

Credit Suisse Swiss Pension Fund Index Q2 2019



Credit Suisse Swiss Pension Fund Index

Swiss pension funds by comparison

Q2 2019: +1.91%

YTD 2019: +7.50%

- Positive return in Q2 2019
- Strongest first half-year since index launch
- Extremely positive return contribution from Swiss franc investments

Market review

Global economic growth remained weak in the second quarter of 2019. However, the world's equity markets ended the three-month period on a positive note. At the same time, key government bond yields fell and the USD had a mixed performance against the leading currencies.

- Global growth remained weak in the second quarter of 2019. The hike in US tariffs on Chinese imports hit the manufacturing sector, leading to low business confidence readings around the world. US growth continued to slow, although a robust labor market and resilient consumer spending kept any risk of recession at bay. Trade data for Asia temporarily picked up in April, but corrected again toward the end of the quarter due to the tariff hike. Business surveys in Europe were subdued, although there were some indications of an improvement.
- The US Federal Reserve (Fed) left key interest rates unchanged in June, but held out the prospect of an easing of monetary policy. The European Central Bank (ECB) also kept key interest rates at their current level, although ECB President Mario Draghi likewise pointed to an even more accommodative monetary policy. The Swiss National Bank (SNB), Bank of Japan (BoJ), and Bank of England (BoE) all left key interest rates unchanged. By contrast, a number of central banks in the developing countries opted to cut rates.
- Global equity markets advanced 3.5% in the second quarter from their end-March level. Equities from developed markets outperformed those from developing countries, which gained a mere 0.3%. Information technology (IT), financials, and consumer products were among the strongest sectors, while energy and real estate were the poorest performers. Volatility (VIX) was up on the previous quarter, as was the Credit Suisse Hedge Fund Index.
- Fixed-income investments delivered positive returns despite ongoing concerns about global growth, the discussions about trade tariffs, and relaxed monetary policy on the part of central banks. The interest rate curve between three-month and ten-year US Treasury bonds remained inverted. In addition, the market has priced in the Fed rate cuts expected over the next 12 months. The EUR and CHF yield curve shifted downward across all maturities. Credit spreads remained at a low level in both developed and developing countries, resulting in strong returns in the second quarter. In addition, yields on developing-country government bonds denominated in USD and also in local currencies remained stable.
- The USD gained in value against most leading currencies in April and May, but fell again after the Fed's meeting in June. The main beneficiaries were the JPY and the CHF, which were consequently the strongest currencies in the second quarter – albeit with modest gains. Despite the ECB's favorable comments on monetary policy, the EUR rose against the USD. The GBP was the big loser among the leading currencies, with the prospect of Brexit remaining the primary cause. Toward the end of the quarter, the currencies of the developing countries recovered from the losses sustained earlier in the quarter.
- The Credit Suisse Commodities Benchmark lost 0.4% in the second quarter of 2019. Precious metals benefitted from falling US interest rates and the change in the Fed's outlook. The agriculture sector advanced relative to the commodities benchmark, while cyclical industrial metals underperformed. The energy sector was slightly below the benchmark, and fluctuated significantly over the course of the quarter. The initial weakness in the oil markets due to demand concerns was eventually overlapped by the effects of geopolitical tensions and supply risks in the Middle East.

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.

Past performance and financial market scenarios are not reliable indicators of future results.

Another positive performance for Credit Suisse Swiss Pension Fund Index in second quarter of 2019

The Pension Fund Index advanced 3.36 points, or 1.91%, in the second quarter of 2019, thereby building on a good first quarter. The index rose to 179.49 points as of June 30, 2019, from a baseline of 100 points at the beginning of 2000. Following an excellent start to the year in performance terms, the pension funds continued their upward trajectory in the second quarter. The good result was driven in particular by the months of April (+1.71%) and June (+1.60%). Only in May was there a correction (-1.39%), albeit not pronounced enough to drag the quarter as a whole into negative territory.

Swiss franc investments accounted for the lion's share of the positive performance in the second quarter: Swiss equities achieved a return contribution of +0.84%, while CHF bonds contributed +0.37%. Foreign equities and real estate likewise delivered a positive performance, contributing a total of +0.28% (foreign equities) and +0.26% (real estate) to the positive overall result. Alternative investments, mortgages, and other investments had a fairly negligible impact, but were nonetheless positive.

Table 1: Performance contribution (quarterly)

Credit Suisse Swiss Pension Fund Index (1.1.2019–30.6.2019)

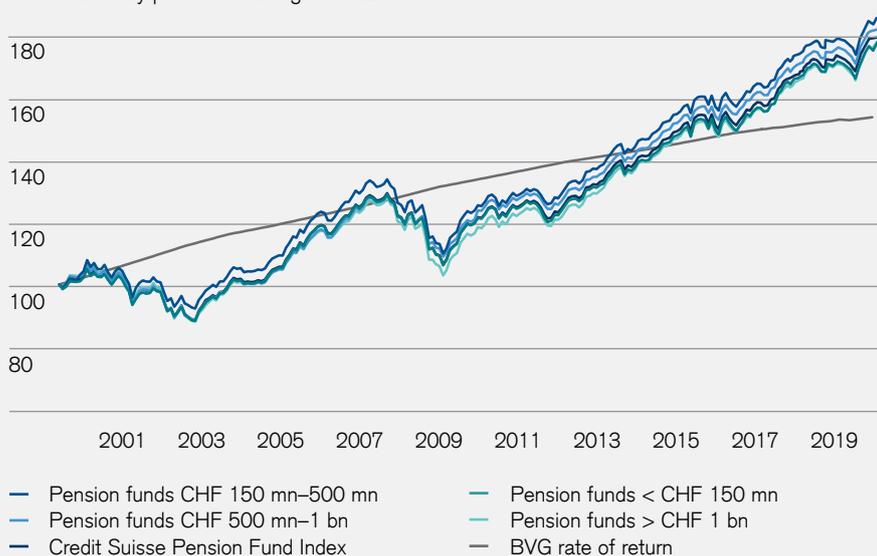
	Q1 19	Q2 19	Q3 19	Q4 19	YTD
Liquidity	-0.10%	0.00%			-0.07%
CHF bonds	0.52%	0.38%			0.91%
Foreign currency bonds	0.26%	0.07%			0.34%
Swiss equities	1.73%	0.84%			2.63%
Foreign equities	2.20%	0.26%			2.49%
Alternative investments	0.11%	0.02%			0.13%
Real estate	0.72%	0.26%			1.00%
Mortgages	0.03%	0.01%			0.04%
Other	0.02%	0.04%			0.06%
Total	5.49%	1.91%			7.50%

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 154.38 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 1.66% above the BVG requirement in the second quarter of 2019.

The annualized return on the Credit Suisse Swiss Pension Fund Index (since January 1, 2000) amounted to 3.05% as of June 30, 2019. This contrasts with an annualized BVG mandatory minimum rate of return of 2.25%.

Chart 1:
Performance by pension fund segment size



Scale: Index level

BVG rate of return

until 12/31/2002	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	179.15	176.66	179.49						

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%	1.71%	-1.39%	1.60%							7.50%

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%	1.71%	-1.39%	1.60%							7.50%
Pension funds > CHF 1 bn	2.96%	1.19%	1.05%	1.74%	-1.50%	1.60%							7.20%
Pension funds CHF 500 mn–1 bn	2.83%	1.24%	1.15%	1.57%	-1.20%	1.31%							7.06%
Pension funds CHF 150–500 mn	2.95%	1.23%	1.09%	1.66%	-1.31%	1.62%							7.41%
Pension funds < CHF 150 mn	3.30%	1.29%	1.14%	1.82%	-1.50%	1.68%							7.91%

Table 5: Annualized performance

1.1.2000–30.6.2019

	Annualized performance since January 1, 2000
Credit Suisse Swiss Pension Fund Index	3.05%
BVG rate of return	2.25%
Pension funds > CHF 1 bn	2.99%
Pension funds CHF 500 mn–1 bn	3.13%
Pension funds CHF 150–500 mn	3.23%
Pension funds < CHF 150 mn	3.00%

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%	-0.07%	-0.07%	-0.21%							-1.86%
CHF bonds	0.73%	0.15%	1.05%	-0.03%	0.81%	0.64%							3.40%
Foreign currency bonds	2.28%	0.13%	0.36%	1.55%	-0.54%	-0.02%							3.81%
Swiss equities	6.89%	3.85%	2.17%	4.34%	-1.87%	3.73%							20.44%
Foreign equities	8.11%	2.86%	1.18%	5.13%	-6.64%	3.36%							14.12%
Alternative investments	1.23%	0.49%	-0.02%	0.99%	-1.03%	0.19%							1.83%
Real estate	1.71%	0.62%	1.02%	0.37%	-0.25%	1.06%							4.60%
Mortgages	0.18%	0.05%	0.36%	-0.06%	0.35%	0.03%							0.91%
Others	0.35%	0.14%	0.11%	-3.06%	0.96%	1.68%							0.12%
Total	3.05%	1.25%	1.10%	1.71%	-1.39%	1.60%							7.50%

Table 7: Benchmark indices 2019

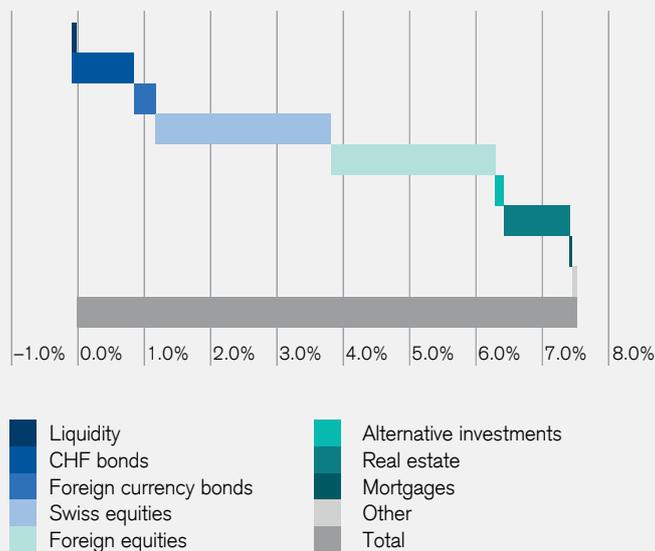
1.1.2019–30.6.2019

	Jan. 19	Feb. 19	Mar. 19	Apr. 19	May 19	Jun. 19	Jul. 19	Aug. 19	Sep. 19	Oct. 19	Nov. 19	Dec. 19	YTD
CHF bonds SBI AAA-BBB 1-15Y (TR)	0.43%	0.08%	0.90%	-0.18%	0.92%	0.24%							2.42%
Foreign currency bonds Bloomberg Barclays Global Aggr. (TR)	2.17%	-0.16%	1.22%	2.02%	0.05%	-0.92%							4.41%
Swiss equities SPI (TR)	6.96%	4.28%	2.52%	4.39%	-1.62%	3.75%							21.84%
Foreign equities MSCI AC World ex Switzerland (NR)	8.63%	3.06%	1.20%	5.83%	-7.30%	3.27%							14.78%
Real estate direct/ investment foundations KGAST Immo-Index (Switzerland) (TR)	0.32%	0.29%	0.40%	0.31%	0.37%	0.35%							2.06%
Real estate funds SXI Real Estate Funds (TR)	4.74%	1.13%	2.40%	1.09%	-1.38%	4.47%							12.96%

Positive second-quarter return heavily driven by Swiss equities and bonds

- Swiss equities were most positive in the quarter under review (6.20%), but lagged the SPI (TR) (6.55%).
- Foreign equities were positive in the second quarter (1.44%) and ahead of the benchmark MSCI AC World ex Switzerland (NR) (1.31%).
- Quarterly return of 0.99% for foreign currency bonds was behind the Bloomberg Barclays Global Aggr. (TR), which stands at 1.13%.
- Swiss bonds posted a quarterly return of 1.42%, ending ahead of the SBI AAA-BBB 1–15Y (TR) (0.98%).
- Real estate posted a positive quarterly return (1.17%), but this was significantly 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 (–0.36%).

Chart 2:
Contribution waterfall YTD 2019:



Scale: Return in percent (%)

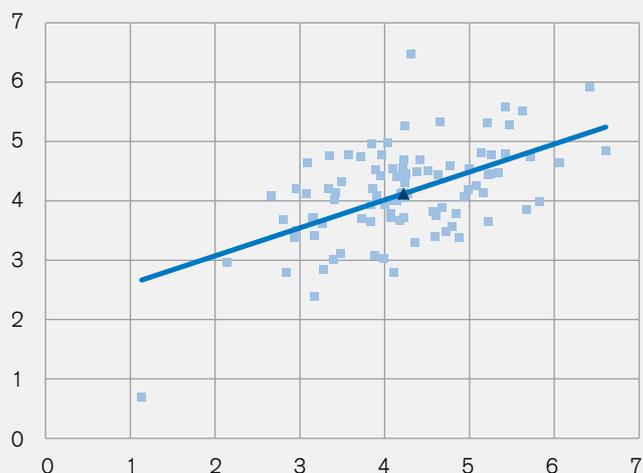
Risk/return positions

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

- The unweighted average annualized return fell in Q2 2019 by 0.05 percentage points to 4.09% compared with the first quarter of 2019 on the back of rising risk (4.22%).
- The Sharpe ratio therefore deteriorated from 1.18 in Q1 2019 to 1.15 in Q2 2019.
- Medium-sized pension funds (CHF 500 million to 1 billion) continue to exhibit the best risk/return ratio (Sharpe ratio of 1.31).
- Pension funds with an investment volume of more than CHF 1 billion have the highest median return at 4.35%, 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 (3.71%), 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 2014 to June 2019



X-axis: annualized risk in percent (%)
Y-axis: annualized return in percent (%)
▲ : Q2 2019

Table 8: Risk/return ratios

1.7.2014–30.6.2019

	Risk	Return	Sharpe ratio
Credit Suisse Swiss Pension Fund Index	4.22%	4.09%	1.15
Pension funds > CHF 1 bn	4.23%	4.16%	1.18
Pension funds CHF 500 mn–1 bn	3.44%	4.03%	1.31
Pension funds CHF 150–500 mn	3.96%	4.05%	1.20
Pension funds < CHF 150 mn	4.55%	4.12%	1.08

Table 9: Return bandwidths

1.7.2014–30.6.2019

	Minimum	1st quartile	Median	3rd quartile	Maximum
Credit Suisse Swiss Pension Fund Index	0.68%	3.69%	4.13%	4.59%	6.47%
Pension funds > CHF 1 bn	2.83%	4.12%	4.35%	4.64%	5.27%
Pension funds CHF 500 mn–1 bn	3.49%	3.61%	3.71%	3.72%	4.74%
Pension funds CHF 150–500 mn	0.68%	3.68%	4.01%	4.56%	6.47%
Pension funds < CHF 150 mn	2.78%	3.72%	4.17%	4.64%	5.91%

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 (1.7.2014–30.6.2019).

Past performance and financial market scenarios are not reliable indicators of future results.

Asset allocation

Increase in CHF bonds and alternative investments

- An increase can be observed for CHF bonds (+1.05% to 25.90%) and alternative investments (+0.40% to 5.92%). A decline can be seen for most other asset classes.
- Liquidity –3.15% to 2.10%
- Real estate +0.07% to 23.58%
- Other investments +2.74% to 3.24%
- Mortgages –0.47% to 1.52%
- Swiss equities –0.06% to 13.53%
- Foreign currency bonds –0.10% to 6.28%
- Foreign equities –0.48% to 17.93%

Chart 4:
Asset allocation

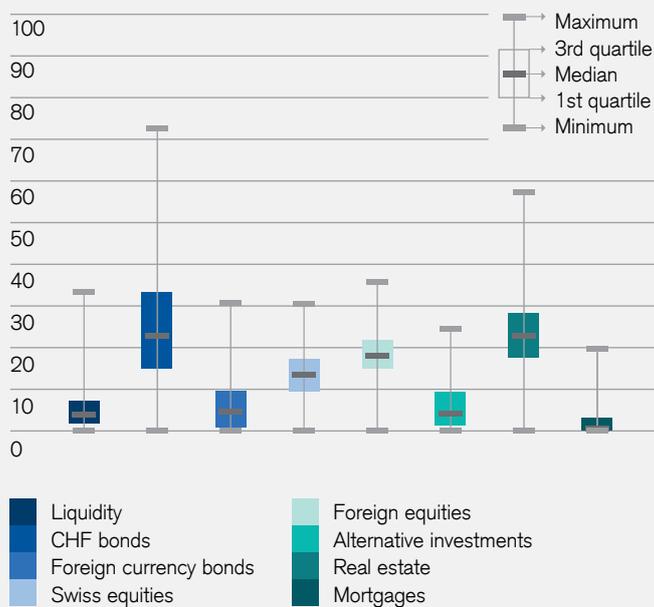
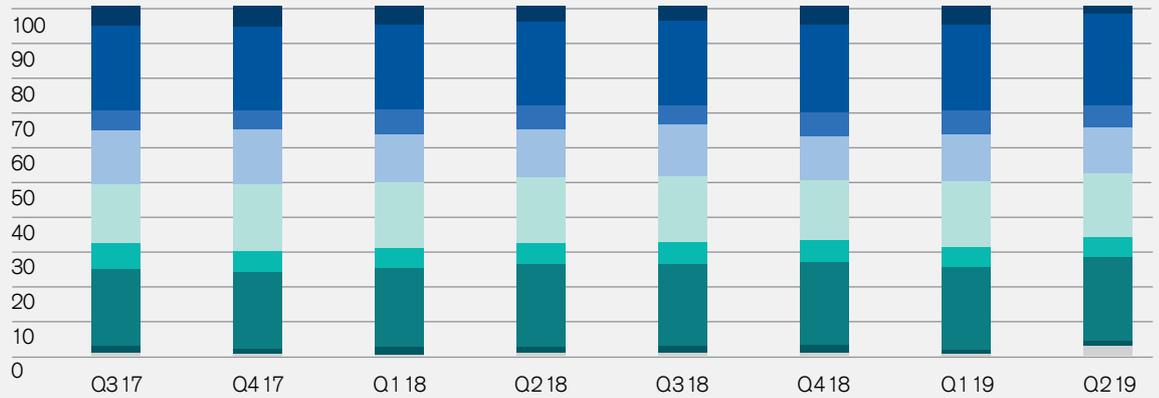


Chart 5:
Asset allocation for the last eight quarters



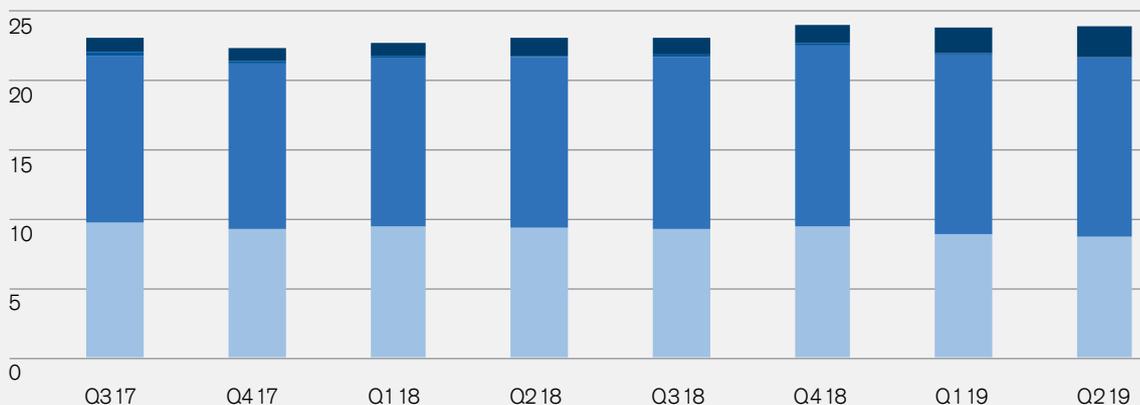
Scale: in percent (%)

	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
■ Liquidity	4.98%	5.25%	5.22%	4.62%	4.39%	5.39%	5.25%	2.10%
■ CHF bonds	23.76%	23.87%	24.34%	24.15%	24.00%	25.09%	24.85%	25.90%
■ Foreign currency bonds	7.01%	6.82%	6.93%	6.66%	6.55%	6.58%	6.38%	6.28%
■ Swiss equities	13.78%	14.51%	13.88%	13.85%	14.22%	12.73%	13.59%	13.53%
■ Foreign equities	18.46%	19.24%	18.63%	18.58%	18.73%	16.96%	18.41%	17.93%
■ Alternative investments	5.96%	5.71%	5.89%	6.04%	6.01%	6.05%	5.52%	5.92%
■ Real estate	22.82%	22.02%	22.40%	22.84%	22.83%	23.74%	23.51%	23.58%
■ Mortgages	2.10%	2.09%	2.21%	2.11%	2.22%	2.28%	1.99%	1.52%
■ Other	1.15%	0.49%	0.50%	1.14%	1.06%	1.17%	0.50%	3.24%

Increase in real estate

- The total proportion of real estate was up slightly as of the end of Q2 2019 (+0.07% to 23.58%).
- Indirect foreign real estate showed a significant increase (+0.42% to 2.19%).
- Direct Swiss real estate fell by -0.15% to 8.59%.

Chart 6:
Real estate allocation for the last eight quarters



Scale: in percent (%)

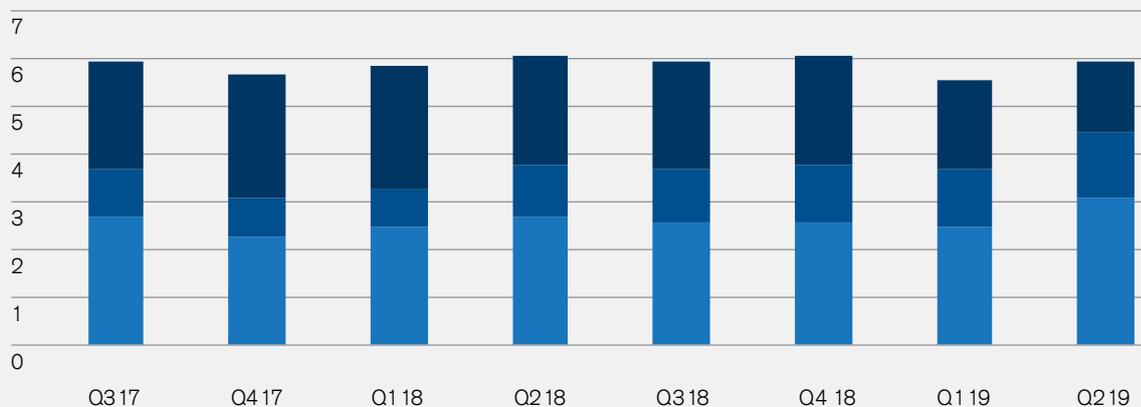
	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
Foreign real estate, indirect	1.01%	0.92%	0.92%	1.29%	1.22%	1.30%	1.77%	2.19%
Foreign real estate, direct	0.33%	0.15%	0.16%	0.17%	0.16%	0.19%	0.11%	0.07%
Swiss real estate, indirect	11.85%	11.87%	12.00%	12.19%	12.28%	12.94%	12.89%	12.73%
Swiss real estate, direct	9.63%	9.09%	9.33%	9.19%	9.17%	9.31%	8.74%	8.59%
Total	22.82%	22.02%	22.40%	22.84%	22.83%	23.74%	23.51%	23.58%

Increase in alternative investments component

- The alternative investments component increased compared with the previous quarter (+0.40% to 5.92%).
- The hedge funds component showed the biggest increase (+0.57 percentage points to 3.07%).

- The commodities component decreased (−0.37% to 1.49%).
- The private equity component increased by 0.20% to 1.36%.

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



Scale: in percent (%)

	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
■ Hedge funds	2.70%	2.34%	2.46%	2.65%	2.62%	2.63%	2.50%	3.07%
■ Private equity	0.99%	0.81%	0.80%	1.08%	1.09%	1.17%	1.16%	1.36%
■ Commodities	2.27%	2.56%	2.62%	2.30%	2.30%	2.26%	1.86%	1.49%

Modified duration

- The modified duration for the overall index remained almost unchanged in the reporting quarter at 5.54 as of June 30, 2019.
- Pension funds with assets of between CHF 500 million and

CHF 1 billion exhibited the highest modified duration (6.50) as of June 30, 2019.

- The lowest modified duration as of the end of June 2019 (5.34) was observed in pension funds with investment assets of between CHF 150 million and CHF 500 million.

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	5.66	5.68	5.54						
Pension funds > CHF 1 bn	4.76	4.91	5.30	5.58	5.60	5.59						
Pension funds CHF 500 mn–1 bn	5.81	5.29	6.38	6.39	6.53	6.50						
Pension funds CHF 150–500 mn	4.92	4.80	5.42	5.56	5.59	5.34						
Pension funds < CHF 150 mn	4.79	4.86	5.55	5.62	5.59	5.52						

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

Increase in Swiss franc component in the second quarter of 2019

■ In the current reporting quarter, a positive shift was evident in the CHF component to 79.40% (+1.00%).

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

- JPY (–0.16% to 0.17%)
- GBP (–0.19% to 0.12%)
- USD (–1.99% to 2.69%)
- EUR (–1.01% to 1.46%)
- Other (+3.00% to 16.18%)

Chart 8:
Currency allocation for the last eight quarters

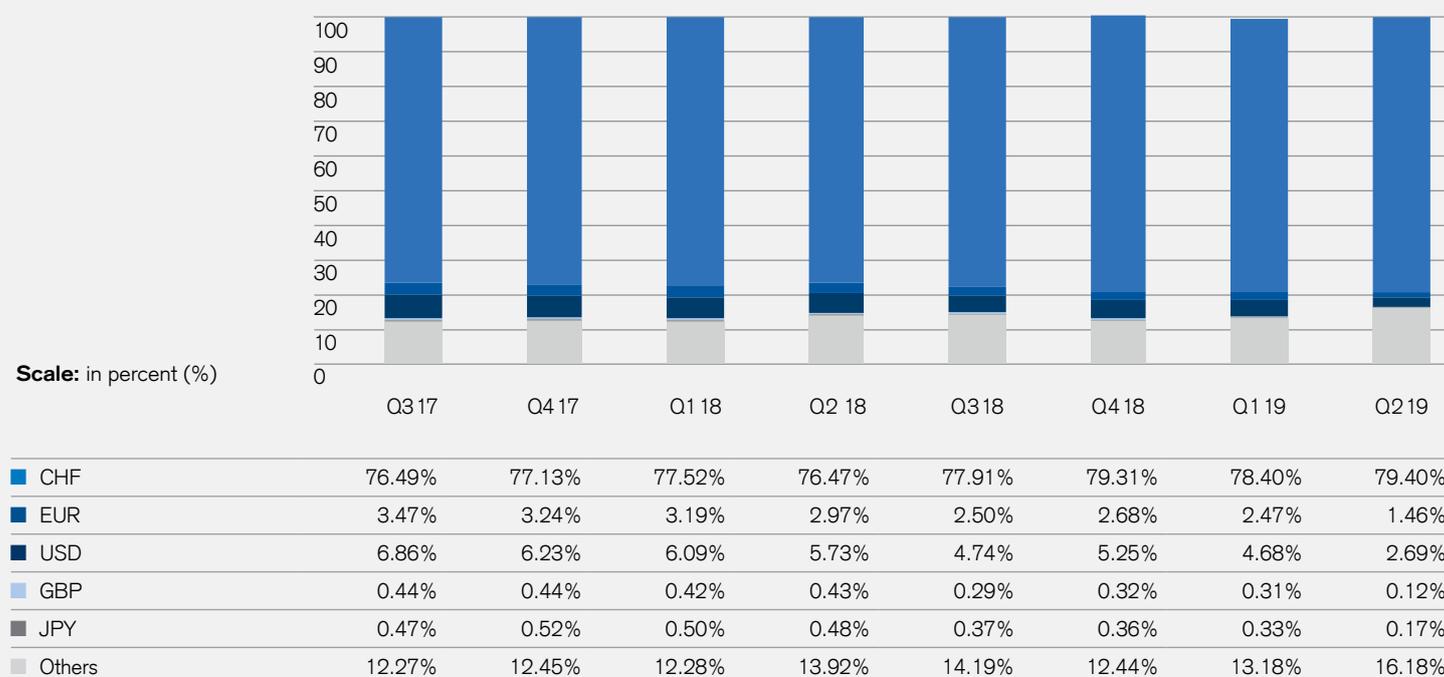


Table 11: Foreign exchange rates against the CHF, 2019

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
EUR	1.01%	–0.35%	–1.42%	2.12%	–1.85%	–0.94%							–1.48%
USD	0.64%	0.41%	–0.03%	2.32%	–1.29%	–3.07%							–1.10%
GBP	3.94%	1.53%	–2.06%	2.37%	–4.57%	–2.12%							–1.17%
JPY	1.49%	–1.83%	0.54%	1.64%	1.31%	–2.32%							0.75%

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, unless otherwise specified.

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



Best Swiss Global Custodian 2019
Best European Global Custodian 2019

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