BHA*partners*

Our point of view

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Our Point of View, June 30th 2017

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Performance of the world's major stock markets

A) January 1, 2017 – June 30, 2017			in USD		in local terms
Switzerland	SMI	+	14.93%	+	8.36%
Germany	DAX Xetra	+	16.17%	+	7.35%
France	CAC 40	+	13.96%	+	5.31%
United Kingdom	FTSE 100	+	7.88%	+	2.38%
Sweden	OMX Stockholm 30	+	13.64%	+	5.62%
Europe	STOXX 50	+	13.19%	+	4.60%
USA	S&P 500	+	8.24%	+	8.24%
	Nasdaq	+	14.07%	+	14.07%
Japan	Nikkei	+	8.81%	+	4.81%
India	Sensex	+	22.16%	+	16.13%
China	Enterprise Index	+	9.58%	+	10.33%
Morgan Stanley	World Equity Index	+	9.43%	+	9.43%
Bloomberg Barclays USD Bond Index (5-7 years maturity)		+	1.94%	+	1.94%
Balanced Mandate Index*		+	5.69%	+	5.69%

B) Over five years			in USD		in local terms
Switzerland	SMI	+	45.34%	+	46.81%
Germany	DAX Xetra	+	73.29%	+	92.09%
France	CAC 40	+	44.51%	+	60.19%
United Kingdom	FTSE 100	+	8.88%	+	31.26%
Sweden	OMX Stockholm 30	+	28.94%	+	57.26%
Europe	STOXX 50	+	37.11%	+	51.98%
USA	S&P 500	+	77.91%	+	77.91%
	Nasdaq	+	109.21%	+	109.21%
Japan	Nikkei	+	57.98%	+	122.43%
India	Sensex	+	52.44%	+	77.40%
China	Enterprise Index	+	7.58%	+	8.25%
Morgan Stanley	World Equity Index	+	55.09%	+	55.09%
Bloomberg Barclays USD Bond Index (5-7 years maturity)		+	7.30%	+	7.30%
Balanced Mandate Index*		+	31.20%	+	31.20%

*50% Morgan Stanley World Equity Index
50% Bloomberg Barclays USD Bond Index
(5-7 years maturity)

A LITTLE REMINDER

Virtual reality and artificial intelligence

In our last report we said that virtual reality and artificial intelligence was a must-have segment. Since then, shares in the leading US companies that are committed to research in this field have performed very well, and will continue to do so. But what exactly is virtually reality as spearheaded by Facebook? It is a very different beast from the original concept. Users today wear an optical head display (this will undoubtedly change with time), which screens them from the real world. The user is immersed in a fictional world. Virtual reality is determined by the limits of reality and computer power. Facebook is the market leader.
By contrast, augmented reality enhances the real world using computer data, blending reality and fiction. This technology is more complex than virtual reality, because the computer has to remain faithful to real constraints, such as time and space. Technological development is less advanced in this field, but Google is the leader. It should be noted that immersing oneself in virtual or augmented reality can trigger a form of cybersickness. You might think that sounds crazy, but when sensory input is inconsistent with the perceived physical reality, the user can experience headaches or nausea. The symptoms can continue after the virtual experience is over.
If you decide that you have little or no interest in knowing what it feels like to have a family get-together on Mars and dismiss the idea, then you are almost certain to miss one of the greatest investment opportunities in history. Bear in mind that the conventional computer games industry currently generates annual turnover in excess of CHF 100 billion. If these nerdy games could make the player part of the action in a fantasy world that seems as *real* as the present-day environment, then we will witness the emergence of an industry that will outstrip all growth and sales projections. But this is not the only promising element in the future of the Big Four (Facebook, Google, Apple and Amazon). These companies are also driving research into artificial intelligence, which will revolutionise the world of work. In the relatively near future, computers will match if not exceed the problem-solving abilities of the human brain. The AppleGo software recently beat the World Champion at Go, which is by far the most complicated board game, with hundreds of millions of possible moves. Nowadays, we encounter neural artificial intelligence every day. Apple's Siri and Amazon's Alexa can recognise human speech patterns and provide

useful answers to common questions or hold a conversation. Lonely people appreciate these technologies. But machine learning will also become a reality, with computers making their own conclusions. Computers will be able to identify patterns independently from large volumes of unstructured data. Such processes are already happening today, and artificial intelligence is no longer a vision of the future, but a reality. There are serious implications for the labour market: millions of jobs will become redundant. Self-driving cars are just the start of the revolution. The social and political implications will undoubtedly be far-reaching, although very few politicians seem to be addressing the issues as yet. So at least there is one area where political decision-makers have not yet imposed rules and regulations. What is certain, however, is that investors cannot afford to ignore the virtual and augmented reality segment, nor the rapid developments in artificial intelligence. These areas are not simply a dream of research; in fact, well-informed venture capitalists have already invested many billions in new research companies and these dreams. The real experts in the field are rarely over 35. Our advice would be to stick with this sector. Google and similar companies look set to enjoy a long ride higher on the stock markets. And quite rightly too.

THE END OF LOW INTEREST RATES

Or maybe not

It is puzzling why international interest rates have remained in the doldrums for so long. Of course, the US Fed did spend a long time using bond buying as a stimulus measure, followed by Mario Draghi and the ultra-expansionary Bank of Japan, which is determined to end deflation with brute force, come what may. Taking a long-term view, interest rates are clearly still far from normal. Many experts attribute the current levels to the severe financial crisis in 2007 and 2008. But people forget that interest rates have been falling for the past thirty-odd years, which means that the financial crisis cannot be the only reason for the continued dominance of low interest rates. We feel that discussions around low interest rates have overlooked the fact that massive economic deflationary forces have been

at work for some time. The Internet age has brought total price transparency, which has proved the nemesis of conventional retailers of consumer goods. Department stores, book shops and merchants of all stripes are bewailing the drop in sales. The image presented by the bustling high streets in our cities can be deceiving. Thousands of these consumers are not really out shopping: they are just compiling a mental wish list. People browse in the book shop, try on a suit, strap a luxury watch on their wrist – and discreetly note down the serial number or take a photo of the manufacturer's product code. The item is then purchased online from Amazon or some other virtual retailer at a discount and delivered directly to the buyer's home free of charge – at least for now. Factories are manned by robots that work night and day and don't belong to trade unions. Civil servants have been replaced by automated services – which in some cases is an improvement. The cheaper, friendlier Uber drivers have picked up the transport baton from overpriced taxis that enjoy political protection, as if they were an endangered species. When we are away from home for short periods, we use Airbnb to rent out our flat, upsetting the hotel industry, which thinks the virtual world is very unfair. When did you last buy a CD? It hardly ever happens. Accessing the world of music now costs EUR 10 a month. Farewell expensive CDs, and hello more space in your home. We could continue to make a list of the new and deflationary impact of the virtual world. And we haven't even touched on the constant pressure on salaries and wages from automated production techniques and the streamlining of office staff as new, more reliable intelligent computers become available.
But back to the question of the trend for international interest rates. Among the central banks, the US Fed is working particularly hard to get interest rates back to normal and reduce monetary stimuli. Even Europe is gradually reaching the point where there are no more bonds left for the European Central Bank to purchase. For some time now, German Bunds have been virtually sold out and Mario Draghi can't even find bonds in more obscure sectors like auto leasing. Draghi has now announced that he intends to gradually taper the stimulus measures. The real truth is that the monetary stimulus rhetoric has already run out of steam. Negative bond yields are more than likely to become a thing of the past, although Swiss bonds may prove an exception. But will we see a return to the normalised interest rates of the past? Can we expect to go back to decent bond yields of, say, 4%, in the near future? We think not. Not because the central banks have realised that their enthusiasm for stimulus measures was lunacy, but simply because the deflationary power of technology is too strong. Stronger than the central bank governors in any case. We really can't expect interest rates to shoot up, which is good news in some ways,

but could also be the cure for overconfidence and bubble formation on the stock markets. After all, where can the money go? In their current state, bonds have absolutely no appeal. Only pension funds are interested in buying up bonds while they are cheap, thereby guaranteeing the younger generations appalling long-term returns. All in the name of keeping risk low. Some of our legislators should be stripped of their decision-making powers. Maybe all of them.
All in all, we are forced to conclude that the commotion surrounding rising interest rates is not nearly as serious as it might seem. This is the main reason why the stock markets are proving resistant to any consolidation or downturn in prices. There are no more bargains to be had, but the superpowers of technological innovation have infected our system with a deflationary virus that will kill off normal interest rates.

THREATS TO EUROPE ON THE WANE

European stock exchanges in a sunny mood

France can breathe easy. Although the Front National once again made it to the final round of the presidential elections, winning its largest-ever share of the vote, ultimately the lesser evil took the Elysée: rising star Emmanuel Macron. People are legitimately questioning whether the opportunist politician was really the French voters' dream candidate, or whether he essentially represented the only halfway acceptable figure. Time will tell. Certainly European stock markets were relieved that Le Pen was not elected – and heartened by the poor performance of Geert Wilders in the Netherlands a few weeks earlier. When the SPD subsequently suffered a third electoral hammering in North Rhine-Westphalia and the new political high-flyer, Martin Schulz, lost his glittering self-confidence overnight, the European stock markets were overjoyed. Regarding the upcoming elections, we want to walk back what we said earlier about German politics. Angela Merkel in fact looks set to win the autumn elections. Although no one should be counting their chickens just yet, it appears that Europe is not about to embark on a US-style political adventure. In a short space of time, concerns about the future have given

way to confidence. We feel it is reasonable to predict that the European stock markets are likely to outperform Wall Street for the foreseeable future. For decades, Europe's stock markets matched the performance of US markets, but that changed with the financial crisis in 2008. Since then, gains in Europe have lagged around 80% behind Wall Street – a huge gulf that was caused by a number of factors. Firstly, as usual, the US reacted far more promptly and decisively than Europe. The US Fed turned on the money taps in an unprecedented manner, allowing companies to borrow massively. A lot of that money was used for share buyback programmes, thereby bolstering earnings per share and artificially inflating valuations. Europe responded much later, and the impact of stimulus measures was mainly limited to the capital markets, with little effect on company balance sheets. US banks also underwent massive restructuring, while our big banks continued to drift aimlessly: big names like Deutsche Bank, UBS and Credit Suisse are still struggling with the fallout from 2008. We are forced to acknowledge that technology companies in the US have made quantum leaps, while the Europeans have nothing to put up against revolutionary companies such as Google, Apple, Facebook and Netflix. Indices in the Europe were also held back by a strong dependence on energy companies, which have been hit by the sharp fall in commodities prices. The massive share buybacks by US companies using ridiculously cheap borrowed money were undoubtedly a major factor in pushing valuations on the US equity markets through the roof. US share prices are currently very expensive compared with past levels, which we believe is largely due to the period of cheap money. However, the low interest rate trend has now been broken, and once again the US has taken the initiative, while the ECB is still wrangling over when to curtail its extremely expansionary monetary policy. We anticipate that Mario Draghi will begin to reduce the money flow in the autumn, although that does not necessarily mean that our local stock markets will soon find themselves navigating in difficult waters. After adjusting price-to-earnings ratios to reflect the economic cycles in the US and Europe, it is clear that European share prices are much more attractive than their US counterparts. The New York Stock Exchange is currently valued at 30 times corporate earnings, compared with an average multiple of 18 in Europe. This also explains why the European stock markets have proven more appealing than Wall Street recently, especially since many US investors are moving money from the US to Europe. But you should not expect "our" stock markets to close the valuation gap, because that would require a dazzling rally among the heavyweights – the big European banks. You already know our views on that subject. We have long advised against shares in big banks, which offer lamentable performance at best. Nevertheless, the fantastically

overpaid managers have learned absolutely nothing and continue to behave like arrogant, greedy know-it-alls.

We are particularly concerned by the upturn in mergers and takeovers, which suggests that thousands of large corporations are determined to make hay while borrowing remains shockingly cheap. There are similarities in the real estate market, where private investors are locking horns over the limited number of apartment buildings that occasionally appear on the market. When demand outstrips supply several times over, there is no chance of finding a bargain. Just as a reminder.

TRUMP, THE WRECKING BALL

US President shoots himself in the foot

The conduct of the 45th President of the United States at the recent G7 summit in Taormina was not merely undignified and discourteous, it was genuinely boorish. Donald Trump treated the political leaders of Europe with brazen contempt. Ultimately, we can be happy that the new US President has not also thrown out all free trade arrangements. Withdrawing from the climate change agreement marked the nadir of his distasteful performance.

President Trump was undoubtedly disappointed by the Europeans' cool reception of his unseemly conduct. Angela Merkel kept it short and to the point: she noted that all future foreign policy decisions would need to be tackled without the US. Of course Europe is aware that they will need to contribute more to NATO in future, but that is all. Trump's heated attack on Germany, threatening punitive tariffs for car exports to the US if the German populace fails to buy Chevrolet pickups, was shrugged off as a bad joke.
We believe that President Trump has done his country a disservice with his fickle conduct, which lacks any degree of statesmanship and also demonstrates a failure to grasp the basic principles of free trade. Excessive populism and twisting of the truth may not be harmful during an election campaign, but once you are the actual leader of the country, there is no further justification for such damaging conduct. Ford may have delayed the

construction of a new plant in Mexico while GM may have dismissed all ex pats, but the heads of countless US companies – and indeed the mayors of many large US cities – are clearly committed to facing down the White House. We think that the Europeans have taken the right line by comparing Trump's outbursts as a political greenhorn to teenage tantrums. Donald Trump is trying to implement his programme without his own country, as in reality the US is not shaped by uninfluential rural folk in the Midwest, who wear dungarees and have been left behind by technological developments, but rather by the educated citizens of the East and West Coasts and Washington's political elite. Trump may well declare that he is representing Pittsburgh's interests, not those of Paris. Unfortunately he doesn't realise that this rust-belt city is now a very modern city that is no more interested in coal than New York is in vineyards. Consequently Pittsburgh's mayor has expressly distanced himself from Trump's decision to pull out of the Paris Agreement and announced that his city and its residents still consider themselves bound by the climate change commitments. As time goes on, it seems increasingly unlikely that the Republican Party will be able to continue backing Donald Trump without being punished by voters at the midterm elections next year. Putin is watching and laughing. His strategy seems to be working nicely so far. Observers anxiously wonder what would happen if he were to act on his expansionist designs on Eastern Europe. It appears that the US would be of little or no help, while a divided Europe would simply protest loudly and meekly surrender. Sadly, our worst fears about the new US President have been realised. In a very short time, close allies have become adversaries. History teaches us that it is dangerous to ignore the threat of contentious populists who become leaders of a world power. It is entirely possible that Russia and China intend to exploit the squabble between Europe and America for their own strategic and economic advantage, and could seek to trigger knee-jerk reactions from the unpredictable US President. This is a matter that should worry all of us. Unfortunately the reality is that every single European nation is currently preoccupied with domestic concerns. Completely preoccupied. The insularity created by domestic forces may soon prompt a serious political disaster, because Vladimir Putin is clearly fanatical about restoring his country's position as a major global power. For now, the real risk comes not from the underlying economic outlook or stock market prices, but from the Trump factor.

THE BIG SWINDLE

Abolition of cash

Politicians and central bankers are genuinely good people. They want to protect citizens from inconvenience by all practical and even impracticable means, including by abolishing cash in order to pull the rug from under all drug cartels, as well as to stop bribery, corruption and all kinds of criminality. All this, dear reader, is being done in your best interests. That's the official version. Naturally, the truth is rather different. After years of unbridled money creation, the world's central bankers are scared witless that in the event of a recession – or even another banking crisis, which is entirely plausible – there would be no way of taking measures to stimulate the economy and financial system given the fragility of the low interest rate environment worldwide. As long as cash still exists, there is no way to reduce interest rates below –0.5% or –0.75%, because savers – and ultimately banks – would then withdraw all their money as cash and keep it in time-honoured fashion in a jar or under the bed. So the central bankers have come up with the idea of abolishing cash altogether – for their own benefit, of course. If cash is abolished, then there is nothing to stop interest rates being cut to several percent below zero and we creditors would be unable to do anything. If a country such as Switzerland, which likes to ignore state dogma, is unable to confiscate all cash from its citizens, it would take punitive measures. What would the punitive measures be? Well, for every CHF 100 withdrawn as cash, your bank might charge you CHF 103. If you then found yourself sitting on a pile of cash – not that we are insinuating anything – and wanted to pay it into your account, your bank would credit you with CHF 97 for every CHF 100 received. That would hurt, and would soon teach citizens to stop hoarding cash. A painful lesson. Negative interest on deposits. Punitive charges for cash. Happy central banks. But there is an alternative solution: gold. Gold is traded as a commodity, but it isn't. It is money. The world's central banks hold tens of thousands of tons of gold reserves in their underground vaults, but no copper, aluminium or tungsten. They don't store pork belly. The vaults only contain gold, because the bankers know that gold is money. But our lords and masters don't want the citizens to realise this – and many remain in ignorance. The only problem is that people are slowly realising that while cash could be banned, owning gold can protect savers and creditors from negative interest rates and punitive fees. The moment of truth will come for all those who don't want to be treated like children

and want to have an asset in their portfolio that is completely independent of the global financial system. An asset that doesn't appear as a liability in any balance sheet anywhere. When the truth dawns, many people who hold investments in gold or gold futures will panic and demand their gold in physical form. Unfortunately, that won't be possible, because the outstanding futures contracts exceed the capacity for physical delivery several times over. Which raises the prospect of suspending trade in gold investments, with contracts being terminated and settled at the USD spot price. It would represent the end of the line for anyone who didn't own physical gold. This scenario may sound rather extreme, but we believe it could actually happen. There is nowhere near enough gold to offset the repercussions of abolishing cash. Start planning now and speak to your BHA advisor about how much physical gold would be appropriate for you. You should definitely avoid paper investments in gold for reasons of cost, as they could derail your entire safety strategy.

WILL THEY NEVER LEARN?

Big banks are our heroes

Really? Surely we don't mean that seriously, given that we have always been harsh critics of the big banks. Well, no. It is an ironic statement that cuts to the heart of the matter. The proceedings of the annual general meetings of the big Swiss banks are nothing less than a farce. Every year, the faithful large shareholders reappoint the boards of directors and rubber-stamp the payment of monstrous bonuses despite repeated massive losses. And anyone who believes that there will be an end to the stream of fines for illicit – if not outright criminal – conduct is fooling themselves. In April, UBS forked out another CHF 500,000,000 for bad mortgage-backed securities. The former CEO of Credit Suisse, Brady Dougan, always claimed that everything was under control at his bank, but Credit Suisse is again top of the heap for legacy and governance issues. Dozens of lawsuits are still pending, which hasn't stopped senior management from walking away with huge bonuses despite a CHF 2.7 billion loss in 2016. For the second time in two years, shareholders have been tapped for new capital. All because the Swiss National Bank is busily applying pressure behind the scenes to whip the balance sheet ratios into

some kind of shape before more skeletons emerge from the closet. That is the harsh truth. Any company that has been leading investors and customers down the garden path for years, reports losses in billions of Swiss francs every year and still brazenly pays multimillion salaries and bonuses to executives should be excluded from the investment universe. As this publication has been saying for a long time. There is absolutely no obligation to include in your portfolio equities of companies that are major components of a country index. You don't pay your bills on how your portfolio performs versus the stock exchange index, but with the overall performance of your investments. So be enterprising in your thinking and forget about benchmark indices. It is best to ignore losers. The Swiss market index contains plenty of quality brand names. There are Geberit, Ems, Lindt, Givaudan and Schindler, not to mention heavyweights such as Nestlé and Roche, which regularly pay attractive dividends in addition to generating gains.

OK, we admit it: we do harp on about our aversion to the big banks. But quite rightly, dear reader. It is not prejudice: we look at the facts and ethical considerations. As the proverb says, once bitten, twice shy. So honestly, who would still contemplate buying shares in a big bank?

HIGH ALTITUDE CAN MUDDLE YOUR THINKING

Warning against bullish stock markets

Alternatives to equities remain pretty thin on the ground. We still have little choice but to maintain a fairly strong equity weighting. Bonds remain risky for private investors both in terms of taxes and with regard to capital value. Fixed-term deposits are a better option at the moment, at least in theory, but unfortunately only a few currencies offer positive returns. Swiss franc-based investors also face negative interest rates on cash deposits, making equities and gold the only viable investment segments. Given the absence of any alternatives, the fact that interest rates make investing in equities a necessity should not be the only determining factor when overweighting equities. If a company's fundamentals are unimpressive, you shouldn't try to crowbar the shares into your investment policy. Any such move could

backfire. As soon as we think that share prices have moved beyond an acceptable value range, we reduce our commitments, even if that means investing our money in short-term instruments with meagre returns. A microscopic return on investment is always better than waiting for share prices to fall – even when the investment is still solid on fundamentals. It is no fun losing money on top-quality equities.

Prices have already reached lofty heights and we are increasingly struggling to spot promising equities. It is also clear that zero interest will soon become a thing of the past, which in turn will push up borrowing costs, which means that valuations will have to be reset – unless profits continue to rise. As mentioned earlier, we are rather concerned about the suspicious spike in takeovers, a phenomenon that usually marks the late stages of an upturn. Good advice is expensive at the moment, because moving to interest-bearing short-term investments is simply not an option. We are sticking with our star performers: the Swiss quality equities mentioned earlier, which consistently post gains, leading US technology companies, and our very successful investments in Asian consumer equities (Arisaig). However, we may reduce other more opportunistic investments as opportunities arise. This is tantamount to carrying oxygen to keep ourselves alert and avoid overconfidence. Pride comes before a fall. Given the attitudes on certain stock exchanges, there is no doubt that this is the prevailing sentiment.

PENSIONS – QUO VADIS?

Minding our own business

In spring 2017, BHA Partners AG received permission from the OPSC [1] to manage pension assets. We are delighted to be able to expand our product range for Swiss customers. We believe that optimising the management of pension fund assets will be a key issue and major challenge in the coming years.

[1] Occupational Pension Supervisory Commission

In a context of record-low interest rates, a review of personal pension arrangements is urgently needed, particularly in light of the Swiss referendum on “Retirement Reform 2020” that is due to take place in September 2017.

The reality of consistently low investment returns in the pensions segment is forcing pension funds to rethink their strategies. Global life expectancy is rising, which is great news, but pension systems in most countries are still not adequately prepared to accommodate the changes. In light of the upheavals in occupational pensions and uncertainties surrounding future pension benefits, we need to rethink investment strategies in order to make them sustainable. The Swiss National Bank’s current policy of negative interest rates is adding fuel to the flames. Some pension fund managers find themselves engaged in a juggling act, moving cash assets between banks in order to minimise the impact of negative rates.
But what are the options if you want more control over your pension assets?

State pension: first pillar
The first pillar – old-age and survivors’ insurance, or AHV – is a pay-as-you-go system pure and simple. A percentage is deducted from workers’ salaries and is non-negotiable. The current Swiss “Pension Reform 2020” package is designed to guarantee first-pillar provision by providing a CHF 70 top-up for all new pensioners. This is a bold undertaking, given population trends. Most of the funding for the first pillar is supposed to come from an increase in VAT, which is controversial in terms of generational fairness. The change will have a limited impact on older generations, but will reduce the spending power of young and future generations and their ability to save. Every citizen can influence the outcome by voting in the September referendum.

Occupational pensions: second pillar
Employees have limited influence on their pension fund savings. In the best-case scenario, your employer may offer a range of contribution plans, allowing you to determine the total retirement assets. Most pension funds are all-encompassing, which means that the conversion rate applies to all retirement assets – both compulsory and voluntary contributions. The conversion rate is lower than the current statutory rate of 6.8% and is constantly being reduced by pension funds in order to be able to honour their commitments.
The self-employed enjoy greater flexibility through the so-called executive pension scheme, which allows voluntary contributions to be invested

separately and personally. However, the self-employed person then bears the brunt of all investment risks and opportunities. Investment strategies have to be tailored to the individual's risk tolerance, because it is important to know how to handle stock market volatility. However, over a long time period, the pension scheme will benefit from higher returns, and the investment income from the voluntary pension provision is credited to the individual. As the voluntary pension provision supplements the basic pension, it can be implemented rapidly without too many changes. An assessment of your personal situation is vital in order to avoid nasty surprises when you begin drawing your pension. The first step is to look at your statement of benefits.

Private pension savings: third pillar

A study by UBS[2] found that only half of the Swiss population uses the tax-deductible third-pillar pension option. Of those individuals with a 3a pension plan, most have opted for an account-based scheme, even though the accounts tend to offer interest rates close to zero, while just 22% have selected a securities solution. Particularly for younger people, a securities solution containing equities is absolutely essential in order to achieve long-term asset growth. Anyone in work can save with a third-pillar scheme. However, unlike the second pillar, retroactive payments are no longer permitted, so every year of contributions counts.

Supplementary private pension savings with a carefully considered investment strategy are now essential.

Musings on the future of the Swiss pension system

So what has happened to the much-vaunted intergenerational solidarity?
All the current proposals for improving the pension system – from increasing the retirement age to reducing the conversion rates – constitute an additional burden for young and working people. Pensioners and baby boomers are guaranteed financial certainty for their pensions and are already benefiting from a massive redistribution of wealth from the young to the old. Old-age pensions remain sacrosanct in Switzerland. Protecting the vested rights of pensioners is the number one priority and politicians are unwilling to broach the subject at all. This was bad news for the PricewaterhouseCoopers (PwC) pension fund, which wanted to introduce its more flexible pension model as an intelligent and attractive approach. In 2014, PwC proposed greater flexibility for voluntary pension schemes and more flexible pensions. However, the Zurich pension fund supervisory

[2] Source: *Finanz und Wirtschaft* special edition, September 2016, p.1

authority and Federal Administrative Court finally dismissed the solution as unacceptable.

The ultimate goal should be to prevent any generation from becoming rich at the expense of their children. In view of the poor interest rates available on the financial markets, existing resources are inevitably being directed to other channels. Pension funds are investing every last cent up to the legal maximum in real estate and reluctantly increasing their holdings in alternative investments such as hedge funds and private equity in order to generate higher risk-optimised returns. All because of the dearth of stable, low-risk income from bonds. Very few pension funds have had the confidence to increase equity investments. After the awful experience of 2008, many pension funds still have a bone-deep wariness of volatility and a fear of coverage shortfalls.

The statutory requirements will continue to change slowly over time. We also need to radically rethink the way that we treat older workers. There will be no way of avoiding an increase in the retirement age in the future, but what is the point if every sector of the economy writes off anyone over 50? The over-50s can only find new jobs on exacting terms, if they can find anything. Their valuable experience should increasingly feed into new working processes, with companies striving to keep people for as long as possible. At the same time, older workers should think seriously about their skills and long-term employability, which includes being willing to lower their sights. The idea that a career should reach its peak at the end of working life is no longer relevant in most companies.

No matter how you look at it, ultimately you have to consider what you can actually change. The liberal view of human nature emphasises self-reliance, a sense of accountability and providing for yourself. Taking responsibility for others and acting in a forward-looking manner is, however, also an anchor for a peaceful and social coexistence in a society in which individualism is becoming ever greater and familial structures becoming more complex. A flexible pension system that is fair to all generations is one key ingredient. There is still a lot of work to be done.