PRIVATBANKIERS
REICHMUTH & CO
INTEGRAL INVESTMENT MANAGEMENT

CHECK-UP

CLIENT INFORMATION OF PRIVATBANKIERS REICHMUTH & CO, INTEGRAL INVESTMENT MANAGEMENT
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EDITORIAL

This issue of Check-Up looks at market expectations and possible threats. There are signs of strengthening growth in the US and stagnation in Europe over the short term. As regards future developments, however, the foreign and political sections of the newspapers tell us more about the changing environment than the business and economics news does. New regional blocs are increasingly emerging, and this is likely to curb globalization somewhat going forward.

The USD 9 billion fine recently imposed on BNP for non-compliance with US sanctions shows how vigorously the US can enforce its legal rights worldwide. In the trading transactions in question, there was no US link except the settlement in USD. Using the USD therefore means you come under US law. Although the USD is likely to have passed its zenith as a global trading currency, there is no acute threat as yet. Quite simply, there is still no viable alternative.

As your private bankers, we regard identifying long-term developments as our most important task with a view to protecting your wealth across the generations.

STAGNATION OR GROWTH?

CONFLICTING SIGNALS FROM THE EQUITY AND BOND MARKETS

Three years ago, I was convinced that the make-up of the Eurozone would be different come 2014. And strictly speaking, I've been proven right given that Latvia has since joined. Of course, back then I was thinking of exits rather than new additions. Our reasoning was that decisions which were politically expedient but not economically viable would prove unworkable. However, the political will has prevailed thus far, since states have many means of making adjustments, and are continually adding new ones to their repertoire. Take Spain, for example, where savings accounts are now being taxed.

Markets are price discovery mechanisms

In the search for prices, the financial markets show us the consensus expectations. At present, they are sending out contradictory signals. While the fixed-income markets are pointing to a lengthy stagnation, the expectation on the equity markets is of revenue growth coupled with even higher margins. Which is right? The bond markets have proved better predictors of future developments in the past, but is this still the case today?

The power of the central banks

I recently heard an economist say that the market economy had been abolished, and it is unclear whether it would return. The risk-free price of money – a key factor for the financial markets – is being determined by central banks rather than the market. To date, the assumption has been that this price would not be negative, but even this is now being called into question. The threat of deflation and a large output gap are said to be too dangerous, and these have been met with responses in the form of new, extraordinary measures in recent years. The US and the UK, but also Japan, have printed new money with their quantitative easing programs and used it to buy securities.

Abolition of cash and negative interest rates

The newest instrument has been proposed by the renowned Harvard professor Kenneth Rogoff: abolish cash. In his view, this would mean that inflation targets could be better met without having to resort to experiments, since the central banks could then introduce negative interest rates. In light of the experience of recent years, it is questionable whet-

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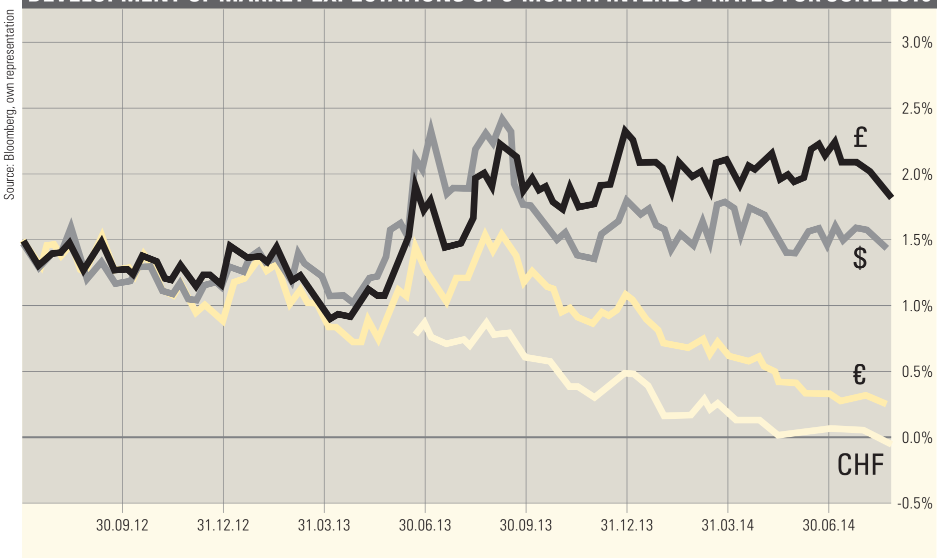
CONTENT

DEVELOPMENT OF MARKET EXPECTATIONS OF 3-MONTH INTEREST RATES FOR JUNE 2016



her such an extension of the power of states and central banks would serve the interests of the market economy.

An eternal zero interest rate phase?

Before interest rates can rise, the extraordinary measures will have to be brought to an end. We can therefore expect to see rates sticking close to zero for some time yet, especially in Europe where further measures are expected from the ECB. Our article entitled «Sudden stop on the financial markets?» on page 7 looks at the danger lurking in this protracted phase of low interest rates and the search for yields. In the absence of interest, everything hinges on price movements, with all the exaggerations that this entails, on the upside and downside alike. Compared with interest rates of zero, virtually all assets are attractive, and they therefore remain highly valued. Highly priced assets are desirable, as long as they are not held by institutions with high leverage such as banks or insurance companies. It is only in the latter instances – owing to low levels of equity capital – that they can pose a threat to the system in the event of corrections, and not when they are held by unleveraged wealthy individuals.

Who is still investing in sovereign debt?

The main problem is the excessively high sovereign debt levels, which don't even factor in the unfunded future liabilities. Investors are receiving hardly any interest on government bonds, so distorted have they become by the influence of central banks, state regulations, and sovereign wealth funds. Debts are always also someone else's wealth. But who's? Do you hold government bonds? The yield on 10-year Swiss Confederation bonds is 0.4%, barely enough to pay the wealth tax. Increasingly, these instruments are no longer being held by the final beneficiaries, but instead by central banks, sovereign wealth funds, banks, insurance companies, and pension funds. And the investment decisions there are taken by committees rather than by those who ultimately stand to benefit. These governing bodies adhere to their own specific rules and regulations – and they in turn are continually being amended by the state, mostly in their favor. Moreover, the members of such bodies often make different decisions than they would for their own assets.

Growth in revenue and margins?

So if interest rates remain low and the multiples for assets thus stay high, future share price movements will essentially depend on two factors: revenue and margins. The earnings expectations for the S&P 500 US stock index for 2015 stand at +11%, comprising of 4% higher revenue and a profit margin increase of 11%. It is the margin number that is crucial here. If, instead of rising, this were to fall, for example by one percentage point from the current level of 10.3%, it would require 10% revenue growth to simply maintain the current level of earnings. Like valuations, expectations are rather high, and so too are the risks. This is why we favor equity markets with lower expectations and more attractive valuations in Asia and Europe rather than the US, which is currently showing faster growth.

Invest with an awareness of risk

Real interest rates are likely to persist around zero or lower, and overall interest rates could remain low for some time. Despite the increasing risks, equities of globally active firms with good dividends continue to form the backbone of a portfolio. Scarce commodities such as precious metals are also still recommended as an addition. Meanwhile bonds offer hardly any reward for either inflation or credit risks. Their weighting should therefore be kept low. We would have a high weighting in cash reserves so as to take advantage of correction phases. Balanced investors should therefore give preference to a broadly diversified portfolio with a strong exposure to large cap stocks. More aggressive investors should buy risk assets in Russia, Japanese banks, and southern European markets.

Christof Reichmuth
General Partner

THE BIG PICTURE

OUR SCENARIO ANALYSIS IN A NUTSHELL

The bond markets say: STAGNATION	The equity markets say: GROWTH	FINANCIAL REPRESSION / STAGFLATION	NEW RECESSION / DEFLATION
Interest rates essentially remain low in all industrialized countries. The US and UK economies show some growth, and interest rates can be raised slightly next year. In Europe (including Switzerland) and Japan, interest rates remain low for years to come. The economies in Japan and the EU stagnate. Inflation is not an issue in any currency zone, but remains slightly higher in the US and UK at around 2% than in the EU. The global economic prospects are modest. The «new normal» environment with 0% real interest rates persists for several years. The exchange rates among the major currencies remain relatively stable. The CHF 1.20 for the EUR guaranteed by the SNB remains in force. The debt problem is postponed into the future.	Corporate revenues increase, and earnings are high thanks to recovering / rising margins. Revenue growth is strongest in the US and Asia. Earnings growth is fairly uniform, coming in at some 10% per annum over the next two years. The market also expects slight increases in revenues in the southern European countries, and companies' profitability shoots up sharply. Against a backdrop of mounting demand and better capacity utilization, wages and prices rise. Thanks to the economic growth and rising wages, state tax revenues increase and interest rates can be gradually normalized. The world grows its way out of the debt problem. Asian currencies become firmer, the USD tends to weaken.	Growth in the industrialized countries remains below potential. Unemployment rates and underemployment remain high in many countries. Due to increasing regulatory interventions (minimum wages, bans on redundancies) wages rise and so do prices of goods with inelastic demand. Consumers have less money in their pockets in real terms, and consumption therefore remains weak. Negative real interest rates help to push newly created central bank money into the economy. The flight into real assets intensifies and fuels asset price inflation. Growth declines overall in the emerging markets, albeit with marked differences. Higher inflation worldwide, coupled with interest rates being kept low, helps to curb the real burden of government debt over time.	Growth declines further in the industrialized countries. Budget deficits therefore remain high, and the debt burden continues to mount. Inflation rates become increasingly negative; real interest rates therefore remain positive despite the zero interest rate policies of the central banks. The savings rate rises, and capital spending declines. The tensions in the Eurozone mount, and there are either increasing equalization payments from the stronger countries to the weaker nations, or debt restructuring and currency exits. The emerging markets and commodity countries also suffer from the increasing recession or even depression in the industrialized nations, and are unable to maintain their previous growth.
INVESTMENT IDEAS: - Dividend stocks - Hedge funds (e.g. M&A or long/short equity) - Bonds	INVESTMENT IDEAS: - Stocks of growth firms or from cyclical sectors - Southern European banks - Emerging market equities - Commodities - Hedge funds - Foreign currencies	INVESTMENT IDEAS: - Stocks of Global Leaders - Precious metals - Real estate - Selectively hedge funds (e.g. long/short equity)	INVESTMENT IDEAS: - Long bonds - Selectively hedge funds, e.g. short credit - Gold as a store of value in the event of currency reforms
Probability 12 months 40%	Probability 12 months 20%	Probability 12 months 35%	Probability 12 months 5%
Probability 24 months 30%	Probability 24 months 15%	Probability 24 months 45%	Probability 24 months 10%
Probability 36 months 20%	Probability 36 months 10%	Probability 36 months 50%	Probability 36 months 20%

«PORTFOLIO OF THE FUTURE»

DIVERSIFIED AND FUTURE-ORIENTED – ADAPTED TO THE CURRENT MARKET ENVIRONMENT

STRATEGY	CURRENT TACTIC	WHAT	POT 1: COMMITMENTS	POT 2: PRESERVING VALUE	POT 3: SEIZING OPPORTUNITIES	RETURN*	VOLATILITY*
0%	10%	Cash	Money market or cash in home currency			0%	1%
35%	30%	Fixed Income Investments	Short-term corporate bonds	Inflation-linked government bonds in EUR, USD, and SEK		0-2%	5%
40%	35%	Equities		Stocks with high dividends and low valuations from the food, energy, pharmaceuticals and telecom sectors from our Global Leaders list	Gold mining stocks Italian equity index Japan ETF Pilatus (small caps) Emerging Markets (China, Russia)	4-8%	15%
5%	2.5%	Real Estate		Switzerland	Asia and Germany	4-6%	15%
15%	15%	Alternative Investments			Matterhorn 3 / 24 or third-party products Reichmuth Himalaja Reichmuth Macro	6-8% 10% 10%	< 10% < 15% < 15%
5%	7.5%	Precious Metals		Gold (Physically)	Silver ETF	8-10%	15%
					Total	**3-6%**	**ca. 6%**

*Expected average values over a 5-year time horizon – no guarantee

INVESTMENT POLICY

SEPTEMBER 2014

Economy	Switzerland	Germany	Italy	US	Japan	China
GNP in USD bn	651	3635	2071	16800	4902	9240
GNP growth	2.0%	1.2%	-0.3%	2.4%	-0.1%	7.5%
Unemployment	2.9%	6.7%	12.7%	6.2%	3.7%	4.1%
Expectations 12 months	**Switzerland**	**Germany**	**Italy**	**US**	**Japan**	**China**
Economy	→	→	↗	↗	→	↘

Interest rates	Switzerland	Germany	Italy	US	Japan	China
3-month Libor	0.02%	0.15%	0.15%	0.03%	0.13%	4.7%
10-year govt. bond yield	0.5%	0.9%	2.6%	2.3%	0.5%	n.a.
10-year swap rate	0.9%	1.2%	n.a.	2.6%	0.7%	n.a.
Inflation	0.0%	0.8%	0.1%	2.0%	3.6%	2.3%
Expectations 12 months	**Switzerland**	**Germany**	**Italy**	**US**	**Japan**	**China**
3 months interest rates	→	→	→	↗	→	↘
10-year interest rates	→	→	→	↗	→	n.a.
Inflation	↗	↗	→	↗	↘	↗

Stock markets	SPI	DAX	MIB	SPX	TPX	HSCEI
Index level	8452	9303	19610	1987	1291	10906
Performance 1 year	13%	12%	19%	23%	17%	15%
Performance 5 year (p.a.)	10%	12%	2%	17%	8%	3%
Performance 10 year (p.a.)	7%	9%	1%	8%	3%	13%
Valuations	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Price/earnings 2014	16.9	13.2	15.9	16.6	14.4	7.6
Shiller P/E	25.2	19.5	12.0	24.8	23.7	19.0
Price/book	2.5	1.7	1.0	2.7	1.2	1.2
Price/sales	1.9	0.8	0.6	1.7	0.7	0.8
Dividend yield	3.1	3.0	3.3	2.0	1.9	4.2
Profitability	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
ROE	13.5%	10.8%	5.4%	15.0%	8.7%	17.5%
10-year profit margins	10.1%	4.5%	-0.3%	9.4%	4.2%	10.4%
Current profit margin	9.0%	4.7%	4.9%	7.6%	2.9%	10.9%
Drivers	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Monetary policy	Positive. SNB must take lead from ECB. Minimum exchange rate policy.	Positive. More aggressive measures announced (TLTRO)	Positive. More aggressive measures announced (TLTRO)	Positive. QE program is on track, but no interest rate normalization is expected	Strongly Positive. BoJ applies QE program aggressively.	Neutral. Government wants to limit credit growth.
Expectations 12 months	**SPI**	**DAX**	**MIB**	**SPX**	**TPX**	**HSCEI**
Stock market	→	→	↗	→	↗	↗

Currencies		EUR		USD	JPY	CNY
Current exchange rate		1.21		0.91	0.88	0.15
Purchasing power parity		1.25		0.91	1.08	0.14
Influencing factors and forecasts		**EUR**		**USD**	**JPY**	**CNY**
Monetary policy		Minimum exchange rate policy. Possibility of more expansive ECB in the future.		QE program is on track, but no interest rate normalization is expected.	Expansionary. QQE: Quantitative and Qualitative Easing.	Less expansionary. Geared towards the USD.
Interest rate spread (carry trade):		No change.		No change.	No change.	No open market.
Current account:	13.0%	Deutschland 7.5%	Italien 1.4%	-2.4%	0.2%	1.7%
Expectations 12 months		**EUR**		**USD**	**JPY**	**CNY**
Currencies		→		↗	↘	↗

Legend: ↗ = increasing ↑ = strongly increasing → = neutral ↘ = decreasing as of: August 21, 2014

MARKET OUTLOOK

3rd TRIMESTER 2014

CURRENCIES

The exchange rates among the major currencies are relatively stable. The economic pick-up in the US is likely to allow the USD to firm slightly in the near term. Over the long term, however, the negative current account balance and the inflation differential vs Europe will see the USD weaken.

As regards the CHF, the Swiss National Bank has no grounds to give up its support of the EUR any time soon. In terms of purchasing power, the CHF is still overvalued and will remain so for some time since the inflation rates in the Eurozone are now also tending towards zero.

The UK economy has picked up sharply, and the GBP has been rising steadily since the beginning of the year. However, this growth is hardly sustainable given that it is being driven by consumption and linked to the real estate market, whereas capital spending in industry and infrastructure remains low. Given the rise in inflation, a counter-movement is to be expected soon in the case of the sterling.

Despite the extremely expansionary monetary policy in Japan, the JPY has remained virtually unchanged against the USD. The Bank of Japan will use all the monetary policy measures at its disposal to ensure their targeted inflation rate of 2% can be achieved, thus stimulating the economy. The JPY is therefore likely to weaken slightly again following the depreciation we have seen in 2013.

The development of the emerging market currencies will differ. Following the strategic depreciation, the CNY has resumed its previous steady slight upwards trend, and is likely to maintain this for the time being. The BRL and INR are still relatively stable. However, the RUB will remain volatile.

INTEREST RATES

The central banks are essentially sticking to their low interest rate policies. That said, the economic trends in the industrialized nations are less and less in sync, and interest rates will therefore rise soon in the US and UK, but are set to remain very low in Europe and Japan for some time.

The key interest rates of the central banks in the industrialized countries remain close to zero, and the European Central Bank has even lowered its rates again. The central banks are also becoming increasingly active on the long-term capital market, buying government bonds and thus influencing the development of long-term interest rates. The US Federal Reserve has been the most expansionary in this regard, but is now tapering its purchases of government bonds with a view to stopping altogether in the coming months. However, the buying will persist on a large scale for some time yet in Japan. Meanwhile in Europe, the ECB hasn't even begun to make purchases, although it has already raised the prospect. These factors have led to increasing interest rate differentials, which will widen yet further. Long-term USD interest rates will continue to rise, while EUR and thus also CHF interest rates will remain extremely low.

The interest-rate trends in the emerging markets are very much a mixed bag. Given the mostly higher inflation and growth rates compared with the industrialized nations, interest rates will essentially remain at higher levels.

The credit risk premiums on the yields of lower-quality bonds have stabilized at a low level for the time being. They are set to remain low given that companies are well financed on average, and particularly given that banks are continuing to improve their capital adequacy.

STOCK MARKETS

Political events have seen the optimism on the stock markets dwindle, breaking the erstwhile gradual uptrend. Some markets are now below the levels recorded at the start of the year. Heightened volatility is on the cards for the coming months, with relatively stable price levels.

In terms of the fundamental criteria, equities are still fairly valued on average. They are somewhat expensive in the US, but cheap in selected Eurozone countries and especially in Russia, albeit fraught with specific problems in the respective instances. Global economic growth will increase slightly, and companies should be able to maintain their good profit margins.

Compared with the low yields on fixed-income investments, the dividend yields offered by stocks remain interesting. Even though the potential for share price gains is small, and there is the threat of further temporary corrections over the short term, investments in first-class equities with good yields will remain attractive over the longer term as long as there are no appealing alternatives.

For investors with high risk tolerance, companies that are strongly geared towards Russia or Ukraine, and that have thus been hit hard by the current political crisis, offer interesting upside potential in the event of the situation calming down.

Dr. Max Rössler

ARE BANKING STOCKS ATTRACTIVE?

MARKED DIFFERENCES SIX YEARS ON FROM THE BANKING CRISIS

Due to the banking crisis of 2008, bank stocks were banished from many portfolios. It was impossible to gauge the quality of banks' balance sheets, the equity capital was too low in relation to the total assets, and the prospects were too unclear. In the wake of the financial crisis, there followed numerous capital increases with a significant dilutive effect. Six years have passed – are banking stocks attractive now?

Restructuring of Spanish banks well advanced

Banking stocks that are trading below their book value (P/B<1) either have weak earnings or there are doubts over the quality of the bank's balance sheet. After a financial crisis, the primary focus when comparing banks is on book values and their quality. Even today, many banks in the Eurozone are still trading below their book values. The two major German banking houses – Deutsche Bank and Commerzbank – are available at half of theirs. It's an entirely different story for the crisis-dogged Spanish banks. They are already trading back above their book value, which shows that the restructuring of Spanish banks is well advanced. A «bad bank» was set up, and weaker financial institutions merged with stronger ones. The first to get into difficulties in a crisis is often the first to emerge from them, as we have already seen in the case of UBS, for example. Following the strong share price gains, we currently view the upside potential for Spanish banks going forward as being limited, and are giving preference to banks from countries with a marked discount to book values and straightforward risks, such as Germany.

VALUATION RATIOS OF SELECTED MAJOR BANKS BY COUNTRY

Country	D / P	Price/ book value	Expected ROE 2015	P / E 2015	Leverage ratio	Tier 1 capital
Spain	2.6	1.1	7.9%	13.5	15	12
Italy	1.6	0.6	5.0%	11.8	16	10
France	3.0	0.7	7.6%	9.0	26	12
Germany	2.9	0.5	5.1%	9.2	25	15
Switzerland	2.2	1.1	10.4%	10.0	19	18
US	1.4	1.0	9.5%	10.1	10	13
UK	3.0	0.8	7.5%	9.8	20	14
Japan	3.0	0.7	8.1%	8.2	19	12
Asia	3.9	1.2	10.7%	10.7	12	14
Australia	5.3	2.2	16.1%	13.3	16	10
Canada	4.0	2.1	16.1%	12.4	17	11

Source: Bloomberg

Japanese banks combine low expectations with attractive returns

Price/earnings ratios tell us little about banks in the current environment. One-off effects heavily influence banks' results. Restructurings, write-downs and increasingly hefty fines are distorting operating performance. We therefore focus on the expected return on equity. The estimates for Japanese banks for 2015 stand at 8%. However, given that Japan's banks are trading 30% below their book values despite 20 years of balance sheet clearouts, we expect a return of more than 10% on the invested capital. That is attractive in the current environment. The expectations for Switzerland's big banks strike us as being fair at present, while those for banks in Australia and Canada are rather high.

Balance sheet quality is more important than length

There is a rule that says you should only buy banking stocks in the last capital increase. However, this is still to come for some European banks. Given that is it scarcely possible to assess balance sheet quality, new rules have been adopted. For example, the ratio of equity capital to total assets, or the leverage ratio as it is known, is easily identifiable across the board. Banks from Germany, France and Switzerland still have high numbers in this regard. Investors focus on this ratio in crisis periods in particular. After a crisis, it is less meaningful. High levels of sight deposits with the central bank extend the balance sheets of Swiss banks without increasing the risk. We at Reichmuth & Co also invest our clients' liquidity with the Swiss National Bank. This is why the regulator focuses primarily on the Tier 1 capital and in this regard Switzerland's banks rank among the best capitalized. At over 60%, our Tier 1 ratio is verging on record levels.

We will be happy to go through our analysis of the data in detail, giving our assessment of which banking stocks have the greatest potential in relation to risk in our view.

Patrick Erne, CFA

SUDDEN STOP ON THE FINANCIAL MARKETS?

SILVAN BETSCHART ON THE DANGER OF A LONG PHASE OF LOW INTEREST RATES

You talk of the risk of a so-called sudden stop – what does this actually entail?

Silvan Betschart: This is a concept we know from the emerging markets. Everything is fine as long as new capital is flowing into the country. But when the money flows stop or even turn around, you then have abrupt corrections that can plunge entire countries into difficulties, as we have seen in the case of Greece, Ireland, and Portugal in recent years.

So why are you now applying this term to the financial markets?

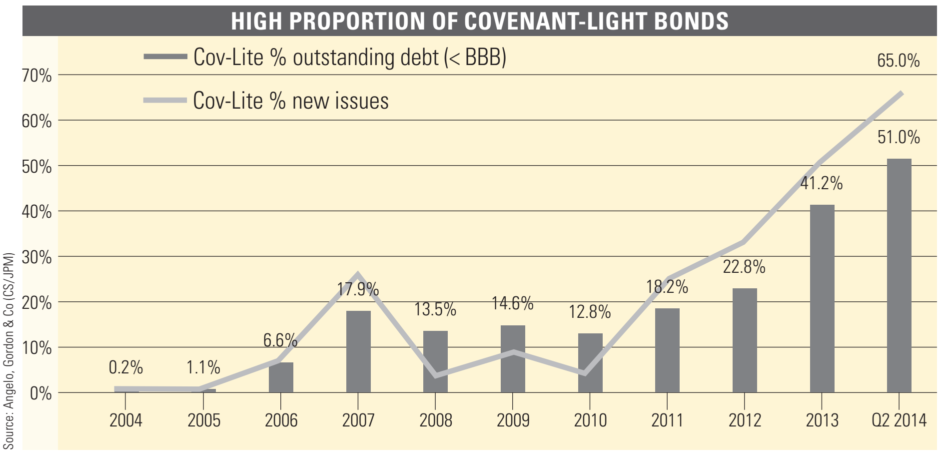
The longer the phase of low interest rates persists, the more desperate investors become in their search for current yields. This inevitably leads to exaggerations and investors are no longer appropriately rewarded for the risks they take on. People are getting used to this «new world» to some degree, but nobody knows how long the phase will last. However, we can see signs that the risk of a liquidity-driven correction has increased, and we think investors are still insufficiently aware of this.

Where do you see indications of this risk?

The most obvious signs are on the fixed-income markets. Interest rates are very low and are offering hardly any returns. New investments are therefore increasingly flowing into higher-yielding securities, such as corporate bonds or bonds with low ratings. The sharp decline in the credit spread (premium for lower ratings) is a warning sign for investors. This problem is being exacerbated by the growing demand for passively managed bond ETFs.

What role do exchange-traded funds play in your scenario?

Imagine you're an ETF manager. Your job is to invest the fund's assets in the defined universe. With falling interest rates and tightening credit spreads, prices rise and the performance looks very good. This attracts more and more money. The more money that flows into such a fund, the narrower the credit spreads become and the investment is (even) more fraught with risk. As soon as money stops coming into the fund, or even outflows start, the moment of truth arrives. The question is who will then buy the securities that these managers will have to sell to cover the redemptions? The banks are hardly able to do so any longer, given that they are focused on shortening their balance sheets and reducing risk.



What would you expect to happen?

The lack of buyers would probably lead to a sharp correction in prices, which would be likely to prompt further outflows. This would increase the spreads, i.e. the reward for taking on risk. The loss of risk appetite would also have an impact on other markets, such as the equity market, for example.

What could trigger this?

An external shock can happen at any time, and there are various other possible triggers in addition to this. Firstly the unappealing prospects, with both interest rates and spreads having hit a low; secondly the US Federal Reserve will not be printing any new USD after the QE program runs out in November; and thirdly the increase in new issues of covenant-light bonds. In the US, these now account for around two-thirds of new issues in the non-investment grade segment, compared with just 18% before the financial crisis.

What effect would a sudden stop have?

It's well known that exaggerations can persist for some time. In the short run, depending on the term to maturity of the securities concerned, a sudden stop would probably unleash a correction of 15-25%. The equity markets would also have the potential for a similar correction. That said, we expect that such a phase would open up opportunities that could be seized by bold investors.

Silvan Betschart, CFA, CAIA

«DOUBLE OR MORE» FOR YOUR PENSION ASSETS

BETTER RESULTS WITH LESS RISK THANKS TO TAX ADVANTAGES

«Double or nothing» is a common form of bet. Engaging in speculative gambles with your pension assets would be inappropriate. It's therefore all the more interesting to find a prudent and far-sighted means of optimizing your retirement savings that offers a much more attractive possibility, namely double or more.

Voluntary contributions pave the way

This optimization centers on voluntary contributions into occupational pension schemes and the direct advantages these entail:

1. They enable you to bolster your personal pension cover while reducing your taxable income by the full amount of your contribution.
2. The dividends and interest income amassed during the investment period are exempt from income tax. This is different from the regime governing private assets, where additionally the wealth tax is also due annually.
3. When you reach retirement age, a reduced tax rate on capital applies when you draw your pension. Furthermore, it is often possible to stagger the lump-sum payment in installments, which brings additional tax advantages.

Unbeatable advantages

Given the significant tax advantages, the higher investment capital base and the compound interest effect, a lower return is sufficient to deliver the same retirement capital. This is shown in the simplified illustration in the box, focusing on the difference in returns. The example is based on a member of executive management paying tax in Lucerne. The annual income is CHF 300,000, with annual voluntary contributions of CHF 100,000. The advantages have been calculated over a period of 10 years –retirement savings accounts usually have much longer investment horizon.

RETURNS – A SIMPLIFIED EXAMPLE

Which returns would deliver the same amount of capital after 10 years?

With voluntary contributions	3.5% (assumption)					
Annual return needed if the tax advantages of voluntary contributions are not used:	Lucerne	Zurich	Zug		Basel	Bern
	7.8%	8.1%	7.0%		9.6%	9.9%

The «Lucerne» example in detail:

With voluntary contributions	Year 1	Year 2	Year 3	...	Year 9	Year 10
Deposit/assets at start of year	100,000	203,500	310,623	...	1,036,850	1,173,139
Tax on lump-sum withdrawal (two instalments)	–	–	–	...	–	101,993
Assets at end of year including return of 3.5%	103,500	210,623	321,494	...	1,073,139	1,112,206

Without voluntary contributions	Year 1	Year 2	Year 3	...	Year 9	Year 10
Income tax on the CHF 100,000	26,293	26,293	26,293		26,293	26,293
Deposit/assets at start of year	73,707	152,846	237,817	...	896,554	1,036,336
Wealth tax	332	688	1,070	...	4,034	4,664
Assets at end of year including return of 7.8%	79,139	164,110	255,344	...	962,630	1,112,714

Underlying assumptions: married, Roman Catholic, no children, no dual income, income of CHF 300,000, wealth tax fixed at 0.45%, annual contribution into pension plan of CHF 100,000, contribution gap sufficient, lump-sum withdrawal in two instalments, three-year blocking period on contributions before withdrawal not shown, tax rate 26.3%

Source: Own Representation, Tax Calculations www.comparis.ch

3.5% essentially corresponds to 7.8% or even more

This example shows that a substantially lower return on the pension assets is required to achieve the same amount of savings capital on reaching retirement. Specifically:

A) With voluntary contributions and an annual return of 3.5%, we calculate retirement savings in this case of around CHF 1.1 million.

B) If the person were to refrain from voluntary contributions and not make use of the tax advantages, an annual return of 7.8% on their private assets would be needed to also deliver the amount of CHF 1.1 million.

In Basel or Bern, they would even need around 9.8% per annum in the same example compared with 3.5% on pension assets. The difference would be even greater if we were to also factor in the fact that dividends and interest income on pension assets are exempt from income tax.

Lower target return means risks can be reduced

In this example, around half the annual return is required on pension assets to fare better than private assets. Thanks to the tax advantages, our pension solutions offer the possibility of achieving «double or more» – and doing so with a lower-risk strategy. Our relationship managers will be happy to explain in detail the opportunities and advantages our pension solutions can offer in your specific circumstances.

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