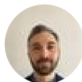
Swiss pension funds increase equity, cut real estate investments



BY LUIGI SERENELLI | 26 SEPTEMBER 2023

Swiss pension funds are looking at equity investments this year with slightly renewed optimist, remaining cautious, however, on bonds, and cutting down on real estate allocations.

A strong equity market performance, especially from US tech stocks, led Swiss pension funds to record average returns of 3.7%, as of the end of August 2023, from -9% recorded at the end of last year, according to the latest data from Complementa's risk check-up.

"As a consequence, the equity quota [in portfolios] has increased more than 1 percentage point compared to the end of last year, and on average stands at around 31%. The bonds [allocation] has remained on average fairly stable at above 31%," said Andreas Rothacher, senior investment consultant at Complementa.

Last year, Pensionskassen invested 31.7% of their assets in fixed income, 29.5% in equities, 24% in real estate, and 10.1% in alternative investments, while 4.6% was in cash, the study added.

The share of real estate estate investments has instead decreased this year to close to 23% as of end of August, according to Complementa's research. The high allocation to propertty last year was a key driver to slowing down further investments in the asset class this year, Rothacher explained.

"Price corrections on Swiss and foreign real estate vehicles also played a part. Alternative quotas have remained stable compared to the end of last year. This development has to be seen in the context of existing capital commitments, for example in infrastructure and private equity, from previous years, some of these are called this year," he added.

As a result of market developments last year, the average allocation to real estate investments by Swiss pension funds increased by around 3 percentage points to 24%.

Despite the sharp rise in interest rates, schemes in Switzerland largely believe that both domestic and foreign real estate should continue to be part of their investment strategies, the study added.

However, listed real estate funds have become less attractive for pension schemes, and more than a third of those surveyed by Complementa stated that they would divest from this subcategory.

"Infrastructure has become mainstream, and the asset class has been included in the BVV 2 [second pillar] investment rules as a separate asset class by the regulator in 2020. These factors might encourage further investments into the asset class," Rothacher said.

Andreas Rothacher at Complementa

The allocation to fixed income in Swiss schemes' portfolios has declined in years of low interest rates, in favour of real estate and alternative investments.

"Higher interest rates make bonds more interesting again for pension funds, at least on a nominal basis. The asset class will still keep growing but the pace of growth within the allocation of Swiss pension funds might slow down," Rothacher explained.

The funding ratios of Swiss schemes has steadily gone up this year to reach 106.5% in August.

"Positive returns helped to build up reserves after the losses from the previous year," Rothacher noted.

Swiss pension funds should consider a priority rebalancing the weight of asset classes in their portfolios in light of challenges that could materialise in the second part of this year, according to the consultant.

"The challenges include the elevated inflation rates, more restrictive financial conditions, low growth expectations, especially for China, and ongoing geopolitical tensions. All of these factors might negatively affect financial markets in the second half of the year," Rothacher said.

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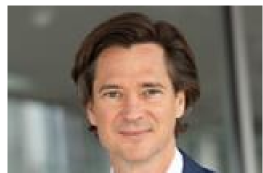

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