

Practical Issues: GIPS Setup at Julius Bär

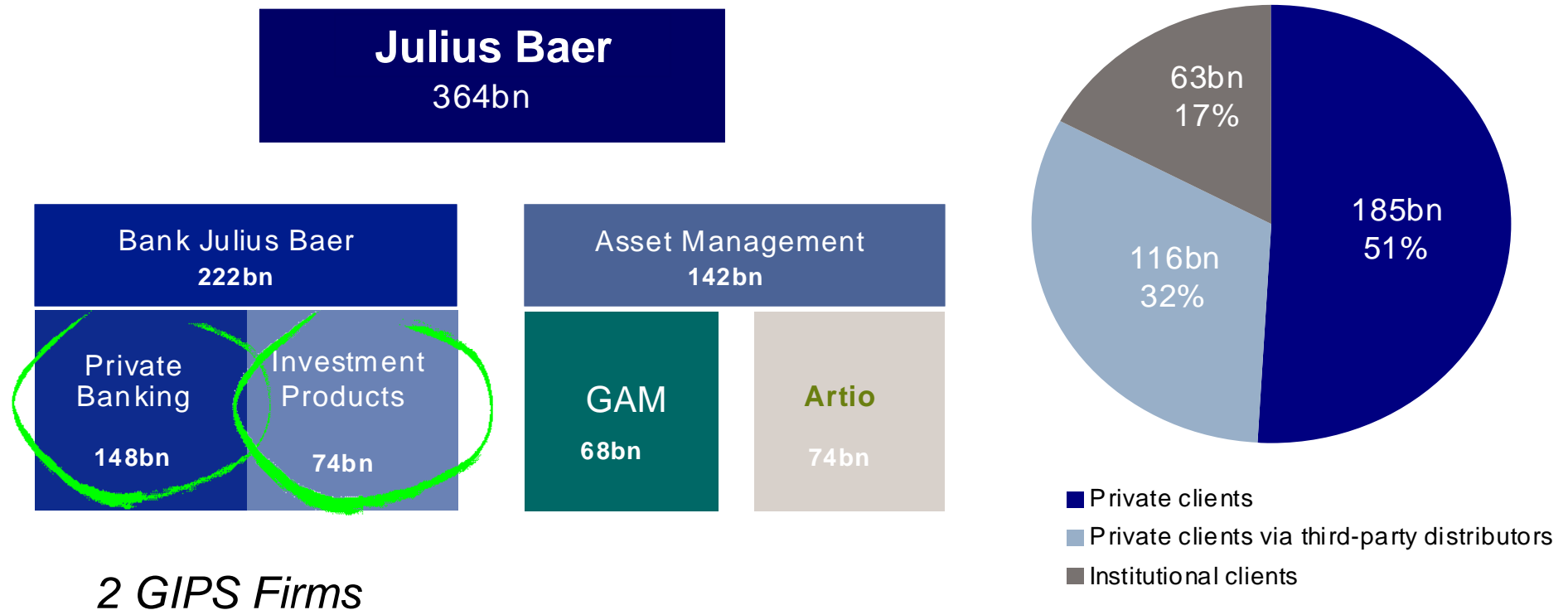
GIPS Aperitif
Zurich, 27 November 2008

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Head Investment Risk
Bank Julius Bär

GIPS setup at Julius Bär

- § Structure Julius Baer
- § Organisation Investment Risk department
- § GIPS Implementation
 - > within Private Banking
 - > within Asset Management

Julius Baer Group – Structure and AuM



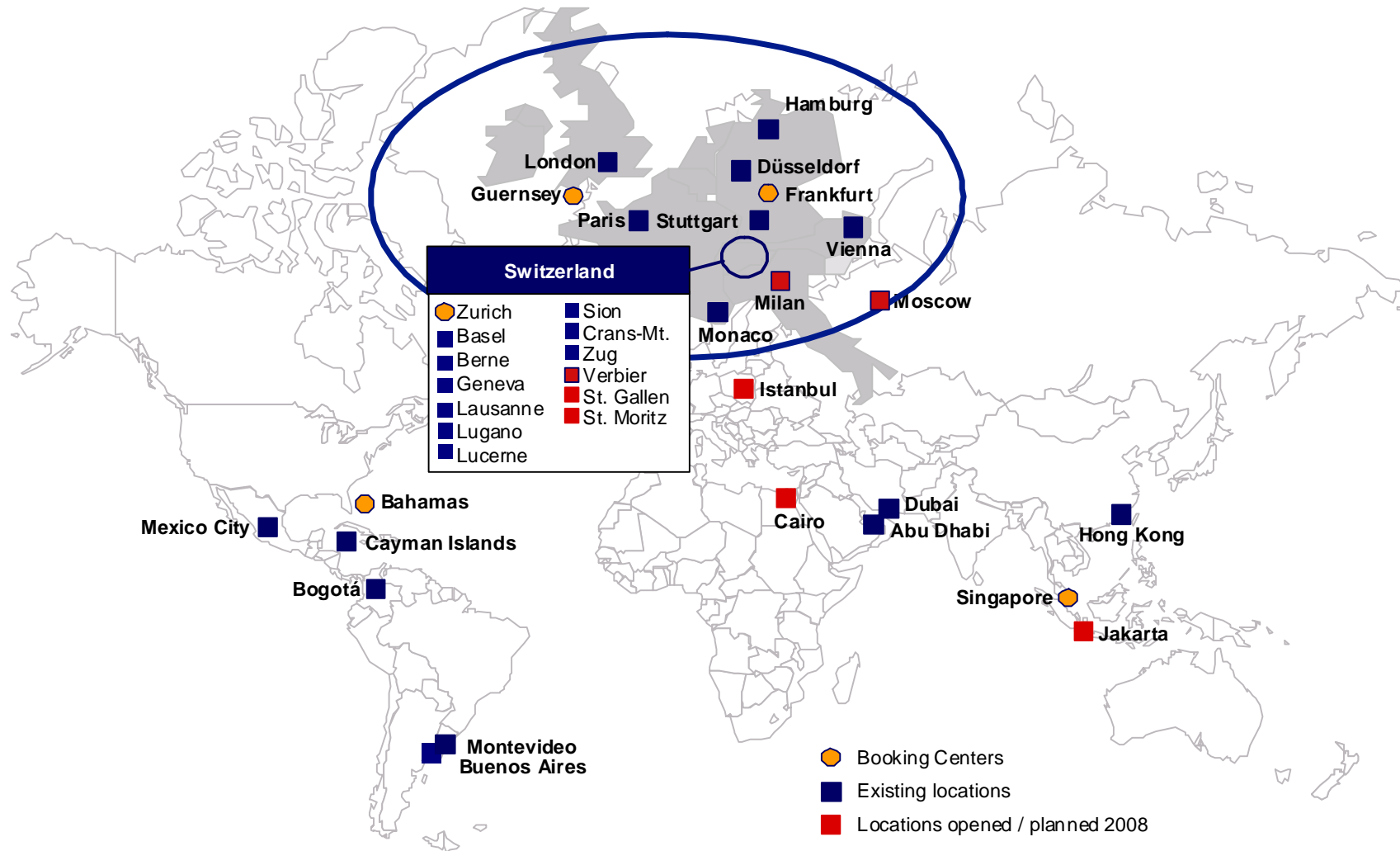
Julius Baer Group: Key Figures

	H1 2007	H2 2007	H1 2008
	CHF m	CHF m	CHF m
Consolidated income statement			
Net interest income	167.6	155.3	221.1
Net fee and commission income	1 312.5	1 442.2	1 195.4
Net trading income	138.3	159.9	177.7
Other ordinary results	16.2	56.9	7.9
Operating income	1 634.5	1 814.5	1 602.1
Personnel expenses	684.5	724.6	672.8
General expenses ²	254.2	293.6	253.6
Depreciation and amortisation	21.1	22.2	23.0
Operating expenses	959.8	1 040.4	949.4
Profit before taxes	674.7	774.1	652.7
Income taxes	156.7	155.5	142.6
Net profit	518.0	618.6	510.1
Cost/income ratio ³	57.5%	56.0%	58.5%
Profit before taxes per segment/division			
Bank Julius Baer	408.4	408.2	390.4
- Private Banking	278.5	322.2	287.0
- Investment Products	129.9	86.0	103.4
Asset Management	285.6	382.5	278.4
Group Functions	-19.3	-16.6	-16.1

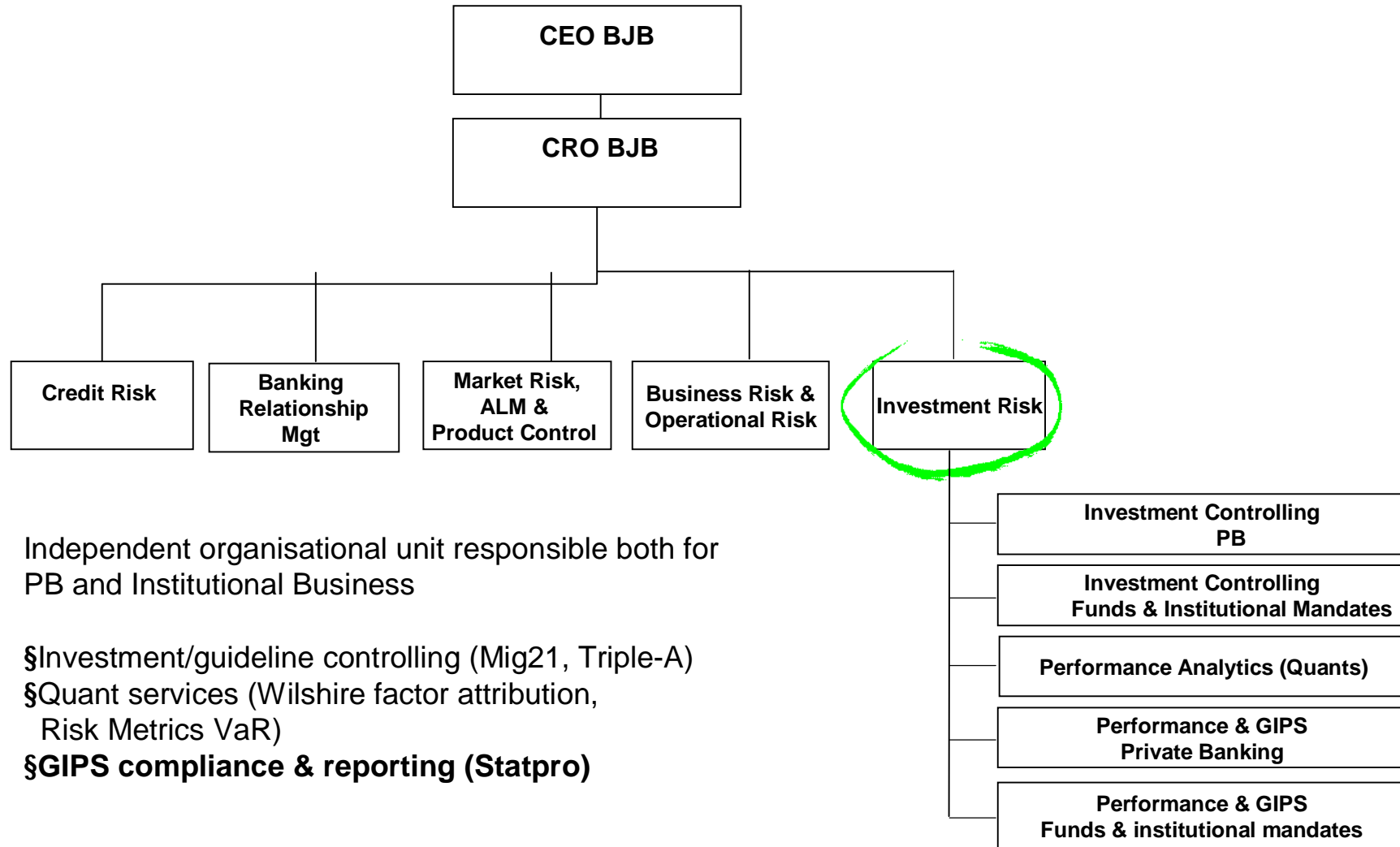
	30.06.07	31.12.07	30.06.08
Assets under management			
Assets under management (CHF bn)	405.5	405.1	363.9
Average assets under management (CHF bn)	381.6	407.2	375.9
Net new money (CHF bn)	20.0	15.5	10.3
Personnel			
Number of employees (FTE)	3 869	4 099	4 272
Consolidated balance sheet			
Total assets (CHF m)	41 727.4	46 918.8	43 612.9
Total equity (CHF m)	6 103.0	6 418.7	6 579.0
BIS Tier 1 capital (CHF m)	1 670.7	1 961.3	2 273.7
BIS Tier 1 ratio ⁴	12.9%	12.9%	13.8%
Return on equity (ROE) ⁵	27.9%	37.2%	28.8%
Moody's Rating Bank Julius Baer & Co. Ltd.	Aa3	Aa3	Aa3

All figures in CHF

Bank Julius Baer - Offices



GIPS Organisation at Bank Julius Bär



Investment Analytics: Example (Equity Fund)

Portfolio: **Europe Leading Stock Fund**
 Date: **Analysis date**

Benchmark: **Dow Jones STOXX 50**
 Value (Mio.): **Portfolio value and currency**

Key Figures

	ex-ante volatility start date			ex-ante volatility end date			return over period		risk-adjusted return	
	absolute	relative	%var	absolute	relative	%var	absolute	relative	absolute	relative
Factor	9.77	1.26	57.8%	9.63	1.32	61.1%	5.87	0.60	1.22	0.92
Currency	3.14	0.75	20.2%	4.56	0.39	5.3%	0.08	-0.05	0.04	-0.17
Region	8.01	0.03	0.0%	7.15	0.08	0.2%	5.48	0.04	1.45	1.00
Country	1.17	0.42	6.4%	1.46	0.37	4.8%	0.23	0.21	0.34	1.01
Industry	2.26	0.58	12.1%	2.54	0.79	21.9%	0.71	-0.46	0.59	-1.31
Fundamental	2.38	0.76	20.6%	2.11	0.86	26.2%	-1.38	0.86	-1.22	2.08
Specific Risk / Selection	1.90	1.08	42.1%	1.66	1.05	38.9%	1.06	0.23	1.18	0.43
Risk-free return							0.72	-0.03		
Total (daily holdings-based)	9.95	1.66		9.77	1.68		6.92	0.83	1.26	1.02

ex-ante tracking errors
at beginning and end of period

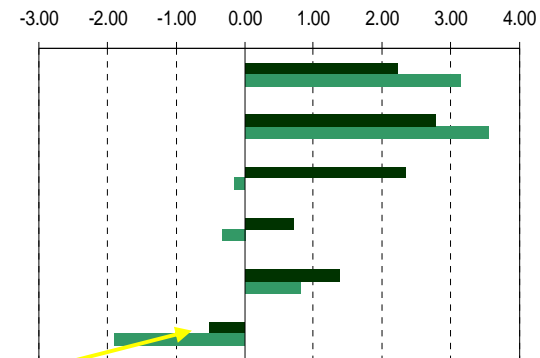
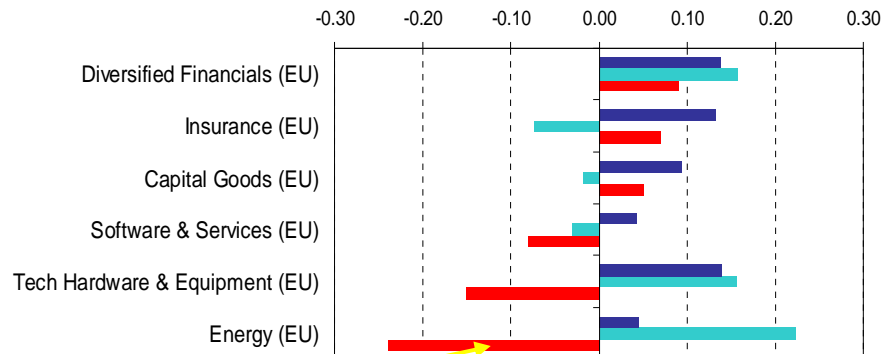
ex-post performance attribution
and risk-adjusted performance

Investment Analytics: Example (Equity Fund) cont.

Industry:

n rel. volatility % (start) n outperformance %
 n rel. volatility % (end)

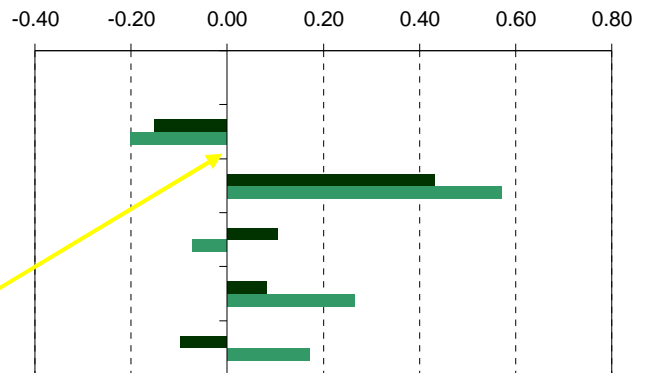
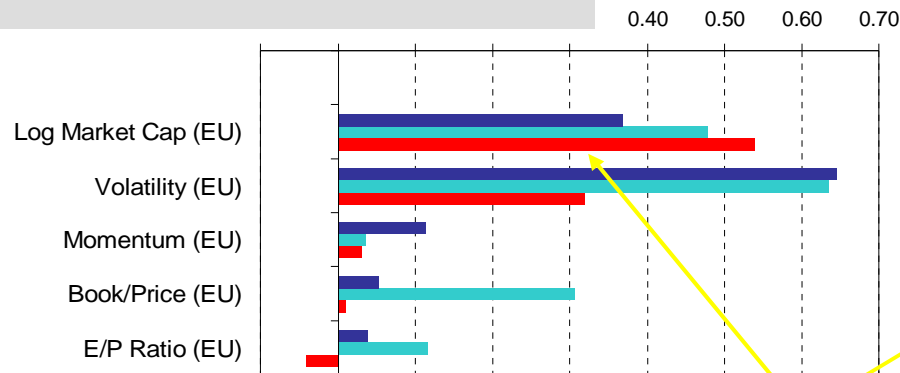
n rel. weight % (start) n rel. weight % (end)



Underperformance due to underweight in energy, overweight in technology

outperformance %

n rel. z-score (start) n rel. z-score (end)



Overcompensated by successful style factor positioning (size, volatility)

Investment Risk – Performance & GIPS

Performance Team Funds & Institutional Mandates

- § Performance Calculation of institutional mandates on PM System (Simcorp Dimension)
- § Support quarterly client reporting
- § Funds performance: data administration on database Fundus
- § PM + Marketing support in all performance issues
- § Maintain GIPS compliant data on Statpro, produce quarterly GIPS booklets + support yearly verification process

Performance Team Private Banking

- § Performance Calculation of PB mandates on Triple-A
- § Measure performance of investment process (SAA, TAA, Modelportfolios)
- § Produce performance contribution reports and active participation in different committees
- § Maintain GIPS compliant data on Statpro, produce quarterly GIPS reports, support yearly verification process

GIPS in Private Banking (1)

Base information

- GIPS compliant since 1.1.2002
- Definition of the firm: All discretionary PB mandates managed in Switzerland
- Number of compliant composites: 102 (325 in total; rest = restricted, special, transition, etc.)
- System = Statpro (new web-based version)
- External verifier: Ernst & Young, periodicity = yearly

Implementation rationale

- Guarantee for potential and existing clients that the Portfolio Management is based on a structured and well-controlled Investment Process
- Guarantee that performance information is complete and presented in a true and fair way
- More transparency for performance comparison on national and international level
- GIPS-performance is basis for internal analysis of Investment Process, monthly presented to management (Product Review Committee)

GIPS in Private Banking (2)

Specific Intranet section containing (amongst others)

Quarterly update

Disclosures

Official GIPS/SPPS Report

GIPS in Private Banking (3)

Clients

- Focus of client on Performance of individual mandate (based on Host Performance – Modified Dietz)
- Benchmark often only a supplementary information (often not understood by PB client)
- Many individual restrictions (needs criteria for inclusion into composites)
- Sometimes client want to participate in investment decisions
- Absolute return orientation versus relative return mandates

Portfolio

- Due to restrictions often only limited value when allocating to composite
- Individual review of positions and actions taken

Controlling

- Enhanced governance due to more disciplined implementation
- Increased transparency

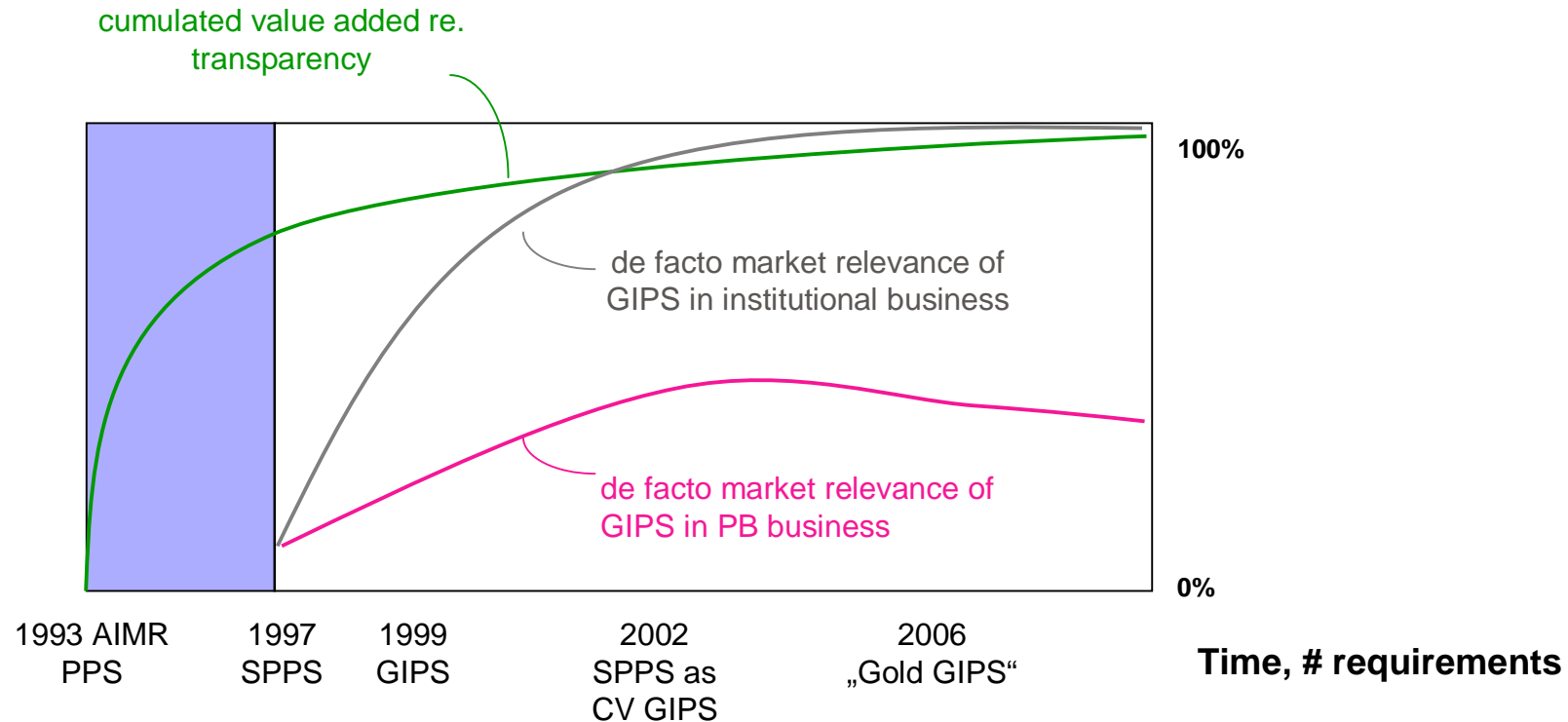
Marketing

- Ethical standards merely of theoretical value – clients don't know them.
- GIPS report or disclosure hardly ever demanded!

Conclusion GIPS PB 2002-2008

Topic	+	-
Commitment to ethical standards	Misrepresentation or ambiguity when presenting performance clearly reduced	
Well controlled Investment Process	<ul style="list-style-type: none"> -basis for proper calculation of product performance -transparency in the contribution of each step within the investment process on a agreed upon methodology -useful additional measures like dispersion on composite level 	
Complexity		Additional requirements driving cost & complexity (e.g. error correction statement, definition of 'prospective client')
Marketing use	Family office and large clients	Regular Private Banking clients are hardly aware of GIPS as a brand

Critical comment about GIPS in PB



- §GIPS as an industry standard did not yet arrive in PB
- §different sales process in PB as an important factor
- §needed in PB: GIPS as a ‚must have brand‘ like ISO or TÜF
- §the market must ask for GIPS – not the client advisor!

GIPS in Investment Products (1)

Base information

- GIPS compliant since 1.1.2002
- Definition of the firm: All funds and institutional mandates managed by Julius Baer Investment Products in Switzerland (former Asset Management Europe)
- Number of compliant composites: 119 (others: non discr. ptf., transition ptf, ptf < 5 mio SFr, etc.)
- Allocation of portfolios to composites: automated process but can be manually overruled
- System: Statpro Composites
- External verifier: PwC, periodicity = yearly

Implementation rationale

- De facto a must for institutional business
- Important control tool for portfolio administration ('Laufzettel': start and end of process is with GIPS officer)
- for performance analytic purposes on composite level: long term track record, dispersion measures (as a supplement to analytics on individual portfolio level performed with Wilshire Atlas, Axiom, Spectrum and Risk Metrics)

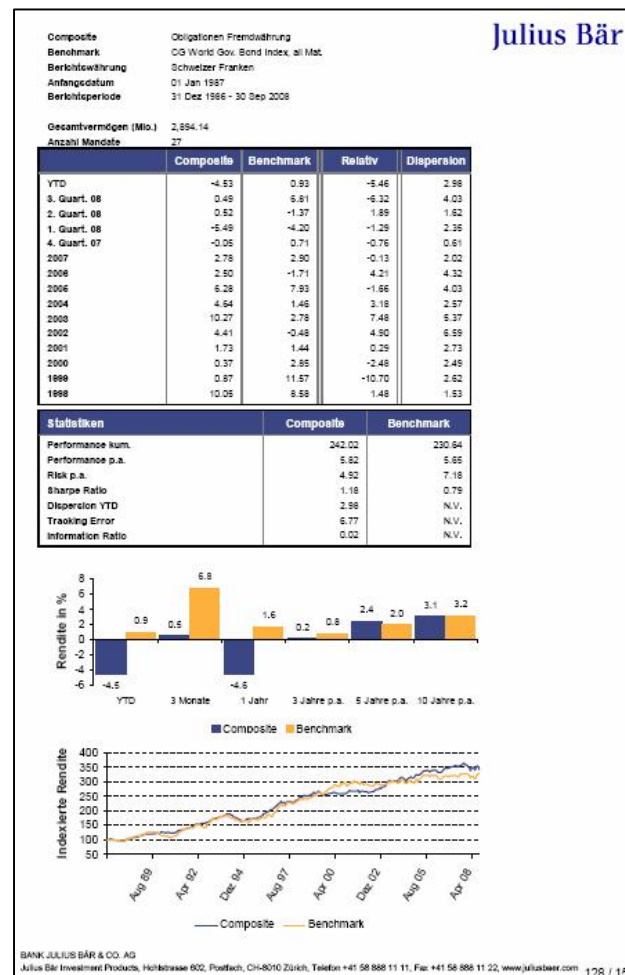
GIPS in Investment Products (2)

Reporting

- Quarterly „GIPS booklet“, containing all definitions, disclosures and composite reports (170 p.)
- Monthly updates for individual composites on ad hoc basis

Special consideration

- Use of group composites (aggregation of composites with similar asset allocation)
- Small portfolios (< 5 mio SFr)
- Error correction



Questions arising from centralisation of GIPS functions PB and Investment Products in one organisational unit

Combine the two GIPS firms?

Use only one system?

Align report formats?

Cost implications?

Thank you very much for your attention

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