

**Special Edition**

## **Special Edition of the Credit Suisse Swiss Pension Fund Index**

- Pension Fund Index loses 1.83 percent in January 2015
- January's negative performance is also reflected in the asset allocation
- Prospect of low or negative yields is preoccupying the pension funds



Owing to widespread interest, the January figures are being published now, for the first time since the Credit Suisse Swiss Pension Fund Index was launched 15 years ago. In doing so, our wish is to contribute to the topicality of events in the new year.

**The Swiss National Bank’s Decision Has Left Its Mark on Pension Funds**

January 2015 was marked by the abandonment of the EUR/CHF exchange rate by the Swiss National Bank and the introduction of negative interest rates (Libor range -1.25 percent to -0.25 percent). Subsequently, money market rates slid into negative territory and have remained there ever since. Yields on Swiss government bonds with terms of up to 12 years also fell into negative territory, which was highly positive for CHF bond prices, but will limit the future attractiveness of this asset class. Credit spreads for investment grade debtors also narrowed slightly in January. Directly after the Swiss National Bank’s announcement, Swiss equities fell by almost 15 percent within two days owing to the negative exchange rate effects on the profits of Swiss companies, but then recovered strongly by the end of the month and made up almost a third of the loss. The CHF appreciated against the USD and especially against the EUR, which, from the point of view of CHF investors, led to losses on foreign equity investments, but these were partly offset by a strong price performance, especially in Europe.

We expect equity markets to be up this year and the SMI to still show further catch-up potential. We expect the SMI to be at around 8,700 index points in 12 months’ time, plus a dividend. We continue to rate bonds as not very attractive, and, if anything, they should be emerging market bonds in local currency and selectively in the high-yield segment. We expect the yield on Swiss government bonds to be at most 0.3 percent in 12 months. Among currencies, we expect EUR/CHF to trade below the fair value of 1.22, while USD/CHF will continue to move towards parity.

**Lack of Returns on More Than a Third of Investments Possible for a Longer Period**

In January 2015, the Credit Suisse Swiss Pension Fund Index (blue line in Chart 1a), which was launched with a baseline of 100 at the beginning of 2000, fell by 1.83 percent to 149.45 points, thereby practically canceling out the 1.94 percent yield during the last three months of 2014. Pension funds are concerned not only because of the fall in value, despite this being among the ten percent of worst monthly yields since the index was launched. Rather, what is giving them a headache is the prospect of continuing low or even negative returns on money market investments and bonds, as these account for a good 40 percent of the investments. This lack of return can only be made up by the remaining asset categories. Each pension fund has to decide, on the basis of its own risk ability, to what extent the higher risk that accompanies this can be borne.

**Chart 1a: Credit Suisse Swiss Pension Fund Index**



## Pension Funds React to Movements in Equity Prices and Exchange Rates

The negative performance of equities can also be seen in the performance contribution as at January 31, 2015 (Table 1b). The asset classes foreign equities and Swiss equities demonstrated the biggest negative performance contribution with -1.41 percent and -0.83 percent respectively. But foreign currency bonds (-0.63 percent) and alternative investments (-0.21 percent) also contributed to the negative performance. In contrast, Swiss franc bonds (0.39 percent), and real estate (0.29 percent) made a positive performance contribution in January 2015. Liquidity made a positive contribution of 0.57 percent, which included in particular the profits from the ongoing hedging programs.

Not unexpectedly, the equity component in the asset allocation fell (Chart 1b). The weighting of foreign equities decreased by 7.2 percent to 16.6 percent as at January 31, 2015, and that of Swiss equities by 4.9 percent to 12.7 percent. As the corresponding representative indices in the reporting month fell by far

more, it can be assumed that pension funds on average have topped up their investments in equities. The components of foreign currency bonds (-8.4 percent) and Swiss franc bonds (-1%) also fell. In contrast, the liquidity component grew by 2.2 percentage points to 8.7 percent. In addition, the Swiss real estate component rose to 19.9 percent, representing an increase of 0.8 percentage points.

The Swiss franc component went up again and stood at 78.8 percent (1.1 percentage points) on January 31, 2015, while the EUR and USD components each fell by 0.3 percentage points to 4.2 percent and 7.4 percent respectively compared to the fourth quarter of 2014. This shows that the pension funds did not suffer the full force of the losses on these currencies, as without corresponding counter-measures, the reduction would have been around double. It is possible that foreign investments will be topped up as a result of these falls, or that hedging transactions will be undertaken in order to absorb some of the negative performance.

**Table 1a**

**Credit Suisse Swiss Pension Fund Index 1.1.2000–31.1.2015**

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Annual return
<b>2000</b>	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%
<b>2001</b>	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%
<b>2002</b>	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%
<b>2003</b>	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%
<b>2004</b>	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%
<b>2005</b>	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%
<b>2006</b>	117.42	118.55	119.14	118.75	116.48	116.48	117.75	119.43	121.02	122.17	122.20	123.99	6.58%
<b>2007</b>	125.74	124.83	125.95	127.98	128.79	128.08	127.04	127.22	127.83	129.40	127.28	126.52	2.04%
<b>2008</b>	122.25	121.64	119.45	122.61	123.22	119.65	120.65	121.72	117.76	111.35	111.77	109.76	-13.25%
<b>2009</b>	109.40	106.38	108.02	111.24	112.43	113.27	116.69	118.21	119.61	119.10	119.84	121.68	10.86%
<b>2010</b>	121.42	122.79	124.59	125.15	124.24	121.57	123.23	122.32	124.06	125.64	124.77	125.33	3.01%
<b>2011</b>	126.09	127.10	126.37	126.95	126.32	124.84	122.56	121.22	121.52	123.47	123.19	124.63	-0.56%
<b>2012</b>	126.33	127.90	128.42	128.55	127.69	128.72	131.33	131.44	132.31	132.13	133.04	133.61	7.21%
<b>2013</b>	135.56	136.71	138.31	139.33	139.95	136.91	138.40	137.89	139.14	140.95	141.50	141.30	5.76%
<b>2014</b>	141.53	143.11	143.80	144.68	146.55	146.91	147.27	149.01	149.32	150.06	151.64	152.23	7.73%
<b>2015</b>	149.45												-1.83%

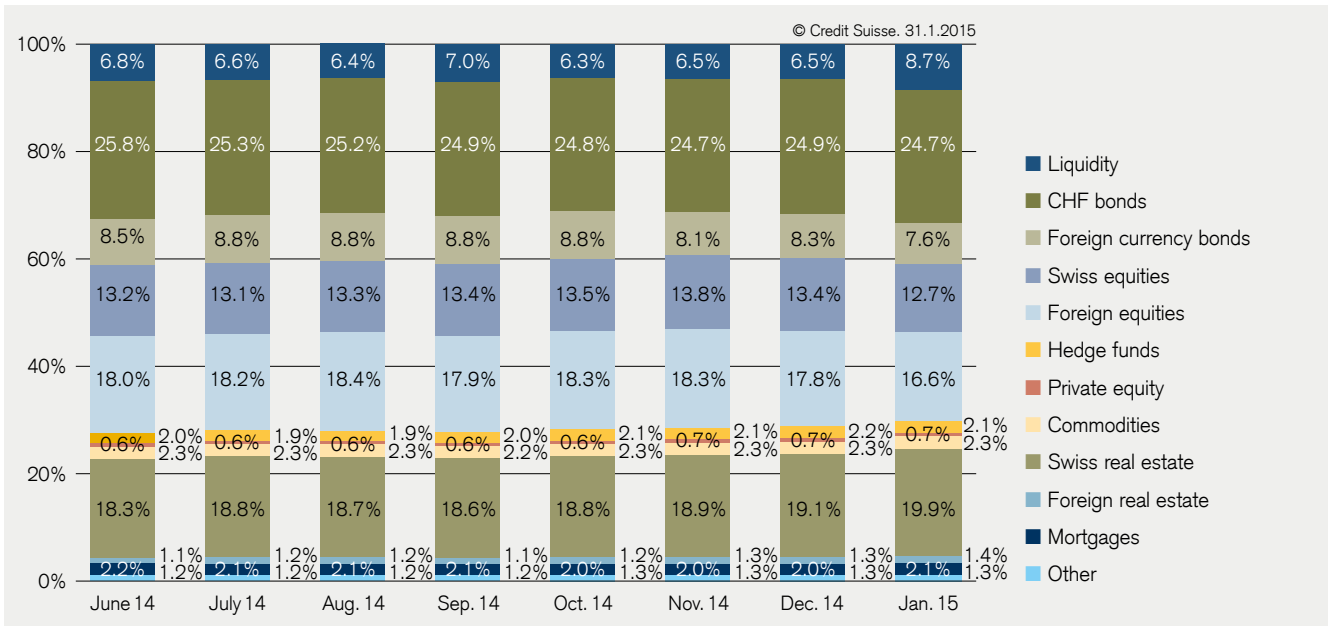
**Table 1b**

### Performance Contribution (Monthly)

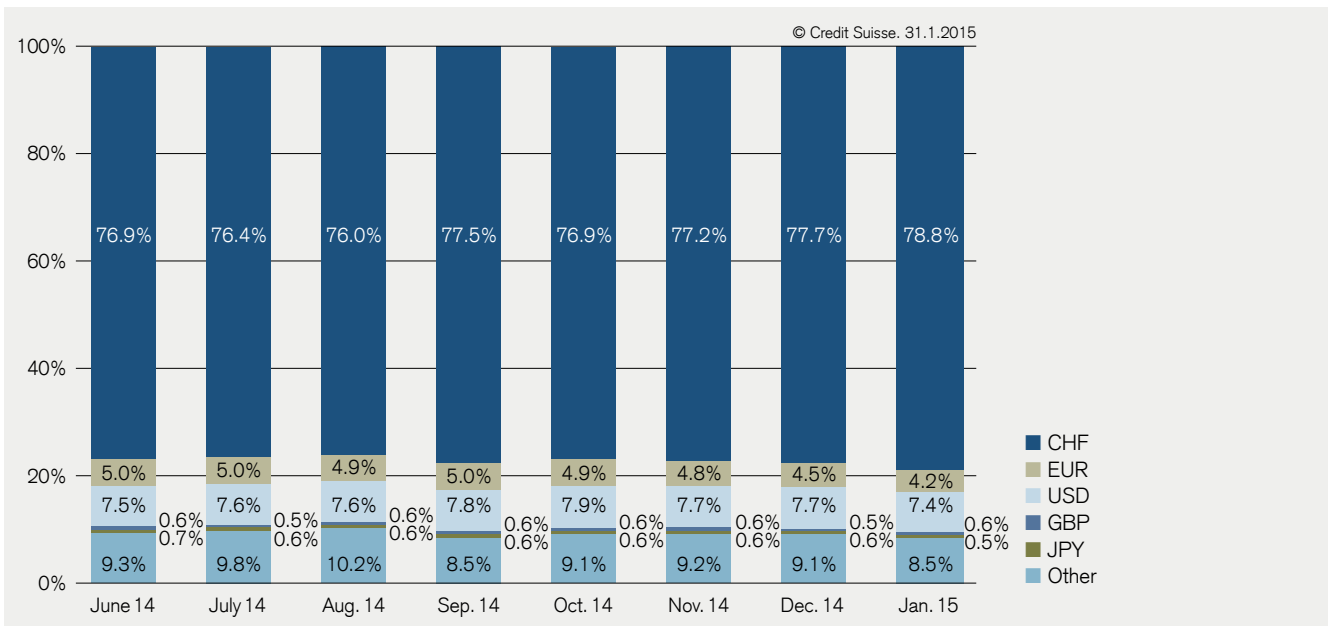
**Credit Suisse Swiss Pension Fund Index 1.1.2014–31.1.2015**

2014 / 15	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
Liquidity	-0.08%	0.12%	-0.02%	0.00%	-0.06%	0.02%	-0.12%	-0.02%	-0.18%	-0.03%	0.03%	-0.19%	0.57%
CHF bonds	0.34%	0.04%	0.07%	0.14%	0.17%	0.07%	0.07%	0.21%	-0.08%	0.08%	0.19%	0.15%	0.39%
Foreign currency bonds	0.12%	-0.05%	0.04%	0.06%	0.17%	0.00%	0.12%	0.10%	0.09%	0.08%	0.01%	0.10%	-0.63%
Swiss equities	0.00%	0.53%	0.08%	0.19%	0.33%	-0.14%	-0.17%	0.35%	0.14%	-0.03%	0.44%	-0.15%	-0.83%
Foreign equities	-0.44%	0.38%	0.14%	0.11%	0.63%	0.19%	0.21%	0.47%	0.10%	0.22%	0.32%	0.15%	-1.41%
Alternative investments	0.05%	0.05%	0.02%	0.02%	0.02%	0.04%	0.01%	0.02%	0.01%	0.00%	-0.01%	0.02%	-0.21%
Real estate	0.15%	0.07%	0.16%	0.10%	0.06%	0.07%	0.12%	0.07%	0.12%	0.17%	0.07%	0.29%	0.29%
Mortgages	0.02%	0.00%	0.00%	0.01%	0.01%	0.00%	0.01%	0.01%	0.00%	0.00%	0.01%	0.01%	0.02%
Other	0.00%	0.01%	0.00%	0.01%	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%	0.01%	0.01%	-0.02%
Total	0.16%	1.12%	0.48%	0.61%	1.29%	0.25%	0.24%	1.18%	0.21%	0.50%	1.05%	0.38%	-1.83%

**Chart 1b: Asset allocation over the past eight months**



**Chart 1c: Currency allocation over the past eight months**



The Credit Suisse Swiss Pension Fund Index is calculated on the basis of the returns realized by Swiss pension funds (prior to deducting management costs) whose assets are held at Credit Suisse under a global custody arrangement. Asset management and advisory tasks, however, are per-

formed by the pension funds themselves or by third parties. In its role as global custodian, Credit Suisse has no influence on the performance of individual pension funds.





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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 based on actual pension fund data. Consequently, 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 highly accurate pension fund data remains difficult to obtain.

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