SwissBanking

November 2020

Portfolio Management Guidelines

Content

Preamble

1. The Board of Directors of the Swiss Bankers Association has adopted these Guidelines in order to maintain and enhance the reputation and high quality of Swiss portfolio management in Switzerland as well as on an international level. Assets entrusted to Swiss banks must be managed professionally in the clients' best interest, even if the clients only give their banks general investment objectives.
2. The Guidelines are trade regulations (self-regulation). They have no direct bearing on the contractual relationship between banks and their clients. Such relationships are governed by the legal provisions (in particular by Art. 394 et seq. of the Swiss Code of Obligations) and by the relevant agreements between banks and clients (e. g. asset management agreement, the banks' general business conditions etc.).
3. In areas governed by specific legislation (e. g. Federal Act on Financial Services (FINSA), OPA on pension funds, CISA on collective investment schemes, and the associated regulations or selfregulatory regimes), the relevant special provisions take precedence over these Guidelines.
4. Institutional clients according to art. 4 par. 3 lit. a – d and professional clients art. 4 par. 3 lit. e – i of the Federal Act on Financial Services (FINSA) are excluded from the provisions of these guidelines.

1 Principles

Art. 1

The asset management agreement enables the bank to carry out all transactions it considers necessary in the context of regular asset management by banks. The bank pursues its mandate in good faith and in consideration of the client's personal requirements that may reasonably be familiar to the bank. The bank acts on a discretionary basis in line with these guidelines, its asset allocation policy, the applicable investment strategy and any instructions set out by the client (including any investment restrictions). The asset management agreement does not authorise the bank to withdraw assets.

Implementing provisions

5. The bank establishes rules and guidelines regarding its overall investment approach, the investment process, the definition of eligible investment strategies, the investment universe as well as appropriate control and monitoring measures. The bank may implement its portfolio management services uniformly for a number of clients or for clients individually.

2 The Asset Management Agreement

Art. 2

[1] **The asset management agreement must be issued in writing or in any other form verifiable by text.**
[2] **The asset management agreement or the appendices thereto must set out, amongst other things, the reference currency and the bank's remuneration.**

Implementing provisions

6. It is not sufficient to issue an asset management agreement verbally. Minutes of a meeting containing notes of the client's intention to entrust the bank with the management of his/her assets are also inadequate. However, standing instructions, subsequent amendments thereto (such as switching investment strategy from Balanced to Equity) and additional orders can be issued verbally but must be documented by the bank in suitable form.
7. By virtue of the asset management agreement, the client entitles the bank to carry out – within the context of the investment strategy applied – all permissible transactions as set forth in these Guidelines without any additional agreements, clarifications or consultations.
8. Instructions (standing or related to a particular transaction) given to the bank by a client supersede these Guidelines. For instance, such instructions are required when the client wishes to make investments that do not comply with the standards of Art. 4 below or do not comply with the investment strategy applied. Investments that have (long term) capital call commitments, contingent liabilities or similar conditions or modalities always need a client instruction.

3 Performance of the Mandate

Art. 3

[1] **The bank ensures that the asset management agreement is performed with due diligence.**
[2] **The bank must carefully select the investments to be included in the portfolio managed for the client.**
[3] **The bank must monitor the client's portfolio under the asset management agreement and these Guidelines on a regular basis.**

Implementing provisions

9. The bank defines appropriate measures for the diligent and professional use of any investment instrument and asset class, such measures being proportionate to the risk embedded in the selected investment instruments and/or asset class.

10. The bank must base its investment decisions on reliable sources of information. It must monitor the investments on a regular basis. However, the bank cannot be held responsible for the decline in value of carefully selected investments.

11. The bank must ensure that the managed portfolio complies with the selected investment strategy and client instructions. If necessary, it takes suitable action to restore compliance or agrees an amendment to the asset management agreement with the client. This does not apply to merely short-term deviations caused e. g. by market fluctuations.

Art. 4

For the implementation of the applicable investment strategy, the bank may invest the client's portfolio in any asset class, investment instrument and associated investment techniques required to achieve the investment objective, subject to the restrictions as set out in these Guidelines.

Implementing provisions

12. For the implementation of the investment strategy the bank may in particular but not limited to choose to invest in financial instruments and securities as defined in Art. 3 (a) and (b) FINSA.
13. In the case of collective investment schemes it is a prerequisite that they on their part invest in instruments as set out in para. 12 above or real estate. Investments in liquid non-traditional collective investment schemes are permissible if such liquid non-traditional collective investment schemes are subject to prudential supervision and comply with the ready marketability requirements of Art. 6 (e. g. UCITS).
14. Investments in base metals and other commodities are permissible in the form of collective investment schemes, derivatives, index or structured products for the purpose of diversifying the managed portfolio. In case of investment instruments that involve physical delivery of base metals and other commodities, the bank has to ensure that no physical delivery is made to the client.
15. Investments in non-traditional investments that do not comply with para. 13, their derivatives and combinations thereof are permissible for the purposes of portfolio diversification provided they are structured according to the Fund-of-Funds Principle (the fund is invested in several legally segregated collective investment schemes) or Multi-Manager-Principle (i. e., that the collective investment scheme's portfolio is managed by more than one asset manager, each single asset manager being responsible solely for a specific part of the portfolio) or otherwise guarantee an equivalent diversification.

16. The asset management mandate does not entitle the bank to grant corporate loans to third parties for the client's account.

Art. 5

The bank must spread the portfolio risk through sufficient diversification.

Implementing provisions

17. It avoids cluster risks e. g. from unusual concentration in an excessively small number of investments.

Art. 6

Investment of assets is restricted to readily marketable instruments.

Implementing provisions

18. Ready marketability applies when one of the following criteria is met:

- There must be a representative market for the security (on or off-exchange).
- The issuer or bank must commit to provide ready marketability equivalent to a representative market.
- The investment must be redeemable at regular intervals (in case of liquid non-traditional collective investment schemes, at least bi-weekly; other instruments at least quarterly with a notice period not exceeding 60 days or, alternatively, at least monthly with a notice period not exceeding 90 days).

19. Some common retail investments such as medium-term notes are only readily marketable to a limited extent. Such investments, their restrictions on ready marketability notwithstanding, are permissible unless the client has given clear instructions to the contrary.
20. Where an investment becomes less readily marketable after purchase the bank acts appropriately in the best interests of the client.

Art. 7

The bank may not borrow funds or enter into potential short positions in performing the asset management mandate.

Implementing provisions

21. The bank is not authorised to enter into loan or similar transactions, even if it complies with the collateral margins required by the bank's internal regulations.
22. Short-term overdrafts may be admitted, provided they are covered by income or bond redemptions due in the short term or if they occur as a result of valuta date fluctuations in arbitrage transactions. Furthermore short-term overdrafts are allowed to adjust the economic exposure of the portfolio or to manage leverage exposure on single investment instruments provided that with the maturity or with the perceived unwinding date of the underlying investment instruments the economic exposure of the portfolio (incl. debit balance, payables and receivables) does not exceed 100 %.

Art. 8

Transactions, especially in derivatives, must not have the effect of leveraging the overall portfolio.

Implementing provisions

23. Derivative financial transactions may be employed for the purpose of hedging, efficient portfolio and currency management. Transactions in derivatives, where the loss cannot exceed the initial investment, are allowed, as long as the resulting portfolio risk remains in line with the applicable investment strategy.
24. Derivative transactions that result in an uncovered short exposure on single investment instruments are not allowed. Other derivative transactions that result in a short exposure on futures, on stock market indices, bond market indices, currencies, interest rates, precious metals, base metals and other commodities as well as real estate indices are allowed if the underlying is sufficiently represented in the managed portfolio. In order to hedge interest rate exposure in the portfolio, derivatives on interest rate and government bond futures are permissible, provided that the credit risk of the portfolio is not significantly changed.
25. Other derivative transactions that result in a long exposure where the holder has no discretion on the exercise modalities such as financial futures are allowed, provided that the full liquidity to cover the execution price is held at the time of settlement of the transaction. The Bank has to establish appropriate procedures to ensure that margin calls can be covered at any time.

4 Final Provision

Art. 9

[1] **The revised version of these Guidelines comes into force on 1st of January 2022.**
[2] **Institutions which complete the changeover to FinSA before the end of the transition period and have notified their audit company thereof in accordance with Art. 106 para. 2 FINSO, may already apply these guidelines from this date.**

Schweizerische Bankiervereinigung
Association suisse des banquiers
Associazione Svizzera dei Banchieri
Swiss Bankers Association

Aeschenplatz 7
P.O. Box 4182
CH-4002 Basel

office@sba.ch
www.swissbanking.org