

November 2017

Index Solutions Newsletter No. 15

Emerging Markets Equity Index Funds



With Credit Suisse Index Solutions, getting the best performance out of emerging markets is not only about the precise replication of a standard emerging market index. Since 2011, Credit Suisse has offered Index Funds that replicate strategy indexes, which can deliver advantages for the investor, especially in developing economies. Such strategy indexes have become important sources of return for our clients in recent years.

In this newsletter, we shall show the reader that when it comes to emerging market index tracking, some of life's choices are easier than you might think.

We wish you an interesting and informative read.



Dr. Valerio Schmitz-Esser
Head Index Solutions



Stephan Elmenhorst
Head Index Solutions Equity Portfolio Management



Credit Suisse Index Solutions currently manages CHF 118 bn, and offers first-class solutions for both professional and private investors. With Credit Suisse Index Funds you can achieve above-average returns, but with passive investing costs. The following five funds are currently available, and as we shall show, some have a clear advantage in their risk-adjusted performance. By the way, the wisest choice is to combine them.

Our emerging markets fund offering

Fund name	Benchmark	Launch date	Fund assets (CHF mn)
CSIF (CH) Emerging Markets Index Blue	MSCI Emerging Markets Index	17.09.2004	5,136
CSIF (Lux) Equities Emerging Markets	MSCI Emerging Markets Index	05.11.2012	508
CSIF (Lux) Equities Emerging Markets Minimum Volatility	MSCI Emerging Markets Minimum Volatility Index	19.01.2016	352
CSIF (Lux) Equities Emerging Markets Fundamental	FTSE RAFI Emerging Markets Index	23.04.2012	34
CSIF (Lux) Equities Emerging Markets Sustainability Blue	MSCI Emerging Markets ESG Leaders Index	26.05.2017	321

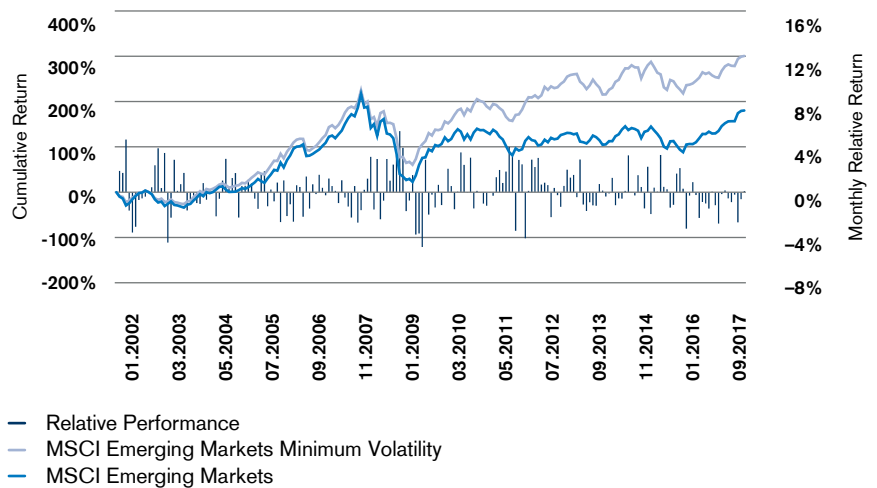
Source: Credit Suisse, October 31, 2017

MSCI Emerging Markets Index

Until recently the CSIF (CH) Emerging Markets Index Blue has been the first port of call for investors in emerging markets, and is the largest developing nation fund in Switzerland. With a total of 845 constituents, the MSCI Emerging Markets Index encompasses approximately 85% of the free float-adjusted market capitalization in each country. Pure emerging market indexes are by their nature more volatile than their developed markets counterparts, which in part has led to the increasing popularity of minimum volatility indexes, and other alternatively weighted indices. As the following charts clearly show, there is great value to be derived by using factor-based approaches.

MSCI Emerging Markets Minimum Volatility Index

The MSCI Emerging Markets Minimum Volatility Index has shown a clear tendency to outperform the MSCI Emerging Markets Index on an outright and risk-adjusted basis throughout the last 16 years. This index is created by optimizing the members of the standard emerging markets index in order to obtain the combination with the lowest absolute risk within a given set of constraints. Historically, the index has shown lower volatility characteristics during downward market phases, and as you will see, there is a great benefit when combining this strategy with other factor-based indexes.

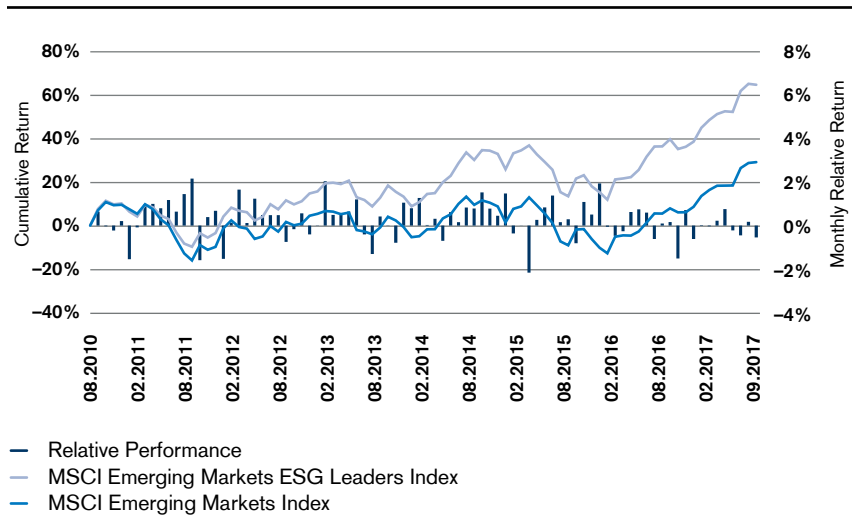


Time period: June 2001 – September 2017, monthly gross returns in CHF.
 Historical performance indications and financial market scenarios are no reliable indicators of future performance.
 Source: Factset, MSCI, Credit Suisse, September 30, 2017

MSCI Emerging Markets ESG Leaders Index

The MSCI Emerging Markets ESG Leaders Index, which focuses on sustainability, is particularly effective in emerging markets. The ESG (Environmental, Social and Governance) approach is unique in that it selects for companies that show higher standards of environmental care, social responsibility and general business ethics. The key filter is governance, a factor that has contributed to the ESG outperforming the standard index in absolute terms in every year that MSCI tracks. Applying such sustainability and governance filters on a developed market index would yield far fewer benefits than with emerging markets. In the less transparent environment of investments in the developing world, it really does make sense to employ such selection criteria.

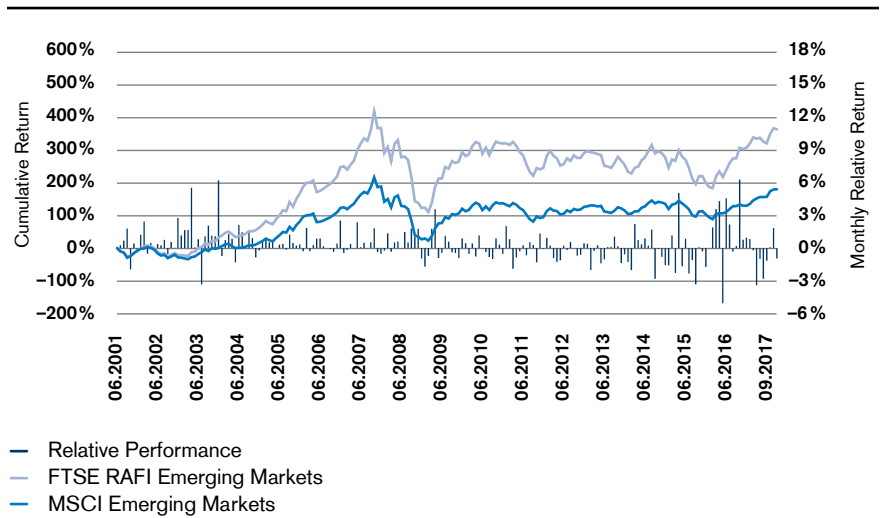




Time period: August 2010 – September 2017, gross returns in CHF. Historical performance indications and financial market scenarios are no reliable indicators of future performance.
 Source: Factset, MSCI, Credit Suisse, September 30, 2017

FTSE RAFI Emerging Market Index

The FTSE RAFI Emerging Market Index weights the index constituents using a composite of four fundamental factors: dividends, free cash flow, total sales, and book equity value. This fundamental approach avoids excessive concentration risk, but also increases exposure to undervalued and smaller companies' stocks when compared to the standard index. The FTSE RAFI is an excellent candidate for combining with other factor-based indexes, helping to achieve better risk-adjusted returns than the standard indices. This leads to the next step, and an important concept for the possible generation of more consistent investment returns.



Time period: June 2001 – September 2017, monthly gross returns in CHF.

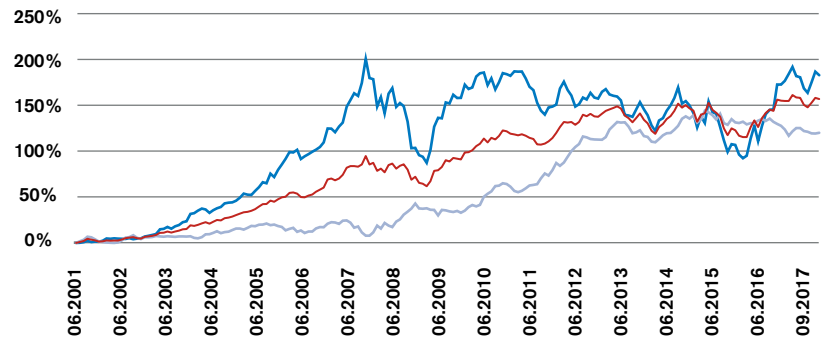
Historical performance indications and financial market scenarios are no reliable indicators of future performance.

Source: Factset, MSCI, Credit Suisse, September 30, 2017

Making the right choice: What happens when you combine strategy indexes?

All investors seek steady returns with a minimum of risk. The strategy indexes are an important step in that direction, but there is a way to take smart passive investing even further. The key is diversification of factor returns. The very best and consistently outperforming asset managers have long relied upon diversification of returns, with different assets contributing at different times. Here at Credit Suisse Index Solutions, we offer this important principle in the low-cost passive investing arena. As always, a picture is worth a thousand words:

Accumulated outperformance*



- 50% MSCI EM Min. Vol., 50% FTSE RAFI EM
- MSCI Emerging Markets Minimum Volatility
- FTSE RAFI Emerging Markets

*Comparison Index: MSCI Emerging Markets

Time period: June 2001 – September 2017, monthly gross returns in CHF. Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: Factset, MSCI, Credit Suisse, September 30, 2017

	MSCI Emerging Markets Minimum Volatility	FTSE RAFI Emerging Markets	50% MSCI EM Min. Vol., 50% FTSE RAFI EM	MSCI Emerging Markets
No. of Stocks	250	361	529	839
Return p.a.	8.92%	9.90%	9.51%	6.54%
Return 2017 YTD	13.26%	13.90%	13.64%	21.99%
Volatility ex Post	16.56%	22.24%	19.11%	20.91%
Return/Risk Ratio	0.54	0.45	0.48	0.31
Active Return p.a.*	2.37%	3.35%	3.02%	–
Tracking Error	6.33%	5.34%	3.86%	–
Information Ratio*	0.37	0.63	0.78	–
Maximum Drawdown	-50.52%	-59.40%	-55.12%	-61.25%

*Comparison Index: MSCI Emerging Markets

Time period: June 2001 – September 2017, monthly gross returns in CHF.

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

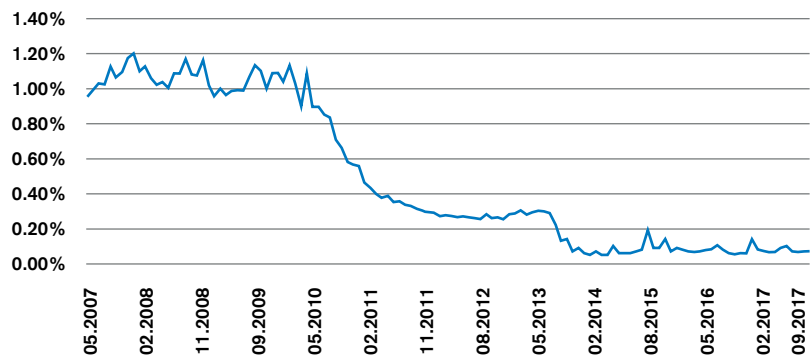
Source: Factset, MSCI, Credit Suisse, September 30, 2017

Combining the two strategy indexes shows definite benefits when you look at the cumulative return curve of the chart. This is because the two strategies, despite both being based on emerging markets, show a relatively low correlation of returns to one another. Also, compare the information ratios (active return/tracking error) in the previous table. The combined strategies show a clearly enhanced risk-adjusted performance when compared with the two individual strategy indexes.

Our tracking history

Emerging markets offer tremendous opportunities, but it takes a dedicated team of specialists and decent expertise to precisely replicate indexes in the developing world economies. At Credit Suisse Index Solutions, we have the experience and focus on the key local issues to be able to continually monitor and operate the best emerging market tracking funds. This is not a static process, but an ongoing and evolving operation. Our dedicated Emerging Markets team constantly monitors this complex process, and ensures that our clients benefit from the most reliable emerging markets index replication possible, be it standard indexes or combinations of various factor indexes.

Constant reduction of tracking error



— Tracking error CSIF (CH) Emerging Markets Index Blue

Source: Credit Suisse, September 30, 2017



Your contact

If you have any questions, please contact your relationship manager or one of our Index Mandates product specialists:

Tel.: +41 44 334 41 41

E-mail: index.solutions@credit-suisse.com

The information provided herein constitutes marketing material. It is not investment advice or otherwise based on a consideration of the personal circumstances of the addressee nor is it the result of objective or independent research. The information provided herein is not legally binding and it does not constitute an offer or invitation to enter into any type of financial transaction. The information provided herein was produced by Credit Suisse Group AG and/or its affiliates (hereafter "CS") with the greatest of care and to the best of its knowledge and belief. The information and views expressed herein are those of CS at the time of writing and are subject to change at any time without notice. They are derived from sources believed to be reliable. CS provides no guarantee with regard to the content and completeness of the information and does not accept any liability for losses that might arise from making use of the information. If nothing is indicated to the contrary, all figures are unaudited. The information provided herein is for the exclusive use of the recipient. Neither this information 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). It may not be reproduced, neither in part nor in full, without the written permission of CS. Equities are subject to market forces and hence fluctuations in value, which are not entirely predictable. Emerging market investments usually result in higher risks such as political, economic, credit, exchange rate, market liquidity, legal, settlement, market, shareholder and creditor risks. 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. 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. CSIF (CH) Emerging Markets Index Blue: This fund is domiciled and registered in Switzerland. The fund management company is Credit Suisse Funds AG, Zurich. The custodian bank is Credit Suisse (Switzerland) Ltd, Zurich. The prospectus, the simplified prospectus and/or the Key Investor Information Document (KIID) and the annual and half-yearly reports may be obtained free of charge from the fund management company or from any branch of Credit Suisse (Switzerland) Ltd. in Switzerland. CSIF (Lux) funds: These funds are domiciled in Luxembourg. The representative in Switzerland is Credit Suisse Funds AG, Zurich. The paying agent in Switzerland is Credit Suisse AG, Zurich. The prospectus, the simplified prospectus and/or the Key Investor Information Document (KIID) and the annual and half-yearly reports may be obtained free of charge from the representative or from any branch of Credit Suisse AG in Switzerland. Copyright © 2017 CREDIT SUISSE GROUP AG and/or its affiliates. All rights reserved.

credit-suisse.com/assetmanagement