

Credit Suisse Swiss Pension Fund Index Q2 2020



Credit Suisse Swiss Pension Fund Index

Pension funds compared

Q2 2020: 5.69%

YTD 2020: -1.87%

- Strong recovery
- Since the index began, performance has only been stronger in Q2 2003 (7.61%)
- Extremely positive return contribution from foreign equities

Market review

Global economic output fell sharply in the second quarter. Equity markets ended the three-month period significantly higher amid lower volatility. Yields on key government bonds remained low, while the US dollar lost ground against most major currencies.

- Economic activity slowed significantly due to the rapid spread of the pandemic and the government measures taken in response, including travel bans. Sectors such as energy, industrials, retail, and leisure were particularly badly affected. There is a strong likelihood that the measures taken to contain the pandemic will have caused the global economy to go into recession in the first half of 2020. Key central banks and governments responded in the form of unprecedented monetary and fiscal stimulus measures.
- Global economic output fell sharply in the second quarter as measures designed to combat the pandemic took effect. The biggest hit to business activity in Europe, the US, and other developed countries was seen in April. A gradual recovery took place as the quarter progressed, thanks to an easing of the lockdown in several countries. The Chinese economy continued to recover from its first-quarter low point. Governments in all regions of the world provided support to companies as well as households.
- Monetary policy likewise remained generally supportive. The US Federal Reserve (Fed) extended asset purchases and lending. The European Central Bank ramped up its pandemic emergency purchase program and further relaxed financing conditions for banks. The Bank of Japan likewise scaled up purchases of securities and also launched a new program to support bank lending. The Swiss National Bank and the Bank of England left key interest rates unchanged, while interest rates were cut by central banks in various emerging-market countries.
- The negative impact of COVID-19 on the global economy in the first quarter was also reflected in equities, which lost significant ground. A strong rebound nevertheless got underway in the second quarter. The US equity market gained more than 20% compared with the first quarter. European equity markets performed less well than the US equity market. The Swiss market gained 8% and was therefore one of the weaker equity markets. As for the emerging markets, equities in Latin America – most notably Brazil – made particularly significant gains; meanwhile, emerging markets in Europe, the Middle East, and Africa were underperformers. The information technology, consumer discretionary, and materials sectors outperformed utilities, consumer staples, and real estate, which were the worst performers. Although the Chicago Board Options Exchange Market Volatility Index (VIX) fell from its extreme levels of March 2020, it remained high in the second quarter.
- On the fixed-income side, yields on ten-year US government bonds remained below 1.0%; meanwhile, credit markets continued to recover. This was against a backdrop of supportive monetary and fiscal policy, especially in the US and Europe. Higher-risk assets recovered significantly, with high-yield bonds as well as fixed-income investments from emerging markets in hard currency achieving double-digit returns. This enabled them to outperform investment-grade bonds issued by companies from industrialized and emerging markets. Despite the improving conditions, corporate default rates increased due to the turnover shock as well as uncertainties related to COVID-19 worldwide.
- Volatility on currency markets eased in the second quarter, though it remained above the pre-crisis level. The US dollar remained stable against other major currencies in the early part of the quarter, before proceeding to weaken. The lower demand for dollar liquidity and lower hedging costs exacerbated the dollar's weakness. By contrast, the euro benefited from

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.

improving economic data as well as the EU recovery fund. Other, more cyclical currencies such as the Australian dollar, Norwegian krone, and New Zealand dollar appreciated against the US dollar during the second quarter of 2020. The Swiss franc gained versus the US dollar, but weakened against the euro. This took some pressure off the SNB's foreign exchange intervention strategy.

- The Credit Suisse Commodity Benchmark rose by 15% in the second quarter, having fallen sharply in the first three months of the year. Oil markets led the recent rebound, after producers

started to cut production dramatically; meanwhile, demand gradually began to recover in May following the reopening of economies. Precious metals as well as other metals made gains, though less than the benchmark. Precious metals benefited from falling US real returns and greater uncertainty, while other metals responded positively to the resumption of industrial activity – particularly in China. Agricultural prices remained subdued after large harvests in Latin America and higher spring plantings in the northern hemisphere.

Credit Suisse Swiss Pension Fund Index: Strong recovery in Q2 2020

- The Pension Fund Index rose by 9.84 points, or 5.69%, in the quarter under review; this gives a performance of –1.87% since the start of the year. As of June 30, 2020, the index stood at 182.65 points, based on a starting level of 100 points at the beginning of 2000. Since records began, performance has only been stronger in Q2 2003 (7.61%). April (+3.33%) was the strongest month, although May (+1.43%) and June (+0.84%) likewise ended in positive territory.

- The lion's share of positive performance in the second reporting quarter was attributable to equities (+4.08%). Swiss equities achieved a return contribution of 1.32%, while foreign equities made a contribution of 2.76%. Bonds (including convertible bonds) helped improve the result, with a performance contribution of 0.98%. Real estate also turned in a positive performance at 0.35%. Alternative investments and other investments were fairly unremarkable, but nonetheless ended in positive territory. Liquidity was likewise slightly positive.

Table 1: Performance contribution (quarterly)

Credit Suisse Swiss Pension Fund Index (1.1.2020–31.12.2020)

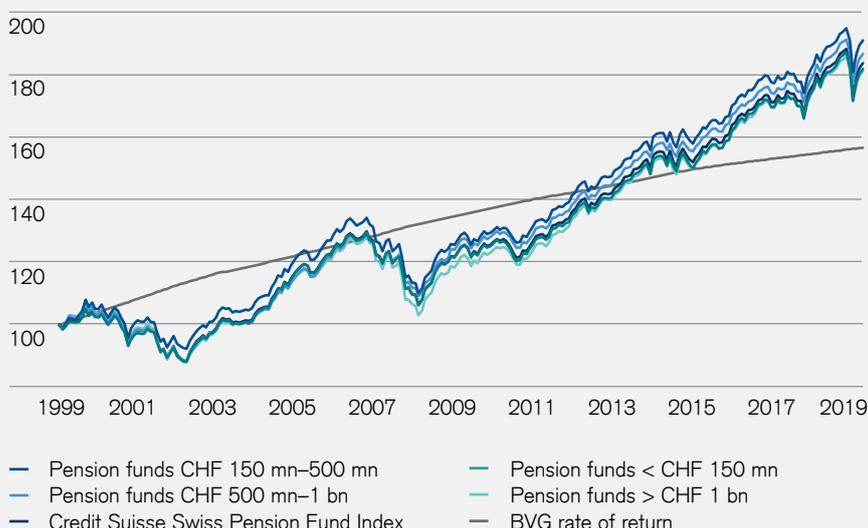
	Q1 20	Q2 20	Q3 20	Q4 20	YTD
Liquidity	0.02%	0.06%			0.08%
CHF bonds	-0.71%	0.72%			-0.04%
Foreign currency bonds	-0.28%	0.22%			-0.07%
Convertible bonds	-0.04%	0.04%			0.00%
Swiss equities	-1.58%	1.32%			-0.36%
Foreign equities	-3.86%	2.76%			-1.31%
Alternative investments	-0.24%	0.19%			-0.07%
Real estate	-0.42%	0.35%			-0.09%
Mortgages	0.00%	0.00%			0.01%
Other	-0.06%	0.04%			-0.02%
Total	-7.16%	5.69%			-1.87%

Credit Suisse Swiss Pension Fund Index above BVG mandatory minimum rate of return over long term

■ The index of the BVG mandatory minimum rate of return (1% p.a. since January 1, 2017) rose by 0.39 points (0.25%) to 155.93 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 5.44% above the BVG requirement in the second quarter of 2020.

■ The annualized return on the Credit Suisse Swiss Pension Fund Index (since January 1, 2000) amounted to 2.98% as of June 30, 2020. This contrasts with an annualized BVG mandatory minimum rate of return of 2.19%.

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 2015–2020

	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	181.14	181.37	182.27	183.16	185.49	186.14
2020	187.09	182.86	172.81	178.56	181.12	182.65						

Table 3: Monthly returns 2015–2020

	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%	0.92%	0.13%	0.49%	0.49%	1.27%	0.35%	11.48%
2020	0.51%	-2.26%	-5.49%	3.33%	1.43%	0.84%							-1.87%

Table 4: Performance by pension fund size segment in 2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
Credit Suisse Swiss Pension Fund Index	0.51%	-2.26%	-5.49%	3.33%	1.43%	0.84%							-1.87%
Pension funds > CHF 1 bn	0.47%	-2.27%	-5.41%	3.26%	1.34%	0.80%							-2.04%
Pension funds CHF 500 mn–1 bn	0.41%	-2.20%	-5.42%	3.20%	1.39%	0.79%							-2.05%
Pension funds CHF 150–500 mn	0.54%	-2.09%	-5.28%	3.32%	1.44%	0.83%							-1.46%
Pension funds < CHF 150 mn	0.54%	-2.53%	-5.89%	3.44%	1.52%	0.92%							-2.26%

Table 5: Annualized performance

1.1.2000–30.6.2020

	Annualized performance since January 1, 2000
Credit Suisse Swiss Pension Fund Index	2.98%
BVG rate of return	2.91%
Pension funds > CHF 1 bn	3.06%
Pension funds CHF 500 mn–1 bn	3.17%
Pension funds CHF 150–500 mn	2.93%
Pension funds < CHF 150 mn	2.98%

Performance by asset class

Monthly returns

Table 6: Credit Suisse Swiss Pension Fund Index in 2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
Liquidity	0.65%	-0.18%	0.07%	-0.06%	0.09%	1.12%							1.70%
CHF bonds	1.67%	0.65%	-4.68%	1.92%	0.34%	0.42%							0.17%
Foreign currency bonds	0.39%	0.03%	-5.66%	2.65%	1.47%	0.01%							-1.32%
Convertible bonds	1.72%	-1.87%	-9.56%	4.57%	2.72%	2.50%							-0.60%
Swiss equities	0.07%	-7.50%	-5.80%	5.23%	3.29%	1.68%							-3.63%
Foreign equities	-1.65%	-7.63%	-13.64%	10.16%	3.94%	2.07%							-8.30%
Alternative investments	0.09%	-0.67%	-3.14%	1.41%	1.27%	0.12%							-0.99%
Real estate	1.32%	-0.09%	-2.79%	0.87%	0.28%	0.27%							-0.20%
Mortgages	-0.05%	0.03%	0.19%	0.05%	0.09%	0.11%							0.42%
Other	0.21%	-3.30%	-9.87%	4.21%	1.25%	1.11%							-6.82%
Total	0.51%	-2.26%	-5.49%	3.33%	1.43%	0.84%							-1.87%

Table 7: Benchmark indices

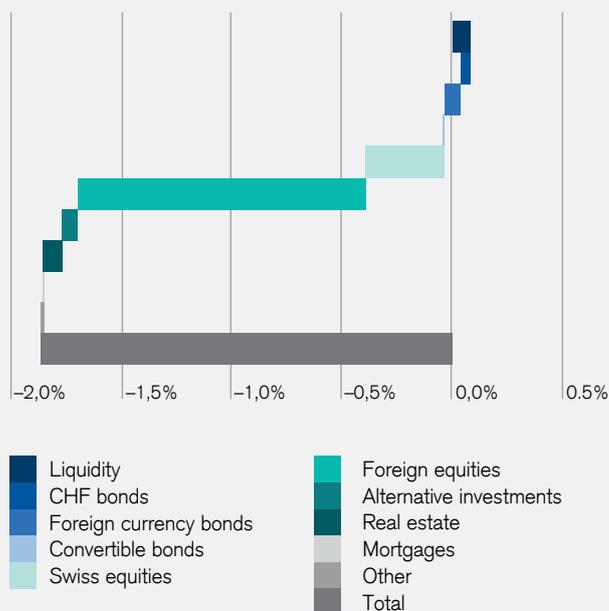
1.1.2020–30.6.2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
CHF bonds SBI AAA-BBB 1-15Y (TR)	1.32%	0.47%	-4.39%	1.39%	0.19%	0.26%							-0.88%
Foreign currency bonds Bloomberg Barclays Global Aggr. (TR)	0.87%	1.04%	-2.28%	1.71%	-0.02%	-0.49%							0.77%
Swiss equities SPI (TR)	0.26%	-7.56%	-4.86%	5.18%	2.86%	1.55%							-3.13%
Foreign equities MSCI AC World ex Switzerland (NR)	-1.56%	-7.75%	-13.79%	10.63%	3.91%	1.79%							-8.39%
Real estate direct/ investment foundations KGAST Immo-Index (Switzerland) (TR)	0.33%	0.32%	0.53%	0.37%	0.42%	0.33%							2.33%
Real estate funds SXI Real Estate Funds Broad (TR)	3.64%	-0.62%	-6.25%	2.79%	-1.14%	0.25%							-1.64%

Positive second-quarter return heavily driven by equities

- Swiss equities were positive in the quarter under review (10.52%) and outperformed the SPI (TR) (9.86%).
- Foreign equities were highly positive (16.88%), but very slightly underperformed the benchmark index MSCI AC World ex Switzerland (NR) (17.01%).
- Quarterly return of 4.17% for foreign currency bonds was positive and significantly ahead of the Bloomberg Barclays Global Aggr. (TR) (1.18%). This was presumably caused by a major exposure to corporate bonds and those in emerging markets, which generated significantly superior returns relative to the reference index.
- CHF bonds were positive (2.70%) and ahead of the SBI AAA-BBB 1–15Y (TR) (1.85%).
- Real estate was positive (1.42%) and slightly behind the benchmark (50% KGAST and 50% SXI Real Estate Funds Broad (TR)) (1.58%).
- Liquidity (cash, FX forwards for currency hedging) posted a positive return (1.15%).

Chart 2:
Contribution waterfall YTD 2020



Scale: Return in percent (%)

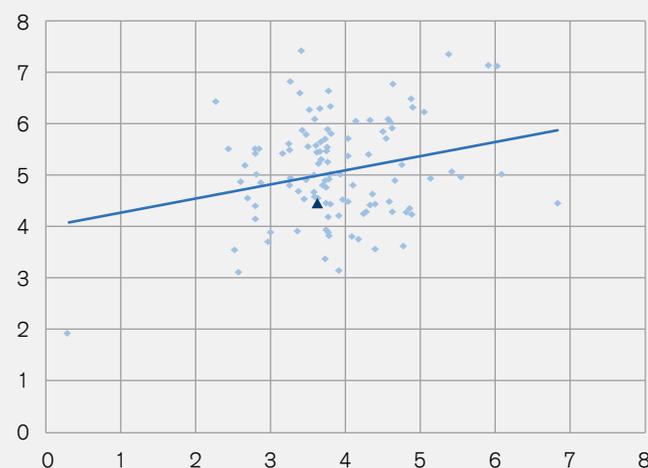
Risk/return positions

Five-year review: Rising annualized return in the reporting quarter, as annualized risk increases slightly

- The unweighted average annualized return in Q2 2020 rose by 1.48 percentage points compared with the first quarter of 2020 to 3.74% amid rising risk (+0.15% to 4.88%).
- The Sharpe ratio therefore improved from 0.63 to 0.90.
- Medium-sized pension funds (CHF 500 million to 1 billion) continue to exhibit the best risk/return ratio (Sharpe ratio of 0.95).
- Pension funds with an investment volume of above CHF 1 billion exhibit the highest median return (4.04%).
- Pension funds with an investment volume of between CHF 150 and 500 million show the lowest median return (3.73%).
- Pension funds with an investment volume of less than CHF 150 million show the lowest Sharpe ratio (0.85).

Chart 3:

Annualized risk and return comparison;
Five-year analysis, monthly values from July 2015 to June 2020



X-axis: annualized risk in percent (%)
Y-axis: annualized return in percent (%)
▲ : Credit Suisse Swiss Pension Fund Index

Table 8: Risk/return ratios

1.7.2015–30.6.2020

	Risk	Return	Sharpe ratio
Credit Suisse Swiss Pension Fund Index	4.88%	3.74%	0.90
Pension funds > CHF 1 bn	4.78%	3.72%	0.92
Pension funds CHF 500 mn–1 bn	4.51%	3.62%	0.95
Pension funds CHF 150–500 mn	4.75%	3.74%	0.93
Pension funds < CHF 150 mn	5.23%	3.77%	0.85

Table 9: Return bandwidths

1.7.2015–30.6.2020

	Minimum	1st quartile	Median	3rd quartile	Maximum
Credit Suisse Swiss Pension Fund Index	0.30%	3.45%	3.75%	4.35%	6.84%
Pension funds > CHF 1 bn	2.45%	3.59%	4.04%	4.60%	6.02%
Pension funds CHF 500 mn–1 bn	2.28%	3.58%	3.97%	4.48%	5.43%
Pension funds CHF 150–500 mn	0.30%	3.37%	3.73%	3.97%	6.84%
Pension funds < CHF 150 mn	2.52%	3.41%	3.77%	4.33%	6.08%

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

The risk/return figures in Table 8 are annualized values for the past five years. A portfolio only contributes to the return and risk of the index during the periods in which this portfolio is included in the index. The data points in Chart 3, by contrast, show the figures for the portfolios that were part of the index at the end of the reference quarter, regardless of the date they joined the index, as well as the figures for the index itself. The data points of recently added portfolios may have been removed if the annualization led to meaningless outliers.

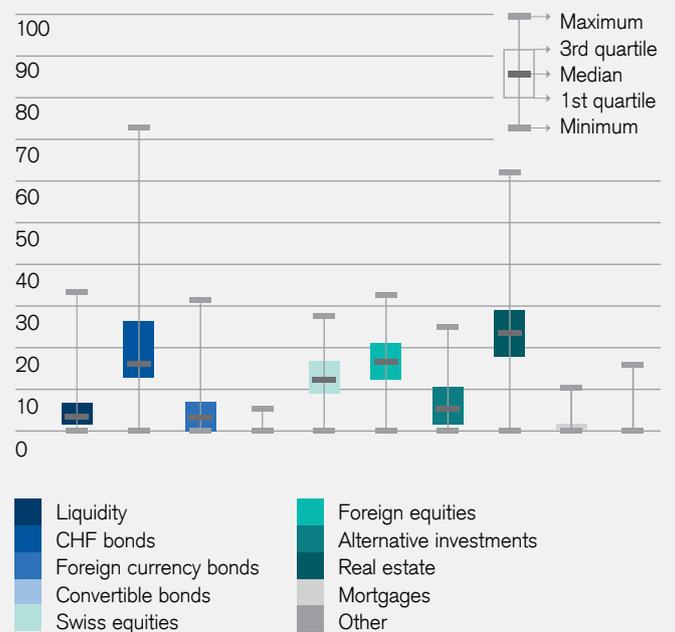
Asset allocation

Increases in equities; declines in most other asset classes

■ The rise in share prices led to a shift at the expense of other asset classes, with decreases in liquidity, real estate, Swiss franc bonds, alternative investments, and mortgages. The foreign currency bond component increased slightly. The foreign currency bond component increased slightly. Convertible bonds showed a marginally positive change in weighting.

- Foreign equities +1.33% to 17.56%
- Swiss equities +0.35% to 12.89%
- Foreign currency bonds +0.09% to 5.25%
- Convertible bonds +0.02% to 0.37%
- Mortgages -0.10% to 1.35%
- Alternative investments -0.18% to 6.52%
- CHF bonds -0.26% to 26.14%
- Real estate -0.59% to 24.15%
- Liquidity -0.79% to 5.21%

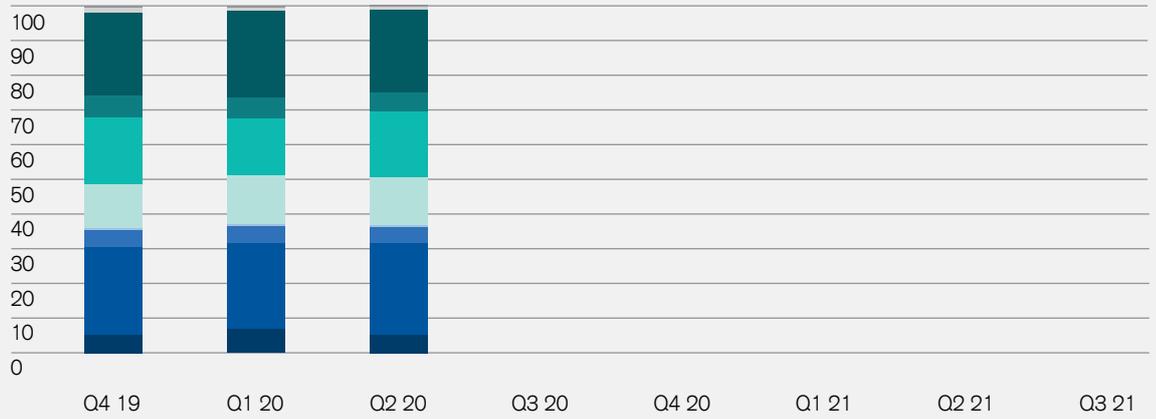
Chart 4:
Asset allocation



Scale: In percent (%)

Chart 5:

Asset allocation at the end of the quarter for the last eight quarters (start of new analysis method at the end of Q4 2019)



Scale: In percent (%)

	Q4 19	Q1 20	Q2 20
■ Liquidity	5.55%	6.00%	5.21%
■ CHF bonds	25.60%	26.40%	26.14%
■ Foreign currency bonds	5.23%	5.15%	5.25%
■ Convertible bonds	0.37%	0.34%	0.37%
■ Swiss equities	13.28%	12.55%	12.89%
■ Foreign equities	18.53%	16.23%	17.56%
■ Alternative investments	6.20%	6.69%	6.52%
■ Real estate	23.46%	24.74%	24.15%
■ Mortgages	1.36%	1.44%	1.35%
■ Other	0.43%	0.46%	0.58%

Increase in real estate

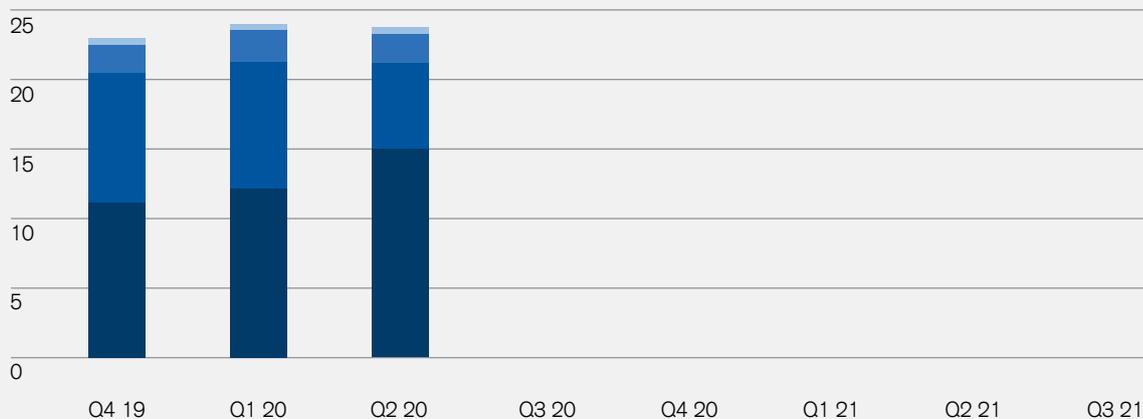
- The overall share of real estate fell at the end of the second quarter of 2020 (-0.59% to 24.15%).

- Swiss real estate fell slightly (-0.58% to 21.11%), with a shift toward direct investment (direct +2.90% to 14.97%; indirect -3.48% to 6.14%).

- Foreign real estate decreased slightly (-0.01% to 3.04%).

Chart 6:

Real estate allocation at the end of the quarter for the last eight quarters (start of new analysis method at the end of Q4 2019)



Scale: In percent (%)

■ Swiss direct investments / investment foundations	11.20%	12.07%	14.97%
■ Swiss investment funds	9.26%	9.62%	6.14%
■ Foreign hedged	2.03%	2.13%	2.12%
■ Foreign unhedged	0.97%	0.92%	0.92%
Total	23.46%	24.74%	24.15%

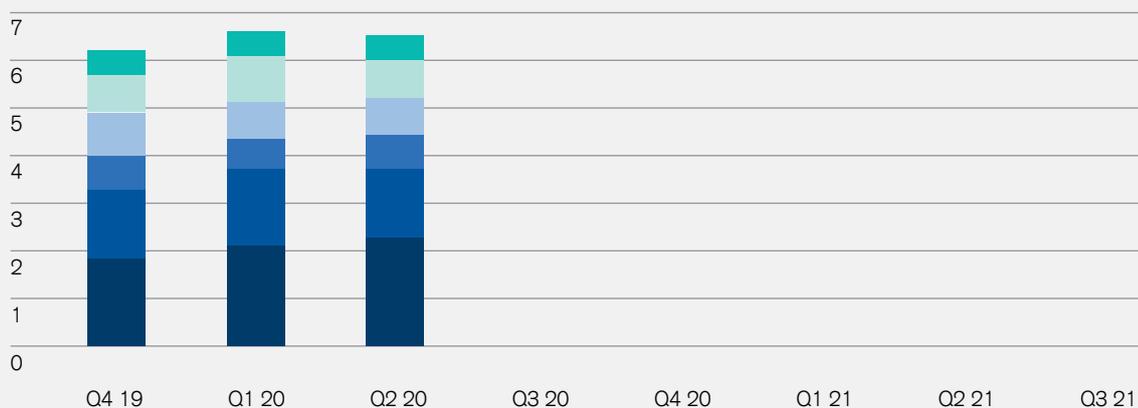
Slight reduction in alternative investments component

- The alternative investments component decreased compared with the previous quarter (−0.18% to 6.52%).
- The biggest loss was recorded in private equity (−0.10% to 1.45%).

- The hedge fund component increased slightly (+0.02% to 2.02%).
- The infrastructure component fell slightly by −0.01% to 0.92%.

Chart 7:

Allocation of alternative investments at the end of the quarter for the last eight quarters (start of new analysis method at the end of Q4 19)



Scale: In percent (%)

	Q4 19	Q1 20	Q2 20
■ Hedge funds	1.87%	2.01%	2.02%
■ Private equity	1.38%	1.54%	1.45%
■ Commodities	0.60%	0.66%	0.66%
■ Insurance-linked	0.92%	0.98%	0.89%
■ Infrastructure	0.86%	0.92%	0.92%
■ Senior loans	0.58%	0.58%	0.58%
Total	6.20%	6.69%	6.52%

Modified duration

- The modified duration for the overall index increased to 5.14 as of June 30, 2020.
- Pension funds with assets above CHF 1 billion exhibited the highest modified duration (6.06) as of the end of June 2020.

- The lowest modified duration as of the end of June 2020 (4.48) was observed in pension funds with investment assets of below CHF 150 million.

Table 10: Modified duration in 2020 (at month-end)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Credit Suisse Swiss Pension Fund Index	5.42	5.20	5.06	5.13	5.11	5.14						
Pension funds > CHF 1 bn	5.80	5.89	5.72	5.95	6.17	6.06						
Pension funds CHF 500 mn–1 bn	6.72	5.80	5.67	5.25	5.13	5.35						
Pension funds CHF 150–500 mn	5.08	4.74	4.60	4.86	4.76	4.79						
Pension funds < CHF 150 mn	4.73	4.72	4.57	4.52	4.49	4.48						

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

Decrease in Swiss franc component in the second quarter of 2020

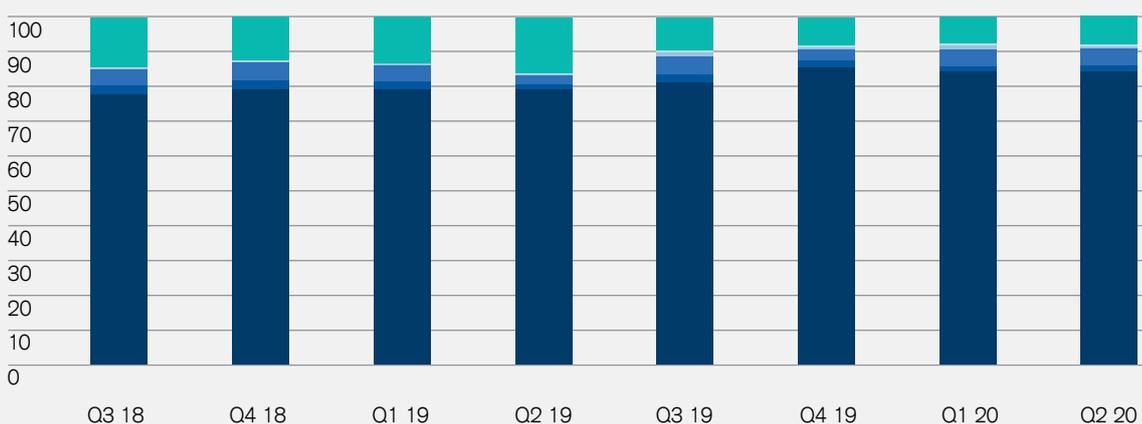
■ The current reporting quarter saw a slight shift at the expense of the CHF component, whose share fell to 83.82% (-0.23%). The EUR component fell marginally (-0.02% to 2.31%).

■ The other major currencies as well as the other currencies showed an increase:

- Other +0.15% to 7.10%
- JPY +0.07% to 0.70%
- GBP +0.02% to 0.76%
- USD +0.01% to 5.31%

Note: The currency allocations from the end of December 2019 were recalculated using the latest data, in particular on the currency breakdown of collective investments. This results in deviations from the figures published previously; on the other hand, the new figures give a more accurate view of developments in 2020.

Chart 8:
Currency allocation for the last eight quarters



Scale: In percent (%)

	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
■ CHF	77.91%	79.31%	78.40%	79.40%	81.33%	84.57%	84.05%	83.82%
■ EUR	2.50%	2.68%	2.47%	1.46%	2.31%	2.24%	2.33%	2.31%
■ USD	4.74%	5.25%	4.68%	2.69%	5.43%	4.41%	5.30%	5.31%
■ GBP	0.29%	0.32%	0.31%	0.12%	0.80%	0.78%	0.78%	0.76%
■ JPY	0.37%	0.36%	0.33%	0.17%	0.73%	0.57%	0.63%	0.70%
■ Other	14.19%	12.44%	13.18%	16.18%	9.40%	7.43%	6.95%	7.10%

Table 11: Foreign exchange rates against the CHF in 2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
EUR	-1.69%	-0.52%	-0.15%	-0.43%	1.09%	-0.41%							-2.35%
USD	-0.40%	0.36%	-0.04%	-0.25%	-0.46%	-1.37%							-0.08%
GBP	-0.90%	-2.75%	-2.96%	1.47%	-2.44%	-1.42%							-6.49%
JPY	-0.13%	0.85%	-0.12%	0.70%	-1.19%	-1.51%							0.59%

Source: Credit Suisse, unless otherwise specified.

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