GLOBAL INVESTMENT REPORTING

CSAM SWISS PENSION FUND INDEX

3RD QUARTER 2003

CREDIT SUISSE | ASSET MANAGEMENT

Performance of Swiss pension funds based on Credit Suisse Asset Management's global custody data as at September 30, 2003

Index versus minimum interest rate since January 2000

After its substantial increase in the second quarter of 2003, the CSAM Swiss Pension Fund Index (red line in chart 1) posted just a slight rise in the third quarter – up from 94.94 at the end of June 2003 to 95.80 at the end of September 2003 (chart 1). Extrapolated to the total assets of around CHF 400 billion managed by independent Swiss pension funds, even this less-than-spectacular advance over the past three months represents an increase in assets of approximately CHF 4 billion. However, the fact that the gap between the prescribed minimum interest rate (blue curve) and the index widened slightly last quarter (from 19.36 to 19.42 percentage points) illustrates what a challenge it will be to close this gap. Nevertheless, the investment performance of the pension funds did exceed the minimum interest rate slightly in the period under review. The reason for this trend, which at first glance appears paradoxical, is the so-called base effect, whereby the absolute increase in assets is dependent not just on the yield but also on the absolute level of the assets at the start of the reporting period. This means that the gap can only be substan-

Chart 1

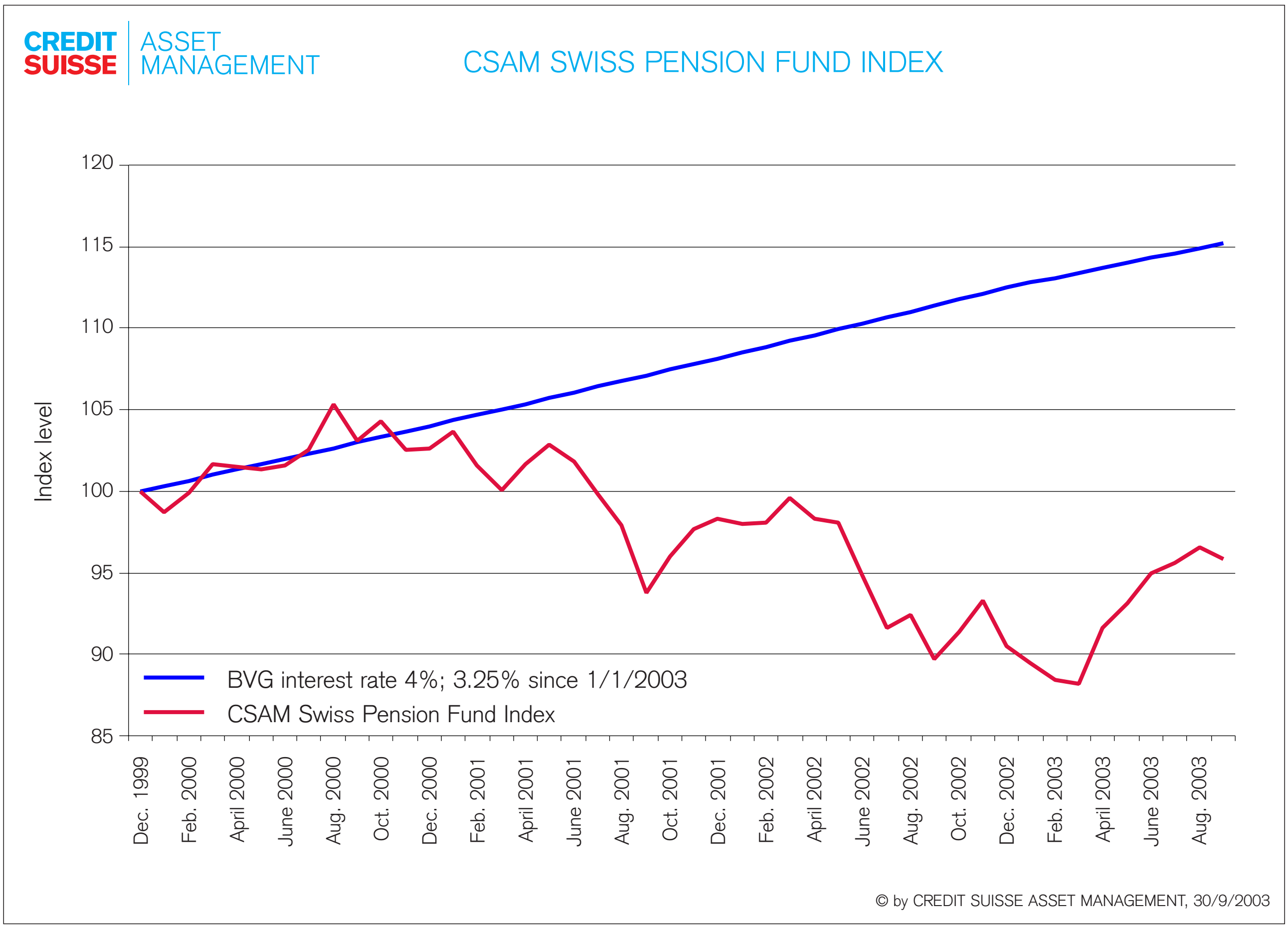


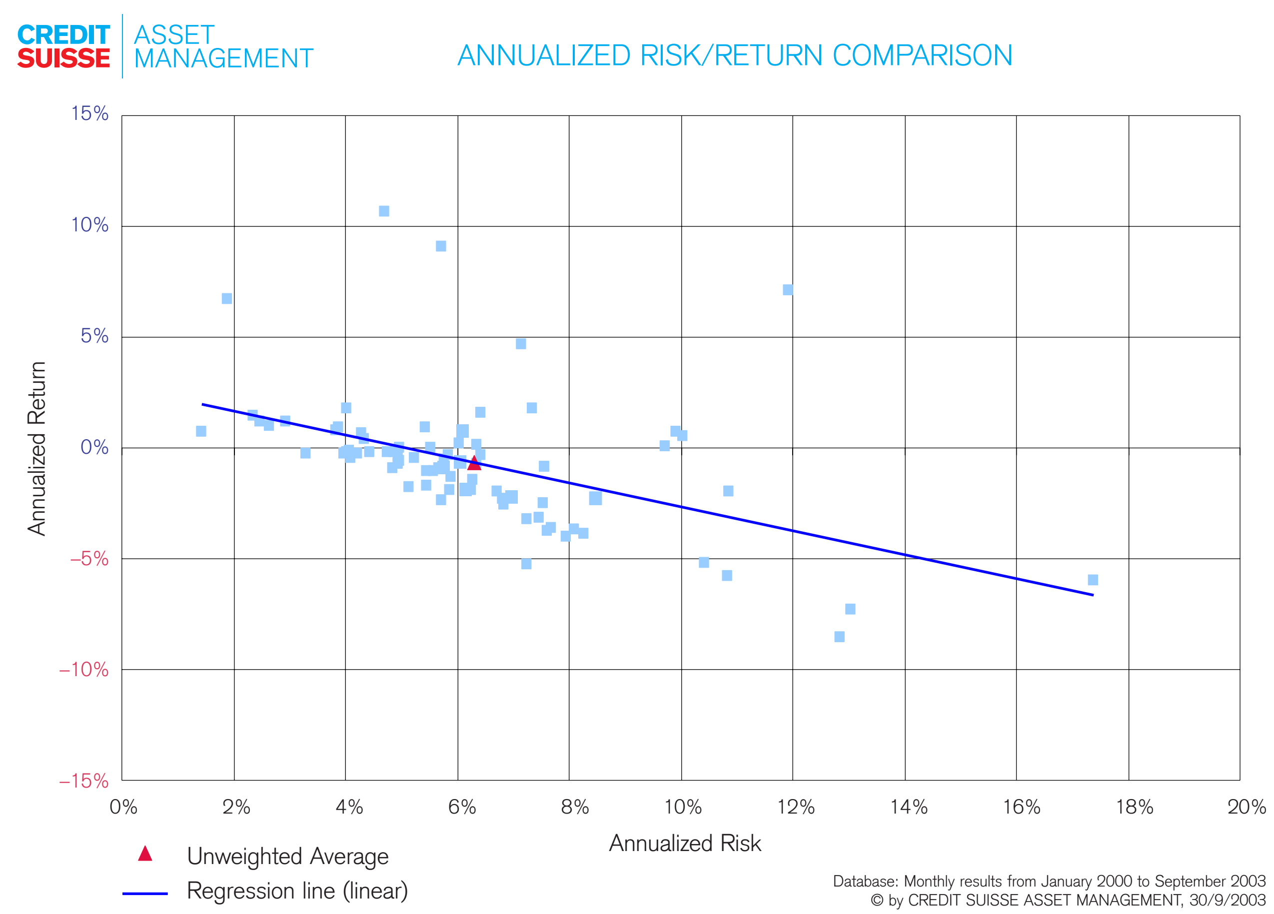
Table 1

	Jan.	Febr.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual return	Cumulative return (since 2000)
2000	98.74	99.88	101.68	101.51	101.32	101.59	102.55	105.34	103.07	104.32	102.56	102.60	2.60%	2.60%
2001	103.67	101.59	100.05	101.68	102.86	101.84	99.81	97.94	93.78	95.97	97.71	98.34	–4.15%	–1.66%
2002	98.03	98.04	99.58	98.32	98.06	94.85	91.62	92.43	89.71	91.36	93.28	90.49	–7.98%	–9.51%
2003	89.45	88.45	88.23	91.59	93.15	94.94	95.58	96.56	95.80				5.87%*	–4.20%*

* YTD

tially reduced if the pension funds significantly outperform the minimum interest rate. Assuming that riskier investments will enjoy a positive risk premium again in the near future, choosing a more conservative investment strategy is likely to make this task all the more difficult. Over the past year, as a whole, the gap was reduced by 2.5 percent. In this context, finally, we must not forget that the reduction in the minimum interest rate as of January 1, 2004 from 3.25 to 2.25 percent will also help close the gap.

Chart 2



Risk/return positions

There have been hardly any noticeable changes to the chart showing the annualized risk/return positions as per reference date of the various pension funds from January 2000 (chart 2) since the last time the index was published. However, the unweighted average annualized return continued to post a significant increase, up from minus 1.5 percent to minus 0.65 percent, while the unweighted average annualized volatility remained stable. The regression line continued stubbornly along its downward trajectory, which means one of the premises of modern portfolio theory – that higher (systematic, i.e. market-related) risk is compensated for by higher returns – can be undermined over many years depending upon the buy-in date.

Asset allocation

With regard to asset allocation (chart 3) there have been quite significant shifts in both bond and equity segments. Foreign currency bonds shrank from 13.3 to 11.8 percent, while the Swiss bond component advanced slightly from 33.5 to 34.1 percent. There is insufficient data to gauge whether the shift was triggered by fears of a further increase in interest rates or currency losses sustained as a result of the drop in foreign currency bonds. The hypothesis that currency considerations could have influenced these shifts is supported by changes in the equity segments: the foreign equity component fell significantly by 2.8 percentage points (from 16.4 to 13.6 percent), while Swiss shares advanced from 16.1 to

Chart 3

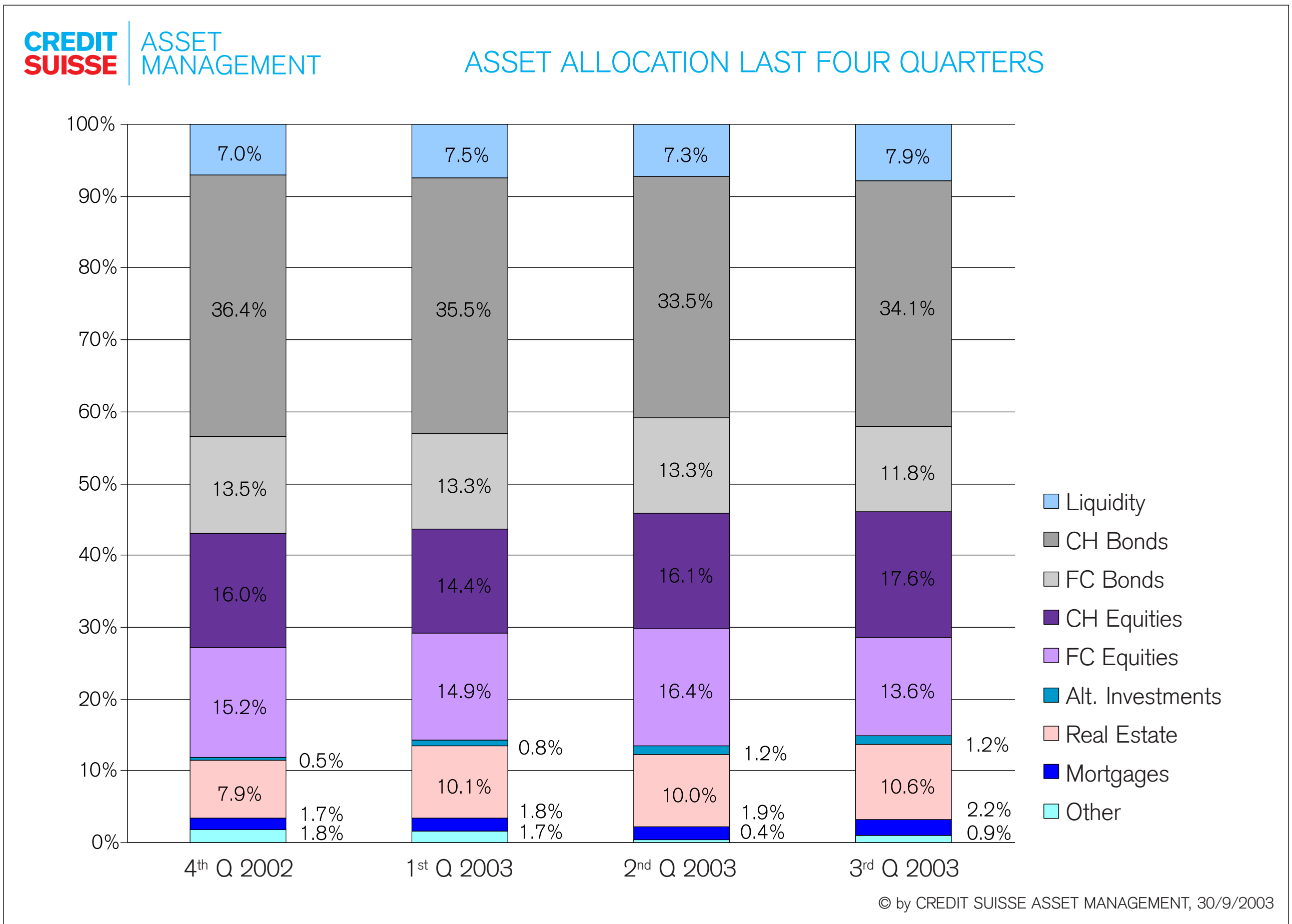
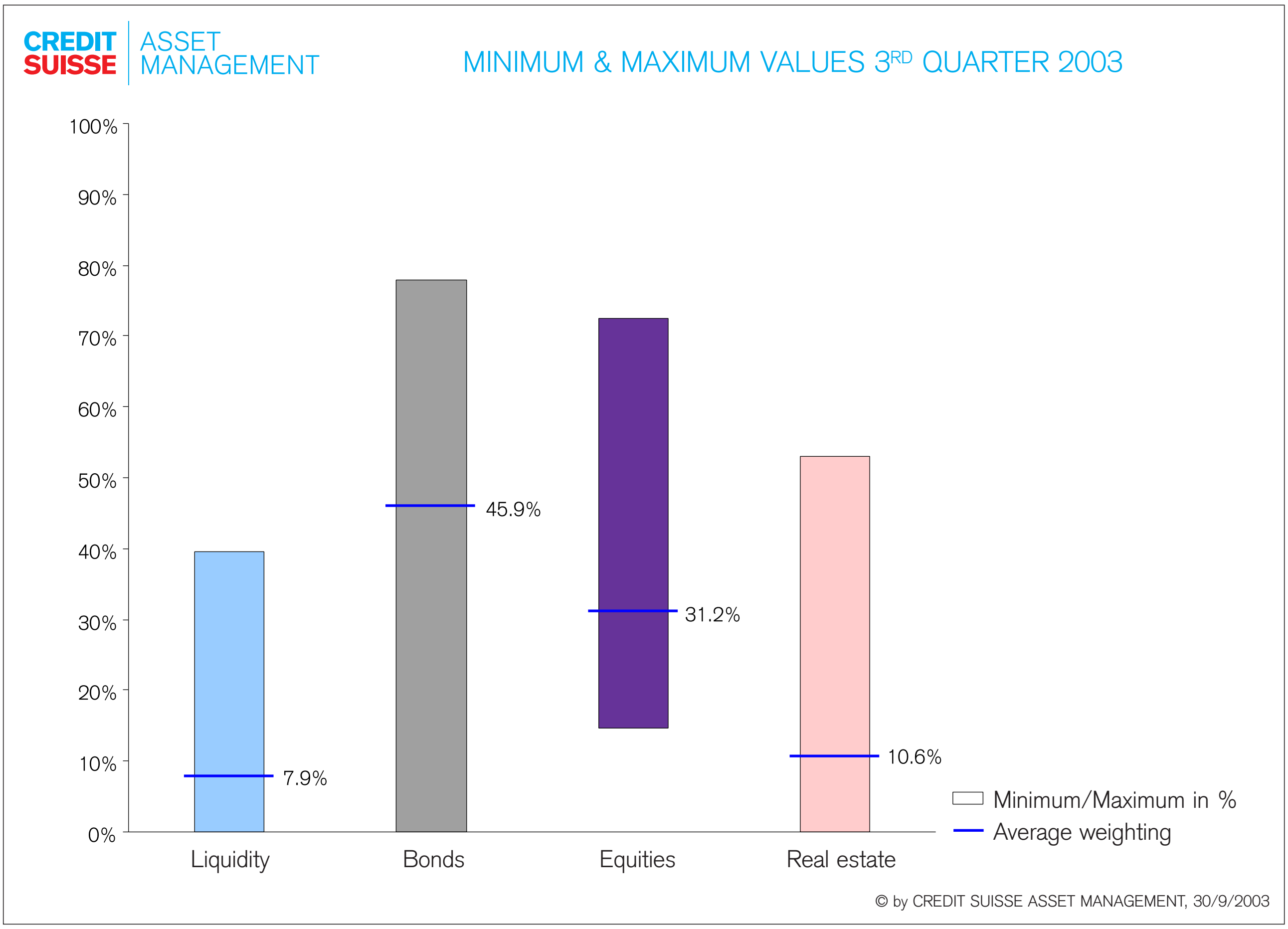


Chart 4



17.6 percent, a 1.3 percent reduction of the equity segment overall. However, the sharper decline in the foreign equity segment compared to the foreign currency bond component came as a surprise. Firstly, because currency fluctuations are more significant risk components for bonds than for equities and, furthermore, because the shift from foreign to Swiss stocks goes against the trend – repeatedly reported in the market – towards greater geographical diversification (and thereby towards the reduction of the Swiss equity component in favor of the foreign equity segment). With regard to foreign and especially US equities, however, we must not rule out valuation considerations, which could have triggered profit-taking. It is also conceivable that these shifts occurred in anticipation of the reduction in the minimum interest rate announced at the end of the period under review. In addition, the liquidity and real-estate components also increased by 0.6% each.

The spread of investments across the individual asset classes (chart 4) remained more or less unchanged compared to the previous quarter and all asset classes are still characterized by very large bandwidths.

Currency allocation

The situation concerning the currency allocation (chart 5) and the individual currency bands (chart 6) is characterized by a further increase in the CHF component (up from 68 to 72 percent) at the expense of all other segments (EUR down two percentage points, USD and other currencies each down one percentage point).

Chart 5

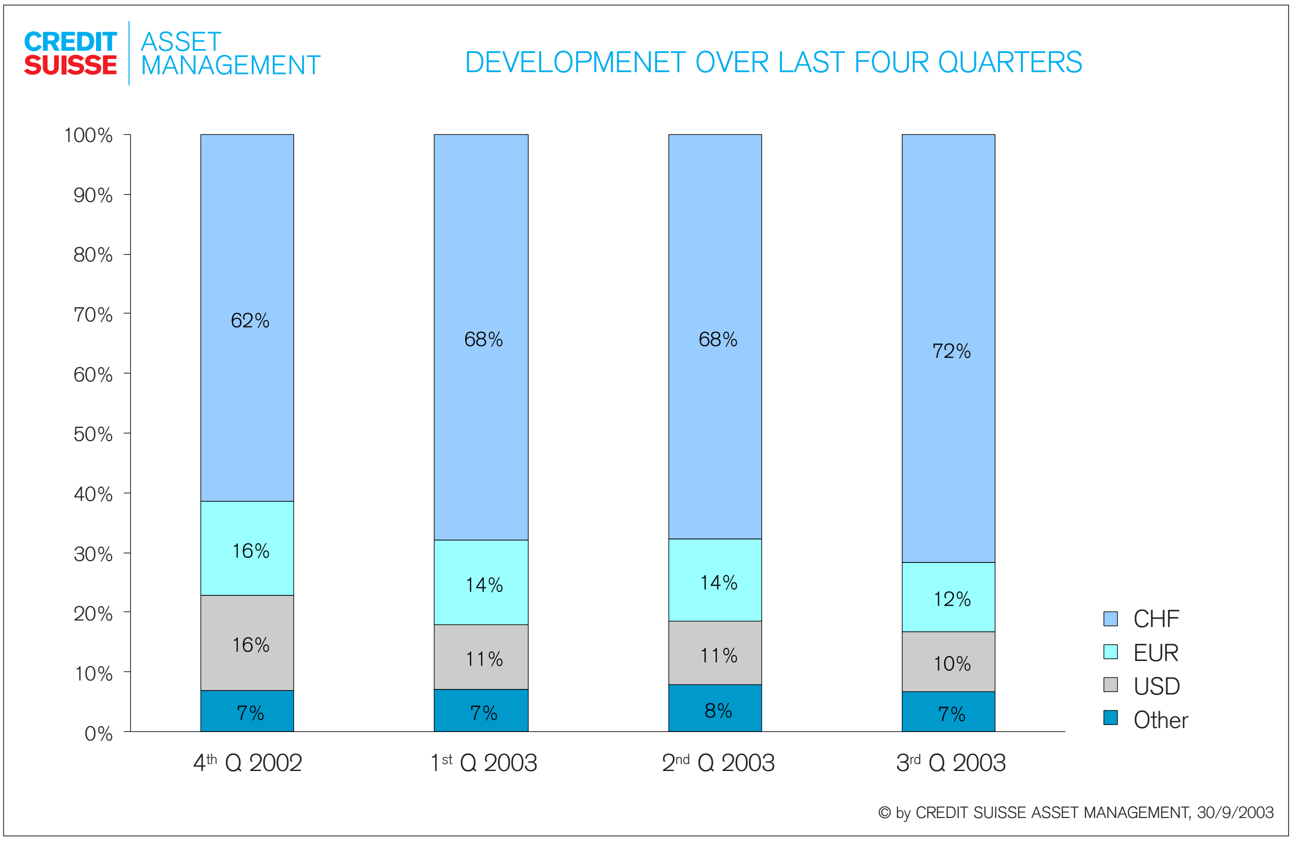
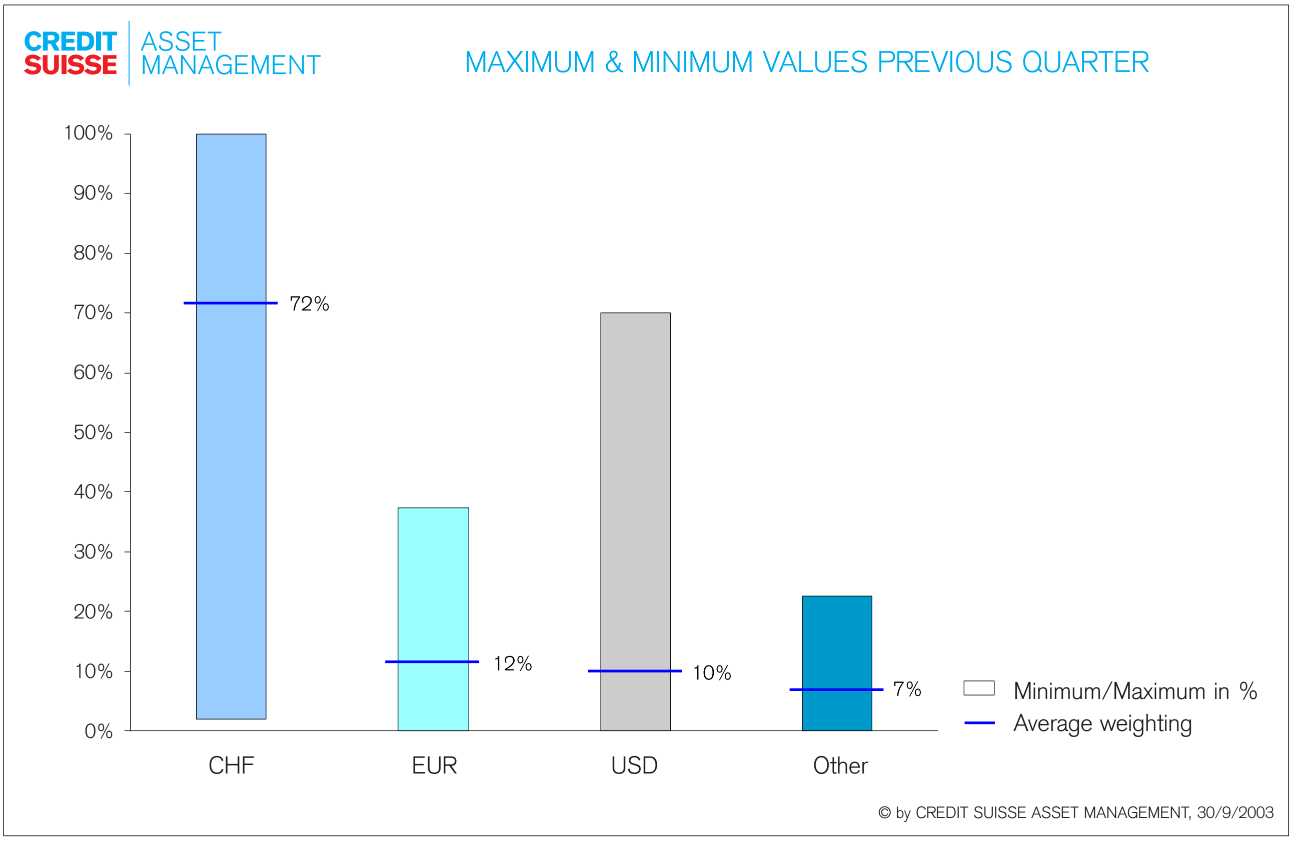


Chart 6



Important note

When interpreting these figures, it must be kept in mind that the CSAM Swiss Pension Fund Index is not an artificially constructed performance index, but an index that is based on actual pension fund data. The result is that the index is "alive", which significantly increases its informative value regarding the current investment behavior of Swiss pension funds. On the other hand, the fact that it is constantly revised limits the comparability of data over time. The index is nevertheless an up-to-date indicator, especially as very accurate pension fund data remains unavailable.

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