Navigating Indices: Essential Insights for IR Practitioners

21 August 2024

Index Funds

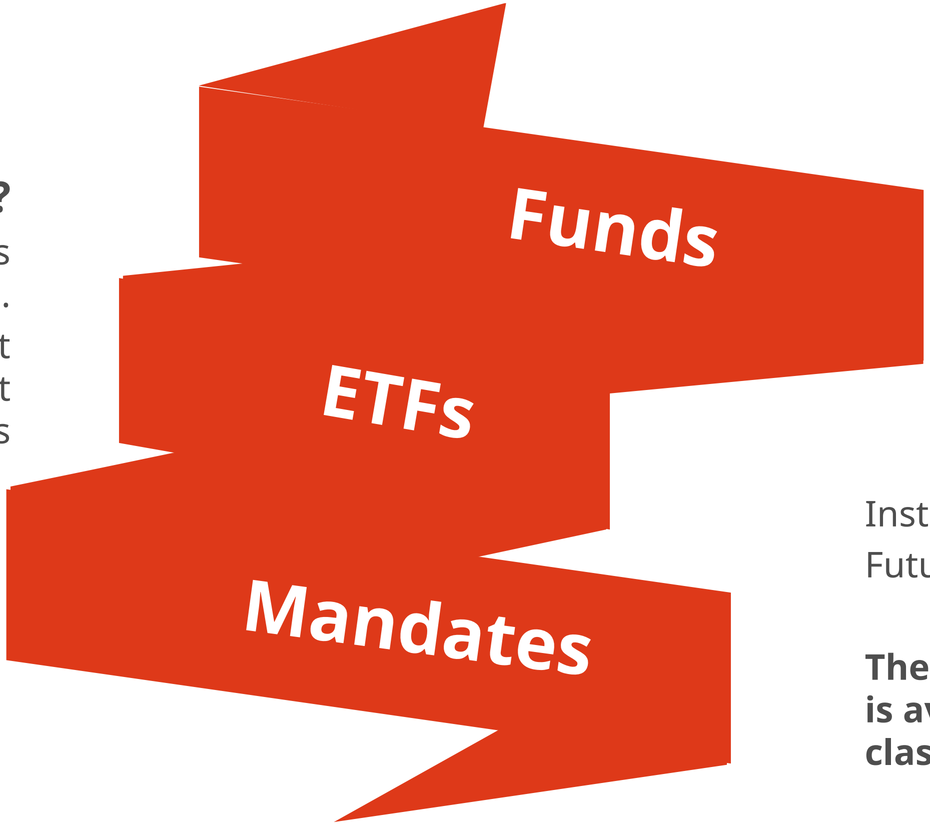
Urs von Gunten
Head Index Investment, BCV

Around the world with Index Investments

What is index tracking?

Index tracking is replicating the Index as close as possible.

Difficult to find other investments that outperform long-term than cost- efficient index investments



What are the financial products that track indices?

Equity Index Funds, Fixed Income Index Funds, Real Estate Index Funds

Different Umbrellas

Institutional Fund, Retail Fund, ETF

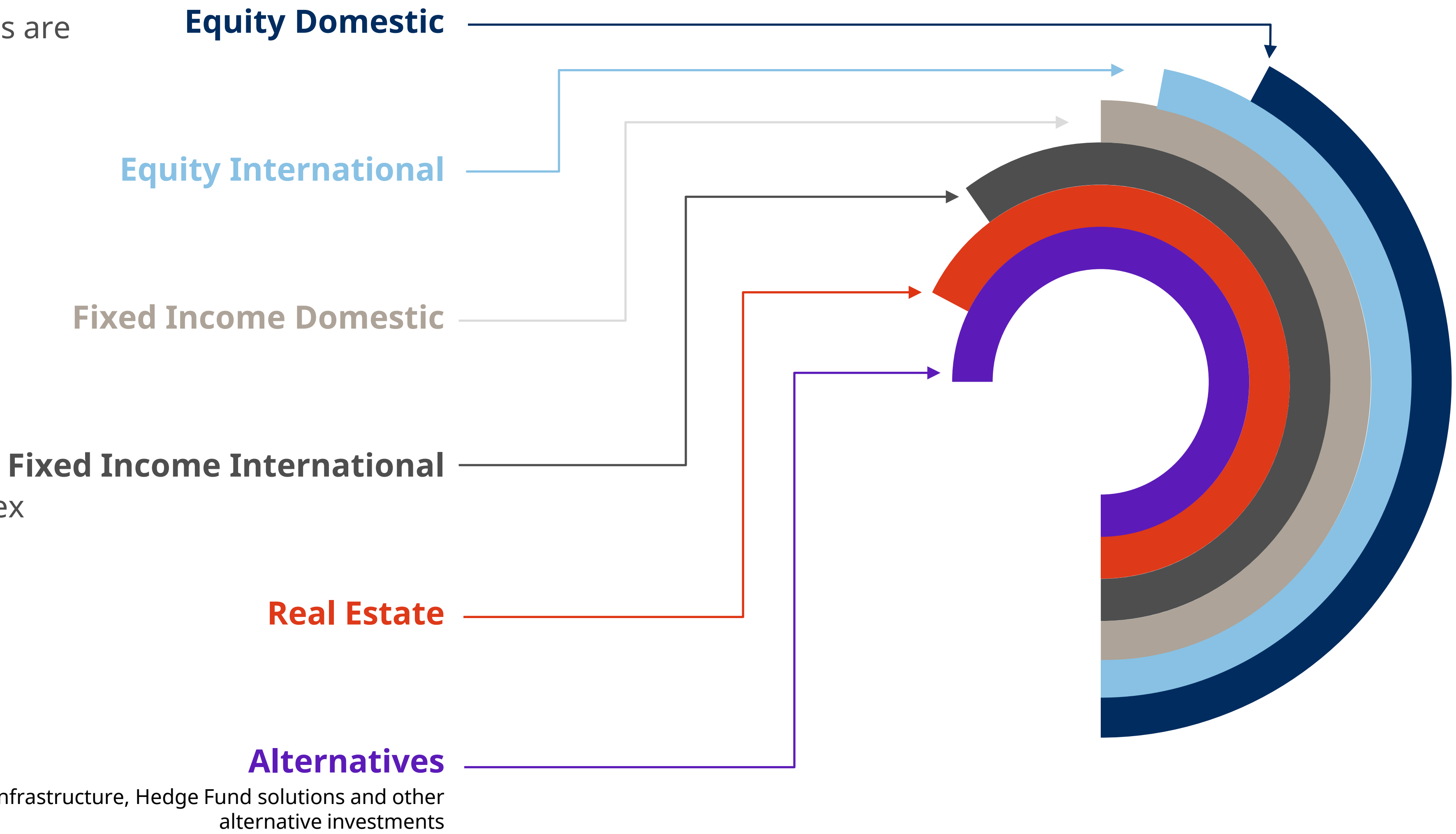
Futures, Trackers, Fund of Hedge Funds, Gold

The key question is what Benchmark / Index is available in what quality to track an asset class

What is a common Swiss Pension Fund strategy?

Some Asset classes are more suited for passive (index) investments than others.

Less liquid/complex assets via active investments



Index Rebalancings

Analysis

Volume, Size changes, different Deletions and Additions of indices with the respective overlaps, liquidity in the market for volumes and trading strategies

Operational Aspects

Databases will be prepared and a current and forward-looking index are managed and updated for new data

Execution / Trading

- The theoretical ideal point is the execution of index changes at closing (reference for relative performance tracking)
- Liquidity in the market might indicate related to volumes and weight of a stock a more accurate trading over the time.
- Consider risk restriction of the product

Which Swiss indices and Swiss stocks are typically traded or not traded for index investments?

All Stocks, but…

The larger the index the less efficient is trading all positions. For SPI a cash flow might always trade in NESN, NOVN and ROG.

Index Rebalancings

For Additions/Deletions: Optimize for Size, Sector and stock weight in the index

Common used Indices

SPI Extra + SPI20 = SPI

SLI = Capped to reduce concentration risk and accessing more distribution with different regulations.

SMIM (Mid Caps) + SPI 20 = Top 50 stocks

SPI ESG and SPI ESG Weighted

SMI for Derivatives like Futures

Around the world with Index Investments
Real market examples likes M&A, IPOs, spin-off, capital increases

Syngenta and Actelion

03 May 2017	*24 avr 2017*	E	1053247 CH0010532478		**Actelion Ltd, Allschwil**	Exclusion of Actelion from the SMI and SPI family due to takeover by Johnson & Johnson and Free Float below 20%.

12 May 2017	*05 mai 2017*	E	1103746 CH0011037469		**Syngenta AG, Basel**	Syngenta AG proposed to distribute a special dividend of CHF 5.00 conditional upon and prior to the first settlement of the ChemChina transaction (no regular dividend proposed). The price and total return indices will be adjusted for the special dividend of CHF 5.00.
15 May 2017	*05 mai 2017*	E	1103746 CH0011037469		**Syngenta AG, Basel**	Exclusion of Syngenta from the SMI and SPI family due to takeover by China National Chemical Corporation and Free Float below 20%.

Spin-off of Idorsia from Actelion

19 June 2017	*16 juin 2017*	E	36346343 CH0363463438		**Idorsia Ltd, Allschwil**	As part of the settlement of the public tender offer by Johnson & Johnson for all publicly held registered shares of Actelion, Actelion announced to spin-off Idorsia Ltd. The first trading day of the newly listed Idorsia shares will take place on June 16, 2017.

Challenges for Index Trackers in case of Corporate Actions

Timeline / Deadlines M&A and Takeovover	• Index announcements (Addition/Deletion) 2-5 days before implementation • Portfolio Manager to give instruction before the M&A event result is known • The index provider can only decide after the M&A acceptance % is available
Trading challenges	• M&A: Two trading lines (tendered and non-tendered shares) • Exclusion date from the index versus Value Date from the take over • IPO/Spin-off: The index is the strategy but if the index investor need to get an allocation matching otherwise need to buy on first day
Conclusion	• The technical aspect to replicate a Corporate Action event is for index products crucial! • If the technical part of a corporate action is managed correctly, it can help the fund gain upside thus offsetting some of the costs and so resulting in a better performance for the investor.

Q&A