foundation made grants of almost 3 million Swiss francs, with the majority of funds supporting partner projects in the Foundation's core areas: *Vocational Training, Recycling PLUS and Wealth Inequality*.

*Julius Baer Cares*, an employee-driven community, organises philanthropic activities such as fundraising and volunteering, and supports bottom-up community engagement organisations. It builds programmes along our Company Volunteering Guidelines, which grant Julius Baer employees two days a year to work on local charity projects. Our goal is to have a global volunteering programme by 2021, with customisable offerings through a centralised platform.

The *Julius Baer Art Collection* specialises in works by contemporary Swiss artists as well as by artists living in Switzerland. Art reflects the time and culture that surrounds it. For this reason, Julius Baer has supported Swiss contemporary art for almost 40 years, displaying many of the collection's more than 5,000 pieces in the Bank's offices for the benefit of clients and employees.

## KEY HUMAN CAPITAL INDICATORS

	2019	2018	Change in %
<b>Our people</b>			
Total headcount (total workforce excl. externals) <sup>1</sup>	6,958	6,985	-0.4
Of which regular staff	6,773	6,738	0.5
<b>Number of employees (FTE) (total workforce excl. externals)<sup>1</sup></b>			
Of whom in Switzerland (%)	51.6	52.8	-
Of whom in rest of Europe (%)	17.7	17.4	-
Of whom in Asia-Pacific (%)	21.6	21.4	-
Of whom in Latin America (%)	6.0	5.5	-
Of whom in Middle East and Africa (%)	3.0	2.8	-
Total net employee turnover (%) <sup>2</sup>	11.4	8.8	-
<b>People and diversity</b>			
Ratio of women (% of total regular staff headcount)	42.2	41.9	-
Women in senior management (% of total senior management headcount) <sup>3</sup>	27.2	27.1	-

<sup>1</sup> Total workforce includes regular staff (employees with an ordinary open-ended Julius Baer contract on a full or part-time basis), temporary staff, trainees, apprentices and graduates.

<sup>2</sup> Fluctuation rate / net turnover of regular staff in %, including resignations and terminations.

<sup>3</sup> Julius Baer defines senior management as all employees with the rank of Director and above.

## ENVIRONMENTAL RESPONSIBILITY

Environmental responsibility is also an important element of Julius Baer’s corporate sustainability and responsible investment efforts. Because we are a services-based business, our environmental impact mainly shows through our products and services as well as our efforts to steer the finance sector towards environmentally smart solutions.

Additionally, we manage our own environmental impact responsibly. For 2020, we aim to reduce energy consumption by 10%, reduce water use by 5% and to switch to renewable electricity wherever possible. Regarding the latter, as of 2019 all our Swiss locations, which account for 77% of our reported global electricity consumption, began sourcing 100% European hydroelectric power.

### KEY ENVIRONMENTAL INDICATORS<sup>1,2</sup>

	2018	2017 <sup>3</sup>	Change in %
Energy consumption (MWh)	32,575	32,518	0.2
Electricity (MWh)	23,711	23,498	0.9
Greenhouse gas emissions (tCO <sub>2</sub> e) <sup>4</sup>	18,397	18,153	1.3
Of which business travel (tCO <sub>2</sub> e) <sup>5</sup>	12,917	12,418	4.0
Water consumption (m <sup>3</sup> )	120,323	122,994	-2.2

<sup>1</sup> The figures in this table are for reporting years 2017 and 2018. The 2019 results will be included in the Corporate Sustainability Report 2019.

<sup>2</sup> Unless stated otherwise, the numbers in this table are based on information from Julius Baer’s main business locations. These are Zurich, Geneva, Lugano, Basle and Berne in Switzerland, as well as our locations in Germany, the United Kingdom, Guernsey, Hong Kong, Singapore, India and Uruguay. These locations cover approximately 80% of our total employees.

<sup>3</sup> 2017 data was restated to include additional business locations and updated emission factors.

<sup>4</sup> Greenhouse gas emissions were calculated according to the WRI/WBCSD Greenhouse Gas Protocol. This figure includes scopes 1, 2 and 3 emissions.

<sup>5</sup> Business travel figures are a sum of emissions from air, rental car and train travel data provided by our central Global and Hong Kong Travel Offices (covering all employees globally), as well as emissions from company cars used at sites.

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## IMPORTANT DATES

Publication of Annual Report (incl. Remuneration Report) 2019 and  
Corporate Sustainability Report 2019: 23 March 2020  
Annual General Meeting: 16 April 2020  
Publication of Interim Management Statement: 19 May 2020  
Publication of 2020 half-year results: 20 July 2020

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This brief report also appears in German. The English version is prevailing.

Once published, the Annual Report 2019 of Julius Baer Group Ltd. containing the audited IFRS financial accounts of the Julius Baer Group for the year 2019 is available at [www.juliusbaer.com](http://www.juliusbaer.com).



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