

# Index Mandates Newsletter No. 3

## Closer Index Replication and Better Trading Terms in CSIF Emerging Markets Index



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With fund assets in excess of CHF 2 billion, Credit Suisse Institutional Fund (CSIF) Emerging Markets Index is one of the largest emerging markets equity funds in Switzerland. The fund was set up in April 2004, and has seen inflows of CHF 470 million of new funds since the beginning of 2011. Credit Suisse was able to use these fund inflows to significantly reduce the tracking error versus the MSCI Emerging Markets benchmark, and to achieve broader portfolio diversification.

Full replication of the MSCI Emerging Markets Index is not possible due to these limitations. The portfolio management of Credit Suisse therefore chooses a subset of sufficiently liquid securities from the index (including ADRs and GDRs). This range of liquid securities is reviewed continuously and, where necessary, is adjusted. For each transaction a mathematical optimization model then determines the portfolio with the lowest tracking error versus the benchmark, whereby only securities from the range of liquid funds be purchased.

	as of 30.09.2010	as of 29.04.2011	as of 31.08.2011
Number of securities in Fund	387	570	699
Number of securities in MSCI Emerging Markets	754	810	824
Expected Tracking Error p.a.	0.84%	0.46%	0.32%

Source: Credit Suisse AG, Barra Aegis, August 2011

### Significant improvements in the last twelve month:

- **Broader diversification**
- **Improved efficiency**
- **Better terms**

### Indexing in Emerging Markets

Replicating an emerging markets index provides additional challenges compared to an index fund for established markets: Some markets cannot be accessed directly, but must be replicated using American Depositary Receipts (ADRs) or Global Depositary Receipts (GDRs). However, not every joint-stock company in these markets has such a program, which limits stock selection. The fund currently invests in ADRs and GDRs on equities from India, Chile, Colombia, Peru, Russia, and Egypt.

Thanks to extensive inflows, numerous improvements have been made to the fund portfolio.

### Broader Diversification

- The range of liquid securities increased from 400 to 720 in the last twelve months.
- All countries in the Index are now also included in the fund portfolio.
- Egypt (0.35% weighting in the Index) is covered via five GDRs.
- Morocco (0.17% weighting in the Index) is covered via the secondary listing in France of its largest security.

As of the end of August 2011, the index held a total of 824 securities, of which 5-10% have very limited liquidity. Trading liquidity in individual markets can vary significantly: Whereas Taiwan or South Korea are no worse than the so-called developed markets in this regard, tradability in Indonesia, the Philippines, and Poland is limited, particularly in small caps. The portfolio manager must also take account of technical restrictions such as very short settlement periods (Taiwan, South Korea), or limitations on foreign-exchange transactions (Taiwan, Brazil).

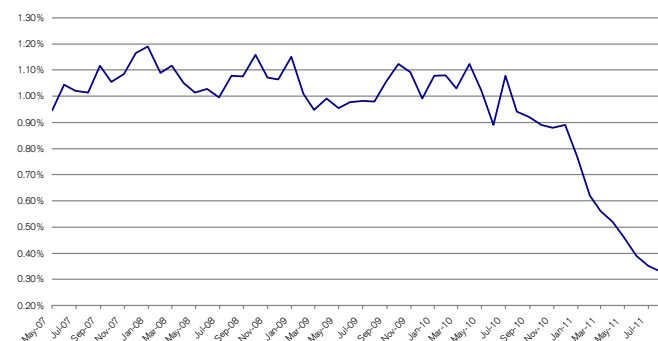
### Improved Efficiency

- Additional information concerning liquidity of the ADRs and GDRs traded on the various stock exchanges is available in our systems on a daily basis.
- The range of liquid securities is reviewed continuously and, where necessary, is adjusted.
- MSCI Emerging Markets Index futures are used to invest liquidity. This ensures that the fund is fully invested even after small inflows.

### Better Terms with External Brokers, and Lower Issue and Redemption Fees

- Thanks to additional brokers and higher business volumes, investors in CSIF Emerging Markets Index can benefit from lower broker commissions.
- The fund's issue and redemption fees cover the transaction costs arising from the purchase and sale of securities in the fund. This ensures that the costs of subscriptions and redemptions are allocated appropriately. Thanks to lower trading costs, subscription fees were reduced from 0.85% to 0.65%, and redemption fees from 0.65% to 0.45%. The recalculated fees offer even more attractive entry terms, while guaranteeing the interests of all current investors.

### Ex-ante Tracking Error CSIF Emerging Markets Fund



Source: Credit Suisse AG, Barra Aegis, August 2011

### Further Improvements Planned

Credit Suisse is working constantly to perfect the range of funds. The following measures target a further reduction in the tracking error of the CSIF Emerging Markets Index:

- Fund inflows are used to target further reduction of the security-related risk.
- The fund management and the custodian bank are investigating whether investment in local Indian equities is possible. This would enable better replication of the Indian equity market, in particular for mid cap securities.

### Your contacts

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