SWISS PENSION FUND RESEARCH PAPER

Quo Vadis, Helvetia?

Swiss Pension Funds and Private Markets

The average Swiss pension fund incurred high-single-digit losses in 2022 amid increased volatility and asset class correlation in public markets. We believe it's time to rethink conventional diversification strategies. Allocations to private markets – across private equity and debt, real estate, and infrastructure – can enhance risk-return profiles and portfolio diversification.

2022 presented considerable challenges to Swiss pension funds. Financial markets showed that conventional diversification strategies did not hold up in volatile markets. Reacting to growing inflation, central banks orchestrated the fastest rise in interest rates in recent history. Asset class correlation increased, with stocks, bonds and listed real estate losing significant value. According to the recently released 2023 Swisscanto Pension Funds study, the average Swiss pension fund incurred losses of 8.8% – the worst result since 1985, surpassed only by a 12.6% loss sustained during the financial crisis. At the same time, coverage ratios are estimated to have come down from the 2021 highs of 122% to around 110%. Furthermore, with over 85% of recent IPOs featuring unprofitable companies and major financial indices being dominated by technology companies, the question of whether Swiss pension funds have sufficient diversification arises. We believe that now, more than ever, is the time to consider adding private markets to pension fund portfolios to enhance risk-return profiles and increase overall portfolio diversification. In this paper, we discuss the benefits that such an approach could bring to Swiss pension funds by analyzing historical returns.

For the purpose of our analysis, we provide an overview of the performance of each private markets asset class in 2022 based on broad industry figures. Private markets demonstrated their resilience in 2022, ending the year with an average net return of 0.1%[1], outperforming public markets by up to 18% when compared to global equities, while also experiencing lower volatility and drawdowns. In fact, the top-performing 10% of Swiss pension funds in 2022 had a relatively high allocation to alternative assets: 12.7%, approximately double the historical average of 6%.

- **Private equity** returned -5.6% in 2022[2], providing more stability than public markets and benefiting from investments in resilient companies able to defend their margins and, on average, increase operating income. Private markets are not, as often assumed, reckless in their use of credit leverage. Instead, the main driver of private equity returns today lies in improving a portfolio company's operational performance.
- **Private infrastructure** achieved an annual return of 5.2%[2]. This is in part thanks to thematic growth trends such as decarbonization, energy security,

Past performance is not indicative of future results. 1 The inclusion of this index/benchmark is used for comparison purposes and should not be construed to mean that there will necessarily be a correlation between the fund/investment return and the index/benchmark. **2** The performance presented reflects model performance an investor may have obtained had it invested in the manner shown and does not represent performance that any investor actually attained.

and digitization, and other structural tailwinds such as the Inflation Reduction Act. Increased cash flows from value creation initiatives and efficiency gains in non-interest-rate sensitive investments further contributed to this positive result.

- **Private real estate** closed the year with a stable, inflation-mitigated return of 0.7%[3]. While traditional core real estate experienced the negative impacts of rising interest rates more directly, an investment approach focused on core+ and value creation initiatives in logistics and residential outweighed the negative impacts seen on sectors such as commercial real estate.
- **Private debt** exhibited an effective duration of zero in 2022 due to its variable interest rate structure. Spared from the impacts of interest rate hikes, the asset class achieved an annual return of 1.5%[3]. It also did not experience significant default events thanks to the resilience of underlying firms.

THE RISK-RETURN LANDSCAPE AT A GLANCE (IN CHF)

	2020	2021	2022	L3Y	L5Y	L10Y	Volatility	Maximum drawdown
Public markets								
Global equities	11.8%	22.9%	(18.1%)	4.0%	4.8%	8.3%	15.0%	(23.1%)
Swiss equities	3.8%	23.4%	(16.5%)	2.3%	5.0%	8.1%	15.6%	(19.9%)
Swiss real estate	13.0%	7.6%	(17.3%)	0.2%	3.2%	4.5%	10.9%	(19.0%)
Swiss bonds	1.1%	(2.2%)	(12.9%)	(4.8%)	(2.2%)	(0.2%)	5.4%	(15.6%)
Alternatives	2.8%	2.5%	(6.6%)	(0.6%)	(2.0%)	(0.8%)	5.4%	(20.0%)
Private markets								
Private equity	22.7%	34.5%	(5.6%)	15.9%	13.4%	13.6%	11.2%	(10.6%)
Private infrastructure	10.1%	13.0%	5.2%	9.4%	8.0%	9.3%	4.0%	(4.1%)
Private real estate	0.8%	26.3%	0.7%	8.6%	7.4%	9.2%	7.7%	(7.0%)
Private debt	5.5%	14.7%	1.5%	7.1%	5.5%	7.1%	5.6%	(8.8%)
Multi-asset (average)	13.8%	23.1%	0.1%	11.9%	10.0%	10.9%	6.7%	(7.5%)

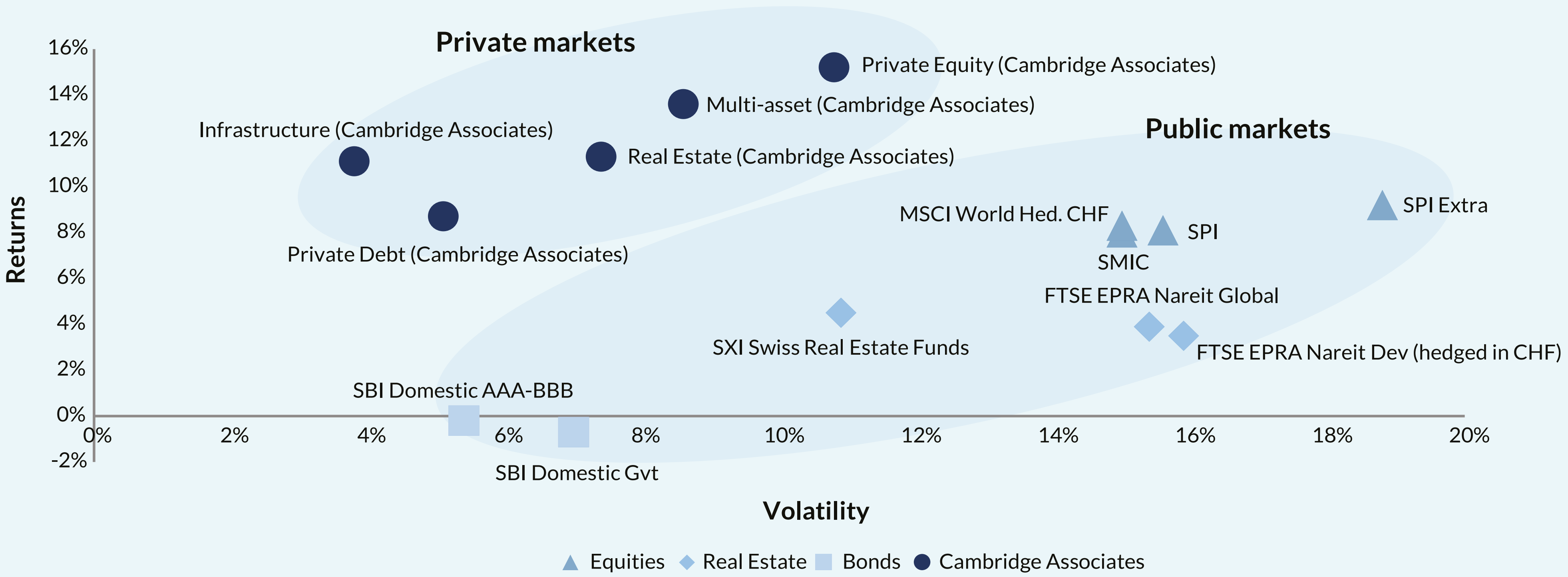
Table 1: Returns over 3Y / 5Y / 10Y of different asset classes. Sources: Global equities (MSCI World 100% CHF Hedged TR, M0WOHCHF Index), Swiss equities (Swiss Performance Index, SPI Index), Swiss real estate (SXI Swiss Real Estate Funds, CHREF Index), Swiss bonds (SBI Domestic AAA-BBB Total Return Index, SBD14T Index), alternatives (HFRX Global Hedge Fund CHF Index, HFRXGLC Index). Private markets: Cambridge Associates Q4 2022 report (USD), 100% hedged to CHF. Maximum drawdown calculated based on quarterly returns. Based on monthly returns, maximum drawdowns would be 20.8% for Swiss real estate and 17.2% for Swiss bonds and remain unchanged for global equities, Swiss equities and alternatives. Volatility calculated based on annual returns. Both statistics calculated based on the last 10 years. Private markets (average) returns based on an allocation of 40% private equity, 40% private infrastructure, 10% private real estate, 10% private debt.

Past performance is not indicative of future results. 3 The performance presented reflects model performance an investor may have obtained had it invested in the manner shown and does not represent performance that any investor actually attained.

Adding private markets to Swiss pension fund portfolios

The aforementioned study further shows that, over the last ten years, Swiss pension funds allocated on average only 6% to alternative investments, which include private markets, despite a legally permitted maximum allocation to the asset class of 15%. We find this surprising given that private markets have historically achieved long-term outperformance, with reduced portfolio volatility and less severe maximum losses.

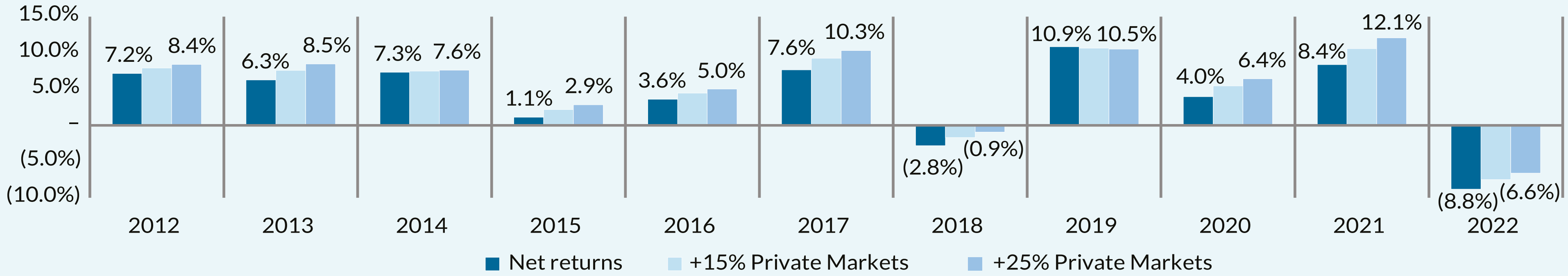
RISK-RETURN OF VARIOUS ASSET CLASSES OVER THE LAST 10 YEARS



Graph 1: Overview of risk-return achieved by various asset classes over the last 10 years. Calculations based on yearly returns over the last 10 calendar years. Cambridge Associates data. Sources: Global equities (MSCI World 100% CHF Hedged TR, M0WOHCHF Index), Swiss equities (Swiss Performance Index, SPI Index), Swiss real estate (SXI Swiss Real Estate Funds, CHREF Index), Swiss bonds (SBI Domestic AAA-BBB Total Return Index, SBD14T Index), alternatives (HFRX Global Hedge Fund CHF Index, HFRXGLC Index). Private markets: Cambridge Associates Q4 2022 report (USD), 100% hedged to CHF. Multi-asset returns based on an allocation of 40% private equity, 40% private infrastructure, 10% private real estate, 10% private debt. For illustrative purposes only.

The following chart illustrates how the net return of a Swiss pension fund would have developed with a 15% (maximum allocation according to BVV2 regulation) and 25% private markets allocation (maximum allocation according to BVV2 regulation in addition to the 10% permitted allocation to infrastructure). The results indicate an improvement in returns of up to +1.8% on an annualized basis over the past ten years. From a risk-adjusted[4] perspective, we observe an improvement in the Sharpe ratio of almost 0.4 and an almost 30% decrease in maximum drawdown. Thus, it becomes clear that a comprehensive strategic investment allocation that includes private markets is essential to construct a resilient portfolio with attractive risk-return characteristics.

NET RETURNS FOR A SWISS PENSION FUND WITH DIFFERENT PRIVATE MARKET ALLOCATIONS[1]



Last 10 years	Return	Volatility	Sharpe ratio	Max. drawdown
Historical	3.6%	5.9%	0.61	(15.2%)
+15% Private markets	4.7%	5.8%	0.81	(12.7%)
+25% Private markets	5.4%	5.8%	0.94	(10.9%)

For illustrative purpose only. **Graph 2:** Reported net returns for the years 2012-2022 are based on reported net returns from the Swisscanto Pension Funds study 2023 - C Performance - Schweizer Pensionskassenstudie 2023 (swisscanto.com). Private market returns are based on Cambridge Associates Q4 2022 reports (USD, 100% hedged to CHF). For the two scenarios "+15% private markets" and "+25% private markets," it is assumed that private markets will be funded by a pro rata reduction in other investments. The private markets allocation consists of 40% private equity, 40% private infrastructure, 10% private real estate, 10% private debt. Calculation of return and volatility is based on annual returns over the past 10 years (2013-2022). Maximum drawdown is calculated based on a composite benchmark of public indices and Partners Group model-net monthly track record returns. The public composite consists of reported average allocations over the last 10 years (5% alternatives (HFRXGLC Index), 25% Swiss real estate (CHREF Index), 35% Swiss equities (SPI Index), 30% Swiss bonds (SBD14T Index), 5% cash).

Past performance is not indicative of future results. 4 Risk-adjusted returns refer to returns taking into account potential drags to performance. The performance presented reflects model performance an investor may have obtained had it invested in the manner shown and does not represent performance that any investor actually attained. Diversification does not ensure a profit or protect against loss.

How to access private markets and choose the right implementation

Two factors are usually of great concern to investors considering an allocation to private markets: the liquidity profile and the operational setup and complexities involved in maintaining a portfolio of private markets funds (e.g., management of distributions and capital calls, consolidation of reporting, and the setup of the necessary structures). Partners Group's suite of products can address these concerns. For example, an investor wishing to build immediate exposure to private markets may opt for one of the several fully paid-in Evergreen products spanning the full range of asset classes and offering monthly to quarterly liquidity mechanisms. These programs have the added benefit of being easy to administrate, with no capital calls and return of capital, as well as being able to offer full integration and subscription process via the pension fund's custodian bank.

Partners Group also offers traditional closed-ended private markets funds which typically are targeted to yield higher returns, but, in turn, these options are less liquid and feature a more concentrated portfolio. Partners Group's bespoke mandate solutions can be an interesting option for those considering an allocation starting at CHF 200m. As a one-stop solution and following a one-time setup, the investor gains access to a dynamic investment vehicle that can be tailored to specific needs and goals. Such investors could also benefit from using Evergreen solutions as building blocks in building up their exposure to private markets closed-ended funds or mandates, increasing capital efficiency and potentially the overall return profile of their private markets allocation.

All of Partners Group's fund solutions are underpinned by a systematic approach to ESG investing and are classified as Article 8 fund according to the SFDR regulation for those funds marketed in the European Union[5].

	Evergreen products	Closed-ended funds	Mandates
Characteristics	• Open-ended structure with monthly or quarterly liquidity options (subject to gating) • One capital call at the time of signing	• Closed-ended structure with a typical 10 to 12-year term • Several capital calls during the investment period as portfolio is built up and distributions once investments are sold	• Bespoke solution providing full flexibility in terms of asset classes and instruments (primaries, secondaries, directs) • Can be fully paid-in from day one or have capital calls during investment period • NAV target fixed or dynamically adapted to client needs
Indicative investment size	CHF >1m	CHF >10m	CHF >100m
Private equity[6]	PG Global Value SICAV	PG Direct Equity V PG Secondary VIII	Fully customizable solution across asset classes and instruments
Private infrastructure[6]	Next Gen Infra Evergreen Strategy[7]	PG Direct Infrastructure IV PG Global Infrastructure V PG Infrastructure Secondary Strategy	
Private real estate[6]	PG Global Real Estate FCP	PG Real Estate Opportunities II PG Real Estate Secondary 2021	
Private debt[6]	PG Private Loans SICAV-SIF		
Multi-asset[6]	The Partners Fund Trust / SICAV LIFE Evergreen Strategy[7]	PG LIFE II	

5 Though ESG factors may be considered throughout the investment decision process, it should be noted that ESG is not the predominant strategy of Partners Group funds. **6** This is a marketing communication. Please refer to the prospectus of the AIF and if applicable to the KID before making any final investment decisions. There are risks associated with investing in these funds. The risks are not exhaustive and investors should refer to the relevant fund documents such as the prospectus and if applicable the key information sheet for the full list of risks to which the fund is subject. **7** The products are intended to be established for the offering to professional investors in Switzerland.

Quo vadis?

In summary, private markets offer pension funds an opportunity to improve their portfolio's risk-return profile. By investing in private equity, private infrastructure, private real estate, and private debt markets, investors can potentially achieve long-term outperformance with reduced volatility. Alternative investments such as private markets offer portfolio diversification[8] that is less correlated to public markets. Although operational complexity and liquidity concerns can be challenging, various solutions exist to overcome these challenges and access private markets. Since adding more public equity, such as Swiss small/mid-cap equities, may not yield the same level of diversification and risk-return profile, it is worthwhile for investors to explore private markets as an essential component of their portfolio allocation.

8 Diversification does not ensure a profit or protect against loss.

About Partners Group

Partners Group is a leading global private markets firm. Since 1996, the firm has invested over USD 200 billion in private equity, private real estate, private debt and private infrastructure on behalf of its clients globally. Partners Group seeks to generate superior returns through capitalizing on thematic growth trends and transforming attractive businesses and assets into market leaders. The firm is a committed, responsible investor and aims to create sustainable returns with lasting, positive impact for all its stakeholders. With over USD 142 billion in assets under management as of 30 June 2023, Partners Group provides an innovative range of bespoke client solutions to institutional investors, sovereign wealth funds, family offices and private individuals globally. The firm employs more than 1,800 diverse professionals across 20 offices worldwide and has regional headquarters in Baar-Zug, Switzerland; Denver, USA; and Singapore. It has been listed on the SIX Swiss Exchange since 2006 (symbol: PGHN).

Material notes to investors based in Switzerland The information in this document is to be considered promotion. The collective investment schemes mentioned have not been licensed by the Swiss Financial Market Supervisory Authority (the "FINMA") for distribution to non-qualified investors pursuant to Article 120 para. 1 to 3 of the Swiss Federal Act on Collective Investment Schemes of 23 June 2006, as amended ("CISA"). The paying agent in Switzerland for the collective investment scheme is Credit Suisse (Switzerland) Ltd. (Mailing address: Credit Suisse (Switzerland) Ltd., Paradeplatz 8, CH-8001 Zurich) and the representative is Partners Group AG (Mailing address: Partners Group AG, Zugerstrasse 57, 6341 Baar, Switzerland). The Prospectus, Articles of Association and further information documentation, such as the annual and half-yearly reports as well as the information on the historical performance (if any) may be obtained free of charge at the registered office of Partners Group AG.

Investors should be aware that investing in private markets may involve a high degree of risk due to various factors, such as illiquidity, uncertainty of return, lack of transparency, limited diversification and potential loss of their entire investment. Additionally, these investments may be subject to significant fluctuations in value, changes in legal and regulatory frameworks, and potential conflicts of interest. Before considering an investment in private markets, investors should carefully read and fully understand the associated risks, including, but not limited to, the offering documents, funds' performance reports, and any other relevant materials. Investors should also consult with their own financial, legal, and tax advisors to evaluate the suitability of such investments in light of their individual financial objectives, circumstances, and risk tolerance.