

Investment strategy process of pension fund pro

1. Objective and approach of investment strategy

An employee benefits scheme needs a long-term investment strategy that complies with the provisions of the Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV2). Due diligence obligations, security and diversification take centre stage. One of the major objectives is to generate an appropriate and long-term return that is as stable as possible for the beneficiaries so that all pension and payment obligations can be met at all times.

It is the responsibility of the Board of Trustees (BoT) to determine the investment strategy and the bandwidths for the different asset classes. The investment strategy of pension fund pro (pf pro) is conservative. It is reviewed annually by the BoT and the Investment Committee (IC) with the help of an asset & liability model (ALM). For tactical decisions, the BoT sets the bandwidths per asset class for the IC. The investment strategy of pf pro tracks the BVG-25 Index 2000 of Bank Pictet & Cie., Geneva. The strategy developed for pf pro is as conservative as the strategy for the BVG-25 Index 2000, which excludes both dramatic gains and excessive losses. This is also why pf pro measures its performance against this well-known and established benchmark index.

The long-term objective is to exceed the benchmark with the same or even less risk. pf pro currently retains the freedom to deviate from the BVG-25 Index 2000 with its strong focus on bonds, and to apply a balanced portfolio approach (a more balanced investment strategy that includes additional asset classes) in order to sustainably increase its yields.

2. The Pictet BVG-25 Index 2000

The Pictet BVG-25 Index 2000 includes four asset classes and has an equity component of 25 %, as indicated by its name. The four asset classes are Swiss bonds, global bonds, Swiss equities and global equities. The 25 % equity component is divided 60 to 40, i.e. 15 % global equities and 10 % Swiss equities. The remaining 75 % is invested in bonds at an 80:20 ratio, i.e. 60 % in Swiss bonds and 15 % in foreign currency bonds. With this allocation the foreign currency exposure is around 30 %, which is the maximum permitted under the BVG.

3. pf pro investment strategy and policy for 2014

The table below shows the benchmark for pf pro, the Pictet BVG-25 Index 2000, in comparison with the current investment strategy. This investment strategy was prepared by the IC on instructions of the Board of Trustees at the end of 2011 and is reviewed annually. It also shows the current investment policy and the bandwidths granted to the IC for the evaluation and implementation of the strategy. The IC reviews the investment tactics and make any adjustments that may be needed at least once every quarter.

4. The balanced portfolio approach of pf pro

Asset classes	Pictet BVG 25 Index 2000 Benchmark of pf pro	Investment strategy (1) of pf pro Benchmark of IC	Investment tactics (2) of pf pro Benchmark of PM	Bandwidths for Asset classes	
				Min.	Max.
Money market		5 %	2.5 %	0 %	10 %
Swiss bonds	60 %	20 %	20 %	0 %	40 %
Global bonds	15 %	5 %	10 %	0 %	20 %
Convertible bonds		5 %	4 %	0 %	8 %
Alternative investments		15 %	11 %	0 %	15 %
Swiss real estate		30 %	29.5 %	20 %	35 %
Swiss equities	10 %	10 %	11 %	0 %	20 %
Global equities	15 %	10 %	12 %	0 %	20 %
Total	100 %	100 %	100 %		

(1) The investment strategy is prepared and reviewed annually by the Board of Trustees and the Investment Committee.

(2) The investment tactics are reviewed quarterly by the Investment Committee and approved for the next three months; the current tactics follow the IC's guidelines of December 2013: percentage targets are sent to Portfolio Management (PM) for implementation.

In contrast to the Pictet BVG-25 Index 2000, pf pro's investment strategy follows the balanced portfolio approach, i.e. it invests in eight asset classes instead of only four. The additional asset classes of Swiss real estate and alternative investments deserve special mention. In times when bond yields are falling sharply and bond prices are rising, an investment portfolio usually underperforms the BVG-25 Index, while the benchmark is outperformed if the situation is reversed.

For these reasons the BoT decided to adopt the balanced portfolio approach. The annual review of the strategy and the tactical adjustments made by the IC quarterly if needed guarantee a performance in line with current market expectations. These measures give the portfolio managers the guidelines they need to take responsibility for the implementation of the investment policy.

5. Real estate and alternative investments in pension fund pro's portfolio

As mentioned above, pf pro's investment strategy comprises more asset classes than the BVG-25 Index 2000. At 30 %, Swiss real estate is the additional asset class with the highest weighting. This asset class provides constant income with a low volatility and is the best way to counter the underweight in CHF bonds.

Alternative investments comprise the following sub-classes: hedge funds; private equity; insurance-linked securities; infrastructure investments. When putting together the portfolio, particular attention is paid to the absolute return approach, as we target a low correlation with traditional investments in order to make a positive contribution to the overall performance, even in weak years. The alternative investments have an extremely positive effect on the risk/return profile of pf pro's portfolio. In our investment mix, the alternative investments come very close to an absolute return approach and make a positive contribution to diversification.