

Credit Suisse Swiss Pension Fund Index Q1 2019



Credit Suisse Swiss Pension Fund Index

Swiss pension funds by comparison

Q1 2019: +5.49%

- Positive return in Q1 2019
- Strongest first quarter since index launch
- Extremely positive return contribution from equities

Market review

Global economic growth slowed in the first quarter of 2019. However, the global equity markets gained significantly in value with lower volatility compared to the previous quarter. European banks underperformed the market. Major government bond yields remained at a low level and the USD was mixed against major currencies. Commodities made a good start to the new year.

- Global growth slowed in the first quarter of 2019. The manufacturing sector played a major role here as growth in global industrial production stalled. Growth in the US economy continued to slow. In Asia, trade data showed a significant decline in activity with some signs of recovery becoming apparent toward the end of the quarter. Surveys in the European manufacturing sectors also continued to show negative performance. Despite the slump in production, the job market situation in developed countries remained strained. Increasing wage growth put upward pressure on inflation. The US and China continued their trade discussions.
- In March, the US Federal Reserve left its key interest rates unchanged. There were only marginal changes in its economic outlook, but it did announce a plan to end its balance sheet reduction. The European Central Bank (ECB) presented longer-term refinancing operations and indicated that there would be no change in the current interest rate situation until at least the end of 2019. The Swiss National Bank (SNB) and the Bank of England (BoE) also left key interest rates unchanged. The same was also true for most other central banks.
- Global equity prices rose significantly in the first quarter of 2019 and closed 13.3% higher compared to the end of last year. Swiss equities rose by 14.4%. US equities also contributed significantly to the positive trend, followed by European stocks. Developing markets grew by 11.0%, thereby correcting poor fourth quarter performance in 2018. The strongest sectors included IT, industrials and energy companies. In contrast, the healthcare industry, financials and utilities lagged the market. Volatility (VIX) was down on the previous quarter. The Credit Suisse Hedge Fund Index was higher than at year end.
- Fixed income made significant gains, reflecting uncertain growth prospects and the tentative approach of the central banks. Yields on three-month US Treasury bonds were higher than on ten-year bonds for the first time since 2007. Both EUR and CHF yields fell across all maturities. On the corporate bond side, both industrialized and developing countries booked solid quarterly returns thanks to falling credit spreads. The picture was similar for government bonds in developing countries, both in local currency and in USD, despite isolated cases such as Turkey.
- The performance of the US dollar was mixed against the other major currencies in the first quarter. The Swiss franc and the euro weakened slightly against the US dollar. The pound rose against the US dollar despite the uncertainties surrounding Brexit. The currencies of developing countries presented a mixed picture.
- The Credit Suisse Commodities Benchmark posted a gain of 13.8% in the first quarter of 2019. Energy was the strongest sector, driven by oil and its price rise of 32.4%, due in part to OPEC production cuts. Industrial metals showed a return of 10.1% following China's announcements of economic stimulus packages and the country's optimism about the trade discussions with the US. However, precious metal prices rose only slightly, and the agriculture sub-index was the only sector to produce negative performance.

The Credit Suisse Swiss Pension Fund Index is calculated on the basis of the equally weighted gross 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 performed 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.

Historical performance indications and financial market scenarios are not reliable indicators of future performance.

Record advance for Credit Suisse Swiss Pension Fund Index in first quarter of 2019

In the first quarter, the Pension Fund Index advanced 9.17 points, or 5.49%, to record its strongest first quarter ever. The index rose to 176.13 points as of March 31, 2019, from a baseline of 100 at the beginning of 2000. After underwhelming performance in 2018, the pension funds rapidly gained momentum to close at a record high. January (+3.05%) was a particularly positive month, although February (+1.25%) and March (+1.10%) were also encouraging – making a successful quarter perfect.

Equities accounted for the lion's share of the positive performance in the first quarter. Swiss equities achieved a return contribution of +1.73%, while foreign equities contributed +2.20%. Bonds and real estate likewise delivered a positive performance. The contribution from bonds (total: +0.78%) and real estate (+0.72%) added to the positive overall result. Liquidity was the only exception, with a slightly negative contribution of –0.10%. Alternative investments, mortgages, and other investments had a minimal impact on the overall result.

Table 1: Performance contribution (quarterly)
Credit Suisse Swiss Pension Fund Index (1.1.2019–31.3.2019)

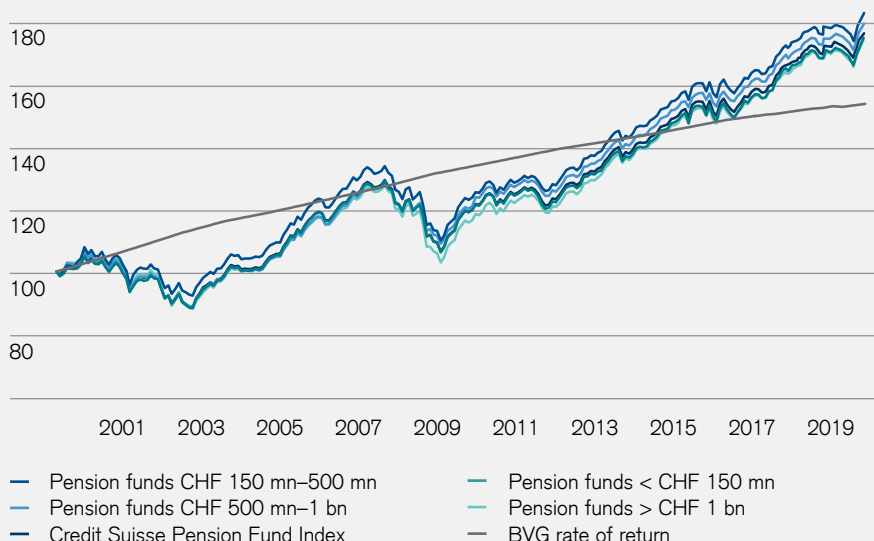
	Q1 19	Q2 19	Q3 19	Q4 19	YTD
Liquidity	–0.10%				–0.10%
CHF bonds	0.52%				0.52%
Foreign currency bonds	0.26%				0.26%
Swiss equities	1.73%				1.73%
Foreign equities	2.20%				2.20%
Alternative investments	0.11%				0.11%
Real estate	0.72%				0.72%
Mortgages	0.03%				0.03%
Other	0.02%				0.02%
Total	5.49%				5.49%

Credit Suisse Swiss Pension Fund Index significantly above BVG mandatory minimum rate of return

The index of the BVG mandatory minimum rate of return (1% p.a. since January 1, 2017) rose by 0.38 points (0.25%) to 154.00 points in the reporting quarter from a baseline of 100 in January 2000. The return of the Credit Suisse Swiss Pension Fund Index was therefore 5.24% above the BVG requirement in the first quarter of 2019.

The annualized return on the Credit Suisse Swiss Pension Fund Index (since January 1, 2000) amounted to 2.98% as of March 31, 2019. This contrasts with an annualized BVG mandatory minimum rate of return of 2.27%.

Chart 1:
Performance by pension fund segment size



Scale: Index level

BVG rate of return

until 31.12.2002	4.00%
from 1.1.2003	3.25%
from 1.1.2004	2.25%
from 1.1.2005	2.50%
from 1.1.2008	2.75%
from 1.1.2009	2.00%
from 1.1.2012	1.50%
from 1.1.2014	1.75%
from 1.1.2016	1.25%
since 1.1.2017	1.00%

Table 2: Index level 2015–2019

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
2015	149.45	153.54	154.53	154.71	154.51	151.98	154.82	151.40	149.99	154.04	155.54	153.67
2016	152.24	151.26	152.92	154.35	156.35	155.97	157.73	158.65	158.62	157.48	157.73	159.63
2017	160.03	162.97	164.03	165.65	166.57	165.92	167.78	167.87	168.95	170.97	171.22	172.48
2018	172.42	170.25	170.20	172.40	171.44	171.65	173.73	172.82	173.03	170.69	170.63	166.96
2019	172.06	174.21	176.13									

Table 3: Monthly returns 2015–2019

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
2015	-1.83%	2.74%	0.64%	0.12%	-0.13%	-1.64%	1.87%	-2.21%	-0.93%	2.70%	0.97%	-1.20%	0.95%
2016	-0.94%	-0.64%	1.10%	0.94%	1.29%	-0.24%	1.13%	0.58%	-0.01%	-0.72%	0.16%	1.20%	3.87%
2017	0.26%	1.83%	0.65%	0.99%	0.55%	-0.39%	1.12%	0.06%	0.64%	1.20%	0.14%	0.74%	8.05%
2018	-0.04%	-1.26%	-0.03%	1.29%	-0.55%	0.12%	1.21%	-0.52%	0.12%	-1.35%	-0.04%	-2.15%	-3.20%
2019	3.05%	1.25%	1.10%										5.49%

Table 4: Performance by pension fund segment size, 2019

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
Credit Suisse Swiss Pension Fund Index	3.05%	1.25%	1.10%										5.49%
Pension funds > CHF 1 bn	2.96%	1.19%	1.05%										5.28%
Pension funds CHF 500 mn–1 bn	2.83%	1.24%	1.15%										5.31%
Pension funds CHF 150–500 mn	2.95%	1.23%	1.09%										5.36%
Pension funds < CHF 150 mn	3.30%	1.29%	1.14%										5.83%

Table 5: Annualized performance

1.1.2000–31.3.2019

Annualized performance since January 1, 2000

Credit Suisse Swiss Pension Fund Index	2.98%
BVG rate of return	2.27%
Pension funds > CHF 1 bn	2.93%
Pension funds CHF 500 mn–1 bn	3.08%
Pension funds CHF 150–500 mn	3.17%
Pension funds < CHF 150 mn	2.94%

Performance by asset class

Monthly returns

Table 6: Credit Suisse Swiss Pension Fund Index 2019

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
Liquidity	-0.84%	-0.66%	-0.02%										-1.51%
CHF bonds	0.73%	0.15%	1.05%										1.95%
Foreign currency bonds	2.28%	0.13%	0.36%										2.79%
Swiss equities	6.89%	3.85%	2.17%										13.41%
Foreign equities	8.11%	2.86%	1.18%										12.51%
Alternative investments	1.23%	0.49%	-0.02%										1.70%
Real estate	1.71%	0.62%	1.02%										3.38%
Mortgages	0.18%	0.05%	0.36%										0.59%
Others	0.35%	0.14%	0.11%										0.60%
Total	3.05%	1.25%	1.10%										5.49%

Table 7: Benchmark indices 2019

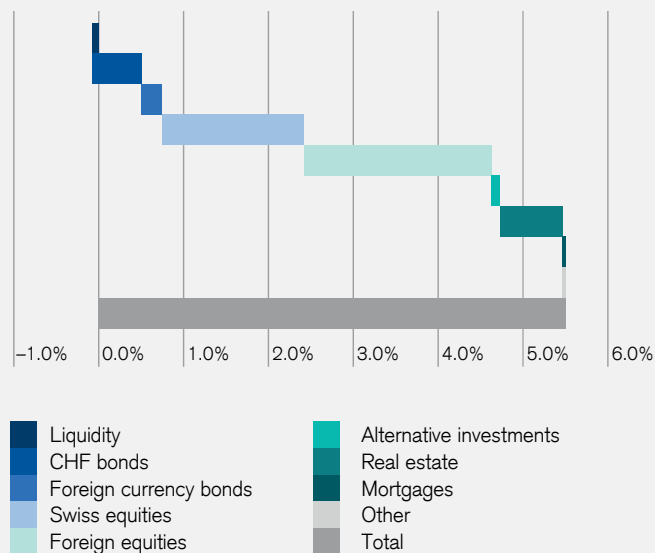
1.1.2019–31.3.2019

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
CHF bonds SBI AAA-BBB 1-15Y (TR)	0.43%	0.08%	0.90%										1.42%
Foreign currency bonds Bloomberg Barclays Global Aggr. (TR)	2.17%	-0.16%	1.22%										3.25%
Swiss equities SPI (TR)	6.96%	4.28%	2.52%										14.36%
Foreign equities MSCI AC World ex Switzerland (NR)	8.63%	3.06%	1.20%										13.30%
Real estate direct/ investment foundations KGAST Immo-Index (Switzerland) (TR)	0.32%	0.29%	0.40%										1.02%
Real estate funds SXI Real Estate Funds (TR)	4.74%	1.13%	2.40%										8.46%

Positive first quarter return heavily driven by equities

- Swiss equities were most positive (13.41%), but lagged the SPI (TR) (14.36%).
- Foreign equities were positive (12.51%) but lagged the benchmark index MSCI AC World ex Switzerland (NR) (13.30%).
- Quarterly return of 2.79% for foreign currency bonds was behind the Bloomberg Barclays Global Aggr. (TR) which stands at 3.25%.
- Swiss bonds posted a quarterly return of 1.95%, ending ahead of the SBI AAA-BBB 1–15Y (TR) (1.42%).
- Real estate posted a positive quarterly return (3.38%), lower than the benchmark index (50% KGAST and 50% SXI Real Estate Funds Broad [TR]).
- Liquidity (cash, FX forwards for currency hedging) posted a negative return (–1.51%).

Chart 2:
Contribution waterfall YTD 2019:



Scale: Return in percent (%)

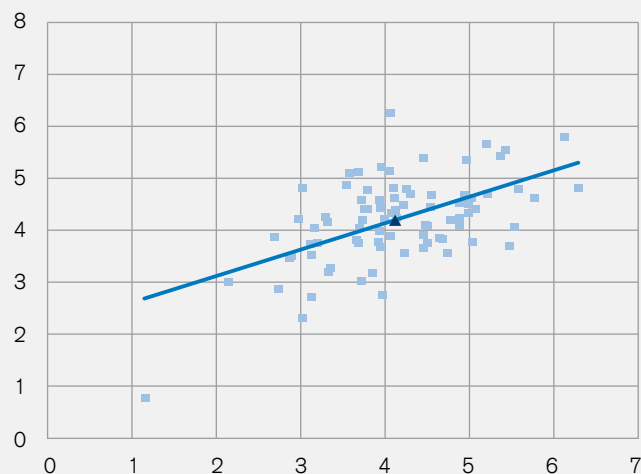
Risk/return positions

Five-year line – rising annualized return in the reporting quarter, as annualized risk also rises

- The unweighted average annualized return in Q1 2019 rose by 0.75 percentage points to 4.14% compared with the fourth quarter of 2018 on the back of rising risk (4.13%).
- As a result, the Sharpe ratio rose from 1.05 in Q4 2018 to 1.18 in Q1 2019.
- Medium-sized pension funds (CHF 500 million to 1 billion) continue to exhibit the best risk/return ratio (Sharpe ratio of 1.38).
- Pension funds with an investment volume of more than CHF 1 billion have the highest median return at 4.38%, although the distribution of returns within this group varies considerably.
- Pension funds with an investment volume of between CHF 500 million and CHF 1 billion exhibit the lowest median (3.76%), while at the same time the distribution of returns within this group is the most homogeneous.

Chart 3:

Annualized risk/return comparison; five-year view, monthly results from April 2014 to March 2019



X-axis: annualized risk in percent (%)
Y-axis: annualized return in percent (%)
▲: Q1 2019

Table 8: Risk/return ratios

1.4.2014–31.3.2019

	Risk	Return	Sharpe ratio
Credit Suisse Swiss Pension Fund Index	4.13%	4.14%	1.18
Pension funds > CHF 1 bn	4.07%	4.22%	1.24
Pension funds CHF 500 mn–1 bn	3.35%	4.14%	1.38
Pension funds CHF 150–500 mn	3.84%	4.10%	1.24
Pension funds < CHF 150 mn	4.52%	4.16%	1.08

Table 9: Return bandwidths

1.4.2014–31.3.2019

	Minimum	1st quartile	Median	3rd quartile	Maximum
Credit Suisse Swiss Pension Fund Index	0.76%	3.75%	4.19%	4.61%	6.23%
Pension funds > CHF 1 bn	2.70%	4.16%	4.38%	4.78%	5.41%
Pension funds CHF 500 mn–1 bn	3.50%	3.75%	3.76%	4.03%	4.83%
Pension funds CHF 150–500 mn	0.76%	3.74%	4.16%	4.64%	6.23%
Pension funds < CHF 150 mn	2.73%	3.75%	4.20%	4.59%	5.77%

Note: The Sharpe ratio shows the return in excess of the risk-free interest rate divided by the volatility of a financial instrument, and is used to measure risk.

Our risk/return overview shows the five-year view. It should be noted that only portfolios that formed part of the index for the entire observation period are included. Portfolios created on January 1, 2015, for example, are not included in the five-year observation period (1.4.2014–31.3.2019).

Historical performance indications and financial market scenarios are not reliable indicators of future performance.

Asset allocation

Increase in equity allocation

■ An increase can be observed for foreign equities (+1.45%) to 18.41% and Swiss equities (+0.86%) to 13.59%. Owing to the massive rise in the equity component there is a corresponding decline in all other asset classes.

- Liquidity -0.14% to 5.25%
- CHF bonds -0.24% to 24.85%
- Foreign currency bonds -0.20% to 6.38%
- Alternative investments -0.53% to 5.52%
- Real estate -0.23% to 23.51%
- Mortgages -0.29% to 1.99%
- Other investments -0.67% to 0.50%

Chart 4:

Asset allocation

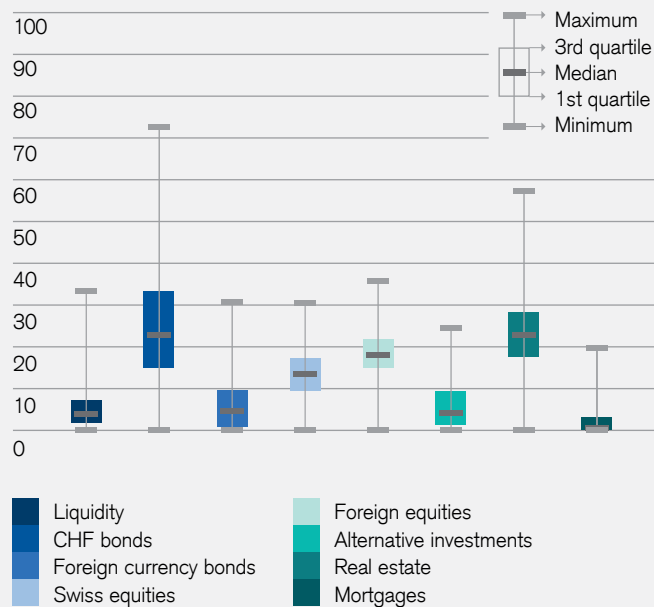
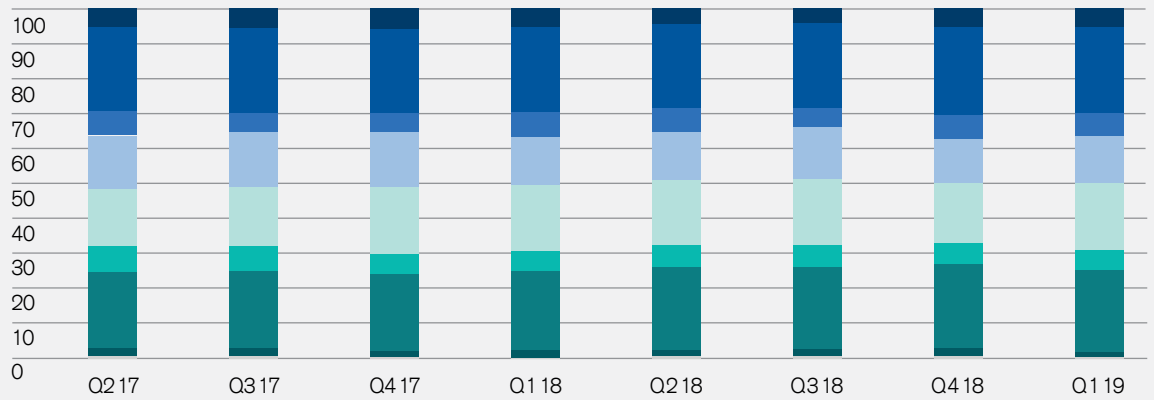


Chart 5:
Asset allocation for the last eight quarters



	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
■ Liquidity	5.05%	4.98%	5.25%	5.22%	4.62%	4.39%	5.39%	5.25%
■ CHF bonds	23.93%	23.76%	23.87%	24.34%	24.15%	24.00%	25.09%	24.85%
■ Foreign currency bonds	7.00%	7.01%	6.82%	6.93%	6.66%	6.55%	6.58%	6.38%
■ Swiss equities	13.69%	13.78%	14.51%	13.88%	13.85%	14.22%	12.73%	13.59%
■ Foreign equities	18.19%	18.46%	19.24%	18.63%	18.58%	18.73%	16.96%	18.41%
■ Alternative investments	6.15%	5.96%	5.71%	5.89%	6.04%	6.01%	6.05%	5.52%
■ Real estate	23.14%	22.82%	22.02%	22.40%	22.84%	22.83%	23.74%	23.51%
■ Mortgages	2.12%	2.10%	2.09%	2.21%	2.11%	2.22%	2.28%	1.99%
■ Other	0.73%	1.15%	0.49%	0.50%	1.14%	1.06%	1.17%	0.50%

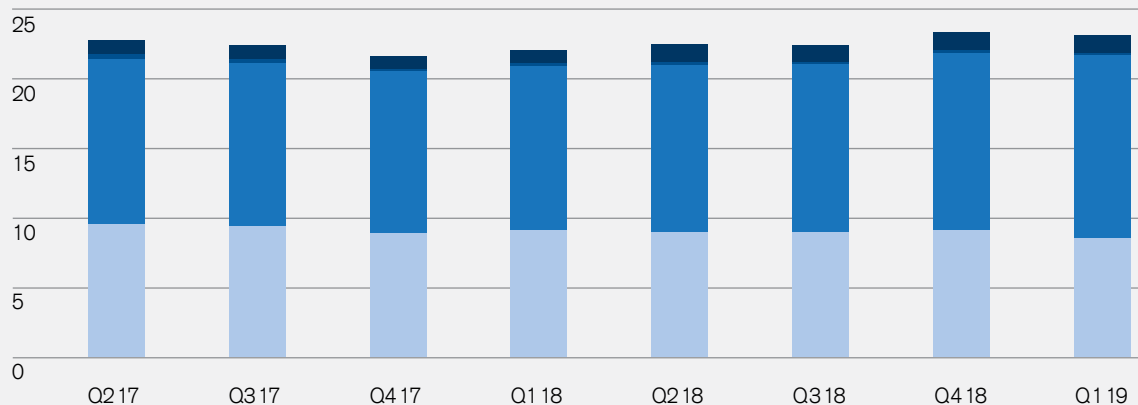
Decline in real estate

■ The total proportion of real estate was down as of the end of Q1 2019 (–0.23% to 23.51%).

■ Direct Swiss real estate in particular has fallen significantly (–0.58% to 8.74%).

■ Indirect foreign real estate has risen by 0.47% to 1.77%.

Chart 6:
Real estate allocation for the last eight quarters



Scale: in percent (%)

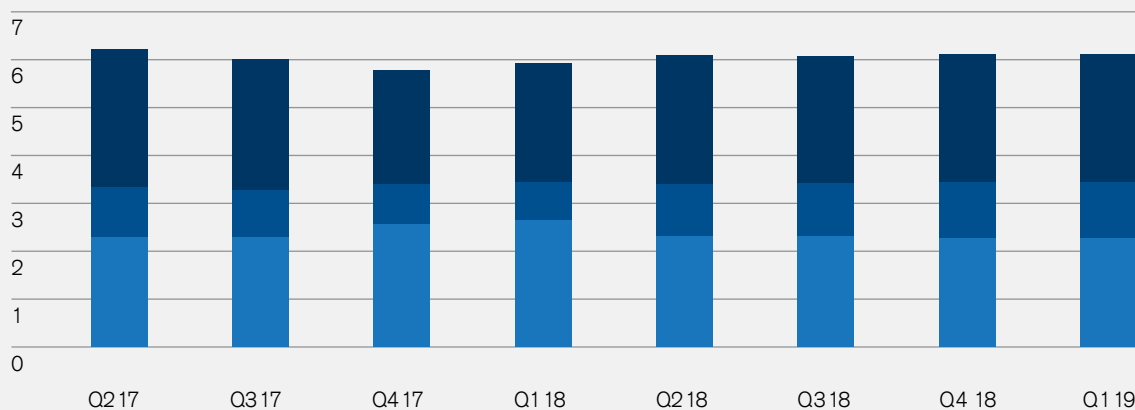
■ Foreign real estate, indirect	0.97%	1.01%	0.92%	0.92%	1.29%	1.22%	1.30%	1.77%
■ Foreign real estate, direct	0.34%	0.33%	0.15%	0.16%	0.17%	0.16%	0.19%	0.11%
■ Swiss real estate, indirect	12.13%	11.85%	11.87%	12.00%	12.19%	12.28%	12.94%	12.89%
■ Swiss real estate, direct	9.70%	9.63%	9.09%	9.33%	9.19%	9.17%	9.31%	8.74%
Total	23.14%	22.82%	22.02%	22.40%	22.84%	22.83%	23.74%	23.51%

Reduction in alternative investments component

- The alternative investments component fell compared with the previous quarter (−0.54 percentage points to 5.52%).
- The commodities component showed the biggest decrease (−0.40 percentage points to 1.86%).

- The hedge fund component fell slightly (−0.13% to 2.50%).
- The private equity component changed marginally, by −0.01%, to 1.16%.

Chart 7:
Allocation of alternative investments for the last eight quarters



Scale: in percent (%)

	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19
■ Hedge funds	2.85%	2.70%	2.34%	2.46%	2.65%	2.62%	2.63%	2.50%
■ Private equity	1.03%	0.99%	0.81%	0.80%	1.08%	1.09%	1.17%	1.16%
■ Commodities	2.28%	2.27%	2.56%	2.62%	2.30%	2.30%	2.26%	1.86%

Modified duration

- The modified duration for the overall index remained unchanged at 5.53 as of March 31, 2019.
- Pension funds with assets of between CHF 500 million and

CHF 1 billion exhibited the highest modified duration (6.38) as of the end of March 2019.

- The lowest modified duration as of the end of March 2019 (5.30) was observed in pension funds with investment assets exceeding CHF 1 billion.

Table 10: Modified duration 2019

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Credit Suisse Swiss Pension Fund Index	4.94	4.89	5.53									
Pension funds > CHF 1 bn	4.76	4.91	5.30									
Pension funds CHF 500 mn–1 bn	5.81	5.29	6.38									
Pension funds CHF 150–500 mn	4.92	4.80	5.42									
Pension funds < CHF 150 mn	4.79	4.86	5.55									

Note: The modified duration indicates the direct sensitivity of the bond price (in percentage terms) to a 1% change in the market interest rate. Only direct bond investments are used in calculating the modified duration; collective investments are excluded.

Currency allocation

Reduction in Swiss franc component in the first quarter of 2019

■ In the current reporting quarter, a negative shift was evident in the Swiss franc component to 78.40% (−0.91%).

■ The other currencies showed an increase at the expense of major currencies:

- EUR (−0.21% to 2.47%)
- USD (−0.57% to 4.68%)
- GBP (−0.01% to 0.31%)
- JPY (−0.03% to 0.33%)
- Other (+0.74% to 13.18%)

Chart 8:
Currency allocation for the last eight quarters

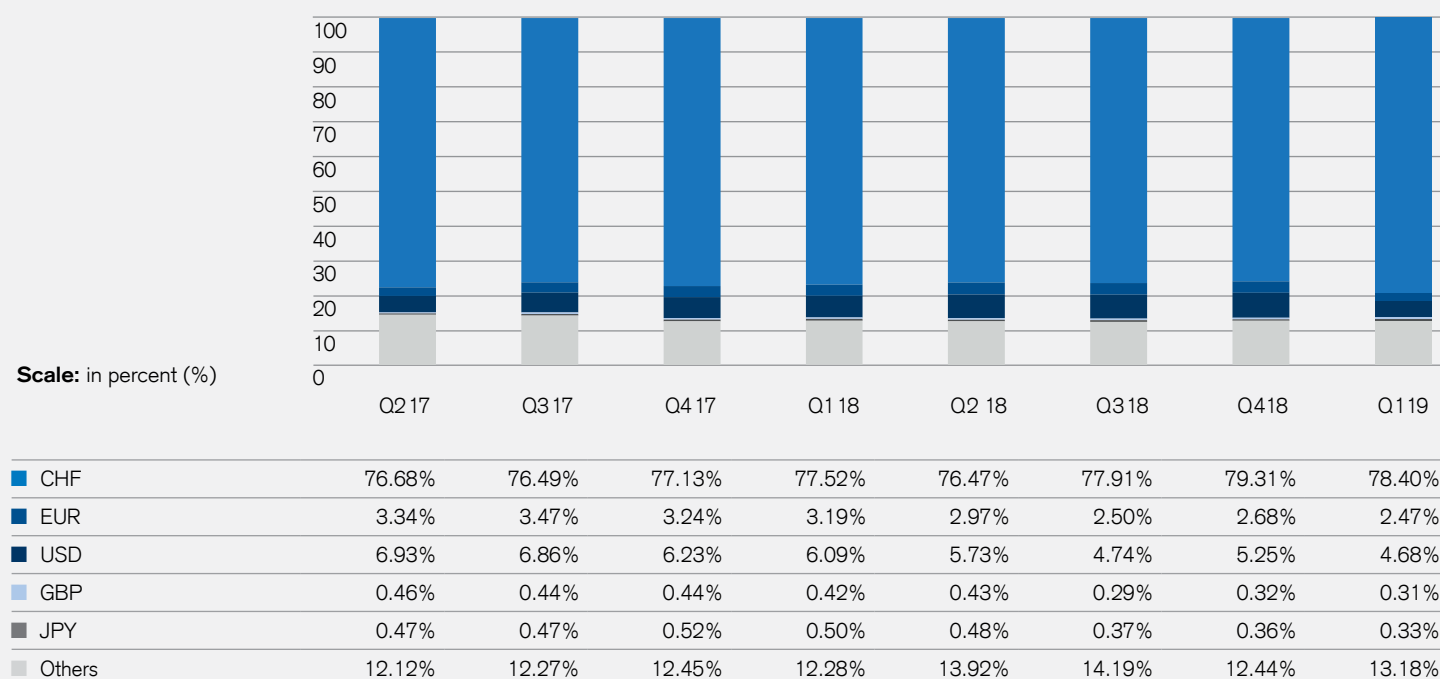


Table 11: Foreign exchange rates against the CHF, 2019

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
EUR	1.01%	−0.35%	−1.42%										−0.78%
USD	0.64%	0.41%	−0.03%										1.02%
GBP	3.94%	1.53%	−2.06%										3.36%
JPY	1.49%	−1.83%	0.54%										0.17%

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Credit Suisse does not offer tax advice. Tax aspects were not taken into account in the calculation of the return.

Source: Credit Suisse, otherwise specified.

Your ambition, our drive.
Number one for the tenth time.



Best Swiss Global Custodian 2019
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