Complementa: Swiss schemes increasing alternatives, FX hedging

24 May 2016 **By** Barbara Ottawa **(URL=/barbara-ottawa/2482.bio)**

The share of alternative assets in the portfolios of Swiss Pensionskassen has increased steadily since 2000 to reach 7.7%, as of the end of 2015, according to Complementa.

Heinz Rothacher, chief executive at the State Street-owned ratings agency, said the increase was based on "active, new investments" rather than portfolio shifts.

Complementa found that private debt, infrastructure and insurance-linked securities were the most sought-after investments in the alternatives space.

But Rothacher took pains to emphasise that the investments were made with "much more consideration and due diligence than the run on hedge funds at the turn of the millennium".

Since 2008, allocations to hedge funds have fallen steadily.

Rothacher told IPE most Pensionskassen were focusing on "around three" sub-categories within the alternatives space but no more than that.

The Complementa survey also found that the share of non-domestic investments remains above 50%, which has been the case since 2014.

At the same time, foreign-exchange exposure continues to decline as currency hedging increases.

The current foreign-exchange allocation is well below 20%, while, in 2006, it had still been closer to 30% when the share of non-domestic investments was not even at 40%.

According to Complementa, more expensive investment strategies have paid off over the last three years.

Since 2013, Swiss pension funds have had to publish total expense ratios for their portfolios in their annual reports, which has dissuaded some trustees from pursuing more expensive investments.

Rothacher, however, said Complementa was seeing more searches for alternative investments from Pensionskassen.

The survey shows that, between 2013 and 2015, the quartile of the most expensive pension funds reported an average annual return of 5%, while the cheapest quartile was at 4.7% – below the average for all pension funds.

Meanwhile, the Oberaufsichtskommission (OAK), Switzerland's top supervisory body for second-pillar pensions, has published its report on pension funds' financial position.

The OAK report (in German (URL=https://issuu.com/bbf.ch/docs/oakbv-finanzielle-lage2015?e=4447114/35318697) and French (URL=https://issuu.com/bbf.ch/docs/oakbv-situation-financiere2015?e=4447114/35318291)) is based on estimates reported to the authorities by Swiss pension funds in January, before the filing of annual reports.

The OAK confirmed initial estimates on returns and funding levels (URL=http://www.ipe.com/countries/switzerland/swiss-pension-funds-produce-07-median-return-says-asip/10011946.article) made earlier in the year by the Swiss pension funds association ASIP, as well as financial service providers such as UBS, Credit Suisse and Willis Towers Watson.

It said the average return stood at 0.8% for 2015 and that the funding level for pensions funds – including public ones without a state guarantee – had dropped from 108.5% to 105.1%.

OAK president Pierre Triponez warned that future pension promises remain “too high” in light of the returns that can be “realistically expected”.

However, he applauded Pensionskassen that have already adjusted their technical parameters such as the discount rate (technischer Zins) or the conversion rate.