BPS (SUISSE)

Asset Management: activities, technicalities, and interesting facts

Numerous internal services contribute to the smooth running of the Bank: one of these is Asset Management.
In order to get a better understanding of what's hidden behind this service, we asked Pietro Codoni to answer a few questions.

Pietro Codoni
Portfolio manager,
Banca Popolare di Sondrio (Suisse) SA

What are the main activities of a portfolio manager?

Our service covers several different areas.
Research/study activities are a key part of our work. We read and ensure that we stay abreast of the factors that are having an impact on market trends, individual companies and the macroeconomic and geopolitical spheres. Our research serves as the basis for another of our core activities: **trading securities**. We use the information collected to support the discretionary mandates and the funds we oversee, striving to carry out the most favourable transactions in terms of the construction/composition of the individual portfolio, with the objective of maximising return and minimising risk. In terms of Fund Management, since 2019, I have co-managed the "*Swiss Conservative*" fund, which this year featured on CFS Rating's 300 Best Funds list. This is extremely satisfying for me and serves as recognition of all the work we have done.

Another of our core areas is administration and bureaucracy, which essentially involves keeping a **record of the trading transactions** performed (and subsequently ensuring that they are properly accounted for) and preparing **monthly reports/statements** on performance trends. This field also includes "internal advisory" activities: the bank's advisors are our clients. It is our job to respond to their questions and support them in their discussions with final clients, when requested.

Your service is also tasked with selecting third-party funds: could you tell us what this involves?

The investments we make on behalf of clients may concern not only individual shares/bonds, but also investment funds. The latter allow us to invest in a way that ensures a good level of diversification and to gain

exposure to particular market categories or niches that require ad hoc expertise. When it comes to choosing these funds, we rely on specialised third parties (banks or fund managers) with teams of salespeople, whose job it is to interface with the various institutions by offering their range of investment products. Based on the information/proposals put forward, our service then draw up an internal list of selected funds – a tool used to implement investment strategies in certain market categories.

We are hearing more and more about investment funds – what are they?

Anyone who wishes to invest can do so through a host of different financial instruments, including so-called investment funds. An investment fund pools the resources of small and large savers, which are managed as a single major asset and invested (professionally) by portfolio managers according to certain rules/logics. Furthermore, investment funds are made up of multiple securities (usually at least 30-40) and are thus diversified by their very nature.

The securities could be equities or bonds: could you shed some light on this for us?

Shares and bonds are two instruments that companies can use to finance their operations.
A share corresponds to a portion of the equity capital of a joint-stock company. If you purchase a share, you become the owner of a "piece" of the company (shareholder), which gives you the right to share in its profits – the "reward" in the case of a successful business is paid out in the form of a dividend, i.e. the due portion of the redistributed profit.
A bond, on the other hand, is a credit instrument, usually with a fixed term (maturity), that can be issued by companies or governments/public bodies. By purchasing a bond, the investor becomes a creditor of the issuer who, in return for the "loan", will pay a coupon (interest). The riskier the issuer, the greater the return paid for the risk assumed: this is generally the case when it comes to corporate bonds as opposed to government bonds.
For those who hold both instruments, another source of gains (or losses) is revenue from trading securities on the market at a time when their value is appreciating (or depreciating, as the case may be).

What kinds of bonds are there?

The main distinction is related to the type of issuer: governments vs companies. In the case of government bonds, the investor "buys" the debt of a country, whereas with corporate bonds, they buy the debt of a company. Bonds are then classified based on the rating issued by specialised agencies, the purpose of which is to help the investor understand how risky an issuer is. Following an evaluation of the issuer's reliability/creditworthiness, the agency tasked with performing the analysis assigns a score, on the basis of which we distinguish between investment grade (rating from AAA to BBB-, where "AAA" is the very best score) and high yield (or junk bonds, from BB+ to CCC) issues. On emerging markets (such as Brazil, Argentina, Chile, etc.), a further distinction is made between hard currency and local currency bonds. In the former case, the emerging market issuer generally operates on the market in dollars, while in the latter case, they issue debt securities in their own reference currency.

And how are shares subdivided?

From a legal point of view, there are a whole host of different types of shares, but these have little relevance when it comes to trading on the stock exchange. Unlike the bond market, the distinction between shares is marginal. Focusing on the type of issuing company, securities can be divided, for example, by geography/region, i.e. emerging or developed markets, or by sector: defensive securities refer to companies that trade in essential products, such as pharmaceuticals or foodstuffs; cyclical securities, on the other hand, are associated with sectors that are affected greatly, both positively and negatively, by economic trends, such as the luxury goods and construction sectors.

When thinking about the stock exchange, one tend to have the equities market in mind. However, there is also the bond market – can you tell us a little bit more about this?

The bond market is split into primary and secondary markets. Governments and companies initially issue their debt on the primary market – which is mainly available to institutional investors, such as pension and investment funds, insurance companies and banks. Companies usually rely on brokers, so-called “bookrunners”, to act as intermediaries in this process. The issuance process also includes so-called “roadshows”, which present the issuer and the reason for the financing request and aim to gauge the interest of institutional investors and fine-tune the details of the subsequent auction (issuing of bonds). The secondary market, on the other hand, is used to trade debt securities (bonds) previously issued on the primary market.

Does the equities market work in a similar way?

More or less. While both types of market (primary and secondary) do still exist, most transactions involving the trading of shares take place on the secondary market. The primary market only comes into play in the case of so-called “IPOs” (initial public offerings), when a company is listed on the stock exchange for the first time or when a company decides to increase its share capital. However, this happens rarely.

When they are purchased, bonds have a set maturity, not to be confused, however, with their “duration”. Could you explain these two concepts/parameters?

The maturity is the date on which the company is set to have paid back the loan to the creditor. Duration, on the other hand, refers to the weighted average time required for the investor to make a return on their initial investment and to a bond’s sensitivity to changes in reference interest rates: the longer the duration of a security, the more sensitive it will be to interest rate fluctuations. This indicator is extremely important when managing a bond portfolio and trading operations and, like the maturity, is expressed in years.

What are the most well-known stock exchange indices?

The most important stock exchange is the one in the United States: the “New York Stock Exchange”, also known as “Wall Street” on account of the same name of the street on which it is located. The American economy is regarded as the most influential on the global stage, as the United States is home to a large number of companies that are considered true global giants. The oldest American index is the DOW JONES, while the most representative of the US economy is the Standard & Poor's (S&P) 500, and the NASDAQ is considered the index most associated with technology securities.
At the European level, there is no single stock exchange – each country has its own; the main indices are the DAX in Germany and the FTSE 100 in England. In Switzerland, the most relevant indices are the SMI, which pools the 20 largest Swiss companies in terms of capital, and the SPI – the most complete index, as it includes more than 200 securities. Despite our country’s modest size, Zurich is still a key player on the global stage due to the importance of its financial sector and the presence of some of the most important multinationals.
Finally, it is worth also mentioning the NIKKEI (Japanese index) and two new “emerging” indexes: the CSI 300 (Chinese index) and the Sensex (Indian index).

What would you say are the events that have had the biggest impact on market trends since the turn of the millennium?

With regard to the equities market, the bursting of speculative bubbles – dot-com (2001) and property/finance (2007/2008), with the subsequent collapse of Lehman Brothers – certainly had a negative impact on stock exchange performance in the short to medium term. The COVID pandemic has also left its mark in recent years. Having said that, other dynamics have positively influenced the markets, so much so that the SMI (+200%) and the NASDAQ (+400%), for example, have both recorded growth since the turn of the millennium. One of these is, without a doubt, the rise of the Chinese economy, despite its conflict with Western economies. The 2008 property crash, which saw the demise of various financial institutions and the end of the “too big to fail” theory, also had a major impact on the bond market. Other events that have greatly influenced this market also include the European sovereign debt crisis (2012) and the great interest rate hike cycle initiated by the major central banks in an effort to counter rising inflation (since 2021-2022).

Finally, how did your career path lead you to your current position?

After graduating from the University of Fribourg, I joined BPS (SUISSE), more specifically the Asset Management service, where I still work today. In other words, the Bank was my first real employer. I started out as an intern working alongside those who managed investment funds at the time, and over time, I grew and started managing mandates, then funds, and ultimately became a fully-fledged portfolio manager.

Publisher

Banca Popolare di Sondrio (SUISSE) SA
Via Maggio 1
CH-6900 Lugano
Tel. +4158 855 31 00
Fax +4158 855 31 15

Call centre 00800 800 767 76
contact@bps-suisse.ch
www.bps-suisse.ch/en

Disclaimer

This publication is intended for information purposes only and does not constitute an offer and is in no way a substitute for the qualified advice required prior to any purchase decision, especially in relation to the risks associated with it. Therefore, it is the duty of the individual investor to consult his/her financial advisor. The financial products described here are not intended for persons subject to a jurisdiction that limits or prohibits their distribution from Switzerland.

Published: October 2024