UBS

Morgan Stanley European Financials Conference

17 March 2021

Fireside chat with Suni Harford, President, UBS Asset Management
Moderator: Magdalena Stoklosa, Morgan Stanley

Transcript. Replay is available at www.ubs.com/investors

Magdalena Stoklosa

Well, good afternoon and welcome, everyone. I am delighted to welcome Suni Harford, the President of UBS Asset Management, to the conference. Suni, thank you very much for joining us.

Suni Harford

It's my pleasure.

Magdalena Stoklosa

Absolutely. And we will -- we'll start with a polling question, which you have on your screens. So the question really is, what do you see as the single biggest driver for UBS share price in 2021. And of course, we've got a lot of things there, litigation, net new money, of course capital returns. We're going to have a look at it in a couple of minutes.

Now, Suni, let's maybe recap 2020 kind of first, to set the context of today's discussion. You know, 2020 has been extraordinary for all of us in so many ways. As you look back, kind of 12 months, on UBS, on your business, on the market, which trends do you think will fade and what has staying power?

Suni Harford

Thanks, Magdalena. Can't start without a special shout-out to all the front line and emergency workers on the pandemic, taking care of all of us.

So as an organization, I'm really proud of the way UBS came together to support each other and our communities and our clients over the last 12 months. We acted really quickly to the challenge, and the resilience of our systems and infrastructure and our planning, if I say it, were apparent. We learned from our experience in China. We followed COVID around the globe, so we made a number of changes in that plan that I think will stick with us. They are just plain good business practice.

So pre-pandemic we hadn't focused on them, or we didn't believe they could work. So remote access was universal and quickly came online for us. We've always been big users of video. I will tell you, it was a big adjustment for me when I came over to the firm. Everything is visual. And so that was easy. The switch from our desktop app to other team-based venues was automatic.

We increased communication, again leveraging what we have. For example, in asset management I have a weekly macro call which every (inaudible), research analysts will come to. We expanded it to all employees and added the agenda to cover updates on the pandemic. Personal wins, client stories, and what-not to keep everybody motivated. The proof that that worked well, is that we still have elevated attendance levels even now, 12-13 months later. So we're very excited and we'll keep that going.

As fortune would have it, we had just launched our new digital capabilities for our clients in January of last year, so of course, that was a huge benefit for us. We saw client connectivity up 50%. I don't think I'm unique, except that maybe I'm based out of New York, that… I took the role some 18 months ago and I had probably three years' planned client meetings and trips. I accomplished all of those meetings within the first six months of the year. So very, very efficient from our client perspective and from that viewpoint.

The executive committee that I have, we used to meet monthly. We started meeting twice a week through the pandemic to make sure we were on top of things. It turned out we were much more efficient that way, and decision making was that much faster. We are going to continue to do that weekly now, and we'll continue to do that going forward.

And a lot of the employee programs, honestly, that we were nervous about, we didn't think we'd get great attendance. Employee wellbeing, some of the virtual discussions that we had around -- that were key topics like racial justice in the United States or the UK or around the globe, all of those things had tremendous impact on our employees. So we're going to keep going with those as well.

So we also, again, in the end, we garnered a lot of loyalty points. We, from the beginning, have said employees first. Health and safety of employees was first. I think we were the first to leave our venues. We may well be the last to come back to them. But again, putting families, the wellbeing of our employees, benefits, front and center, was really key for us.

And it worked, right. Client connectivity was great; employees continued to do really well; and you saw that in our results, right. The group achieved and exceeded all of our financial targets. In asset management, we delivered 66% PBT growth, 53% growth in revenues, 63% cost income ratio down from 77% in 2018.

We reached the important milestone of 1 trillion dollars AUM and I have to say, we weren't aiming for that, right. This was organically done. It occurred to someone to ask me in September, do you know we're about to hit a trillion dollars. So very exciting to see this client coming to us and that benefit coming in, without having a specific target of growth for growth's sake. So we're very proud of that. We delivered over $80 billion in net new money.

We facilitated the successful sale of Fondcenter, as you saw we closed the deal in October. So a lot of progress made on the strategic initiatives.

So the trends, as you asked, the shift to digital, absolutely. We're well-entrenched. We're well on our way. The global focus, and I don't know whether it's headlines or whether it's just the fact that the world acted as a world finally through the pandemic, but we have tremendous interest around the globe in Asia-Pacific and China specifically.

We have our annual Greater China Conference, more attendance than ever, record attendance this year. And a tremendous amount of it -- this is in January before travel restrictions, but we saw a lot of that interest out of Europe and the US. So this is a big growing trend that we think will continue.

The ESG is obvious. I'm sure we'll talk about that one going forward.

And the ability to customize, right. All of this work-from-home, everybody's used to their phone. We're seeing what technology can do and how efficient we can be. So that trend has been accelerated as well.

Magdalena Stoklosa

Perfect, which kind of leads me to the next question, of course, a milestone in AUM, tremendous levels of kind of net new money. How do you see the client activity kind of now, both in asset management but of course also on the global wealth side? And just for the sake of an audience, would you kind of give us a sense of you know, how big of a client, for you, on the asset management side of course, wealth is?

Suni Harford

Sure. So we're not captive - I feel like I have to say that a lot, people presume we are. No, UBS Global Wealth Management tends to be in a 28% - 30%. So just shy of 30% for us as a client, so they are not at all our only client. They are our biggest client, and we treat them as such.

In terms of client activity 2021 so far in terms of markets, volatility, interest has been very similar to 2020. Many of the trends that we saw are continuing, including what we see in the wealth management channel.

We see strong demand for sustainable products and ESG, very strong demand for alternatives and private markets. Interest in multi-asset and whole portfolio solutions, this -- this leads to that idea of customization which again is coming out of the SI, or sustainable and impact, sorry, focus that we're seeing.

So we're also seeing -- and you're seeing it in recent press, I will say, if you haven't watched it -- the growth of SMAs, Separately Managed Accounts. Which is what we did with our initiative zero-fee SMA, with our wealth management partners, at the end of 2019 that has seen so much growth for us. And as I (inaudible) to UBS. That's starting -- we're starting to hear about that in Europe. How do you create that separately-managed account flexibility, that customization? So again, we're waiting for some of the regs and rules to change in Europe to allow that, but we're ready to go. And I think that's a trend that you'll continue to see.

So the demand for customization, back to your point. The pipeline in asset management looks really strong across all of our channels. So that's not just retail, but also in institutional accounts. The Biden administration is going to accelerate the take-up of SI in the United States. There is no question about it. We are starting to get the inquiry and this is dialogue, by the way, that clients would not even have with us because they were nervous about what the US administration would say in older years. So again, we're going to see a lot of focus there.

Continue to see interest in all things Asia-Pacific and China (inaudible) wealth management that's (inaudible), that's our wholesale channel. Again, China onshore, the allocations there, tremendous growth that we are seeing. I tend to think we're ahead of others there because we've been there for so long and we have a lot of products there, but again, we've seen a quadrupling in size of some of the assets under management we have on shore there.

And then again, some of the earlier read on demand from private products. You see that in the increase in demand for SPACs, both institutionally and retail, and that people want access to those private markets. They want access to things pre-IPO. So again, continued inquiry across the board for those products.

Magdalena Stoklosa

That's -- so can I kind of -- kind of switch it a little? So you've talked about things which are kind of happening now, but could you kind of give us a context of kind of more strategically, within all of those kind of -- within some of the themes that you've just discussed, of course the ESG, the old, the private markets, multi-asset. Where, strategically, do you -- are your kind of biggest opportunities either from a product mix or geography or distribution? Because at the moment, you've got quite a balanced portfolio geographically, actually. And so of course, you see what's happening kind of globally, and you know, and would like to hear that context.

Suni Harford

It's a great question, Magdalena, and I think what people tend to miss is that asset management is unique in that we don't move just from one strategy to another. So part of this is the depth and breadth of the shelf. This is one of the reasons for consolidation and some of the M&A that's out there – it is to fill those gaps.

If I think -- my probably top priority from a strategic perspective is to retain my existing clients. And we know that clients are going to shift in and out of strategies. They're going to get out of equities and they're going to rotate into fixed income. They're going to park their cash maybe in money markets, or maybe a passive strategy, until they figure out what they're going to do. They're going to re-evaluate and it will take them months, maybe, to change their charter and allow for them to do more in private markets or real estate for example.

So having product that will -- when they get out of an active equity strategy and they want to move into passive, when they want to get out of the passive strategy and maybe sit in fixed income for a while, and have a carry play on FX. I want those products, because I want to own the client. So that's the first strategic objective I have, is to own that client. And that's why I will say at UBS, having a wealth management partner such as we do and get that feedback on what clients are looking for. And that is, is a really, really critical part of our strategy, to leverage that insight in terms of where clients are heading so that we can get in front of it.

Again, seven consecutive quarters of year-over-year PBT growth for us, that's across products, right, so that speaks to that. I had it in every asset class. I have performance fees in 16 different strategies, so that again, wherever clients go, I'm going to see the benefit of that performance fee.

The diversification of revenues would be the second point I'd make to you. I don't want to be all-in on just Asia. I don't want to be all-in on just SI. I don't want to be all-in on just active equities. I have to have that diversification so that I can be a steady-state in terms of revenue generation for you all, and for your and my parents and for my shareholders. So these are all the things - we want to be balanced.

So to your point, we are investing in Asia. We do see Asia continuing to be a very big growth story for us. Interestingly, from an asset management perspective, I don't really have a huge effort on the wholesale side in the United States. The vast majority of third-party distributors are their own bank asset managers. I'm not sure I want to compete there.

The institutional market in the United States heavily focused on passive, very low-margin products, not my strength. I don't do index products in the United States. So we're picking where we can win. So in the United States it is about wealth management and our partnership. It is about private markets and alternatives where we see the tremendous growth and where it overlaps with our strengths.

Asia is across-the-board growth. It really is incredible to see how, whether it's retail, institutional or third-party, they want pretty much everything. The growth and wealth there overall is a trend that we want to capture. So again, all in there.

And Europe is interesting for us. Europe, of course, is our home base and we do a lot there. We have a great franchise in Switzerland. But we're niche players in some of my more interesting products like private markets. So I'll have a very strong multi-manager real estate or direct real estate strategy in Switzerland, and Germany, and the UK, but it won't be pan-Europe, right. I'm picking and choosing where I see that growth.

Europe is an interesting one. I think we've been waiting for years for Europe to be coming out of their funk and becoming a big growth story. You all know that as well as any. We're seeing that, right. And I think I'll segue back to the final point I'll make, which is ESG.

Everybody wants to dismiss ESG. At its core, ESG is a fundamental shift in how investors are investing, how they are choosing managers. I don't have an RFP anywhere on the globe that doesn't ask about sustainability. And by the way, 18 months or two years ago it was a check-the-box, do you care about ESG. And we'd say "yes". Or what was the diversity makeup of your board, and we'd check that box. Now, investors are smarter and they want to know what we're doing in ESG, and how we're doing it in ESG, and how we're reporting it in ESG, and they worry about green-washing. So it's a very, very different dynamic.

Another reason you're seeing consolidation, M&A to get the ability to be a player in ESG, is huge. It's a very large barrier to entry. We've been doing this for 25 years, so we have our own database. We have an established stewardship and engagement strategy. These are things that others are still playing catch-up on, so you're going to see a tremendous amount of investment in the space. You're going to see a rethink around, is it a bubble or not, and what is the EU taxonomy mean, does it have to be an 8 or 9 asset? These are all things that we have to watch, because they are going to drive flows. Concentrated in Europe right now, quickly catching up in Asia, and again, my bet there would be on the United States where we're working an awful lot in terms of educating our client base on sustainability here in the US.

There was a lot of trends, sorry. I hope that we hit some of them.

Magdalena Stoklosa

No, no. But I think we're going to follow up on a few. I've got a great many points to get a little bit more detail out of you.

So let's talk about the collaboration between kind of wealth and asset management. And you did mention SMAs in the US, and you did mention you know, that you -- you kind of see the beginning of kind of similar flexibility trends in Europe.

Can I get a little bit more detail from you on this? Because you know, for us, I have to say on the European side, SMAs, when you started talking about it back in I think three years ago, it was kind of -- you know, the first question is, you know, what was an SMA and is it important. And of course, subsequently, we have seen quite a lot of kind of flows coming your way.

Can you give us a kind of a context, the sense of the business, and also kind of what has

Suni Harford

Okay. So it's a great question, and I do think it's the competitive advantage. The primary competitive advantage of UBS is that we have these three or four legs of the stool, depending on what region we're in. So we call it "One firm". So let's talk about it in the context of the wealth management, zero-fee SMA strategy that we did.

First, it anticipates where the market's going. Regulation, best interest for our clients, not wanting a conflict with our clients. If you take out the fee discussion, you've solved the problem for the regulators and for our

FAs. It also provides flexibility to our financial advisors in terms of an advisory mindset. So you have to be an advisory account to do an SMA, not a brokerage account, which is that one-off trading that goes on where a lot of the margin pressure is, etc. So strategically, it's stickier money, it's better opportunity for us to serve our clients. For me, in asset management, even though at the face of it, it would be -- we're doing this at the top of the house, I'm making a bet on the volume.

[But,] I get exposure to asset manager -- or UBS wealth management, FAs, that heretofore didn't know my asset management products. We gave them a competitive edge, right. We have great products, and they can get it for free, for their clients, where if you're at another house around the street you can't do that. So then we were attracting FAs to our platform as well. I do a lot of conversations with prospective FA teams when they're coming over, and asset management is part of that value chain, if you will, and what we can bring together, what's different.

So, we had all of those things working for us. What made it possible was literally it comes down to personalities. From a partnership perspective, there is no better partner than Tom Naratil and Rob Karofsky, who are my partners here between the investment bank and wealth management [in] United States. We had a vision from the beginning. We knew it was going to be a little rocky, maybe, for asset management up front, but long-term would be worth it.

This far exceeded our expectations there, Magdalena. You know, we are 62 billion dollars in inflows into asset management as a result of this strategy. Nobody else is talking about that kind of net new money. And that is coming just because we are UBS and we are working with our partners in wealth management. So we're very, very proud of that.

But it's not just there. When I think about private markets -- I'll give you another live example. Within our hedge fund strategy at UBS O'Connor, we have a private credit strategy that has been in operation for a number of years. And what it does, is effectively direct lending for our clients in terms of that opportunity. We can bring to bear a lending capability that might be multi-asset in terms of the collateralization. We can turn a loan decision very quickly because we're dedicated, and we can focus on that and we have that expertise.

Now, wealth management again, even if a bank does not want to lend in a certain area or a certain asset class or what-not, we can do that. So now, I've got wealth management sourcing loans for me. I have a tremendously special product, unique product, that I can then offer out on my wealth management channel from a distribution perspective. I have an investment bank who has tremendous relationships and can source product through the sponsor groups that they have, the direct investing group that we have.

So all of a sudden, all three groups are working together to drive product for our clients, and multiple clients, by the way, at the same time. So it's really exciting to think about the opportunities we can do there.

Go to Asia, again, you know, having the presence, the scale, the brand in China, is important to have that business. We've been there for a very long time, but I will tell you, it's very helpful to have not just asset management and products on the ground, onshore and offshore, but also my investment banking sources of product and capital, and my wealth management for distribution or again, feedback in terms of where the client demand is.

We haven't talked about it yet, but I will tell you one of the other things that “One Firm” brings -- again, people don't appreciate -- is scale, right. The reason you're seeing asset management struggle and why everybody talks about scale, and what's the right size for an asset manager, is because we have to invest a tremendous amount in technology, in data, as you brought up, in regulatory change. How do you keep up with this?

And if you're a standalone asset manager, that's a really, really tough thing to do. But as UBS Group? Oh, boy, am I good at this. And I can leverage the scale that I get from the platform, from the data investments that we make. All of that comes to bear for asset management and our clients in that construct.

So UBS Group and being “One Firm” can be very, very beneficial for us. And we're taking advantage of that.

Magdalena Stoklosa

Perfect. Now, let's go back to ESG. Of course, megatrend. You've already kind of described it. I'm very interested in your view that you think that the delta in terms of ESG flows is US, because of course, you know, we in Europe kind of think that we've -- there is -- there's at the moment, at least from a perspective of allocation, you know, they're higher on average in Europe. But I'm completely with you, from perspective of the scale of investable assets, that shift in the US does happen. You know, it's a much bigger kind of ball game.

But I wanted to ask you a couple of things. So you've mentioned ESG in the context of flows, and let's talk about it. My question, also, is do you think that ESG capabilities are -- could potentially be margin-enhancing as well? So are you able to price for the ESG, for the ESG capabilities? And also, since you've also kind of mentioned it, a little bit before, can we talk about UBS and the organization itself? You know, how – how embedded the kind of various ESG kind of transition governance is within the organization overall, not necessarily the asset management product?

Suni Harford

Okay. So that was a lot of questions. I'll start. You might have to remind me where we went.

So the first was around flows. And I will say, that for me the 2020 was a pivotal, pivotal year in terms of ESG broadly-defined. And I say that because in the first half of the year, when there were net outflows from the industry broadly defined, there were significant inflows into sustainable funds. And by the end of the year, when flows had returned positive and there was a tremendous amount of it, we still saw a tremendous amount of inflows into ESG products. I believe 40% of inflows in 2020 were in the sustainable space.

That is, again, not an opportunity I think we've ever seen in an industry where one thing could drive that. So there is a tremendous amount of grassroots interest in that. There is a tremendous amount of regulatory top-down interest in that. And that is where Europe is ahead of the game.

But I will tell you, one of the things to watch, even in Europe where the Europeans tend to think they're already all over it, there are some interesting stats coming back and quite a big debate in the regulatory regime and the legislatures, around the EU criteria and the taxonomy.

So if only 1% of assets out there qualify as 8 or 9 in terms of the EU taxonomy, that's -- it's really tough to mobilize the capital that we need to mobilize for the planet. So what are they going to do? Are they going to relax that standard? Are they going to widen the definition? We've got different taxonomies that are being proposed, some of which to your point talk about transition. Is a company just green or brown? And how far is that going to get us? Or does the company that's a little brownish now but has the capacity to move green, shouldn't we be enhancing that?

The debate around exclusion or transition. Again, exclusion in some areas makes sense. Exclusion, I would argue, if you -- if there are other choices available and a company opts not to move that direction, all right, exclusion might be the way to make the point that you need. But I would rather have a seat at the table. I would rather be working with my clients on their transitional journey. I would rather give them the information we have established -- and for the record, this could be on the investment banking side. And lessons I've learned from asset management.

Again, we've got -- we've had our Climate Aware strategy, which is award-winning, and that's been in place since 2017. It's a passive rules-based strategy but it involves engagement. So we work with clients. We have a scorecard. And we track how they do against that. So now we've got data. We are using the TCFD scorecard, if you will, as a basis. So it's fairly standardized from that perspective. And then we add our own subjective engagement on the client side in terms of where we meet with clients and what we're learning from them and how we can help them move toward what the world wants. We have better data, etc.

So again, taking that knowledge base and applying it more broadly across the firm, I think is a great opportunity. And I think you know, again, the opportunity being nobody else has figured this out. Nobody is doing this well. Exclusion is one thing, but actually working with the broader set and having a better mindset.

I think exclusion is also where we get confused in the markets in terms of performance. If you're going to exclude whole sectors, or industries, how can you argue outperformance without arguing that that's kind of market-driven or beta as opposed to the actual sustainability efforts that you're making. So again, I think a more proactive strategy on engagement, on transition where you're overweighting or underweighting and moving that over time as changes in that company's remit or their GHG emissions dictate, is a much more compelling story. So there's a lot more to come in Europe as well.

And then as I said, the US tends to be a cynical bunch, I will say, being a US citizen. But, it's going to be there when you have the opportunity to have performance that is as good, or in some cases maybe better, and you can do good at the same time, and the regulators or the government isn't telling you not to do it. Well, that's a natural choice. So there's a big chunk there.

But I think one of the growing trends, and you've seen it again particularly in the United States when you think about racial injustice, when you think about the push for equality and the diversity, equality, inclusion, when you think about trying to get capital -- mobilize capital into specific hands that are deemed to be disadvantaged, that's impact funding. And impact is a huge growth area for again, all segments of the market, particularly I would say on the wealth side. Because retail investors want to make that play. That's a personal push there, which is different than a corporate push. So again, I think you'll see some division there, but impact funding is another thing that's going to drive -- and we'll say we'll start probably in the US there. But again, will also be something that's a global phenomenon.

Magdalena Stoklosa

Brilliant. And I know I've asked a lot of questions in the last question. So we've talked about the flows. My last quick one was about the pricing. You know, is this -- how do you see that?

Suni Harford

Okay. So interesting, because right now for the most part, and I think it's just part of the trend in the market, most sustainable and impact funding or sustainable focus product is passive. So to your point, yes, absolutely, my margin increases if I can customize that product, and most of the customization happening today is with the sustainable tent.

So 50% of my index product in asset management globally is customized, and yes, I can charge a premium for that customization. So SI will drive that customization request from clients, and by all appearances, they will be willing to pay for something that is customized for their unique views or their unique needs. So the margin erosion over time for sustainable products, hot, new, different, certainly there are a lot more products every day. So I think we can see some of that come down. But while tech and data and the availability for the opportunity for customization grows, I'm going to offset -- more than offset, I think, that margin erosion. And we'll be able to see a stabilization or an increase in margin around that custom product.

Magdalena Stoklosa

All right. That's actually very clear.

Now, Suni, I'm going to go back to something that you've mentioned already, but I was just -- yes. I kind of, I think that we need a little bit more context. You talked about scale, and of course, it's a buzzword in asset management, pretty much kind of globally. We do see transactions from various reasons. But I wanted to ask you, you know, when you look at the consolidation -- and of course, you know, we can argue that you've already passed the magical number in terms of AUM, where people are not going to kind of ask you that question all the time. But if you were to look at the framework for consolidation, for yourself, what would that framework be?

Suni Harford

So yes, over a trillion, thank you. We're very excited about that. And that is a nice milestone for everybody.

So you know, again, I think we do feel that we have the scale, between UBS Group as I mentioned earlier, and the trillion dollars in assets. The depth and breadth of product we have, I think gives us staying power that others don't have. And then I feel quite comfortable with that. We've managed to be incredibly efficient. We've driven costs down consistently as our cost-income ratio has demonstrated over the last number of years. So we are in a position to be pretty agile.

I don't need, nor am I seeking, a transformational merger on the asset management side. I think the firm has established that we are a critical component of the value chain, if you will, in wealth management, asset management, and investment banking, as hopefully you all are agreeing with me from some of the examples that I gave you.

So it's a question for me of whether we want to do something, and that would be something that'd be complementary. I do have gaps in my product, and the idea of organically growing it, that might be difficult in some segments, in some regions. So we will look at opportunities to complement what we have currently, either from a client perspective or from a product perspective.

But I think one of the growing trends that we're seeing, which we are also doing very well already in asset management, is in joint ventures and partnerships. And I have quite a few firms that approach us about white label products that we have within their systems on things like sustainability or China or emerging markets. Again, high barriers to entry, and we are all in a very different place than we might have been five years ago. So we're considering those type of JVs and arrangements as being a very efficient way to drive scalability.

So I think that's what you'll start to see, and I would certainly look at that for us. So again, whatever works best to complement what our clients need. Client needs are changing all the time. So I -- again, I do ESG very well. We're fully-integrated. We have that kind of as a benchmark. There's a lot of products and impact that I'm not very large in, right. So could I get a small team, for example, there to plug in some of that fund demand that I think is going to happen on the impact side? Sure.

So we'll keep an eye out, and we'll -- again, I think that opportunity is there but I'm not sure I'm running after a lot of the -- that's not the kind of activity that you're seeing out in the market currently in terms of taking on someone who's about half our size, and in a market that we're already in.

Magdalena Stoklosa

And apart from the impact side, you know, what are the kind of -- the product gaps you would consider plugging?

Suni Harford

Well, it's hard to think of them or I would have already done them, maybe.

So, you know, I think product needs are changing. Solutions in OCIO is an interesting one. We have worked -- everybody's worked. It's like the proverbial holy grail for asset managers to find that outsourced CIO, multi-asset solution product, where we can do everything for a client and actually have some margin attached to it. Most clients that want that product want it because they can't afford it themselves internally, which means the margin pressure is extensive. It also becomes incredibly operations-driven, not my forte. So maybe there's something in that space, if that market starts to grow.

Again, I like the trend because clients are under their own margin pressure, certainly on the institutional side. And if they have to shrink from their team of 15 to 2 or 3 people, then they're going to need someone to do that. And professional money management steps right in there. So I think there might be opportunities there.

I think [where] we feel very good -- I'll talk about the other trend in the market in terms of that M&A - I think people are buying technology. The tax overlays, you're starting to see that in a couple of the announcements that were made last year. Tax optimization, model overlays, etc. So there is something out there. I already have this. I have this built into my US and my solutions franchise. I don't leverage that as much as I could externally -- or externally, sorry, internationally outside of the United States. One of those -- the way we put that on is through that SMA structure, so it kind of dovetails to the idea that customization structure isn't available in Europe yet. But I do think it's coming. So there might be something there that would be of interest, but again, I'd be more interested in a bolt-on to our existing tech than starting from scratch. Because again, we've got 20 years behind us of having that work, and having it work with our systems, etc., versus trying to buy a new company and see how that would square with us.

Magdalena Stoklosa

And on the technological side, we've kind of -- we've mentioned it right in the beginning of our conversation. But maybe let's kind of -- let's recap more holistically. You've talked about technology as a spend. You also talked about technology as an enabler for you. You know, just now with the -- with different overlays, different services, you're also offering to clients.

When you kind of -- when you look at technology, your technology side now, well, one, how do you assess it; and two, do you still see quite significant level of investment that you will have to do? And that of course dovetails a little bit into the cost/income ratio discussion which of course, as you've mentioned, has come down quite dramatically.

Suni Harford

So, a great question, and tech and data is a big part of what we do. So I'll include data in that, I think, Magdalena, because it's very much a part of that discussion.

So, we, first of all, we have driven our costs down to afford some flexibility for us so we can invest in the business. So I will tell you all if you're not aware, I grew up in the market side of the business, the sell side. We run lean on the market side, and we're used to market volatility. So if you don't run lean, you end up hiring and firing all the time. So we want to be agile, and we have learned to self-fund. And that's a lot of what we've been doing.

Live example for that is when I came over to UBS Asset Management, pretty much every asset class, every division within the investments team, wanted to build their own quant and data science team. For all the right reasons. Everybody was seeking that elusive, famous, super-unique data set. So we centralized it, pulled the team, those few people that existed, and we grew centrally. Built the model, made it a research provider so it had the same broker votes that anybody else does on the Street, so it was self-paying, if you will. So, very efficiently built a quant evidence and data science team, which has been very effective for the guys -- sorry, for the team, guys and girls.

And so we've been able to leverage Big Data that way. What we learned there is it's not about the unique data set that's going to solve the world's problems and make you the best investor. It's about driving efficiencies within your team. We have, among the -- I think we're up to 19 products launched by our QED effort, one of which is basically a junior analyst, right. So all of the reports, you guys are all analysts. Imagine what it would be like if a computer was reading the transcripts for you, was pulling all the data together, had the keywords you were seeking, compared that to news stories to see whether anybody else picked up on that keyword, and gave you an opportunity to cite an arbitrage opportunity out there. These are the things we have right now being done for us by tech and data.

So it's a huge part of our investment process in terms of how we're doing it, how we're thinking about it, driving those efficiencies. So our PMs can spend more time on what we want them to do, which is finding unique opportunities and doing their own homework for the portfolio and the benefit of the client.

Of course, digital and tech is a huge driver for our clients. So we talked in the beginning about our digital launch. The other side of that is the client experience, right. It's onboarding once instead of 20 times for different parts of the firm. And again, that's UBS-wide, by the way.

One of the things that's coming with ESG is reporting. Proxy voting and stewardship is a very, very big deal. We're very proud of what we do there. But a client wants to know, real-time, how he just voted their shares. There's a tremendous amount of tech uplift in that type of client transparency. So we are investing there and we've got a lot of work going there. The rest of the world will have to do that as well. This is regulatory driven but it really is front-of-mind with clients, which is why we're halfway there already before the regulators are demanding it. That is a tech investment as well. That's all about digital and capturing data, and making it transparent for our clients. So that's a big part of the trend that we see.

And then generally, automation. There's a tremendous amount that we do between middle office and compliance testing and making sure that the portfolio parameters that we have for each unique portfolio are met constantly as flow changes. You know, that requires, again, the more automation, the less operational risk that we have which of course is always a big issue for an asset manager. But again, also frees up time for the team to do the other things that we want them to focus on that might be more value-add.

So tech, data are a very big part of what we do.

Magdalena Stoklosa

Brilliant. And let's maybe kind of spend a little time on -- in detail on Asia, because you -- of course, you've mentioned the growth that you're seeing pretty much across products, of course, a lot of financial system reform also, that kind of allows you also to have a -- a kind of a much better look at things like China onshore. So would you kind of give us a little bit more sense what's happening there? Of course, we all got very excited over the last three years with the kind of level of reopening, and of course, the ability to have much more control over your entities in China as well. So yes, so what do you -- what do you see at the moment? How do you see it medium-term? Because almost by definition, it's a journey.

Suni Harford

Yeah. That's a great way to put it. It is a journey. It's a long-term play. We've been there for a long time. We're very excited, and it feels like we're at the part of the J curve where that growth is going to be there. And I say that because I do believe that the Chinese government wants to open up their markets.

Now, I've been in the markets for 35 years. I remember 1994, if nobody else does, Google it -- what happened with China in 1994. But I think we're there. And what that means and what we're watching, so we already have a private fund management company there. We are the first foreign manager to have a WOFE in China. So we've been there for a number of firsts.

One of the big areas that's still out there is access to the public fund market, which is not accessible for foreign managers yet. There are a number of houses that have adopted, have looked to buy the JV or establish themselves. They've been waiting now I think at least two years for a regulatory shift we think is coming. So there are some places in China I will tell you, I feel like it's better to be a smart follower than a first mover. But we're watching that.

The regulatory environment is changing. How are banks going to be managed? How are banks… Again, to the favor of the foreign managers was the change in the money market rules. Money market rules in the United States, for example, or in Europe, got to be high quality. Over there, it could be distressed debt. I mean, it's crazy some of the differences in those definitions. So as they change those regulations, they are also levelling the playing field for us.

So that is why, one of the first things I did, we moved personnel on the ground in Shanghai. Not just salespeople, mind you, but traders, portfolio managers, analysts. We believe in "boots on the ground" that's our phrase, as a value-based investment shop. So we have people in China that are following the trends, looking for opportunities, and I think that's why we have been very successful.

So I have to throw the commercial, right? We are the number one greater China fund manager, by Z-Ben for the second consecutive year, number one fund in China from Broadridge. So that's part of our story - is being there and being on the ground. And again, the insight you gain by being on the ground there is tremendous in terms of where that regulatory wind is going to move.

Again, fits and starts, and it will be a journey, but we are committed for the long haul. We are doing it across all parts of the firm, so the investment bank is growing there. Our wealth management team is growing there. And of course, asset management, as we discussed. So it's a journey, for sure, but I think the trend is actually accelerating toward more open markets than not.

Magdalena Stoklosa:

Absolutely. And Suni, I think that we could kind of round off our conversation with kind of a few observations of the market as it is now, and over the last couple of months. You know, because of course, you know, we have heard tremendous amounts from the perspective of behavior or misbehavior of the retail investor in the US, you know, the rise of Robin Hoods of this world. The gamification of investment, you know, we wouldn't have been talking about this last year. What's your view?

Suni Harford:

So that's such a loaded question, so I'm going to -- I don't mean to cop out, but I will -- I take a step back, right.

The democratization of markets is a good thing, right. It is fundamental to market flows that information be free and access be as available as it possibly can be. So that's a good thing. It's also coming, by the way, whether it's in tokenization and the fact that my daughter can call me from New York, and say, "Mom, I just saw an opportunity to buy a brick of a building in New York City." These are the things that tech and data are bringing to us. So that democratization is not just, I think, a good idea. Access is important for the well-workings of a marketplace. But I think it's coming. So I think it's there.

I will also say that people invest for a lot of reasons. And if you are investing for your retirement, and you have concerns about the fundamentals of investment and where it's going to be five years from now, I don't think you are taking your research from social media. But if you want to, right? I mean, I think it will draw the parallel between the importance of professional money management, which again, works for me -- I think we're very good at what we do and we spend a lot of time doing what we do, and we've learned from a lot of trends. But if someone wants to make a different kind of point by putting their money into the markets, then it's not for me to say "no."

So again, I think it's something that's there, and the world will get used to it. It will add information to how we do things and maybe the risks in the market of what can happen when one group decides to make a movement, but you know, again, I don't think you stop that.

I will say, as a general statement, just back to the trend away from the gamification-type ideas. This is a market for active management. But everybody will want to say, again, is it active management so passive's going to go away?

Again, because we have idiosyncratic risks, because there's more opportunity in active management, to me that means active managers can earn their fees, which are higher, as we know, than passive. There is always a place for cheaper funds. There is always a place for a beta that is appropriately priced to build in the building blocks for our strategies and how we approach the market.

So -- but again, I think if I think about idiosyncratic risks, hedge funds -- hedge funds are a trend. They're -- if they were ever out of favor, which I guess they were, they're coming back. Multi-manager is interesting. That was a fund-of-fund structure, fell out of favor in 2009, 2010. We are very large in the hedge fund-of-fund business and the real estate infrastructure private markets, multi-managers strategy. Tremendous demand from clients. Again, the more they want to play, but they don't have either the know-how or the resourcing to decide how to diversify their portfolio. So they'll ask us to do that in the form of a multi-manager structure. So I think alternative, that's another trend that I'd see from this democratization of markets and more people playing. That'd be worth it.

Magdalena Stoklosa:

Well, brilliant. And on this note, Suni, thank you so much for spending time with us. It's been an incredibly insightful session for us. Thank you, and of course thanks for all of our listeners.

Suni Harford:

Thank you very much for having us. We really appreciate it. There's a lot of exciting things happening at UBS, and we hope you guys agree with that.

Cautionary statement regarding forward-looking statements: This document This report contains statements that constitute "forward-looking statements," including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA) and leverage ratio denominator (LRD), including to counteract regulatory-driven increases, liquidity coverage ratio and other financial resources, and the degree to which UBS is successful in implementing changes to its businesses to meet changing market, regulatory and other conditions; (ii) the continuing low or negative interest rate environment in Switzerland and other jurisdictions, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and geopolitical tensions, and changes to national trade policies on the financial position or creditworthiness of UBS's clients and counterparties as well as on client sentiment and levels of activity; (iii) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC); (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK, the European Union and other financial centers that have imposed, or resulted in, or may do so in the future, more stringent or entity-specific capital, TLAC, leverage ratio, net stable funding ratio, liquidity and funding requirements, heightened operational resilience requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these will or would have on UBS's business activities; (v) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, and the extent to which such changes will have the intended effects; (vi) UBS's ability to maintain and improve its systems and controls for the detection and prevention of money laundering and compliance with sanctions to meet evolving regulatory requirements and expectations, in particular in the US; (vii) the uncertainty arising from the UK's exit from the EU; (viii) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulations or new enforcement of existing standards, including recently enacted and proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses, potentially large fines or monetary penalties, or the loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA as well as the amount of capital available for return to shareholders; (xi) the effects on UBS's crossborder banking business of tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (xii) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiv) UBS's ability to implement new technologies and business methods, including digital services and technologies, and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyberattacks, and systems failures; (xvii) restrictions on the ability of UBS Group AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA or the regulators of UBS's operations in other countries of their broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors may affect UBS's ability to maintain its stated capital return objective; and (xix) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2018. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

Disclaimer: This document and the information contained herein are provided solely for information purposes, and are not to be construed as a solicitation of an offer to buy or sell any securities or other financial instruments in Switzerland, the United States or any other jurisdiction. No investment decision relating to securities of or relating to UBS Group AG, UBS AG or their affiliates should be made on the basis of this document. No representation or warranty is made or implied concerning, and UBS assumes no responsibility for, the accuracy, completeness, reliability or comparability of the information contained herein relating to third parties, which is based solely on publicly available information. UBS undertakes no obligation to update the information contained herein.

Non-GAAP Financial Measures: In addition to reporting results in accordance with International Financial Reporting Standards (IFRS), UBS reports adjusted results that exclude items that management believes are not representative of the underlying performance of its businesses. Such adjusted results are non-GAAP financial measures as defined by US Securities and Exchange Commission (SEC) regulations and may be Alternative Performance Measures as defined in the SIX Exchange Directive on Alternative Performance Measures or under the guidelines published the European Securities Market Authority (ESMA). Please refer to pages 7-9 of UBS's Quarterly Report for the fourth quarter of 2019 and to its most recent Annual Report for a reconciliation of adjusted performance measures to reported results under IFRS and for definitions of adjusted performance measures and other alternative performance measures.