

## Index Mandates – Newsletter No. 2

### CSIFs replicating Fundamental Indices



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Institutional investors are continuously increasing their expectations on transparency in portfolio management. The indexed Credit Suisse Institutional Funds (CSIF) fulfill those requirements to a significant degree: since they were launched over eight years ago, they have carefully replicated their respective benchmark and provided access to all the key equities, bonds and real estate markets.

When it comes to market access, many investors would like to have a wider range of choices in the indices available: with three funds based on fundamentally weighted shares indices, Credit Suisse now offers an alternative to the usual benchmarks weighted according to stock market capitalization. This Index Mandates Newsletter contains information on the funds replicating the MSCI Value Weighted Indices and on other changes to the CSIFs.

All these changes will be effective as of August 2, 2011.

#### From Enhanced Indexing to MSCI Value Weighted

The three CSIF Enhanced Index funds were launched in 2005 and 2006, and have exceeded their benchmarks in certain respects. This excess return was achieved by using a mathematical stock selection model. As a result of increasing market efficiency, however, it has become more difficult to generate an additional return under the framework conditions of a traditional investment fund. Consequently, Credit Suisse has decided to continue using this model going forward, particularly for long/short-portfolios.

The three existing Enhanced Index funds are being converted into Passive funds that replicate the new MSCI Value Weighted Indices. The MSCI Value Weighted Indices are a new generation of equity indices, where the weighting of the individual securities is determined by four fundamental ratios rather than by stock market capitalization:

- Sales
- Earnings
- Cash-Flow
- Book value

#### The Changes in Brief:

- **The actual Enhanced index funds will since July 29, 2010 passively replicate the MSCI Value Weighted Index, a fundamentally weighted index. The funds will change their name into CSIF Europe ex CH Value Weighted Index, CSIF US Value Weighted Index – Pension Fund and CSIF Japan Value Weighted Index.**
- **For funds replicating inflation-linked bond Indices, Italy will be removed from the benchmark.**
- **For bond funds in JPY and for global bond funds, value date will be changed from T+ 3 to T+4.**
- **Further small changes in the fund prospectus will facilitate the cash management and the closure of the funds on public holidays.**

The index is built so that the weighting of each individual security is independent of its share price. This method prevents equities from achieving a high weight in the index solely on the basis of their high price. The composition of the new MSCI Value Weighted Indices is accurately defined in a published set of regulations.

The three CSIFs replicate these indices exclusively buying the underlying securities, thus ensuring a high level of transparency.

#### MSCI Value Weighted and Standard (annualized in CHF)

Region	Timeframe	MSCI Value Weighted	MSCI Standard	Difference
Europe	31.12.1999-31.01.2011	-0,50%	-1,86%	1,36%
Japan	31.12.1999-31.01.2011	-2,73%	-6,52%	3,79%
North America	31.12.1999-31.01.2011	-1,28%	-3,85%	2,57%

Source: MSCI

Historical performance indications and financial market scenarios are no guarantee for current or future performance.

Historically, the fundamentally weighted MSCI Indices have clearly outperformed the standard indices (see the table). This enhanced return partially comes from high exposure to so called "value stocks". The new indices are therefore suitable for investors who would like to tactically or strategically consider the value factor in their portfolios.

### **Change of the Benchmark for CSIFs replicating Inflation-Linked Bonds**

Inflation-linked bonds are becoming an increasingly popular asset class. Since when it was launched in December 2009, the CSIF Inflation-Linked Bond World ex Australia ex Japan Index hedged CHF Blue is exclusively invested in countries in which Swiss investors can fully claim back the local withholding tax. For this reason issues from Australia, Japan and Italy are not held in the portfolio, although Italy was represented in the benchmark that has been used until now.

The fund's benchmark will therefore change from the Barclays Capital World Government Inflation-Linked Ex Australia Ex Japan Index to the Barclays Capital World Government Inflation-Linked Ex Australia Ex Japan **Ex Italy** Index. This brings the portfolio and the reference index in line with each other. The estimated tracking error between the portfolio and the index will be reduced accordingly from 0.50% p.a. to under 0.20% p.a.

#### **Your contact**

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### **Change of the Value Date for Global Bond Funds and Bond Funds in JPY**

In case of subscriptions or redemptions in the CSIFs investing in Japanese bonds, Japanese government bonds can only be traded in Japan on the next calendar day, due to the different time-zone. Since Japanese government bonds represent the largest proportion of the portfolios of JPY bond funds, the current value date rule for CSIFs with Subscription Day + 3 days no longer correspond to the value date for the underlying instruments.

Consequently, the value date for the following CSIF bond funds will change from D+3 to D+4:

- CSIF Bond JPY Index
- CSIF Bond World ex CH Index
- CSIF Bond World ex CH Index Blue
- CSIF Bond World ex CH Index hedged CHF
- CSIF Bond Aggregate JPY Index
- CSIF Bond Aggregate World ex CHF Index

When this change will be implemented, the value date rule for CSIF bond funds will match that for CSIF equity funds. Equity funds with investments in the Pacific region have already being settled with the value date D+4 since launch.

### **Other Changes:**

CSIF equity funds will be able to invest in indexed collective investments in the future. This measure helps cash management in markets where futures are not available and in general allows the in kind delivery of indexed collective investments (e.g. ETFs).

Finally, the wording of the fund prospectus concerning the closure during Swiss and foreign public holidays will be refined. This will guarantee that the funds and the core investment are aligned as to market access and value date rules.

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