Economico Whitepaper Asset Management Costs

As of May 8, 2025

The total cost and tax burden of an asset management mandate[1] can be represented as the sum of the following cost components:

+ Asset management fee
+ Custody and account fees
+ TER costs of the funds / collective investments used in the mandate
+ Transaction costs and taxes (Level 1)
+ Transaction costs and taxes within funds / collective investments (Level 2)
+ Withholding taxes on dividend and interest coupon income
+ Other tax levies (federal value added tax, federal withholding tax)

Cost comparisons in asset management often fall short, as only a part - not to say only the tip of the iceberg - is considered in the cost analysis. For example, numerous comparisons can be found in online or print media, in which only the asset management fee is compared, sometimes including custody and account fees.

> The comparison of "**recurring costs**" includes the cost components asset management fee, custody and account fees and the weighted TER costs of the collective investments used in the mandate. The asset management fee and the custody and account fees are combined in Economico to form a flat-rate asset management fee. The additional comparison of "**roundtrip costs**" available in Economico from May 8, 2025 adds the portfolio set-up costs and wind-down costs to the recurring costs.

On the cost components in detail:

1 Asset Management Fee

The asset management fee constitutes the compensation for the core service, the management of the entrusted assets in accordance with the contractually defined mandate guidelines. Legally, in Switzerland, the concept of asset management and the resulting rights and obligations are governed by Art. 3, Para. c, lit. 3 FIDLEG.

The additional services covered by the asset management service (e.g., reporting; preparation of a tax statement for the tax invoice; online access to portfolio information; ongoing support and review meetings) must be agreed in the asset management contract.

> In Economico's cost comparisons, the asset management fee is included and, together with the bank's own custody and account fees (according to chapter 1.2) and the bank's own trading commissions and brokerage fees (see chapter 1.4), forms the **flat rate tariff for asset management**. The flat rates in asset management can be varied by the providers depending on the mandate volume, client type and investment style.

[1] At this point, we focus on the view of an investor with Swiss tax domicile

2 Custody and Account Fees

The custody and account fees compensate the custodian bank for providing the custody and account infrastructure required for asset management and securities trading. The custodian bank service includes (as a minimum) the opening of the securities custody accounts and accounts required for the performance of the asset management mandate, the safekeeping and ongoing valuation of the securities, the processing of securities and currency transactions and the execution of corporate actions (e.g., collection and booking of dividend and interest income).

Economico's cost comparisons include the custody and account fees of the custodian bank and, together with the asset management fee (as per section 1.1) and the bank's own trading commissions and brokerage fees (see section 1.4), form the **flat-rate tariff for asset management**.

3 TER Costs of the Funds / Collective Investments Used in the Mandate

The Total Expense Ratio (TER) records the annual costs incurred within a fund. The TER includes the costs of asset management (including any performance fees[2]), fund management and administration, custodian bank fees, and other operating costs of the fund (e.g., auditing). The TER does not include transaction costs and taxes incurred within the fund (see section 1.5). The TER must be published in the fund's annual report.

In Economico, the TER costs of the provider-specific fund components used are considered in full and according to the weighting of the individual fund components and summarized in the term **product costs**.

[2] Depending on the regulatory authority, performance-based compensation forms part of the applicable TER definition. In Economico, we base the TER definition on the applicable self-regulatory standard "Guideline on the calculation and disclosure of the total expense ratio (TER) of collective investments" of the Swiss Asset Management Association. According to this standard, any performance fees form part of the costs to be summarized in the TER.

4 Transaction Costs and Taxes (Level 1)

The acquisition and disposal of securities results in numerous charges:

+ Trading commissions and brokerage fees of the custodian bank,
+ Exchange Fees,
+ Bid-ask spreads of the traded securities
+ Issue and redemption fees for subscriptions and redemptions of fund units
+ Bid-ask spreads on currency transactions
+ Transaction taxes, from the point of view of a Swiss investor namely the Federal Issue and Transfer Tax ("stamp duty")

The **trading commissions** and **brokerage** fees charged by the custodian bank when securities are traded form an integral part of the all-inclusive asset management tariff in Economico. However, applicable third-party trading commissions are not included in the flat-rate asset management tariff.

The **stock exchange fees** paid to the relevant stock exchange in the case of listed securities are normally marginal. For transactions on the Swiss stock exchange SIX, stock exchange fees, which are passed on by the Swiss banks to their clients, are common between 0.001% and 0.01%.

In the case of securities traded on the secondary market, so-called market makers quote bid and ask prices. The resulting difference is known as the **bid-ask spread** and compensates the market maker for ensuring its trading function and assuming the risk. Bid-ask spreads vary depending on the type of security (share; bond; ETF), region, exchange, and trading volume. Of particular relevance for the cost comparisons in Economico are the bid-ask spreads in the trading of exchange-traded funds (ETFs). These range between 0.03% and 0.20% of the traded transaction volume. Various stock exchanges publish average bid-ask spreads over past trading periods, such as the "30-day median bid-ask spread". The Swiss Exchange SIX also publishes such informative key figures for bid-ask spreads in ETF trading under the title "Market Quality Metrics for ETFs".

A strict distinction must be made between bid-ask spreads and **issue and redemption fees** for ETFs, which are incurred when subscribing to and redeeming units of **over the counter (index) funds**. These fees are credited to the fund assets. They are intended to prevent existing fund investors from being harmed by the transaction activities within the fund resulting from subscriptions and redemptions. For this reason, these issue and redemption fees are also referred to as "anti-dilution protection". The amount of the issue and redemption fees varies depending on the type and liquidity of the securities contained in the fund assets and is typically between 0% and 0.50% of the subscription / redemption volume. The amount of the issue and redemption fees may also fluctuate significantly over time depending on the liquidity of the securities traded in the fund assets.

If the mandate currency (in the case of Economico CHF) differs from the base currency of the securities to be traded, a **currency transaction** becomes necessary. Also, in the case of currency transactions, the buying and selling prices of the market makers deviate from each other and a **bid-ask spread** also arises. In addition, it is common for the custodian bank to charge an additional, fixed currency margin on currency transactions, which can amount to 1% of the exchanged amount.

The **transaction tax burden** resulting from the Federal **Stamp Duty** should not be underestimated. In secondary trading of foreign securities - including ETFs - the federal stamp duty of 0.15% of the transaction value applies to purchases and sales; for Swiss securities, the charge is half of this, i.e., 0.075%. When subscribing to foreign fund units, the stamp duty charge is also 0.15%; redemptions are exempt from stamp duty. Subscriptions and redemptions to Swiss funds are fully exempt from stamp duty.

Transaction costs and taxes (level 1) are incurred in the full portfolio scope when investing and divesting the asset management mandate. We refer to these costs as portfolio construction and dismantling costs. On the other hand, these costs are incurred in the context of ongoing portfolio management / rebalancing, namely to the extent of the regular securities purchases and sales caused by the asset manager in the mandate. With the so-called annual 2-side portfolio turnover (defined as {purchases + sales} / average portfolio value). The transaction costs and taxes (level 1) resulting from ongoing portfolio management/rebalancing can be calculated approximately on the basis of the 2-sided portfolio turnover.

The transaction costs and taxes at level 1 resulting from the portfolio build-up and wind-down are explicitly reported and calculated in Economico from May 8, 2025. The transaction costs and taxes incurred as part of ongoing portfolio management/rebalancing at level 1 are not shown in the cost comparison.

5 Transaction Costs and Taxes within Collective Investments (Level 2)

Transaction costs and taxes also arise as a result of transaction activities within the funds / collective investments used. These are basically the same cost components that have already been discussed in section 1.4. With regard to transaction taxes, it should be noted on the one hand that the transactions carried out within a fund are not subject to the federal issue and turnover tax ("stamp duty") or are exempt from it. The remaining transaction taxes depend on the type of securities traded within the fund. For example, the purchase of UK shares is subject to UK stamp tax at a rate of 0.5% of the transaction value, and the purchase and sale of certain French shares is subject to stamp duty at a rate of 0.3% of the transaction value.

The effective level of transaction costs and taxes within a fund is ultimately determined by the frequency of transactions within the fund, which can be calculated by the **portfolio turnover** (= transaction value {purchases+sales} / portfolio value). In the case of index managed equity funds that exactly replicate the composition of the applicable benchmark within the fund ("full replication"), the portfolio turnover is typically less than 10 percent per year. The burden of transaction costs and taxes is correspondingly low. In the case of indexed bond funds, which do not exactly replicate the applicable benchmark, but only with regard to the relevant risk characteristics ("Optimized Sampling") and which at the same time are forced to carry out more transactions by design due to the constantly changing benchmark universe (as a result of bond expiries and issues), a typical portfolio turnover amounts to 30 percent per year. In the case of actively managed funds, the transaction intensity and the portfolio turnover increases according to the investment opinion of the assigned asset manager. In Switzerland, the portfolio turnover with the so-called annual "**Portfolio Turnover Rate** (**PTR**)" had to be published in the annual report of the fund in the past, so that the investor receives at least an indicative key figure on the level of transaction costs and transaction tax burden within the fund. However, since this indicator is very difficult to interpret[3], it is no longer published in Switzerland[4].

[3] The difficulty in interpreting the ratio lies in the fact that the PTR ratio takes into account both transactions in fund assets that arise as a result of new or exiting fund investors and the securities purchases and sales effectively attributable to the actual reallocation process of the fund portfolio.

[4] In contrast, both the U.S. supervisory authority SEC and the EU, by means of the so-called UCITS Directive, require the calculation and disclosure of a portfolio turnover rate (PTR).

Transaction costs and taxes within collective investments (Level 2) are not included in the cost comparisons provided by Economico (as of July 1, 2023).

6 Withholding Taxes on Dividend and Interest Coupon Income

An often-underestimated burden on the performance of foreign securities is the tax burden on dividend and interest income from local securities ("withholding taxes"). For example, the U.S. imposes a 30 percent withholding tax on dividend income from U.S. equities. If the dividend yield in a global equity portfolio, in which the proportion of US equities is around 60 percent, is 2 percent on average, the US withholding tax burden alone amounts to 0.36 percent per year (2% x 60% x 30%). Now, for different investor domiciles and investor types, so-called double taxation agreements ("DTAs") exist, with which the withholding tax burdens can be reduced or even a complete exemption can be achieved. The decisive factor for the assessment of withholding tax reclaim or exemption possibilities ("withholding tax efficiency") is the structure and domicile of the funds / collective investments used in the asset management mandate.

The amount of withholding taxes paid in the funds used are not included in the cost comparisons provided by Economico (as of July 1, 2023).

7 Other Tax Levies (Federal Value Added Tax, Federal Withholding Tax)

The owed flat rate asset management tariff is in principle subject to the **Federal Value Added Tax (VAT)** of currently **8.0 percent**. However, since not all services included in the flat rate are subject to VAT, the providers reserve the right to charge VAT only on a portion of the fee owed. These parts of the fee that are subject to VAT may differ from provider to provider.

Finally, the net income generated by the asset management is subject to income tax in Switzerland and is paid by the federal tax authorities at the withholding tax rate of 35 percent. The effective **federal income tax burden** is then based on the individual investor's income tax liability.

The amount of the Federal Value Added Tax is not included in the cost comparisons provided by Economico (as of July 1, 2023). The assessment of the investor-specific federal income tax burden cannot be determined in principle.