



Swiss Pensionskassen continue to bump up infrastructure investments



BY **LUIGI SERENELLI** | 6 SEPTEMBER 2022

Swiss Pensionskassen have been steadily increasing their investment allocations to infrastructure, both domestically and abroad, partially as a result of a separate category within alternative investments introduced in 2020.

The trend relating to increasing infrastructure investments has cemented over the past years, with 43% of Pensionskassen allocating to the asset class, up from 20% five years ago, according to the Risiko Check-up study 2022 conducted by consultancy firm Complementa, which has a special focus on infrastructure.

Infrastructure was the most popular sub-category within alternative investments for the first time in 2021. The target allocation on average in infrastructure by Swiss pension funds at the end of 2021 was close to 3.6%, up from 2.3% recorded before the introduction of the separate category in 2020.

Asked by IPE during a conference call this morning if Swiss pension funds use the new category to invest in renewable energy infrastructure, Andreas Rothacher, the author of the study, said: "Pensionskassen invest in renewable energy but most have a diversified portfolio not only investing in energy but also in toll roads, bridges, fibre, cable networks, and antennas for mobile [phone] connections."

More than a quarter of pension funds plan to increase allocations to infrastructure in the future, and 69% plan to maintain their current strategic allocation intact, the study added.

Swiss schemes have lifted overall allocations to alternative investments to 9.7% of the total assets in 2021, up from 9.4% in 2020. Currently 82% of Pensionskassen in Switzerland invest in the alternative space.

Infrastructure investments account for around 1.7% of total assets, capital-weighted, the second largest asset class within alternative investments after private equity with 2.5%.

Within the alternative space, Rothacher added, private debt has remained stable over the years, and last year investments stood at 0.9% of total assets, this year are at 0.8%.

He added that the share of Pensionskassen investing in private debt remained roughly stable, while investments in insurance-linked securities, commodities and hedge funds had slightly declined.

The Swiss Federal Council decided in 2020 to change the law on occupational pensions (BVV 2) to introduce a separate category for investments in infrastructure, allowing allocations up to a maximum of 10% of total asset of a pension fund.

In Complementa's study, 59% of pension funds surveyed already list infrastructure as a separate category, while 36% continue to classify infrastructure as an alternative investment, and 45% of the funds currently classifying infrastructure as alternative investment intend to create a separate category in the future.

The study also showed that 36.6% of pension funds invest in infrastructure to diversify their portfolios, 29.1% look for further sources of returns, and 16.3% are planning to replace bonds.

The pension funds that have decided not to invest in infrastructure, find the asset class is too illiquid, it does not fit with their investment strategy, or because they prefer to invest in other alternative asset classes, according to the study.

Allocations shift in difficult year

Pensionskassen in Switzerland recorded negative returns so far this year, -7.7% compared with 8.3% in 2021, the study showed. Over the last 20 years, however, pension funds had an annual return of 3.8%.

As a result of negative returns, the average funding ratio dropped from 115.3% at the end of 2021 to 105.1% this year. Employees received an average interest rate on pension capital saved of 3.8% in 2021, and 92% of the pension funds in Switzerland increased the interest rate on pension capital for members.

Equity exposure was 31.9% in 2021 but the increase was slowed down by rebalancing. Real estate allocations stood at 21.2%, the highest amount recorded so far by Complementa and for the fourth year in a row above 20%. Investments by pension funds especially in foreign real estate have increased.

Fixed income investments have remained the largest asset class with 32.5%, but for the first time less than one third of total assets of Swiss pension funds is invested in the asset class.

The study published by Complementa is based on data of 437 pension funds with total assets under management of CHF837bn (€859bn). For the special focus on infrastructure the consultancy surveyed 172 managers of pension schemes.

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