

Weight in the capital market

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Roche and Novartis are, together with Nestlé, the three largest companies of the Swiss stock market. For several years their combined weight in the SMI was so large that SIX introduced a capping rule for the index, under which the weight of a single constituent is limited to a fixed percentage at the regular reviews. The capped index was introduced to allow investment funds to replicate the index without breaching the diversification rules that apply to them.¹ Together with Sandoz, Alcon, Lonza and Straumann, the life sciences account for a substantial share of the Swiss equity market, a concentration with no parallel in most other European markets.

This concentration has consequences for Swiss investors. The pension funds of the second pillar, which hold a significant part of their assets in Swiss equities, are heavily exposed to the pharmaceutical sector. The same is true of the Swiss equity funds offered by banks and asset managers, of the investment portfolios of Swiss insurers and of the private clients of the banks. The dividends of Roche and Novartis, which have risen for many consecutive years, form a large share of the dividend income of the Swiss market.² Since the companies are also among the largest issuers of bonds in Swiss francs, they occupy a similar place in the bond portfolios of Swiss institutional investors. Chapter II examines these issues in detail, while Part I returns to the investment policy of the pension funds.

The concentration has a further consequence for the banks. The pharmaceutical groups are among the most important corporate clients of the Swiss and international banks, for their foreign exchange operations, cash management, bond issues and mergers and acquisitions. Their demand for these services has supported the investment banking and treasury operations of the large banks. When the groups engage in large transactions, they usually mandate international investment banks, while the Swiss banks play a role in the Swiss franc bond market and in local cash management.³ The relationship between the industry and the banks, which

began with the financing of the dye works in the nineteenth century, has thus taken a modern form in which the groups are the stronger party.

1 Notes

1. On the capping of the SMI introduced by SIX Swiss Exchange in 2017, under which the weight of an individual constituent is limited to 18 per cent at the quarterly reviews, see the SIX index rules for the SMI. Date and percentage to be verified. ↩
2. On the dividend history of Roche and Novartis, both of which have increased their dividends in Swiss francs for several decades, see the investor relations publications of the two companies. Figures to be verified. ↩
3. On the banking relationships of the large Swiss pharmaceutical groups, see the lists of bookrunners in their bond prospectuses and the descriptions of their treasury organisation in the annual reports. To be verified. ↩

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