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Index Solutions newsletter Sustainable investments. From niche to mainstream.



**Head of Multinational and
French-Speaking Switzerland
Client Portfolio Management and
ESG Expert**
Dimitri Bellas



Sustainable investments, but how?

1. By integrating ESG criteria to improve the risk/return characteristics of a portfolio
2. By means of values-based investing to align the portfolio with your own standards and beliefs (e.g. prohibiting tobacco products)
3. Through impact-oriented investments (green bonds) to target social and environmental changes (e.g. to accelerate the decarbonization of the economy)

This article focuses on the first investment objective – achieving financial objectives in the portfolio through ESG funds.

Niche, mainstream, supertrend – sustainable investment is on everyone's lips these days. The number of available ESG funds¹ has grown exponentially, especially in the last three years. Providers that do not yet have ESG investments on offer are increasingly operating at a competitive disadvantage. Credit Suisse Index Solutions was one of the first providers to launch a whole range of sustainable index funds. For many investors, the question is no longer whether, but how best to invest in ESG funds – and there are almost as many opinions on this as there are investors. However, some requirements are common to all investors: ESG index funds should not deviate too much from the parent index, should have a similar risk profile, and should offer a return at least as good as the standard index. Credit Suisse Index Solutions has always been committed to these requirements, and relies on the ESG Leaders approach from MSCI.

Companies that consider environmental, social and long-term business aspects in their operations often achieve better results than the wider market. This is hardly surprising, since they have a more advantageous risk profile than controversial companies due to their responsible use of a wide variety of resources. As a consequence, they often perform better on the stock market. This was not always the case. In the past, mainly quarterly sales and profit figures were rewarded. Many investors would have fully agreed with the argument, that the inclusion of ESG criteria reduces returns. However, extensive studies have shown that sustainable investment strategies often outperform traditional products in terms of return and are many times less risky in the event of market corrections. The current generation of investors has therefore recognized the potential of sustainable investments. The number of ESG-based funds and their assets have increased sharply, especially in the last three years.

¹ ESG is the abbreviation for **E**nvironmental, **S**ocial, and **G**overnance.

Credit Suisse Index Solutions offers a whole range of sustainable index funds that cover a broad spectrum of ESG investments. The ESG Leaders indices from MSCI serve as a basis for our products. According to our evaluations, these best meet investors' requirements in terms of risk/return profile and tracking error against the parent index, while consistently applying ESG criteria.

MSCI as a leading provider of ESG data

With a team of over 200 analysts who continuously evaluate more than 7,500 companies, MSCI has developed a transparent, objective and quantitative evaluation model that reflects the sustainability profile of companies as accurately as possible. The MSCI ESG Leaders indices are compiled on the basis of this high-quality data. These broadly diversified indices cover a large number of regions and have a comparable risk/return profile to their respective parent index. This is mainly due to a best-in-class index methodology that leaves industry weightings unchanged. Only securities that have successfully undergone a multi-stage selection process are included in the MSCI sustainability indices:

- In a first step, companies with significant income from controversial activities or business practices (e.g. arms trading) are systematically excluded.
- The remaining companies are subject to a detailed analysis based on publicly available data. This analysis finally results in the MSCI ESG rating.
- The top 50% of companies that received the ESG rating are then included in the ESG Leaders Index. To avoid sector distortions, this evaluation is conducted separately for each sector. This reduces the tracking error against the underlying parent index.

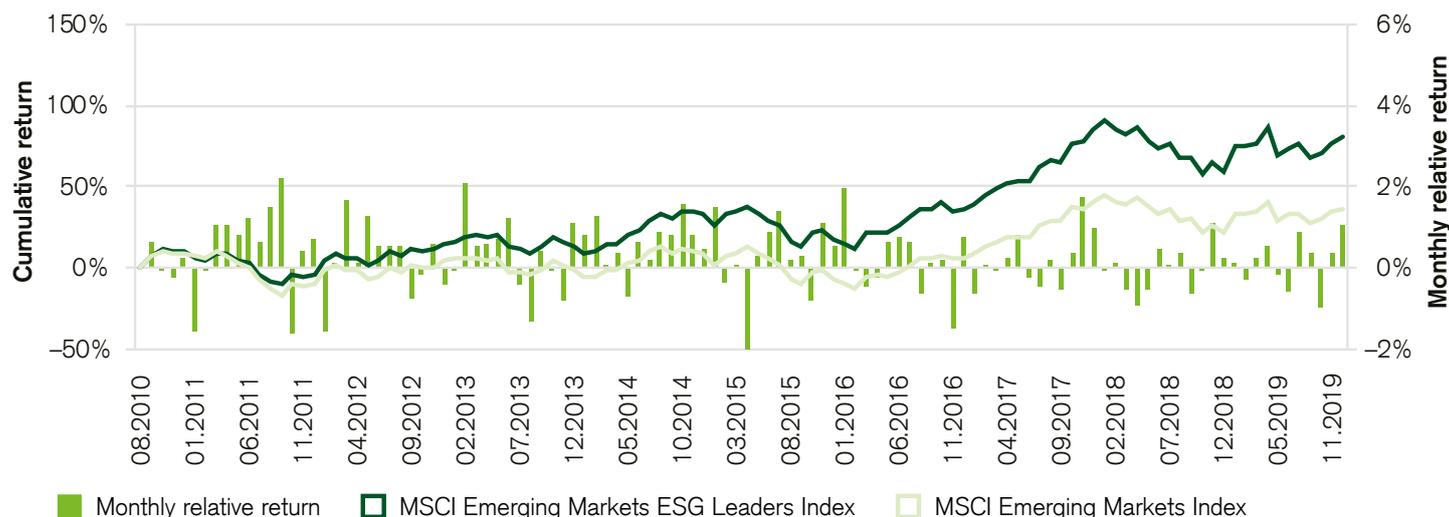
Evaluation and rating assignment in practice

MSCI evaluates each company individually with regard to environmental, social and governance aspects and prepares an ESG assessment. Based on this analysis, Facebook, for example, which is the fourth-largest stock in the MSCI World Index, is not included in the MSCI World ESG Leaders Index. The main reason for the average «BBB» rating that Facebook has received for its corporate governance are the controversial privacy practices (data collection, misinformation, platform abuse). Microsoft, on the other hand, is a positive example. Its rating has remained unchanged at «AAA» for several years. This is mainly because the company is strongly committed to data protection and is one of the most sought-after employers in the technology sector thanks to its state-of-the-art technologies and its corporate governance.

A comparison of the performance of ESG Leaders indices against their parent indices shows that almost all ESG indices have historically outperformed the parent index. In Emerging Markets in particular, there is a much better performance.

One exception is the United States, which is the only region in the MSCI World ESG Index not to outperform its non-ESG equivalent. This is mainly due to large technology companies such as Facebook and to the weapon industry. They are classified as unsustainable by MSCI but have an above-average historical performance.

Return: MSCI Emerging Markets ESG Leaders Index versus MSCI Emerging Markets Index

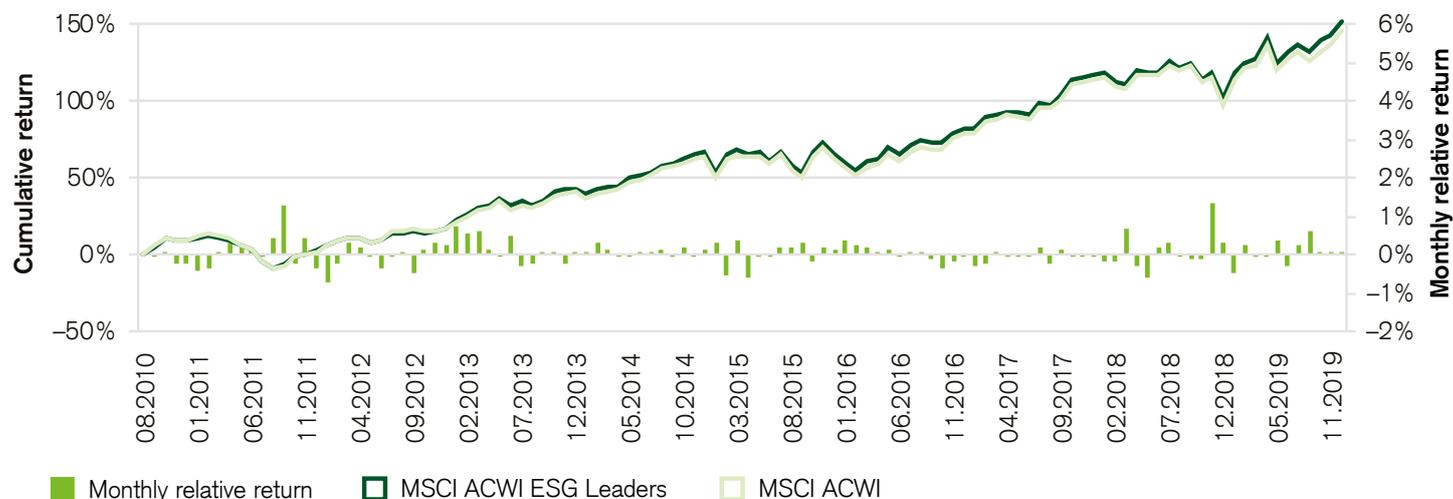


It is not possible to invest in an index. The index returns shown are not the results of actual trading in investable assets/securities. Investors that pursue a strategy similar to an index may achieve lower or higher returns and must take the associated costs into account.

In contrast to the slight underperformance of the MSCI World ESG Index in the past, the MSCI All Country World ESG Index (the current combination of 12% MSCI Emerging Markets ESG

Index and 88% MSCI World ESG Index² as of the end of November 2019) has narrowly outperformed the benchmark index, partly due to the effects mentioned above.

Return: MSCI All Country World ESG Leaders Index versus MSCI All Country World Index



In addition to comparing ESG indices with their traditional counterparts, many studies³ have been able to demonstrate the positive correlation between a company's sustainability orientation and its financial performance. Credit Suisse therefore has a long tradition of aligning various investment strategies with sustainability. Back at the turn of the millennium, Credit Suisse was one of the first companies to sign the UN Global Compact, the world's largest agreement on responsible corporate governance. Since then, the product

range of sustainable funds and index funds has been steadily expanded. Assets invested in ESG index funds by Credit Suisse Index Solutions have now grown to over CHF 4 bn.

We expect demand for ESG based index funds and green bonds to remain strong in the future and will therefore continue to expand our product range. Our clients always benefit from the same management fee as for our standard products.

² Data as of 30.11.2019.

³ For example the meta-study by Hamburg university: Bassen Alexander, Busch Timo and Friede Gunnar (2015): ESG and financial performance: aggregated evidence from more than 2,000 empirical studies.

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Fund name	Benchmark index	Spread in % Subscription/ Redemption	Share class	ISIN	Ongoing charges	ESG score compared to parent index ⁴	Fund assets in CHF ⁵ mn
CSIF (CH) III Equity World ex CH ESG Blue - Pension Fund ⁶	MSCI World ex Switzerland ESG Leaders (NR)	0.08/0.03	QB ⁷ QBH ⁷	CH0337393844 CH0337393885	0.20 0.23	7.1 vs. 5.9 (MSCI World ex CH)	572.01
CSIF (CH) Equity World ex CH ESG Blue	MSCI World ex Switzerland ESG Leaders (NR)	0.08/0.03	QB QBH FB	CH0424136817 CH0424136825 CH0424136858	0.22 0.24 0.33	7.2 vs. 6.0 (MSCI World ex CH)	157.29
CSIF (Lux) Equity EMU ESG Blue	MSCI EMU ESG Leaders (NR)	0.15/0.03	QB EUR QAX EUR FB EUR	LU1815002479 LU2054451021 LU1815002636	0.18 0.115 0.23	8.5 vs. 7.3 (MSCI EMU)	217.11
CSIF (CH) III Equity US ESG Blue	MSCI USA ESG Leaders (NR)	0.03/0.03	QB CHF	CH0397628733	0.20	6.9 vs. 5.7	607.03
CSIF (Lux) Equity US ESG Blue	MSCI USA ESG Leaders (NR)	0.03/0.03	QB USD QBH CHF QBH EUR QBX USD FB USD FBH CHF FBH EUR	LU1871078223 LU1871078900 LU1871078819 LU2054450304 LU1871078496 LU1899158700 LU1915644055	0.18 0.21 0.21 0.18 0.23 0.33 0.33	6.9 vs. 5.7 (MSCI USA)	389.35
CSIF (Lux) Equity Japan ESG Blue	MSCI Japan ESG Leaders (NR)	0.03/0.03	QB EUR QB JPY ⁷ QBX JPY FB EUR	LU1815002982 - LU1891411578 LU1815003105	0.20 0.20 0.12 0.25	7.0 vs. 5.7 (MSCI Japan)	588.29
CSIF (Lux) Equity World ESG Blue	MSCI World ESG Leaders (NR)	0.08/0.03	QB USD ⁷ FB USD ⁷	LU1815003956 LU1815004178	0.18 0.23	7.2 vs. 6.0 (MSCI World)	115.42
CSIF (Lux) Equity Emerging Markets ESG Blue	MSCI Emerging Markets ESG Leaders (NR)	0.19/0.35	QB EUR QB USD QBX USD FB USD FB CHF FB EUR	LU1587918209 LU1587917813 LU2064528974 LU1587908820 LU1599189559 LU1599186456	0.28 0.28 0.18 0.33 0.33 0.33	5.9 vs. 4.6 (MSCI Emerging Markets)	1,378.71
CSIF (Lux) Bond Green Bond Global Blue (Impact Investment)	Bloomberg Barclays MSCI Global Green Bond Index (TR) Bloomberg Barclays MSCI Global Green Bond (TR) (EUR hedged)	0.30/0.00	QB USD ⁷ QBH EUR FB USD FBH EUR	- LU1914373227 LU1871079973 LU1914373144	0.19 0.22 0.24 0.34	7.1 vs. 6.1 (Bloomberg Barclays Global Aggregate)	64.20
CSIF (Lux) Equity Europe ESG Blue	MSCI Europe ESG Leaders (NR)	0.23/0.03	QB EUR ⁷ FB EUR	LU1951423190 LU1951424321	0.18 0.23	8.3 vs. 7.3 (MSCI Europe)	116.16
CSIF (Lux) Equity Canada ESG Blue	MSCI Canada ESG Leaders (NR)	0.03/0.03	QB CAD ⁷	-	0.18	7.0 vs. 6.2 (MSCI Canada)	7.11

⁴ Every company in the parent index receives a grade ranging from 1 to 10, based on a set of ESG criteria. The values are then aggregated to receive the overall ESG score. The column shows the average scores of ESG Leaders indexes compared to their parent index. Their values are higher, because they do not include the lowest ESG scores from the parent index.

⁵ Data as of 09.12.2019.

⁶ CSIF I-III Funds are (with few exceptions) solely available for Swiss Pension Funds.

⁷ These share classes can be made available on request. Please contact us for details.

"TR" after the index name stands for "Total Return" (reinvested gross dividends); "NR" stands for "Net Return" (reinvested net dividends). Q share classes are reserved for qualified investors. F share classes can be subscribed by both private and qualified investors. A letter B in the share class designation indicates accumulating classes. The product's investment objectives, risks, costs, and expenses, as well as the full product information, can be found in the fund prospectus (or the corresponding offer document). This prospectus or the document should be read carefully before any investment is actually made.



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