

April 2019

# Index Solutions newsletter: emerging-market equities



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Growth drivers or crisis spots:

Equity markets in the emerging nations have fluctuated between these two extremes for decades.

Read on to find out more about the attractive prospects we see at present, news on the latest developments, and how index fund strategies can enable you to participate in them.



## Focus on emerging-market equities

Trade war, political tensions, and growth concerns in China – because of these trouble spots, emerging equity markets took a substantial hit in the fourth quarter of 2018, falling by 7.49%, while the MSCI World Index incurred losses of as much as 13.74%. On closer inspection, it is evident that the emerging nations held up relatively well in the correction, as shown by the performance of our index funds that invest in emerging-market equities.

Will there still be scope for upside surprises going forward, even though valuations are no longer as attractive as they were? There are some reasons to think so, including China's stimulus measures and the most recent changes in the MSCI Emerging Markets Index. The possible appreciation of the US dollar is likely to have less of an impact than many market participants fear, with key Asian emerging-markets now posting large current account surpluses, while they have also cut their foreign debt.

## Investing in emerging-markets on an index basis: our range of funds

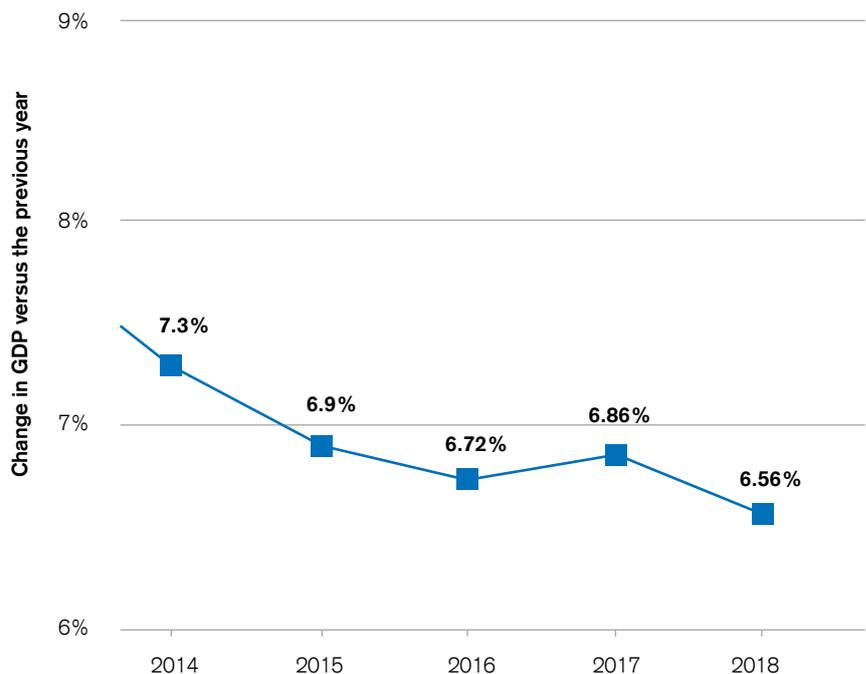
Fund name	Reference index	Brief profile
CSIF (CH) Equity Emerging Markets Blue	MSCI Emerging Markets	Switzerland's largest emerging-market index fund invests on a capitalization-weighted basis and does not engage in securities lending. This base fund covers 85% of the investable market capitalization.
CSIF (Lux) Equity Emerging Markets	MSCI Emerging Markets	This index fund on the Luxembourg platform also covers around 85% of the investable market capitalization and invests on a capitalization-weighted basis.
CSIF (Lux) Equity Emerging Markets Fundamental	FTSE RAFI Emerging Markets	Weights securities according to the four fundamental factors of dividends, cash flow, revenues, and book value.
CSIF (Lux) Equity Emerging Markets Minimum Volatility	MSCI Emerging Markets Minimum Volatility	Index optimized to keep volatility as low as possible.
CSIF (Lux) Equity Emerging Markets ESG Blue	MSCI Emerging Markets ESG Leaders	Invests in companies that ascribe great importance to environmental, social, and governance (ESG) criteria.

### China is growing – including within the MSCI Emerging Markets Index

- Although China's growth slowed slightly in 2018, to around 6.6%, the Chinese economy is still expanding at a very strong rate. We believe things are looking up for the largest economy in the emerging-markets. China should benefit from the various measures its government has put in place to further boost its economy, which is the second largest in the world.
- Nevertheless, risks persist, including a potential hit to earnings due to the possible stabilization in oil prices, or the fact that the Chinese equity market remains volatile. Furthermore, the possibility that the trade dispute will have a negative impact on domestic demand in China cannot be ruled out. This could lead to a downward spiral in expected corporate earnings.

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### China is growing – including the MSCI Emerging Markets Index



Source: Statista, [de.statista.com/statistik/daten/studie/14560/umfrage/wachstum-des-bruttoinlandsprodukts-in-china/](https://de.statista.com/statistik/daten/studie/14560/umfrage/wachstum-des-bruttoinlandsprodukts-in-china/)

Focus on China: The country's growing significance to the world economy is also reflected in the MSCI Emerging Markets Index, and the index provider plans to gradually continue increasing the weight of Chinese A shares, with 20% of their market capitalization set to be represented in the benchmark by November 2019. In addition, 30 Saudi Arabian stocks and foreign listings, alongside Argentinian securities in the form of American depositary receipts, are going to be included in the index.

This will increase the weighting of Chinese A shares, which make up 3.3% of the MSCI Emerging Markets Index via 253 large- and 168 mid-cap stocks, including 27 ChiNext stocks.

**Inclusion of A shares in the MSCI Emerging Markets Index in several steps**

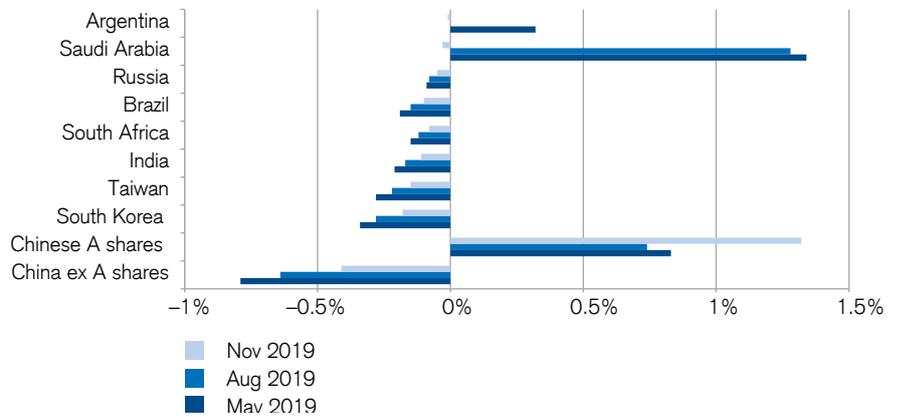
May 2019	Increase of the inclusion factor for large-cap stocks from 5 to 10% Inclusion of ChiNext large-cap stocks with an inclusion factor of 10%
August 2019	Increase of the inclusion factor for large-cap stocks from 10 to 15%
November 2019	Increase of the inclusion factor for large-cap stocks from 15 to 20% Inclusion of Chinese mid-cap A shares, including suitable ChiNext stocks, with an inclusion factor of 20%

Source: MSCI

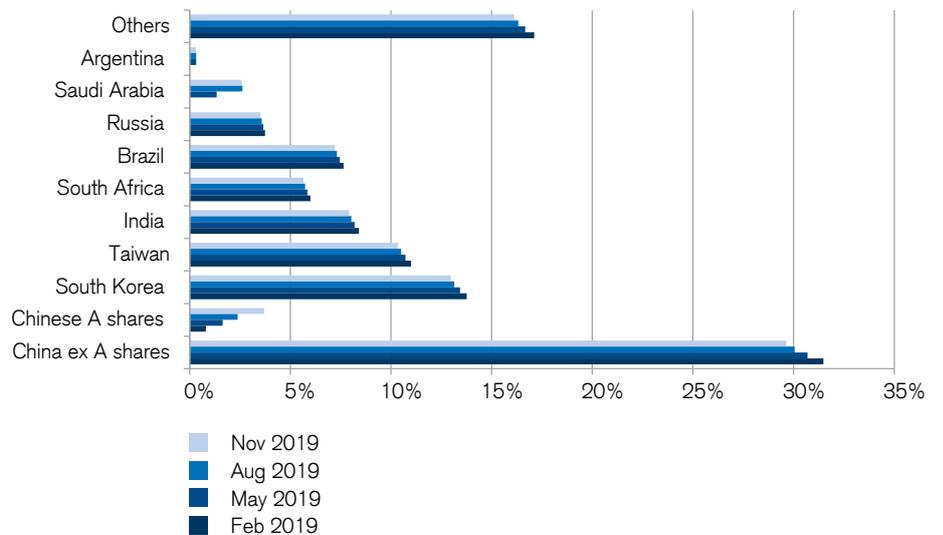
Credit Suisse Index Funds offer investors an efficient and low-cost way to invest in emerging-market stocks. Over the past several years, we have given investors access to markets in countries which are more difficult to access, including India, Pakistan, and Russia. Direct investments such as these have enabled our index funds to post a lower tracking error on emerging-market indices.

**Changes to country weights in the MSCI Emerging Markets Index in 2019**

Changes in percent of the nine largest MSCI EM countries in the rebalancing data in 2019 (May, August, November)



**Index composition with full weighting of the MSCI China (hypothetical)**



### Strategy 1: invest right across the market

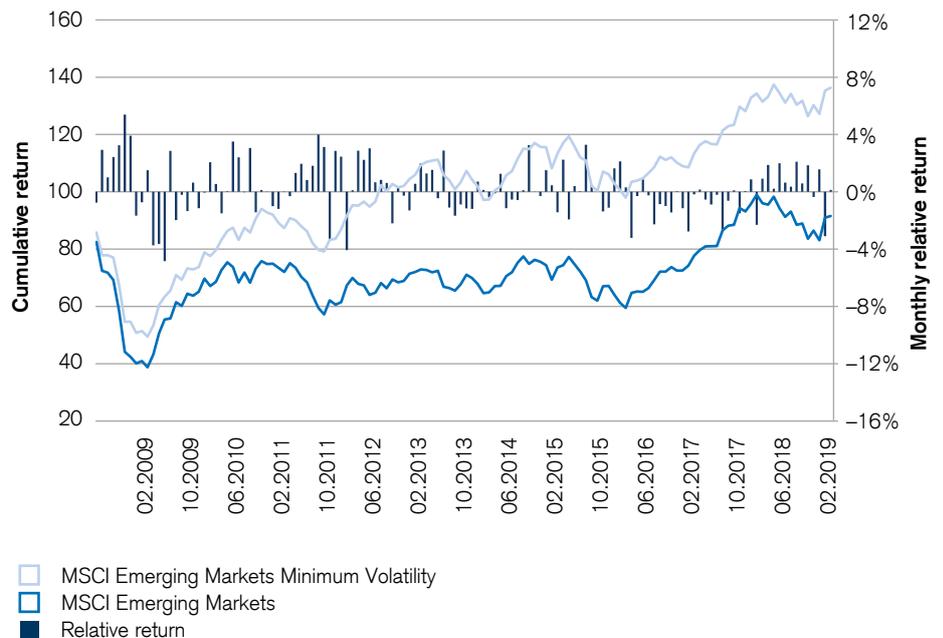
Do you wish to participate in the performance of the most important companies? If so, our index funds, which replicate benchmarks such as the MSCI Emerging Markets Index, are an ideal choice. CSIF (CH) Equity Emerging Markets Blue is the largest emerging-market fund in Switzerland and targets its investments of some CHF 4.6 billion on a capitalization-weighted basis.

The FTSE RAFI Emerging Markets Index fund combines the benefits of market weighting – such as high liquidity and low turnover – with the concept of fundamental weighting. It delivers the desired exposure to the factors that have proved beneficial in the past, including value (higher weighting of undervalued stocks) and size (higher weighting of small-cap stocks).

### Strategy 2: lowering risks

Would you like to lower the risks associated with investments in emerging-markets? If so, the CSIF (Lux) Equity Emerging Markets Minimum Volatility fund could be the solution for you. The factor-based index fund replicates the MSCI Emerging Markets Minimum Volatility Index, which is optimized for as little volatility as possible. During previous bear markets, it lost substantially less than approaches weighted solely according to market capitalization.

### Returns comparison



Sources: Factset, MSCI, Credit Suisse, February 28, 2019  
Data interval: October 2007 to February 2019, gross returns in CHF

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

Investments cannot be made in an index. The index performance quoted does not correspond to the results of securities actually traded. Investors whose strategy is aligned with an index may achieve higher or lower returns and have to cover the costs of fees and other expenses that reduce returns.

## Risk/reward profile

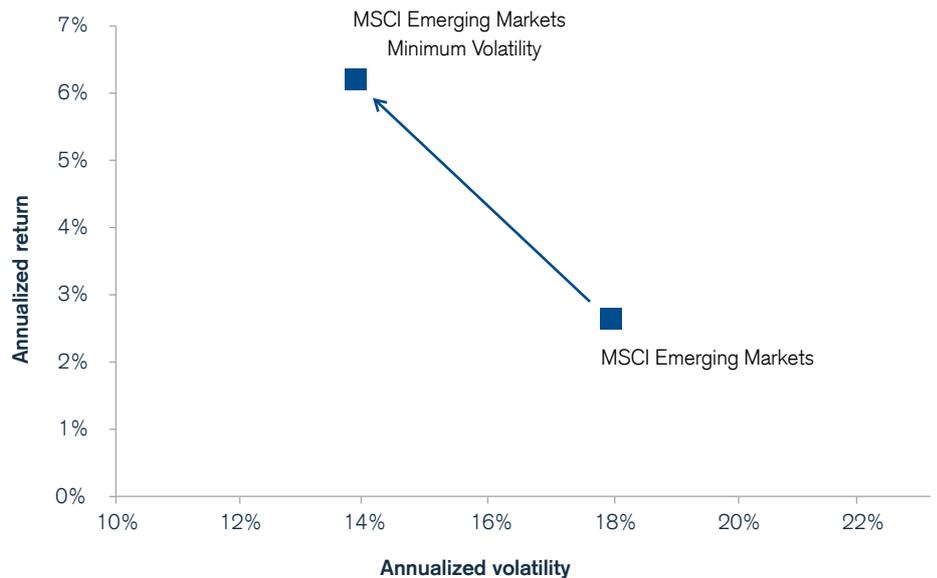


Chart: data as at February 28, 2019, in CHF

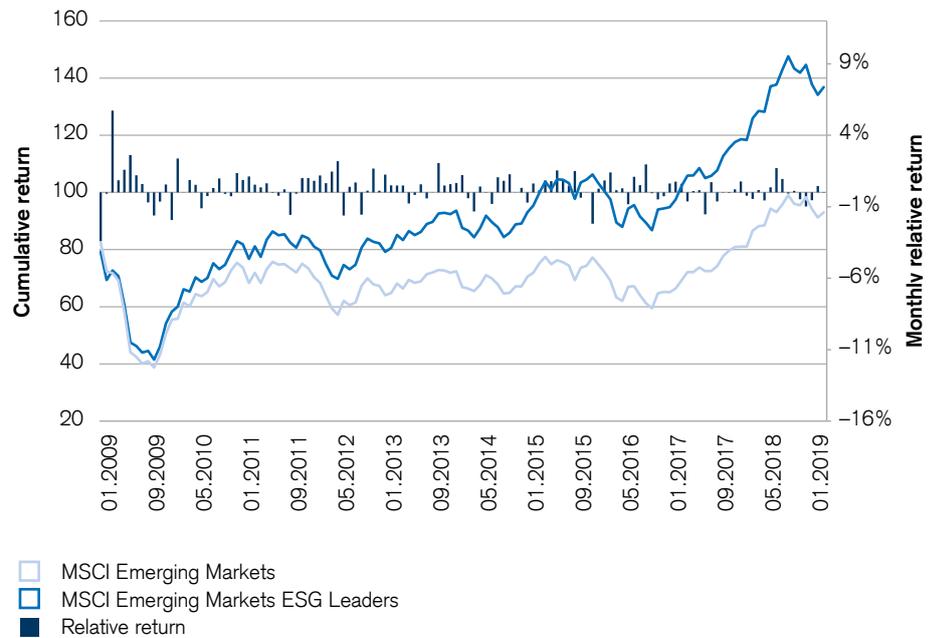
### Strategy 3: incorporating ESG criteria

Are ESG criteria important to you when it comes to your investments? This has proved to be a particularly useful long-term strategy in the emerging-markets, especially in respect of returns. ESG stands for environmental, social, and governance – criteria which describe the extent to which a company acts sustainably. The governance selection criterion has made a material contribution to boosting returns and lowering the risks that investments in emerging-markets entail.

It has been demonstrated that a sustainable portfolio does not detract from an investment's success. On the contrary, it offers an ideal combination of performance and sustainability considerations.<sup>1</sup> Investors will have chosen wisely if the selection process is as rigorous and reliable as in the case of MSCI, with index funds implemented directly and efficiently.

<sup>1</sup>Source: Cambridge Associates (2016): "The Value of ESG Data: Early Evidence for Emerging Markets Equity". In: Research Publications, November 2016.

## Returns comparison



Sources: Factset, MSCI, Credit Suisse, February 28, 2019  
Data interval: August 2010 – February 2019, gross returns in CHF

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

### Excluding manufacturers of controversial weapons

Credit Suisse Index Funds do not make any direct investments in firms involved in the development or manufacturing of nuclear, biological or chemical weapons, anti-personnel mines, or cluster munitions. We base these decisions on the exclusion list of the Swiss Association for Responsible Investments (SVVK - ASIR). The extent to which our index funds are able to replicate benchmarks is barely affected at all by these exclusions.

### Conclusion

We see scope for upside surprises in equities from the emerging-markets this year. Credit Suisse Index Solutions offers efficient instruments for the investments you want to make. We will be happy to advise you.

## Would you like to find out more about Credit Suisse Index Solutions?

Index Solutions has managed emerging-market equity portfolios since 1996. The following table shows the range of our funds that is currently available.

Fund name	Reference index	Share class	ISIN	Inception	Fund assets in CHF million
CSIF (CH) Equity Emerging Markets Blue	MSCI Emerging Markets (NR)	QB	CH0185709083	17.09.2004	5,239.25
		FB	CH0336206682		
CSIF (Lux) Equity Emerging Markets	MSCI Emerging Markets (NR)	EUR QB	LU0828708221	05.11.2012	766.63
		USD QB	LU0828708064		
CSIF (Lux) Equity Emerging Markets Fundamental	FTSE RAFI Emerging Markets (NR)	EUR QB	LU1004511074	23.04.2012	41.29
		USD QB	LU0760136597		
		USD DB	LU0760136324		
		EUR DB	LU1004510779		
		USD FB	LU1419777252		
EUR FB	LU1419777336				
CSIF (Lux) Equity Emerging Markets Minimum Volatility	MSCI Emerging Markets Minimum Volatility (NR)	USD DB	LU1326428775	19.01.2016	46.82
		CHF DB	LU1337015165		
		USD FB	LU1419776528		
		EUR FB	LU1419776791		
CSIF (Lux) Equity Emerging Markets ESG Blue	MSCI Emerging Markets ESG Leaders (NR)	USD DB	LU1587907855	26.05.2017	492.52
		CHF DB	LU1587908150		
		EUR QB	LU1587918209		
		USD QB	LU1587917813		
		USD FB	LU1587908820		
CHF FB	LU1599189559				

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. Please refer to the Important Information for details of the general risks.

Index Solutions currently offers 89 index funds. Credit Suisse Index Funds (CSIF) are based on equity, bond, and real estate indices, as well as gold. Institutional and private investors can make use of the respective share classes as strategic components of a portfolio or to implement tactical investment decisions. Index funds are also available in the form of mandate classes.

### Further information

Index funds for qualified investors	EN DE
Index funds for private investors	EN DE

If you have any further questions, we will be happy to advise you.



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Source: Credit Suisse, otherwise specified.

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