Swiss Institutional Survey (www.institutionalsurvey.ch)

Nyon/Zurich, October 23, 2006 – **The 7th edition of the Swiss Institutional Survey (www.institutionalsurvey.ch) – which examines the investment characteristics of Swiss institutional investors, particularly pension funds – focused on the topical issue of 'Internal governance and the management of pension funds'. The results and figures from this survey for the period to June 30, 2006, are now available and provide interesting insights into currently contentious questions regarding the management of pension funds.**

The study provided the following findings:

- **Swiss pension funds do not believe that they display any significant structural shortcomings in terms of their organizational structure, operations or internal governance.** The current situation does not therefore require any new legislative provisions. Instead, it calls for the implementation of efficient and appropriate solutions within the context of the applicable regulations.

- **In the majority of cases, the members of the governing bodies do not receive compensation, while a minority receive a low level of compensation – mainly in the form of meeting attendance fees.** The representatives essentially do not receive appropriate remuneration for the personal and collective responsibility they have assumed or for the complex task of managing occupational benefits schemes, as well as for the time and energy involved in the management of the pension fund and the supervision of ongoing operations.

- **Financial incentive systems are rare. In general, the institutions do not consider it necessary to link their most senior managers' compensation to the achievement of financial targets.** Only one in ten institutions has created a financial incentive system for the members of its governing bodies and/or its internal specialist units that is based on the financial results it achieves. Although compensation in many sectors of the economy is linked to financial results, it was not possible to implement this approach in the area of occupational benefits schemes. This is partly attributable to the fact that this is a non-profit sector that is classed as social insurance. On the other hand, a large number of institutions are still regarded as an integral part of the company.

- **With annual compensation averaging between CHF 3,400 and CHF 4,000 per member, the remuneration paid to the members of the most senior management committee is low in relation to their level of responsibility.** If the annual compensation is multiplied by the number of members in the most senior management committee or the Investment Committee, the aggregate compensation paid to these two governing bodies is low: based on the average number of members in the most senior management committee, the average aggregate compensation paid to this

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governing body amounts to CHF 36,337. In the case of the Investment Committee (for securities), it averages CHF 19,890.

- **The most important areas of responsibility and intervention for an institution's most senior management committee are the selection of asset classes as well as the strategic weighting and the definition of investment ranges. Further key areas are the appointment of (a) the management, (b) the committees, (c) pension fund experts and (d) the auditor.**

- **The range of functions performed by the Investment Committee is less clearly defined and focused; it comprises the tactical positioning of assets, the selection of collective investment vehicles and the selection of portfolio managers. The decision-making authority relating to the selection of external portfolio managers lies partly with the most senior management committee and partly with the Investment Committee.**

- **Less than one third of the survey participants have an internal portfolio management function: they prefer to delegate asset management activities to external partners. Only half of the pension funds have an internal administrative unit.** The proportion is highest in the case of large institutions and public sector pension funds (62%).

- **In small and mid-sized institutions, the appointment of employer and employee representatives for the institution is – in most cases – regarded as an additional component of their work for the company.** This has the impact of reducing the autonomy of the institution, and the employer often has a large influence. For example, the employer is often responsible for the appointment of the management.

- **The equal representation of the employer and employees is not only the norm in the most senior management committee; it is also very common in the expert and special committees – particularly in the Investment Committee and Benefits Committee.** Public sector pension funds appear to practice equal representation more systematically and on a larger scale.

In summary, it can be stated that the majority of governing bodies do not receive compensation. If fees are paid, they are only based on financial results in a very small number of cases; very few financial incentive systems are in place. In terms of equal representation, it can be noted that this applies not only in the most senior management committee but, in most cases, also in the expert and special committees. Another interesting finding is that less than one third of the participants have their own internal portfolio management function; the majority of the institutions surveyed have delegated their asset management activities to an external partner.

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The first part of the results – concerning the pension barometer, performance, asset allocation, volatility, the coverage ratio and the fluctuation reserves – was published on October 3, 2006, and can be obtained from Lusenti Partners LLC, which organized the survey.

Additional information is available at:
www.institutionalsurvey.ch

Contact for media enquiries or to request further details, figures and charts:

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