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# Credit Suisse Index Funds. Back in ETFs.



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**This March, Credit Suisse Asset Management is launching three exchange-traded funds (ETFs). With over 90 Credit Suisse Index Funds (CSIFs), and assets under management (AuM) of CHF 132 bn in index portfolios, Credit Suisse Asset Management is one of Switzerland's largest fund managers in this field. Due to their increasing familiarity in recent times with index funds and ETFs, investors' needs have become much more specific. Depending on the investor, the focus might lie with precision of index replication, the entry and exit costs or tradability on a stock exchange. In order to offer the optimum index product for different indices, Credit Suisse Asset Management is including a focused set of ETFs in its CSIF fund range.**

With the launch of ETFs, Credit Suisse Asset Management is both adding to its range of index-based funds, and including another fund domicile within its fund range. Credit Suisse Index Funds have traditionally been domiciled exclusively in Switzerland or Luxembourg. Now Ireland is being added as the fund domicile choice for ETFs. As of March 2020, the following three ETFs, which invest solely or largely in the US equity market, will be listed on stock exchanges:

- **CSIF (IE) MSCI World ESG Leaders Blue UCITS ETF**
- **CSIF (IE) MSCI USA ESG Leaders Blue UCITS ETF**
- **CSIF (IE) MSCI USA Blue UCITS ETF**

These three ETFs are being created by merging them with their Luxembourg fund predecessors: CSIF (Lux) Equity World ESG Blue, CSIF (Lux) Equity US ESG Blue, and CSIF (Lux) Equity US Blue. Investors in these three legacy funds will receive shares in the new ETFs to the value of their existing investment. The Swiss equivalents of these funds are not affected by the merger. The word "Blue" in the names of the ETFs indicates that they do not engage in securities lending.

The product's investment objectives, risks, charges and expenses, as well as more complete information about the product, are provided in the prospectus (or relevant offering document), which should be read carefully before investing.

## Withholding tax advantage for US equities

In the future, Credit Suisse Asset Management will offer ETFs specifically in investment areas in which they offer clear tax efficiency advantages over index funds. The three new Irish ETFs do track the same benchmark index and pursue the same investment objective as their Luxembourg successor funds, but as Irish ETFs, they also offer a **potential** advantage in terms of withholding tax on US equities. For Irish ETFs, the deduction on dividends is only 15%, rather than 30% for index funds. With a current dividend yield of around 2% on the MSCI USA Index, this superior tax status for Irish ETFs means an additional return of around 30 basis points a year compared to the Luxembourg predecessor index funds.

## Focus on sustainability: Indices based on ESG criteria

In 2020, Credit Suisse Asset Management will once again be focusing on sustainability. As with our standard index funds, our ETFs do not invest in firms involved in the development or manufacturing of nuclear, biological or chemical weapons, land mines, or cluster munitions. We base these decisions on the exclusion list of the Swiss Association for Responsible Investments (SVVK – ASIR). These exclusions have practically no effect on the quality of the replication.

Two of the three new ETFs track ESG indices. As with all other ESG index funds offered by Credit Suisse, the benchmark indices are the MSCI ESG Leaders indices. These indices are based on a basket of companies that score highly in each sector according to specific ESG criteria. They include approximately half of the companies that are covered by the standard MSCI indices. This therefore ensures that our ESG indices are well diversified, and do not potentially deviate excessively from the standard indices. Overall, Credit Suisse Asset Management currently offers 11 index-based funds tracking ESG indices (further information is available in this [newsletter](#)). Moreover, with our ETFs, portfolio management is also provided for ESG index funds at no additional cost compared to the standard index funds.

## What changes with ETFs?

Unlike their predecessor funds, the new ETFs are listed on the stock exchange. Key differences between the two solutions therefore exist in terms of tradability, pricing, and cost structure:

- **Tradability:** ETF shares can be bought and sold at any time when the stock market is open. In contrast, with index funds, fund shares can only be purchased and redeemed once a day at the net asset value (NAV). This gives investors considerable added flexibility in managing risk.
- **Pricing:** The NAV for index funds is calculated on the basis of the closing price. Added to this is dilution protection that serves to cover the transaction costs in the fund. By contrast, the ETFs are traded at the bid or ask price, with the price spread dependent on trading volume. This means investors see the price achieved straight after the transaction. At present, nine authorized participants (of which two are market makers) are available to ensure a high level of liquidity for the new ETFs and to enable different trading options for our clients.
- **Cost structure:** Compared to their predecessor funds, the new ETFs offer lower ongoing charges. In addition, US dividends are subject to lower tax.

On the Swiss Exchange SIX, all three ETFs will, in the future, be traded in US Dollars (the main investment currency of the three funds). Currency-hedged share classes will be traded in the hedging currency (in Euros for the Euro-hedged share classes and in Swiss Francs for the Swiss-Franc-hedged share classes).

Trading on the German and Italian stock exchanges will always be in Euros for all classes (not currency-hedged and Euro-hedged variants).

## Overview of differences between index funds and ETFs

	Index funds	ETFs
<b>Index replication</b>	<ul style="list-style-type: none"> <li>▪ Physical replication</li> <li>▪ Long positions only</li> </ul>	<ul style="list-style-type: none"> <li>▪ Physical and synthetic replication</li> <li>▪ Long and short positions</li> </ul>
<b>Trading</b>	<ul style="list-style-type: none"> <li>▪ Subscriptions/redemptions are carried out through the fund management company (primary market)</li> <li>▪ Trading is at the official net asset value (based on closing prices)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Trading is at the current bid or ask price on the stock exchange secondary market</li> </ul>
<b>Costs</b>		
Transaction costs	<ul style="list-style-type: none"> <li>▪ Dilution protection (one-off issue and redemption spread in favor of the fund that reflects the transaction costs arising from subscription and redemption)</li> <li>▪ No stamp duty (Swiss-domiciled funds) or stamp duty only on subscriptions (Luxembourg-domiciled funds)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Bid/ask spread</li> <li>▪ Broker commissions</li> <li>▪ Stamp duty on purchase and sale in some markets (e.g. in Switzerland)</li> </ul>
Ongoing charges	<ul style="list-style-type: none"> <li>▪ Annual charges (includes management fee and custodian fee for the fund)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual charges (includes management fees and custodial fees for the fund) and any applicable swap costs for synthetic ETFs</li> </ul>

Fund name	Benchmark index	Share class	Trading currency	Ongoing charges (TER) <sup>2</sup>	Bloomberg ticker <sup>3</sup>	AuM <sup>4</sup> in CHF mn
CSIF (IE) MSCI World ESG Leaders Blue UCITS ETF <sup>1</sup>	MSCI World ESG Leaders	B USD	USD	0.15%	WDESG SW	65
	MSCI World ESG Leaders (CHF hedged)	BH CHF	CHF	0.18%	WDESGC SW	35
	MSCI World ESG Leaders (EUR hedged)	BH EUR	EUR	0.18%	WDESGE SW	20
CSIF (IE) MSCI USA Blue UCITS ETF <sup>1</sup>	MSCI USA	B USD	USD	0.09%	CMXUS SW	241
CSIF (IE) MSCI USA ESG Leaders Blue UCITS ETF <sup>1</sup>	MSCI USA ESG Leaders	B USD	USD	0.10%	USESG SW	386

<sup>1</sup> Fund management company: Came Global Fund Managers (Ireland) Limited.

<sup>2</sup> The Total Expense Ratio (TER) includes the management fee.

<sup>3</sup> Ticker for SIX.

<sup>4</sup> Data as at 31.01.2020.

Management company: Index Funds: Credit Suisse Fund Management S.A. | ETF: Came Global Fund Managers (Ireland) Limited

### General risks of index funds and ETFs

- The funds do not offer capital protection. Investors may lose some or all of the capital they invest.
- The funds' exposures are subject to market fluctuations.
- The funds will not significantly outperform their benchmark indices.
- Shares are subject to market, sector, and company-specific risks that may result in price fluctuations.

All new ETFs offer only accumulating share classes. Current income from the fund in the form of dividends and interest is reinvested directly into the fund portfolio. There are therefore no costs for the reinvestment of distributions. We are continually expanding our product range in line with our clients' needs. Further ETF launches are therefore planned during the course of the year.



**CREDIT SUISSE ASSET MANAGEMENT (Switzerland) Ltd.**

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