

# 1. Investment Philosophy & Goals

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## Investment Policy

Defines return targets, risk profile, time horizon and eligible asset categories:

**Core cash:** will be invested with the objective of generating a **positive return**, net of any management fees and costs of hedging to Swiss francs over rolling **5 year** periods. Core cash will be invested ideally in such a way that occasional access to a portion of the cash is possible.

**Strategic Cash** (represents the funding set aside to meet the ASHI liabilities): an ALM Study conducted every three years determines the required level of return to cover ASHI liabilities. The aim is to **achieve a cover ratio of 90 per cent** of the ASHI liability within a period of **20 years**.

## Governance

Compliance with policy monitored on an on-going basis by the custodian bank as well as investment advisor

Periodic review of strategic allocation and alignment with long term targets

Governance:

- Advisory Committee on Investments
- Custodian Bank
- Investment Advisor
- Independent Advisory Oversight Committee (IAOC)
- External Auditors

## Investment Strategy

Eligible asset classes

Asset allocation to maximize probability of achieving targets over appropriate time horizon

Minimize execution risk: passive management, rebalancing

## 2. Governance Structure

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Director General to review/give final approval to all reports/recommendations

Financial Regulations and Rules (FRR) 4.10 and 4.11: PBC to be informed regularly by the Director General about short-term and long-term investments

Advisory Committee on Investments, ACI, composed of members appointed by the Director General

Committee provides advice to the Director General in respect of the investment of the Organization's funds pursuant to Chapter 4, Section C of the (FRR)

Advice covers such matters as contents of the investment policy, strategy, asset allocation, appropriate performance benchmarks and investment guidelines

### Roles of the Advisory Committee on Investments

Asset allocation

Execution and monitoring of the investment policy

Review and update of the investment policy

Engagement and discharge of external fund managers and the custodian

Monitoring external fund managers and the custodian

### 3. Sources of return

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#### Asset categories

The portfolios invest exclusively in asset categories that generate income and enjoy long term economic drivers such as equities, bonds and real estate

Long term return potential of such assets may be estimated

While financial markets are subject to short term volatility, longer term returns of such assets inevitably converges with their fundamental drivers

The continuous accumulation of gains ends up eclipsing the effect of the erratic movements of the financial markets. It is this economic return that the investor can reliably harvest.

Conversely, speculative assets where financial returns are exclusively based on supply and demand are avoided. Future returns of such assets may not be estimated.

#### Allocation of assets

Short term market fluctuations are random and impossible to predict. Investment approaches based on such forecasts jeopardize the achievement of the long term targets.

The time horizon of each investment category in the portfolio is determined by the time it takes for financial returns to converge with fundamentals. This horizon varies depending on the selected asset class.

The Strategic Allocation of each portfolio is defined on the basis of the required long term return target and risk profile as defined by the Investment Policy.

## Debt (Bonds)

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### Sources of return

Interests

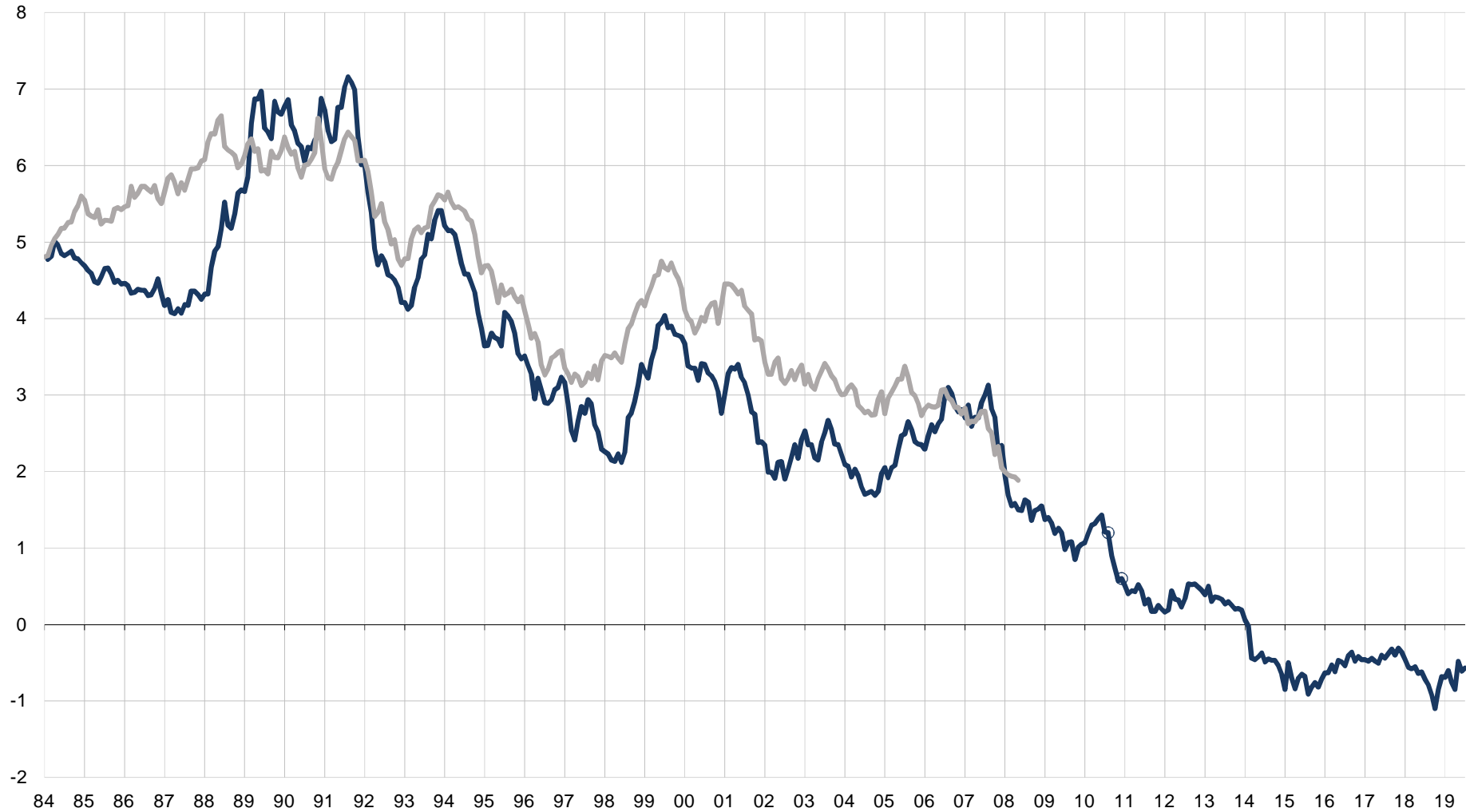
Default losses

Long term expected return:

**Yield - Credit Losses due to Defaults**

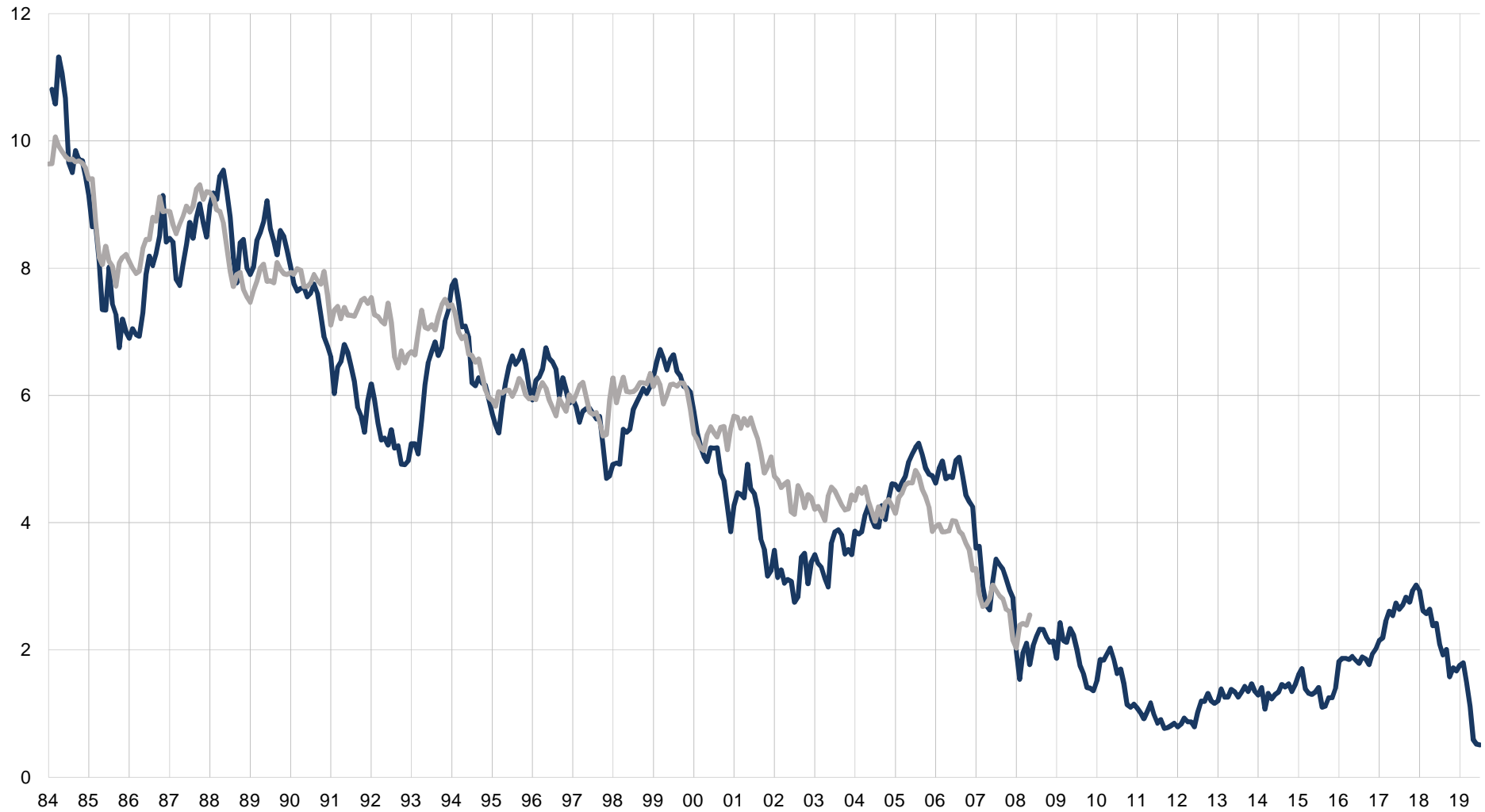
## Future bond returns are determined by the current yield

— Swiss Govt Bonds average Yield    — Subsequent 10 years annualized return



# Future bond returns are determined by the current yield

— US Treasury Bonds average Yield      — Subsequent 10 years annualized return



# Equities

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## Source of return

Dividends: the most stable and most reliable source of return.

Economic growth: corporate earnings grow along with the economy

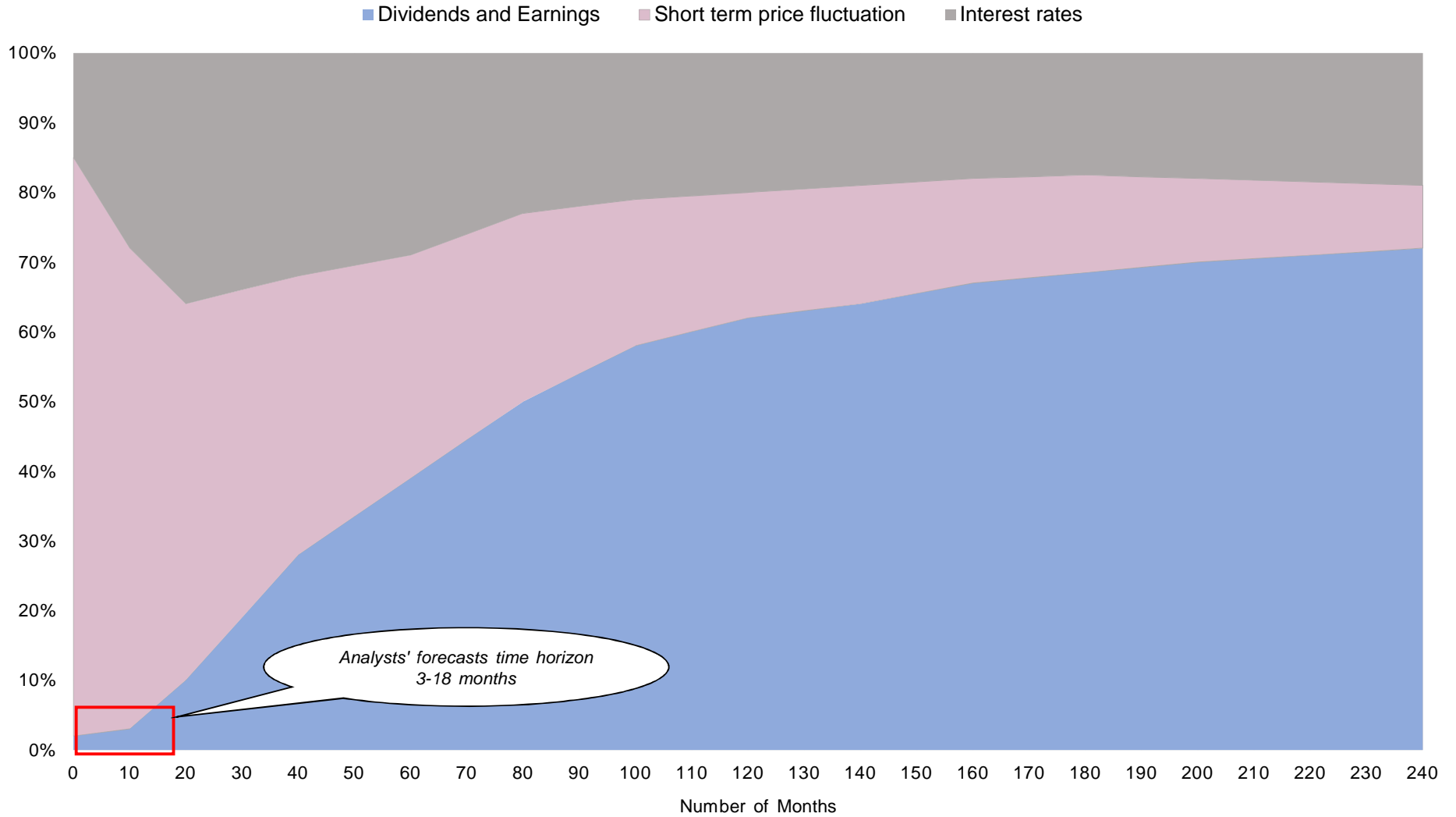
Changes in valuation: while the long term effect of such changes is close to zero, over periods as long as 10-15 years valuation may have a significant impact on returns. This impact is difficult to estimate.

Long term expected return:

**Dividend yield + average expected growth + return to mean of market valuation**

# Factors explaining equity returns

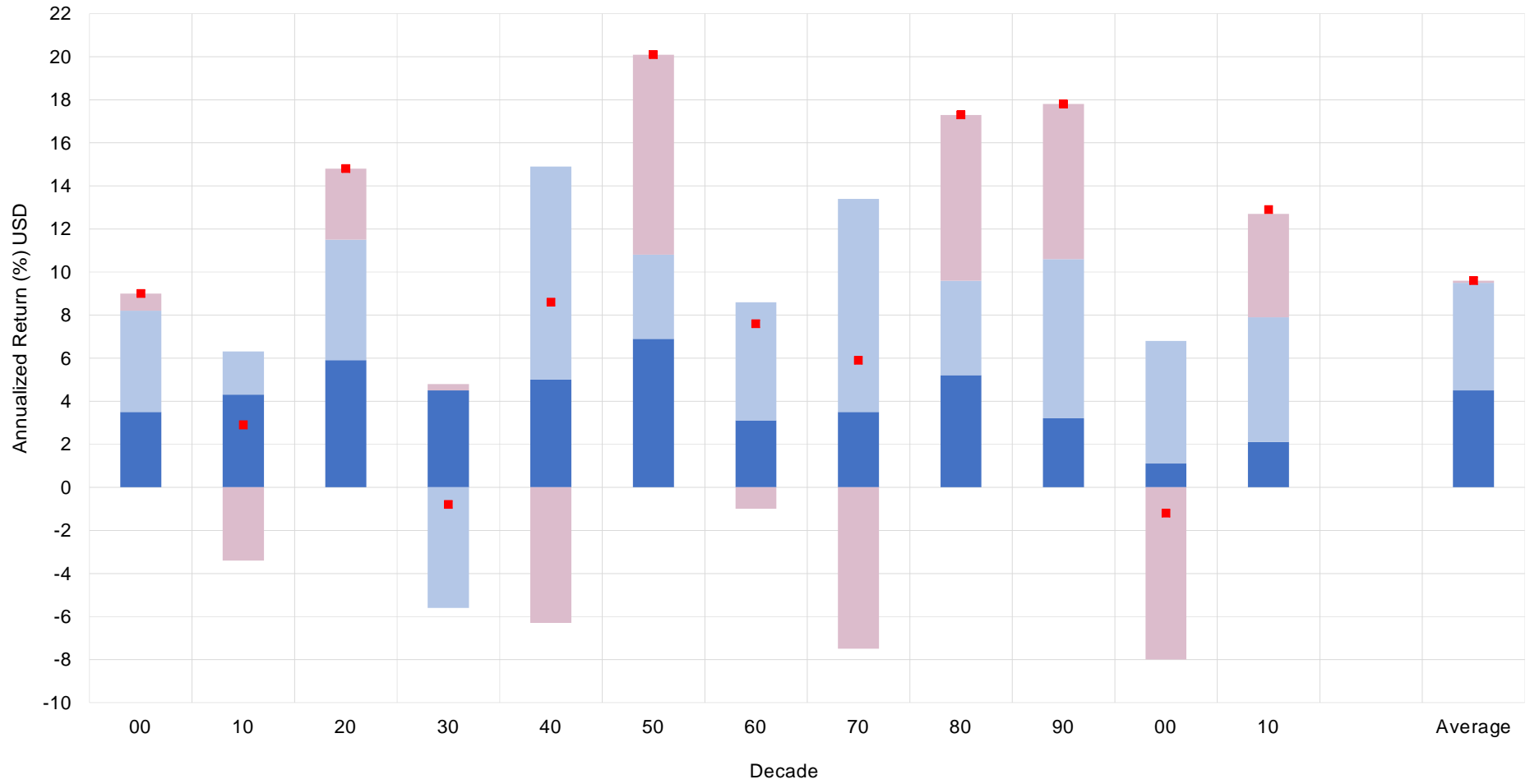
Predicting stock market movements in the short to medium term is a fruitless exercise





# Sources of US equity returns since 1900

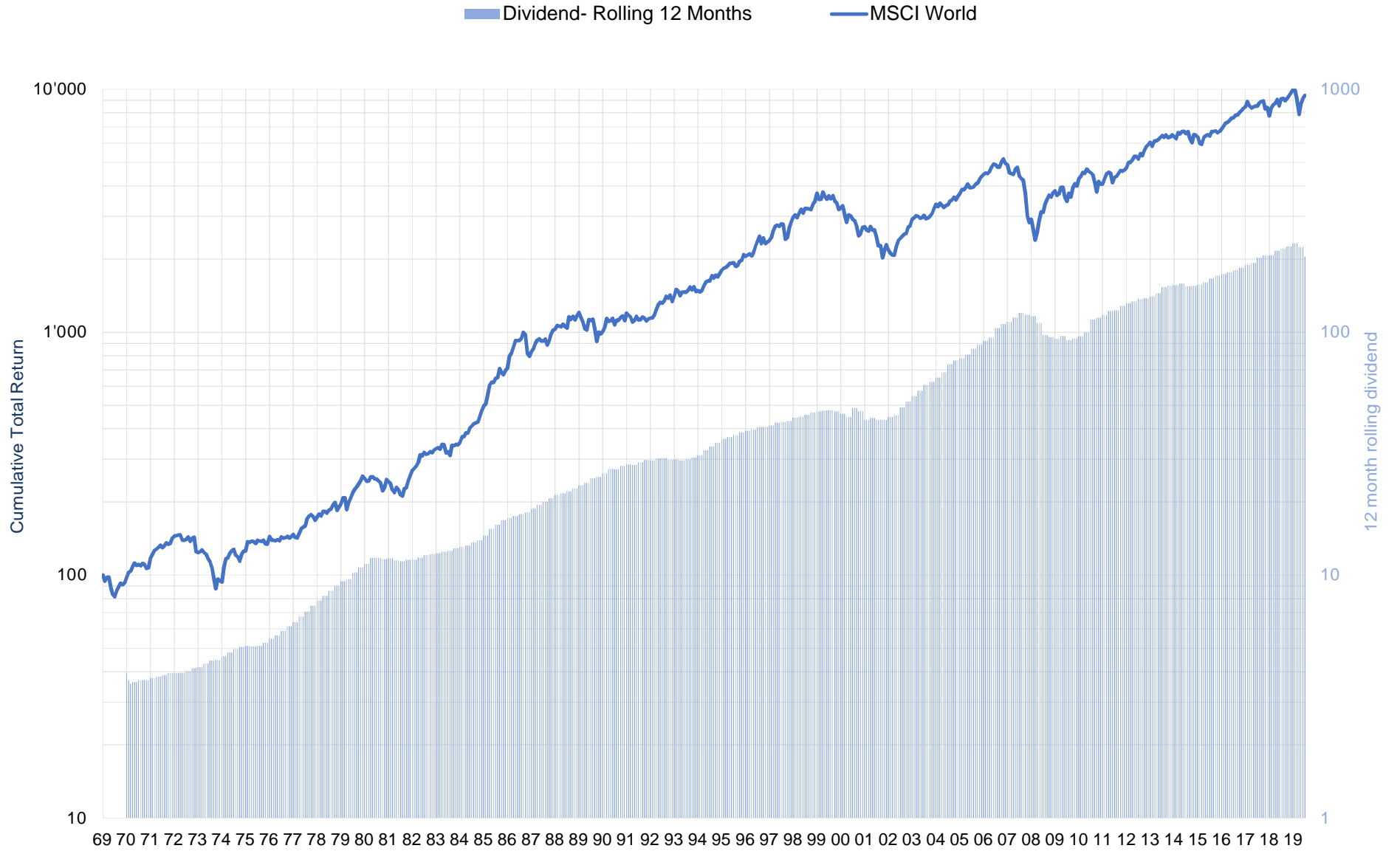
■ Dividends   
 ■ Earnings Growth   
 ■ Speculative Return   
 ■ Market Return (S&P 500)  
 (Change in Valuation)



MBS Capital Advice

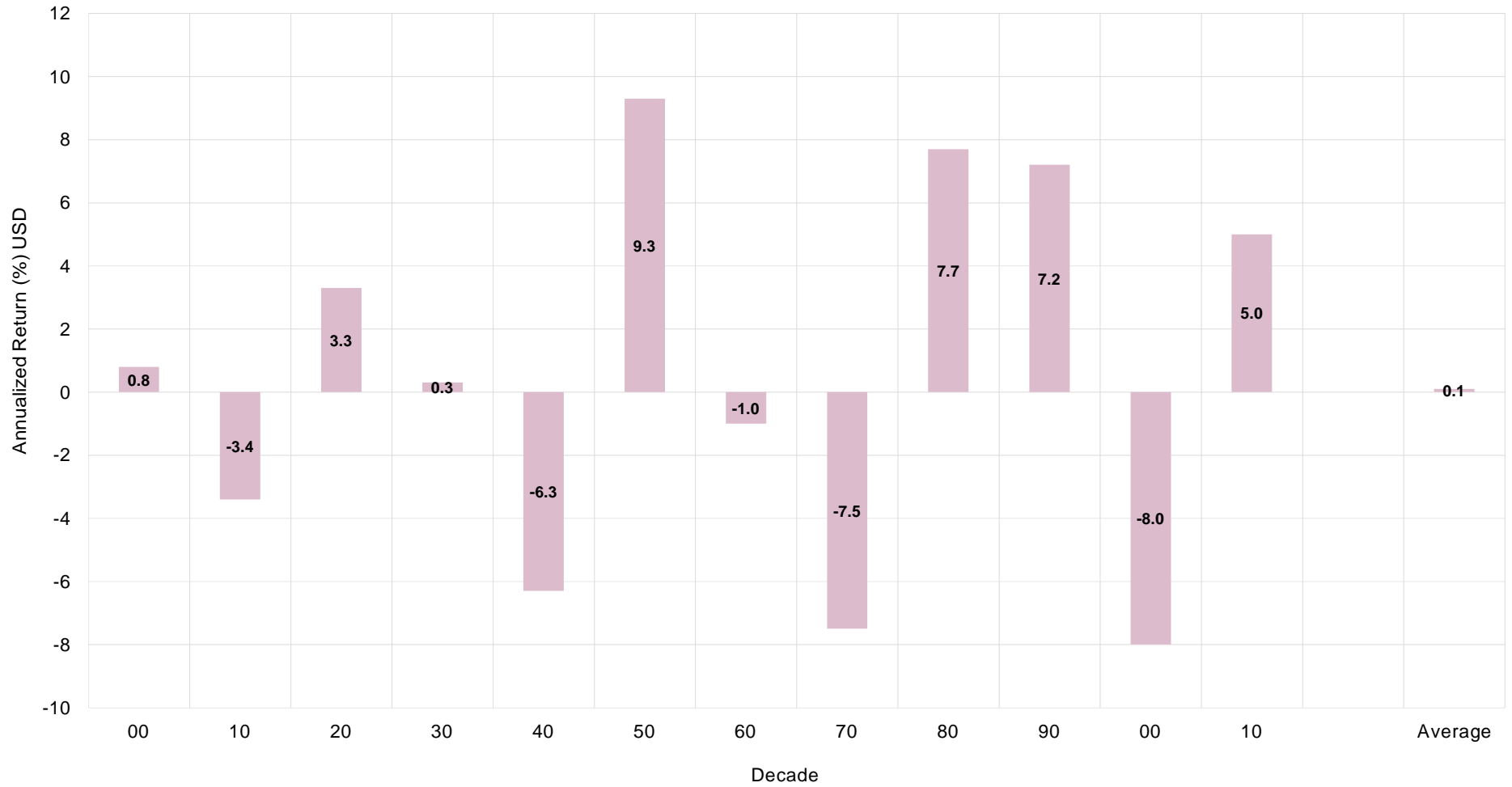
USD

# Dividends are a reliable source of long term return



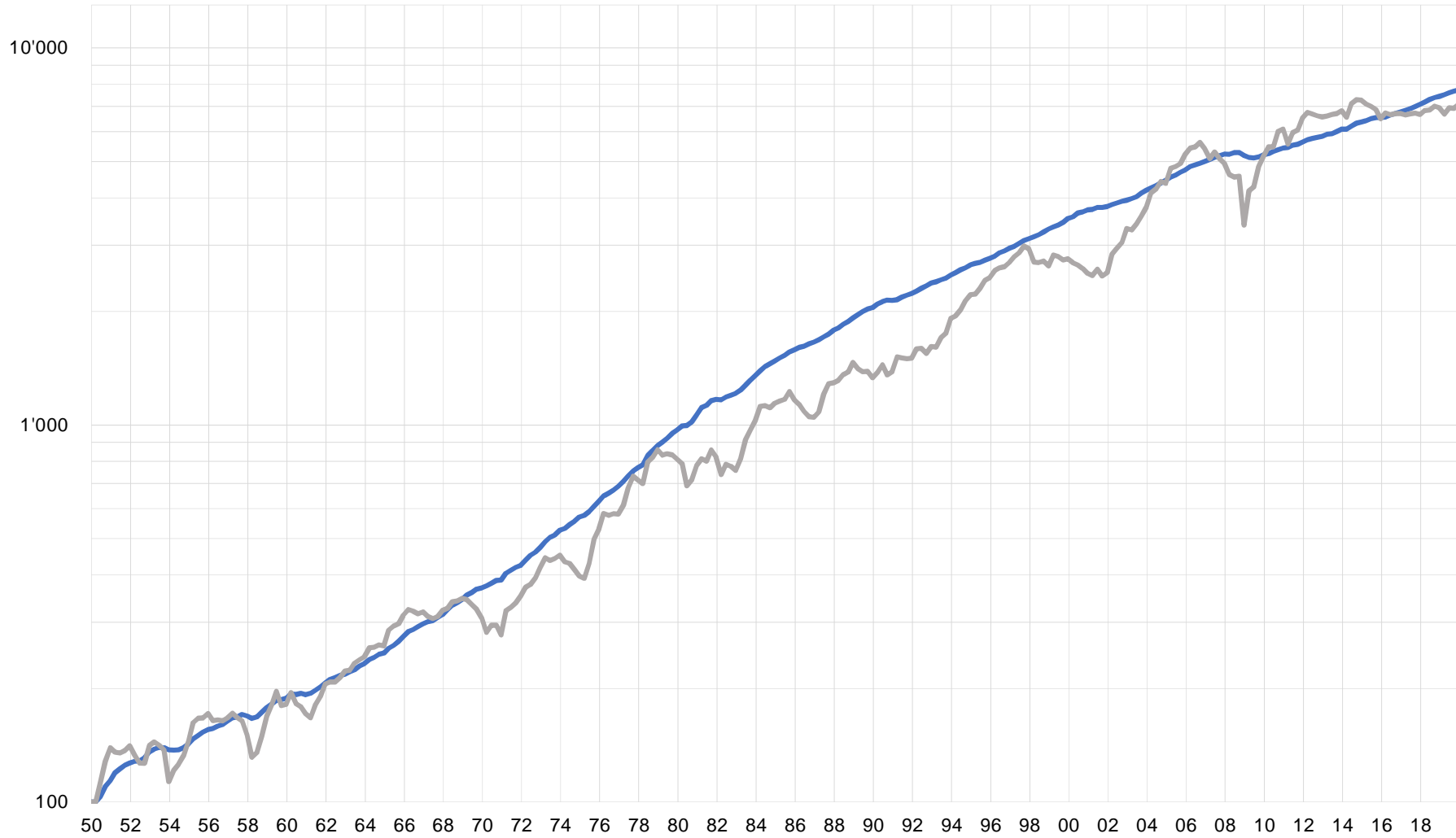
# Speculative return of US equities since 1900

■ Speculative Return  
(Change in Valuation)



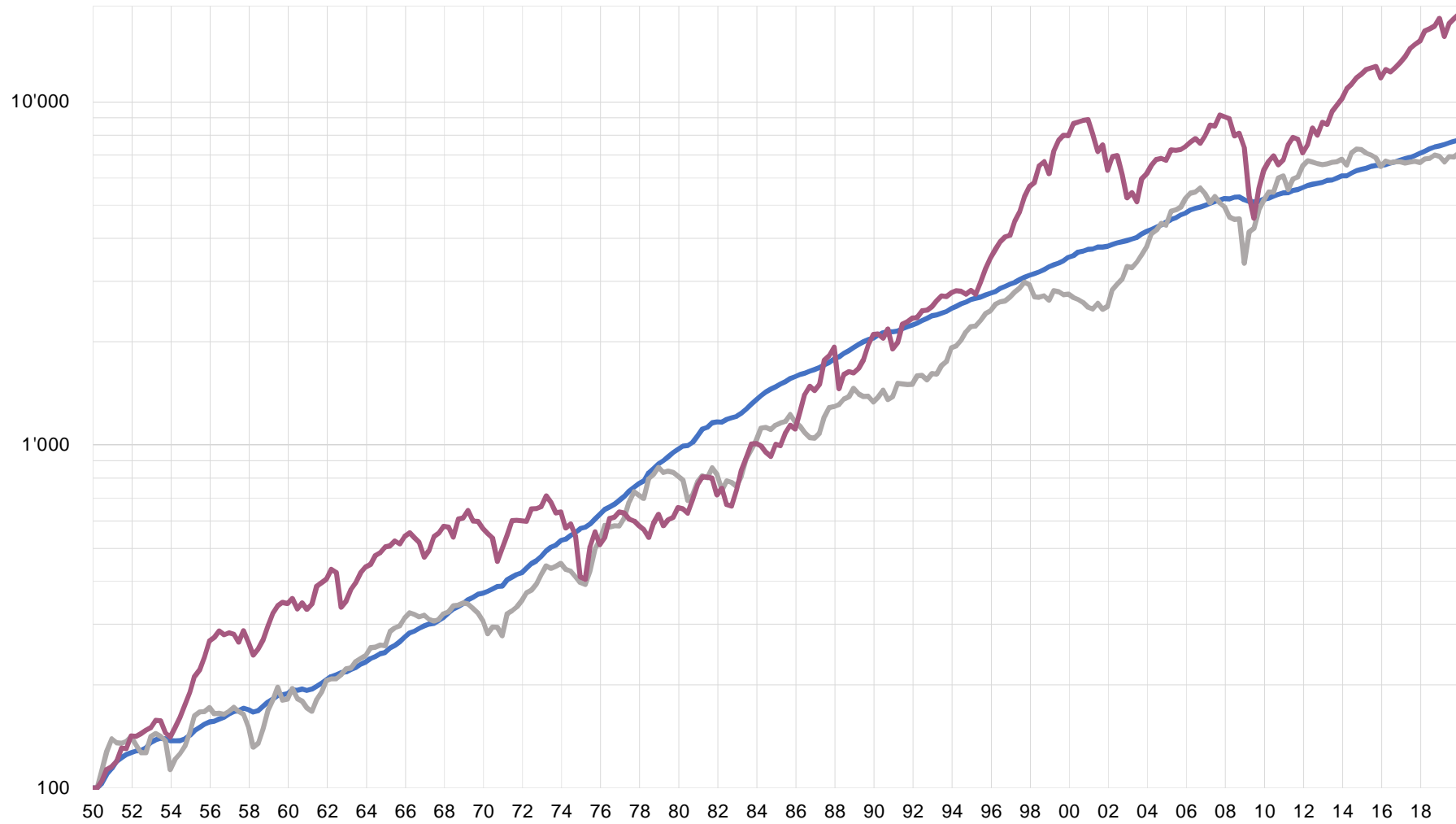
# Corporate earnings tend to increase along with the GDP

— US Nominal GDP — Corporate Profits



## And stock prices follow the earnings

— US Nominal GDP — Corporate Profits — S&P 500 Price



## Real Estate

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### Source of return

Rental income: the most stable and most reliable source of return.

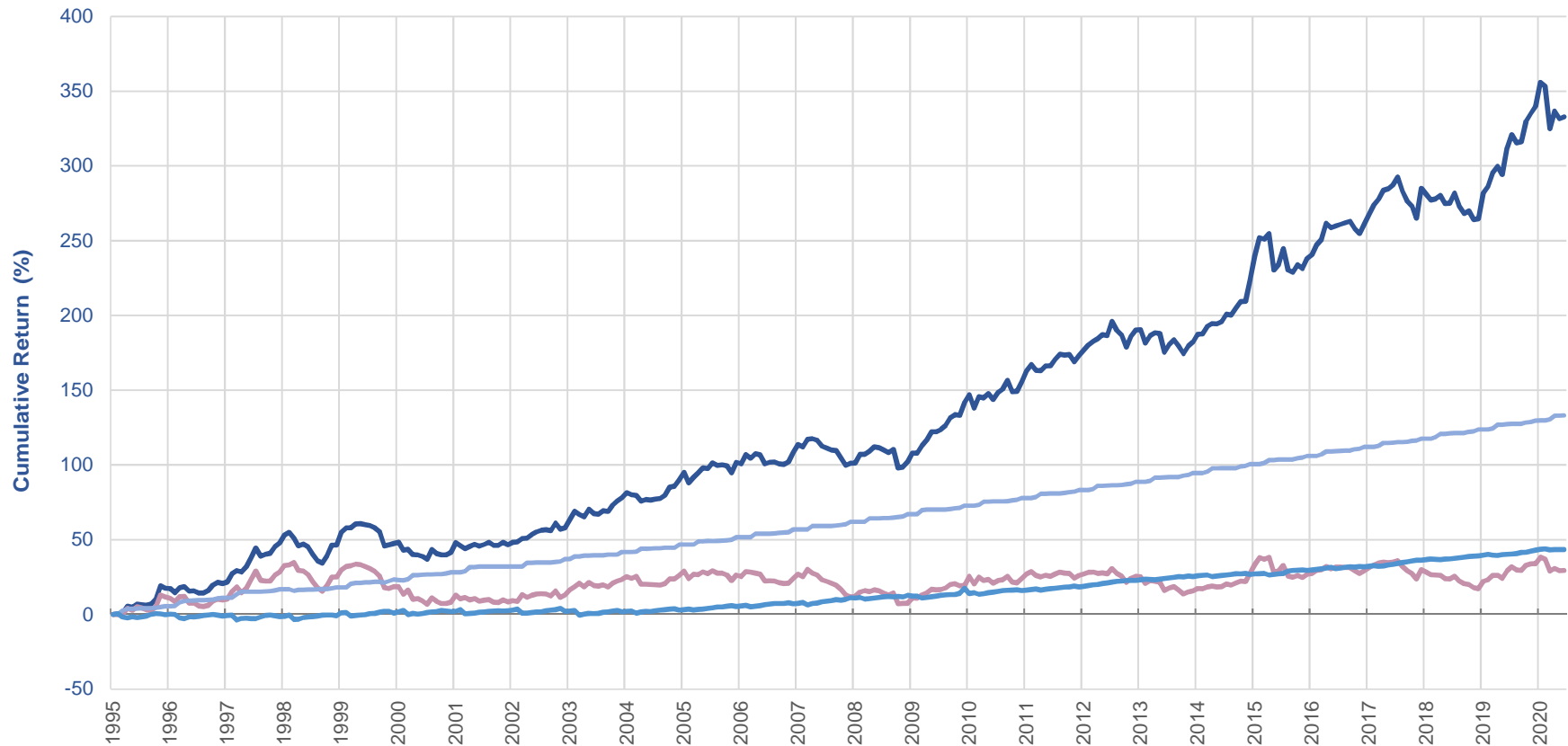
Rental growth: rents tend to increase with inflation, thus provide some protection against rising inflation

Long term expected return:

**rental yield + average expected inflation**

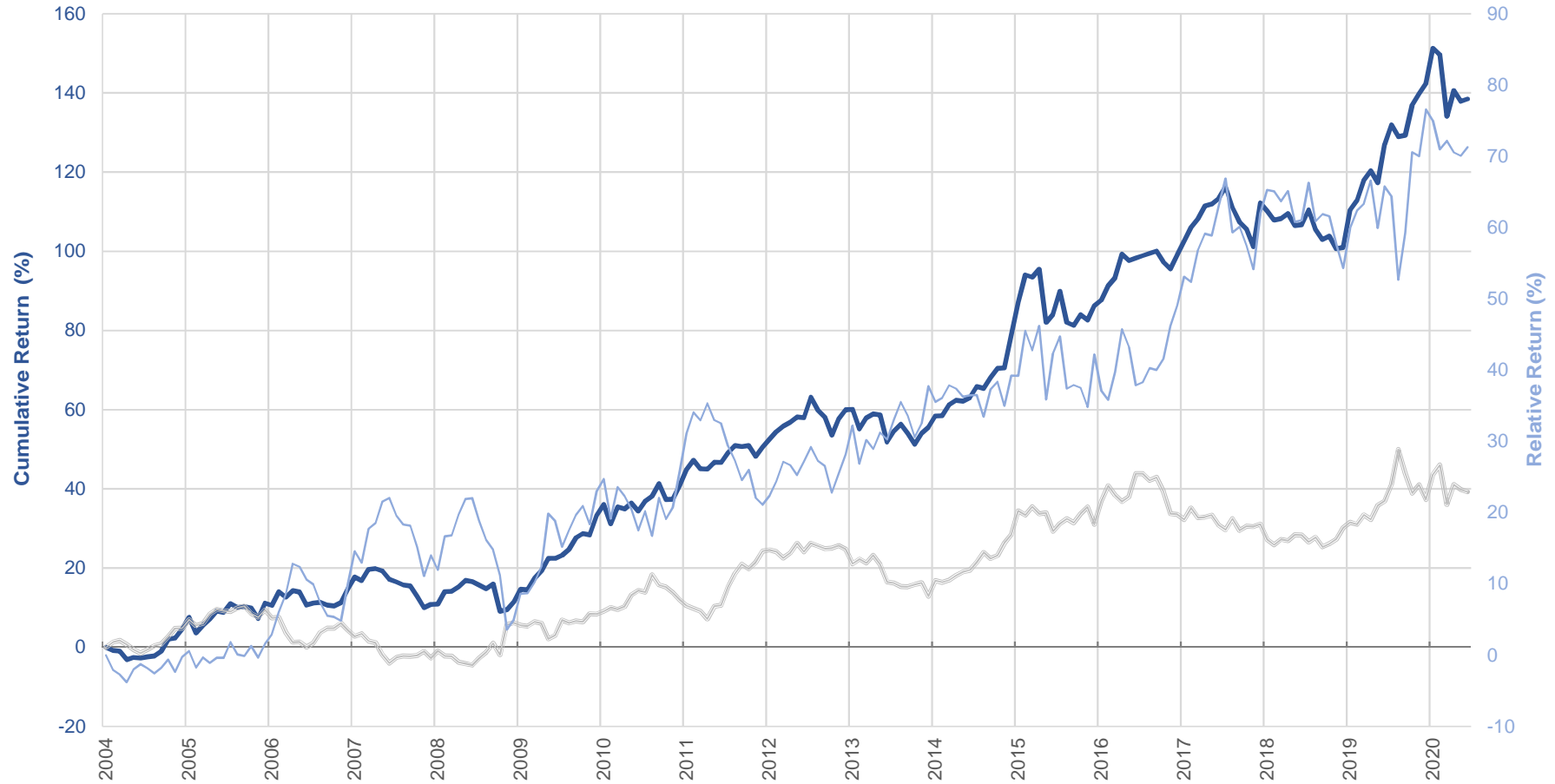
## Rents and interest rates drive real estate returns

	2020		Annualized Returns (%)				Maximum Drawdown	Volatility
	Jun	YTD	3Y	5Y	10Y	1.95 - 6.20		
— TOTAL RETURN SWISS REAL ESTATE FUNI	0.2	-1.6	3.8	5.3	5.9	5.9	-14.9	7.2
— RENTAL INCOME	0.1	1.6	2.8	2.8	2.9	3.4	0.0	1.6
— IMPACT OF INTEREST RATES	0.0	0.3	2.5	2.4	2.2	1.4	-4.5	2.5
— VALUATION	0.2	-3.4	-1.4	0.0	0.7	1.0	-20.8	7.6



## Real Estate has offered better long term returns than government bonds

	2020		Annualized Returns (%)				Maximum Drawdown	Volatility
	Jun	YTD	3Y	5Y	10Y	1.04 - 6.20		
SWISS REAL ESTATE FUNDS	0.2	-1.6	3.8	5.3	5.9	5.4	-9.0	6.8
LONG TERM SWISS GOVT BONDS	-0.4	1.4	2.1	1.5	2.0	2.0	-13.4	6.8
Relative Return	0.7	-3.0	1.6	3.8	3.8	3.3	-15.1	8.7





## Asset which generate nothing

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These assets do not generate any income

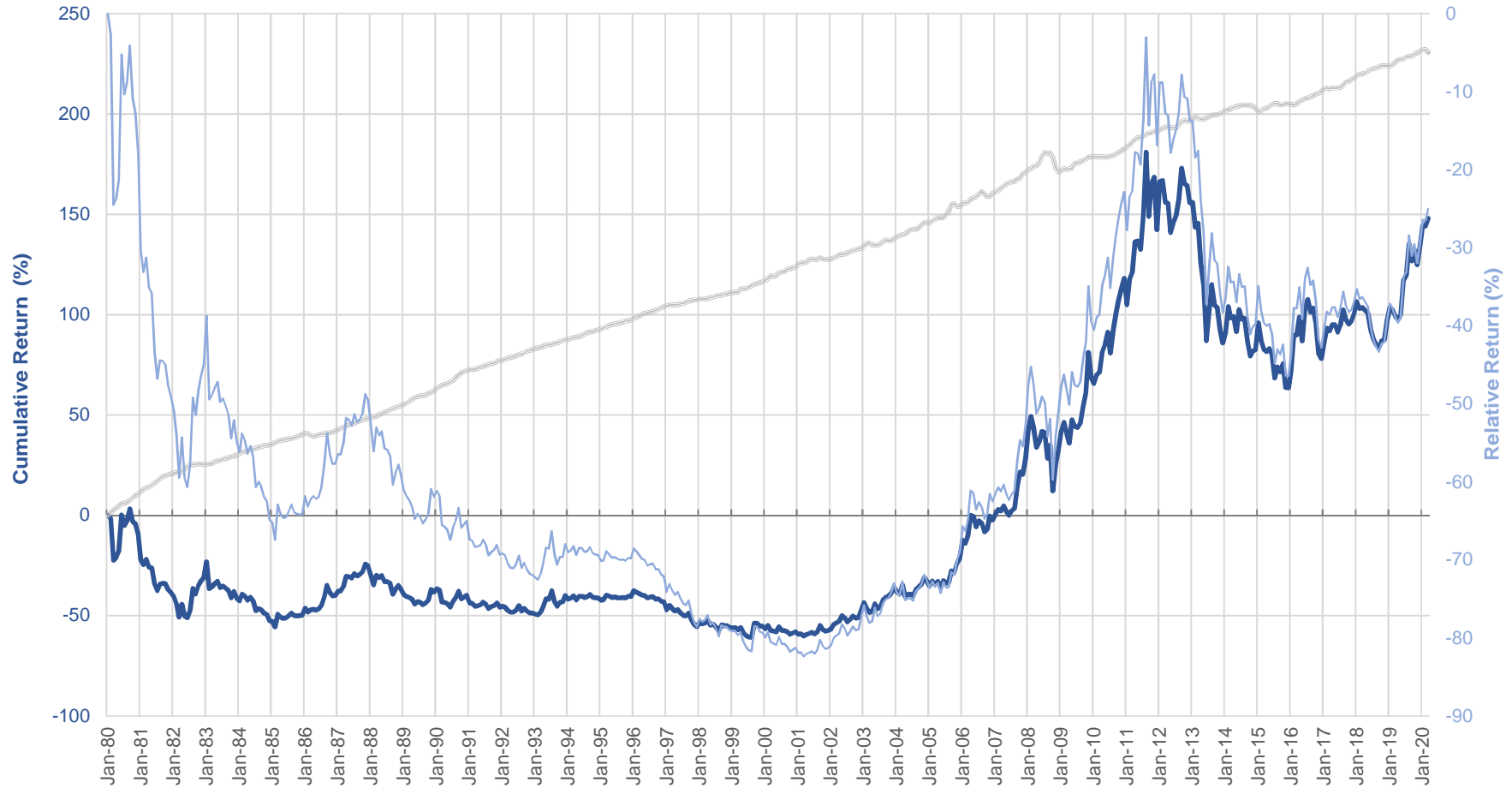
The only source of gain is the price, determined by supply and demand

The owner hopes to find a buyer at a higher price

Future return may not be estimated

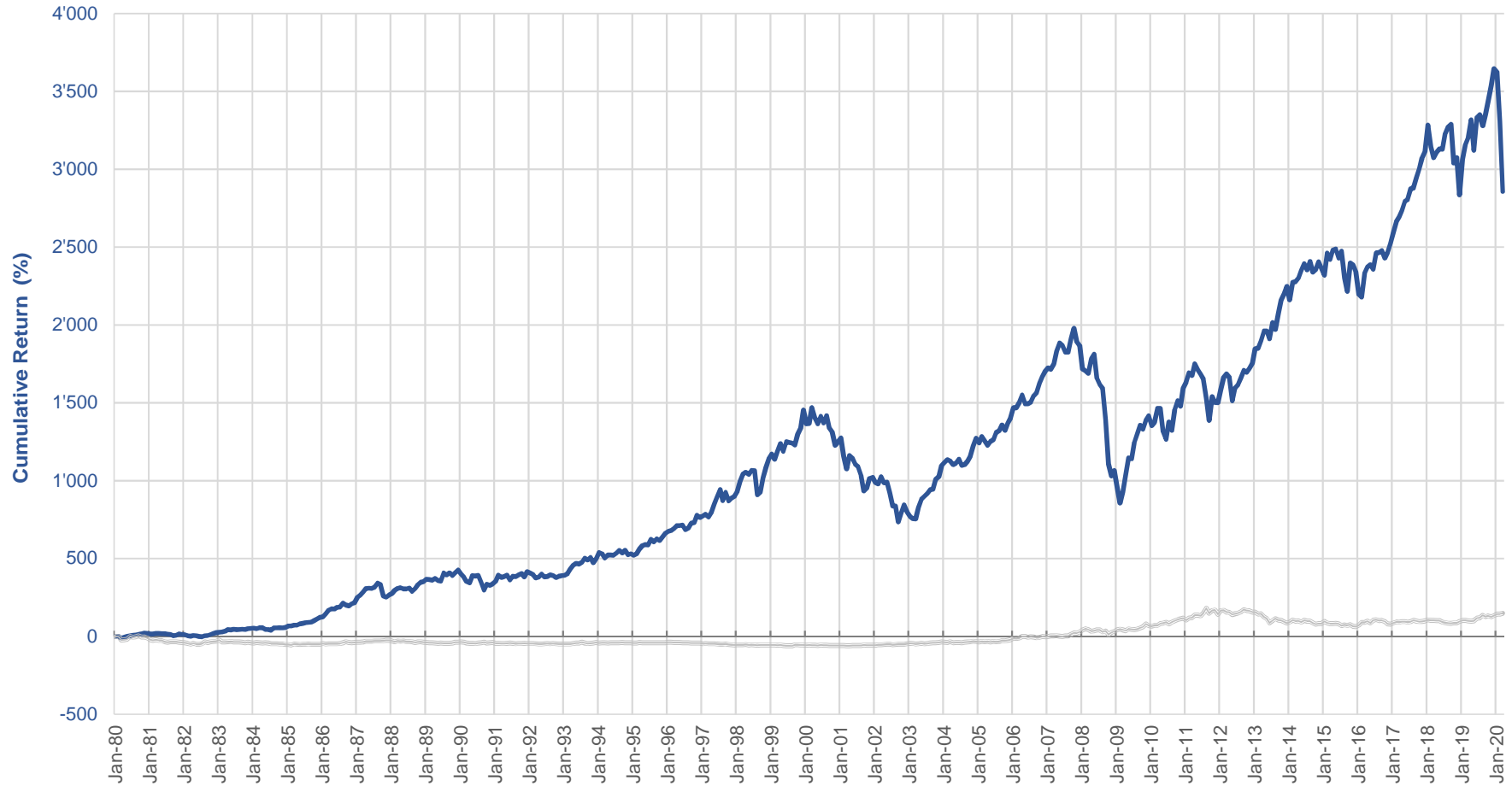
# The Myth of Gold

	2020		Annualized Returns (%)				Maximum Drawdown (%)	Volatility (%)
	Mar	YTD	3Y	5Y	10Y	1.80 - 3.20		
GOLD BULLION	1.6	6.0	8.9	6.3	3.8	2.3	-61.9	16.8
INFLATION	-0.4	-0.2	1.9	1.8	1.7	3.0	-3.5	1.0
Relative Return	2.0	6.2	6.9	4.4	2.0	-0.7	-82.4	16.8

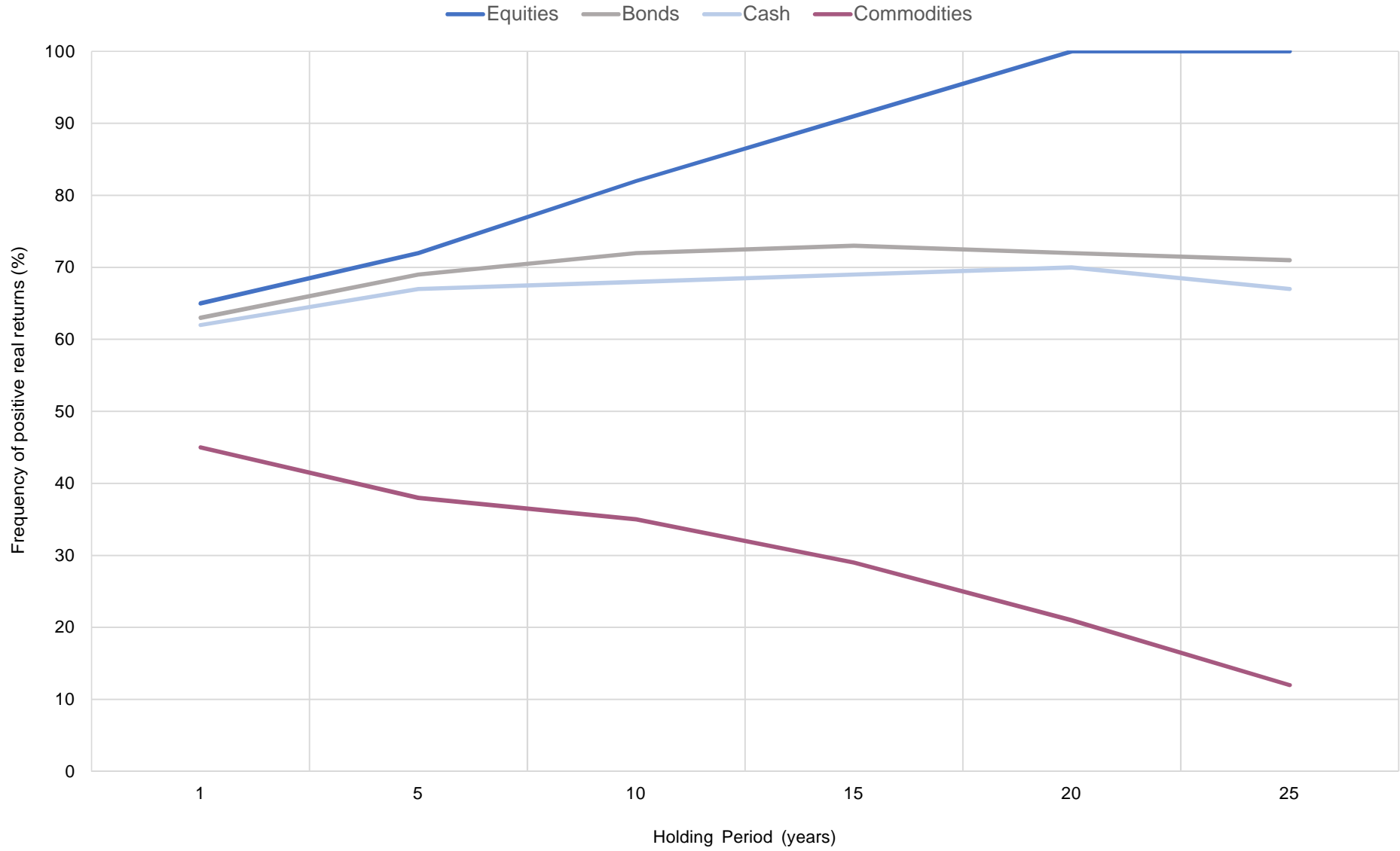


## Gold vs Productive assets

	2020		Annualized Returns (%)				Maximum Drawdown (%)	Volatility (%)
	Mar	YTD	3Y	5Y	10Y	1.80 - 3.20		
— MSCI WORLD	-13.2	-21.1	1.9	3.2	6.6	8.8	-54.0	14.7
— GOLD BULLION	1.6	6.0	8.9	6.3	3.8	2.3	-61.9	16.8
— Relative Return	-14.6	-25.5	-6.4	-2.9	2.7	6.4	-84.2	20.9



### Probability of positive real returns



## 4. Implementation

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### Investment vehicles

The investment vehicles to implement the strategy are selected according to the following criteria:

- Highly diversified

- Representative of the underlying asset class

- Exclude unwanted risks

- Cost effective

- Avoid investment approaches based on short term forecasts or engaging in zero-sum gains

### Monitoring

Investment returns and respect of Investment Policy are monitored on an on-going basis

Any deviation from guidelines is documented and reported

Cash flows are invested in a disciplined manner

Portfolios are systematically rebalanced to ensure adherence to the investment strategy

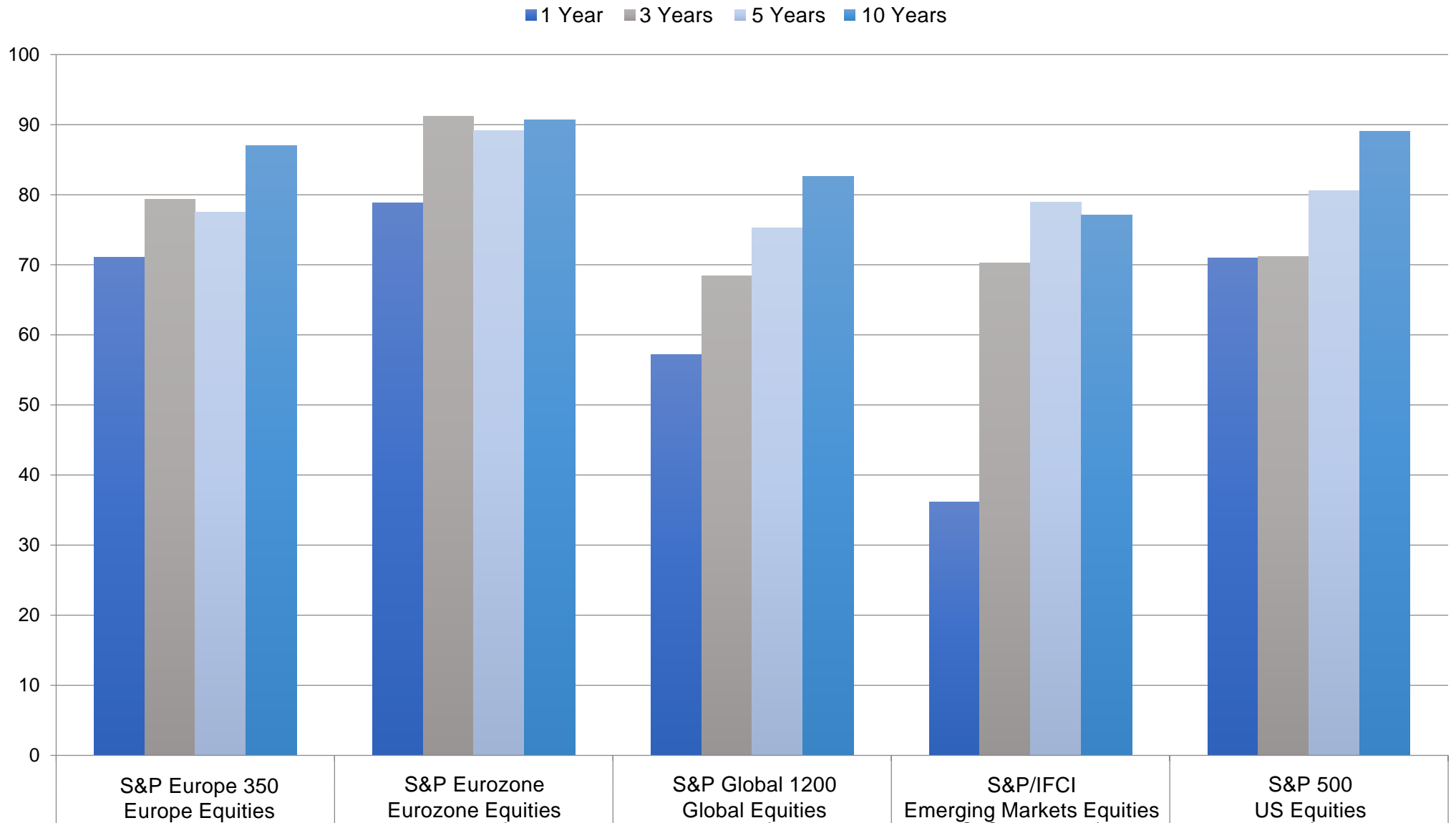
The Strategic Allocation is reviewed periodically to ensure alignment with investment targets

## Underperformance of investors:

Investors underperform the funds they invest in:

	Return (% p.a.) 1980-2005	Underperformance (% p.a.)	Gain on USD 1 mil. Investment	Underperformance in USD
<b>Standard &amp; Poor's 500 index</b>	12.3		17'175'816	
<b>US Equity Funds</b>	10.0	-2.3	9'834'706	-7'341'110
<b>Investor Returns</b>	7.3	-5.0	4'820'939	-12'354'877

## Percentage of mutual funds which underperform their benchmark

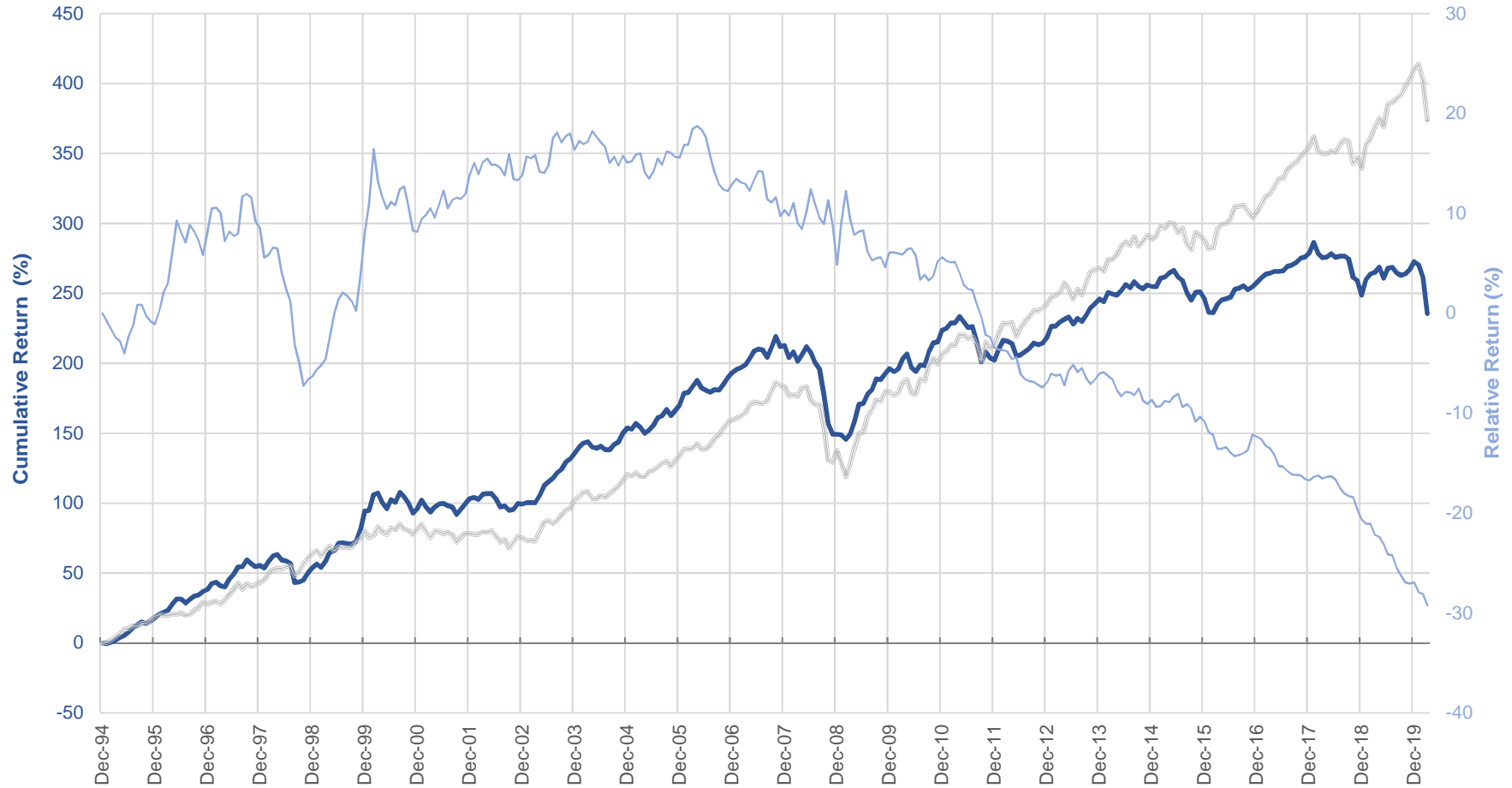


Source: SPIVA 2019

MBS Capital Advice

# Hedge funds have failed to deliver

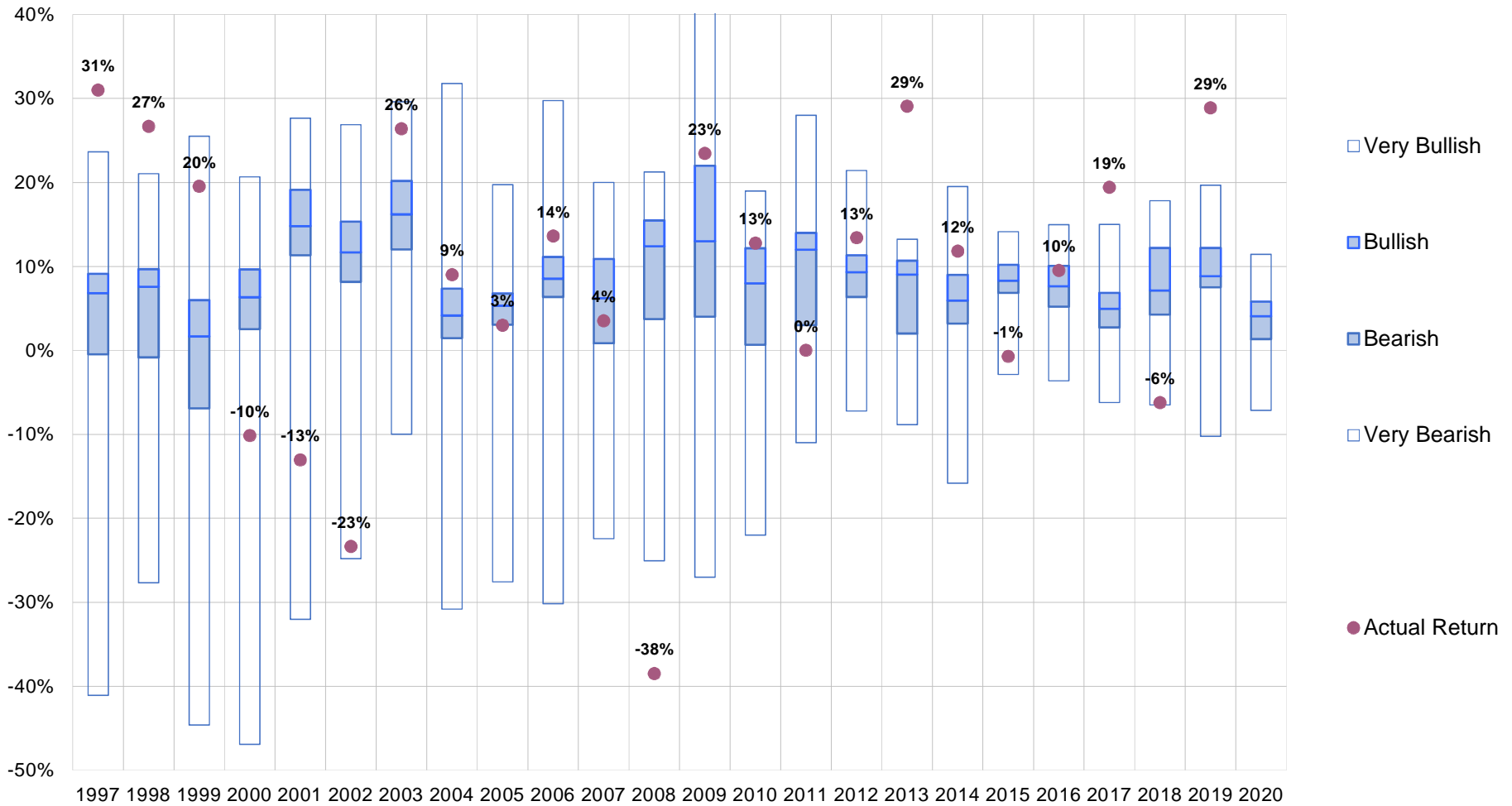
	2020		Annualized Returns (%)				Maximum Drawdown (%)	Volatility (%)
	Mar	YTD	3Y	5Y	10Y	12.94 - 3.20		
— HFRI FUND WEIGHTED HEDGE FUND	-7.2	-10.0	-2.7	-1.5	1.0	4.9	-23.0	6.5
— 40% MSCI AC WORLD / 60% BARCLAYS US	-5.7	-7.1	4.0	3.6	5.2	6.4	-23.5	6.3
— Relative Return	-1.6	-3.1	-6.5	-5.0	-3.9	-1.4	-39.4	4.2





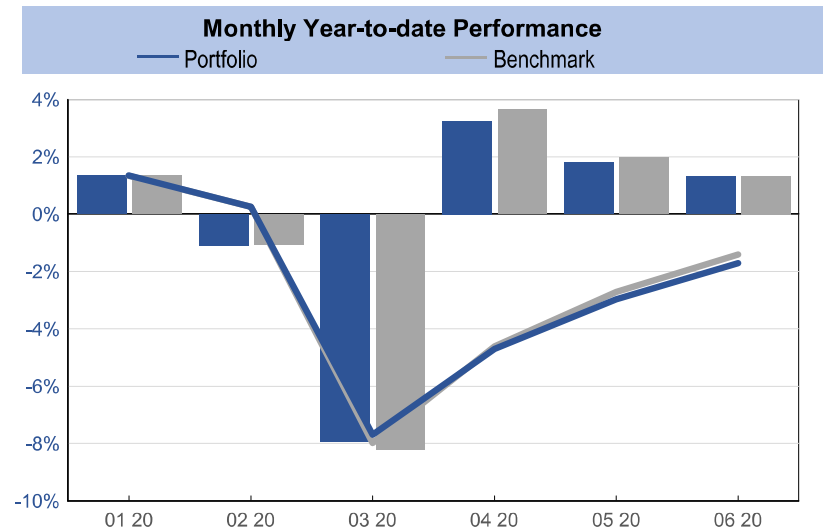
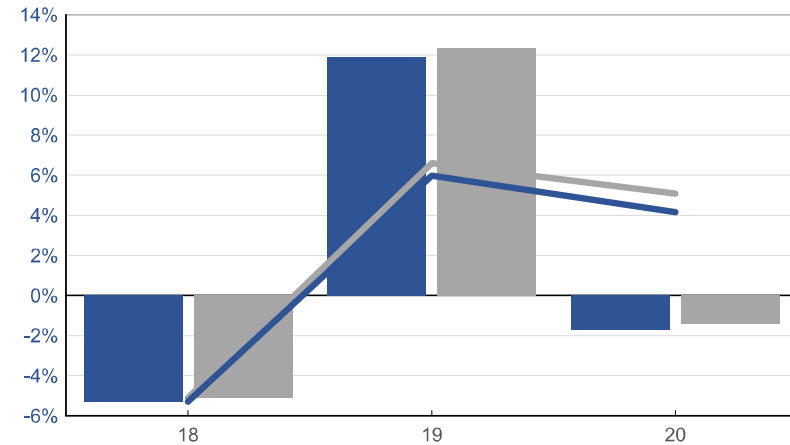
# Forecasts are often far from the actual outcome

Expert predictions of the evolution of the S&P500 Index based on annual polls



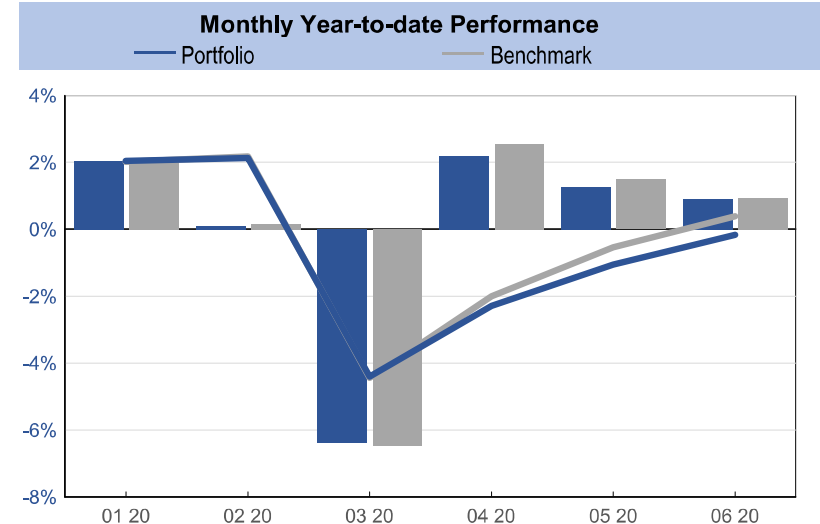
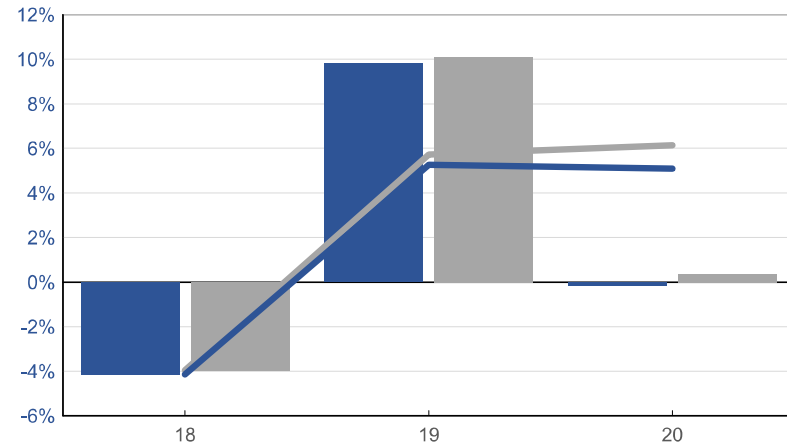
Source: Bloomberg, Businessweek, MBS Capital

	Portfolio Value	Portfolio %			Benchmark %			Annual and Cumulative Performance Since Inception	
		Month	Annual	Cum.	Month	Annual	Cum.	— Portfolio	— Benchmark
2018	120'310'933		-5.3	-5.3		-5.1	-5.1		
2019	175'231'635		11.9	6.0		12.3	6.6		
Jan	178'185'316	1.3	1.3	7.4	1.3	1.3	8.0		
Feb	176'260'829	-1.1	0.3	6.2	-1.1	0.3	6.9		
Mar	160'773'507	-7.9	-7.7	-2.2	-8.2	-8.0	-1.9		
Apr	172'362'977	3.3	-4.7	1.0	3.7	-4.6	1.7		
May	174'816'282	1.8	-3.0	2.8	2.0	-2.7	3.7		
Jun	181'850'134	1.3	-1.7	4.2	1.3	-1.4	5.1		



Inception Date	Strategy %	Value at 30.06.20		Account	Jun 20			Year to Date			Since Inception			Benchmark
		%	Amount		Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	
<b>01-01-18</b>	<b>20.0</b>	<b>20.1</b>	<b>36'574'772</b>	<b>International Equities</b>	<b>2.5</b>	<b>2.6</b>	<b>-0.1</b>	<b>-10.7</b>	<b>-10.5</b>	<b>-0.2</b>	<b>-2.3</b>	<b>-2.3</b>	<b>0.0</b>	<b>BM Total Equities</b>
01-01-18	20.0	20.1	36'574'772	Equities - CSAM	2.5	2.6	-0.1	-10.7	-10.5	-0.2	-2.3	-2.3	0.0	BM Total Equities
<b>01-01-18</b>	<b>65.0</b>	<b>64.8</b>	<b>117'917'633</b>	<b>Swiss Fixed Income</b>	<b>1.2</b>	<b>1.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>	<b>-0.5</b>	<b>2.9</b>	<b>4.0</b>	<b>-1.1</b>	<b>BM Swiss Fixed Income</b>
01-06-20	35.0	34.2	62'239'056	Swiss Bonds - CSAM	0.2	0.3	-0.1				0.2	0.3	-0.1	SBI AAA-BBB 1-5Y
01-01-18	15.0	15.5	28'128'842	Emerging Mkt Bonds - BGIF	2.9	3.3	-0.4	-3.4	-3.8	0.4	0.4	0.0	0.4	JP Morgan EMBI Global Div Comp F
01-01-18	15.0	15.1	27'549'735	Senior Loans CHF - Funds	1.7	1.2	0.5	-6.6	-5.6	-1.0	-5.5	-2.9	-2.6	CS Lev Loan Index Hdg CHF
<b>01-01-18</b>	<b>15.0</b>	<b>15.0</b>	<b>27'357'728</b>	<b>Real Estate</b>	<b>0.3</b>	<b>0.3</b>	<b>0.0</b>	<b>-1.7</b>	<b>-1.6</b>	<b>-0.1</b>	<b>12.3</b>	<b>12.4</b>	<b>-0.1</b>	<b>SXI Real Estate Funds</b>
01-01-18	15.0	15.0	27'357'728	Real Estate - CS	0.3	0.3	0.0	-1.7	-1.6	-0.1	12.3	12.4	-0.1	SXI Real Estate Funds
<b>01-09-18</b>	<b>-</b>	<b>0.1</b>	<b>149'763</b>	<b>Short Term &amp; Liquidities</b>										
<b>01-01-18</b>	<b>100.0</b>	<b>100.0</b>	<b>181'850'134</b>	<b>Total</b>	<b>1.3</b>	<b>1.3</b>	<b>0.0</b>	<b>-1.7</b>	<b>-1.4</b>	<b>-0.3</b>	<b>4.2</b>	<b>5.1</b>	<b>-0.9</b>	<b>Global BM</b>

	Portfolio Value	Portfolio %			Benchmark %			Annual and Cumulative Performance Since Inception	
		Month	Annual	Cum.	Month	Annual	Cum.	— Portfolio	— Benchmark
2018	261'107'059		-4.2	-4.2		-4.0	-4.0		
2019	354'492'789		9.8	5.3		10.1	5.7		
Jan	362'677'661	2.0	2.0	7.4	2.0	2.0	7.9		
Feb	362'998'395	0.1	2.1	7.5	0.2	2.2	8.0		
Mar	337'467'547	-6.4	-4.4	0.6	-6.5	-4.4	1.0		
Apr	358'776'482	2.2	-2.3	2.9	2.5	-2.0	3.6		
May	362'209'200	1.3	-1.1	4.2	1.5	-0.5	5.2		
Jun	385'483'968	0.9	-0.2	5.1	0.9	0.4	6.1		



Inception Date	Strategy %	Value at 30.06.20		Account	Jun 20			Year to Date			Since Inception			Benchmark
		%	Amount		Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	Portfolio	Benchmark	Excess	
<b>01-01-18</b>	<b>80.0</b>	<b>80.1</b>	<b>308'638'944</b>	<b>Swiss Fixed Income</b>	<b>1.1</b>	<b>1.1</b>	<b>0.0</b>	<b>0.3</b>	<b>1.0</b>	<b>-0.7</b>	<b>2.8</b>	<b>4.0</b>	<b>-1.2</b>	<b>BM Swiss Fixed Income</b>
01-06-20	45.0	44.8	172'871'629	Swiss Bonds - CSAM	0.2	0.3	-0.1				0.2	0.3	-0.1	SBI AAA-BBB 1-5Y
01-01-18	15.0	15.2	58'728'197	Emerging Mkt Bonds - BGIF	2.9	3.3	-0.4	-3.4	-3.8	0.4	0.3	0.0	0.3	JP Morgan EMBI Global Div Comp I
01-01-18	20.0	20.0	77'039'118	Senior Loans CHF - Funds	1.7	1.2	0.5	-6.6	-5.6	-1.0	-5.6	-2.9	-2.7	CS Lev Loan Index Hdg CHF
<b>01-01-18</b>	<b>20.0</b>	<b>19.9</b>	<b>76'845'024</b>	<b>Real Estate</b>	<b>0.3</b>	<b>0.3</b>	<b>0.0</b>	<b>-1.7</b>	<b>-1.6</b>	<b>-0.1</b>	<b>12.4</b>	<b>12.4</b>	<b>0.0</b>	<b>SXI Real Estate Funds</b>
01-01-18	20.0	19.9	76'845'024	Real Estate - CS	0.3	0.3	0.0	-1.7	-1.6	-0.1	12.4	12.4	0.0	SXI Real Estate Funds
<b>01-09-18</b>	<b>-</b>	<b>-</b>	<b>97'848</b>	<b>Short Term &amp; Liquidities</b>										
<b>01-01-18</b>	<b>100.0</b>	<b>100.0</b>	<b>385'483'968</b>	<b>Total</b>	<b>0.9</b>	<b>0.9</b>	<b>0.0</b>	<b>-0.2</b>	<b>0.4</b>	<b>-0.6</b>	<b>5.1</b>	<b>6.1</b>	<b>-1.0</b>	<b>Global BM</b>