# Swiss pension funds had an average performance of –5.46% in the first half of 2008 and –6.0% as of the end of September.

## Because of the banking and financial crisis, 2008 will probably be the worst year (with 1990) since the Pension Fund Act (PFA) was enacted, underscoring how exceptional it is likely to be. Only direct and indirect investments in domestic real estate had a positive performance in the first 9 months.

## -The cover ratio of all pension funds fell sharply to an average of 104% as of June 30, the same level as in the summer of 2005.

## -The greater vulnerability of the funds was confirmed by the approximately 6% reduction of asset price fluctuation reserves as of June 30.

## -The Pension Fund Barometer confirms the deterioration of investor sentiment, although the funds are not considering radically changing their asset allocations as those allocations were determined on a long-term basis.

## -There have been substantial differences in management efficiencies.

Nyon, October 10, 2008 - The *Swiss Institutional Survey* is an on-line semi-annual survey of Swiss pension funds. It is conducted by Lusenti Partners LLC in Nyon, Vaud. The 11th survey in the 3rd quarter of 2008 polled 152 mostly large institutions with total assets of CHF 218.7 billion accounting for around 35% of Swiss pension fund assets as of June 30, 2008. The average size of the respondents was CHF 1,439 million and the median size CHF 423 million.

## The average performance in the first half was –5.46 because of the decline of foreign-currency equities and bonds.

Swiss pension funds had an average performance of –5.46% (unweighted by assets) or –4.98% (weighted) in the first six months of the year to June 30. Only 4 out of 152 institutions had positive performances. During the period, the asset classes that contributed the most to the negative performance were foreign equities (down 17.5%), Swiss equities (down 14.5%), indirect foreign real-estate investments (down 6.8%) and foreign-currency bonds (down 3.1%). Alternative investments managed to limit the damage, with hedge funds down only 2.7% and private equity down 4.6%. Only 3 asset classes out of 10 had (modestly) positive performances: indirect and direct Swiss real-estate investments, up 3.1% and 2.5% respectively, confirming their status of stable performers, as well as commodities, up 13.6%, although they completely turned around during the 3rd quarter. As of September 30, i.e. the end of the 3rd quarter, the total (extrapolated) performance was –6.0% (unweighted by assets) or –5.6% (weighted). During the last 3 months to

September 30, the performance was aggravated by the continued decline of equities and the steepening of that of alternative investments, led by commodities and hedge funds. Throughout the period one of the greatest difficulties for investors was the increased short-term positive correlations of the different asset classes.

## The minimum PFA interest rate is too high given the currently available market returns.

The performances over the first 9 months confirm that the current minimum PFA interest rate of 2.5% is too high given the currently available market returns, and that it is important to make it more flexible over the short and medium terms and to immediately lower it to 2% or less.

## The cover ratio has fallen back to its summer 2005 level and asset price fluctuation reserves have declined substantially.

The very negative performances in the first half, well below both the minimum PFA rate of 2.5% and the basic rates of return of 3.5% or 4% used by many private and public-sector pension funds, have considerably reduced the cover ratios of the funds. They fell sharply, by close to 700 basis points compared with the end of 2007, to their levels in the summer of 2005, i.e. 103.9 (unweighted by assets), whereas a year ago the figure at the peak was 113.6 (also unweighted). The reduction was the greatest for the very large funds, from 102.9 to 94.3, while the cover ratios of the public-sector funds fell from 94.4 to 90.6. The private-sector funds did a bit better, with the highest ratio of 108.5, and even 109.6 for the smaller funds and 109.1 for the medium-sized ones. During the 3rd quarter, the cover ratio continued to decline, by at least 60 basis points.

## Asset price fluctuation reserves fell by about as much as the cover ratios.

They too fell to their levels of the summer of 2005, and they amounted to around 6% (unweighted by assets), whereas they had been at their peaks of a little more than 12% exactly a year earlier. Those reserves were higher in the smaller and medium-sized funds.

## Cash was overweighted, foreign equities were underweighted while the allocation of alternative investments was increased.

As in previous surveys, we found a significant tactical overweighting of cash and an underweighting of not only CHF bonds but also foreign equities. In both cases, that is a sign of a cautious and defensive approach given market developments, particularly that of equity markets. The weightings of alternative investments, i.e. hedge funds, commodities and private equity, continued to increase, to almost 7%, because of the decline of equities and of additional investments in alternative assets.

## Pension funds, a stability factor in market upheavals

The data collected by the survey, particularly the Pension Fund Barometer and tactical allocations, suggest that respondents did not massively increase their cash positions, drastically reduce their allocations in the riskiest assets, i.e. equities, or consider dramatically changing their strategic allocations – even if they were very worried about their overall performances, market volatility and the sharp declines of their cover ratios. Their responses also confirmed that they remained confident in pension-fund administration, the area they are most familiar with. Those observations show that the pension funds are sticking to their status as long-term investors and that, most often, they avoid too active an approach that might have uncertain results, making them a factor of stability in the markets.

## The second part of the results will be published on 30.10.2008 and will concern the current topic "Reporting and Controlling".

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All of the Survey's respondents receive, next to the Survey Report (Part 1 and 2) a personalized comparison of their key figures under the title of *Peer Group Comparison.* In order to provide them with more added value, we have considerably broadened the comparison by integrating volatility data and historical series. We now calculate two additional indicators, i.e. risk-adjusted performance and the pension fund Sharpe ratio.

## You can find more information under: www.institutionalsurvey.ch

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