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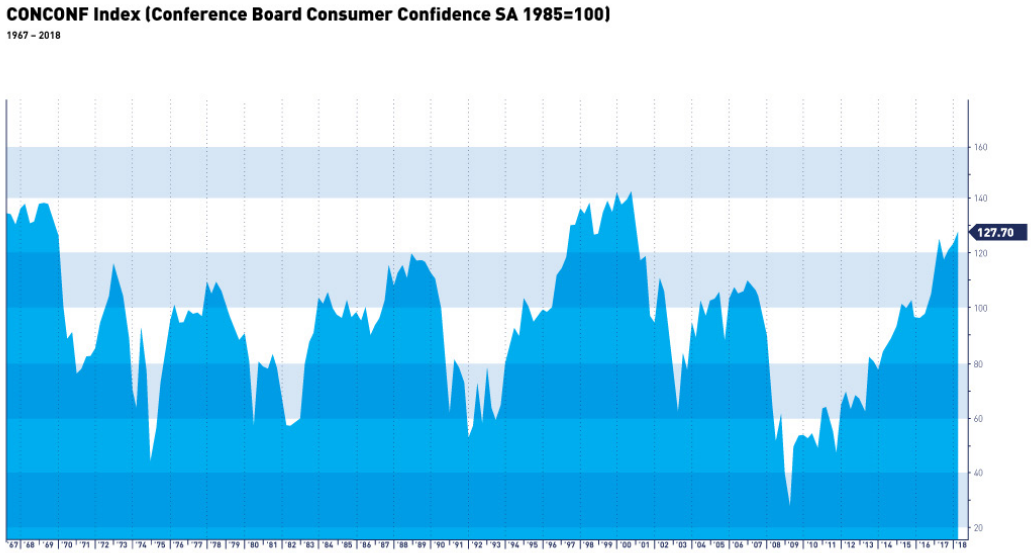
PARTNERS ' VIEW
May 2018

Wealth Management
US Consumer Confidence - still at elevated levels

THIS BOUT OF VOLATILITY IN EQUITIES LOOKS LIKELY TO PASS AND FUNDAMENTALS ARE STRONG



Is there really anything major to worry about? Looking at the above chart of US consumer confidence we can see that levels above the 2007 period have been reached and we are fast approaching confidence levels not seen since the late 1990`s.

Looking at the earnings picture for this year both the US market (as measured by the S&P500) and the european market as measured by MSCI Europe ex UK are showing solid increases. You will no doubt have noticed the blue line on both charts turning down (this represents the index levels) and could be viewed as being positive as it means that the price earnings ratio (valuation) of both indices has become more reasonable.

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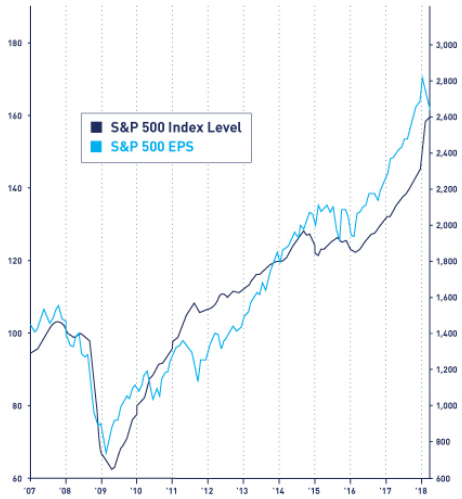
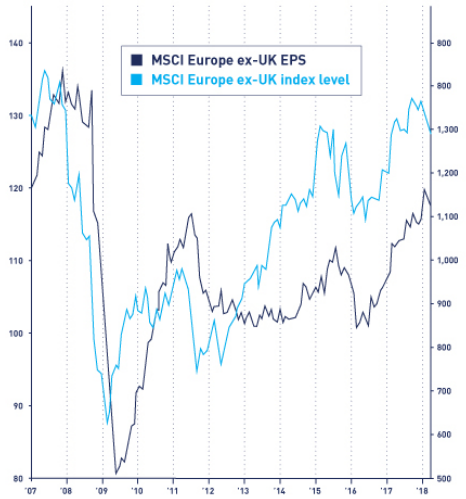
S&P 500 earnings and performance
2007 – 2018



MSCI Europe ex-UK earnings and performance
2007 – 2018



Whilst there is no doubt that earnings from US companies will be significantly better than those from European companies this year. Due to the US tax cuts the forecasts for next year look surprisingly similar in terms of percentage growth.

This combined with a strengthening EUR could perhaps explain the recent underperformance of European equities in local currency terms. The good news is that expectations for the upcoming European earnings season is still somewhat modest and therefore there remains a good chance that many companies beat expectations.

Whilst there seems little doubt that US interest rates will increase further this year we expect the tightening to be gradual and longer term bond yields to remain well anchored at current levels given the modest inflation outlook.

Taking everything into account – modest interest rates, strong consumers, increasing GDP growth and strong corporate profit growth we expect the path of risk assets to be significantly higher once this bout of volatility eases. It will probably take a bit more time but we are closer to the end of this period than the beginning.

Peter Ahluwalia, Partner
Chief Investment Officer
peter.ahluwalia@swisspartners.com

Lars Widmer
Portfolio Manager
lars.widmer@swisspartners.com

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Financial Planning
"More transparency in your pension"

WHAT ARE 1E PLANS?

Since 1 January 2006 pension plans may offer their members a choice from among a number of investment strategies. Admittedly, these options are only available outside the compulsory coverage of occupational benefit plans and thus only for that part of salaries currently in excess of CHF 126,900. These benefit plans are often called "1e plans", in reference to the provision of the corresponding regulation, Article 1e BVV 2 [Occupational Pension Plan Regulation 2]. 1e plans must have separate pension benefit coverage exclusively for that part of a salary in excess of CHF 126,900.

WHAT ADVANTAGES DO 1E PLANS OFFER?

For employees:

For employees, these plans offer the possibility of defining the investment strategy for their retirement savings according to their own judgement, within certain limits, and of contributing on that basis. This clearly heightens employee participation and personal responsibility. It can also help avoid cross-subsidising pensioners as a result of low returns on retirement savings.

For employers:

Basically, under 1e plans employers can transfer investment risk onto their employees. This reduces both pension fund contributions and the associated risks

CONCLUSIONS:

After private home ownership, retirement savings are the main assets for most employees in Switzerland. In any case, many participants do not know exactly what the monetary arrangements are, so the structure is akin to a black box. But even where the investment structure is wholly transparent, participants have no say in the investment strategy and hence in the risks taken. The introduction of 1e arrangements marks a clear change in this situation. The risk, and along with it the long-term prospects for investment success, can be decided personally, within certain limits.

Please feel free to attend our seminar on this current topic, to be held at the Widder Hotel in Zurich on 17 May 2018

For more information and to register for the event, please go to swisspartners.com/events.

Konstantin Wyser, Partner
konstantin.wyser@swisspartners.com

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Fiduciary Services Switzerland
Live-in partner beneficiaries – to will or to gift?

Naming a cohabiting life partner as a beneficiary can raise both testamentary and tax challenges for couples. First, a partner has no legal claim on inheritance, and second, estate taxes or gift taxes apply in most cantons.

Two ways to make beneficiary arrangements are discussed and compared here. Succession on death by allocating property as a bequest or through appointment as heir or by a gift of property while alive. This will be considered here from the standpoint of a purely Swiss situation: The last place of residence of the decedent in question was in the canton of Zurich, and the decedent holds property in the canton of Schwyz.

TAX IMPLICATIONS

Bequeathing the property in the canton of Schwyz to a cohabitation partner through a bequest or appointment as heir will incur inheritance taxes. This might come as a surprise, because the canton of Schwyz has no inheritance tax. However, since the testator's last place of residence was in the canton of Zurich, this canton is entitled to effect an intercantonal allocation and hence to assess inheritance taxes proportionately. Thus: The canton in which the decedent had his or her last place of residence and the canton in which the property is located may tax the heirs and recipients of the bequest at a rate corresponding to the proportion of the assets located in each canton within the total assets [case law of the Federal Supreme Court (BGE 2C_415 / 2017].

However, if the property is conveyed in the form of a gift while alive, preferably preserving the donor's right to usufruct, only the canton in which the property is located is entitled to tax the gift. Since the canton of Schwyz has waived gift taxes, there would be no tax burden whatsoever in the case considered here.

INHERITANCE LAW ASPECTS

The property may be conveyed to the cohabitation life partner (recipient of the bequest or by being named an heir) within the discretionary portion of the estate. Whether the property fits entirely within the discretionary portion of the estate will thus depend on

amount of the total assets. In cases where this is not clear, it is advisable to come to an agreement with the forced heirs in the framework of an overall inheritance settlement. As part of that arrangement, the forced heirs would waive their entitlement to the legitime. If the value of the bequest to the cohabitation life partner exceeds the discretionary portion and there is no contractual waiver, the forced heirs whose rights are infringed are entitled to demand a reduction in the bequest (Article 522 Swiss Civil Code [ZGB]).

In accordance with Article 527.3 Swiss Civil Code, gifts that may have been freely revoked by the decedent or made in the five years preceding the decedent's death are also subject to reduction. It is therefore also advisable to notify any forced heirs of gifts made in life and reach a settlement with them, to ensure problem-free distribution of the estate.

CONCLUSIONS

In the specific case considered here, having the tax implications in mind, making an assignment in life would make sense. An arrangement with the heirs is a good idea in either of the cases considered here.

Bringing in the help of a specialist is worthwhile to avert or at least minimise taxes and avoid future difficulties when distributing the estate.

Nathalie Schlösser
nathalie.schloesser@swisspartners.com

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Trust & Corporate Services
swisspartners: Award for best "Wealth Planning Team 2018"

The swisspartners Advisory + Solutions Team earned the award for its unique range of services and team spirit at the 2018 WealthBriefing Swiss Awards.

swisspartners, the Swiss financial services firm, was awarded the prize for best "Wealth Planning Team 2018" at the fifth annual WealthBriefing Swiss Awards in 2018. The WealthBriefing Swiss Awards are given by the ClearView Financial Media publishing and business information group to private banking und wealth management firms worldwide for outstanding achievement in the areas of expertise, products, and services. Two separate juries are used, to avoid conflicts of interest: One panel of judges consisting of distinguished bankers and financial service providers issues the awards for financial advisers, and another panel of judges of financial advisers issues the awards for bankers and financial service providers. The annual transregional and country-specific awards are given to banks and asset managers that have set new standards in the field.

This year swisspartners won the award for outstanding Advisory + Solutions Team wealth planning services. The Advisory + Solutions Team is composed of the partners and employees of swisspartners Marcuard Heritage AG, swisspartners Versicherung AG, and swisspartners Wealth Services AG.

The award recognises the Advisory + Solutions Team chiefly for its range of services and teamwork. A uniquely broad assortment of one-stop services are offered in Switzerland and Liechtenstein, e.g., Swiss trusts and taxes, international trusts and corporate services, international life insurance products and private label funds, and umbrella funds. The excellent team effort is achieved by superb teamwork by all partners and employees across the boundaries of legally separate units.

According to Markus Wintsch, CEO of swisspartners, the award shows that our financial services group is on the right track. "We are very pleased at this award. It recognises our efforts to provide our clients with the best possible service. We combine national and international services that will fully meet our clients' individual needs while ensuring the optimum quality. We view the WealthBriefing Award as proof of our Advisory + Solutions Team's superlative work. Our Group will continue to strive after excellence and client satisfaction in all areas."

Dr. Christian Rockstroh, Partner
christian.rockstroh@swisspartners.com

Insurance
The Future of Wealth Planning – An Insurer's View

Many articles have recently been published and many conferences have been organized, dealing with the broad topic of the "Future of Wealth Planning in Times of Uncertainty". A good example was the STEP conference that took place on 31 January/1 February 2018 in Interlaken.

Will wealth planning be needed in twenty years' time?

The answer is very clearly "yes, but..." and we need to look at the challenges which wealth planners will face. I offer a number of statements, some of which are contradictory. However, this is part of our professional life:

WEALTH PLANNING ≠ TAX PLANNING.

Managing taxes are part of wealth planning but before tax planning should be considered, the family's thoughts and threats need to be spelt out very clearly. In other words, we need to apply a "holistic" approach, including all aspects of the family's well-being i.e. the tail should not wag the dog.

FROM KYC TO UYC.

Know Your Client requires information such as passport copies, utility bills and source of wealth. Understand Your Client is looking at the client's and family's wishes, hopes, fears, to understand the whole client story. UYC will become paramount to wealth planners because without UYC, well-intentioned advice may not suit the client.

FORGET ABOUT SECRECY.

The future (or is it already the present?) will be transparent. Whatever you do in your (professional) life, everybody will know. This is also true for all clients. You cannot and will not be able to hide from the public eye.

SMALL CLIENTS GET SMALL ADVICE. BIG CLIENTS GET BIG ADVICE.

The costs of proper international wealth planning have grown in the last years and will grow further. This is mainly due to two factors. Firstly, professionals need to be compensated for risks from the growing regulatory jungle and the growing uncertainty. In times where professional advice may be under scrutiny, planning becomes more difficult and carries more risk. Secondly, families will become even more international, intentionally or by surprise (such as cross border marriages of children). This will require more and more international planning, and only very wealthy clients will be able to afford the costs.

COMPLEX STRUCTURES WILL RECEIVE CRITICAL COMMENTS.

If a wealth planner cannot explain "this perfect structure" in a few words to the client and one day, to the tax inspector or to the public, the structure will not work. Simplicity is in, complexity is out. This is clearly in conflict with the previous statement and will make wealth planners' lives more complicated.

SPECIALISTS ARE NEEDED.

Banks will stop offering wealth planning due to conflicts of interest. Future wealth planning for HNWIs and UHNWIs will come from two sources. Firstly from pure wealth planning firms which concentrate on the planning side of things and select service providers to establish and maintain the plan. International legal and tax consulting firms may develop in this direction. Secondly, wealth planning will come from specialist boutiques that provide not only the advice but also implement the actual solutions. They will need a very wide range of knowledge and products. International wealth planning firms and advisory and solutions boutiques will need to cooperate a lot more in the future.

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MANAGE UNCERTAINTY.

Uncertainty in life is the essence of the insurance industry. In combination with trusts and similar tools, uncertainty becomes manageable. This is true today and I do not see fundamental changes in the future.

APPLYING THE SOFT APPROACH.

The children and grandchildren of the founders of wealth will have quite different aims in life. Maximization of wealth, preferably combined with minimization of taxes, will not be their most prominent motivation. Being born rich changes the perspective on life. Wealth planning will need to address this with the help of family constitutions, family governance and generation planning. Successful wealth planners will therefore need to offer more "soft" advice.

HEALTH WARNING INSTEAD OF A RÉSUMÉ.

There will still be wealth planning in twenty years' time but you know, it won't come easy.

This article is a revised version of the one originally published in STEP, 01.2018. The various topics mentioned in this summary article will be further discussed in the upcoming partner's view publications.

Dr. Christian Rockstroh, Partner
christian.rockstroh@swisspartners.com