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SWISS PENSION FUNDS HAD AN AVERAGE PERFORMANCE OF 2.3% IN 2007 – DIRECT INVESTMENTS IN DOMESTIC REAL ESTATE AND ALTERNATIVE INVESTMENTS HAD THE BEST PERFORMANCES – THE PENSION FUND INDICATOR CONFIRMED A SHARP DETERIORATION OF INVESTOR SENTIMENT – THE RISK-ADJUSTED PERFORMANCE (AVERAGE: +0.4) AND THE PENSION FUND SHARPE RATIO (AVERAGE: 0), TWO EFFICIENCY INDICATORS, SHOW THAT THERE WERE SUBSTANTIAL DIFFERENCES BETWEEN THE BEST AND WORST RESULTS – COVER RATIO AND ASSET PRICE FLUCTUATION RESERVES DECLINED

Nyon, April 21, 2008 – The *Swiss Institutional Survey* is an on-line semi-annual survey polling Swiss pension funds and other institutional investors. It is conducted by **Lusenti Partners LLC** in Nyon (VD). The latest survey, conducted during the first quarter 2008, polled 155 mostly large institutions with total assets of CHF 239 billion, accounting for around 40% of Swiss pension fund assets as of December 31, 2007. The average size of the respondents was CHF 1.542 billion and the median size CHF 480 million.

An average performance of 2.3% due to the positive contribution of direct investments in Swiss real estate and alternative investments, i.e. commodities private equity and hedge funds

According to the 10th *Swiss Institutional Survey*, Swiss pension funds had an average performance of 2.3% in 2007. The asset classes which contributed to that result were direct investments in Swiss real estate (5%) and, especially, alternative investments, i.e. commodities (11% in CHF terms), private equity (over 8.3%) and hedge funds (5.6%). Some of the most representative asset classes in the portfolios, i.e. Swiss stocks and bonds denominated in CHF, did not have very good performances, i.e. close to 0%, while foreign stocks and bonds denominated in foreign currencies outperformed their domestic counterparts. Indirect investments in foreign real estate declined. Four respondents had negative performances last year while 76, or nearly half of the total, had performances below the minimum Pension Fund Act basic rate of return (2.5% in 2007), indicating that that rate was too high.

The cover ratio fell below its level at the end of 2006 and asset price fluctuation reserves declined slightly.

The average performance in 2007 was lower than the Pension Fund Act's basic rate of return of 2.5%. Many institutions, especially the larger and public sector

ones, use a higher technical rate, i.e. 3.5% or 4%, and for those in particular, underperformance resulted in a reduction of the cover ratio. That ratio declined to below its level at the end of 2006. For the respondents, it is now 110.6% in holdings not weighted by assets and 104.3% in weighted holdings. Private-sector pension funds still had comfortable ratios, i.e. 115.9% for non-weighted holdings and 111.0% for weighted holdings. Like the cover ratio, the asset price fluctuation reserves, which amounted to 11% at the end of 2007 in holdings not weighted by assets and 8% in weighted holdings, declined to below their levels at the end of 2006. The fall of the major markets in the first few months of 2008 will further significantly reduce those reserves to close to their – insufficient – levels at the beginning of the decade.

Overweighted cash and underweighted CHF bonds.

As was the case in our previous surveys, there was a substantial overweighting of cash and a significant underweighting of CHF bonds. In the first case, that is a sign of a cautious approach to the markets and in the second, a confirmation of the reduced appeal of domestic CHF bonds because of their low returns.

The indicative volatility of the respondents' portfolios was 6.9%.

We calculated the indicative volatility of each respondent's investments and the average values for the sample using representative benchmarks. That risk indicator makes it possible to integrate an additional dimension into the analysis. Although volatility did increase sharply for certain asset classes, particularly equities, during the 2nd half of 2007, the impact on the portfolios' total volatility was fairly modest. Volatility for the sample rose from 6.6% at the end of 2006 to 6.9% at the end of 2007. A comparison of types of pension funds shows that the public-sector ones had the highest volatility at 7.4%.

The risk-adjusted performance and the pension fund Sharpe ratio show substantial efficiency differences.

2 new asset-management efficiency indicators were computed, *the risk-adjusted performance and the pension fund Sharpe ratio*. The first is the ratio of effective performance to effective volatility; the higher it is, the greater management efficiency is per unit of risk. In 2007, because of the modest total performances, the average ratio was low at +0.4, but there were substantial differences between the best results (maximum +1.3) and the worst (maximum -0.4), indicating efficiency divergences. We created the pension fund Sharpe ratio by replacing the risk-free investment (cash) with the minimum basic rate of return in the conventional formula, i.e. 2.5% in 2007. That adjusted Sharpe ratio shows the outperformance by unit of risk compared with the minimum basic rate of return. That indicator makes it possible to integrate the minimum Pension Fund Act performance required by law into the analysis and to show how relevant that performance is. In 2007, the average value for the sample was 0, the lowest -0.8 and the highest +0.8, indicating substantial differences in management efficiency.

The second part of the results will be published on 07.05.2008 and will concern the current topic "Types of asset management and investment implementation".

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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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