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CREDIT SUISSE

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Index Solutions Newsletter No. 14

Strategy Indices: A new solution for the Swiss Equity Market

Strategy Indices are a core offering with Credit Suisse Index Solutions: The 13 Strategy Funds launched since 2011 have reached 3.7 Billion Swiss Francs in assets – and continue to grow. With the CSIF (CH) SPI Multi Premia® Index Blue and CSIF (CH) Switzerland Minimum Volatility Index Blue, Credit Suisse has brought two Funds that deliver the concept of Strategy Indices to the Swiss Equity market.

The exact details of how these two Funds function, and which new source of returns they tap, are all set out in this Newsletter. We wish you an interesting and informative read.

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Head Index Solutions

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Head Index Solutions Equity Portfolio Management

Market Weighted Indices based on the Swiss Equity Market are associated with concentration risk because the three largest members constitute approximately half of the total investment volume. This effect is made stronger owing to the fact that Swiss investors tend to overweight their portfolios with domestic securities.
There then exists a very strong need for alternative weighting methods, which can enable Swiss investors to circumvent this concentration risk, and gain a better diversification profile. What follows are two solutions which solve the problem: The CSIF (CH) SPI Multi Premia® Index Blue and the CSIF (CH) Switzerland Minimum Volatility Index Blue.

CSIF (CH) SPI Multi Premia® Index Blue: Active Investing approach, done Passively

Strategy Indices vary in their weighting regime from classic market capitalization Indices, deriving beta using so called “Factors”, or by reducing overall risk. These Factors can be understood to be generating an excess return versus the Standard Index by selecting and weighting the members that exhibit certain characteristics.

The **CSIF (CH) SPI Multi Premia® Index Blue** makes available the new **SPI Multi Premia® Index** from the SIX-Index family – an Index that uses seven **different Factors** as sources of return, and therefore offers a significant diversification effect for the investor.

The Idea – Outperformance using Value Factors

The **SPI Multi Premia® Index** is the result of quantitative analysis which looked at the long term relationship and interaction of individual Value Factors in the Swiss Equity Market. The methodology for calculating the Index was developed by Finreon, a spinoff of the University of St. Gallen, which utilized the latest knowledge and research in the Factor Investing arena. The goal is to combine Factors that produce uncorrelated returns during various market conditions, and therefore produce greater risk adjusted returns than the Standard SPI® throughout the investment lifecycle.

The combination of the seven **SPI Single Premia® Indices** ("Single-Factor-Portfolios") enables a wide and diversified investment in the Swiss Equity Market, achieved through the combination of lowly and sometimes negatively correlated Factor-Portfolios. This combination of Factors is designed to change the weighting of specific individual Factors to produce an outperformance against the SPI® Standard Index. Every single one of the seven SPI Single Premia® Indices is focused on a specific Factor as a return generator, and applies these to the SPI®.

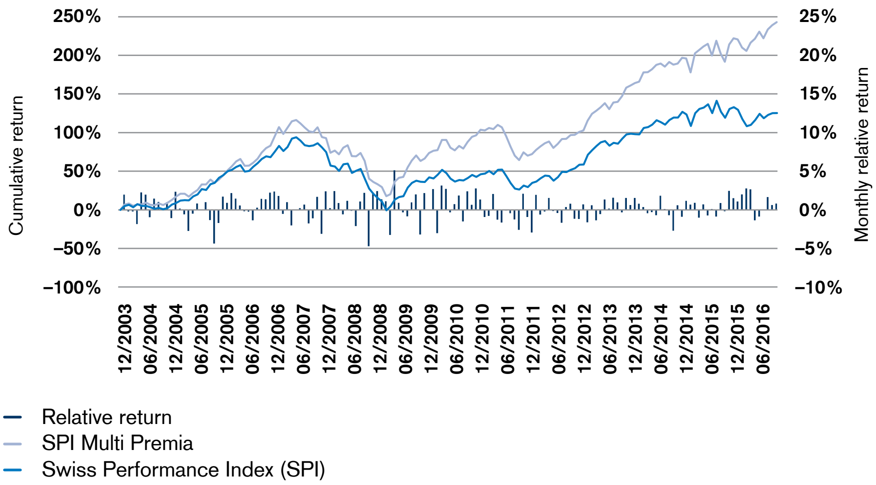
Index	Factor	Selection criteria	Example	Market phase
SPI Value Premium®	Value	Attractive valuation	Price-to-book ratio	Anticyclical
SPI Size Premium®	Size	Small company size	Market capitalization	Anticyclical
SPI Momentum Premium®	Momentum	High return in the recent past	Annual return minus last month	Procyclical
SPI Residual Momentum Premium®	Residual Momentum	High excess return in comparison with the market in the recent past	Annual excess return minus last month	Procyclical
SPI Reversal Premium®	Reversal	Low return in the past	Five-year return minus last year	Anticyclical
SPI Low Risk Premium®	Low risk	Low risk	Volatility	Defensive
SPI Quality Premium®	Quality	Solid and consistent earnings	Return on invest-ment	Defensive

A bridge between Science and Real World Investing

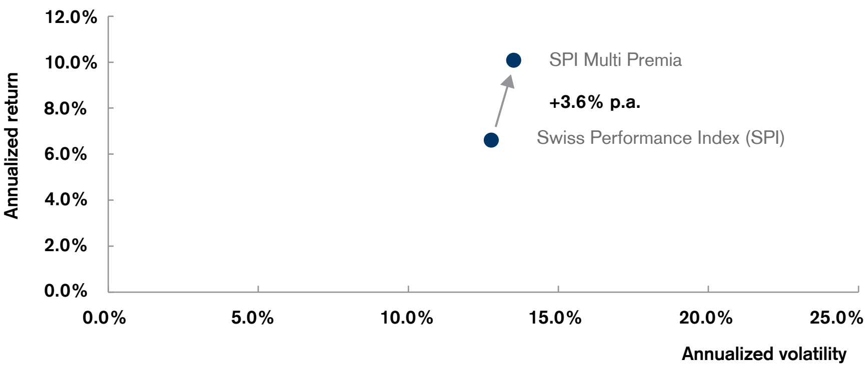
How are the seven SPI Single Premia® Indices constructed, and how are they aggregated into the SPI Multi Premia® Index? The investment universe of every SPI Single Premia® Index contains the **60 largest and most liquid stocks of the the SPI®**. The first step is to filter every one of the seven Indices for the **30 best stocks**, dependent on the relevant Factor. The single stock weighting within the seven Sub-Indices is based on the Risk-Parity-Approach, whereby every single stock entails the same general risk as the Index.

The aggregated Portfolio, the SPI Multi Premia® Index, brings all seven Single Premia® Indices together. The weighting of these Sub-Indices is calculated so that every single Factor Portfolio contributes a similar Tracking-Error (relative risk) to the aggregated Portfolios.

The combination of these Single-Factor-Strategies shows a consistent historical outperformance against the standard market capitalization weighted SPI®.



Date interval: December 2003 to September 2016; gross returns in CHF.
Historical performance indications and financial market scenarios are not reliable indicators of current or future performance.
Source: Factset, SIX, Credit Suisse, 30.09.2016



Date interval: December 2003 to September 2016; gross returns in CHF.
Historical performance indications and financial market scenarios are not reliable indicators of current or future performance.
Source: Factset, SIX, Credit Suisse, 30.09.2016

The Single-Factors can be divided roughly into three groups:

Anticyclical Factors	Procyclical Factors	Defensive Factors
• Against the trend • Outperformance through anticipation of trend reversal	• Following the trend • Outperformance through trend participation	• Risk reduction • Outperformance through reduction of substance losses
Value Size Reversal	Momentum Residual Momentum	Quality Low Risk

The different return profiles of the individual Factors in various market conditions deliver a significant diversification benefit.
The optimal time to invest in a specific Factor is difficult to determine. Thus the use of a widely diversified set of Factors that are complementary and show a low correlation negates this timing issue. Through the balanced use of various Factors one can produce a consistent outperformance in the majority of market conditions.

CSIF (CH) SPI Multi Premia® Index Blue – Active Investment Returns, Passive Investing Costs

The SPI Multi Premia® Index is a meeting point between finance theory and real world investing, and is an excellent candidate for precise replication with Credit Suisse Index Solutions. The transparent construction, the combining of the most liquid stocks of the SPI®, and the solid quantitative basis, mean that the derived Funds show the benefits of both active and passive funds in one product.

	CSIF (CH) SPI Multi Premia® Index Blue
Fund domicile	Switzerland
Benchmark	SPI Multi Premia® Index
Bloomberg ticker index	SPIMTPC
Replication method	Full Replication
Registration	CH
All-in-fee	DA: 0.174% QA: 0.350% FA: 0.450%
Launch	31.08.2016
Subscription currencies	CHF, EUR, USD
ISIN	DA: CH0334031199 QA: CH0334031215 FA: CH0334031207

DA: Share class for mandate clients.
QA: Share class for qualified investors pursuant to Article 10(3) CISA.
FA: Share class for both qualified and private investors.

Benefits	Risks
• Investment in seven statistically significant sources of return • Robust expected outperformance in different market conditions • High levels of diversification derived from multiple Factors with low correlations • Leaner management apparatus and lower costs	• The risks of owning stocks are the large unforeseen general market downturns, in addition to their junior position in the capital structure compared to debt securities in the event of bankruptcy • General prevailing local or global economic conditions and events can negatively affect equity valuations • No capital protection

CSIF (CH) Switzerland Minimum Volatility Index Blue

With the creation of the **CSIF (CH) Switzerland Minimum Volatility Index Blue**, Credit Suisse now expands its successful family of Funds into the Swiss Equity arena. The new Fund tracks the **MSCI Switzerland IMI Minimum Volatility Index**.

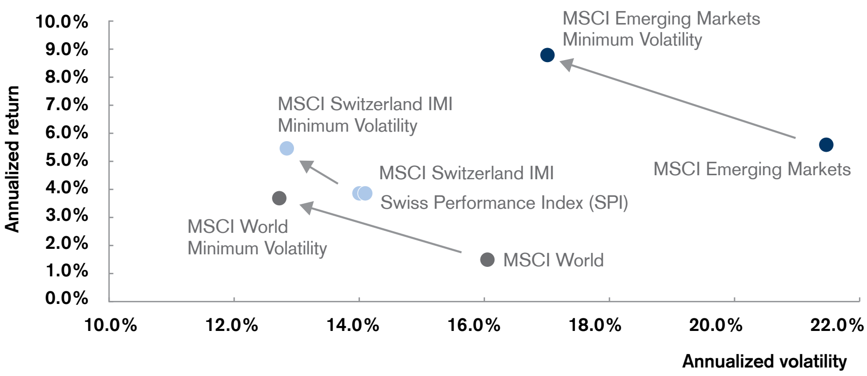
Our Minimum-Volatility-Funds are intended to reduce the magnitude of a downswing and therefore the general risk of an Equity Portfolio. They facilitate a broadly diversified Equity investment in developed and developing economies, whilst offering a significantly reduced risk profile compared to classic market capitalization weighted Index Funds and ETFs.

The Idea – more than just Risk Reduction

MSCI offers a holistic approach to risk reduction: On one side there is the volatility of the single stocks, but also the correlation between them is considered. Then again, there is no active allocation process concerning the sector or country weighting compared to the Standard Index. With this, MSCI prevents an excessive concentration in specific stocks. The discrepancy versus the Standard Index for sector and country allocation is maximum 5%. **This is what differentiates this method from other Low-Volatility-Strategies** that simply select stocks with the highest correlation to the Standard Index. Therefore, these selected stocks with the highest correlation form the largest part of the strategy, with the problematic that current or future market conditions could lead these stocks to show a much greater divergence from the Standard Index than in the past.

To keep replication costs low, the MSCI-Minimum-Volatility-Indices limit the rebalancing turnover to 20% per annum. The risk versus the Standard Index is 25 to 30% less historically. Moreover, we must point out that in all of Credit Suisse Index Solutions replication regions, (World, Emerging Markets and Switzerland), the MSCI-Minimum-Volatility-Indices show a significant historical and current outperformance when compared to standard market capitalization weighted Indices.

Riskreturn map



Date interval: June 2001 to September 2016; gross returns in CHF.
Historical performance indications and financial market scenarios are not reliable indicators of current or future performance.
Source: Factset, Credit Suisse, 30.09.2016

The key points regarding our Funds based on Minimum-Volatility-Indices at a glance:

- Reduced volatility compared to the market capitalization weighted Standard Index
- Long term Beta < 1
- Historical outperformance when compared to the Standard Indices
- Higher percentage of Mid-Cap stocks than the Standard Index
- Invested stocks show a reduced idiosyncratic risk
- The decoupling of the equity weighting in the Index from its capitalization
- Minimal tracking error owing to precise physical replication
- Avoidance of excessive stock transactions
- Transparent and cost effective

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

The Funds – Our family of Minimum-Volatility-Index Funds

	CSIF (Lux) Equities World Minimum Volatility	CSIF (Lux) Equities Emerging Markets Minimum Volatility	CSIF III World ex CH Minimum Volatility Index – Pension Fund[2]	CSIF (CH) Switzerland Minimum Volatility Index Blue
Fund domicile	Luxembourg	Luxembourg	Switzerland	Switzerland
Benchmark	MSCI World Minimum Volatility Index (NR)	MSCI Emerging Markets Minimum Volatility Index (NR)	MSCI World ex Switzerland Minimum Volatility Index (NR)	MSCI Switzerland IMI Minimum Volatility Index (TR)
Bloomberg ticker Index	M1WOMVOL	M1EFMVOL	M1CXCSSB	M8CXCSK
Replication method	Full Replication	Optimized Sampling	Full Replication	Full Replication
Registration	AT, CH, DE, ES, FR, GB, IT, LU, NL, SE, SG, LI	AT, CH, DE, ES, FR, GB, IT, LU, NL, SE, SG, LI	CH	CH, LI
All-in-fee	EB: 0.23% FB: 0.28%	EB: 0.32% FB: 0.37%	QA: 0.23% QAH: 0.26%	QA: 0.23% FA: 0.28%
Launch	08.12.2015	19.01.2016	20.10.2014	05.09.2016
Subscription currencies	CHF[1], USD, EUR	CHF[1], USD, EUR	CHF, USD, EUR	CHF, USD, EUR
ISIN	EB EUR: LU1248309152 FB USD: LU1419774580 DB CHF: LU1327429954	EB EUR: LU1390260120 FB USD: LU1419776528 DB CHF: LU1337015165	DA: CH0253608308 DAH[3]: CH0253608357 QA: CH0253608316	DA: CH0334161491 QA: CH0334161517 FA: CH0334161509

1 CHF share class will be opened upon request.
2 Subfunds with the suffix "Pension Fund" are available exclusively to Swiss pension funds.
3 Share classes with the suffix "H" are hedged in CHF.
CSIF Lux: EB: Share class for qualified investors pursuant to Luxembourgish law.
CSIF Lux/CH: FA/FB: Share class for both qualified and private investors.
CSIF (CH)/CSIF III: DA: Share class only for mandates.
CSIF (CH)/CSIF III: Share class for qualified investors pursuant to art. 10 paras. 3 to 4 of the CISA.

Benefits

- Strong outperformance and lower volatility compared to the standard market-weighted index over long time periods
- Transparent and cost effective
- Minimal Tracking-Error through precise replication

Risks

- The risk of owning stocks are large unforeseen general market downturns
- General prevailing local or global economic conditions and events can negatively affect equity valuations
- No capital protection

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