INVESTOR INFORMATION

Retirement savings fund investment category

CIC

This document provides information on the characteristics, opportunities and risks associated with retirement funds as an investment category. The aim is to make investment decisions easier by explaining the way in which they operate and the differences between them. Our client advisors would be happy to answer any further questions.

Characteristics

Retirement funds are strategy funds (also referred to as hybrid funds) or investment funds which invest simultaneously in a variety of asset classes. They are intended exclusively for clients with a 3a retirement savings account or a vested benefits account. Unlike traditional investment funds, retirement funds are managed in accordance with the statutory provisions of the Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (BVG) and are subject to the provisions of the Ordinance on Occupational Old Age, Survivors' and Invalidity Pension Provision (BVV2). The weighting of the relevant asset class in the fund is determined on the basis of the strategy pursued. In most cases, a fund has certain percentage bandwidths within which it is permitted to move (e.g. equity allocation of of min. 20%, max. 40%). The different weighting of the asset classes makes this type of fund potentially suitable for different risk profiles. Depending on the fund's composition, investors are recommended to adopt a medium- to long-term investment horizon.

Different fund types (retirement fund risk class)

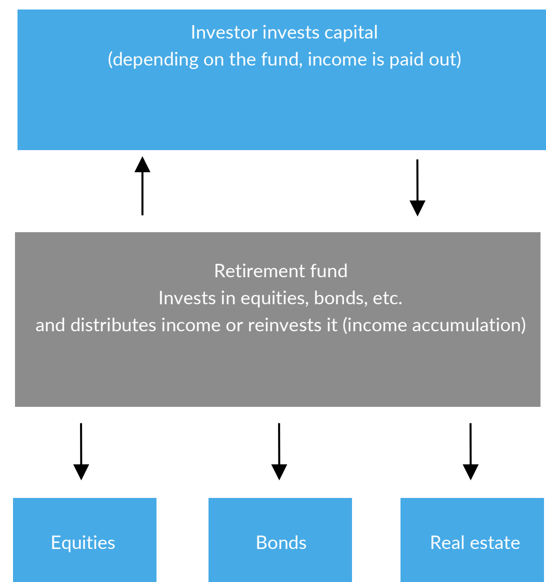
Conservative retirement funds:
These funds pursue a more conservative investment strategy, mainly in fixed income securities such as bonds or money market papers or in indirect real estate investments. Equities or derivatives are not added to the portfolio, or only in very small amounts (up to 19%), thereby reducing the risk for the investor. Recommended investment horizon: min. 4 years.

Balanced retirement funds:
These funds aim to pursue a balanced investment strategy. An equity component is included and as a rule moves between a defensive and offensive investment strategy (equity allocation is 20% – 39%).
Recommended investment horizon: min. 6 years.

Dynamic retirement funds:
Funds with a more offensive approach invest in assets which carry a greater risk of loss. The equity component is between 40% – 50%, which increases the earnings opportunities for the investor, but also involves a higher risk of loss.
Recommended investment horizon: min. 8 years.

Equity-focused retirement funds:
These retirement funds primarily invest in equities. The earnings opportunities, but also the risk of losses, are higher than in the case of traditional retirement funds. The equity component is between 50% – 100% (based on Article 50 (4) BVV2 and the Regulations of the Stiftung Sparen 3 / Freizügigkeitsstiftung of Bank CIC (Switzerland) Ltd.). These retirement funds are suitable for investors who have this level of appetite for risk.
Recommended investment horizon: min. 10 years.

How retirement funds work



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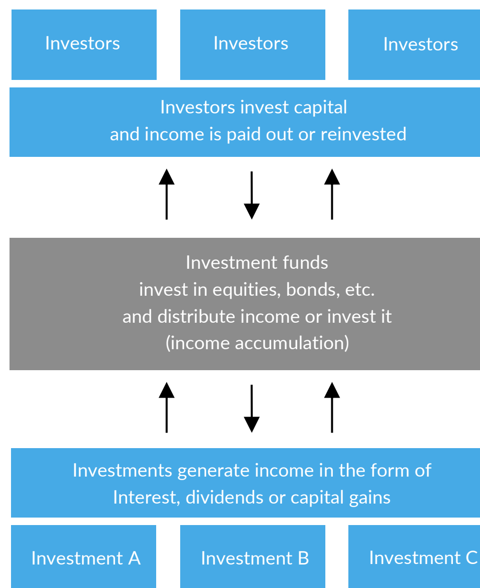
Funds in general:
When making an investment in (investment) funds, the investor purchases units in the fund. The fund is composed of asset classes (equities, bonds, etc.) given different weightings in line with the specified investment strategy. The fund management manages the fund, analyses the markets and takes active investment decisions. Some funds pay out income (price gains from disposals and income from dividend payments) following deduction of their own management costs, others reinvest the income on behalf of the investor (income accumulation). Costs are generally incurred for the annual management of the fund. In addition, a fee may be charged when fund units are bought (issuing fee) and possibly also when they are sold (redemption fee), depending on the product. The fund's capital is invested separately by the fund management company through a custodian. This serves to protect the investors should the fund management company become bankrupt, as these assets do not become part of the bankruptcy assets (special assets). Furthermore, the investment companies are constantly monitored by regulatory authorities. The price (net asset value or NAV) of each unit reflects all the investments of the fund and is calculated by the fund management company on a daily basis.

How investment funds work



Index funds:
Unlike actively managed funds, in the case of index funds there is no active selection of investments by the fund. Instead, an existing yardstick (benchmark) such as an index is tracked without further analysis of the weighting and investment motives. The advantage lies in the lower fee structure with lower costs of such funds, as they do not require any active management.

Sustainability funds:
These are funds which make investments based on environmental and social considerations. A sustainability fund invests only in companies that operate sustainably.

Advantages

- Over the medium- to long-term, depending on market developments, retirement funds can generate a higher return than account solutions based on a 3a retirement savings account or vested benefits account.
- Retirement funds are managed in accordance with the restrictive provisions of the BVV2 Ordinance and the individual investment foundations are supervised by the Occupational Pension Supervisory Commission (OAK BV).
- Retirement funds invest in a variety of asset classes. This results in a broad diversification across the various asset classes.
- Retirement funds allow broad diversification (various countries, sectors, themes, indices, investment categories) to be achieved with only a small amount of capital.
- Investors do not require any particular market knowledge, as the selection and management is taken care of by specialists.
- Should the investment company become bankrupt, the investment capital is protected as it is classified as 'special assets' and held by a separate custodian.
- Fund units can generally be converted into cash within a few days. In most cases, the fund management company will buy back the units.

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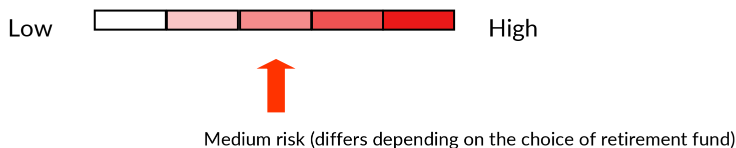
Risks

Risk classification



Medium risk (differs depending on the choice of retirement fund)

Risk of loss
The value of a fund may fall below the purchase price. However, if a wide variety of underlyings are involved, the probability of a total loss is relatively low.

Market risk
Depending on the product, the possibility of selling an investment may be restricted because it is tied to certain trading venues or owing to time differences and opening hours. In negative market situations caused by political or economic events, the price performance of the investment may lead to a loss.

Liquidity risk
Depending on the product, it may not be possible to sell the investment at all, to sell it at short notice, or to sell it at a fair price. Depending on market size, supply and demand, this could mean that investors are unable to access some or all of their money or that they can only access it at certain times.

Currency risk
For products denominated in a foreign currency there is a risk of devaluation against the investor's home currency. This means that the foreign currency will lose value against the investor's home currency and that a loss may be incurred on exchanging it back, thus lowering the overall return.

Political risks
Depending on region and product, investment may be exposed to political risks. This applies in particular to countries that have low political stability, as is often the case in poorly developed or emerging markets. Should internal unrest or economic disruption arise, this may have a negative impact on the value or availability of the investment.

Regulatory risks
Governments and associations may enact new laws or change existing ones. These changes can have an adverse effect on the investment. Furthermore, governments and regulatory authorities can suspend, ban or restrict trading on the stock exchange or another market.

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