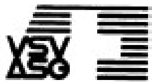
Corriere del Ticino 2010/09/16



LET'S TALK ABOUT...
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Portfolio Management

(Part One) We have often considered the technical and operational features of portfolio management, that is the structured investment of funds aimed at achieving expected returns. We have discussed its procedures, the financial instruments it employs and other technicalities. The industry enjoys a long tradition in Switzerland, appealing both resident (onshore) and foreign (offshore) investors. In the coming series of articles a different perspective will prevail, in analyzing portfolio management and the role of fund managers themselves in relation to the evolving scenarios, financial markets, new domestic and international laws and regulations which have affected the sector, also trying to define its future trends. All of that in general terms and particularly focusing the Swiss environment, where the main actors are banks, other professional figures like fiduciary firms, lawyers,…, who within their areas of competence also engage in portfolio management and financial advisory, and independent portfolio managers, who are more and more relevant in both quantitative and qualitative terms. The evolution of portfolio management in Switzerland has been marked by several traits: the need for assets' protection against the risk of political-institutional instabilities; against excessive fiscal pressures and oppressive fiscal systems; search for more stable, simpler and certain legal systems. These have been the major motivations for foreign clients of course. Moreover, the high levels of service and customization and, last but not least, the possibility to operate globally with a wide range of instruments within highly flexible, cosmopolitan and efficient institutions. For the different segments of the clientele such motivations have assumed different grades of importance, also changing throughout the years. Some decades ago, the main arguments for investing in Switzerland were political-institutional worries in bordering countries, or the benefits given just by currency diversification or by freely operating in new attractive products and market, when the client's domestic financial autarchy did not allow for that, together with the opportunity to enjoy other fiscal, corporate or inheritance benefits. Such evolutive trend may be viewed in considering the following of clients' generations that a portfolio manager meets and helps in financial matters. After the far away period of the Swiss Franc wild upturn against many European weak currencies (but maybe that time is here again?), the current clients' average typology is well more informed and sophisticated, sometimes even excessively trendy in its choices, in that it shows eagerness in following too fashionable investment trends and uncarefully investing in instruments through robust rallies sometimes also followed by violent falls. (*to be continued)- GLT*

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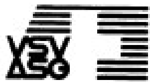
Corriere del Ticino 2010/09/23



LET'S TALK ABOUT...
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Portfolio Management

(Part Two) As considered previously, the financial markets live in a state of almost continuous instability, switching between rallies and falls, through phases of seeming equilibriums that actually carry with them the seeds of instability (Minsky effect), also being affected by fashionable trends and many irrational and extremely emotional behaviours. Thus portfolio management too has not escaped the influences of fashions and bubbles, including their bursts: we may just remind the old times of Japanese warrants and real estate funds, the next hunger for biotech and high-tech placements, the search for high-yielding but also highly risky currencies, up to the fruits of diffused securitisations of all sorts of debts and hedge funds, which have missed their goals of stabilizing portfolios whatever the main markets' trends and have shown up to be pretty speculative and dangerous instruments, first of all due to their high operational leverages. Such topics have already been widely discussed, as well as maybe the main theoretical tool of the investment industry over the past decades, that is the so called "efficient markets theory, or hypothesis" with its linked concepts of efficient frontiers, taken to Wall Street from the top US universities. It has been a complex mathematical-statistical based pattern which was supposed to help in designing optimized portfolios, via the rational evaluations of historic performances and their risk levels. However being such risks assessed in terms of Gaussian probability, its usefulness has revealed itself limited and inadequate, particularly when faced with extraordinary and unforeseeable events, so lying out of the scope of statistical averages. The results of such academic myopias are well reflected in the markets' recent histories. Reducing into mathematical formulae, however elaborated, those parameters linked not only to human behaviours but also to sudden unforeseen and unforeseeable events, is ineffective in explaining markets' courses as well in guessing their future walks. Hence the return towards less mathematical and more fundamentally oriented criteria, together with higher doses of good sense and personal experience. Moreover, dramatic events, violent falls and the many accidents throughout the markets have taken to a new philosophical vision of portfolio management itself, maybe some more aimed at protecting the real values of portfolios than maximizing their returns through strange alchemies. Of course that is also the result of the evolution of product ranges. (*to be continued)- GLT*

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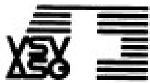
Corriere del Ticino 2010/09/30



LET'S TALK ABOUT...
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Portfolio Management

(Part Three) During the past years, following the dramatic falls of financial markets, the burst of the technology bubble, the subprime induced crisis, then spread to the real estate sector and the wide range of instruments however linked to the securitization of debts with no valid underlyings, the portfolio management industry has been faced with major evolutions in terms of products, procedures and regulations.
In the area of products the repeated and deep crisis have taken to the emersion of huge volumes of "toxic" securities, that is practically valueless and not negotiable assets, that also caused the default of many financial operators, delays, total or partial stops to trades, losses and "gatings", that is blocks of redemptions for many hedge funds and funds of funds.
Two main general consequences for clients have been their diffused flight from the more complex, less transparent vehicles, more fit for embezzlements and manipulations, and their search for more simple and traditional solutions, such as equity, bonds, shares of "regular" funds, ETF's…
In even more general terms the trend may be observed of lowering portfolio risk profiles and the clientele's risk appetite.
However such trend, although currently felt it may be, is confronted with a scenario of historically poor yields on all major currencies, as a result of the ultra-expansive monetary policies after the financial crisis and their economic outcomes. Then, extremely low, if not derisive, returns are dominant for monetary and most fixed income placements, even if in such area a new "black swan" was to show up: the worries and uncertainties about some European sovereign debts, with subsequent new storms on the government bond markets.
Between the low risk propensity and the search for "adequate" returns, structured products keep on attracting many investors, despite being viewed by many with some sort of hate-love mixed feelings: they may offer periodical coupons (but often subject to certain conditions), guarantee the amount of principal at expiration, so increasing their appeal, and allow the investor to benefit from an increasing underlying item, equity index, commodity, currency, interest rate…Such products may be interesting indeed, despite the possibility of penalizing pricings should they be sold before the date of expiration. *(to be continued)-GLT*

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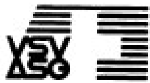
Corriere del Ticino 2010/10/07



LET'S TALK ABOUT...
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Portfolio Management

(Part Four) We have cited some features which have marked our industry after the dramatic events and downturns of the financial markets: the flight of most clients from more complex and less transparent instruments in favour of simpler and more traditional ones, the fall into disfavour of some “innovative” (then renamed as toxic) products, the troubles which many hedge funds and funds of funds have faced and are still encountering in their operations, and finally the resilience of structured products, thanks to the opportunities they offer of receiving periodical coupons together with benefiting from increasing underlying values, such as equity indices, commodities or currencies.
Within a major orientation aimed at wider portfolio diversifications and simplifications in line with fundamental and economic scenarios, an increasing shifting towards emerging markets, commodities and high yielding currencies also takes place. Not to say of gold, the king of safe havens and the major hedging tool against all major troubles, inflation, deflation, devaluations, financial and geopolitical storms.
Indeed, other accidents were soon to further affect the world of investments, that is the worries and uncertainties about some European sovereign debts. Hence the evidence of more flight to quality, particularly oriented to the most reliable government issuers. However, at the same time, due to the extremely low market yields, a lot of corporate issuers have been allured to turn to the fixed income markets to raise money, thus making bond pickings more and more complex for managers and clients.
What has happened in the financial markets has in some way also affected the philosophy and management styles of many operators, particularly the smaller ones, as is the case for independent portfolio managers. If many fund managers, mainly within the major institutions as the big banks, still strictly follow reference benchmarks, burdens and delight at the same time, now a lighthouse to follow and then an alibi for poor performances, such tracking has often become less rigid and obsessive, more elastic and mixed with other kinds of considerations. Perhaps protecting the portfolio’s real value has become the top goal, so that more aggressive strategies have often been abandoned in favour of more defensive stances and more careful assessments and managements of risks (and not just in statistical terms). Somehow even absolute return strategies, previously aimed at employing all kinds of asset classes, including the most speculative ones, in order to maximize returns, now look more prone to using however wide ranges of products for limiting and hedging downside risks. The concept of hedging itself has therefore turned back to its original and actual meaning, after been used for long time as a synonym of unconstrained, highly leveraged and risky forms of placements. *(to be continued)- GLT*

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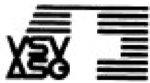
Corriere del Ticino 2010/10/14



LET'S TALK ABOUT...
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Portfolio Management

(Part Five) One more consequence of the financial storms for the portfolio management industry has been the blame upon some instruments due to their excessive speculative orientations and lacks of transparency, together with their responsibility in amplifying market volatility; that has been the case, besides hedge funds and most of the products coming from the securitization of various debt categories, from real estate to other domains, which were to become soon “toxic”, valueless and not negotiable, of most derivatives, such as options and futures. The blame has also been cast on disputable market operations for their poor or negative economic benefit, such as short selling, that is selling securities not currently held in view of their lower prices at the time of closing the deal, so covering the position for delivery at cheaper values. More recently, tradings focused on CDS’s have also been criticized by public institutions, because such Credit Default Swaps, being gauges of default risks in terms of premiums to be paid by investors in order to secure repayments of principals at maturities, would be responsible, when applied to some distressed sovereign issuers, such as Greece, of further fuelling market pressures and price instabilities. In some cases criticisms have evolved into temporary or permanent new regulations, which have limited or cancelled some types of transactions on instruments that were particularly “hot” at the moment. Whether new rules and prohibitions may be actually and really valid in avoiding and help solving huge financial crisis is a highly questionable topic we do not tackle herein. The reaction of investors has generally been a decreasing trust in the most “problematic” financial institutions, and a search back for simpler and more transparent instruments, while public institutions and agencies were reviewing products and operations, aiming to better controlling markets and protecting investors. Of course issuers and promoters of financial instruments have been greatly affected: market conditions, new regulations and credit crunches took them to restructure and streamline and the most solid and best positioned among them have been able to go on, also benefiting from public bailouts and supports, but with more emphasis on risk management. Indeed risk assessment and management were to become paramount features in the “after the storm” phase, while old consolidated principles and practices were put into discussion and harshly debated, also affecting the allocation of clients’ portfolios and their management. *(to be continued)- GLT*

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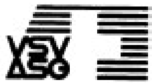
Corriere del Ticino 2010/10/21



LET'S TALK ABOUT...
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Portfolio Management

(Part Six) The dramatic events, both financial and economic, that originated from the subprime crisis and then spread to many types of financial instruments and their trading markets, not just undermined the efficient market theory and the quantitative models commonly applied to asset allocation, but also ousted the statistical-probabilistic patterns which had been largely used in defining and assessing risks. We have already discussed such topic, while considering its technical features and the very rich and topical vision that Nicolas Nassim Taleb has provided about it with his bestseller “The Black Swan” and his other publications. The portfolio manager was then caught in the middle of many storms and has been compelled to adapt his operational tools and the clients’ portfolios as a consequence of that, also because other evolutive trends of different kinds were coming across. Suffice it to remind the new laws, rules and directions which were to affect the selection of instruments to include in portfolios, not to say about the procedural constraints in relating with the manager’s clientele and other external parties. Among the many we may remind the supranational initiatives, coming for instance from the OCSE or the European Union, aimed at opposing fiscal evasion and fighting money recycling and laundering, the increasing role of compliance, the creation of several countries’ list, sometimes grey or black, in which Switzerland were now included and then excluded, designed in more or less objective or opportunistic ways, the pressures on the Swiss financial market, the uncertain paths of some Swiss institutions themselves, the assaults carried on against the banking secrecy, the “scudi fiscali”, fiscal amnesties aimed at repatriating assets of EU citizens, and much more, up to some indeed colourful and odd initiatives. Some of them have been discussed herein.
Besides, the Eurotax, with its automatic charges on some types of incomes and the related switch towards exempt instruments, together with the move from personal to corporate accounts.
It can be really said that for the industry of portfolio management, and the Swiss one particularly, the past years have proved very stormy, to say the least, although from some problems opportunities may have arisen and even if independent portfolio managers may be pretty satisfied, of course in relative terms, for the quantitative and qualitative results they achieved, if compared to other types of financial institutions, in going through the “perfect storm”. We will see how and why that happened. *(to be continued)- GLT*

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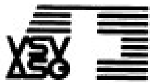
Corriere del Ticino 2010/10/28



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Portfolio Management

(Part Seven) The complex and dramatic evolutions of the financial markets, as well as the many new laws and regulations, have deeply changed, even rocked, the universe of portfolio management, in Switzerland perhaps more than elsewhere, during the latest years. More caution has resulted in selecting the financial instruments to be included in portfolios, special care for their fiscal impact, radical revision of the general principles governing asset allocation and risk assessment, wider use of unit-linked life insurance policies and new accounts held through foreign fiduciary entities, specially as the result of the “scudi fiscali”, fiscal amnesties, as promoted by the Italian government. Moreover, family office operations within highly integrated and international frameworks. Such “new age” of the Swiss private banking industry may be labelled as more structurally diversified, with more overlapped and subtler borders between the so called offshore and onshore banking areas. Such opposition between the management of non-residents’ funds, with various levels of secrecy, and management of official and disclosed assets, has traditionally dominated the scenario of the Swiss private banking, highly influencing the behaviours of its actors, including banks and independent portfolio managers, and also fuelling international pressures as well and both domestic and international laws and rules, often in complex and troubled ways.
Now such split is becoming less relevant, although critical and delicate cruxes remain in relating with the countries of residence of our clients. However the paths towards solutions are now improving with some of those nations. It must not be omitted to say however that right and useful reasons, such as fighting the money laundering and the international terrorism’s flows, have sometimes become excuses just for fiscal monitoring, so infringing the principles of privacy and weakening some legal bases of the Swiss sovereign power, as in the case of bank secrecy. By the way, the concept of “money recycling” seems to be used by many in pretty excessively ample terms. Also in the field of international financial regulations, the relative positions and strategic interests of the different markets actors – namely big banks and independent portfolio managers – may not always be the same, and that makes even more difficult to elaborate common views in setting sustainable cross-border banking regulations, particularly for private banking and its related matters. *(to be continued)- GLT*

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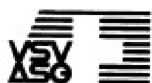
Corriere del Ticino 2010/11/04



LET'S TALK ABOUT...
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Portfolio Management

(Part Eight) Given the new scenario of portfolio management in Switzerland, marked by the use of more traditional instruments, increased care for fiscal impacts, more cogent rules, increasing international competition by old and emerging financial centers, e.g. Singapore, wider geographical horizons and heavier procedural charges, well, within such evolving scenario the positions of different market actors has not always been univocal. Just consider the Swiss environments, where the big banks and independent portfolio managers may happen not to share the same strategic views, so not pursuing the same interests and goals. Big – and middle-size – banks are highly internationalized entities and carry on their "universal" activities on many markets, so that their private banking, whether a core business for them or not, is anyway integrated into a wider range of different businesses, investment banking, retail operations, corporate advisory, capital market transactions, and so on. Their prevailing market is "onshore", that is operating on official funds, on many markets, gaining parallel accesses to other areas, such as the commercial, fund management, M&A, private equity and placement ones, just to mention some among many. The overall operational and fiscal optimizations for private and corporate clients are thus considered within a much wider scheme that is within a larger network and a related greater set of overall opportunities. That is normally seen as their main strength but someway it may also become a weakness. If today the trendy saying "too big to fall" is so often mentioned, it is also true that huge dimensions, together with the operational and decision problems they pose with them, and the tangled institutional connections they involve, also being the benefits of economy of scale no longer so evident, the saying "small is beautiful" seems to have become more true and reliable once again.
The independent portfolio manager, obviously reduced in her/his structural size and reachable market dimensions, has nevertheless some not so negligible points of strength. Suffice it to mention her/his full independence in evaluating and selecting financial products for her/his clients' portfolios; a more free strategy, with no oppressive rigid patterns (such as the quantitative models which so many damages have caused) that are typical of the big financial institutions. Moreover, a real made-to-measure and high quality service, as the result of long consolidated relations, with stable personal presences. Such feature is often not only appreciated, but often also rewarded, as opposed to the many structural changes, streamlinings and restructurings, turnovers of fund managers, consultants and account executives, changes in communication methodologies and media and so on. *(to be continued)- GLT*

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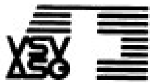
Corriere del Ticino 2010/11/11



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Portfolio Management

(Part Nine) We have discussed how highly structured financial institutions, such as the big “universal” banks, and smaller actors, such as independent portfolio managers, may not share the same views about the recent market evolutions, new rules and regulations and so on. The latters however have some strengths on their side, thanks to the freedom they enjoy in defining their strategies, and full independence in selecting products and instruments for their clients. Moreover their asset allocations and guidelines are often unconstrained from rigid patterns (including the quantitative models that have been the source of so many damages) which are widely adopted by larger institutions. In their favour a major role is played by their highly customized service, resulting from long consolidated personal contacts, the stability of key persons in charge, the continuity of relations, that clients not only appreciate but also rewards, in opposition to the so diffused changes in positions, turnovers of managers, account executives, consultants, changes in the criteria and instruments of reporting and communication... Stability is an asset, and the clients like it. There are actual proves of that, as during the several “scudi fiscali”, tax amnesties and repatriation initiatives of the Italian government, when the level of clients’ “retention” has been high, however above average, for independent portfolio managers, thanks to the high customization degree they have fuelled along the years. Besides the associated Swiss independent portfolio managers may enjoy high-level features and extremely good reputation, thanks to their deontological codes, self-ruling organizations and operational directions, in use for many years and so cogent to have been adopted as patterns for more general financial rulings by public agencies too. A new phase is now opening for independent managers too, marked by more overlapping of less parted onshore and offshore activities, more relations managed through foreign fiduciary structures, e.g. Italian ones, consultancy and advisory in global perspectives for the private clients and family companies. If for big banks the future may mean the offer of diversified products, coming from all markets towards as many markets, for independent portfolio managers the scenario is obviously some narrower, but just in quantitative and not qualitative terms. *(to be continued)- GLT*

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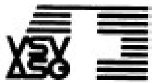
Corriere del Ticino 2010/11/18



LET'S TALK ABOUT...
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Portfolio Management

(Part Ten) What the future of portfolio management, particularly for Switzerland and Ticino ? Not an easy answer indeed, for which some general trends may just be outlined. Not considering, by now, the complicated matter of fiscality and bank secrecy, to be reviewed further down, a main emerging trend is the increasing supply of integrated financial advisory and consultancy to both private and family-company related clients, within more onshore and less offshore operational areas. It is a supply of services originating from many markets and offered to clients of many markets too, at least in the case of major actors, such as the big banks, while for smaller operators, such as independent portfolio managers, operational areas will be obviously more restricted, with qualitative features however making up for their quantitative limitations. This “cross markets” scenario may be exemplified as follows: mutual funds from a well established industry leader, e.g. Luxembourg, are supplied to a client who, whichever his/her nationality, if looking for a high level of confidentiality, opens a bank relation in Singapore or Nassau, while taking his/her fiscal residency in another country, let us say a low tax Swiss canton, Monte Carlo or London. He/she also keeps economic interests in Milan and abroad but likes to have his/her consolidated assets to be managed and administered by an entity in Lugano. Of course the manager-advisor needs a wide range of skills and knowledge and the traditional boundaries of portfolio management come to be largely overcome, not only in geographical terms. A major trend emerges of knowledge and duly implementation of compliance rules in different countries, together with gaining access to the different markets for financial products, e.g. mutual funds. One may say that among the many negative outcomes of international pressures and new rules - including “scudi fiscali” – that is fiscal amnesties and related events - a positive result has been the widening of onshore operations, through unity-linked life insurance policies and foreign fiduciary entities, as well as the official placements of many financial products in new markets or their adaptations in order to be compliant with national rulings. *(to be continued)- GLT*

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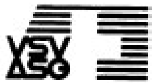
Corriere del Ticino 2010/11/25



LET'S TALK ABOUT...
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Portfolio Management

(Part Eleven) While discussing the evolution of portfolio management in Switzerland, its trends and perspectives, the "hot" themes of international taxation and bank secrecy have been postponed, after the many pressures and polemics they have fuelled by many entities that see our country as a "tax paradise", despite being such label widely far from true, both for individuals and companies, just because our tax rates are lower than the European averages, and our fiscal system is simpler, more transparent and less invasive than elsewhere. Bank secrecy is indicted by many, in spite of its old rooting in the Swiss tradition, also being often misunderstood and little known, as many statements prove. Reconciling such tradition and practice with the wishes of tax monitoring by many foreign states is not easy. The prevailing and partially valid route is the application of a definitive charge on the financial returns of non-resident clients, to be redirected to their countries of residence. The so-called Rubik solution, which recently found positive ground in bilateral agreements with the United Kingdom and Germany, is however seen by other nations, e.g. Italy, sceptically if not definitely refused.
In more general terms what has happened, "scudi", pressures, declarations and so on, while generating problems has also fuelled opportunities, opening the placements of many financial products on new markets and developing new onshore operational areas. On the other side those opportunities also emphasize a sort of contradiction and put the financial actor, all the more if a small one, in an ambiguous position, because he (or she) has to defend the confidentiality of his/her traditional clients, also avoiding any contacts with the authorities of the off shore clients' countries of residence, while at the same time being submitted – and submitting the onshore clients – to the ruling, not to say the arbitrary and intrusive claims of their home countries, despite their assets being deposited and managed in Switzerland. The theme of bank secrecy and its defence in substantial more than formal terms has then become a hot and paramount subject, one to determine the future of the Swiss financial market. *(to be continued)- GLT*

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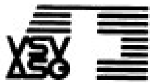
Corriere del Ticino 2010/12/02



LET'S TALK ABOUT...
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Portfolio Management

(Part Twelve) If some likely trends may be spotted for private banking and portfolio management in Switzerland, many questions are still left unanswered and several themes still dominated by uncertainty: the integration of onshore and offshore activities, the scope and limits of a now more nominal than actual banking secrecy, the fiscal solutions for assets held by foreign clients, with the Rubik proposal facing different levels of acceptance by the different European countries, and so on. Undoubtedly during the latest years massive legislative evolutions, to say the least, together with international pressures, have widely affected the day-to-day operations of all market actors, particularly the less structured ones, as is the case for independent portfolio managers. If we also consider the dramatic events which have marked the financial environments, being some tails still currently active, and what happened to some types of instruments, e.g. hedge funds and funds of funds, the many causes still fuelling uncertainty and volatility, we can say that the skills of innovation and adaptation have been wildly challenged, through many really more serious and effective stress tests that the most proclaimed ones for banks. The portfolio manager is now facing new challenges in terms of combining onshore and traditional offshore activities, the future of confidentiality and the relations with more and more intrusive and conditioning foreign agencies, the advantage itself for foreign clients of holding their assets in Switzerland, the new tests to be applied to their clients' loyalization. All of them are major and complex questions, for which no answers are still available today. May be the job is some easier for more structured and internationalized institutions, such as the big banks, even if independent portfolio managers are aware of having some competitive advantages, at least in terms of high quality and customized service and relation, and real operational freedom: they prove to be very important assets in current scenarios, highly appreciated and actually rewarded by many clients*. (end)- GLT*

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