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**Investment Managers: Why do we ask what we ask?
(An insight into working with Trustees and the ever increasing threat
of litigation)**

STEP Presentation – Lausanne, 23rd June, 2016



The increasing burden of KYC

- Know Your Customer or Due Diligence.
- Recent changes in the regulatory environment have seen an increase in the requirements.
- FATCA
- CRS
- Form K – Controlling person
- Swiss AML



Know Your Customer

- Understanding the following key aspects of your client:
 - Family Background
 - Source of Wealth
 - Financial Experience
 - Investment Objectives or Goals
 - FATCA
 - Tax compliance
- Why does this matter?



KYC – Why it does matter

Can you state the following with complete certainty?

- I know exactly where the funds originate.
- My client has no political connections.
- The funds are fully declared to the tax authorities.
- I can demonstrate that I am aware of my client's financial circumstances and experience.
- The investment mandate matches the risk profile and investment objectives of the Trust.
- FATCA Compliance.



Is there a limit on what will be asked for?

- In short.....No!
- An investment manager will require as much information as possible.
- Only after provision can informed decisions be made.
- A good investment manager should work with you to establish the correct mandate and not be a threat.



Trustee Investment Risk Management

- The duty of care and to preserve the value of the Trust especially important.
- Failure to perform KYC can lead to a break down of understanding.



Trustee Investment Risk Management

- Two key areas:
 - Risk Management: Ensuring that the investment manager is suitable and that the mandate is correctly interpreted and executed.
 - Return Management: Monitoring the investment manager to ensure that the management of the assets is in line with expectations and the investment objectives.



Investment Risk Management



What could possibly go wrong?



LITIGATION!

Most Investment related litigation takes place because the KYC and risk profiling were not performed correctly at the outset of the relationship.



Litigation – Case Study

The risks associated with not paying attention to the details at the outset.





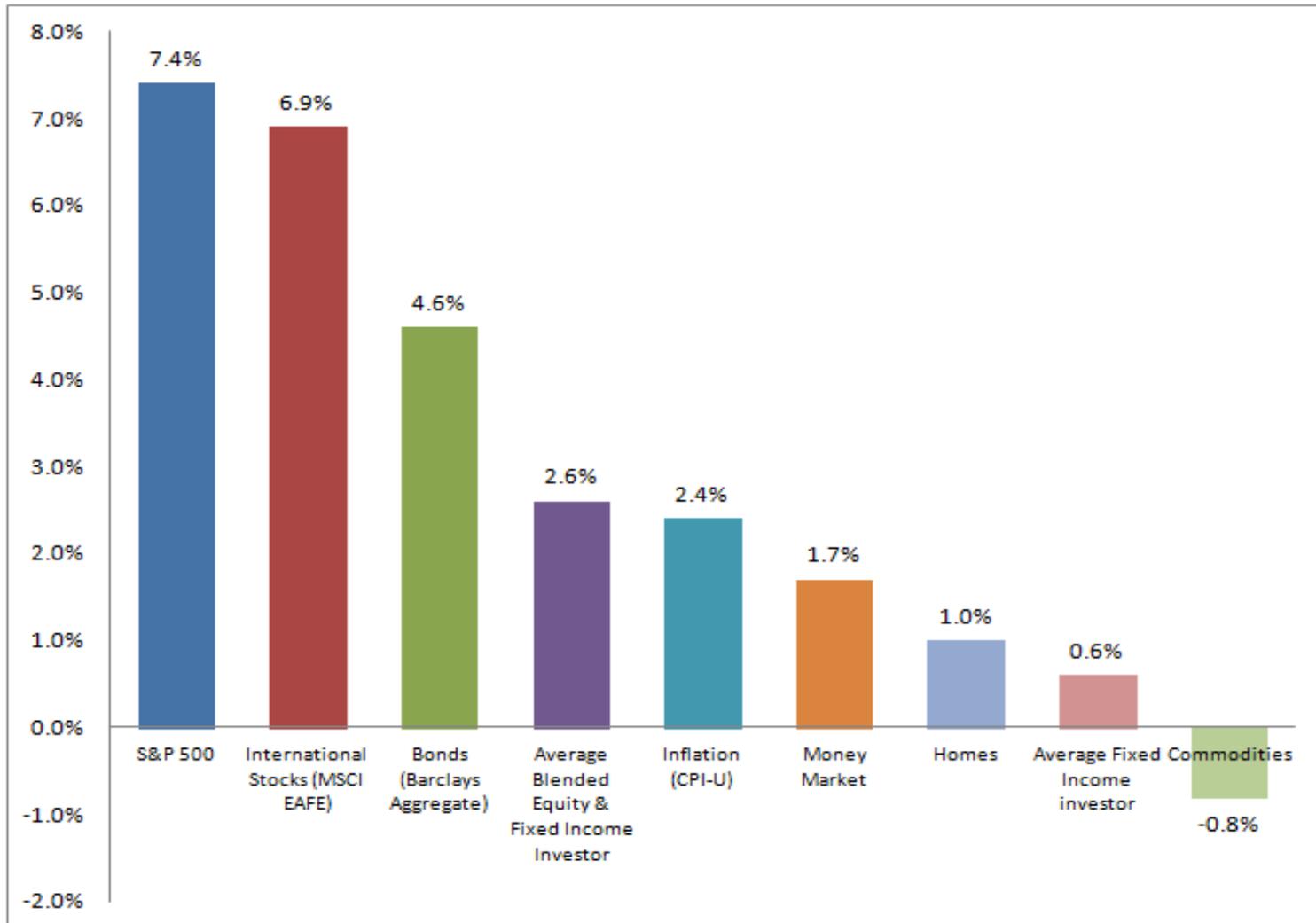
Is the Human Animal a Rational Being?





The Investment Manager's View

Annualized Returns 2004-2014





The Investment Manager's View

TYPES OF RISK:

- Loss of Purchasing Power over Time (Inflation)
- Market Risk (Volatility)
- Liquidity Risk
- Default Risk
- Reinvestment Risk
- Horizon Risk



The Investment Manager's View

Setting Investment Objectives:

- Base currency (-ies)
- Income/Liquidity Needs
- Time Horizon(s)
- TRUE risk tolerance – which types of risk?
- Taxation
- Regular updating/fine tuning of objectives
- Client management



Currency risk is a key consideration





Summary



Especially relevant in this day and age, face-to-face client meetings are more important than ever!



Summary

- Listening
- Fact Finding
- Documentation
- Compliance and Governance

And.....

- Communication!



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Regulatory Information – ISGAM AG

Regulator (SRO):

Verein zur Qualitätssicherung im Bereich
der Finanzdienstleistungen (V.Q.F.)

Auditors:

Deloitte & Touche AG, Zurich

Incorporated in year 2001 in Zurich, Switzerland



Appendices



Litigation – Case Study

- Trustees and the Investment Manager had different risk profiles – not aligned or checked.
- The investment manager managed the assets according to their understanding of the investment criteria.
- The portfolio underperformed and did not meet the required investment objectives.
- The Trustees failed to check the mandate against the profile and objectives – beneficiaries sought recourse.



Case Study - Resolution

From an investment manager's point of view, these are the steps that should have been taken:

- Risk Profiling / Fact Find – This is perhaps the most important step of the KYC and investment process. Only after a comprehensive fact find will an investment manager be able to agree the investment objectives.
- Client profiling is a continual process and investment objectives should be reviewed regularly to confirm their suitability and to address lifestyle changes.
- Investment objectives should be checked, at least annually, with all parties to the account to ensure that there is no disconnect or miss-match.
- Agreed performance indicators should be reviewed and underperformance addressed before it becomes an issue.
- Regular meetings with the trustees and settlors/beneficiaries to deepen the relationship and ensure that all parties are in agreement.