



PENSIONS-KASSE
ALCAN
SCHWEIZ



Do cost really matter ??

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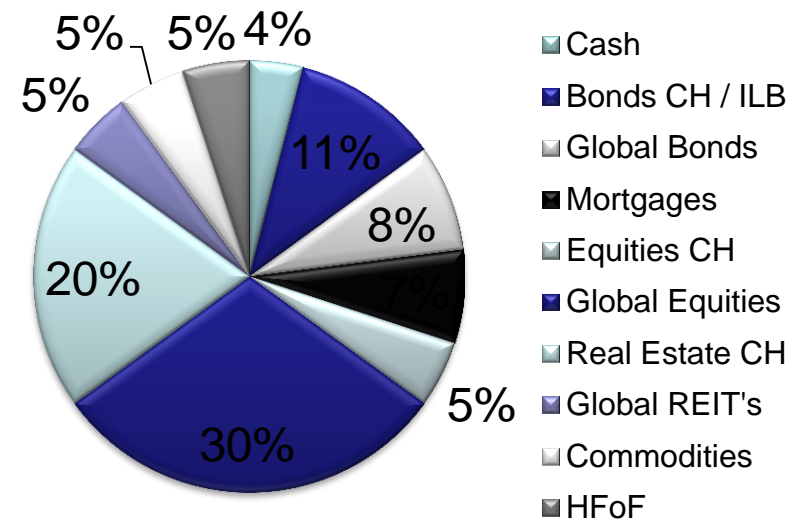
Of course they do, but

Good performance means more
than just low cost

Pensionskasse Alcan Schweiz

- 2'500 Active Employees
- 2'800 Retirees and Pensioners
- Investment Strategy (Required Return = 4.6%)
- 2 Schemes (DB base and DC for management)
- 1.3 bio. CHF assets
- Coverage Ratio of 85% at 12/08 and 95% at 12/09

SAA 2010





Additional Challenges

- High share of retirees as a consequence of productivity increase, globalization and move from secondary to tertiary sector
- Low coverage ratio as benefits in the 90ties had been shared with employer and employees / retirees
- Rio Tinto will sell all Swiss activities and associated companies will likely leave
- Risk to become retiree fund overnight



How we currently manage our assets

Actively Managed

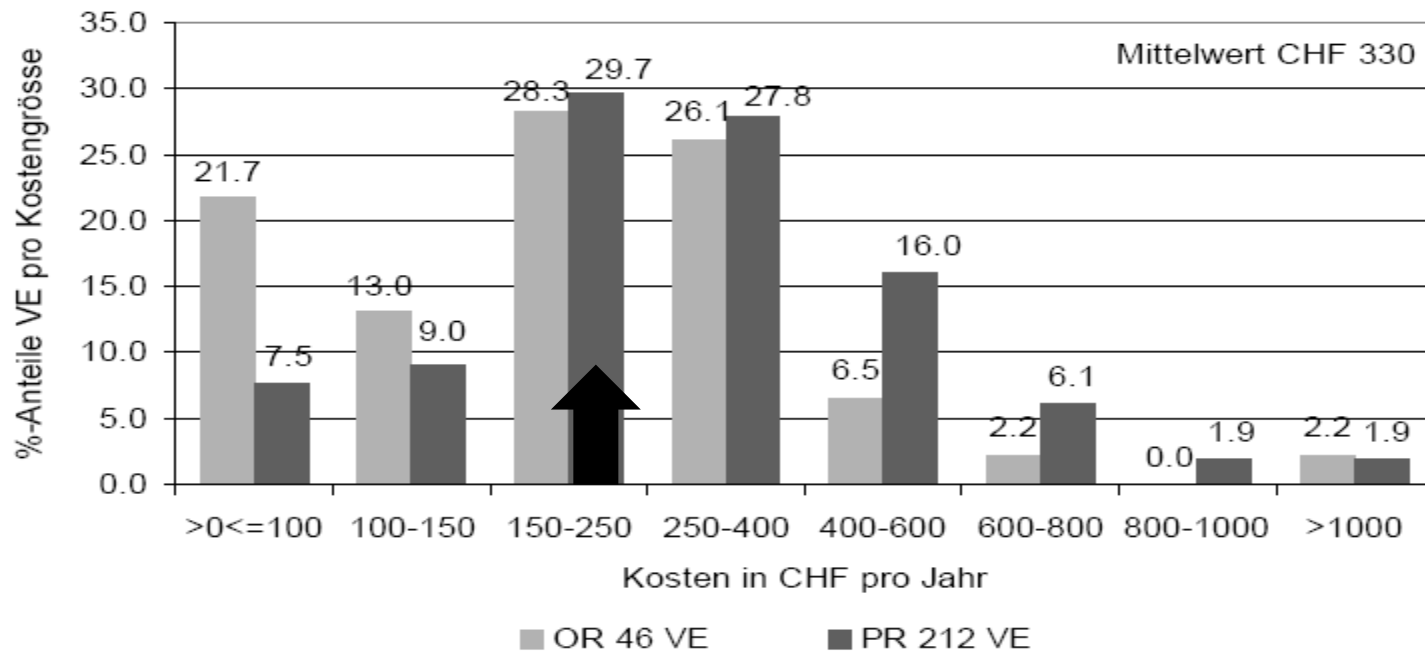
- By Pension Fund
 - Commodities (5%)
 - Real Estate (20%)
 - Currency Overlay
 - Tactical Asset Allocation
- By Managers
 - 70% of Equities (25%)
 - Bonds CHF & ILB (11%)
 - REIT's (5%)
 - HFoF's (5%)

Passively Managed

- By Pension Fund
 - Mortgages (7%)
- By Managers
 - 30% of Equities (10%)
 - Global Bonds (8%)

Administration Cost

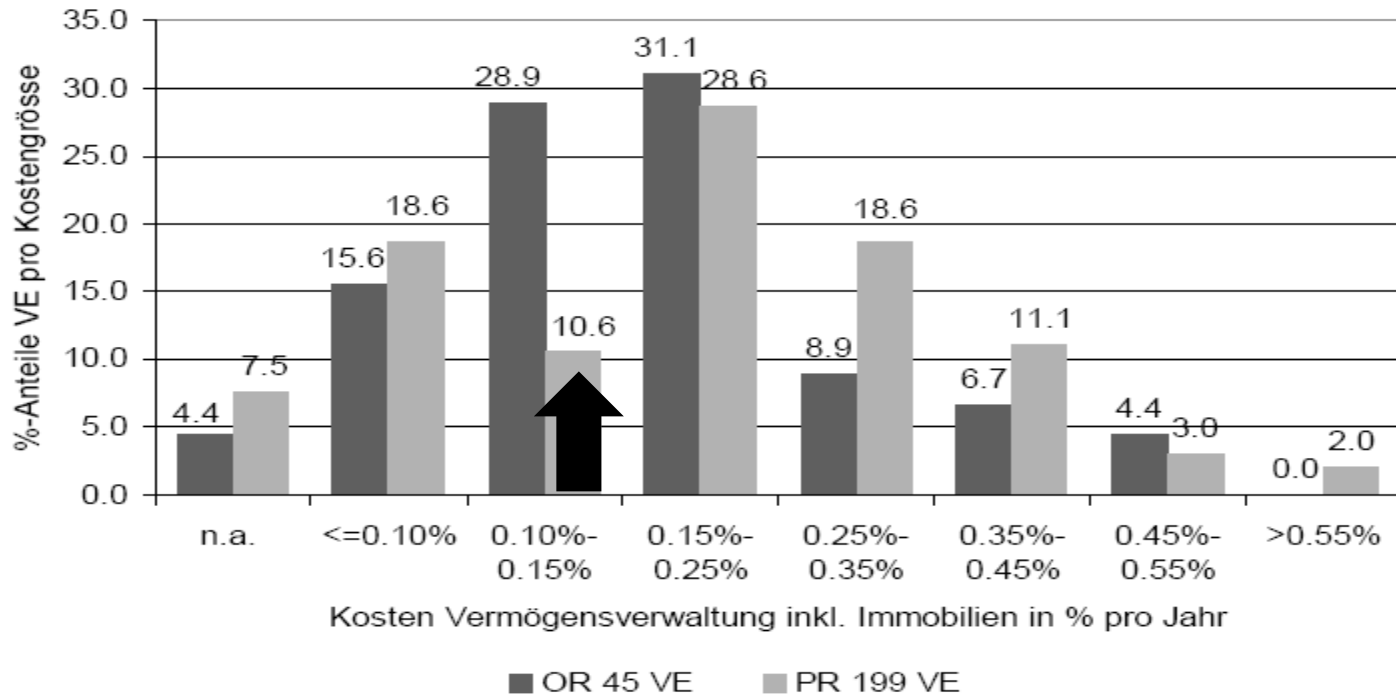
Jährliche allgemeine Verwaltungskosten pro Destinatär



Restriktion: >25 Destinatäre

Wealth Management Cost

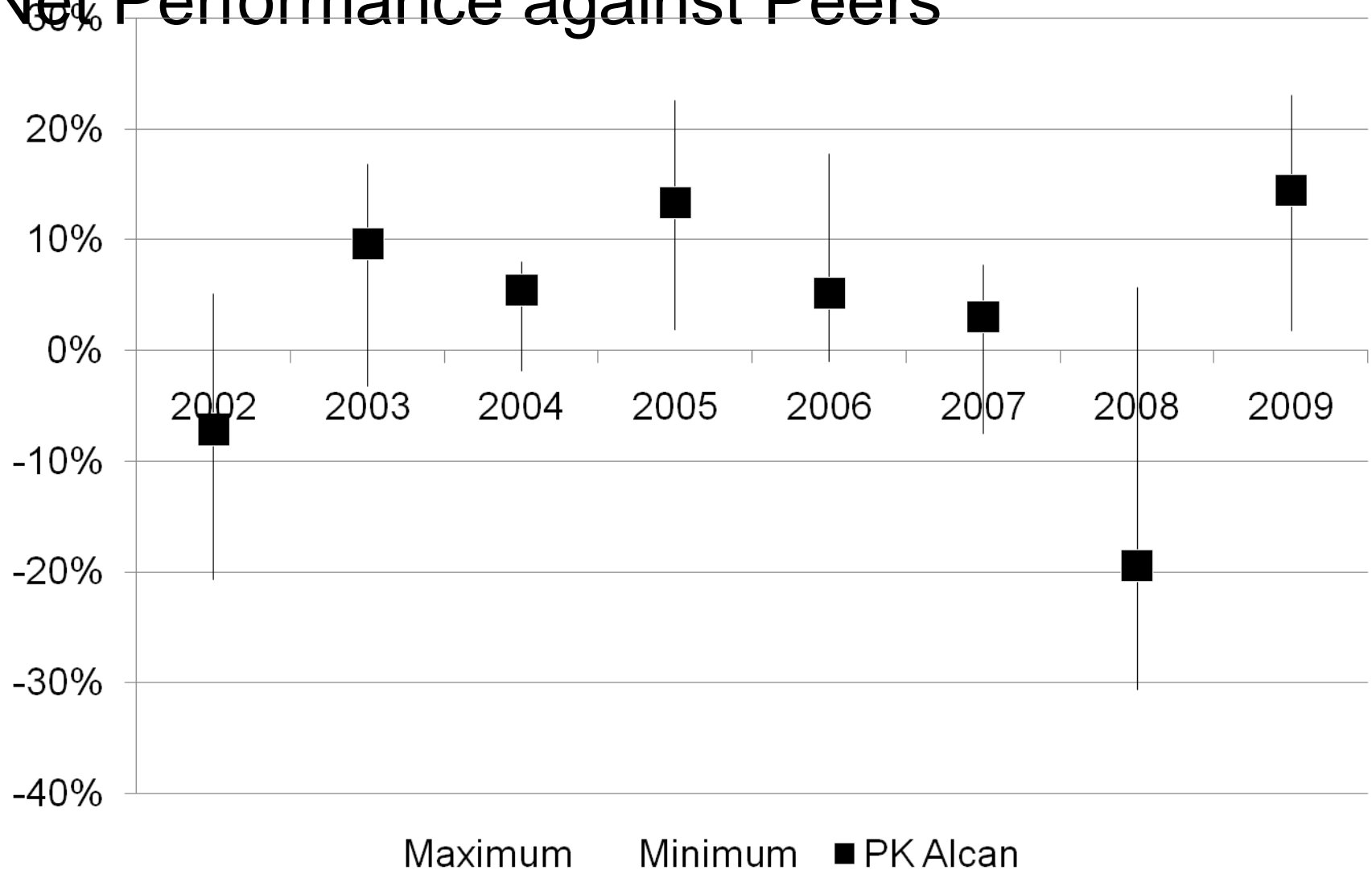
Kosten Vermögensverwaltung Wertschriften in % des Gesamtvermögens



Restriktion:
Vermögensverwaltungskosten >0.005%



Net Performance against Peers





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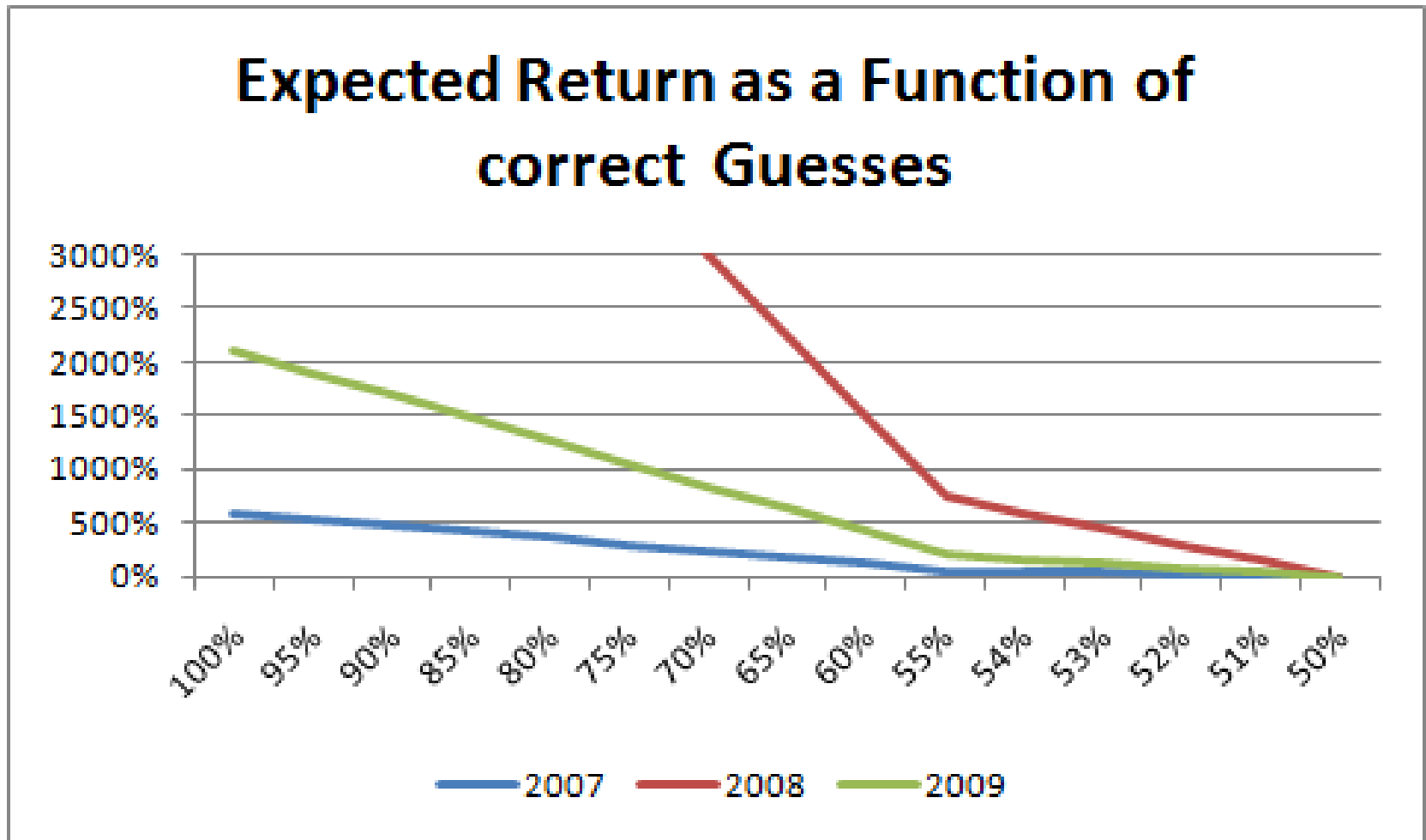
Considerations beyond Cost

- Liquidity & Flexibility
- Transparency & Trust
- Custom-fit / Purpose-fit
- Effectiveness and Simplicity
- Control & Risk Management
- Commitment & Incentives

Liquidity & Flexibility - Fact Based

- Total return of S&P 500 based on absolute daily returns, assuming that you get all movements right and without transaction cost
 - 2007 => 600% = 0.7% per day
 - 2008 => 7460% = 1.7% per day
 - 2009 => 2107% = 1.2% per day
 - 2010 => ???%

What does this practically mean?



Liquidity & Flexibility – Theory Based

- William F. Sharpe et al developed in the 60's the Capital Asset Pricing Model
- The CAPM assumes that the expected return increases with the risk of a specific asset relative to the market risk times a risk premium
- The risk of buying and holding a well diversified portfolio of equities may be very low => expected return is risk free rate



Transparency and Trust

- Increased Transparency is part of a high performance service, particularly regarding
 - Relative Performance against agreed benchmarks
 - Fees, issue and redemption cost
 - Net Asset Value Calculations
- Simple prospectus with plain language where investor can read without ambiguities what



Custom-fit and Purpose-fit

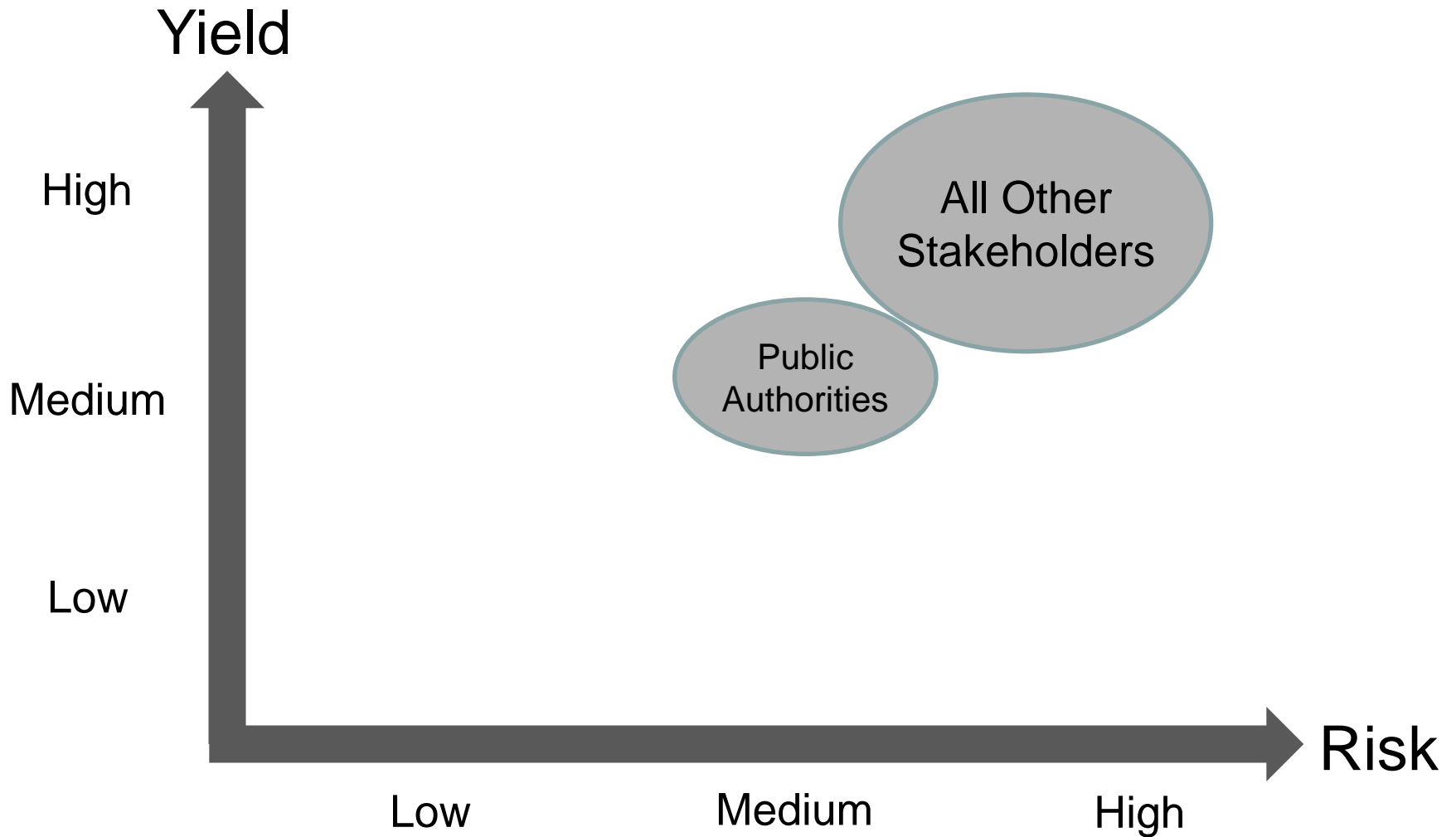
- Currently a typical pension fund has at least 3 different service suppliers
 - An actuary to repeat ALM studies from time to time
 - A custodian and/or accounting service
 - One or many wealth managers for its funds
- More effective solutions would require that these parties work more closely together to offer an integrated premium service



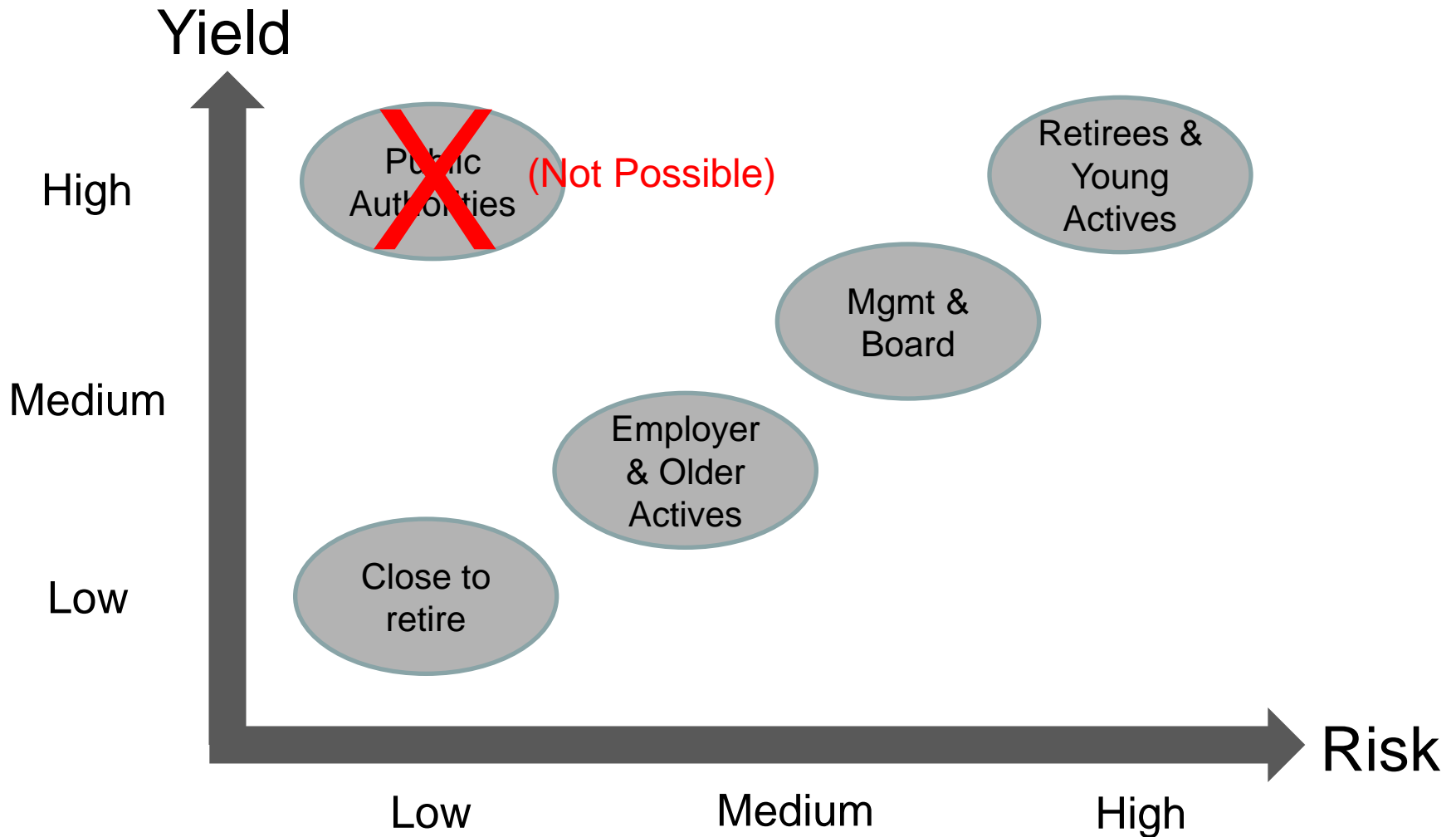
Control and Risk Management

- Effective control and risk management is part of the provided service
- Current wealth managers do not offer much real time information
- Risk Management and Control is extremely important to satisfy the risk perception of the various stakeholders that is unfortunately changing with the market uncertainties

Interests of Stakeholders (In Low Risk Environment)



Interests of Stakeholders (In High Risk Environment)





Commitment and Incentives

- Selling products is easier and less risky as it does not require the bank to consider the specific situation of the client
- Therefore civil liability claim risks are much reduced
- On the other hand no long-term partnership can be developed
- Moving from product sale to service requires costly branding of organization



Conclusions (1)

- Investors are willing to incur higher cost if the performed services are excellent in most relevant categories
- Current providers have been focusing too much on (relative) performance
- Performance has been poor given the opportunities the market offered in the last 3 years

Conclusions (2)

- Wealth managers have to choose between two options
 - Offering a commodity type service and as a consequence enter into competition on cost
 - Offering a differentiated, customer specific service and as a consequence enter into competition on service
- Investors are likely to use both offers in changing composition over time



lean solution

simple, effective and sustainable

Urs Fischer

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