

“An Overview of the Swiss Pension System”

Role of Investment Consultants in Switzerland

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- Introduction
- Size of the market
- Role of investment consulting in Switzerland
- A “Swiss Speciality”: Investment Controlling
- Examples of applications

I was asked by the EPFIF to give an overview of the role of investment consultants in Switzerland:

THE BAD NEWS:

The role of investment consulting in Switzerland is similar to other European Countries. So there is the risk that you will be bored...

THE GOOD NEWS:

There are still some interesting differences...

Size of the Swiss Investment Consulting Market

- The size of the “investment consulting market” in Switzerland can only be estimated:

Aufgliederung der erhobenen Vermögensverwaltungskosten			
	Volumenanteil	Vermögensverwaltungskosten	
	in %	in bp	in %
Total Expense Ratio (TER)		33.0	73.4%
Aktien	25.7%	5.6	12.4%
Nominalwerte	52.5%	4.4	9.7%
Immobilien	15.4%	7.7	17.1%
Alternative Anlagen	6.4%	14.9	33.2%
Mehrwertsteuer (7.6% auf externe Mandate)		0.5	1.1%
Transaktionskosten und Steuern (TTC)		10.0	22.2%
implizite Transaktionskosten		3.6	8.0%
explizite Transaktionskosten		0.5	1.2%
Transaktionssteuern		2.0	4.5%
Ausländische Quellensteuern		3.8	8.5%
Vermögensverwaltungskosten i.w.S. (SC)		2.0	4.4%
Global Custody		1.0	2.3%
Beratung & ALM		0.2	0.4%
Controlling		0.4	0.9%
Rechtsberatung		0.1	0.1%
interner Aufwand		0.2	0.4%
Mehrwertsteuer (7.6% auf externe Dienstleistungen)		0.1	0.3%
Volumengewichtete Gesamtgebühr in bp		45.0	100.0%

- “ALM, Consulting and Controlling” make up approx. 1.3% of the total investment costs of Swiss Pension Funds (estimated to be CHF 3900 mn). This means **0.6 bp out of a total of 45 bp**.
- This implies a **maximum total fee volume for investment consulting in Switzerland of approx. CHF 51 mn**.
- Given that investment consultants in Switzerland employ approximately more than 250 people, the “fees per capita” in investment consulting are comparable to engineering services but much lower compared to banking services.

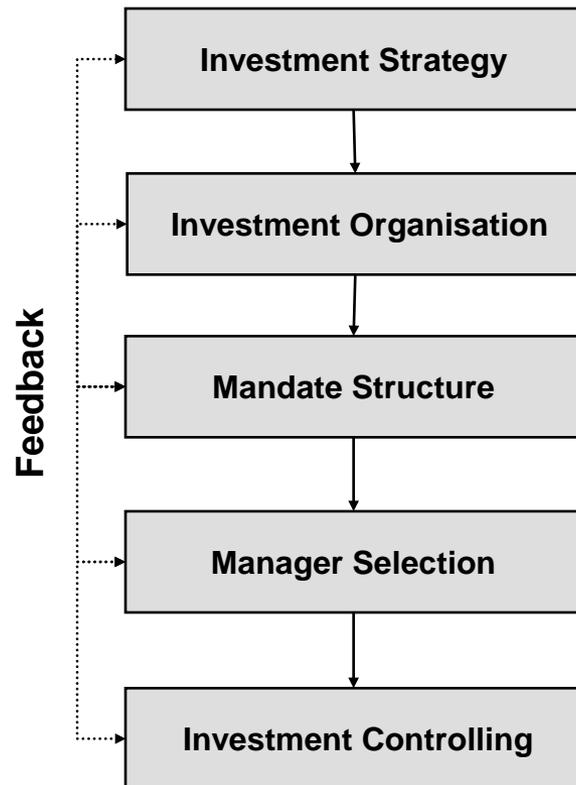
Source: “Kostenstudie des BSV”, p29

Role of investment consultants in Switzerland:

Investment process

- As in many other countries investment consultants are used along the whole investment process:

Investment Process



- ▶ ALM-Studies
- ▶ Investment Regulations
- ▶ Efficient portfolio structure
- ▶ Manager selection and procurements
- ▶ Ongoing monitoring of the investment results

Role of investment consultants in Switzerland: Investment controlling

- A “speciality” in Switzerland is **Investment Controlling**:
 - For many pension funds the investment consultant acts as an investment controller.
 - The investment controller normally **reports directly to the board of trustees.**
 - Advantages:
 - **Independent interpretation** of the investment results (especially important if assets are managed internally)
 - Economies of scale: “**information gathering**”
 - Disadvantages:
 - Internal controlling **know-how might be lost**
 - **Time lag**: reports are later than the custody reports
- On the following slides some applications of the “information gathering” function are shown.

Investment Controlling:

Information gathering: Absolute Performance

- *How do my returns compare to other pension funds with a structure **similar** to my fund?*

PPCmetrics Universe: Peer Group Comparison - Absolute Returns

Peer Group: Tot.Assets >25% <35% equities / Time series 01.07.2008 - 30.06.2011

	Q1/2011*	Q2/2011*	YTD 2011*	2010**	2 years**	Time series**
Best result	1.15%	0.60%	0.66%	8.86%	6.72%	3.49%
Top 25%	0.89%	-0.65%	0.04%	3.86%	5.91%	2.64%
Mean	0.62%	-0.89%	-0.30%	3.28%	5.30%	2.40%
Median	0.69%	-0.92%	-0.25%	3.22%	5.34%	2.38%
Lower 25%	0.42%	-1.19%	-0.64%	2.54%	4.64%	2.16%
Worst result	-0.22%	-1.90%	-1.33%	0.94%	3.59%	1.33%
Number of mandates	40	34	34	40	31	26

* Cumulative returns

** Annualized returns

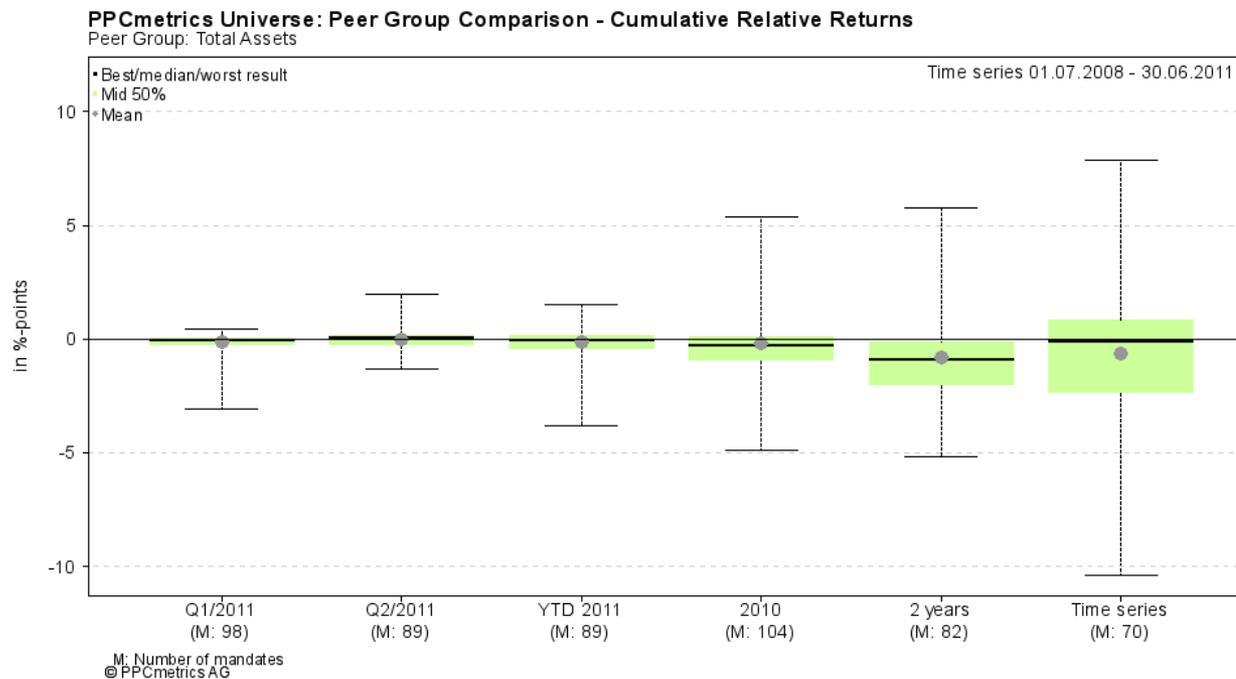
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- ▶ *A peer group which takes into account the structure of a pension fund (e.g., the strategic equity quota) allows meaningful comparisons.*

Investment Controlling:

Information gathering: Relative performance

- ***Were pension funds able to add value compared to their specific strategy?***



- ▶ ***In the past 3 years, the average pension fund achieved a return which was slightly below the individual strategy.***

Investment Controlling: Information gathering: Fees

- *Do I pay too much for my active global stock mandate?*

PPCmetrics Comparison of Fees - Medium
Peer Group: Aktien Welt aktiv

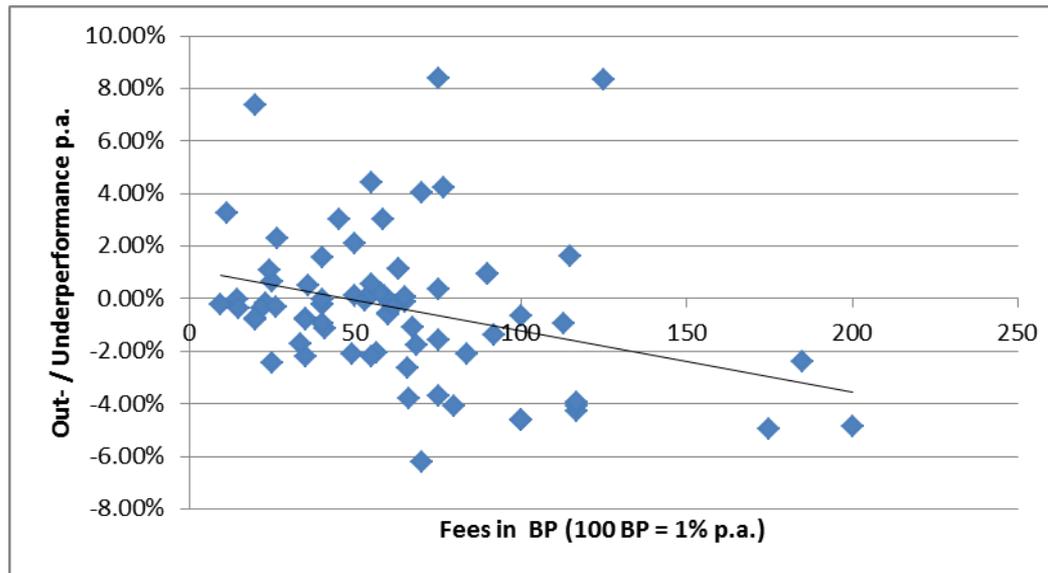
Date: 30.06.2011	75 Mio.	100 Mio.	125 Mio.	150 Mio.	200 Mio.	250 Mio.	300 Mio.
Highest Fee	68.33 bp	65.00 bp	65.00 bp	65.00 bp	57.50 bp	57.00 bp	56.67 bp
Top 25%	56.78 bp	55.00 bp	50.50 bp	50.50 bp	47.00 bp	43.75 bp	45.00 bp
Mean	43.13 bp	39.57 bp	37.05 bp	36.29 bp	33.58 bp	31.90 bp	32.20 bp
Median	41.01 bp	40.50 bp	36.48 bp	35.30 bp	33.87 bp	32.34 bp	32.15 bp
Lower 25%	32.50 bp	22.88 bp	19.50 bp	23.75 bp	21.25 bp	18.50 bp	20.00 bp
Lowest Fee	10.00 bp	9.50 bp	8.80 bp	8.33 bp	7.75 bp	7.20 bp	6.83 bp

- ▶ **A fee peer group allows to judge whether the fees of a mandate are in line with the market**

Investment Controlling:

Information gathering: Performance vs. Fees

- *Is there a relation between the fees and the outperformance?*

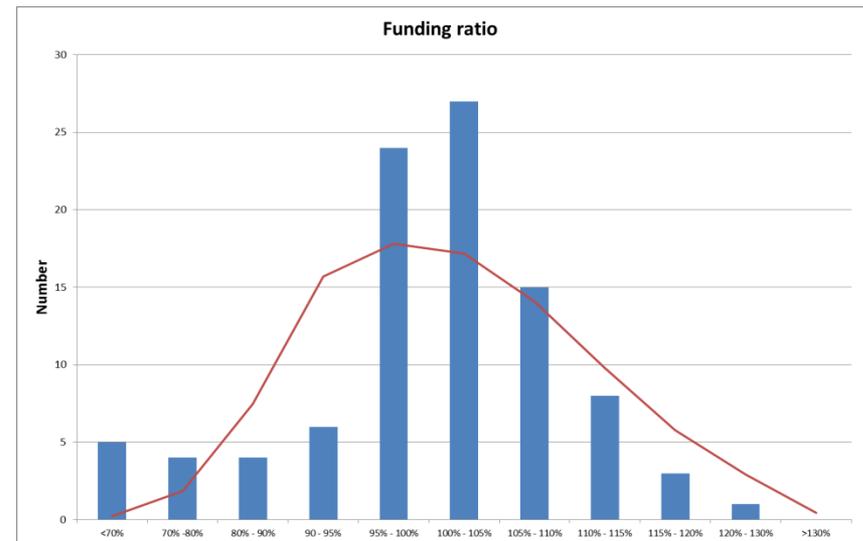
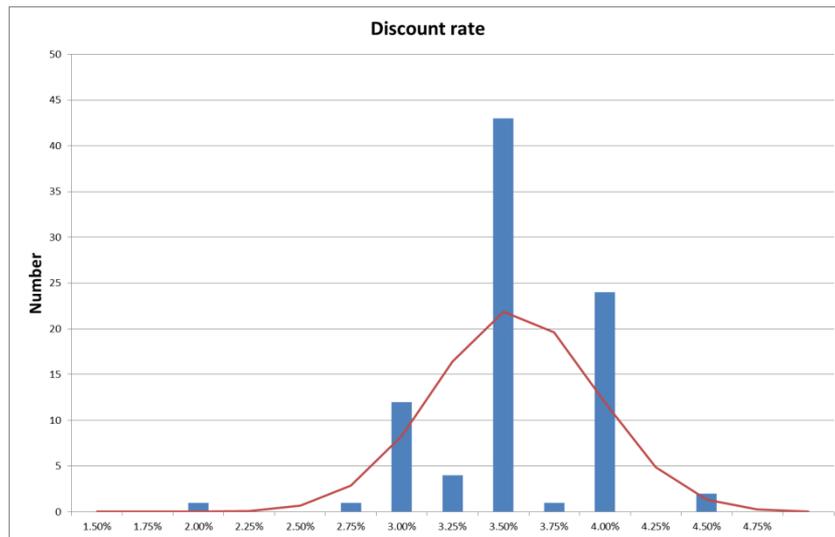


- ▶ **Based on a sample of 76 active mandates we found a negative relation between the fees and the outperformance. More expensive mandates performed worse than the cheaper ones.**

Investment Controlling:

Information gathering: Funding ratios and discount rates

- *Is my funding ratio comparable to other pension funds?*

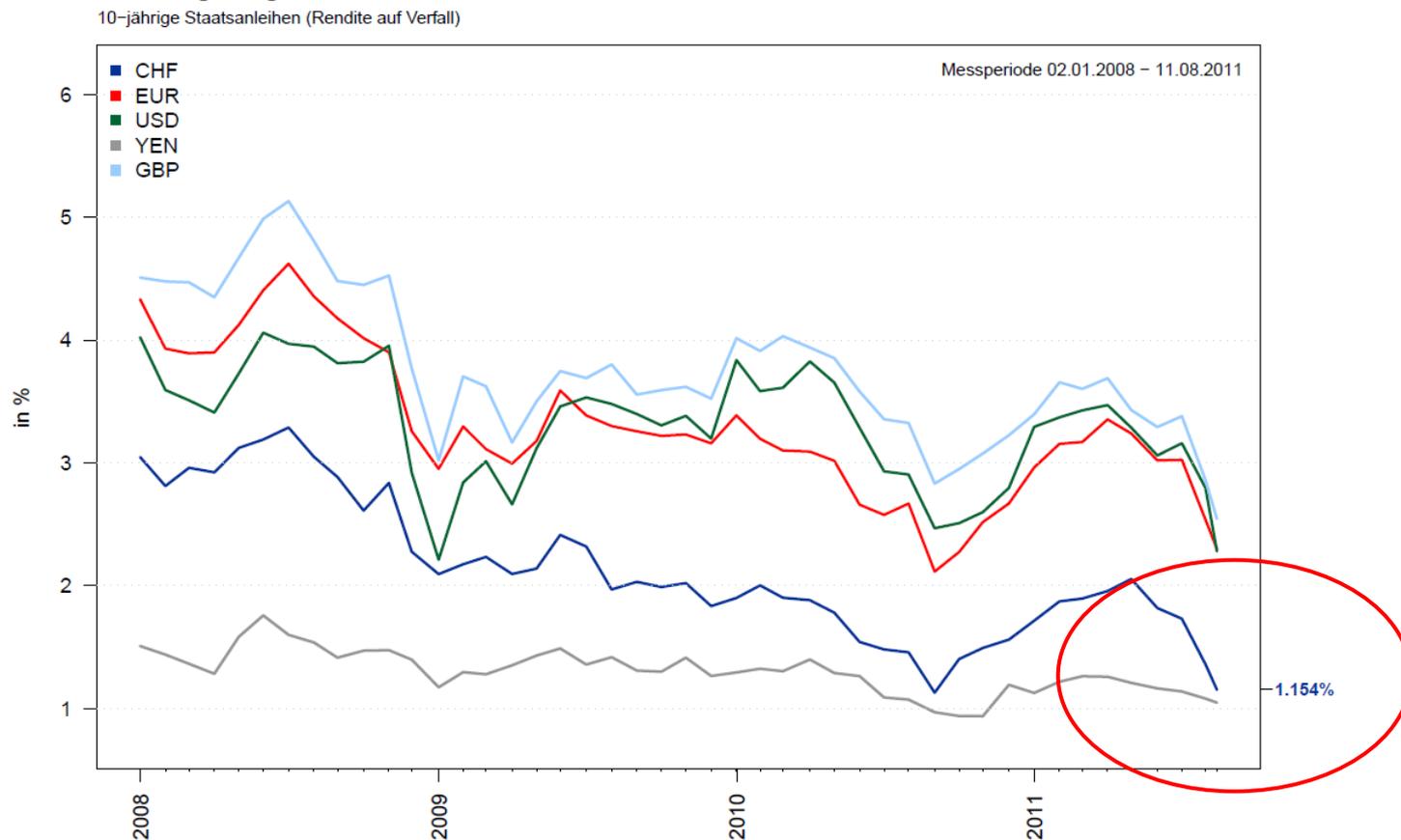


- ▶ **The discount rates can vary significantly. Thus, a comparison of funding ratios is difficult.**

Investment Controlling:

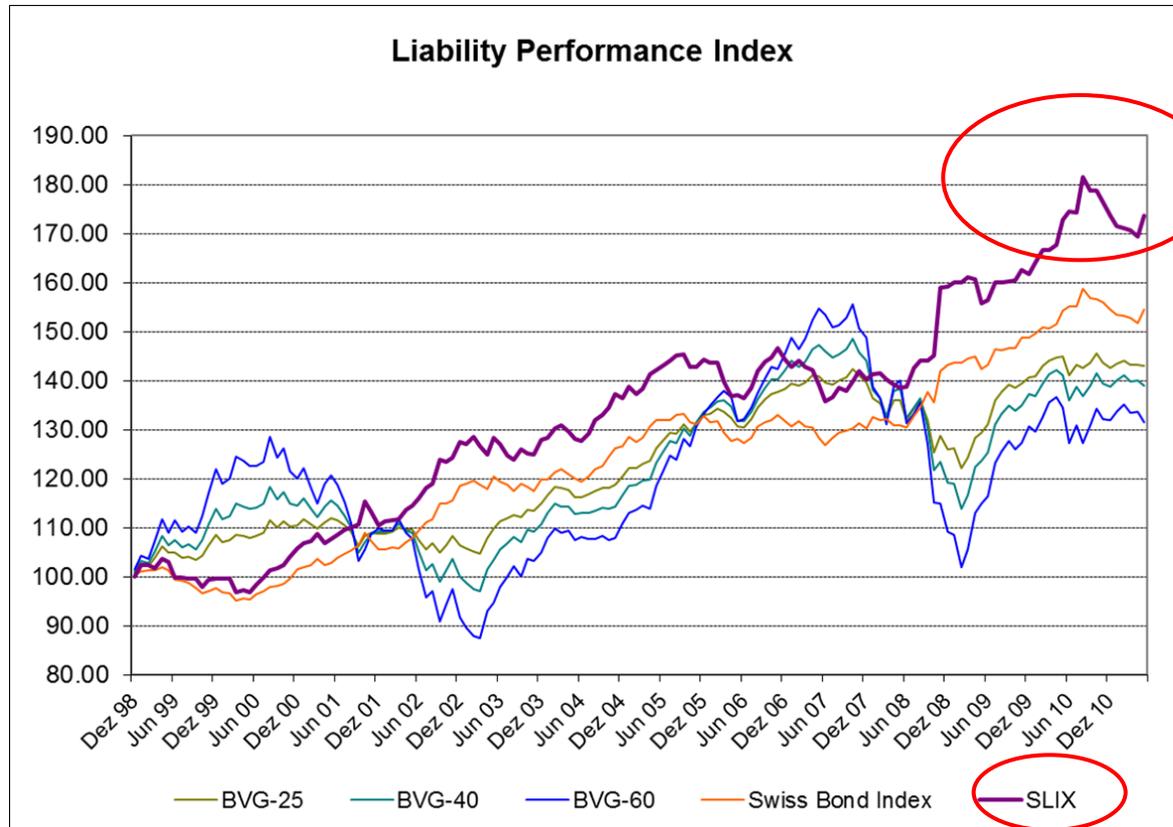
Information gathering: Impact of interest rates (1)

- ***What is the impact of the low interest rate on Swiss pension funds?***



Investment Consulting:

Information gathering: Impact of interest rates (2)



- ▶ **The Swiss Liability Index shows the market value of the pensions liability to retirees of an average Swiss pension fund (based on a liability replication portfolio).**

Investment Consulting:

Information gathering: Impact of interest rates (3)

SWISS LIABILITY INDEX

Vorsorgekapital und Deckungsgrad per Ende Dezember 2010:

<i>Technische Betrachtung:</i>			
Technisches Vorsorgekapital am 31.12.2010	CHF	100	
Technischer Deckungsgrad am 31.12.2010			100.0 %
<i>Ökonomische Betrachtung:</i>			
Ökonomisches Vorsorgekapital am 31.12.2010	CHF	109	
Ökonomischer Deckungsgrad am 31.12.2010			91.5 %

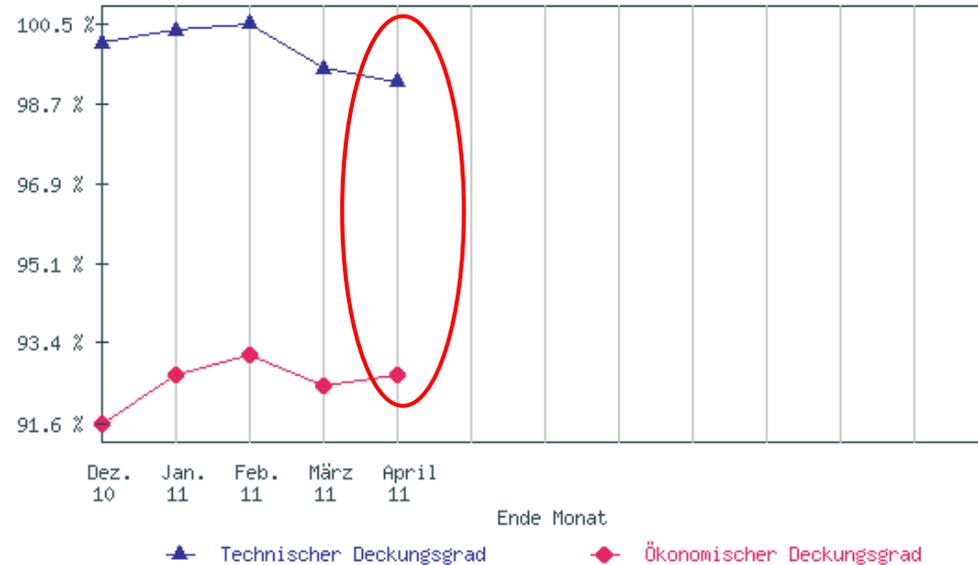
Weitere Angaben per Ende Dezember 2010:

Vorsorgevermögen am 31.12.2010	CHF	100
Jährliche Verwaltungskosten per 31.12.2010	CHF	1
Performance zwischen dem 31.12.2010 und dem 30.04.2011		0.5 %

Source: www.slix-index.ch

Fortschreibung der Deckungsgrade:

Datum	Technischer Deckungsgrad	Ökonomischer Deckungsgrad
31.12.2010	100.0 %	91.5 %
31.01.2011	100.3 %	92.6 %
28.02.2011	100.4 %	93.0 %
31.03.2011	99.4 %	92.4 %
30.04.2011	99.1 %	92.6 %



- ▶ For many Swiss pension funds the “economic funding ratio” is significantly lower than the “actuarial funding ratio”.

- ▶ **The role of investment consultants is quite similar to other countries.**
- ▶ **In Switzerland, pension funds spend approx. 1.3% of the total investment costs for investment consulting.**
- ▶ **A “speciality” in Switzerland is the Investment Controlling: the controller normally reports directly and independently to the board.**
- ▶ **The investment controller can gather information on an anonymous basis. He can make this information available to all pension funds (economies of scale).**
- ▶ **Applications for the “information gathering” functions are fees, performance but also structural data (funding ratio, discount rates etc.)**