INVESTMENT & PENSIONS EUROPE

SNB's snap currency decision wipes out CHF30bn in pension assets

16 January 2015 **By** Barbara Ottawa **(URL=/barbara-ottawa/2482.bio)**

Switzerland's finance industry has been left in shock after the country's central bank (SNB) announced its decision to cut the peg between the Swiss franc and the euro.

Not surprisingly, the second-pillar pension system is already counting its losses.

PKE, the Pensionskasse for the energy sector, put out a statement explaining to members that the SNB's sudden decision had triggered a 2% drop in its funding level.

But the pension fund also stressed that short-term losses were covered by buffers and that the long-term investment strategy would remain unaltered.

Many other Pensionskassen, still digesting the news, declined to comment on the SNB's surprise decision, but **Towers Watson**, using a sample taken from the member list of Swiss pension fund association **ASIP**, warned of an even graver deterioration in schemes' funding base.

Peter Zanella, managing director at the consultancy in Switzerland, said: "The SNB's decision had the negative effect of wiping out CHF30bn (€26.6bn) in pension fund assets."

He said, on average, Swiss Pensionskassen suffered 4% losses yesterday based on a median portfolio from the ASIP sample, with an average unhedged FX-currency exposure of 25% extrapolated to the total number of assets in Swiss Pensionskassen, amounting to CHF750bn.

Immediate market reactions to the news were a depreciation of the euro to the Swiss Franc by 13%, and of the dollar to the Swiss Franc by 12%.

Swiss equities lost around 9% of their value, according to Towers Watson.

If the fallout continues, Zanella warned, some Pensionskassen might have to review their pensions agreements with members.

He also noted that funding levels were set to deteriorate even further in the wake of the SNB's decision, as it encompasses a further cut in the base rate to -0.75%.

He estimates liabilities will increase by 3-4% as yields on high-grade bonds are reduced by another 11 basis points.

Heinz Rothacher, chief executive at Swiss consultancy **Complementa**, also thinks Pensionskasse could have lost between 2% and 6% of their assets following the announcement.

But he added that such market turbulence also offered chances to buy into undervalued titles.

Many have warned pension funds against making rash decisions and changes to their portfolios.

Hanspeter Konrad, director at **ASIP**, said a "meaningful assessment of the situation" would only be possible in a few days' time, once the markets had calmed down again.

Willi Thurnherr, head of retirement at **Mercer Switzerland**, said some Pensionskassen had hoped the SNB would "take on currency hedging for them" and would now be very disappointed.

He said Pensionskassen should also review their investment strategies and their implementation based on negative rates and a free-floating Swiss Franc without making "overly hasty" decisions.

At **ppcmetrics**, analysts were more optimistic, however, saying the SNB's decision had to happen sooner or later, if the bank wished to regain its monetary autonomy.

Alfred Bühler and **Andreas Reichlin**, partners at ppcmetrics, said by taking this step the SNB had "strengthened its credibility in the market".

They called on investors to review the foreign currency risk in a more holistic portfolio context, as the most recent development had shown how currency shifts can affect equities as well.

Legg Mason said asset managers were also "caught off guard" by the SNB's decision, which **AXA Investment Managers** called a "bold move".

At Legg Mason, analysts said this could be the first of several steps by the SNB, particularly as the ECB is "likely to engage in QE".

Clear Treasury lamented that there was "no warning whatsoever from the SNB" but added that "markets are now looking towards the ECB QE announcement next week as a certainty".

Many analysts are now curious to see whether the SNB will intervene again "if parity gets broken once more", according Bill Street, head of investments for EMEA at **State Street Global Advisors**.