

# Credit Suisse Swiss Pension Fund Index Q3 2019



# Credit Suisse Swiss Pension Fund Index

## Swiss pension funds by comparison

Q3 2019: +1.55%

YTD 2019: +9.16%

- Positive return in Q3 2019
- Strongest year since index began
- Extremely positive return contribution from Swiss franc investments
- Index calculated via new Credit Suisse Investment Analytics platform for first time

### Market review

Global economic growth remained weak in the third quarter of 2019. Equity markets rose slightly, while key government bond yields were low. Meanwhile, the USD appreciated against most leading currencies.

- Global economic growth was generally subdued in the third quarter of 2019 owing to weakness in manufacturing. The US announced a hike in tariffs on Chinese imports, causing a further escalation of trade tensions. Output levels in the US were rather subdued, although the labor market and consumer spending proved resilient. Trade data and business confidence readings in China suggest there is little prospect of growth picking up. In Europe, too, surveys remained close to their cyclical lows. This was mainly down to persistently depressed sentiment on account of trade as well as Brexit-related uncertainty.
- The US Federal Reserve (Fed) cut interest rates by 25 basis points at both meetings (July and September). Meanwhile, the European Central Bank lowered its deposit rate by 10 basis points and announced it would resume asset purchases in November. Various emerging-market central banks also reduced their interest rates. On the other hand, the Swiss National Bank, Bank of England, and Bank of Japan all left key interest rates unchanged.
- In global terms, equity prices advanced 0.7% during the third quarter. Share indices in developed countries outshone their emerging-market counterparts, mainly due to a 1.9% slide in Chinese stock prices. Utilities, real estate, and consumer staples were the best-performing segments overall, while energy and materials underperformed. Volatility grew, as illustrated by the rise in the Chicago Board Options Exchange Volatility Index (VIX). The Credit Suisse Hedge Fund Index gained 0.3% in the third quarter of 2019.
- On the fixed income side, bonds continued to post positive returns against a backdrop of concerns about global growth, trade tensions, and expectations of further interest rate cuts by the Fed over the next 12 months. Yields on ten-year US Treasury bonds normalized from a sub-1.5% level, while the yield curve remained inverted. The EUR and CHF yield curves remained largely negative. Spreads continued to be tight in the third quarter. Corporate bonds from developed countries and emerging markets alike delivered strong returns, exceeding those in the high-yield segment. Emerging-market bonds likewise delivered a robust performance in hard as well as local currency.
- The USD appreciated against most major currencies. The CHF and JPY essentially flatlined after a rally sparked by trade tensions between the US and China in early August. The EUR weakened on account of the economic deterioration in the euro zone, despite the reduced political risk in Italy. Uncertainty surrounding the UK's departure from the EU continued to weigh on the GBP. Emerging-market currencies weakened against the USD, particularly in the case of the ARS.
- The Credit Suisse Commodity Benchmark shed 3.3%. Falling real interest rates fueled outperformance by precious metals, while the base metals index likewise delivered positive returns despite a challenging economic environment. Supply disruptions in the Middle East led to increased volatility in the energy market.

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.

### Credit Suisse Swiss Pension Fund Index still riding high in the third quarter of 2019

The Pension Fund Index rose by 2.77 points, or 1.55%, in the quarter under review to record another strong quarter. As of September 30, 2019, the index stood at 182.27 points, based on a starting level of 100 points at the beginning of 2000. Following positive first and second quarters, the Pension Fund Index showed another very pleasing performance in the third quarter. July (+0.92%) was the strongest month, although both August (+0.13%) and September (+0.49%) likewise ended in positive territory.

The lion's share of positive performance in the third reporting quarter was attributable to equities (+0.56%). Swiss equities achieved a return contribution of +0.24%, while foreign equities made a contribution of +0.32%. Bonds and real estate also turned in a positive performance, contributing a total of +0.52% (bonds) and +0.45% (real estate) to the good overall result. Liquidity was the only exception, with a slightly negative contribution of -0.09%. 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 (1.1.2019–30.9.2019)

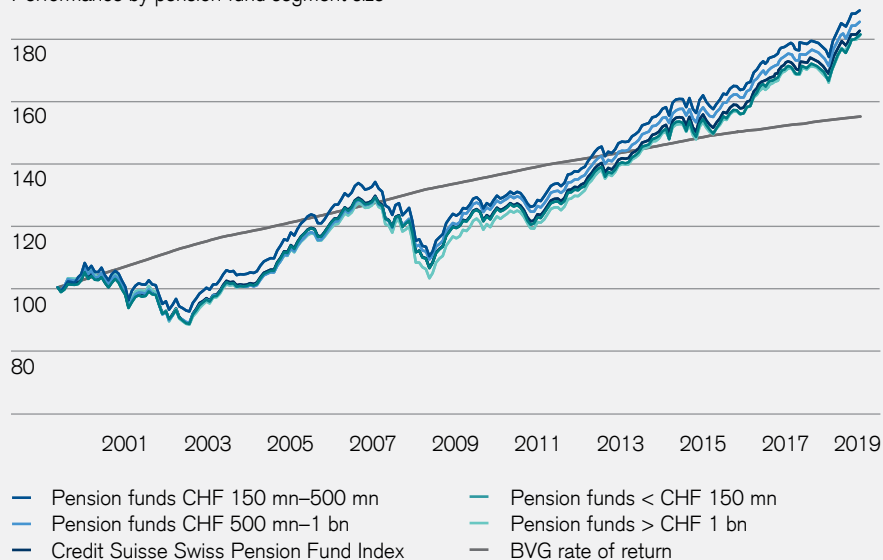
	Q1 19	Q2 19	Q3 19	Q4 19	YTD
Liquidity	-0,10%	0,04%	-0,09%		-0,12%
CHF bonds	0,52%	0,38%	0,36%		1,29%
Foreign currency bonds	0,26%	0,07%	0,14%		0,52%
Swiss equities	1,73%	0,84%	0,24%		3,03%
Foreign equities	2,20%	0,26%	0,32%		2,66%
Alternative investments	0,11%	0,02%	0,08%		0,20%
Real estate	0,72%	0,26%	0,45%		1,50%
Mortgages	0,03%	0,01%	0,02%		0,04%
Other	0,02%	0,00%	0,00%		0,04%
<b>Total</b>	<b>5,49%</b>	<b>1,91%</b>	<b>1,55%</b>		<b>9,16%</b>

### 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 a level of 154.77 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 1.30% above the BVG requirement in the third quarter of 2019.

The annualized return on the Credit Suisse Swiss Pension Fund Index (since January 1, 2000) amounted to 3.08% as of September 30, 2019. This contrasts with an annualized BVG mandatory minimum rate of return of 2.24%.

**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	179.15	176.66	179.49	181.14	181.37	182.27			

**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%	0.92%	0.13%	0.49%				9.16%

**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%	0.92%	0.13%	0.49%				9.16%
Pension funds > CHF 1 billion	2.96%	1.19%	1.05%	1.74%	–1.50%	1.60%	0.89%	0.15%	0.51%				8.86%
Pension funds CHF 500 mn–1 bn	2.83%	1.24%	1.15%	1.57%	–1.20%	1.31%	0.97%	0.13%	0.53%				8.81%
Pension funds CHF 150–500 mn	2.95%	1.23%	1.09%	1.66%	–1.31%	1.62%	0.95%	0.15%	0.41%				9.04%
Pension funds < CHF 150 mn	3.30%	1.29%	1.14%	1.82%	–1.50%	1.68%	0.88%	0.07%	0.58%				9.58%

**Table 5: Annualized performance**

1.1.2000–30.9.2019

	Annualized performance since January 1, 2000
Credit Suisse Swiss Pension Fund Index	3.08%
BVG rate of return	2.24%
Pension funds > CHF 1 bn	3.03%
Pension funds CHF 500 mn–1 bn	3.17%
Pension funds CHF 150–500 mn	3.27%
Pension funds < CHF 150 mn	3.04%

# 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%	−4.25%	1.38%	1.87%	−1.07%	−0.03%	−0.71%				−4.04%
CHF bonds	0.73%	0.15%	1.05%	−0.03%	0.81%	0.64%	0.98%	1.71%	−1.19%				4.86%
Foreign currency bonds	2.28%	0.13%	0.36%	1.55%	−0.54%	−0.02%	1.48%	0.63%	0.23%				6.46%
Swiss equities	6.89%	3.85%	2.17%	4.34%	−1.87%	3.73%	0.50%	−0.39%	1.76%				22.59%
Foreign equities	8.11%	2.86%	1.18%	5.13%	−6.64%	3.36%	1.60%	−2.44%	2.71%				16.31%
Alternative investments	1.23%	0.49%	−0.02%	0.99%	−1.03%	0.19%	0.74%	0.16%	0.35%				4.06%
Real estate	1.71%	0.62%	1.02%	0.37%	−0.25%	1.06%	0.92%	0.48%	0.47%				7.11%
Mortgages	0.18%	0.05%	0.36%	−0.06%	0.35%	0.03%	0.72%	0.98%	−0.75%				1.41%
Others	0.35%	0.14%	0.11%	0.20%	−0.18%	0.18%	−0.11%	0.04%	−0.14%				1.97%
<b>Total</b>	<b>3.05%</b>	<b>1.25%</b>	<b>1.10%</b>	<b>1.71%</b>	<b>−1.39%</b>	<b>1.60%</b>	<b>0.92%</b>	<b>0.13%</b>	<b>0.49%</b>				<b>9.16%</b>

**Table 7: Benchmark indices 2019**

1.1.2019–30.9.2019

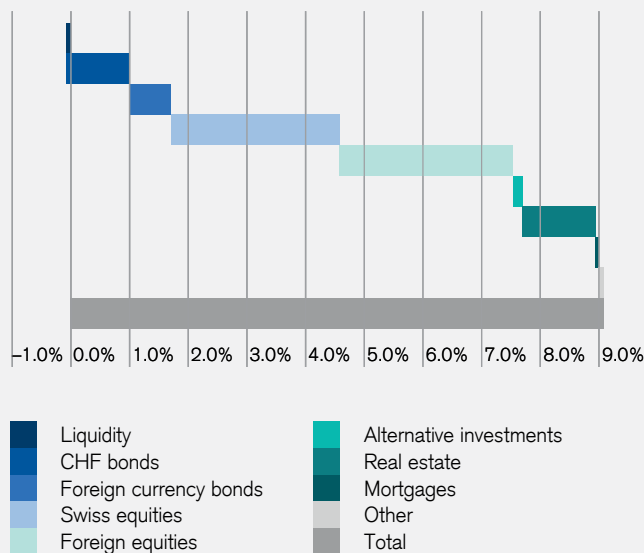
	Jan. 19	Feb. 19	Mar. 19	Apr. 19	May 19	Jun. 19	Jul. 19	Aug. 19	Sep. 19	Oct. 19	Nov. 19	Dec. 19	YTD
CHF bonds SBI AAA-BBB 1-15Y (TR)	0.43%	0.08%	0.90%	−0.18%	0.92%	0.24%	0.98%	1.13%	−1.31%				3.22%
Foreign currency bonds Bloomberg Barclays Global Aggr. (TR)	2.17%	−0.16%	1.22%	2.02%	0.05%	−0.92%	1.26%	1.98%	−0.25%				7.55%
Swiss equities SPI (TR)	6.96%	4.28%	2.52%	4.39%	−1.62%	3.75%	0.73%	−0.03%	1.43%				24.45%
Foreign equities MSCI AC World ex Switzerland (NR)	8.63%	3.06%	1.20%	5.83%	−7.30%	3.27%	1.86%	−2.50%	2.94%				17.35%
Real estate direct/ investment foundations KGAST Immo-Index (Switzerland) (TR)	0.32%	0.29%	0.40%	0.31%	0.37%	0.35%	0.39%	0.38%	0.59%				3.45%
Real estate funds SXI Real Estate Funds (TR)	4.74%	1.13%	2.40%	1.09%	−1.38%	4.47%	2.20%	−1.29%	0.15%				14.13%

### Positive third-quarter return heavily driven by equities and bonds

- Swiss equities were very positive in the quarter under review (1.87%), but lagged behind the SPI (TR) (2.14%).
- Foreign equities were positive in the third quarter (1.80%) but lagged behind the benchmark MSCI AC World ex Switzerland (NR) (2.24%).
- Quarterly return of 2.36% for foreign currency bonds was behind the Bloomberg Barclays Global Aggr. (TR), which stands at 3.00%.
- Swiss bonds posted a quarterly return of 1.48%, ending ahead of the SBI AAA-BBB 1–15Y (TR) (0.78%). This is partly explained by the fact that pension funds included in the index hold a relatively high proportion of bonds with long maturities, which performed very well in the third quarter.
- Real estate posted a positive quarterly return (1.89%), which was significantly above the benchmark (50% KGAST and 50% SXI Real Estate Funds Broad [TR]) (1.20%).
- Liquidity (cash, FX forwards for currency hedging) posted a negative return (–1.80%).
- The volatility of the returns for mortgages increased significantly over the past three months as the covered bonds are being identified much more systematically with the new platform.

**Chart 2:**

Contribution waterfall YTD 2019:



**Scale:** Return in percent (%)

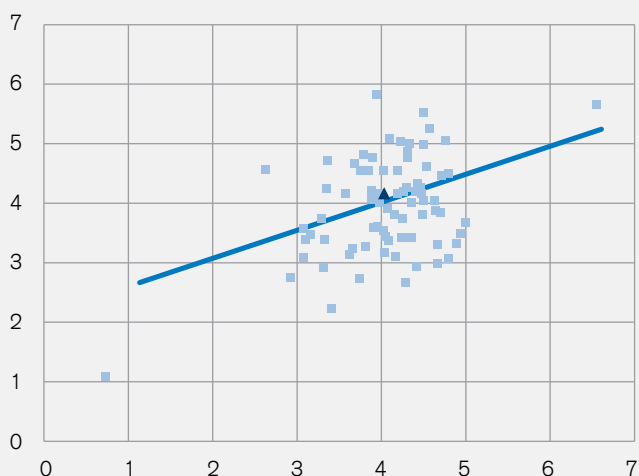
# Risk/return positions

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

- The unweighted average annualized return fell by 0.02 percentage points in Q3 2019 to 4.07% compared with the second quarter of 2019 amid falling risk (3.99%).
- The Sharpe ratio therefore improved from 1.15 in Q2 2019 to 1.18 in Q3 2019.
- Medium-sized pension funds (CHF 500 million to CHF 1 billion) continue to exhibit the best risk/return ratio (Sharpe ratio of 1.37).
- Medium-sized pension funds (CHF 500 million to CHF 1 billion) have the highest median return at 4.66%.
- Pension funds with an investment volume of between CHF 150 million and CHF 500 million exhibit the lowest median (4.23%), while at the same time the distribution of returns in this group is the most heterogeneous.

**Chart 3:**

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



X-axis: annualized risk in percent (%)  
Y-axis: annualized return in percent (%)  
▲: Q3 2019

**Table 8: Risk/return ratios**

1.10.2014–30.9.2019

	Risk	Return	Sharpe ratio
Credit Suisse Swiss Pension Fund Index	3.99%	4.07%	1.18
Pension funds > CHF 1 bn	3.81%	4.16%	1.25
Pension funds CHF 500 mn–1 bn	3.39%	4.03%	1.37
Pension funds CHF 150–500 mn	3.90%	4.03%	1.19
Pension funds < CHF 150 mn	4.32%	4.09%	1.09

**Table 9: Return bandwidths**

1.10.2014–30.9.2019

	Minimum	1st quartile	Median	3rd quartile	Maximum
Credit Suisse Swiss Pension Fund Index	0.72	3.89	4.31	4.69	6.55
Pension funds > CHF 1 bn	3.15	3.90	4.48	4.87	5.47
Pension funds CHF 500 mn–1 bn	2.63	3.95	4.66	5.12	6.10
Pension funds CHF 150–500 mn	0.72	3.93	4.23	4.63	6.51
Pension funds < CHF 150 mn	2.91	3.78	4.27	4.55	6.55

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 (1.10.2014–30.9.2019).

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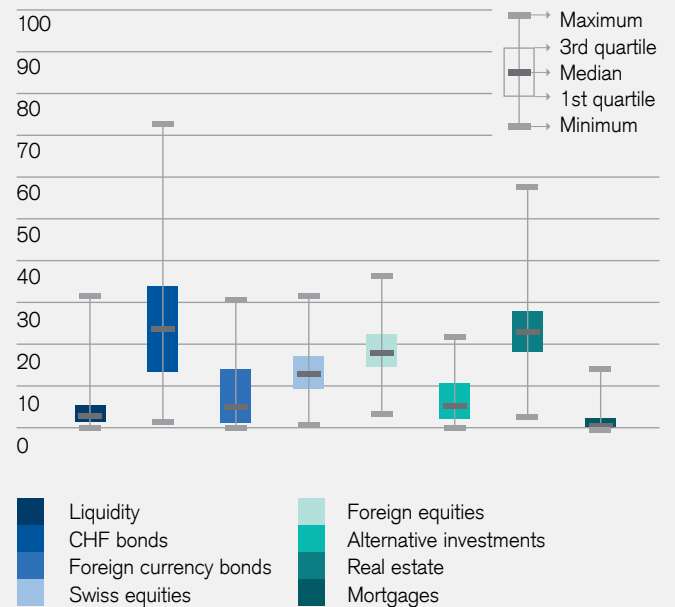
# Asset allocation

## Decrease in bonds and Swiss equities

- A decrease can be observed for Swiss equities (−0.51% to 13.02%) and bonds (CHF −0.78% to 25.12%, Foreign currency −0.26% to 6.02%). An increase can be seen for most other asset classes.
  - Liquidity −0.12% to 4.75%
  - Real estate +0.46% to 24.04%
  - Other investments +0.10% to 0.56%
  - CHF bonds −0.78% to 25.12%
  - Alternative investments +0.27% to 6.19%
  - Foreign currency bonds −0.26% to 6.02%
  - Foreign equities +0.17% to 18.10%
- Covered bonds and REITs are being identified and assigned to their respective asset class much more systematically with the new platform. This explains a part of the shift from bonds and equities to mortgages and real estate.

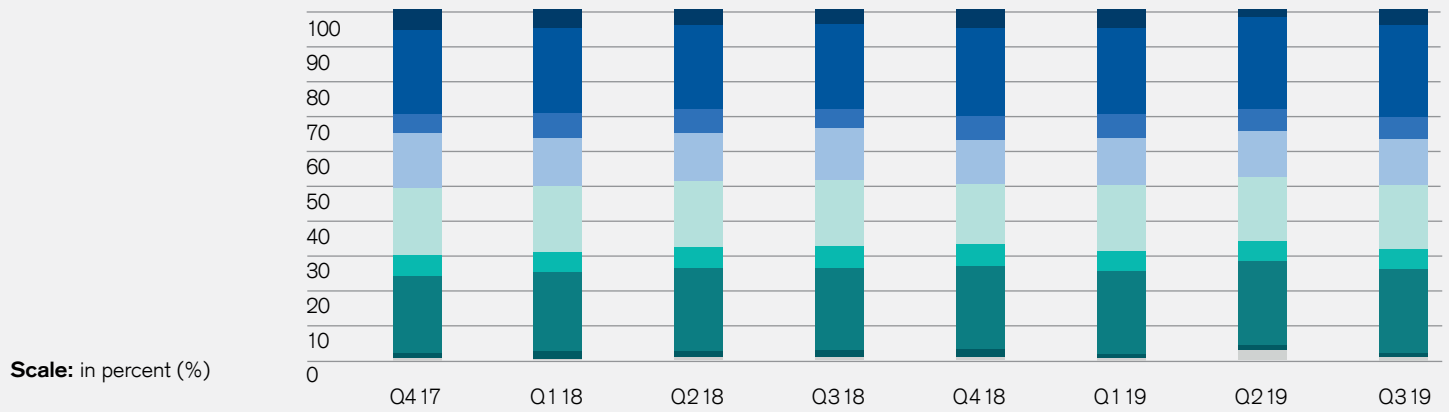
**Chart 4:**

Asset allocation



**Scale:** in percent (%)

**Chart 5:**  
Asset allocation for the last eight quarters

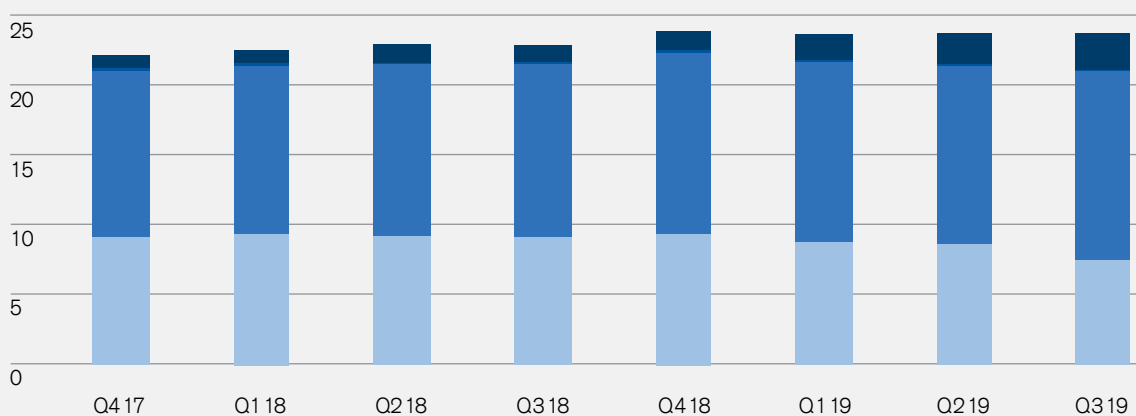


■ Liquidity	5.25%	5.22%	4.62%	4.39%	5.39%	5.25%	4.87%	4.75%
■ CHF bonds	23.87%	24.34%	24.15%	24.00%	25.09%	24.85%	25.90%	25.12%
■ Foreign currency bonds	6.82%	6.93%	6.66%	6.55%	6.58%	6.38%	6.28%	6.02%
■ Swiss equities	14.51%	13.88%	13.85%	14.22%	12.73%	13.59%	13.53%	13.02%
■ Foreign equities	19.24%	18.63%	18.58%	18.73%	16.96%	18.41%	17.93%	18.10%
■ Alternative investments	5.71%	5.89%	6.04%	6.01%	6.05%	5.52%	5.92%	6.19%
■ Real estate	22.02%	22.40%	22.84%	22.83%	23.74%	23.51%	23.58%	24.04%
■ Mortgages	2.09%	2.21%	2.11%	2.22%	2.28%	1.99%	1.52%	2.20%
■ Other	0.49%	0.50%	1.14%	1.06%	1.17%	0.50%	0.46%	0.56%

### Increase in real estate

- The total proportion of real estate was up as of the end of Q3 2019 (+0.46% to 24.04%).
- A shift was observed from direct to indirect Swiss real estate (direct -0.75% to 7.84%, indirect +0.50% to 13.23%).
- Indirect foreign real estate increased significantly (+0.73% to 2.92%).

**Chart 6:**  
Real estate allocation for the last eight quarters



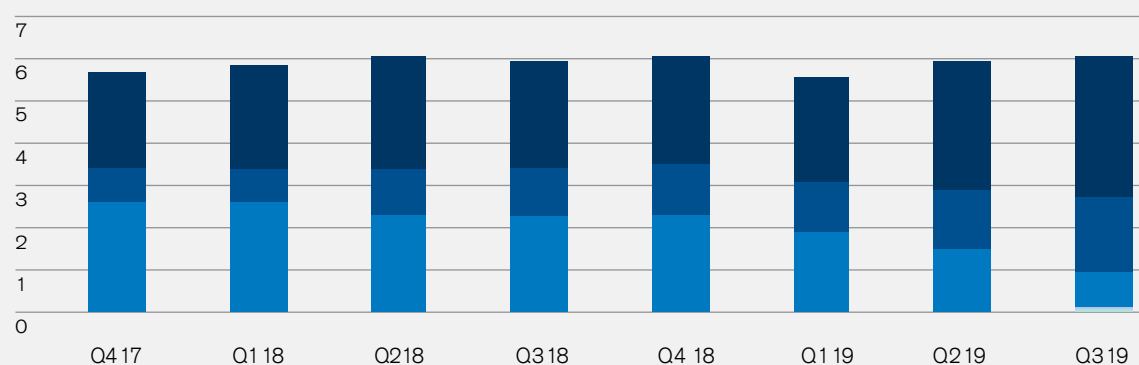
Foreign real estate, indirect	0.92%	0.92%	1.29%	1.22%	1.30%	1.77%	2.19%	2.92%
Foreign real estate, direct	0.15%	0.16%	0.17%	0.16%	0.19%	0.11%	0.07%	0.05%
Swiss real estate, indirect	11.87%	12.00%	12.19%	12.28%	12.94%	12.89%	12.73%	13.23%
Swiss real estate, direct	9.09%	9.33%	9.19%	9.17%	9.31%	8.74%	8.59%	7.84%
<b>Total</b>	<b>22.02%</b>	<b>22.40%</b>	<b>22.84%</b>	<b>22.83%</b>	<b>23.74%</b>	<b>23.51%</b>	<b>23.58%</b>	<b>24.04%</b>

### Increase in alternative investments component

- The alternative investments component increased compared with the previous quarter (+0.27% to 6.19%).
- The private equity component showed the biggest increase (+0.19 percentage points to 1.55%).

- The commodities component decreased (−0.87% to 0.62%).
- The hedge fund component increased by 0.11% to 3.18%.
- The infrastructure and other alternative investments categories have now been integrated.

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



Scale: in percent (%)

Hedge funds	2.34%	2.46%	2.65%	2.62%	2.63%	2.50%	3.07%	3.18%
Private equity	0.81%	0.80%	1.08%	1.09%	1.17%	1.16%	1.36%	1.55%
Commodities	2.56%	2.62%	2.30%	2.30%	2.26%	1.86%	1.49%	0.62%
Infrastructure								0.39%
Other								0.45%

### Modified duration

- The modified duration for the overall index increased significantly, reaching 5.74 as of September 30, 2019.
- Pension funds with assets of between CHF 500 million and CHF 1 billion exhibited the highest modified duration at the end of September 2019 of 6.78.

- The lowest modified duration as of the end of September (5.39) 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	5.62	5.66	5.74			
Pension funds > CHF 1 bn	4.76	4.91	5.30	5.58	5.60	5.59	5.59	5.71	5.73			
Pension funds CHF 500 mn–1 bn	5.81	5.29	6.38	6.39	6.53	6.50	6.56	6.60	6.78			
Pension funds CHF 150–500 mn	4.92	4.80	5.42	5.56	5.59	5.34	5.29	5.32	5.39			
Pension funds < CHF 150 mn	4.79	4.86	5.55	5.62	5.59	5.52	5.64	5.64	5.71			

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

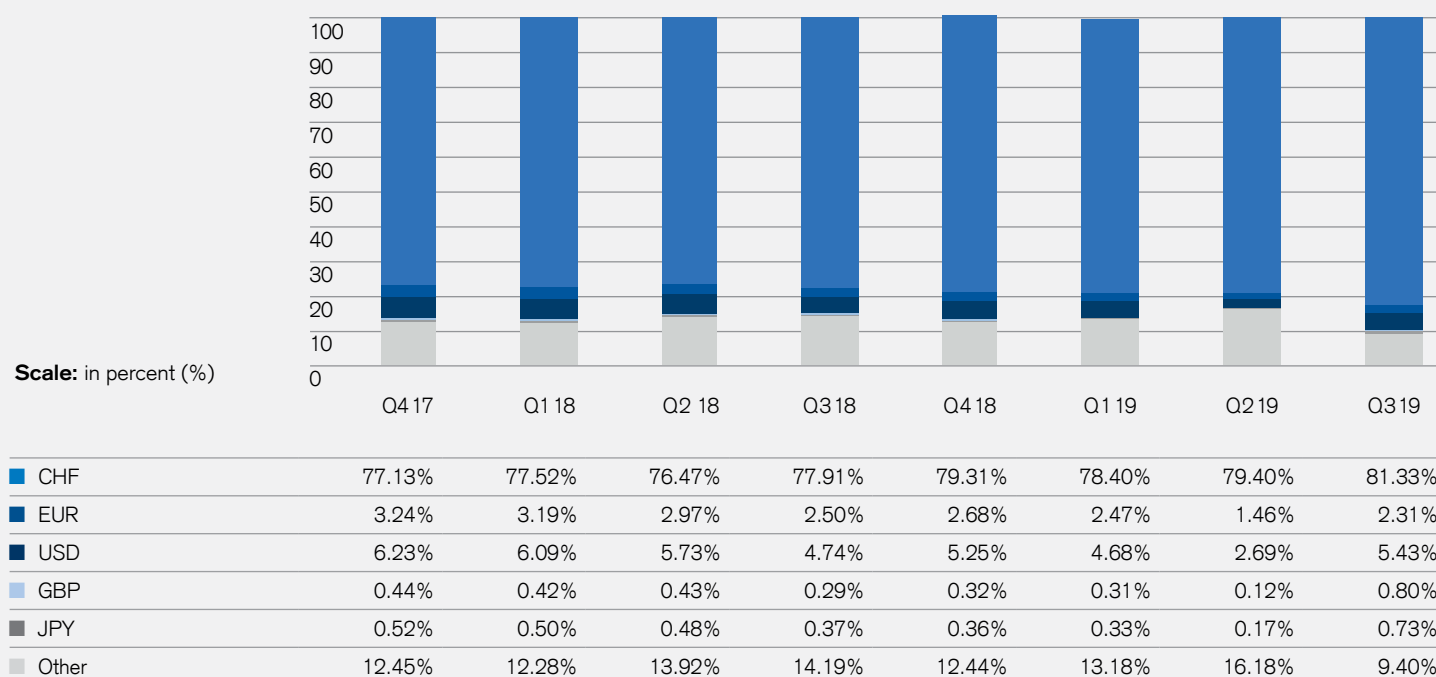
## Increase in Swiss franc component in the third quarter of 2019

- In the current reporting quarter, a positive shift was evident in the CHF component to 81.33% (+1.93%).
- The other currencies experienced a dramatic decline in favor of the major currencies, although it should be pointed out that considerable investment went into improving the quality of the data this reporting quarter; accordingly, the breakdown for

collective investment schemes is now presented on an even more consistent basis:

- JPY (+0.56% to 0.73%)
- GBP (+0.68% to 0.80%)
- USD (+2.74% to 5.43%)
- EUR (+0.85% to 2.31%)
- Other (–6.78% to 9.40%)

**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%	–0.73%	–1.15%	–0.23%				–3.54%
USD	0.64%	0.41%	–0.03%	2.32%	–1.29%	–3.07%	1.54%	–0.06%	0.78%				1.15%
GBP	3.94%	1.53%	–2.06%	2.37%	–4.57%	–2.12%	–2.31%	–0.59%	1.97%				–2.13%
JPY	1.49%	–1.83%	0.54%	1.64%	1.31%	–2.32%	0.76%	2.23%	–1.02%				2.71%

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.

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