

Credit Suisse Swiss Pension Fund Index Q2 2018



Index versus mandatory minimum rate of return

since January 2000

Q2 2018: +0.85%

- Positive return in Q2 2018
- Significantly positive return contribution from foreign equities
- Equity component once again on the rise

Market review

Following a downturn in the first three months of the year, global economic growth subsequently improved in the second quarter. Global equity markets ended the quarter in positive territory, experiencing low volatility. European banking stocks underperformed, whereas the performance of major government bonds was mixed. The US dollar strengthened against other leading currencies, while commodities ended the quarter higher.

- Global economic growth started to accelerate in the second quarter, driven by stronger economic activity in the US and ongoing stability in China. The growth of other markets remained subdued. Economic indicators in Europe took a turn for the worse in April and May, but stabilized in June. By contrast, inflation continued to pick up in developed markets. More restrictive financial markets and risks in connection with changing international trade policy impacted negatively on growth in some emerging markets.
- While the Fed hiked interest rates by a further 25 basis points in June, the European Central Bank announced that it would be curtailing its bond purchases by the end of the year. It also signaled that it would leave its key rate unchanged until at least the summer of 2019. In similar fashion, the Swiss National Bank left interest rates unchanged, but expressed concern over the strength of the Swiss franc. Bond yields turned positive due to a combination of central bank policies and the reassessment of the trade dispute between the US and China.
- Where corporate bonds are concerned, the narrowing of credit spreads was limited due to interest rate volatility and a slowly deteriorating overall picture. Bonds in both hard and local currencies from the emerging markets delivered below-average performance.
- Global equity markets closed higher in the second quarter and also made it slightly into positive territory over the first half of the year driven by strong earnings growth. UK and Australian equities benefited from rising commodity prices and performed better than the global equity market, whereas emerging market equities underperformed.
- The US dollar developed positively against a backdrop of stronger US economic figures and more restrictive monetary policy on the part of the Fed. The euro depreciated due to a weakening of economic momentum and a resurgence of political uncertainty in the euro zone. Similarly, the Swiss franc was weaker against the US dollar, although it slightly gained ground against the euro. The British pound exhibited the weakest performance compared to other currencies due to weak economic data and uncertainty over Brexit.
- Energy markets also performed positively in the second quarter thanks to the decline in global inventories and higher geopolitical risks. Agriculture and precious metals exhibited lackluster performance against a backdrop of a stronger greenback and better harvest conditions in the US.

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 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.

Credit Suisse Swiss Pension Fund Index regains some ground in the second quarter

- In the second quarter, the Pension Fund Index rose by +0.85% to close at a level of 171.65 points at the end of June 2018, from a baseline of 100 at the beginning of 2000.
- After performing weakly at the beginning of 2018, the Pension Fund Index subsequently regained some ground in the second quarter.
- Overall performance was particularly bolstered by a significant recovery in April 2018 (+1.29%). However the positive trend reversed in May (−0.55%), though was subsequently offset by a slightly positive June (+0.12%).
- Most of the positive performance in the second quarter was attributed to foreign equities with a contribution of +0.64%.
- Also significant was the influence of Swiss equities (+0.22%) and real estate (+0.15%).
- Alternative investments (+0.05%) and foreign currency bonds (+0.01%) similarly made a small positive contribution.
- Swiss bonds (−0.06%) and other investments (−0.03%) contributed negatively to the overall return.
- The negative contribution from liquidity (−0.13%) stems from negative interest on cash holdings together with gains or losses on foreign-exchange forward transactions which are assigned to liquidity.

Table 1: Performance contribution (quarterly)

Credit Suisse Swiss Pension Fund Index (1.1.2018–30.6.2018)

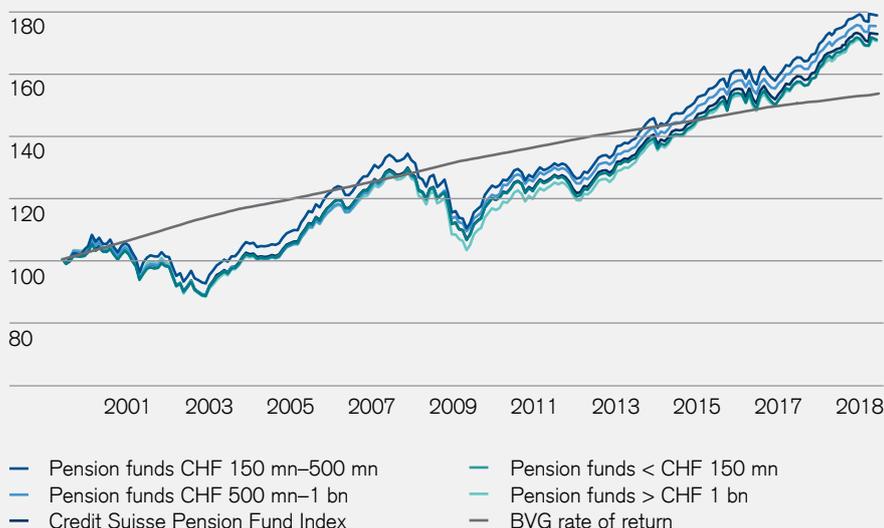
	Q1 18	Q2 18	Q3 18	Q4 18	YTD
Liquidity	−0.02%	−0.13%			−0.15%
CHF bonds	−0.15%	−0.06%			−0.20%
Foreign currency bonds	−0.05%	0.01%			−0.05%
Swiss equities	−0.65%	0.22%			−0.43%
Foreign equities	−0.47%	0.64%			0.16%
Alternative investments	−0.01%	0.05%			0.03%
Real estate	0.03%	0.15%			0.18%
Mortgages	0.00%	0.00%			0.00%
Other	−0.01%	−0.03%			−0.03%
Total	−1.33%	0.85%			−0.48%

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 152.86 points in the reporting quarter from a baseline of 100 in January 2000. The return of the Credit Suisse Swiss Pension Fund Index is therefore +0.60% above the BVG requirement in the second quarter of 2018.

- The annualized return on the Credit Suisse Swiss Pension Fund Index (since January 1, 2000) amounted to 2.96% as of June 30, 2018. This contrasts with an annualized BVG mandatory minimum rate of return of 2.32%.
- Pension funds with assets of between CHF 150 million and CHF 500 million once again achieved the highest annualized return (since January 1, 2000) as of June 30, 2018, at 3.16%.

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: Credit Suisse Swiss Pension Fund Index 2008–2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Index	109.76	121.68	125.33	124.63	133.61	141.30	152.23	153.67	159.63	172.48
Annual return in %	-13.25	10.86	3.01	-0.56	7.21	5.76	7.73	0.95	3.87	8.05

Table 3: Level of Credit Suisse Swiss Pension Fund Index 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Index	172.42	170.25	170.20	172.40	171.44	171.65							171.65
Monthly return in %	-0.04	-1.26	-0.03	1.29	-0.55	0.12							-0.48

Table 4: Performance by pension fund segment size, 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Credit Suisse Swiss Pension Fund Index	-0.04%	-1.26%	-0.03%	1.29%	-0.55%	0.12%							-0.48%
Pension funds > CHF 1 bn	0.11%	-1.25%	-0.09%	1.25%	-0.42%	0.08%							-0.33%
Pension funds CHF 500 mn-1 bn	0.07%	-1.13%	-0.03%	1.04%	-0.35%	0.16%							-0.27%
Pension funds CHF 150-500 mn	-0.04%	-1.25%	-0.10%	1.25%	-0.53%	0.15%							-0.53%
Pension funds < CHF 150 mn	-0.15%	-1.31%	0.09%	1.44%	-0.72%	0.09%							-0.58%

Table 5: Annualized performance

1.1.2000-30.6.2018

Annualized performance since January 1, 2000

Credit Suisse Swiss Pension Fund Index	2.96%
BVG rate of return	2.32%
Pension funds > CHF 1 bn	2.91%
Pension funds CHF 500 mn-1 bn	3.06%
Pension funds CHF 150-500 mn	3.16%
Pension funds < CHF 150 mn	2.92%

Performance by asset class

Monthly returns

Table 6: Credit Suisse Swiss Pension Fund Index 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Liquidity	0.97%	-0.15%	0.37%	0.23%	-0.30%	0.12%							1.23%
CHF bonds	-0.64%	-0.22%	0.32%	-0.42%	0.31%	-0.16%							-0.80%
Foreign currency bonds	-1.85%	0.23%	1.30%	1.20%	-1.82%	0.19%							-0.81%
Swiss equities	0.10%	-4.03%	-0.64%	3.31%	-3.12%	1.32%							-3.22%
Foreign equities	1.11%	-2.73%	-0.78%	3.96%	-0.61%	0.17%							1.01%
Alternative investments	-0.29%	-0.21%	0.34%	1.51%	-0.62%	-0.22%							0.49%
Real estate	-0.23%	-0.21%	0.33%	0.56%	-0.02%	-0.01%							0.43%
Mortgages	-0.27%	0.03%	0.18%	-0.11%	0.22%	0.00%							0.06%
Others	0.09%	-0.20%	0.05%	-0.91%	0.29%	-0.53%							-1.21%
Total	-0.04%	-1.26%	-0.03%	1.29%	-0.55%	0.12%							-0.48%

Table 7: Benchmark indices for the last 12 months

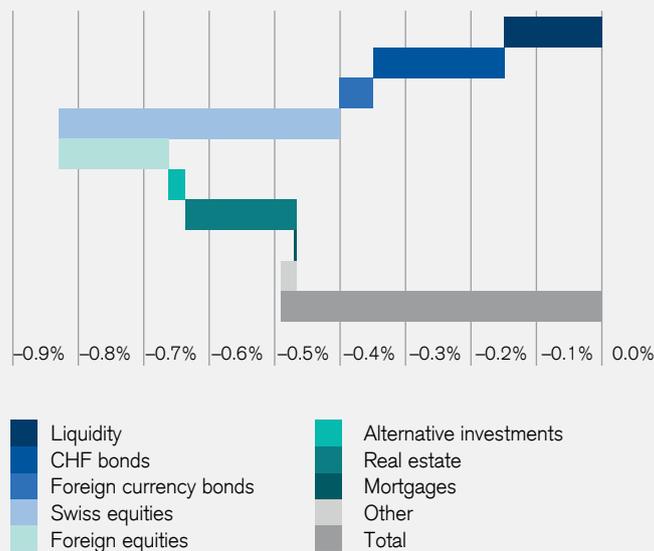
1.7.2017-30.6.2018

	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18	YTD
CHF bonds SBI AAA-BBB 1-15Y (TR)	-0.17%	0.79%	-0.52%	0.30%	-0.08%	0.08%	-0.74%	0.09%	0.33%	-0.48%	0.69%	-0.15%	-0.32%
Foreign currency bonds Bloomberg Barclays Global Aggr. (TR)	2.45%	0.59%	-0.22%	2.63%	-0.40%	-0.41%	-3.47%	0.76%	2.41%	1.72%	-1.44%	0.55%	-0.40%
Swiss equities SPI (TR)	1.80%	-1.29%	2.65%	1.50%	0.67%	0.72%	-0.13%	-4.46%	-0.67%	3.29%	-3.42%	1.60%	-5.22%
Foreign equities MSCI AC World ex Switzerland (NR)	3.62%	0.02%	2.63%	5.27%	0.41%	0.85%	0.81%	-2.55%	-0.84%	4.40%	-0.48%	0.42%	-2.59%
Real estate direct/ investment foundations KGAST Immo-Index (Switzerland) (TR)	0.39%	0.51%	0.47%	0.40%	0.37%	0.83%	0.34%	0.32%	0.34%	0.33%	0.33%	0.34%	1.01%
Real estate funds SXI Real Estate Funds (TR)	1.39%	-2.44%	-1.75%	-0.85%	-2.15%	5.49%	-0.97%	-1.09%	0.21%	0.62%	-1.47%	0.10%	-1.86%

Positive second quarter return heavily driven by equities

- Foreign equities were the most positive in the quarter under review (+3.51%), but lagged the MSCI AC World ex Switzerland (NR) (+4.33%).
- Swiss equities were positive in the second quarter (+1.40%) and ahead of the SPI (+1.35%).
- Swiss bonds posted a quarterly return of -0.27%, underperforming the SBI AAA-BBB 1-15Y (TR) which returned +0.05%.
- Quarterly return of -0.46% for foreign bonds was well below Bloomberg Barclays Global Aggr. (TR) with +0.81%.
- Real estate posted a positive quarterly return (+0.54%) which was higher than the benchmark index return of +0.12% (50% KGAST and 50% SXI Real Estate Funds Broad [TR]).
- Liquidity (cash, FX forwards for currency hedging) posted a positive return (+0.05%).

Chart 2:
Performance contribution (YTD) Credit Suisse Swiss Pension Fund Index



Scale: Return in percentages (%)

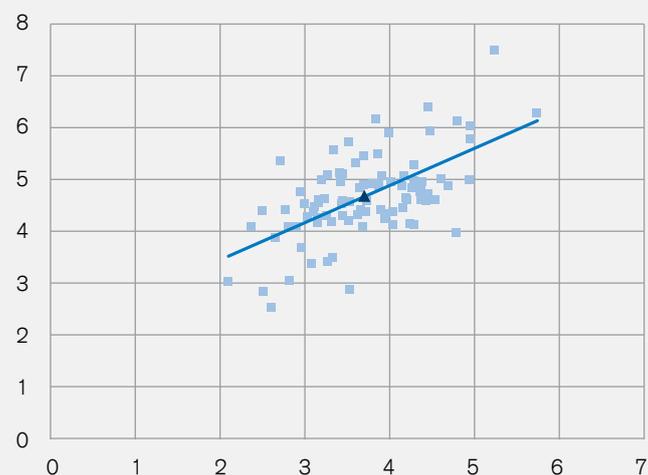
Risk/return positions

Five-year line – annualized return rises in the reporting quarter while annualized risk falls slightly

- The unweighted average annualized return fell by 0.39 percentage points to 4.63% between the first quarter of 2018 and the second quarter of 2018 and experienced lower risk (-0.14 percentage points to 3.71%).
- The Sharpe ratio therefore improved from 1.27 in Q1 2018 to 1.43 in Q2 2018.
- Medium-sized pension funds (CHF 500 million to 1 billion) continue to exhibit the best risk/return ratio (Sharpe ratio of 1.67).
- Pension funds with an investment volume of more than CHF 1 billion have the highest median return of 4.92%, 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 (4.32%), while at the same time, the distribution of returns within this group is the most homogenous.

Chart 3:

Annualized risk/return comparison; five-year view, monthly results from July 2013 to June 2018



X-axis: annualized risk in percent (%)
Y-axis: annualized return in percent (%)
▲ : Q2 2018

Table 8: Risk/return ratios

1.7.2013–30.6.2018

	Risk	Return	Sharpe ratio
Credit Suisse Swiss Pension Fund Index	3.71%	4.63%	1.43
Pension funds > CHF 1 bn	3.66%	4.72%	1.50
Pension funds CHF 500 mn–1 bn	3.00%	4.56%	1.67
Pension funds CHF 150–500 mn	3.55%	4.58%	1.46
Pension funds < CHF 150 mn	3.97%	4.66%	1.33

Table 9: Return bandwidths

1.7.2013–30.6.2018

	Minimum	1st quartile	Median	3rd quartile	Maximum
Credit Suisse Swiss Pension Fund Index	2.52%	4.27%	4.64%	5.02%	7.53%
Pension funds > CHF 1 bn	3.08%	4.48%	4.92%	5.31%	6.31%
Pension funds CHF 500 mn–1 bn	4.09%	4.11%	4.32%	4.78%	5.01%
Pension funds CHF 150–500 mn	2.52%	4.23%	4.59%	5.08%	6.19%
Pension funds < CHF 150 mn	2.86%	4.27%	4.64%	5.01%	7.53%

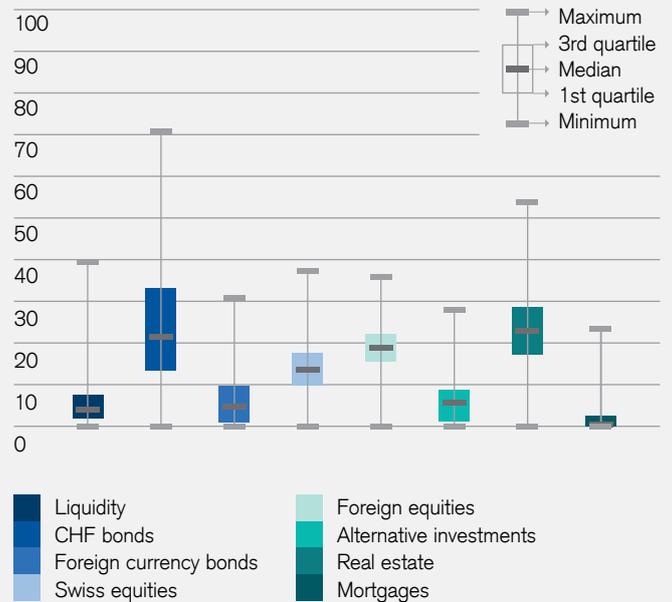
Our risk/return overview shows the five-year view. It should be noted that only portfolios that were part of the index for the entire observation period are included. Portfolios created on January 1, 2014, for example, are not included in the five-year observation period (1.7.2013–30.6.2018).

Asset allocation

Reduction in equity allocation

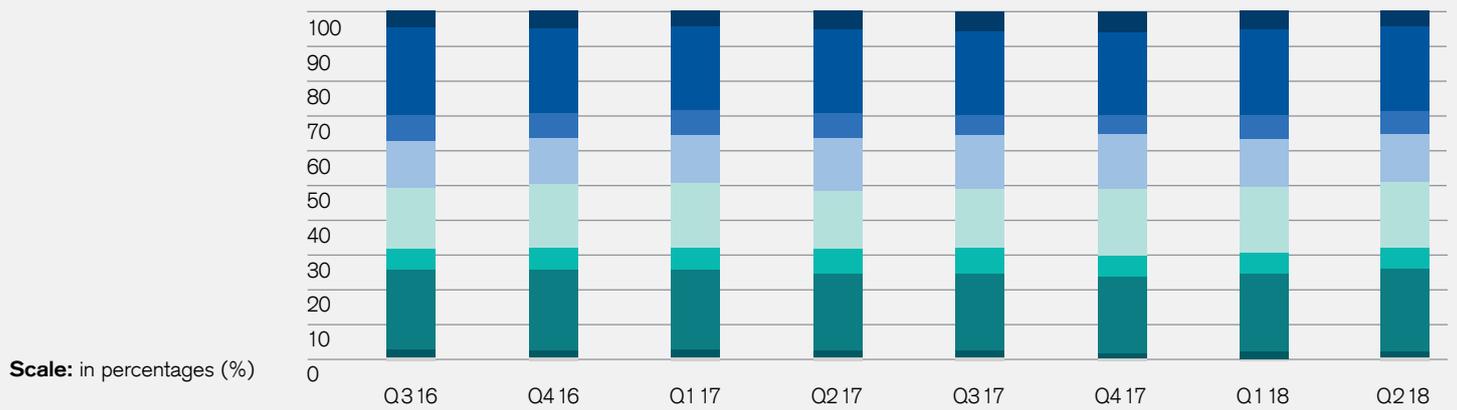
- A slight increase, above all due to allocation effects, can be observed in the real estate component (+0.44 percentage points to 22.84%), in the alternative investments component (+0.15 percentage points to 6.03%), and in the other investments component (+0.64 percentage points to 1.14%).
- All other asset classes experienced a decline:
 - Foreign equities component –0.05 percentage points to 18.58%
 - Swiss equities component –0.03 percentage points to 13.85%
 - CHF bonds component –0.19 percentage points to 24.15%
 - FC bonds component –0.27 percentage points to 6.66%
 - Liquidity component –0.60 percentage points to 4.62%
 - Mortgages component –0.10 percentage points to 2.11%

Chart 4:
Asset allocation



Scale: in percentages (%)

Chart 5:
Asset allocation for the last eight quarters



Further increase in real estate

- An increase in real estate was once again evident at the end of the second quarter of 2018, namely +0.44 percentage points to 22.84%.
- This development is primarily attributable to an increase in indirect foreign real estate investments, namely by 0.37% to 1.29%. At 0.17%, the proportion of direct foreign real estate investments has remained stable.

- The proportion of Swiss real estate investments has risen slightly by +0.05 percentage points to a total of 21.38%, whereby the proportion of direct Swiss real estate investments declined by 0.14 percentage points and the proportion of indirect Swiss real estate investments rose by +0.19 percentage points.

Chart 6:
Real estate allocation for the last eight quarters



Scale: in percentages (%)

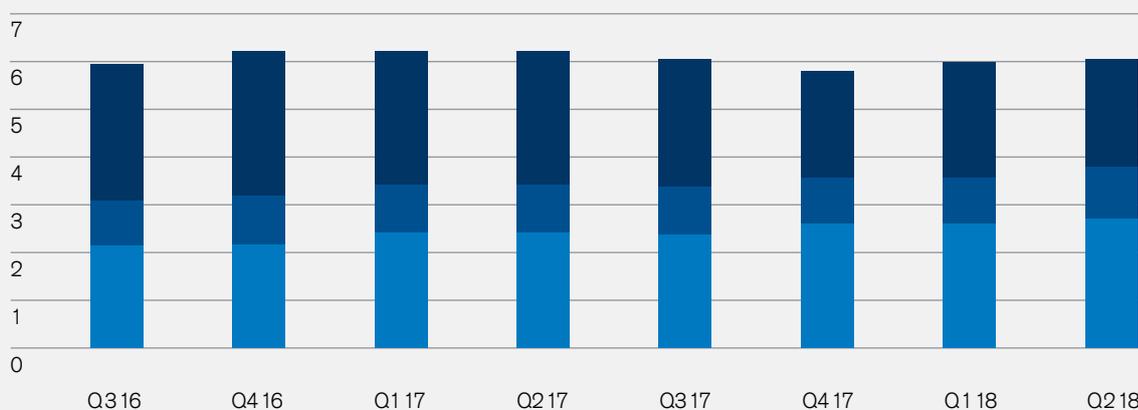
	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Foreign real estate, indirect	0.93%	0.84%	0.96%	0.97%	1.01%	0.92%	0.92%	1.29%
Foreign real estate, direct	0.29%	0.31%	0.32%	0.34%	0.33%	0.15%	0.16%	0.17%
Swiss real estate, indirect	12.37%	12.31%	12.15%	12.13%	11.85%	11.87%	12.00%	12.19%
Swiss real estate, direct	9.41%	9.54%	9.63%	9.70%	9.63%	9.09%	9.33%	9.19%
Total	23.00%	23.00%	23.06%	23.14%	22.82%	22.02%	22.40%	22.84%

Further increase in proportion of alternative investments

- The alternative investments component increased again compared with the previous quarter (+0.15 percentage points to 6.04%).
- The private equity component showed the biggest increase (+0.28 percentage points to 1.08%).

- The hedge funds component continued the rise already apparent in the last quarter (+0.19 percentage points to 2.65%).
- The commodities component declined by 0.32 percentage points, ending up at a level of 2.30% at the end of June 2018.

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



Scale: in percentages (%)

	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
■ Hedge funds	2.83%	3.01%	2.75%	2.85%	2.70%	2.34%	2.46%	2.65%
■ Private equity	0.93%	1.00%	1.01%	1.03%	0.99%	0.81%	0.80%	1.08%
■ Commodities	2.13%	2.15%	2.38%	2.28%	2.27%	2.56%	2.62%	2.30%
Total	5.88%	6.16%	6.15%	6.15%	5.96%	5.71%	5.89%	6.04%

Modified duration

- The modified duration for the overall index fell further in the reporting quarter and stood at 5.65 as of June 30, 2018 (level at end March 2018: 5.86).
- Pension funds with assets of between CHF 500 million and

CHF 1 billion exhibited the highest modified duration at the end of June 2018 of 6.32.

- The lowest modified duration as per end June 2018 (5.55) was observed in pension funds with investment assets of below CHF 150 mn.

Table 10: Modified duration 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Credit Suisse Swiss Pension Fund Index	5.93	5.88	5.86	5.65	5.67	5.65						
Pension funds > CHF 1 bn	6.04	6.03	6.13	5.78	5.75	5.73						
Pension funds CHF 500 mn–1 bn	6.39	6.37	6.32	6.25	6.28	6.32						
Pension funds CHF 150–500 mn	5.78	5.72	5.62	5.53	5.59	5.56						
Pension funds < CHF 150 mn	5.93	5.87	5.86	5.56	5.54	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

Slight reduction in Swiss franc allocation in the second quarter of 2018

- In the current reporting quarter, a slight active reduction in the Swiss franc component to 76.47% (–1.05%) was evident.
- The EUR component decreased by 0.22 percentage points to 2.97%, above all due to the lower EUR/CHF exchange rate.

- The USD component declined, primarily due to the devaluation of the USD relative to the Swiss franc.
- A clear rise is evident in the proportion of other currencies (+1.64 percentage points to 13.92%).
- The proportions of JPY and GBP remained stable.

Chart 8:
Currency allocation for the last eight quarters

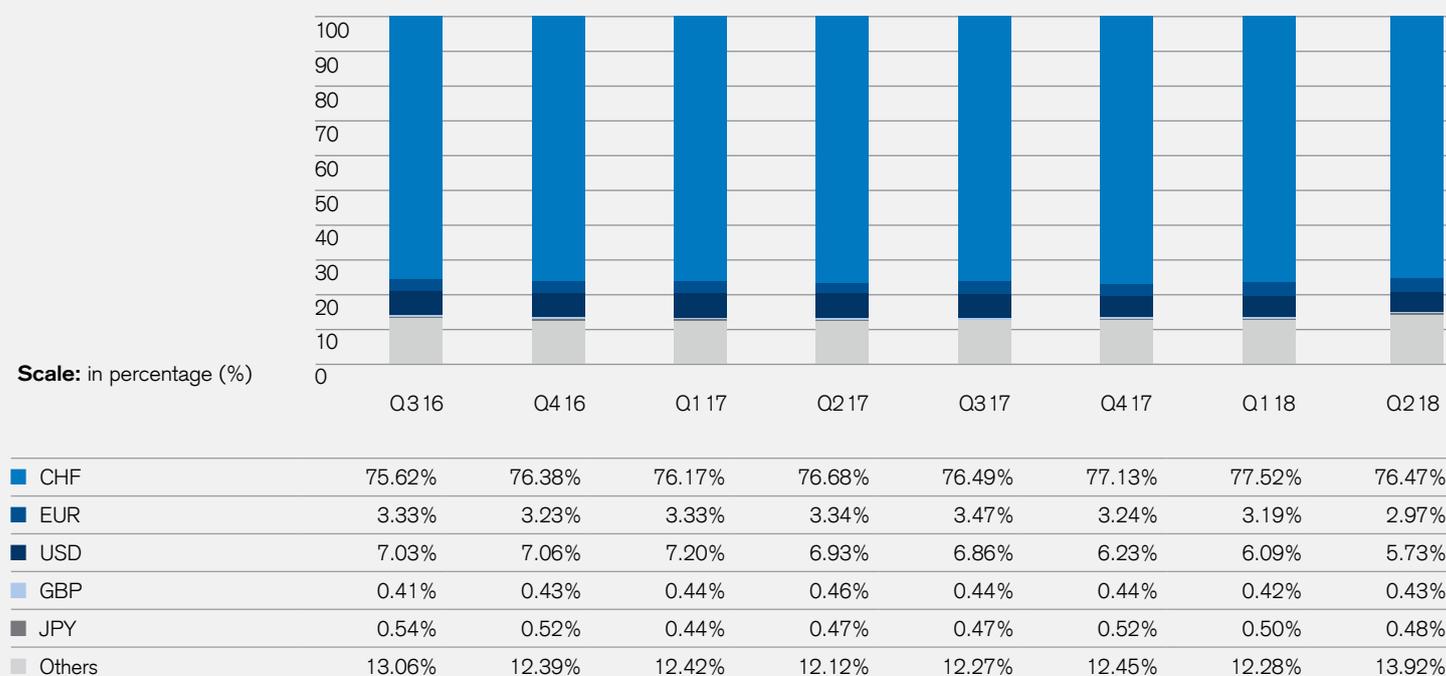


Table 11: Foreign exchange rates against the CHF, 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
EUR	-1.04%	-0.47%	2.18%	1.55%	-4.05%	1.02%							-0.93%
USD	-4.61%	1.66%	1.33%	3.37%	-0.69%	1.00%							1.89%
GBP	0.28%	-1.50%	3.16%	1.50%	-4.05%	0.21%							-0.56%
JPY	-1.55%	4.00%	1.67%	0.47%	0.03%	-0.93%							3.63%

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Source: Credit Suisse, otherwise specified.

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