

## Interview

[2016.03.30.] Robo-Advice: Threat or Opportunity for Active Funds?

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Matthias Weber, CIO and head of research at ifund services AG, Zurich [ifundservices.com](http://ifundservices.com)

**Mr. Weber, robo-advice is the latest buzzword in the investment industry. However, these online advisory tools are almost always restricted to ETF portfolios: why is that?**

Robo-advisors are all about risk profiling, determining asset allocation and implementation with ETFs. Nutmeg in the UK, Betterment and Wealthfront in the US and TrueWealth in Switzerland operate this way. ETFs are attractive because of their low fees. More importantly, with ETFs, asset allocation can be implemented perfectly. By contrast, the use of active funds would lead to deviations from asset allocation. The risk of poor advice would be greater, too.

**Do robo-advisors therefore pose a risk to active funds?**

Up until now, they have done, yes. However, robo-advisors fail to appreciate the opportunities offered by active funds. The relatively broad investment spectrum of active funds enables robo-advisors to serve very specific client needs such as asymmetric strategies with multi-asset funds, sustainability in all aspects, preference for local fund managers or for concentrated and long-term stock-picking etc. This enables robo-advisors to distinguish themselves from their competitors and also address the emotional needs of investors to a greater extent. The use of clean-fee share classes currently enables active funds to compete with ETFs. Active managers perform better over the long term, for example, in European equities, small caps and corporate bonds when attractively priced share classes are used. Advisors capable of combining active and passive funds are able to offer clients a better solution with a higher level of identification.

**What are the challenges if one wishes to include active funds in robo-advice?**

Robo-advisors must be familiar with the active funds and capable of assessing them correctly. They must know how actively a fund manager operates in which investment universe and how the risk profile changes compared with a passive solution. Naturally, they must also take into account quality criteria: Only that way can a robo-advisor suggest funds that best suit the investor's specific needs and expectations in terms of quality. Finally, the robo-advisor must select the share classes best suited to the investor from the wide array of available share classes.

### **How does ifund tackle these challenges?**

ifund now provides platforms with a robo-advisor in the form of a cloud-based plug-in that promptly responds to client inquiries with fund proposals: ifund works together with the platforms to define a range of requirements, from which investors may choose. The ifund robo-advisor evaluates this information and compares it with the data in its database.

To this end, the fund analysts at ifund collect due diligence information on thousands of funds in a highly structured manner so that the information may be evaluated systematically. For all these funds, the ifund robo-advisor can also access quality scores, which, in addition to track record, contain a wide range of quality-related information about the management company, team, investment process, fund structure and conditions.

The ifund robo-advisor analyses which active or passive funds will benefit the client most in terms of quality and meeting the client's specific requirements and presents these to the investor along with the reasons for its choice. Suitable share classes can be selected in conjunction with [investmentnavigator.com](http://investmentnavigator.com).

### **Does that mean that robo-advice replaces fund analysts?**

Not at all! We fund analysts teach the robo-advisor everything it needs to know. Extensive analyst expertise and experience are essential in order to teach the robo-advisor so that it is able to propose appropriate solutions. In addition, we fund analysts now use the robo-advisor ourselves to obtain a short-list of attractive funds which we can then analyse in greater detail in exchange with the fund managers. Banks can use the plug-in in their advisory services in order to rapidly identify funds that best reflect the CIO's current view.

The robo-advisor alone offers the optimal solution for the generation of "digital natives" with, as yet, limited assets and a need for clear, sound advice 24/7, delivered directly to their smartphone.

### **About Matthias Weber**

Matthias Weber graduated from the University of St. Gallen in 1989 with a degree in Business Management and Operations Research and went on to obtain an MBA in International Wealth Management from the University of Geneva and Carnegie Mellon University in Pittsburgh. After working in consumer goods market research for several years, he joined Bank Leu (today Credit Suisse) in 1995 as an analyst and was later appointed managing director of Investment Research & Consulting and co-CIO. In 2006, he joined ifund services AG as a partner and is currently responsible for fund research and asset management.

Interview: [Thomas J. Caduff](#)