CREDIT SUISSE | ASSET MANAGEMENT

# CSAM Swiss Pension Fund Index

Global Investment Reporting
4th Quarter 2004

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## Performance of Swiss pension funds based on Credit Suisse Asset Management's global custody data as at December 31, 2004

**Index versus mandatory minimum rate of return since January 2000**

In the fourth quarter of 2004, the "CSAM Swiss Pension Fund Index" (red line in figure 1a) improved sharply, rising 1.94 percentage points from 101.36 to 103.30. If this trend were extrapolated to include all assets managed by independent Swiss pension funds (approximately CHF 500 billion as at September 30, 2004), the resultant increase in asset value would be around CHF 10 billion in absolute terms. The index of the minimum rate of return required under Switzerland's legislation on occupational retirement, survivors' and disability pensions (BVG/LPP) (the blue line in fig. 1a, rebased to 100 as at January 2000) rose 0.66 percentage points from 118.10 to 118.76 during the period under review. As the index rose far more than the BVG/LPP target in Q4, the performance gap narrowed compared with the previous quarter, falling from 16.74 to 15.46. In a full-year comparison, the performance gap, which was still 17.28 percentage points at the end of 2003, declined by a total of 1.82 percentage points, with the lion's share of the improvement (1.28 percentage points) coming in the last quarter.

**Chart 1a: CSAM Swiss Pension Fund Index**

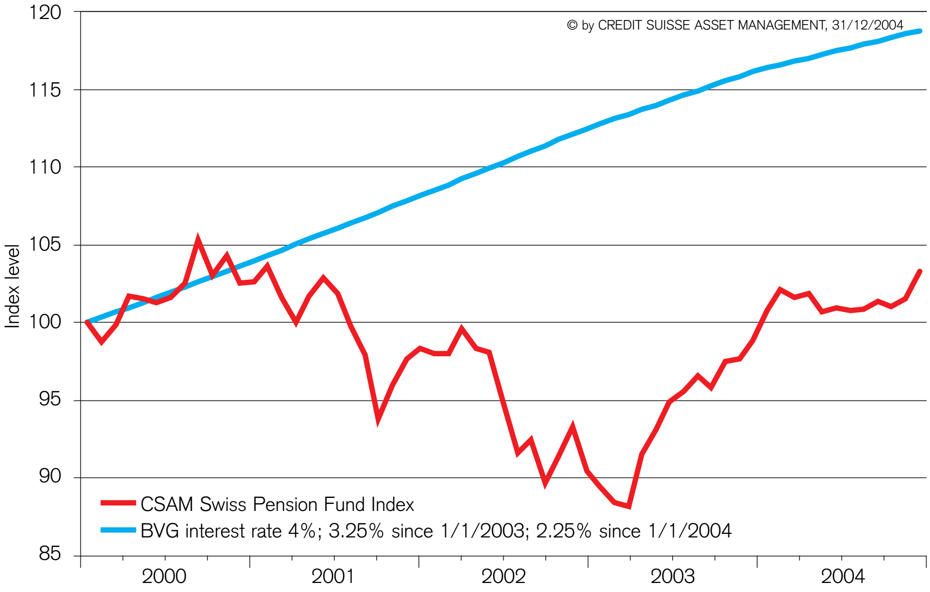



Figure 1b shows a differentiation between the following segments: <CHF 150 m, CHF 150–500 m, CHF 500 m–CHF 1 bn, and >CHF 1 bn. From this, it is clear that pension funds with assets under management of CHF 150 m–500 m continued to outperform the other pension funds.

Although in the fourth quarter the leading segment just succeeded in keeping its lead, with a gain of 2.03 percentage points, all the segments managed to outperform the BVG/LPP minimum requirement. The same is true for all the segments in a full-year comparison – they all managed to reduce

**Table 1**

| | Jan | Feb | March | April | May | June | July | Aug | Sep | 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 | 97.53 | 97.65 | 98.86 | 9.25% | –1.14% |
| **2004** | 100.81 | 102.10 | 101.65 | 101.84 | 100.69 | 100.94 | 100.79 | 100.87 | 101.36 | 101.07 | 101.56 | 103.30 | 4.49% | 3.30% |

the gap vis-à-vis the BVG/LPP minimum requirement in spite of an adverse baseline effect. For the year as a whole, the pension funds in the segment ">CHF 1 bn" made up the most ground, i.e. 2.21 percentage points, followed by the segments "CHF 150–500 m" (1.98 percentage points), "<CHF 150 m" (1.77 percentage points) and "CHF 500 m–CHF 1 bn" (1.34 percentage points).

### Risk/return structure

Compared with Q3, the annualized risk/return ratios of individual pension funds on specific reference dates since January 2000 (see figure 2) once again moved slightly in the opposing direction to that suggested by the current theory, which states that higher risk is rewarded with a higher return. Some cases of higher-valued direct investments in real estate at year-end could also have contributed to this effect; many of these investments generated attractive returns in 2004 for a low level of risk. The regression line has thus steepened slightly, which means that the (retrospective) premium for taking on additional risk continues to be clearly negative for the whole review period.

It is also noticeable that there are no longer any pension funds assuming an annualized risk of under 2%, while, in contrast to the prior quarter, there is also no fund with over 12% risk, and just two have an annualized risk of over 10%. Hence, the bandwidth of annualized risk has narrowed.

**Chart 1b: CSAM Swiss Pension Fund Index on the basis of segment size**

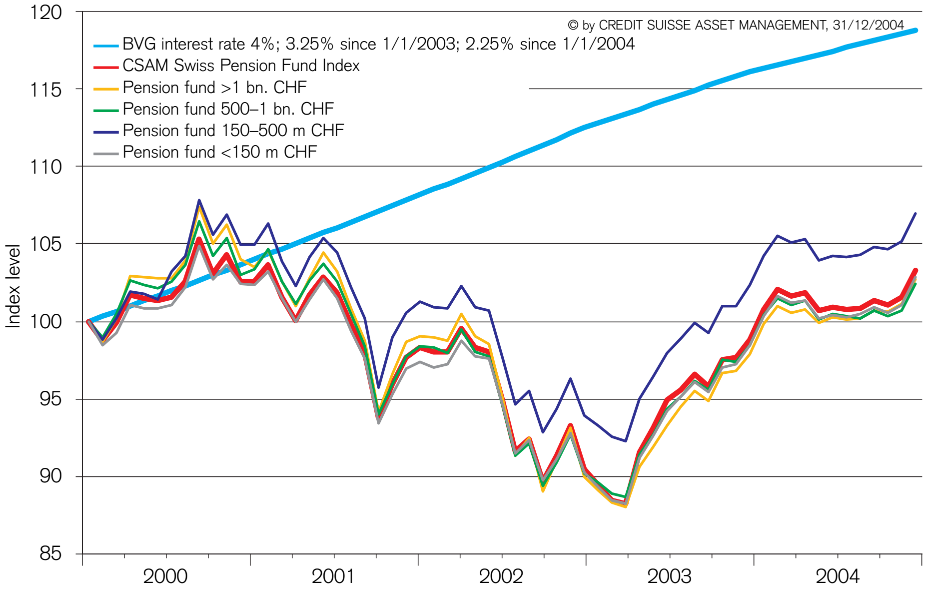
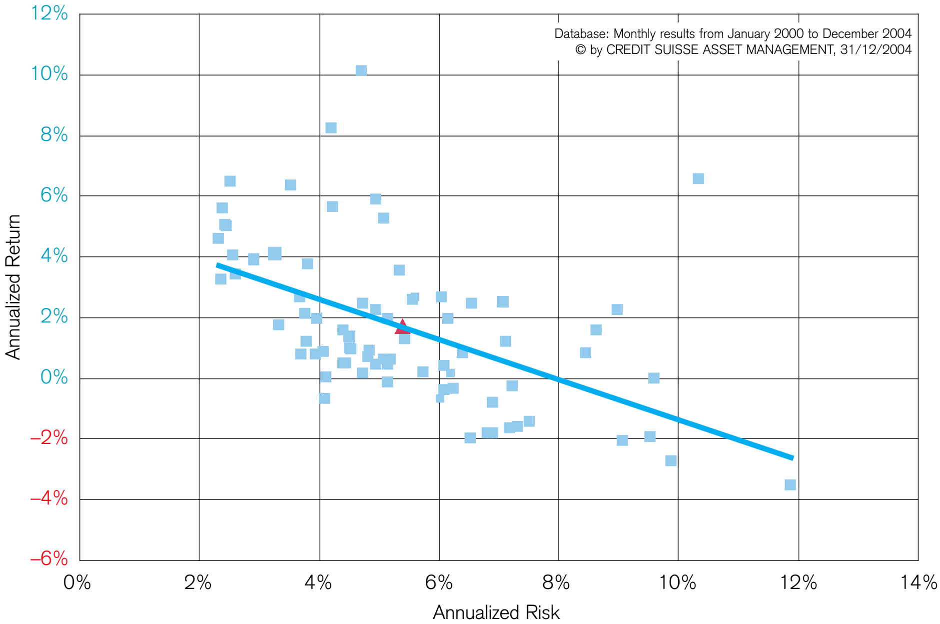



**Chart 2: Annualized risk/return comparison**



## Asset allocation

Compared with the third quarter, there was once again little change in the weighting of most asset classes. The 0.6% rise in liquidity to 7.8% is noticeable. Equity exposure also increased again. Whereas foreign equities rose by 0.7%, the proportion of Swiss equities remained unchanged at 18.4%.
The increased liquidity and equity exposure were at the expense of the bond component, where the weighting of foreign currency bonds was down 0.4%, that of Swiss Franc bonds was down 0.7%. No further increase occurred in the real estate allocation in the fourth quarter, despite some revaluations; mortgages and other investments were also more or less the same as for the prior quarter. Interestingly, exposure to alternative investments declined for the first time since Q4 2002.
If we make an annual comparison, it is noticeable that, relatively speaking, there was a major change only in the case of liquidity (+1%). In contrast, the more heavily weighted asset classes of bonds and equities were very stable (–0.4% and –1.2% respectively); movements in the remaining assets classes were also far from extraordinary.
Dispersion within the individual asset classes (see fig. 4) changed little compared with the third quarter of 2004. On closer examination, however, it becomes apparent that the maximum for liquidity and the minimum for bonds were slightly higher. On the other hand, the maximum for real estate fell by some 5% to 45%. In the middle ranges, there continued to be greater dispersion in bonds and real estate than in equities and liquidity.

**Chart 3: Asset allocation last four quarters**

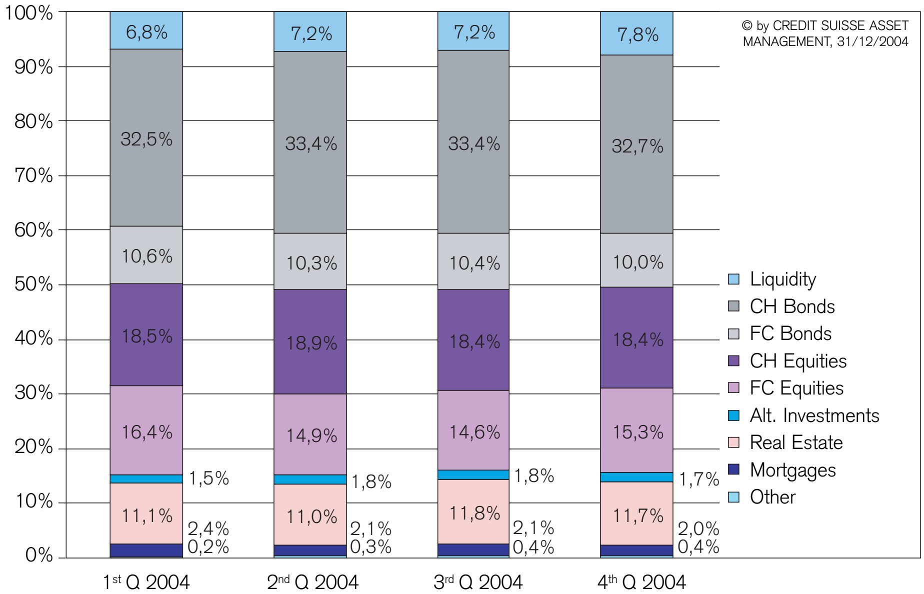
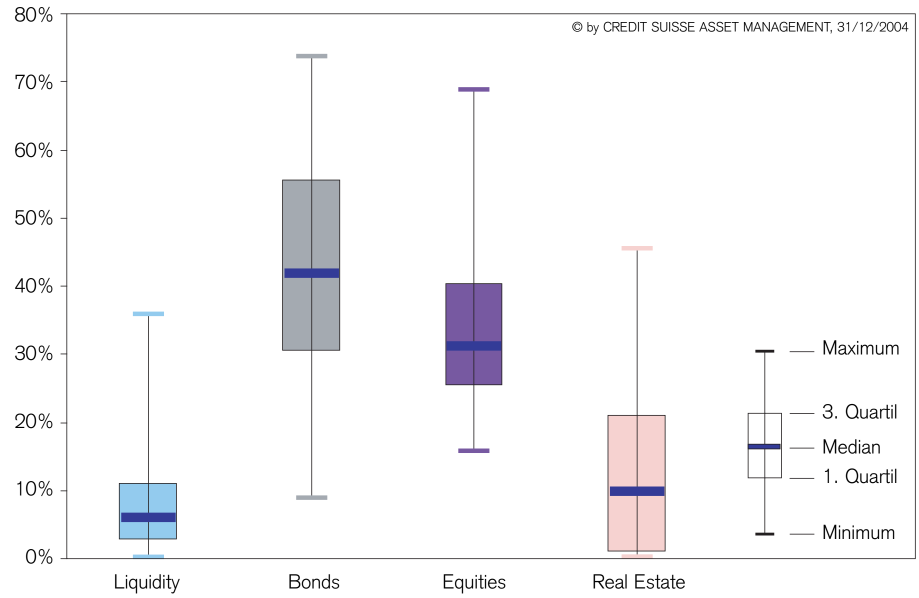



**Chart 4: Minimum and maximum values 4th Quarter 2004**



### Currency allocation

For the currency allocation (see figure 5), it is apparent that, in the quarter under review, the foreign currency component increased by one percentage point vis-à-vis the Swiss Franc quota due to the slight appreciation of the Euro. The proportion of US Dollar was not further reduced on this occasion. However, looking at 2004 as a whole, there was a drop of 2% in the foreign currency component.
The dispersion (see figure 6) barely changed. Only on closer examination does it become apparent that the Swiss Franc minimum edged down from around 45% to 40%. Here too, however, there were no major changes evident in the middle quartiles.

### Important information

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.

**Chart 5: Development over last four quarters**

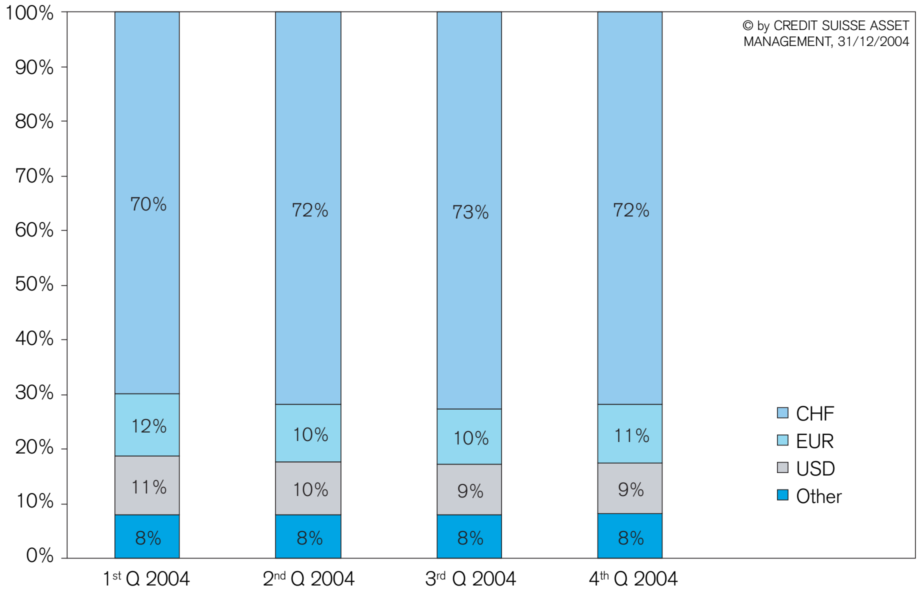
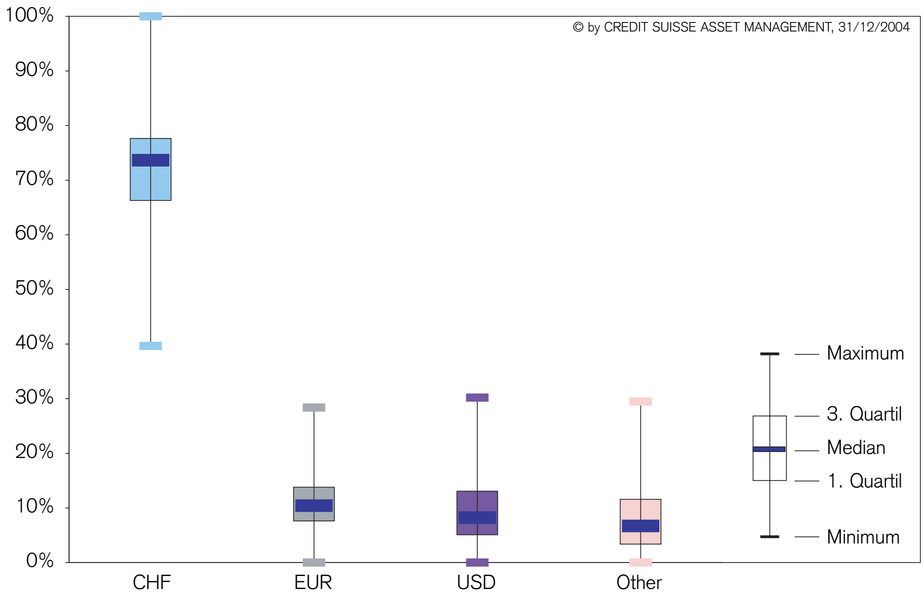



**Chart 6: Maximum and minimum values previous quarter**



Credit Suisse First Boston
division Credit Suisse Asset Management
Global Investment Reporting
Giesshübelstrasse 30
CH-8070 Zurich

Telephone: + 41 1 335 75 47
E-mail: global.custody@csam.com



**www.csam.com/ch**