

June 2020

Invest sustainably in US small caps and global real estate



**Head of Portfolio
Management
Index Solutions**
Stefan Fröhlich



Credit Suisse Asset Management is launching two new ETFs today, the CSIF (IE) MSCI USA Small Cap ESG¹ Leaders Blue UCITS ETF and the CSIF (IE) FTSE EPRA Nareit Developed Green² Blue UCITS ETF. The former focuses on US small caps and is particularly important for portfolio diversification, while the latter targets global real estate and offers an above-average dividend yield. The new ETFs continue the success story started by our ETFs launched in March.

Credit Suisse Asset Management again began offering its own ETFs on March 16, 2020. We now manage over USD 2 bn in ETFs, which are part of the Credit Suisse Index Funds (CSIF), a range of 97 index funds and ETFs with total assets of USD 104 bn.³ According to Morningstar, this makes Credit Suisse Asset Management the fourth-largest provider of index funds and ETFs in Europe. Like those already launched, the two new ETFs can also be traded on the Swiss, Italian, and German stock exchanges. Both ETFs focus on sustainability and supplement our steadily growing range of ESG index funds. Furthermore, the funds are geared toward innovative index concepts that were previously inaccessible as ETFs in Europe. Both ETFs also include the word “Blue” in their names, to indicate that they do not undertake securities lending.

Small caps, big potential

With the CSIF (IE) MSCI USA Small Cap ESG Leaders Blue UCITS ETF, Credit Suisse Asset Management is opening the door for investments in shares in US companies with a market capitalization of below USD 10 bn. In contrast to standard indices, small-cap indices provide better diversification. While the two largest stocks in the MSCI USA Index – Microsoft and Apple – each have a weighting of around 5%, the largest stock in the reference index of our new ETF accounts for less than 1%. The ten largest stocks together account for a weighting of just 7%.⁴

¹ The abbreviation ESG stands for environmental (E), social (S), and governance (G). More information can be obtained at credit-suisse.com/am/esg.

² The word “Green” in the name indicates a fund that takes sustainability criteria such as environment certificates and energy consumption of real estate into consideration.

³ Data as of 29.05.2020.

⁴ Source: MSCI, 30.04.2020. By way of comparison, the top ten in the MSCI USA Index have a weighting of 24.5%.

The MSCI USA Small Cap ESG Leaders Index consists of around 700 stocks. It therefore covers almost half of the entire US small-cap universe. US small caps account for around 14% of US market capitalization.⁵ Although small caps are considered more volatile, and therefore more risky than large and mid caps, the addition of small caps increases the diversification of each equity portfolio and prevents unintentional positioning against the market segment of second-liners. Historical data also show that, in the long run, small caps generate an additional return compared to standard stocks with a high market capitalization. This “small firm effect” can also be identified in the chart, although small stocks have suffered disproportionately from the slump in prices caused by the COVID-19 pandemic. Taking an anticyclical viewpoint, there is much to be gained from adding small caps to the present CSIF range of funds.

	MSCI USA SMALL CAP ESG LEADERS (GR)	MSCI USA IMI ⁶ ESG LEADERS (GR)	MSCI USA ESG LEADERS (GR)
Annualized return ⁷	7.04%	6.95%	6.94%
Return YTD	-16.25%	-4.83%	-3.43%
Annualized risk ⁷	19.63%	15.54%	15.14%
Active return ⁷	0.10%	0.01%	-
Tracking error (ex post)	8.16%	1.10%	-
Maximum drawdown	-54.95%	-51.30%	-51.10%
Universe	MSCI USA Small Cap	MSC USA IMI	MSCI USA
Number of stocks in the index	718	1029	311
Reallocation	Quarterly	Quarterly	Quarterly

⁶ IMI = Investable Market Index (a combination of a standard index and small caps).

⁷ Annualized from June 2001 to March 2020, gross returns in USD.

Source: Credit Suisse

The MSCI USA Small Cap ESG Leaders Index was selected as the reference index. The portfolio has therefore been structured according to ESG criteria. Only companies that show above-average performance in their respective sectors in terms of environmental, social, and governance factors are included. In addition, Ireland was deliberately selected as the fund domicile, as Irish ETFs enjoy a tax advantage in respect of

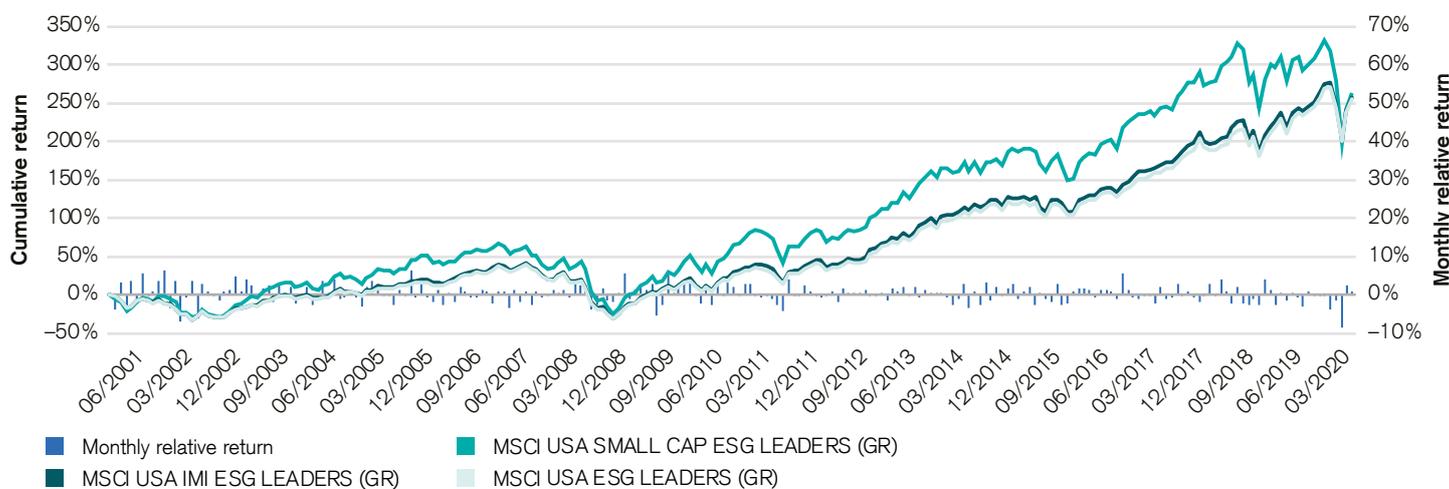
withholding tax on US equities – only 15% withholding tax is deducted for Irish ETFs, instead of 30%. The current dividend yield for the reference index is 1.8%. The better tax status of an Irish ETF therefore leads to an additional return of 27 basis points (bps) per year compared to investment funds domiciled in Luxembourg or Switzerland.

Three reasons for investing in small caps:

- Small caps can react more flexibly to changing market conditions. They therefore reap an above-average benefit from economic rebound.
- Investors often look for security in bear markets. As a result, small caps suffer greater price losses, resulting in oversold situations (undervaluation).
- When acquisition activity accelerates, small caps tend to outperform significantly.

Exchange-traded real estate funds – a gREIT idea!

No, that's not a typo; in fact, the heading refers to the abbreviation for our new ETF for exchange-traded real estate stocks, or real estate investment trusts (REITs). Credit Suisse Asset Management already manages over USD 6 bn in index portfolios for exchange-traded real estate investments. The newly launched CSIF (IE) FTSE EPRA Nareit Developed Green Blue UCITS ETF emulates the index of the same name, which is a subset of the well-known and established FTSE EPRA Nareit Developed Index. “Nareit” is the abbreviation for National Association of Real Estate Investment Trusts. The word “Green” in the name indicates a fund that takes sustainability criteria such as environment certificates and energy consumption of real estate into consideration. As regards real estate investments, there were no suitable instruments in the past that enabled investors to assess their climate risk and effectively integrate it into their investment strategies. In order to close this gap, the FTSE EPRA Nareit Green indices were developed, giving investors opportunities to invest in real estate companies that demonstrate sustainability excellence.



Source: Credit Suisse, April 30, 2020, in USD

⁵ Source: MSCI, 30.04.2020, msci.com/documents/10199/e2289c24-2ced-43a5-bf38-5ae96a7bd98e

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

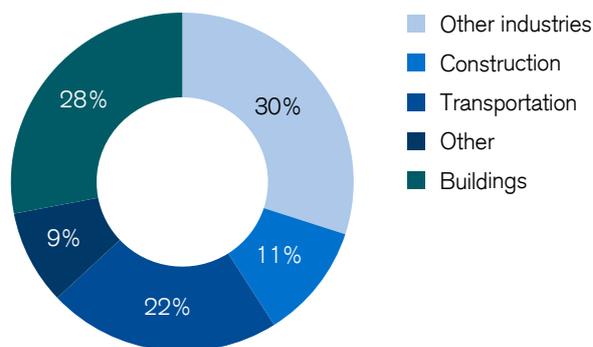
It is not possible to invest in an index. The index returns shown do not represent the results of actual trading of investable assets/securities. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns.

Three reasons for investing in real estate investment trusts:

- In historical terms, REITs exhibit almost no correlation to other asset classes, have appealing liquidity, and are easily accessible for investors. They therefore have a firm place in institutional portfolios.
- Investors benefit from above-average dividend yields.
- REITs offer protection against inflation, as real estate is a material asset.

The index invests in 295 exchange-traded real estate stocks. As with the MSCI ESG Leaders concept, this index is also largely country neutral compared to the FTSE EPRA Nareit Developed. Compared with the standard index, the “Green” version shows a 25% reduction in CO2 emissions per US dollar in income. The consideration of sustainability criteria is particularly effective with regard to real estate investments: based on United Nations estimates, around half of global electricity consumption and 28% of CO2 emissions are attributable to buildings (see chart). The risks in connection with a REIT investment vary and depend on the individual attributes and features of the particular REIT and the geographical location of the investments. It is recommended not only to consider the expected return, but also to factor in the concentration, quality, and rental term of the underlying properties.

Share of global energy-related CO₂ emissions by sector



Source: UN Environment Programme (2017), *Towards a zero-emission, efficient, and resilient buildings and construction sector*

Small caps and real estate ETFs in your portfolio

Both the CSIF (IE) MSCI USA Small Cap ESG Leaders Blue UCITS ETF and the CSIF (IE) FTSE EPRA Nareit Developed Green Blue UCITS ETF offer numerous advantages that make them suitable additions to every portfolio. Small caps provide additional diversification and benefit from the small firm effect in the long term. As a rule, they reap an above-average benefit from economic recovery phases. REITs, on the other hand, are an interesting hybrid product. As “real estate stocks” they combine the advantages of equity investments (flexible tradability on stock exchanges, liquidity, low transaction costs) with the attributes of real estate funds.

Overview of our CSIF ETFs

Fund name	Benchmark index	Share class	Trading currency	Ongoing fees (TER) ⁸	Bloomberg ticker	AuM in USD mn
CSIF (IE) MSCI USA Small Cap ESG Leaders Blue UCITS ETF	MSCI USA Small Cap ESG Leaders	B USD	USD	0,20%	USSMC SW	New
CSIF (IE) FTSE EPRA Nareit Developed Green Blue UCITS ETF	FTSE EPRA Nareit Developed Green	B USD	USD	0,25%	GREIT SW	New
CSIF (IE) MSCI World ESG Leaders Blue UCITS ETF	MSCI World ESG Leaders	B USD	USD	0,15%	WDESG SW	79
	MSCI World ESG Leaders (CHF hedged)	BH CHF	CHF	0,18%	WDESGC SW	43
	MSCI World ESG Leaders (EUR hedged)	BH EUR	EUR	0,18%	WDESGE SW	21
CSIF (IE) MSCI USA Blue UCITS ETF	MSCI USA	B USD	USD	0,09%	CMXUS SW	1276
CSIF (IE) MSCI USA ESG Leaders Blue UCITS ETF	MSCI USA ESG Leaders	B USD	USD	0,10%	USESG SW	760

■ Funds that replicate sustainability indices.

Data as of 25.06.2020

⁸ The management fee is included in the total expense ratio (TER).

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

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.



CREDIT SUISSE ASSET MANAGEMENT (Switzerland) Ltd.

Source: Credit Suisse, unless otherwise specified

Unless noted otherwise, all illustrations in this document were produced by Credit Suisse Group AG and/or its affiliates with the greatest of care and to the best of its knowledge and belief.

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 where legally possible 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. Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency. Equities are subject to market forces and hence fluctuations in value, which are not entirely predictable. The underlying indices are registered trademarks and have been licensed for use (SIX Swiss Exchange as licensor for Swiss Market Index). 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. These funds are domiciled in Ireland. The representative in Switzerland is Credit Suisse Funds AG, Zurich. The paying agent in Switzerland 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 representative or from any branch of Credit Suisse AG in Switzerland.

Copyright © 2020 CREDIT SUISSE GROUP AG and/or its affiliates. All rights reserved.