

## Index Mandates – Newsletter No. 7

### Streamlining the CSIF Fund Structure



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When Credit Suisse Institutional Funds (CSIF) was launched in March 2003 with ten subfunds, no one could have anticipated that it would develop into a comprehensive selection of 57 index funds for institutional investors and assets of approx. CHF 40 billion. The success of CSIFs demonstrates the popularity of index funds among Swiss institutional investors and the leading position that Credit Suisse has built up in this area.

Over the past few years the investors' requirements to index funds have changed substantially.

First of all, clients have become more demanding about the indices that they want. They appreciate the broadest possible choice of benchmarks and plenty of flexibility on regions and currencies.

Secondly, investors are not convinced about securities lending. Despite the highest security standards and attractive additional returns in some asset classes, there is increasing demand for funds without a securities lending component.

Thirdly, major currency fluctuations and the steady appreciation of the Swiss franc have brought the topic of currency hedging back to the forefront. There is a demand for hedging directly built into funds through a currency-hedged unit class.

Fourthly, institutional clients have high expectations on the efficiency of their indexed investments. The index has to be replicated at minimum cost in order to deliver the highest possible return after costs.

And finally, fifthly, the range of funds must be clearly structured and based on a modular approach that clients can understand.

During summer a Credit Suisse project team has analyzed those requirements and framed some amendments to the fund contract. The revised fund contract was submitted to FINMA for approval in mid-August. Subject to approval

from FINMA, the changes detailed below will come into force on October 20, 2012. The most important fund mergers and conversions are illustrated in graphic form in a separate attachment to this newsletter.

#### A Summary of the Changes

- Mergers of funds with the same benchmark and exclusion of securities lending from some CSIFs
- Adjustment of benchmarks
- Change of the closing time for subscriptions for some CSIFs from 15:00 to 14:00
- Currency-hedged classes and improved hedging process
- Changes to the subscription and redemption processes for illiquid markets
  - CSIF Switzerland Small & Mid Cap Index
  - CSIF Switzerland Real Estate Fund Index Blue

#### Mergers/Repositioning of Some CSIFs

The requests from institutional investors, as mentioned above, have prompted the elimination of some CSIF funds. In the past, for some benchmarks the range included one fund with securities lending and one without. Since returns from securities lending for funds containing Swiss equities and bonds have been minor in recent times, three pairs of funds are being merged. The result will be three funds without securities lending with the name suffix "Blue". The funds in question are:

- CSIF Switzerland Total Market Index Blue
- CSIF Switzerland Bond Index AAA-AA Blue

- CSIF Switzerland Bond Index AAA-BBB Blue

Based on the same considerations, two mergers of three funds will take place in the field of global government bonds. This will result in the following funds without securities lending:

- CSIF Bond EUR Index Blue
- CSIF Bond World ex CH Index Blue

The above-named funds will be closed for subscriptions and redemptions for one or two trading days to enable the mergers to take place. The process and schedule for the mergers are illustrated in graphic form in the attachment. Further information can be found in the Swiss Official Gazette of Commerce.

The five mergers will result in significantly larger funds with a more broadly diversified investor population, which will enable an even more precise benchmark replication and lower transaction costs. Thanks to the increase in fund assets, new and existing clients will enjoy additional flexibility for the in kind delivery of securities.

Additionally, there will be seven funds that will stop their securities lending in the future. These funds will take the suffix "Blue" in their name:

- CSIF US Index Blue
- CSIF Emerging Markets Index Blue
- CSIF Switzerland Real Estate Fund Index Blue
- CSIF Bond GBP Index Blue
- CSIF Bond USD Index Blue
- CSIF Bond JPY Index Blue
- CSIF Bond Rest World Currencies Index Blue

### Adjustment of Benchmarks

In four funds the benchmarks will be adjusted to better meet the needs of Swiss institutional investors. The changes affect two equity funds and two bond funds.

Many investors divide their investments in Swiss equities into SMI stocks and non-SMI stocks. In order to make this structure available in the institutional funds too, the CSIF Switzerland Mid Cap Index fund will be renamed CSIF Switzerland Small & Mid Cap Index. Instead of the SMIM the fund will replicate the SPI Extra in the future.

In the case of CSIF equity funds without securities lending it was not possible in the past to separate the USA and Canada. In order to make this possible in the future, the CSIF North America Index Blue – Pension Fund will be renamed to the CSIF US Index Blue – Pension Fund. The fund will then replicate the MSCI USA instead of the MSCI North America. FINMA has been asked for approval for a CSIF Canada Index Blue.

As far as bonds are concerned, the CSIF Bond Corporate EUR Index, which used to replicate the Citigroup Euro Broad Investment Grade (EuroBIG) Corporate, will replicate the Barclays Euro-Aggregate Corporates Index in the future. This means, that all CSIFs on corporate bonds and aggregate indices will now be based on Barclays indices.

The CSIF Inflation-Linked Bond World ex Australia ex Japan ex Italy Index hedged CHF Blue will be converted into a fund with a currency-hedged share class. In the future this fund will be available with and without currency hedging.

### Change to the Closing Times for Subscriptions for Some CSIFs

For ten funds, mostly bond funds, the closing time for subscriptions is being anticipated from 15.00 to 14.00. This gives the portfolio manager more time for portfolio construction and more market-sensitive execution of the transactions. The following funds are affected:

- CSIF Switzerland Bond Index AAA - AA Blue
- CSIF Switzerland Bond Index AAA-BBB Blue
- CSIF Switzerland Bond Index Domestic AAA-BBB Blue
- CSIF Switzerland Bond Index Foreign AAA-BBB Blue
- CSIF Switzerland Bond Index Domestic Government 3-7 Blue
- CSIF Bond Index Blue
- CSIF Inflation-Linked Bond EUR ex Italy Index Blue
- CSIF Inflation-Linked Bond World ex Australia ex Japan ex Italy Index Blue
- CSIF Switzerland Small & Mid Cap Index
- CSIF Switzerland Real Estate Fund Index Blue

## Currency-Hedged Classes and Improved Hedging Process

Following the changes to fund contract, the selection of currency-hedged classes will be extended. This will also affect the funds on the MSCI World ex Switzerland and the Barclays Global Aggregate ex CHF.

At the same time, Credit Suisse is introducing an improved hedging process for the indexed portfolios. The hedging strategy will now be more closely aligned to the currency-hedged benchmark. In particular, for the investment of intra-month flows, index provider's hedge ratios will be used.

### Your Contact

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## Process for Subscriptions and Redemptions in Illiquid Markets

In funds with illiquid benchmarks it is only possible to invest limited amounts on any given day without causing a noticeable impact on prices of the underlying securities. In order to avoid this market impact the fund manager can, in exceptional circumstances, limit orders above a defined threshold. The rest of the non-executed orders is then carried over to the following days until the transaction has been executed in full. Thresholds will be introduced for the following two funds:

- CHF 20 million for the CSIF Switzerland Small & Mid Cap Index
- CHF 15 million for the CSIF Switzerland Real Estate Fund Index Blue

The above threshold values apply per day for the surplus from subscriptions and redemptions.

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# Index Mandates – Newsletter No. 7 – Attachment

## Fusion and renaming of CSIFs

RENAMING as of 20.10.2012



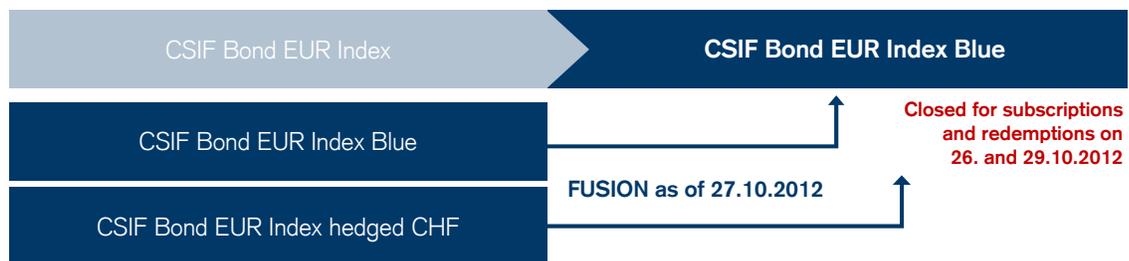
RENAMING as of 20.10.2012



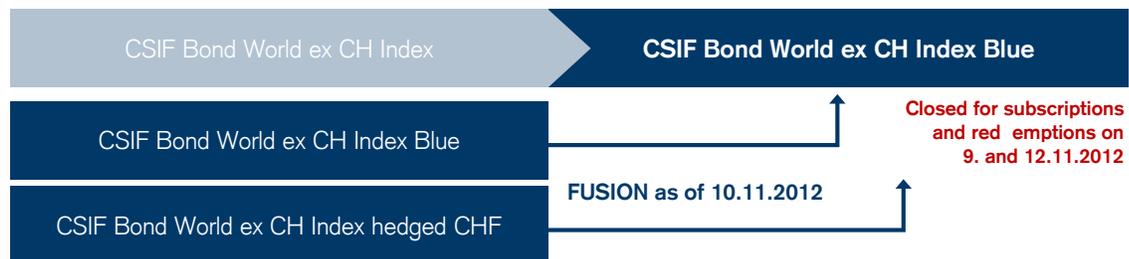
RENAMING as of 20.10.2012



RENAMING as of 27.10.2012



RENAMING as of 10.11.2012



**RENAMING as of 20.10.2012****RENAMING as of 20.10.2012****RENAMING as of 20.10.2012****RENAMING as of 20.10.2012****RENAMING as of 20.10.2012****RENAMING as of 20.10.2012****RENAMING as of 20.10.2012****Disclaimer:**

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