Credit Suisse Swiss Pension Fund Index

4th Quarter 2005

Performance of Swiss Pension Funds as at December 31, 2005

- New Look
- Annual Performance of 12.62%
- Performance Gaps Between 1.24 and 7.08 Index Points

Index

The Credit Suisse Swiss Pension Fund Index acquires a new look

Six years ago, we began to compile and evaluate the data required to produce the "Credit Suisse Swiss Pension Fund Index" (CS PKI). The first issue of the CS PKI did not appear until some 2½ years later at the beginning of August 2002, dated as at June 30 that year. At this point, for the first time in Switzerland, a BVG/LPP index included the holdings of pension funds broken down by actual weightings per investment class. We can therefore justly refer to the CS PKI as a "live" index, one that reflects not static or theoretical but real development and comparisons.

A lot has happened since then. For one thing – and in our view, most importantly – stock markets recovered significantly from their lows of early 2003, enabling many pension funds to make good the shortfalls in cover that had opened up in previous years. In addition, we have continually refined and expanded the CS PKI in recent years in order to increase its representational value. As a further development, the new Credit Suisse image has also entailed a new look for the Credit Suisse Swiss Pension Fund Index. As you will see, we have also made a number of adjustments to the content. Should you as a reader have any further suggestions for improvements or any observations, you will find us grateful recipients. Our contact address can be found at the end of the CS PKI.

Performance of Swiss Pension Funds based on the Global Custody data of Credit Suisse as at December 31, 2005

Index versus minimum interest rate since January 2000

The "Credit Suisse Swiss Pension Fund Index" (the blue line in chart 1a) again performed most satisfactorily in the last quarter of 2005, increasing by 2.73 points (or 2.4%) from 113.60 to 116.33, a new index high. This was the sixth consecutive quarter in which the index performed positively. Thanks to an extremely bullish year for equities, annual performance came in at an impressive 12.62% (or 13.03 points). Pillar 2 assets of Swiss pension funds thus enjoyed extrapolated growth of around CHF 15 billion in Q4 2005, rising to a total of CHF 575 billion. This represents year-on-year growth for Pillar 2 assets of a good CHF 65 billion.

Annual performance of 12.62%

The BVG/LPP minimum rate of return (the red line in chart 1a, rebased to 100 as at January 2000) rose a further 0.74 points (or 0.62%) during the period under review, from 120.98 to 121.72. Although the index again performed significantly better in Q4 2005 than the mandatory rate of 2.5% (the applicable rate since January 1, 2005), thereby reducing the performance gap a further 1.98 points from the previous quarter, there is still a gap of 5.40 points to the

Chart 1a: Credit Suisse Swiss Pension Fund Index

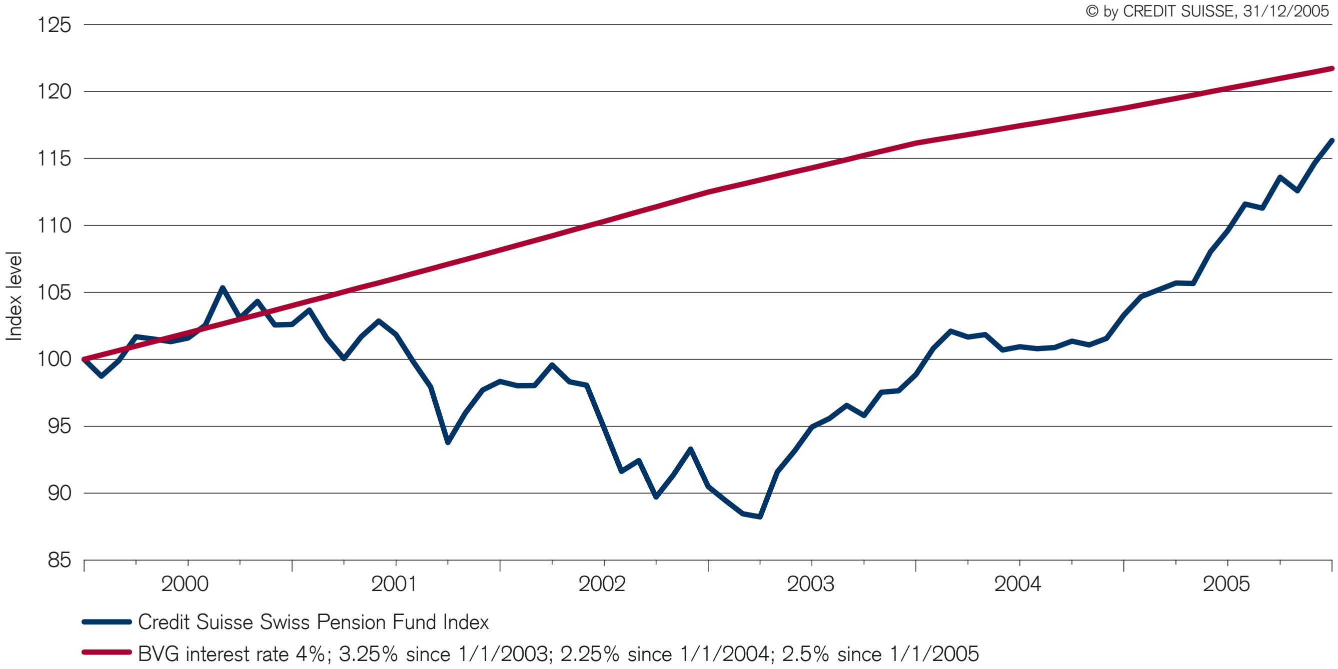
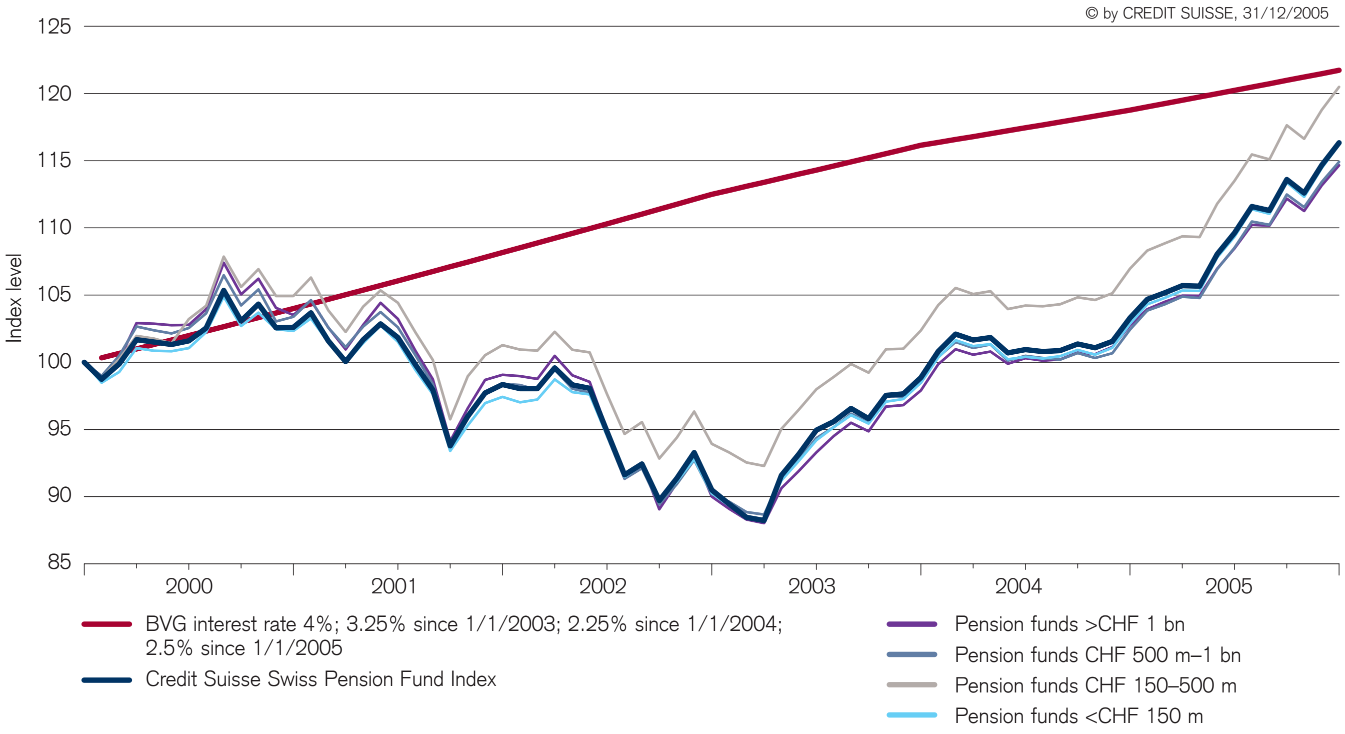


Table 1

	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%
2005	104.68	105.18	105.70	105.67	108.04	109.62	111.59	111.29	113.60	112.59	114.66	116.33	12.62%	16.33%

Chart 1b: Credit Suisse Swiss Pension Fund Index on the basis of segment size



mandatory requirement. The excellent performance of the last year, however, means that this gap narrowed by an impressive 10.06 percentage points in the course of 2005.

Chart 1b illustrates the differentiation between the following segments:
<CHF 150 m, CHF 150–500 m, CHF 500–1 bn and >CHF 1 bn. In a quarterly comparison, the category of pension funds with assets of CHF 150 to 500 m once again posted the best absolute quarterly performance, rising 2.86 points (+2.43%) to 120.49 points, thereby slightly extending its overall lead ahead of the <150 m category to 4.29 points. In terms of relative performance, however, the category "<150 m" once again achieved the best result in the quarter under review due to the baseline effect,

Performance gaps between 1.24 and 7.08 points

rising 2.49% (or +2.82 points, to an index level of 116.20). Following this, were the categories ">1 bn" (+2.47 points to 114.65) and "500 m–1 bn" (+2.42 points to 114.91). The overall annual comparison as of December 31, 2005 can be seen in the chart below. The pleasing performance over the last year means that the gap to the BVG/LPP target narrowed by between 8.94 and 10.56 points in all categories compared to the starting date in 2000.

Category	Change in points	Change in percentage	Gap to the BVG/LPP target as at December 31, 2005
>CHF 1 bn	+11.91 points	+11.59%	7.08 points
CHF 500 m–1 bn	+12.48 points	+12.18%	6.82 points
CHF 150 m–500 m	+13.53 points	+12.65%	1.24 points
<CHF 150 m	+13.33 points	+12.96%	5.53 points

Risk/Return Positions

In the risk/return overview we show the rolling five-year and two-year overview. It should be noted that only portfolios that were in the index for the entire observation period are taken into account. For example, portfolios formed on June 1, 2002 are not taken into account in the five-year rolling observation period (31.12.2000–31.12.2005), though they do form part of the rolling two-year observation period.
The representation of the five-year observation period as per reference date, which illustrates the annualized risk/return positions of individual pension funds (see chart 2a), continues to show a curve whose inclination contradicts the conventional theory that higher risk is compensated for by a higher return. As a result of positive performance over the last six quarters, however, it has become flatter. Given that the accumulated data stretches back five years, it is safe to assume that the inclination of the line will not conform to "theory" for quite a while, even against a backdrop of rising markets. The weak financial markets in the years 2001 and 2002 will leave their mark on this graph for a number of quarters to come.
Displayed here for the third time, the rolling two-year overview (chart 2b, 30.12.2003–31.12.2005) shows a very different picture. Given the short nature of the observation period, the data registered by us here shows a dramatic period of recovery. The straight line confirms the theory that higher risk is rewarded by higher returns. As a result of the shorter observation period – and one moreover that corresponds to a period of strong recovery – it is possible that the inclination of the line thus reflects this theory all too clearly. Following yet another positive reporting quarter, the line has even become slightly steeper vis-à-vis the preceding quarter. Furthermore, it has shifted upward as well as to the right overall. No portfolio now reveals an annualized risk of less than 2%, whereas three did so in the previous quarter. At the other end of the scale, one now has a risk of around 6.3% (up from 5.8% last quarter).

Further flattening of the five-year Line

Chart 2a: Annualized risk/return comparison; Monthly results from January 2001 to December 2005

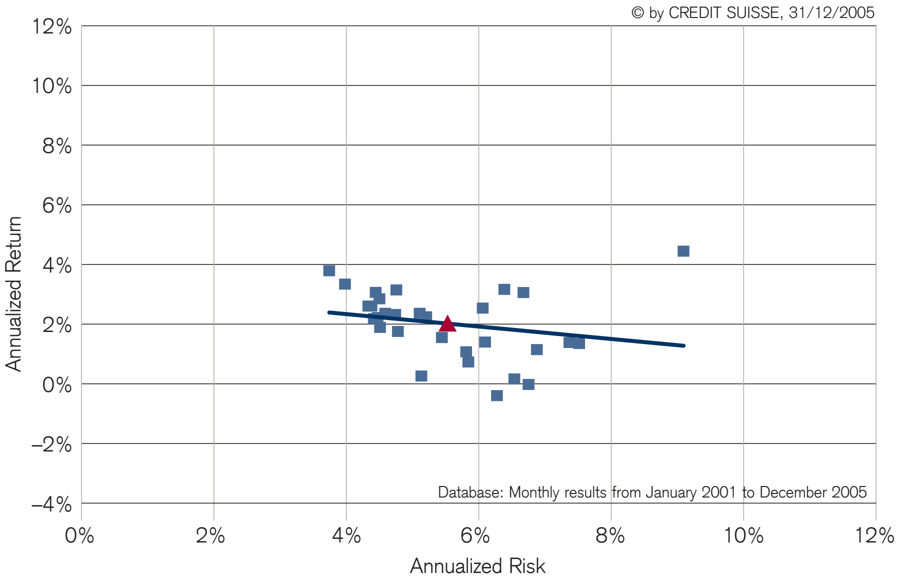
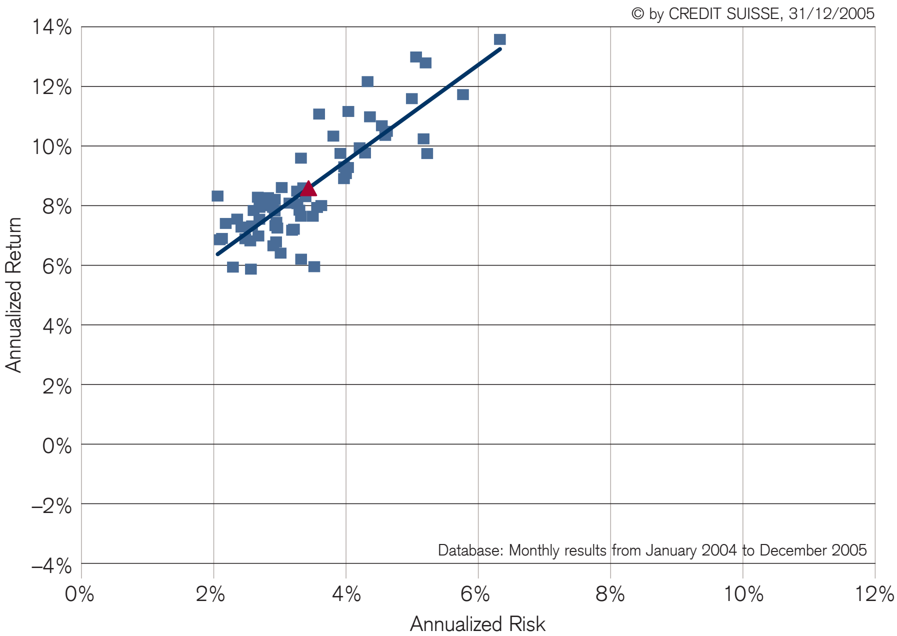


Chart 2b: Annualized risk/return comparison; rolling two-year review monthly results from January 2004 to December 2005



Asset Allocation

It would appear that certain pension funds have piled up cash. As was also seen in the previous year, a higher proportion of liquidity was observed on the reference date 31.12.2005. This may not quite have reached the level achieved at the end of 2004 (7.8%), but at 7.4% it is still 0.7% up on the previous quarter. We note with interest that the four most important investment categories have all experienced reductions in the quarter under review. Both the proportion of foreign equities and CHF bonds have decreased by 0.69%, while foreign currency bonds and Swiss equities were down by a smaller 0.39% and 0.23% respectively. In addition to the increased liquidity holdings, the lower weighting of these investment categories is also explained in particular by higher real estate (12.11%) and mortgages (3.04%) quotas. In proportional terms the latter made a great leap forward, reaching over 3% in the data period analyzed by us for the first time. Taken together, the mortgages and real estate investment classes increased by 1.20% in the quarter under review, taking them to a new combined high of 15.15%, or 1.45% up on the previous year.

In a year-on-year comparison of the four main investment categories, a significant reduction of Swiss equities and CHF bonds (together –4.86%) contrasted with a strong increase in foreign equities and foreign currency bonds (together +3.04%).

Swiss Equities and CHF Bonds minus 4.86% year-on-year

The proportion of alternative investments is unchanged from the previous quarter and only slightly more strongly weighted year-on-year.

In the overview of asset allocation spread in the quarter under review, it is notable that the minimum bond quota has risen from 2.58% to 5.10%. As far as the median is concerned, these are slightly down for all categories except foreign equities and real estate. As for maximum values, it is striking that these are actually strongly decreasing in the liquidity category, from 39.76% to 27.76%, while foreign equities are down more than 7% at 44.41%. The maximum level for CHF bonds by contrast has now risen to 44.41% (+4.30%).

Chart 3: Asset allocation last eight quarters

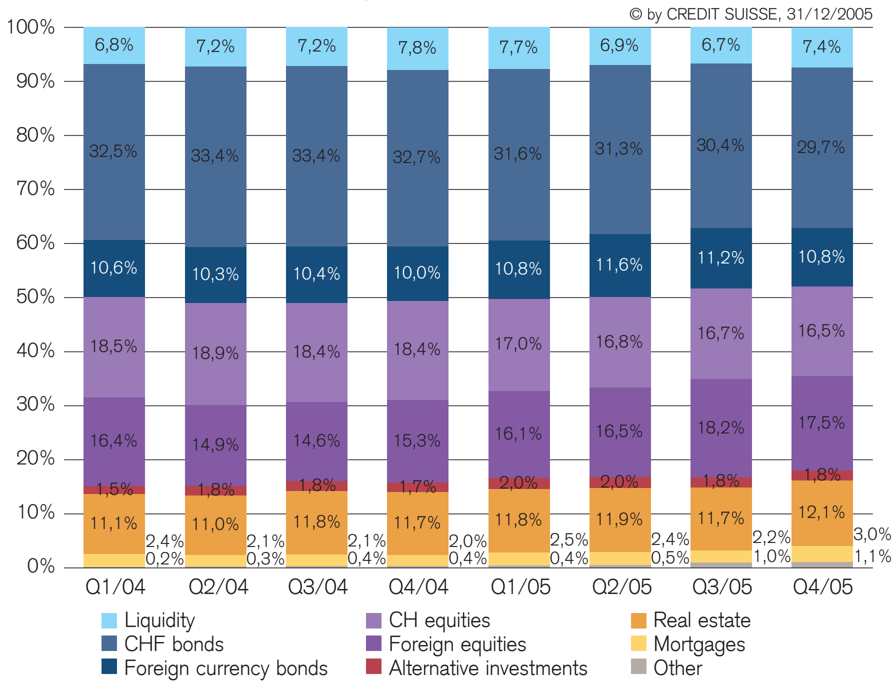
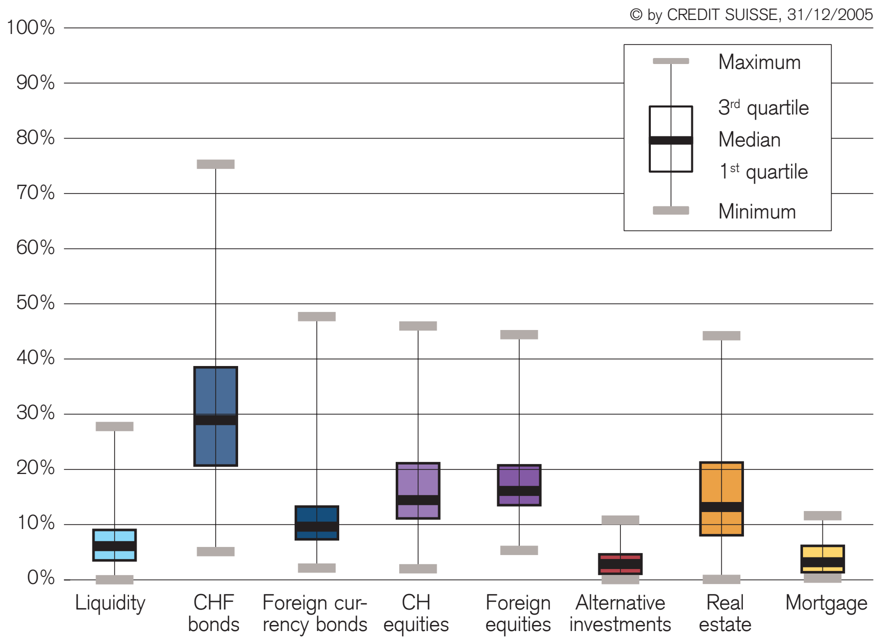


Chart 4: Minimum and maximum values 4th Quarter 2005



Currency Allocation

As can be seen from the changes in the asset allocation overview (chart 5), the proportion of Swiss francs has now finally risen in the quarter under review – by 0.86% to 69.44% – after four successive falls. By contrast, EUR fell by 0.68% during the quarter to 10.47%, its lowest value of last year. We observe little movement in the other currencies displayed, with the sole exception of YEN, which increased once again and has now broken through the 2% barrier (2.17%).

Chart 6 shows three notable changes from the previous quarter. The minimum level of Swiss francs has risen by 9.3%, from 27.4% to 36.7%. At the other end of the scale, the maximum level of JPY has risen from 8.4% to 12.5% (+4.1%) while the equivalent level of USD has fallen from 35.5% to 29.1% (–6.4%). No significant changes were observed for the other currencies.

Chart 5: Development over the last eight quarters

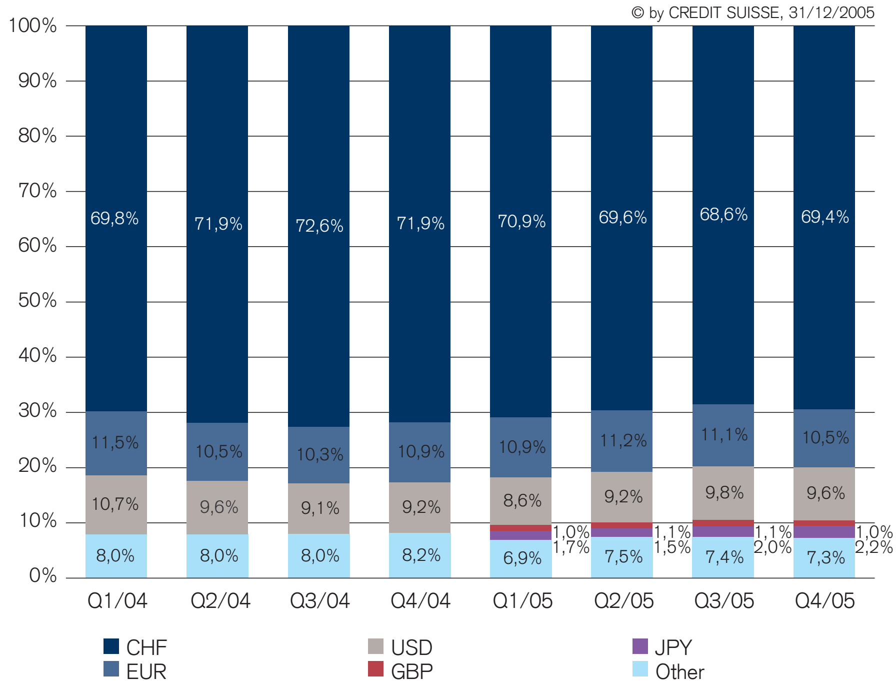
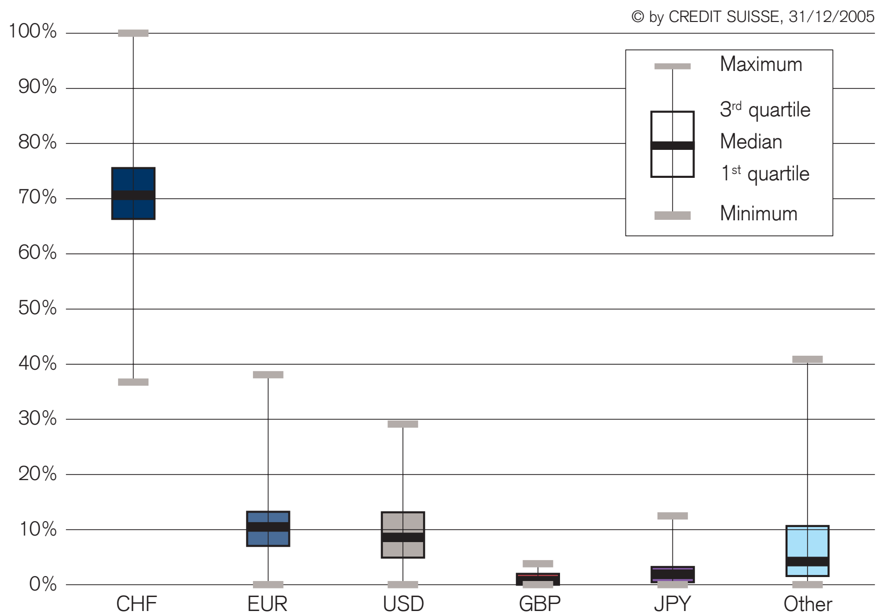


Chart 6: Maximum and minimum values previous quarter

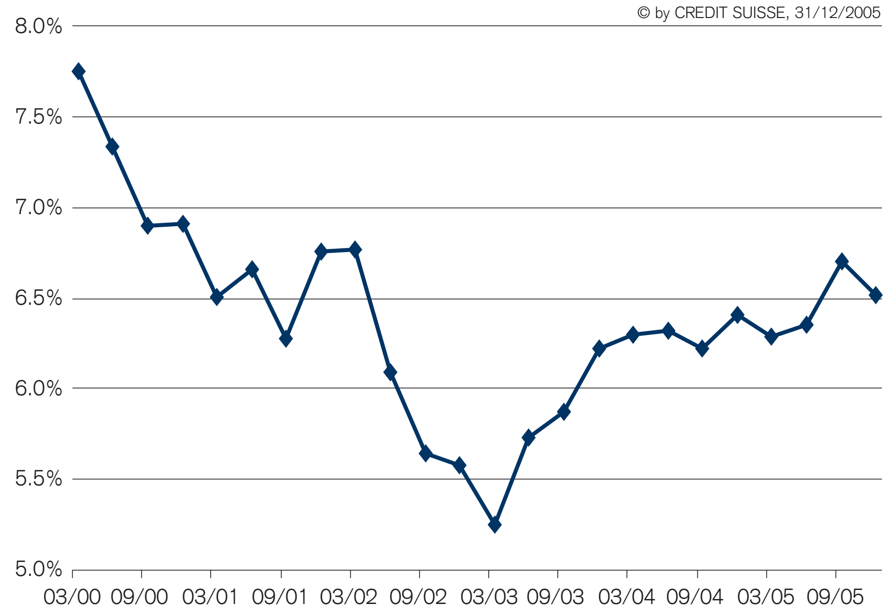


Expected Absolute Risk

From chart 7 it is clear that the expected absolute volatility (i.e. risk) was almost 8% at the beginning of 2000. This risk was then successively reduced to around 5.25% within a period of three years (March 2003). This was the lowest value during the period under observation, and the expected absolute risk for the funds included in the Credit Suisse Swiss Pension Funds Index subsequently rose continuously to around 6.70% by September 2005. Risk, i.e. volatility, then decreased in the quarter under review. The pension funds included in the Index show an expected absolute risk of around 6.50% for their portfolios at the end of 2005, or 0.20% less than three months before.

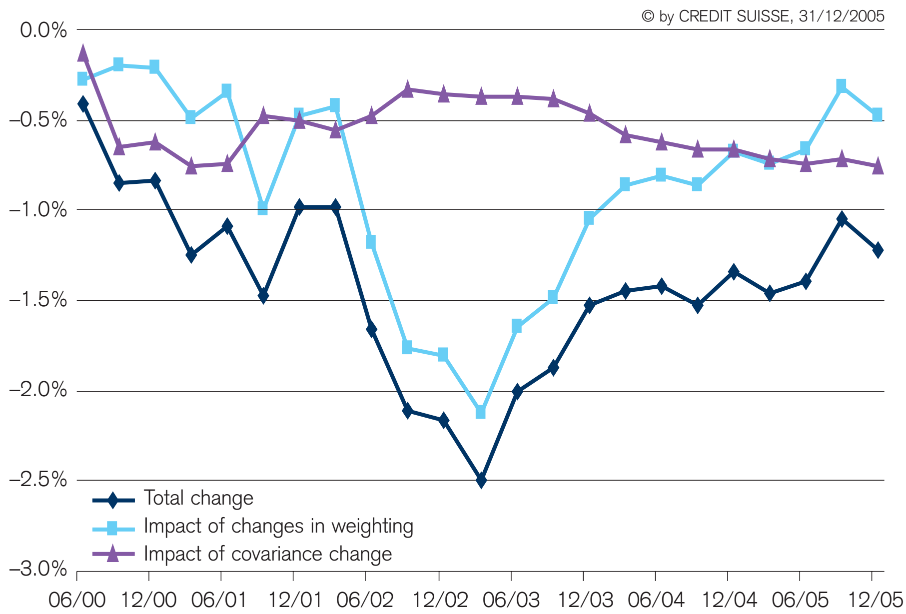
Chart 8 demonstrates that the reduction in risk (March 2000 to March 2003) and increase in risk (March 2003 to December 2005) cannot be explained merely by the calming of the markets and their dependencies, i.e. a lower level of volatility (and vice versa). Rather, the changes in risk, particularly in the years 2002 and 2003, were mainly caused by adjustments in the pension funds' asset allocation. The increase in risk witnessed from the middle of 2003 to September 2005 – dampened slightly as a result of falling covariances – was likewise caused by changes in the weightings of investment categories. The last quarter of 2005 has now demonstrably witnessed an active reduction of risk on the part of pension funds, a reduction further supported through the slight influence of falling covariances.

Chart 7: Expected volatility per reference day (annualized)



The expected absolute risk for each reference date corresponds to the anticipated volatility of the index. This was calculated on the basis of the spread of returns of selected indices as well their dependencies over the last 10 years, and on the index's corresponding asset allocation.

Chart 8: Explanation of cumulated change in expected volatility overall Index (annualized)



Important Information

When interpreting these figures, it must be kept in mind that the Credit Suisse 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 difficult to obtain.

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