

Index Solutions

The World is Not Enough

Newsletter No. 10



In the current newsletter, using the slogan **"The World is Not Enough"**, we would like to draw attention to the extended possibilities of replicating the global equity universe through our indexed funds. A large number of Swiss pension funds focus their investments on foreign equities on the **MSCI World ex Switzerland**. However, this focuses on large and medium-sized companies in developed markets and neglects two significant areas of the global equity market, namely **Small Caps** and **Emerging Markets**. Credit Suisse Index Solutions will provide you with the right building blocks for this topic. Learn more about it in this newsletter.

Additionally, Credit Suisse Index Solutions is celebrating its **20th anniversary** this year. With a team of almost 50 people, we manage indexed assets worth **CHF 91 billion** (as of May 31, 2014). With currently 60 indexed funds and an overall volume of CHF 52.3 billion, the Credit Suisse Institutional Funds (CSIF) family offers numerous options to build institutional portfolios.

Happy reading!

Dr. Valerio Schmitz-Esser

Dr. Valerio Schmitz-Esser
Head Index Solutions

Ulrich Roth

Ulrich Roth
Head Portfolio Management Index Solutions



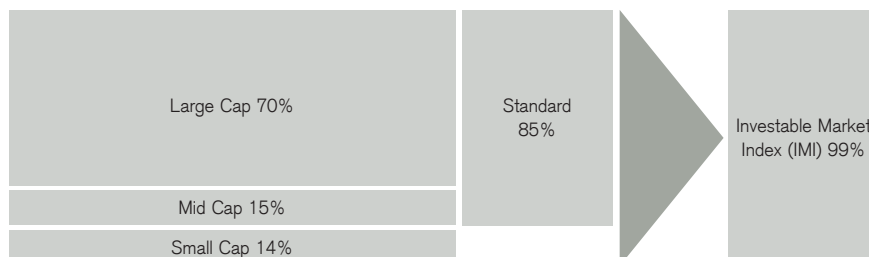
**Just as perfect as the original:
Credit Suisse index funds**

The extraordinary blue color of the Blue Morpho butterfly comes from the unique surface structure of its wings.

To make use of such feats of nature, you have to master the technique of replication. This is particularly true for the management of index funds. Credit Suisse draws on experience and technology to make the most important indexes investable for you as an institutional investor.

Global Small Caps

Portfolios forgoing small caps are neglecting 14% of worldwide market capitalization. Intentionally or unintentionally, investors who do not hold any small caps are betting against an attractive asset class. As you can see from the chart, the standard index covers only 85% of all developed equity markets. The Investable Market Index (IMI) achieves a market coverage of 99%.



Source: Credit Suisse AG, MSCI



Source:

Credit Suisse, MSCI Barra, 30.05.2014

From January 1993 to June 2014, the MSCI World Small Cap achieved an annual return that was 2.14% higher than the MSCI World Standard Index. From January 2001 to June 2014, small caps even outperformed the standard index by 4.97% p.a. If we compare the MSCI World IMI (Investable Market Index, i.e. with small caps) with the MSCI World (without small caps), then the IMI Index comes off better by 0.57% p.a. with a virtually identical overall risk for the period between January 2001 and June 2014.

We replicate the Small Cap Index with optimized sampling. The index includes 4,300 securities and is replicated in the fund through approximately 2,900 securities. This allows an ex-ante tracking error of 0.16%.

MSCI World, IMI and Small Cap 2001–2014



Since the launch of the **CSIF World ex CH Small Cap Index – Pension Fund** in September 2013, pension funds are able to close a strategic gap in their investments and gain reasonably priced access to this asset class, including the full exemption from the withholding tax on American dividends. This asset class is now also open to non-pension funds. The **CSIF World ex CH Small Cap Index Blue** was launched at the end of April 2014. The word “blue” in the name indicates that this fund does not include securities lending.

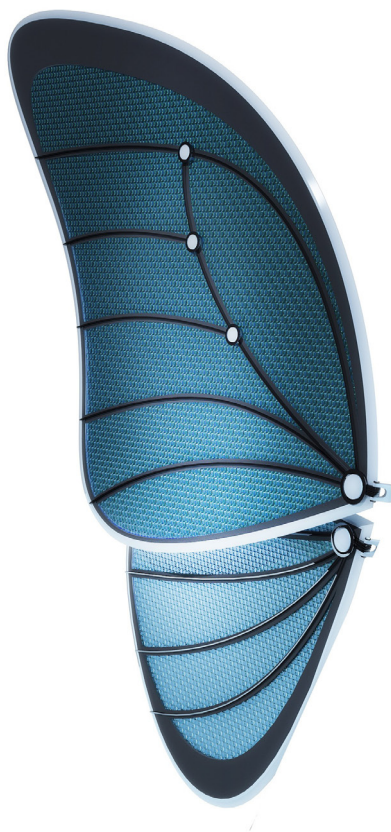
Emerging Markets

The benchmark for emerging markets, the MSCI Emerging Markets Index, is not part of the MSCI World ex CH either. Since 2004, Credit Suisse Index Solutions has been offering Emerging Markets equities through the **CSIF Emerging Markets Index Blue**, which now has overall assets worth CHF 3.8 billion.

The replication of an emerging markets index is more complex than that of a developed markets index. The challenges include the liquidity in certain markets and the difficulties in accessing some other markets due to investment restrictions.

Since January 2014, Credit Suisse Index Solutions has been trading Indian equities **locally on Indian exchanges**. The purchase of ADRs and GDRs for Indian equities is therefore no longer necessary. This has produced a significant reduction in the tracking error (ex-ante) to 0.06%.

To switch from ADRs and GDRs to local securities in the most efficient way, we are using the flows in the fund. In case of inflows, local equities will be purchased, in case of outflows, ADRs/GDRs will be sold. Investors can thus save reallocation fees.



Less Home Bias: MSCI World and MSCI Europe

Most Swiss investors overweight Swiss securities in the portfolio. This is why Switzerland is excluded from our Swiss funds replicating global and European equities indices ("ex Switzerland"). This enables us to allow individual weighting of Switzerland within the portfolio.

Recently, we have noticed increased interest in an exact replication of the **MSCI World** and **MSCI Europe** indices. This is why we have now launched **CSIF Switzerland Index Blue** and **CSIF Europe Index**. The funds replicate MSCI Switzerland and MSCI Europe respectively and reflect the Swiss and European equity landscape exactly as the MSCI methodology defines it. The combination of the CSIF Switzerland Index Blue with the existing versions of the CSIF World ex Switzerland Index enables an rigorous replication of **MSCI World**. The new funds complete the existing product range which, as a modular system, still allows an individual weighting of the home market.

Please find the complete overview of all our 60 CSIF on the next page.

Your contacts

For further information, please contact your relationship manager or Index Mandates product specialists:

+41 44 334 41 41

index.solutions@credit-suisse.com

Disclaimer:

This document was produced by Credit Suisse AG and/or its affiliates (hereafter "CS") with the greatest of care and to the best of its knowledge and belief. However, CS provides no guarantee with regard to its content and completeness and does not accept any liability for losses which might arise from making use of this information. The opinions expressed in this document are those of CS at the time of writing and are subject to change at any time without notice. If nothing is indicated to the contrary, all figures are unaudited. This document is provided for information purposes only and is for the exclusive use of the recipient. It does not constitute an offer or a recommendation to buy or sell financial instruments or banking services and does not release the recipient from exercising his/her own judgment. The recipient is in particular recommended to check that the information provided is in line with his/her own circumstances with regard to any legal, regulatory, tax or other consequences, if necessary with the help of a professional advisor. This document may not be reproduced either in part or in full without the written permission of CS. It is expressly not intended for persons who, due to their nationality or place of residence, are not permitted access to such information under local law. Neither this document nor any copy thereof may be sent, taken into or distributed in the United States or to any U. S. person (within the meaning of Regulation S under the US Securities Act of 1933, as amended). Every investment involves risk, especially with regard to fluctuations in value and return. Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency. Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Performance indications do not consider commissions levied at subscription and/or redemption. Furthermore, no guarantee can be given that the performance of the benchmark will be reached or outperformed. Equities are subject to market forces and hence fluctuations in value which are not entirely predictable. Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments. Emerging Markets are located in countries that possess one or more of the following characteristics: A certain degree of political instability, relatively unpredictable financial markets and economic growth patterns, a financial market that is still at the development stage or a weak economy. Emerging markets investments usually result in higher risks such as political risks, economical risks, credit risks, exchange rate risks, market liquidity risks, legal risks, settlement risks, market risks, shareholder risk and creditor risk. Investors should be willing and financially able to accept the risk characteristics of the investments described in this document. The CSIF (CH) products described are umbrella funds under Swiss law of the type "other funds for traditional investments" for qualified investors as defined in the CISA (article 10 CISA) and the Collective Investment Schemes Ordinance ("CISO") (article 6 CISO). This document is expressly not intended for private individuals or persons for whom access to this type of information is forbidden. The target group of investors may also be restricted in the fund contract for specific subfunds or unit classes. The fund contract and the annual report are available free of charge from the fund management company, Credit Suisse Funds AG, Zurich, or from the custodian bank, Credit Suisse AG, Zurich. The underlying indices are registered trademarks and have been licensed for use. The indices are compiled and calculated solely by licensors and the licensors shall have no liability with respect thereto. The products based on the indices are in no way sponsored, endorsed, sold or promoted by the licensors.

Copyright © 2014 Credit Suisse Group AG and/or its affiliates. All rights reserved.

CSIF (CH) issue and redemption spreads

The issue (and redemption) spreads cover the transaction costs that arise from the purchase (and sale) of securities in the fund. This ensures that existing investors are always protected against investment costs caused by new investors.

Indexed Equity – Funds	Benchmark	Buy Spread in %	Sell Spread in %
CSIF Switzerland Total Market Index Blue	Swiss Performance Index	0.02	0.02
CSIF Switzerland Large Cap Index	Swiss Market Index	0.01	0.01
CSIF Switzerland Small & Mid Cap Index	Swiss Performance Index Extra	0.05	0.05
CSIF Switzerland Index Blue¹	MSCI Switzerland	0.01	0.01
CSIF Eurozone Index	MSCI EMU	0.10	0.03
CSIF Europe ex Eurozone ex CH Index	MSCI Europe ex EMU, ex Switzerland	0.44	0.03
CSIF Europe Index¹	MSCI Europe Index	0.23	0.03
CSIF Europe ex CH Index	MSCI Europe ex CH	0.27	0.03
CSIF Europe ex CH Index Blue	MSCI Europe ex CH	0.27	0.03
CSIF Europe ex CH Value Weighted Index	MSCI Europe ex CH Value Weighted	0.27	0.03
CSIF Canada Index	MSCI Canada	0.03	0.03
CSIF Canada Index Blue	MSCI Canada	0.03	0.03
CSIF US Index Blue	MSCI USA	0.03	0.03
CSIF US Index – Pension Fund	MSCI USA	0.03	0.03
CSIF US Index Blue – Pension Fund	MSCI USA	0.03	0.03
CSIF US Value Weighted Index – Pension Fund	MSCI USA Value Weighted	0.03	0.03
CSIF Japan Index	MSCI Japan	0.03	0.03
CSIF Japan Index Blue	MSCI Japan	0.03	0.03
CSIF Japan Value Weighted Index	MSCI Japan Value Weighted	0.03	0.03
CSIF Pacific ex Japan Index	MSCI Pacific ex Japan	0.06	0.06
CSIF Pacific ex Japan Index Blue	MSCI Pacific ex Japan	0.06	0.06
CSIF Emerging Markets Index Blue	MSCI Emerging Markets Index	0.20	0.25
CSIF World ex CH Index	MSCI World ex Switzerland	0.08	0.03
CSIF World ex CH Index Blue	MSCI World ex Switzerland	0.08	0.03
CSIF World ex CH Index – Pension Fund	MSCI World ex Switzerland	0.08	0.03
CSIF World ex CH Index Blue – Pension Fund	MSCI World ex Switzerland	0.08	0.03
CSIF World ex CH Small Cap Index Blue¹	MSCI World ex Switzerland Small Cap	0.15	0.10
CSIF World ex CH Small Cap Index – Pension Fund	MSCI World ex Switzerland Small Cap	0.15	0.10
CSIF World ex CH Value Weighted Index – Pension Fund	MSCI World ex Switzerland Value Weighted	0.11	0.04
Indexed Fixed Income – Funds	Benchmark	Buy Spread in %	Sell Spread in %
CSIF Switzerland Bond Index AAA-AA Blue	Swiss Bond Index AAA-AA Total Return	0.30	0.00
CSIF Switzerland Bond Index AAA-BBB Blue	Swiss Bond Index AAA-BBB Total Return	0.30	0.00
CSIF Switzerland Bond Index Domestic AAA-BBB Blue	Swiss Bond Index Domestic AAA-BBB Total Return	0.30	0.00
CSIF Switzerland Bond Index Foreign AAA-BBB Blue	Swiss Bond Index Foreign AAA-BBB Total Return	0.30	0.00
CSIF Switzerland Bond Index AAA-BBB 1–5 Y Blue	Swiss Bond Index AAA-BBB 1–5 Y Total Return	0.30	0.00
CSIF Bond EUR Index Blue	Citigroup World Government Bond Index EMU	0.14	0.00
CSIF Bond EUR Fiscal Strength Index Blue	Barclays Euro Treasury Fiscal Strength Weighted Index	0.14	0.00
CSIF Bond USD Index Blue	Citigroup US Government Bond Index	0.06	0.00
CSIF Bond GBP Index Blue	Citigroup United Kingdom Government Bond Index	0.06	0.00
CSIF Bond JPY Index Blue	Citigroup Japanese Government Bond Index	0.10	0.10
CSIF Bond World ex G4 Local Currencies Index Blue	Citigroup World ex EMU ex UK ex Japanese ex US ex Switzerland Government Bond Index	0.24	0.00
CSIF Bond World ex CH Index Blue	Citigroup World Government Bond Index World ex CH	0.11	0.03
CSIF Bond World ex CHF Fiscal Strength Index Blue	Barclays Global Treasury ex CHF Fiscal Strength Weighted Index	0.11	0.03
CSIF Bond World ex CHF Fiscal Strength 1–5Y Index Blue¹	Barclays Global Treasury ex CHF 1–5Y Fiscal Strength Weighted Index	0.11	0.03
CSIF Bond Aggregate USD	Barclays Global Aggr. USD	0.30	0.00
CSIF Bond Aggregate EUR	Barclays Global Aggr. EUR	0.20	0.00
CSIF Bond Aggregate GBP	Barclays Global Aggr. GBP	0.20	0.00
CSIF Bond Aggregate JPY	Barclays Global Aggr. JPY	0.10	0.10
CSIF Bond Global Aggregate ex G4 Local Currencies Index	Barclays Global Aggr. ex USD ex EUR ex JPY ex GBP ex CHF	0.30	0.00
CSIF Bond Global Aggregate ex CHF Index	Barclays Global Aggr. ex CHF	0.22	0.02
CSIF Bond Global Aggregate ex CHF 1–5 Y Index Blue	Barclays Global Aggregate 1–5 Y ex CHF	0.22	0.02
CSIF Bond Corporate EUR Index	Barclays Euro-Aggr. Corporates Index	0.40	0.00
CSIF Bond Global Corporate ex CHF Index Blue	Barclays Global Aggregate Corporates ex CHF	0.40	0.00
CSIF Inflation-Linked Bond World ex Japan ex Italy Index Blue	Barclays Capital World Government Inflation-Linked ex Japan ex Italy	0.12	0.12
CSIF Inflation-Linked Bond EUR ex Italy Blue	Barclays Capital Euro Government Inflation-Linked ex Italy	0.08	0.08
Indexed Real Estate – Funds	Benchmark	Buy Spread in %	Sell Spread in %
CSIF Switzerland Real Estate Fund Index Blue	SXI Real Estate Funds	0.05	0.05
CSIF Europe ex CH Real Estate Index	FTSE EPRA/NAREIT Europe ex CH	0.30	0.05
CSIF North America Real Estate Index – Pension Fund	FTSE EPRA/NAREIT North America	0.05	0.05
CSIF Asia Real Estate Index	FTSE EPRA/NAREIT Asia	0.08	0.08
CSIF World ex CH Real Estate Index – Pension Fund	FTSE EPRA/NAREIT Developed ex Switzerland	0.10	0.06
Commodity	Benchmark	Buy Spread in %	Sell Spread in %
CSIF II Gold Blue	London Gold Fixing PM	0.05	0.02

¹ Funds launched in 2014

Historical performance indications and financial market scenarios are not reliable indicators of current or future performance.