Asset Management

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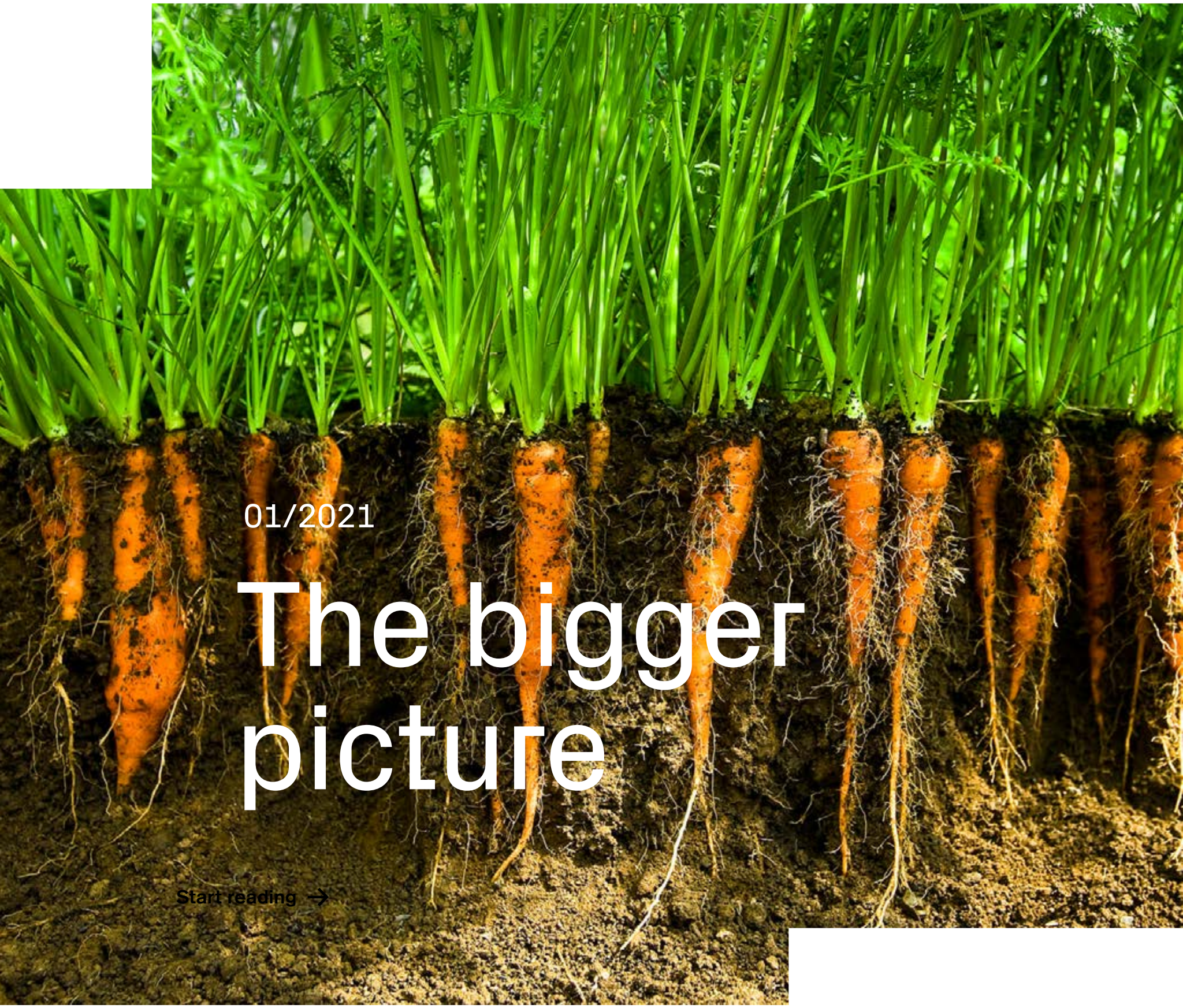
Scope



01/2021

The bigger picture

Start reading →

Whether you like carrots is not that important. The crucial factor is that you fill your basket with the big picture in mind. And this is more than a simple matter of personal taste.

More than carrots

The bigger picture

The most important attributes of successful investors include the ability to capture the determinants as a whole and link them together. This produces the big picture. It shows the entire investment spectrum and creates transparency to make investment decisions easier.

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A world full of opportunities

Filippo Rima

Head of Asset Management
Switzerland & EMEA

We are living through extraordinary times, in both geopolitical and macroeconomic terms. The path back to normalcy in the wake of the COVID-19 crisis has for many proven much longer and bumpier than hoped. Faced with an environment like this, it can be beneficial to view things in terms of the bigger picture. Ultimately, the investment world is full of opportunities.

Careful and far-sighted portfolio structuring means considering and evaluating the various options as a whole. The current issue of Scope can assist you in this with new ideas and inspiring background information.

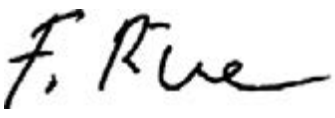
Raymond Rüttimann, Head of Asset Management Global Real Estate, explains why real estate is no longer categorized as an alternative asset class and why the real estate component of institutional investors in Switzerland is more than double the global average.

Convertible bonds have shown themselves to be true all-round assets, combining the return potential of equities with the hedging qualities of bonds. Investors looking to diversify their portfolio would do well to consider emerging market bonds. They have proven their resilience during the COVID-19 pandemic and exhibit an attractive risk/return profile, say experts.

Investors who want to look beyond classical selection criteria such as country, sector or investment profile should explore the world of thematic investing. It follows a pure-play approach and grants investors easy access to companies that are not typically represented in index funds or ETFs. It's also worth taking a look at factor investing, which has successfully established itself in the fixed income area.

I also highly recommend the interview with Prof. Dr. med. Jean-Pierre Bourquin, Chief Physician at University Children's hostpital, Zurich, in which he discusses the new era of children's oncology and offers a glimpse of what's in store for this institution. Our partnership with the children's hospital is one marked by trust and many years of cooperation.

I wish you a stimulating read.



Filippo Rima

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“Real estate investors like

pure plays.”

Interview with Raymond Rüttimann

Head of Global Real Estate

Real estate has shown itself to be a largely resistant asset class during the pandemic. However, the challenges standing in the way of sustainable returns are increasing all the time and require not only wide-ranging real estate expertise but also long-standing experience.

Mr. Rüttimann, which compliment given by a client recently left the biggest smile on your face?
Raymond Rüttimann: I've got a nice example for this. Recently a client took the time to write a lovely letter thanking our team for the work we'd done for them. I was especially pleased because the transaction concerned was extremely complex involving a community of heirs. Thanks to our real estate know-know and our broad-based expertise, we were able to cater precisely to the needs of the sellers and ensure that everything went smoothly.

Real estate is considered an alternative asset class, like commodities or private equity. Isn't there in reality no alternative to real estate for institutional investors and wealthy individuals?
There's something to that. Bonds have for a long time not really offered an alternative. As long as the spread between real estate returns and the yield on German Bunds is 300 basis points, investors are almost forced to hold a high real estate component.

I'd like to qualify the lack of alternatives to real estate, however. Infrastructure investments such as wind parks or hydropower plants are likewise based on real values which, as a rule, generate constant, reliable cash flows and therefore fulfill an important criterion for institutional investors.

How high is the real estate allocation among institutional clients in Switzerland and in other major real estate markets?
The allocation in Switzerland is around 24%. The global average is about 10%. In Europe, the component stands at over 11%, although in Germany, France, and the UK, it's probably more like 14%. For North America, the allocation is given as 9.5%.

What are the reasons for these quite considerable differences?
A major difference is the interest rate environment. Unlike in Switzerland or Germany, for example, investors in the US are spared negative interest. In addition, residential real estate plays no way near as important a role as it does in Switzerland. In markets such as the US and Scandinavia, this means there is considerable catch-up potential in the area of real estate.

"The greatest potential is offered by locations in central business districts (CBDs) and/or in the vicinity of train stations."

Do you expect institutional investors in Switzerland to continue to increase their real estate component?
Another moderate increase in the real estate allocation is possible.

Are there upper regulatory limits?
The Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV 2) stipulates that pension funds may invest a maximum of 30% in real estate. However, a higher percentage is possible in exceptional cases subject to certain conditions.

So you've still got some wiggle room…
I wouldn't put it like that. By no means do all pension funds want to max out this limit, but we do think there's another business sector that offers interesting potential for growth: the integral management of real estate portfolios for third-party clients.

Why is there a need for integral management?
Pension funds or insurers do not always have the specialist and all-encompassing real estate expertise to optimize returns over the long term and achieve sustainable appreciation in value. Responsibilities frequently focus on management and periodic renovations. Professional and active real estate management, on the other hand, also deals with investment and divestment strategies, transaction management for building acquisitions, or the alignment of real estate to ESG criteria (environmental, social, and governance). The tax aspects of real estate portfolios likewise require a great deal of specialist knowledge and practical know-how.

COVID-19 has frequently been described as a game changer. Does that also apply to the real estate market?
COVID-19 has accelerated various developments that were already evident even before the pandemic. Properties with retail spaces were already under pressure. Conversely, demand for logistics real estate has increased dramatically.

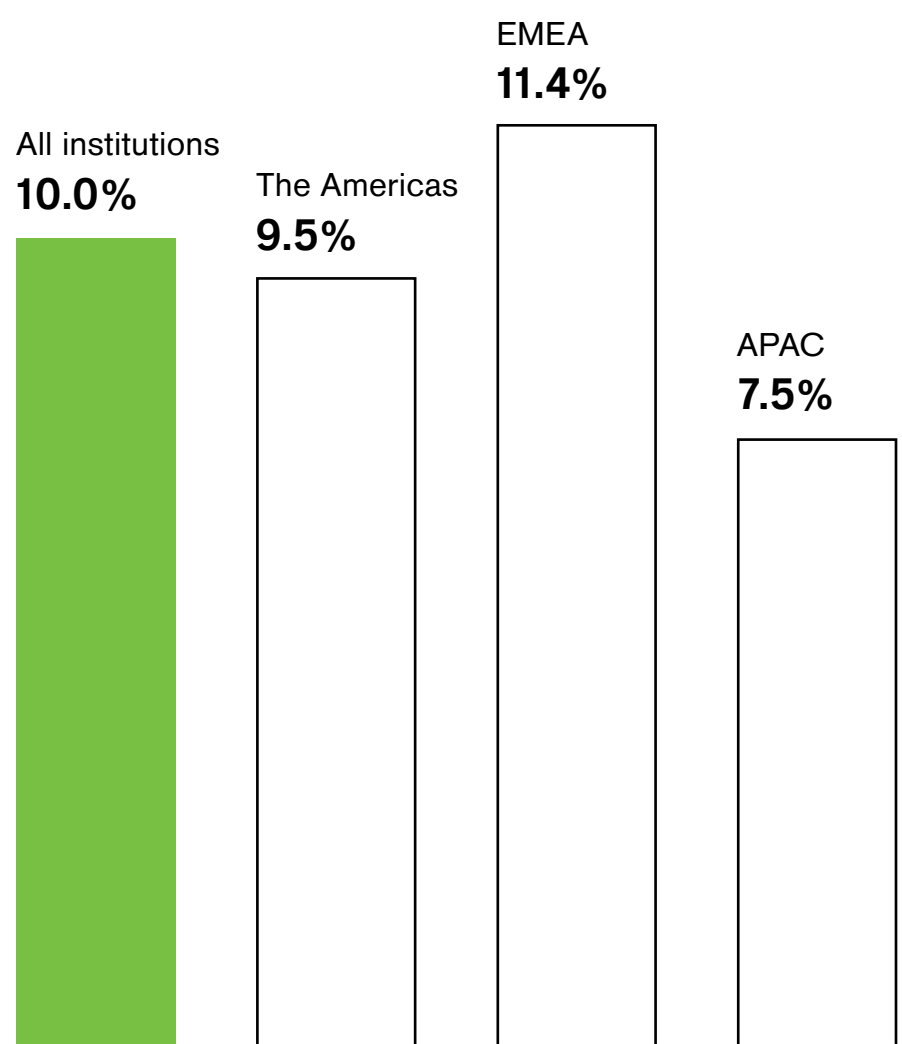
How did you deal with rent waivers during the pandemic?
In 2020, after the lockdown was announced, we were one of the first landlords to waive one month's rent for affected commercial tenants. This signaled to them early on that we were eager to continue our leasing relationships in a spirit of partnership.

How do you assess the outlook for the commercial property market?
It's important to make a clear distinction here. In the future it will no longer be possible simply to lease office space anywhere and everywhere. The greatest potential is offered by locations in central business districts (CBDs) and/or in the vicinity of train stations. Office spaces in peripheral locations will have a much tougher time surviving on the market. If, on top of that, the buildings are 30 or 40 years old, their chances of being rented out are even slimmer.

10%

Real estate allocation of institutional investors in global comparison
The real estate component of institutional investor portfolios in 2020 was around 10% on average worldwide, up 0.6% on the previous year.

Source 2020 Institutional Real Estate Allocations Monitor, Cornell University's Baker Program in Real Estate – Hodes Weill & Associates



What do you do with buildings like that?
First of all, we examine whether they can be repurposed. In Zurich-Oerlikon – which is an attractive location – we converted the former head office of Sunrise into an apartment complex. All units were rented within a short space of time.

Will the market need quite so much office space in the future?
The demand for space in Switzerland should begin to stabilize. We do not anticipate a marked expansion in supply. In the future, whether or not a property is successfully rented will also depend on what the landlord has to offer aside from just the space itself. Additional services in and around the rental property are becoming more and more important. At Ambassador House in Glattbrugg, for example, we operate a staff restaurant, provide residents with daycare facilities and a conference infrastructure that is available for flexible use, and take care of various services ranging from dry cleaning to ordering flowers. Tenants value our role not just as a landlord, but also as a service provider. This is reflected in the occupancy rate of 90%.

“Our goal is to become climate-neutral across our entire real estate portfolio by 2040.”

The greatest challenge for real estate investors appears to be gaining access to suitable properties. How do you approach this problem?
We are in the fortunate position to have an established network behind us that we have cultivated over several decades. Real estate sellers and brokers are well networked with our specialists and know that they can rely on them. This applies in particular to development projects.

What role does the development business play?
For us, developments have long hovered between an annual volume of between CHF 800 mn and CHF 1 bn.

What are the three biggest projects that are currently being undertaken by Global Real Estate?
The two residential towers at Hardturm stadium in Zurich, with an investment volume of over CHF 500 mn; the Elementum office complex next to Munich central station, with around CHF 400 mn invested; and a residential development project in Chavannes-près-Renens near Lausanne, where we’ve likewise injected about CHF 400 mn.

How does Global Real Estate assess the potential offered by real estate in emerging markets?
Countries such as Brazil, India, Mexico, and especially China harbor tremendous potential. But the lack of legal security there prevents us from investing in these countries.

The investment decisions made by real estate investors often have major repercussions on the chosen locations and the populations that live there. How do you live up to this responsibility?
By reviewing every new build or renovation project with respect to its integration into the district and into the local neighborhood. This is done in coordination and dialogue with the responsible authorities. Our experience here has been fundamentally positive.

And what do users and the local population make of it?
Let me give you two examples: At the base of one of the two high-rises that we want to build at Hardturm, the City of Zurich has expressed an interest in signing a lease and installing a school with space for 18 classrooms and a cafeteria.

The courtyard of the Elementum building complex in Munich mentioned above will be home to a small city park with trees and lots of vegetation. These spaces will be accessible not only to the employees of the companies renting there, but also to the local population.

Several Credit Suisse Asset Management real estate investment products are focused on specific usage types, for example residential or commercial. Do differentiations like these still make sense, with effective usage becoming more and more mixed?
Yes, most investors appreciate it if the real estate is focused on clearly defined uses such as residential or logistics – they like pure plays. However, it's impossible to avoid overlaps because a property is used for mixed purposes or a development is designed for mixed use. That can also be an advantage.

Sustainability criteria and certification have long been the standard for new builds. But which strategies and which objectives are you pursuing for the properties in your portfolio?
Our properties are also reviewed and optimized on an ongoing basis with regard to their sustainability. When undertaking renovation projects, we systematically convert to energy systems that do not use fossil fuels. Our goal is to become climate-neutral across our entire real estate portfolio by 2040. Of course, we make the greatest savings in terms of energy requirement when we replace an existing building with a new one that is rigorously constructed according to strict sustainability standards and is certified accordingly.

Global Real Estate by Credit Suisse is the No. 1 provider of real estate investments in Switzerland and No. 3 in Europe, and ranks among the top 15 worldwide. Global Real Estate manages investments in more than 1,300 properties in 14 countries. This falls under the responsibility of around 174 real estate experts based in our branches in Zurich, Frankfurt, Milan, London, New York, and Singapore, as well as along the entire value chain. The volume of real estate investment products under management is USD 44.8 bn (as of December 30, 2020).

Focus on real estate

Asset allocation of Swiss pension funds as of the end of 2020

Bonds CHF	24.73%
Real estate	**24.16%**
Switzerland direct/investment foundations	14.77%
Swiss investment funds	6.53%
Abroad, hedged	1.98%
Abroad, non-hedged	0.89%
Equities abroad	19.03%
Equities Switzerland	13.26%
Alternative investments	6.60%
Bonds	5.10%
Liquidity	4.71%
Mortgages	1.33%
Convertible bonds	0.38%
Rest	0.69%

Source Credit Suisse Swiss Pension Fund Index, Q4 2020

What happens with properties that are still not able to meet the applicable sustainability criteria even after a reasonable financial outlay?
We put these properties on the market and invest the resulting proceeds in real estate that is more efficient as regards sustainability. Restructuring of this kind rejuvenates the portfolio, something that is desirable from a strategic perspective.

Mr. Rüttimann, what was your experience of the coronavirus crisis on a personal level?
Like most of the workforce, I spent a large part of my time working from home, although thankfully we have a vacation home in the Engadine, so I was able to switch things up between two home offices.

What are you looking forward to the most when the restrictions due to the pandemic have been lifted?
To be able to sit down together with my teams and our clients or to chat over a business lunch. I miss being able to speak to people face to face; you learn more, you can react more spontaneously, and you're able to come to an agreement faster. I also look forward to being able to spend a private evening again at a restaurant with fine food and a lively atmosphere. I can almost taste the anticipation.

Raymond Rüttimann

Raymond Rüttimann has been Head of Global Real Estate and Head of Real Estate Switzerland of Credit Suisse Asset Management since November 2020. He joined Credit Suisse in 2000 and has held management positions in the areas of Property Asset Management and Development & Construction. Prior to this, Raymond Rüttimann worked for several years in Corporate Real Estate Portfolio Management and in Real Estate Funds Management at UBS AG.

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Thematic investing: seeking tomorrow's winners

Thematic equity investing has started moving toward the mainstream in recent years, driven by strong performance, compelling investment themes, and a rising tide of interest from a broad range of market participants. Many indications suggest that this trend is set to continue, and investors would do well to consider the challenges and the opportunities available in thematic investing.

Themes shaping tomorrow

Thematic investing cuts through traditional investment classifications of country, region, sector, size, and style. It instead focuses on areas of secular growth in the world that are driven by powerful structural forces of change, such as the advance of technology, demographic shifts, and environmental challenges. Under the thematic approach, you typically start by identifying a specific investment theme and then building a diversified portfolio of stocks that are highly exposed and well positioned to benefit from that theme over the next five to ten years.

How can the power of a thematic approach be applied to equity investing?

The purity factor

The heart of a sound thematic investment philosophy is a pure-play approach. Since the investment themes you choose should only be ones that you truly believe in, you will want to gain the highest possible exposure to those themes, while respecting the need for diversification and liquidity.

To achieve that exposure, you should ensure that each company in the investment universe generates more than 50% of its revenue from the provision of solutions and services directly related to your chosen investment theme. This approach naturally leads you away from large conglomerates that may be engaged in many different business areas and directs your investments more toward smaller companies that are focused on and often exclusively dedicated to your selected investment theme. A pure-play approach helps you to focus on the specific dynamics of the theme and often results in a diversified portfolio of companies that typically are not owned in core holdings, in index funds, or ETFs.

Going beneath the surface
Since investment themes often cut across traditional sectors and may be global in nature, it can be wise to take a “benchmark-agnostic” unconstrained approach to stock selection and portfolio construction.

This approach leaves you free to search for companies inside your chosen theme that stand out in terms of innovation, technology, business model, strong ESG attributes, or management quality. The aim is to seek to identify standout companies that are poised to win over the next five to ten years by upsetting legacy industry incumbents with disruptive innovations.

Take a long view
One investment lesson from recent history is that predicting the near-term outlook for the stock market with any degree of conviction or consistency is very difficult, if not impossible. For example, in December 2019, US and European markets largely shrugged off what they thought was a local public health problem affecting only China. Just a few months later, though, that consensus swung in the opposite direction, and equity markets fell by more than 30% on the realization that this was just the beginning of a devastating global pandemic.

Many investors who attempted to predict these short-term market movements were caught flat-footed and suffered losses. Alpha[1] generation by large hedge funds and other money managers in 2020 was reported to be the worst since 2011. The lesson? Trying to “time the market” is a dangerous game to play.

Structural forces of change
Somewhat counterintuitively, our judgements about long-term questions are often more reliable than near-term predictions and frequently can be trusted with greater confidence. Thematic investing poses long-term questions such as: Do you expect digitalization – the increasing penetration of the economy by technology – to continue? Do you believe that the issue of climate change will become even more pressing in the next decade and for the next generation? Do you expect that demographic changes will gradually shift the world’s geopolitical landscape?

These are the types of questions that underpin thematic equity strategies – questions that focus on long-term structural trends and powerful forces of change. Investors seeking opportunities that transcend economic cycles and market volatility are well advised to consider thematic investments if they have a genuine appetite for long-term investments.

[1] Used as a measure of performance, alpha is the excess return of an investment relative to the return of a benchmark index.

COVID-19 as a catalyst

We are living in times of unprecedented change and upheaval. The COVID-19 pandemic has unquestionably taken a tremendous toll in human terms. In this time of need, a number of companies were in a position to offer solutions to directly help with the crisis. Prior to the outbreak of the pandemic, digitalization in the healthcare sector was only just getting off the ground, with a number of promising technologies in nascent stages of adoption. Necessity being the mother of invention, the sudden need for social distancing and for ways of improving the delivery of healthcare services gave a tremendous boost to the adoption of digital solutions in the healthcare industry.

Telemedicine, automated diagnostics, and testing are examples of areas that have seen a sharp acceleration in usage and investment during the pandemic. However, it is important to note that although usage has increased sharply, the penetration rates for many of these innovative solutions remain low, so there is considerable scope for future growth. According to Mercom Capital Group, USD 14.8 bn of venture capital was invested in the digital health space in 2020; a 66% increase over the preceding year.[2]

Similarly, companies that provide educational technology (EdTech) to enable remote learning also saw a dramatic pickup in growth. We all, of course, hope that children will return to regular schooling sooner rather than later, but at the same time, the forced adoption of online educational tools and platforms has demonstrated to educators, governments, and students alike the incremental positives and potential of these systems. Many of these tools supplement and enhance traditional classroom learning for children, making learning more engaging and thereby more effective. In addition, these tools can aid training and professional development for adults and can help those displaced by economic downturns to acquire new skills and reenter the workforce. The EdTech venture capital market registered an investment volume of over USD 16 bn in 2020, shattering previous records.[3]

[2] https://www.mobihealthnews.com/news/mercom-telemedicine-investments-led-2020s-148b-digital-health-fundraising.

[3] https://www.holoniq.com/notes/16.1b-of-global-edtech-venture-capital-in-2020/.

Thematic equity investing enhances diversification

Thematic equity investing allows investors to gain exposure to a well-diversified range of innovative companies that are well positioned to benefit from their involvement in compelling secular growth trends. A focus on “pure-player” companies active in these themes typically leads to a small to mid-cap size bias and provides investors a chance to diversify away from large-caps in the major stock-market indices and passive funds. It is also worth remembering that thematic investments are geared toward a long-term investment horizon, thus freeing investors from excessive fixation on day-to-day market movements and short-term noise.

If you are interested in learning more about our thematic investment opportunities, have a look at our video with Pascal Mercier, Product Specialist:

Watch video →

Risk warning Equity markets can be volatile, especially in the short term. Investors may lose part or all of the invested amount. A focus on specific themes can lead to significant sector, country, and regional exposures.

Sunny side up

Economic outlook with

Burkhard Varnholt

Chief Investment Officer of Credit Suisse (Switzerland) Ltd.
Vice-Chairman of the Global Investment Committee

Around 15 months after the outbreak of COVID-19 in March 2020, Burkhard Varnholt paints a positive assessment of the financial markets. Most stock exchanges have developed into high-pressure areas that have brought plenty of sunshine to equity investors. And there are multiple factors that suggest the outlook for the financial market remains bright.

We could argue about what type of weather is best until the cows come home. Some people prefer it cooler, some people prefer it warmer. Some like to seek shelter from the wind, while others have a passion for sailing and long for good wind conditions. The consensus, however, tends toward sunny without too much wind – no cold snaps, no storms, and definitely no storm damage.

The performance of the stock markets since the COVID-19 low on March 23, 2020 comes very close to the ideal scenario favored by the majority. Fears of a persistent period of bad weather proved to be unfounded; that much is clear, looking back. And as far as the outlook for the future goes, prevailing meteorological conditions give plenty of reason for optimism.

Let's take a closer look at a few factors that are currently determining the weather in the economy and especially in the financial markets.

Inflation more of an apparition than a nightmare

Let's start with inflation, which for months now has repeatedly been painted as a specter of doom, but ultimately has turned out to be more of an apparition than a nightmare. The threat of rising inflation is very low, not least because the economy remains extremely competitive. Aside from the cyclical bottlenecks affecting, for example, shipping containers, semiconductors, or crude oil, companies have no cause to raise their prices. In fact, most companies have been able to bolster their margins so much since the outbreak of the pandemic that they have easily been able to shoulder higher prices for commodities, transport, and logistics services, or increased salaries for specialists.

In addition, pressure from competitors is preventing many providers from hiking prices. While furniture companies such as Ikea are currently facing significantly higher transport and logistics costs, they still have not passed this on to their customers.

The situation is extremely different when it comes to assets, such as securities, real estate, or works of art. Here, prices have climbed sharply, which is mainly attributable to low real interest rates and the dearth of investments. In the case of real estate, the COVID-19 crisis has pushed demand through the roof. The additional space required for home offices, the need for a modern IT and building infrastructure, the desire for a personal vacation home as an escape from COVID-19 and an alternative to traveling – all of these factors combined have propped up the real estate market and caused local house prices to skyrocket. That said, this represents asset price inflation and should not be considered inflation in the narrower sense because it does not have an adverse effect on the purchasing power of money. If a Monet or Picasso fetches 30% or 40% over asking on the art markets, this is of little consequence to the consumer price index.

Deglobalization canceled

As the COVID-19 pandemic upended societies around the globe, more and more people began to predict the end of globalization (or hoped that would be the case). Some of the arguments put forward seemed thoroughly plausible. Shorter supply chain = higher security of supply, so went one of the frequently cited equations. But this is easier said than done. Indeed, the numbers tell a completely different story. Never before have so many goods been shipped around the globe.

Companies kept a firm grip on their global supply chains and even had to contend with backlogs following the COVID-19 shock. A personal and non-representative survey of a dozen Swiss companies revealed, for example, that Chinese suppliers were only replaced in isolated cases. The global division of labor still remains one of the most effective measures to combat poverty in developing and emerging countries, wrote one columnist in the Swiss newspaper NZZ recently.[1]

Private individuals played their role in this globalization as well. They used the money they would have normally spent on traveling and eating out on buying more physical goods, which gave a further boost to global trade.

Globalization as an opportunity for climate change

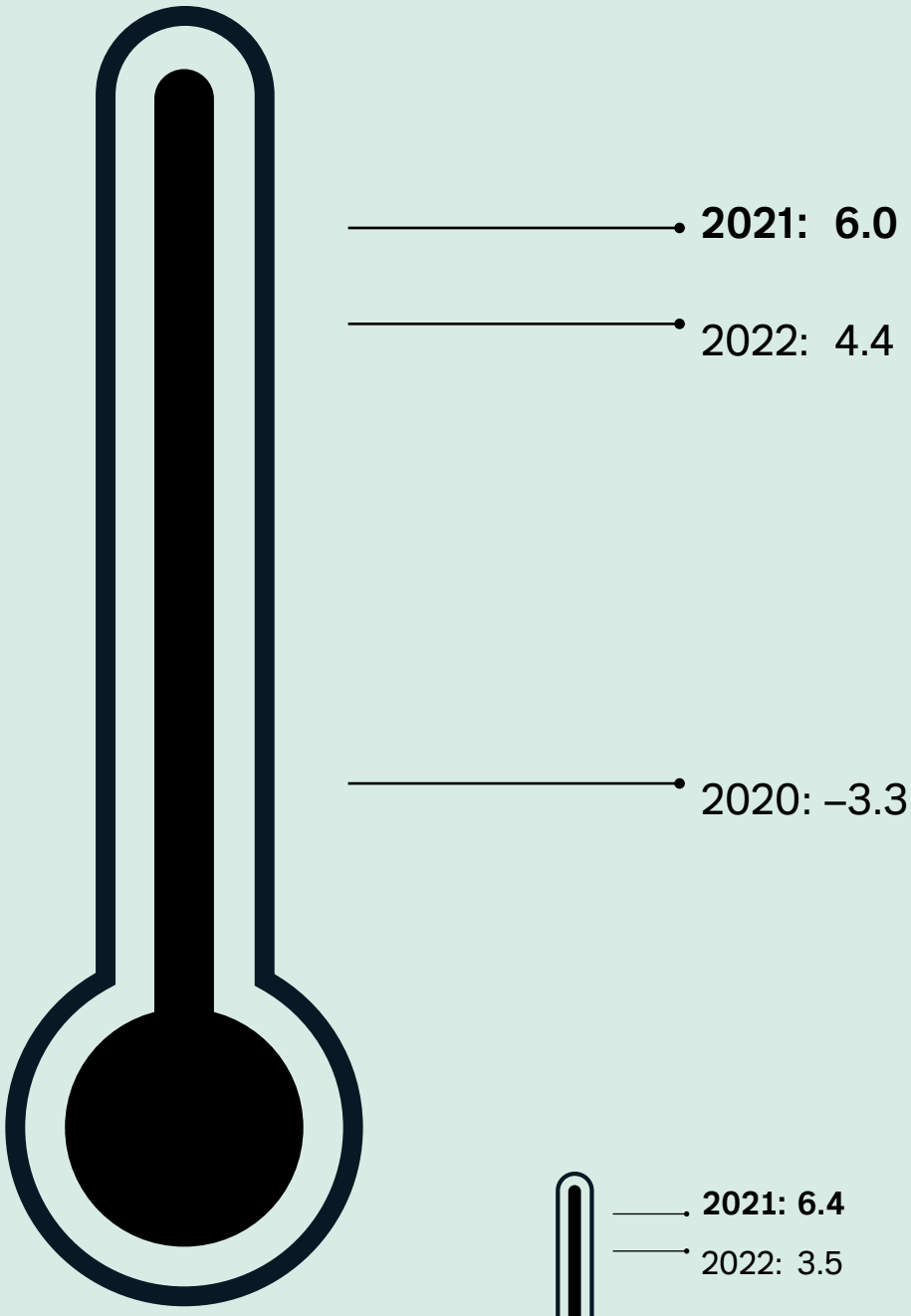
A common refrain is that globalization is incompatible with sustainability and compliance with ESG criteria. To date, however, there is no convincing evidence that a localized world is more sustainable than a globalized one. It is unclear and up for debate what impact globalization has on climate change.

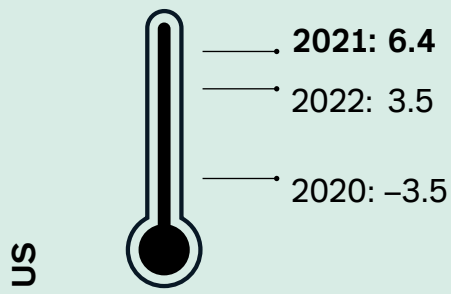
There is broad consensus, on the other hand, that comprehensive measures are needed to stem the tide of climate change. The re-signing of the Paris Agreement by the US has given additional momentum to the call for action.

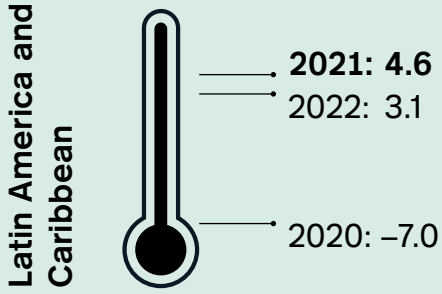
[1] “Es lebe die Globalisierung” (Long Live Globalization!), Gerald Hosp, NZZ of May 8, 2021.

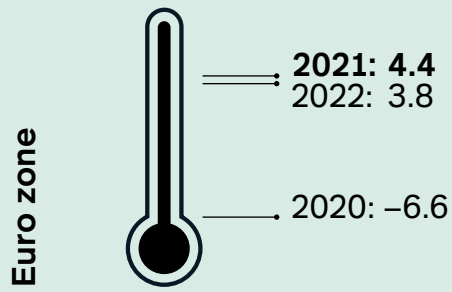
World on growth path

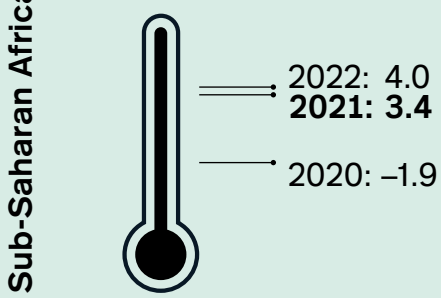
Percentage change in real gross domestic product (GDP)

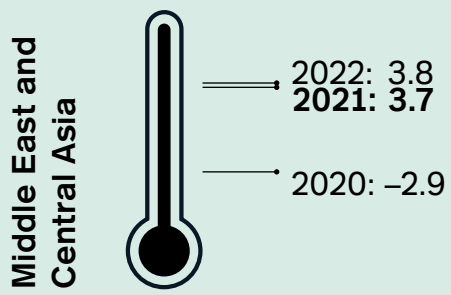


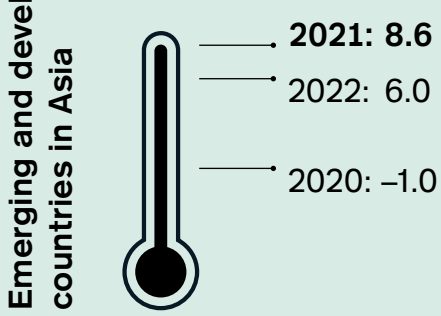












Last data point: April 1, 2021
These forecasts are not a reliable indicator of future performance.
Source International Monetary Fund (IMF)

The simplest and fastest way to bring globalization and climate change under one roof is to step up CO_2 pricing. Europe – which operates the largest market for CO_2 certificates in the world – is spearheading developments in this area. However, we are still at the very beginning of this process, because to date only electricity producers have been subject to CO_2 pricing. The next step, international approval permitting, is to extend CO_2 pricing to freight by sea, air, or road. The construction and agriculture sectors will likely be the next to follow.

The power of the financial markets

The extent to which industry is rethinking and re-imagining itself can be seen in the energy sector. Leading companies from the industry have used the profits made from the crude oil business to diversify their exploration of renewable energies. The fact that this move away from fossil fuels has been prompted by pressure from investors does not make it any less significant. If the planet were able to pick its patron saint, the financial markets would make the shortlist. They influence companies' capital costs and thus help set the strategic course for the future. Indeed, the energy sector has listened to the financial markets and protected itself against losing any more significance on the stock exchange than it already has. Let's remember, 15 years ago the energy sector still constituted around one-third of companies in the S&P 500; last year, its share had shrunk to just 5%.

Another example: Every Opel that leaves the plant is valued by the financial markets at CHF 9,000 on average. In the case of a Tesla, the average valuation is CHF 1 mn. Such a striking difference in market value must set the alarm bells sounding in boardrooms in Detroit, Wolfsburg, Munich, and Stuttgart. At the end of the day, all automotive manufacturers should strive for a valuation of Tesla proportions. Here, too, the power of the financial markets will leave indelible traces on the report cards of the established players.

Economy in upswing

While it is not immune to political or pandemic-related setbacks, the global economy is once again exhibiting impressive rates of growth. In April 2021, the International Monetary Fund (IMF) forecast global growth of 6.0%. The key drivers are immeasurable liquidity and private savings, as well as the billions state governments have doled out for infrastructure and other relief programs. The successful rollout of vaccination campaigns is likewise propping up growth.

Leading the pack in terms of regional growth are Asian emerging and developing countries such as China, India, Malaysia, and the Philippines. The World Bank has projected their growth at 8.6%. This is momentum the euro zone can only dream of (+4.4%).

Infrastructure as driver of growth
Shortages of skilled workers, rising prices for construction materials, long delivery times due to supply bottlenecks for semiconductors – these and similar developments are currently being felt by normal people as well.

At the macroeconomic level, however, the increased number of infrastructure projects ongoing in many regions of the world is responsible for the strong growth spurts. The European Recovery Plan from the European Commission and the Build Back Better (BBB) Plan from the Biden government promise fundamental "rebuilding." Both plans intend to harness collaboration between public and private organizations within the scope of public private partnerships (PPPs).

The American Rescue Plan, which has a price tag of USD 1.9 trn and saw 75% of all US households receive stimulus payments of USD 1,400 per eligible individual, is set to be followed in October 2021 by the Build Back Better Plan. At USD 2.3 trn, the plan, which also includes the Green New Deal, would be the largest US fiscal project since Franklin D. Roosevelt's New Deal. It is intended to create attractive new jobs in the US and to improve infrastructure for mobility, energy and water supply, and education. And, of course, it aims to promote the competitiveness of the United States.

To finance the plan, the government wants to take out additional loans, raise corporate taxes from 21% to 28% – under President Obama, the corporate tax rate was 35% – and introduce environmental incentive taxes and a global minimum tax rate for corporations. This would affect corporations that generate large profits abroad but pay practically no taxes to the US treasury.

The plan represents nothing less than a fundamental transformation of the US economy. The intention is to reduce the ecological footprint to a significant degree, for example by laying the groundwork for the US to procure more than 80% of its energy requirements from renewable sources by 2035. Washington wants to take a leading role in global environmental policy – an ambition the world will have to get used to first.

Burkhard Varnholt was born in 1968 in Germany and he received his first doctorate at the University of St. Gallen – HSG in 1994. He has over two decades of international experience in the management of private and institutional assets, including more than 12 years with Credit Suisse. In 2003, he founded the "Kids of Africa" charity, which provides a home and an education for over 100 orphaned children (www.kids-of-africa.com). In 2006, he was awarded the Swiss Re Civilian Service Prize for his commitment. In 2012, he received an honorary doctorate in International Relations from the Geneva School of Diplomacy in recognition of his charitable work and other cultural activities.

How

factor investing can offer greater clarity on bonds

The bond market is a complex and diverse area to invest in. It is a real challenge to navigate due to the different types of risks and returns that exist. Factor investing can help provide greater clarity for investors looking at fixed income and could allow them to make better and more informed investment decisions.

An innovative investment strategy for fixed income
Factor investing allows investors to get a good view of the different performance drivers in fixed income. It offers a framework to help manage exposure to each risk factor. It can also be used to help open up and illuminate new dimensions of risk that traditional fixed-income portfolio managers might not have focused on in the past.

The fixed-income risk landscape has changed
The investment environment has changed significantly for fixed income over the last few years – a fact that could make factor investing extremely valuable. Sovereign and corporate borrowers have taken advantage of current ultra-low interest rates and have been issuing more bonds and bonds with a longer maturity to lock in cheaper financing. Consequently, this has had a meaningful impact on the risk landscape that fixed-income investors face.

For instance, duration (interest-rate risk) has gradually risen. Meanwhile, the share of BBB securities has also increased significantly – in some cases even doubled – across most broad-based investment-grade bond indices since the start of the millennium. This means that if you invest in a market index, the level of interest-rate and credit risk that you are exposed to will have risen, potentially without you realizing it. Therefore, understanding portfolio risk has become more important than ever, which is why factor investing is so valuable.

We need to understand what fixed-income factors exist
Mapping out the risk factors that exist in fixed income is extremely important. Factor investing is all about understanding individual sources of return and applying that knowledge to improve a portfolio's risk/return characteristics to generate alpha – a portfolio's outperformance compared to a benchmark.

Although factor investing is already widely accepted by equity investors, it is now gaining traction with fixed-income investors. In the current low yield environment, many fixed-income investors are keen to boost their returns while keeping their risk balanced. Additionally, they might be able to achieve this by carefully managing the different risk factors that they are exposed to.

Factor investing

Factor investing is an investment approach through which securities are systematically selected based on specific attributes, factors, or styles that have been empirically shown to improve a portfolio's risk/return characteristics. Value, quality, yield/carry, liquidity, and low volatility are popular factors targeted by fixed-income factor investors.

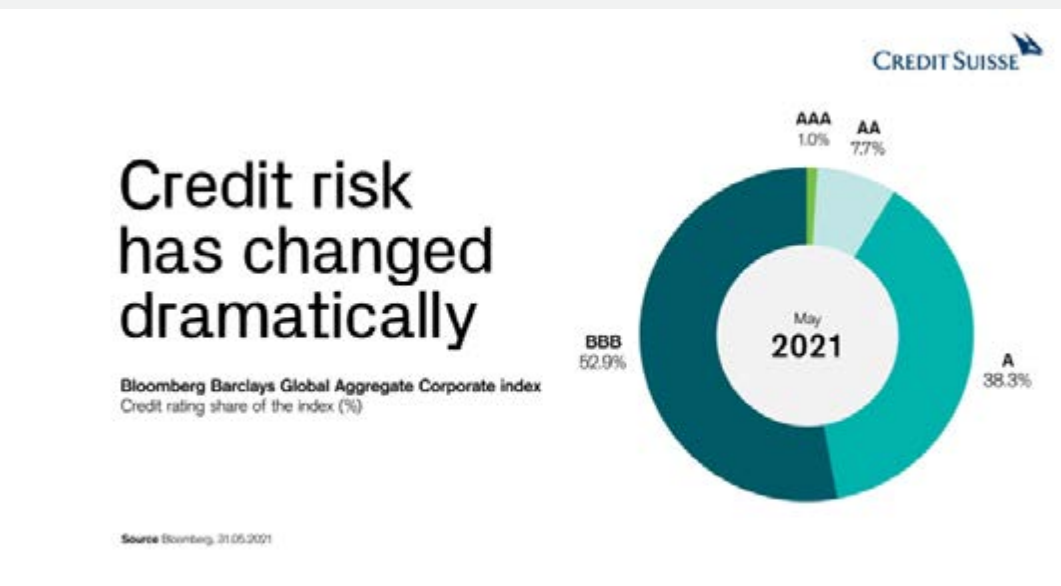
Why risk-factor investing in fixed income is complex
Although factor investing has been applied to a wide array of asset classes, its footprint in the fixed-income sector remains small. This is due to the challenges that are specific to bond markets, such as the vastness and complexity of the bond universe itself.

Equities are standardized, interchangeable instruments that are transparently traded on an exchange. By contrast, bonds are not standardized at all. There are many different types of issuers, including corporations, governments, and supranational organizations. And each issuer can issue bonds with different maturities, optionality, seniority, and currency.

There are other factors to contend with as well. While numerous new bonds are issued every day, existing bonds can also be called and repaid. To make matters worse, third-party data, such as credit ratings, plays a crucial role in how bonds are priced, but this data is updated only periodically and lacks sufficient granularity.

This complexity makes quantitative comparisons between bonds extremely difficult, which in turn makes factor modeling for fixed income a very challenging exercise.

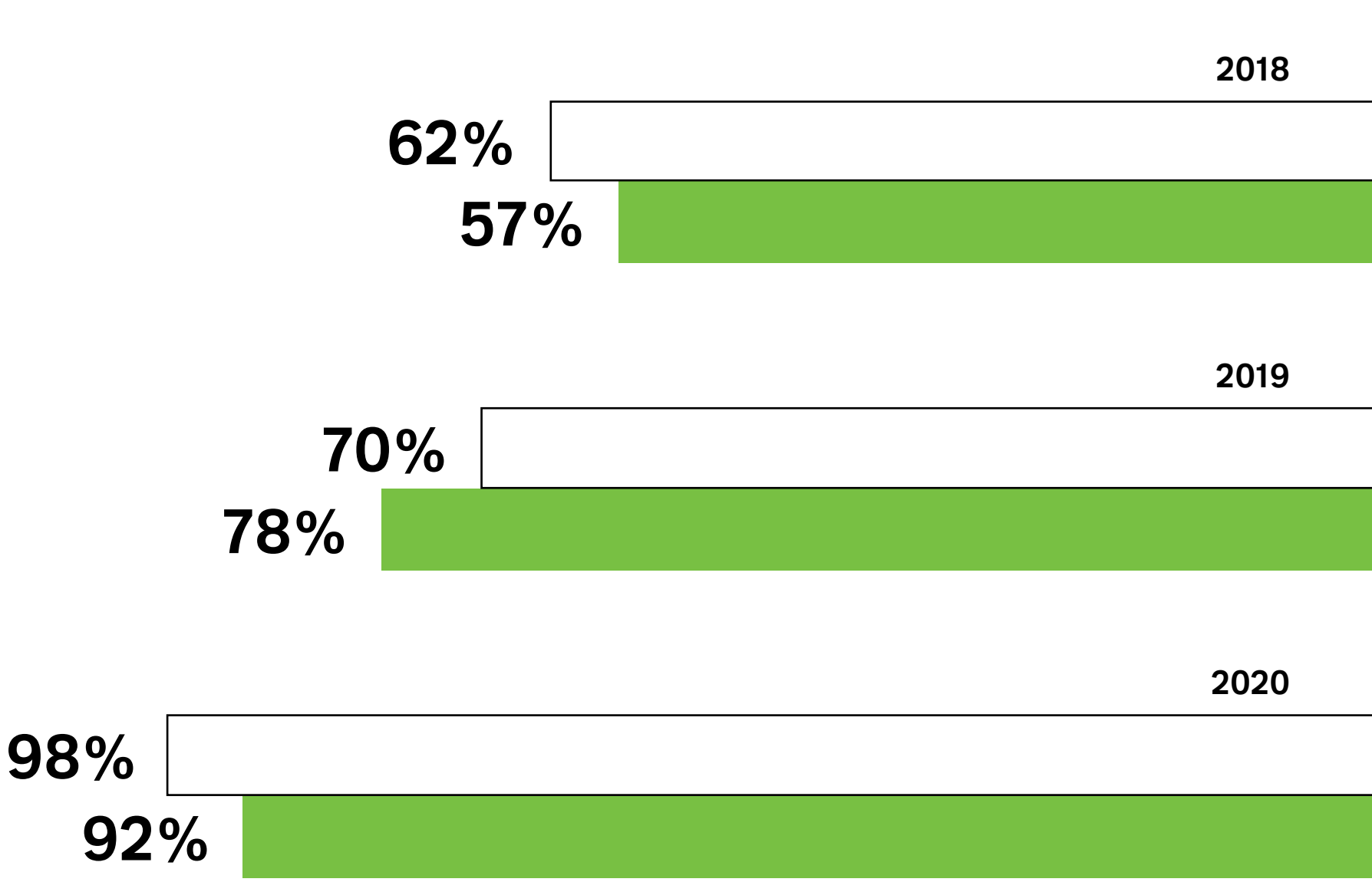
Technology is crucial for making fixed-income factor investing work
The characteristics of the fixed-income universe underscore the importance of using technology to develop, deploy, and manage quantitative strategies. Technological innovation in the form of efficient data management systems that allow for daily updates is essential. Furthermore, these databases need to support quantitative modeling to overcome the shortcomings of lagging third-party data by running statistical models on millions of data points. Finally, customizable optimization software is needed to incorporate specific client demands and to avoid one-sided portfolio positioning and concentrated risks when calculating the optimal security selection.



Watch video →

Belief that factor investing can be extended to fixed income

(% citations)



Sample size: 2018 = 284, 2019 = 231, 2020 = 237
Source Invesco Global Factor Investing Study 2020

Since factor investing is a quantitative approach to portfolio management, it naturally follows that risk management and monitoring processes should be quantitatively driven as well. That is why the ideal factor-investing engine can generate optimal security selections subject to a variety of constraints like portfolio duration, ESG criteria, or sector exposure. It also monitors the actually implemented portfolio for changes in factor loadings. For example, this could be due to deteriorating credit quality or reduced relative value. This approach can create rebalancing suggestions over time.

However, like any investment approach, quantitative models also have their limitations. To mitigate the pitfalls of factor models and quantitative investing in general, human oversight is needed to review and challenge the model's output. This includes scrutinizing portfolio candidates for risks that are not covered by the model, such as poor corporate governance. It also includes reviewing rebalancing suggestions based on available market liquidity and gathering general market intelligence to keep track of corporate actions, new issues, and price-relevant information on specific issuers.

Benefits for investors

Factor investing presents a promising supplementary investment opportunity for fixed-income investors. Factor-driven portfolios empirically deliver enhanced risk-adjusted returns compared to the benchmark.[1] This relative outperformance stems from the systematic selection of securities, which helps harvest premiums for each of the factors considered, be it for quality, value, or liquidity. In addition, factor-based strategies provide effective diversification compared to more traditionally managed bond portfolios because factors typically exhibit low or negative correlations to common market risks.[2]

Employing a "quantamental" investment process is important. This requires combining pure quantitative analysis with fundamental insights. Consequently, investors benefit from an automated investment approach that applies factor-investing principles to fixed income, while also actively managing the complexities of the fixed-income universe.

Overall, factor investing helps investors manage their bond portfolios toward a set of individual risk drivers. This could potentially help them achieve better risk-adjusted returns over the long run, compared to the usual debt-weighted approaches.

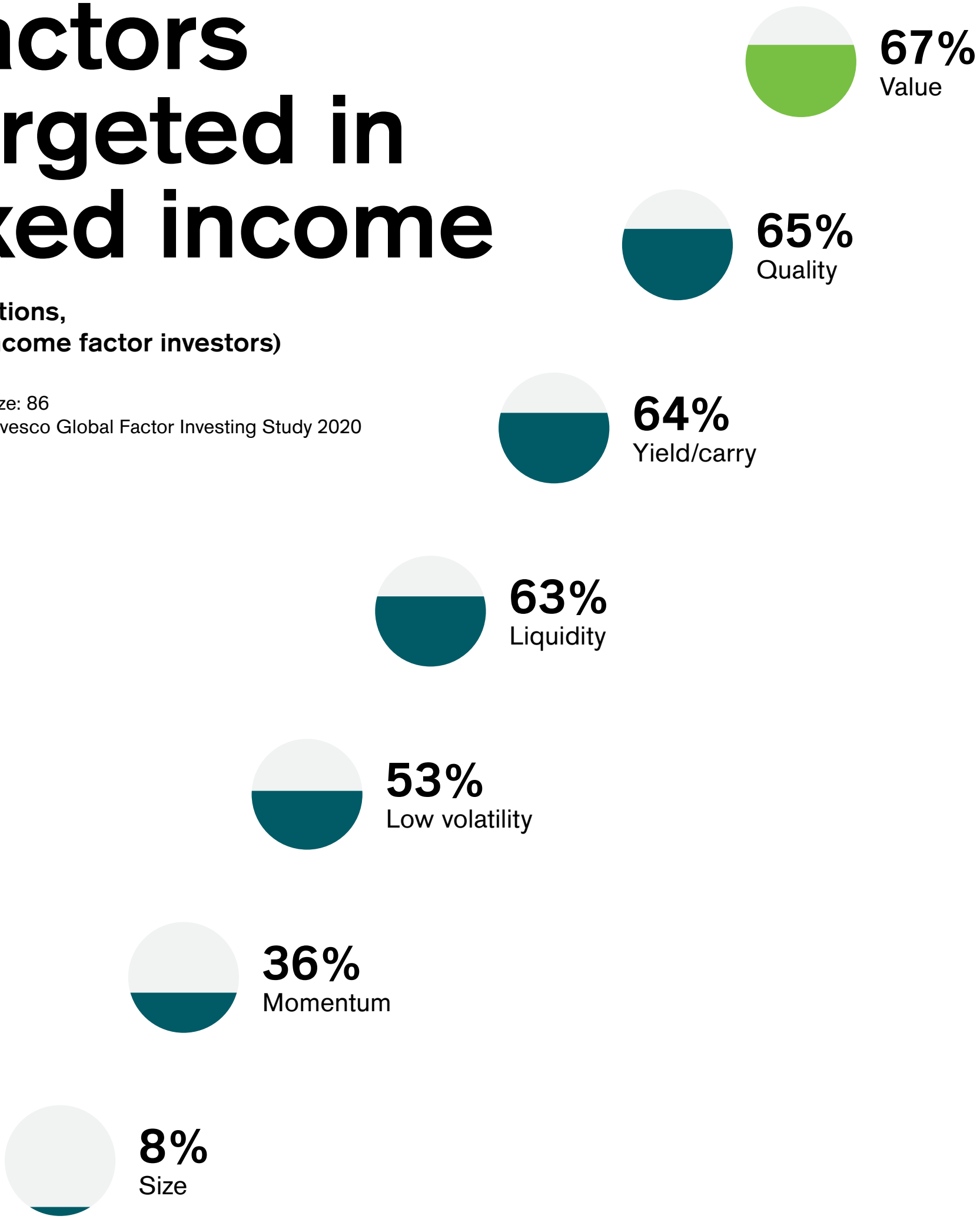
[1] Paarmann, T. (April 8, 2021). Introduction to Factor Investing. Invesco. https://www.invesco.ch/en-ch/insights/introduction-to-factor-investing.

[2] PIMCO. (June 21, 2021). Risk Factor Diversification. Pacific Investment Management Company LLC. https://www.pimco.ch/en-ch/resources/education/understanding-risk-factor-diversification.

Factors targeted in fixed income

(% citations, fixed income factor investors)

Sample size: 86
Source Invesco Global Factor Investing Study 2020



Risk warning Factor investing is a long-term investment approach. It also involves risk, and there are no guarantees of returns. Factor returns are cyclical, and a given factor can underperform in some macroeconomic regimes.

The human skills we will need to collaborate with robots

Prof. Anna Valente

Professor of Industrial Robotics
Head of Automation, Robots and Machine ARM Lab
SUPSI DTI ISTePS

In the manufacturing industry, inspection and repair tasks largely remain human-based activities. The workforce that carries out these tasks is usually extremely skilled. They are required to make complex decisions in critical operating scenarios. However, they also work under harsh conditions. Subsequently, they have limited opportunities to be dexterous and push their physical and cognitive boundaries. This can affect their perceptions of what is a “fit” or “misfit” in this environment.

Human cognitive appraisals and emotional reactions are both essential to understanding what is considered a “fit” between the individual and their (physical and psychosocial) working ecosystem. Employees also need resources to efficiently perform their jobs, while simultaneously safeguarding their health and wellbeing.

However, this is not enough!
In the world of maintenance, repair, and overhaul (MRO) approximately 3,500 expert human operators are killed annually, while 3.3 million non-fatal injuries also occur.

These are due neither to poor safety measures nor to human behavior. They are caused by the harsh environment and unforeseen events that occur. These include unpredictable faults and malfunctions with the processing equipment being operated, which dramatically increases the level of risk these skilled workers are exposed to. The likelihood of injuries does not exclusively occur during the maintenance of old infrastructure. The increasing number of large new plants is contributing to the increase in potential critical events. This factor has resulted in human workers being more exposed to the risk of injury or death.

MRO still relies primarily upon a human workforce
The reason for this is simple. No other alternative has been able to provide the same level of advanced ability to strategically understand and cognitively adapt to this complex ecosystem that these workers operate in. To date, nothing can work or adapt as fast as a human.

Therefore, the mission of a typical robotics scientist should be to drastically reduce the risks that human operators face within the MRO value chain. They can do this by trying to place collaborative robots within the value chain equation.

I believe Europe should set a disruptive example for the whole world to follow by embracing these new working practices that use technology to ensure public health.

If they are able to accomplish these large technical and scientific leaps, we could see the mass adoption of collaborative robots used across a multitude of applications, from agriculture to energy generation.

The next generation of collaborative robots that we are likely to see will be equipped with physical and cognitive skills. For such robots to be effectively deployed on maintenance sites, there is a critical need to immediately understand working practices and operational constraints. They will need to capture the goals and constraints of the tasks, while minimizing the major overhaul that will take place for how the human workforce operates.

For humans and robots to collaborate successfully, the key barriers associated with how humans competently handle robots will need to be overcome. Above all, it is not reasonable to ask a human workforce to acquire skills in robotic programming or to automatically exchange information through coding.

What is key for establishing these synergies between humans and robots is

trust.

Over the next few years, natural language will be needed at the core of human-robot communications to ensure the frictionless adoption of robots in manufacturing. The large number of sensors that will need to be integrated into the next generation of robotic platforms could, in fact, enable voice processing. This includes speech-to-text and text-to-speech capabilities, plus voice tone analysis.

Ramping up the abilities for humans to comprehensively exploit robotic platforms still does not ensure that a strong bond will be established. For robots, being part of a team requires them to adapt their behavior to each individual user i.e. use human-like behavior to create a bond.

Initially, this will rely operationally on building robotic awareness through a multi-modal attention system that includes capturing voice, facial, and gait interpretations, along with more specific physiological parameters. The awareness of collaborative robots should then evolve into consciousness and improved behavioral skills by autonomously triggering the ability to fine-tune motivations and priorities over time. This would establish an unprecedented sense of empathy for humans and the ability to take over anytime there is a tangible difficulty or stress factor.

What is key for establishing these synergies between humans and robots is trust. This is extremely challenging to achieve. Over time, robots and humans will, however, establish relationships with one another.

I believe this should be the greatest priority for collaborative empathetic robots, along with how they care for humans.

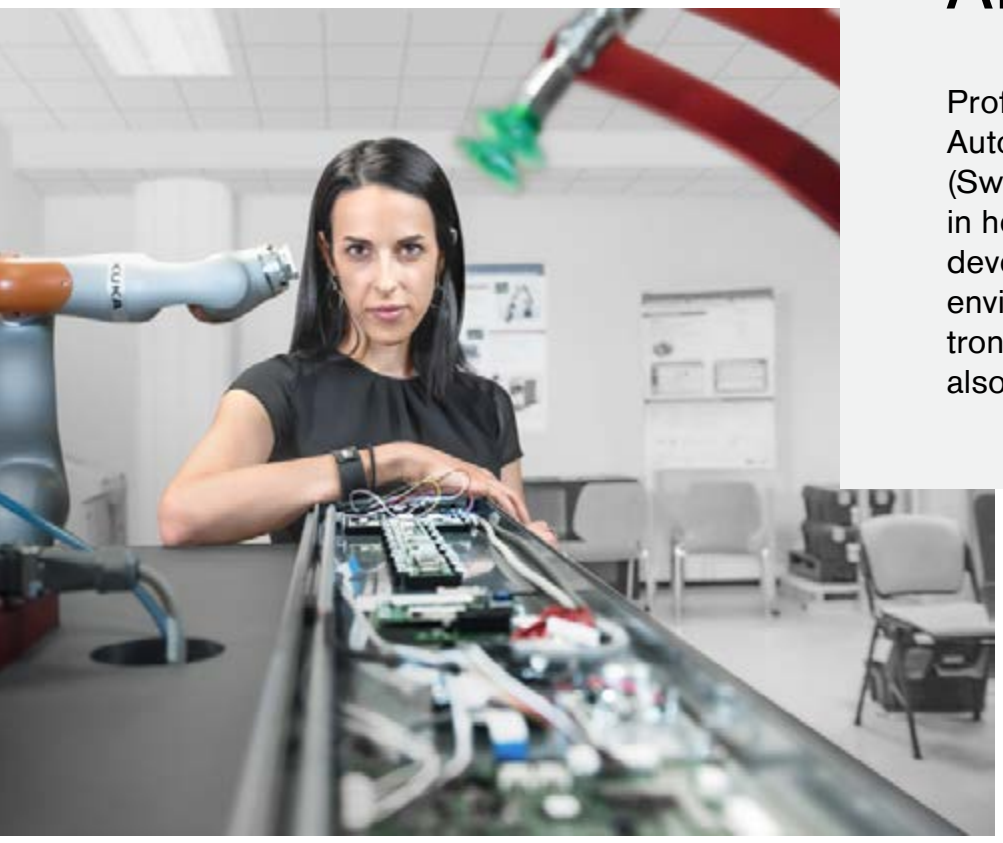
The care provided should not just be physical, but also emotional. People should be placed at the center of this new robotic ecosystem. If successful, the support that robots provide could help enhance self-confidence for hundreds of thousands of human workers who face stressful working conditions on a daily basis.

More importantly, this will also provide relief for these workers by removing some of the risks they face by being exposed to dangerous situations. The extra abilities of these robots should not therefore challenge or scare human workers, but be seen as a means to enhance their work and support them.

Moreover, technological interventions that can support the adoption of future collaborative robots will significantly improve and help optimize the job quality that workers experience. This would create a workplace culture where robots are accepted as colleagues.

By taking inspiration from the behavioral and social sciences, and blending them with mechatronics and advanced computing, new transdisciplinary research branches will emerge. These will support the next generation of robotics scientists in developing collaborative empathetic robots.

Eventually, these robots will also mature into emotionally intelligent and interactive beings, which will lead to dramatic increases in both manufacturing productivity and worker satisfaction.



Anna Valente

Professor Anna Valente is the Head of the Laboratory of Automation, Robotics and Machines at SUPSI University (Switzerland). She is dedicated to improving safety conditions in heavy industry for workers and has been instrumental in developing complex robotics that protect workers in harsh environments. She works closely with aerospace, optoelectronics, maratime and energy generation industries. She has also written two books and more than a hundred papers.

Convertible bonds:

It’s all in the mix

Convertible bonds combine the upside return potential of stocks with the downside protection of conventional bonds. Convertible bonds impressively proved their strengths in a turbulent 2020. But this asset class is also compelling from a strategic standpoint and can contribute substantially to optimizing a portfolio's asset allocation.

Experience shows that convertible bonds are well suited for inclusion in a classic multi-asset portfolio composed of stocks, fixed-income securities, real estate, and alternative assets with the objective of reducing portfolio risk without changing return expectations or of earning an excess return without changing the level of risk appetite. Where the main goal is minimizing the risk of losses, a forward-looking optimization[1] of the strategic asset allocation results in a convertible bond weighting of up to 20% (primarily investment-grade quality).

The historical performance of portfolios containing convertible bonds shows that the maximum drawdown is reduced and a higher return is earned on average. However, the added value generated by convertible bonds depends greatly on the market climate. In a very positive environment, return expectations for convertible bonds substantially exceed expected returns on conventional corporate bonds. In a negative market environment, on the other hand, convertible bonds are much more resistant to losses than stocks are. Convertible bonds are less suitable in a borderline neutral-positive environment because opportunity costs outweigh their benefits in such a climate.

[1] See SIM Research Institute in collaboration with Credit Suisse Investment Partners (Switzerland) AG: "Building a resilient portfolio with convertible bonds, commodities, and gold", December 5, 2020.

Proven performance
A look at their historical performance to date shows that convertible bonds have outperformed stocks over the longer term and with less volatility. The inherent upside return potential of convertible bond issuers' equity has made this possible. For one thing, most convertible bonds are issued by companies seeking growth. Moreover, the dynamic composition of the convertible bond universe contributes considerably to their performance.

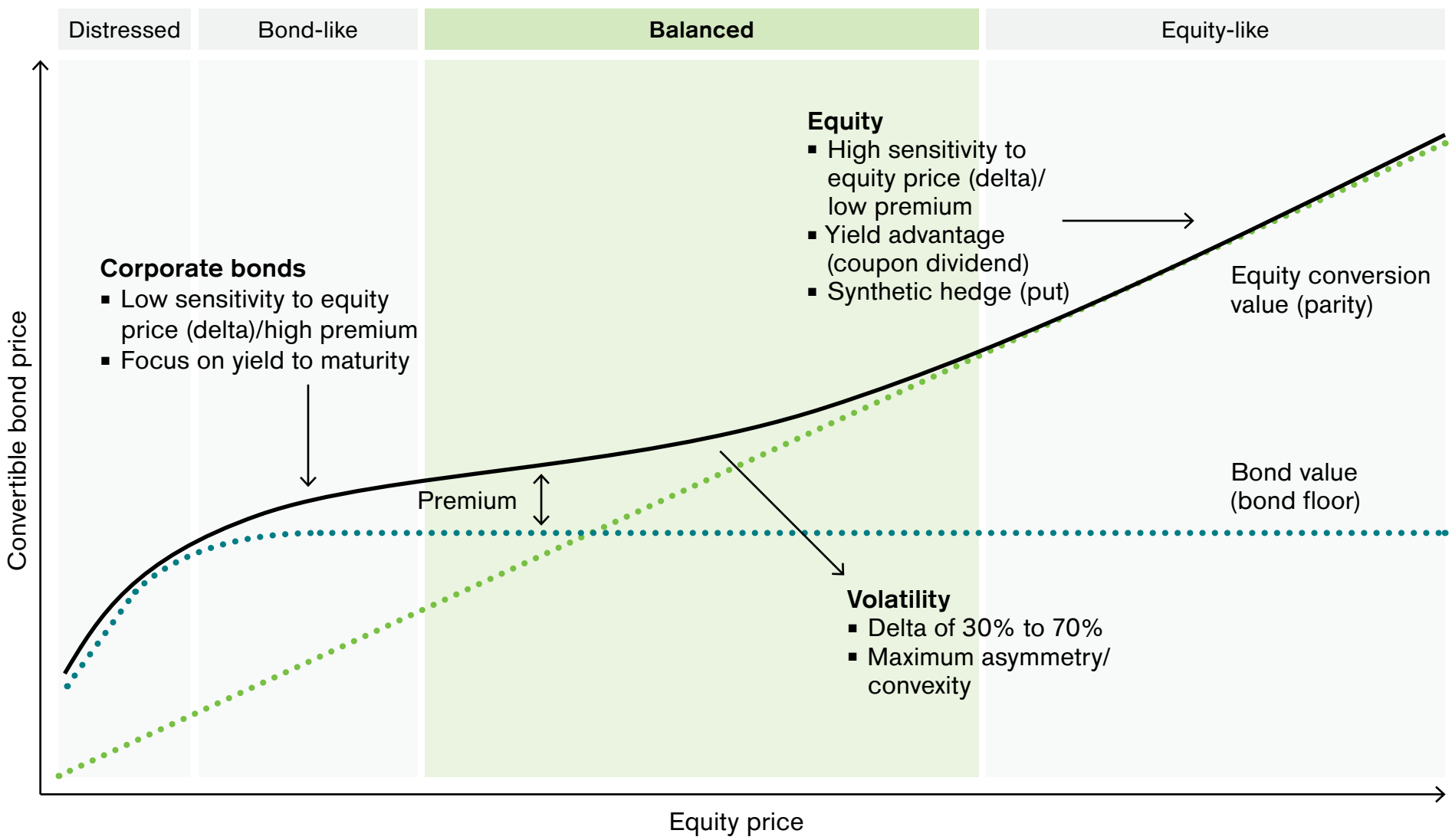
In 2020, convertible bonds as an asset class outperformed fixed-income securities as well as equity markets around the world. During the course of the pandemic, convertible bonds confirmed their defensive properties relative to equity markets by virtue of their fixed-income component known as the bond floor. As a result of the way in which convertible bonds are technically designed, their sensitivity to equity markets (delta) automatically increased as financial markets recovered in the second and third quarters, which enabled convertible bonds to participate in the gains to an above-average extent. This trend has basically continued into the first half of 2021, although equity markets have caught up in terms of performance. Convertible bonds are continuing to develop positively despite increased volatility on the interest rate and equity markets.

Why convertible bonds?

The Senior Portfolio Manager explains all in the video or you can read our white paper arguments for convertible bonds.

Watch video →

How prices of convertible bonds behave



Share price
Bond price
Convertible bond price

Source Credit Suisse Investment Partners

Universe enlarged
The convertible bond universe has expanded considerably in recent years. A burst of growth took place in 2020, when record high primary market issuance catapulted the volume of the convertible bond market from USD 300 bn to over USD 460 bn. Meanwhile, the glut of money from central banks left marks on convertible bonds as well. Coupons became ever smaller and increasingly tended toward zero while conversion premiums edged upward on the whole. Some convertible bond issues even added a surcharge.

Convertible bonds' features as a multi-talented asset class make them interesting in a variety of different scenarios. Whereas the equity option component dominates under the inflation scenario that's being talked a lot about these days, the protective mechanism of bonds comes into play in a deflationary phase. Convertible bonds contribute to the stability and profitability of a portfolio under different climatic conditions on the financial markets. In a normal expansionary phase, however, these benefits come at the expense of a reduced return.

So, ultimately, the question isn't whether it makes sense to blend convertible bonds into a portfolio, but rather how heavily they should be weighted in an asset allocation based on an appraisal of future market scenarios.

Convertible bonds are hybrid financial instruments that combine the features of corporate bonds (debt) and shares (equity). Like conventional bonds, convertible bonds have a fixed term, at the end of which the investor is entitled to repayment of the principal. The difference is that convertible bonds include a conversion right. The purchaser of a convertible bond has the right to convert it into a predefined number of equity shares in the issuer, subject to the conditions set out in the prospectus. Convertible bonds can be divided into different risk classes. The chart above shows how their price behavior depends on the price of the underlying share and corporate bond. If the price of the shares into which the convertible bond can be converted is high, convertible bonds have an equity-like risk profile. If the share price is low, the price performance of convertible bonds is relatively stable because they are protected to a certain extent by the value of the bond floor.

Risk warning Investors may lose part or all of the invested amount. Bonds carry a risk of issuer default. Convertible bond returns may be volatile in the short term. Issuer default risk increases in a recessionary environment.

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Emerging opportunities

Emerging market bonds deserve more attention. Their economies have proved resilient during the pandemic. Now that the global economic recovery is well underway, the outlook for this asset class has improved even more. In this article, our experts discuss how investors can gain exposure to emerging market bonds.

Emerging markets generate 60% of global GDP

Emerging markets generate roughly 60% of the world's gross domestic product. Their national economies are also still growing faster than developed market economies. Debt crises and currency shocks have become less com mon and no longer have the domino effect they once did.

Today, countries classified as emerging markets – in Latin America, Europe, Asia, and elsewhere – feature robust institutions and stable markets.

In parallel with their economic growth, emerging markets have also developed into a diverse and mature stand alone asset class over the last 20 years. They have become an indispensable element of a diversified portfolio.

This is a story about resilience and the global economic recovery. The world's emergence from the pandemic has unleashed pent-up demand for both goods and commodities. Subsequently, the outlook for emerging markets has improved significantly, benefiting emerging market bonds.

It is worth noting, however, that emerging market bonds are not a single asset class. Rather they are a collection of different asset classes, which include both corporate and sovereign bonds and can be invested in both hard currency – US dollars and euros, for instance – and local currency. Both asset classes require a different approach to gain efficient and effective exposure. On the one hand, active selection when managing credit risk is important for emerging market corporate bonds, while on the other hand, diversification is a more pressing issue for emerging market sovereign bonds.

Emerging market corporate bonds

When it comes to emerging market corporate bonds, careful credit selection is incredibly important. Emerging market companies have seen their earnings improve, which has allowed them to deleverage and strengthen their balance sheets. Subsequently, they have been able to lengthen the maturities of the bonds they issue because their credit quality has improved. Leverage ratios have started to fall after they increasing in 2020, and they are expected to fall to levels last seen in December 2019. This would indicate that the risk of default has declined from last year.

Emerging market corporate bonds on average also offer a higher yield than credit with the same rating in developed markets (see chart).

Each emerging market country is also unique. They differ from each other in terms of their economic fundamentals, which has an impact on their individual credit markets. Consequently, the opportunities available to investors are incredibly diverse. This is a market where active selection can really pay off. There are many potential rising stars among emerging market corporate bonds, but at the same time prudent selection to avoid the potential fallen angels is also needed. Meanwhile, in the more mature emerging market sovereign bond market, the opportunity lies in being able to get diverse exposure across the asset class.

Emerging market sovereign bonds
According to Valerio Schmitz-Esser, Head of Index Solutions at Credit Suisse Asset Management, “diversification remains one of the most important protective measures for investors when investing in emerging market sovereign debt.” He continues by explaining that “this is where the benefit of using an index fund to gain exposure to this asset class can really make a difference as these products are well diversified, low-cost, and easy to use.”

Let’s look at an example. In 2020, there was a record number of sovereign defaults. For example, Zambia, Ecuador, and Argentina all defaulted. However, index funds that track broad emerging market sovereign bond indices felt little impact. These include, for example, those that track the J.P. Morgan Emerging Markets Bond Index Global Diversified. The individual index weightings for these countries represented only a small portion of the index portfolio, which contains bonds issued by more than 70 countries.

Emerging market debt is underrepresented in most portfolios
Yet despite the benefits that both emerging market credit and emerging market sovereign bonds can offer, many investors remain underexposed. “Emerging economies account for more than half of global GDP, yet the amount that global portfolios allocate to this sector remains very low,” explains Schmitz-Esser.

In recent years, however, allocations to these asset classes have started grow. This is partly because the emerging market debt universe is growing, which has justified the increase in the allocations made by investors. By having the right mix of actively managed emerging market credit funds and index funds, investors can allocate more efficiently. The different risk premiums offered by both can be extremely useful for portfolio construction.

Schmitz-Esser believes that “hard currency index funds are particularly attractive due to the low costs of hedging any currency risk in euros.”

The reference index his team favors is the J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI) in hard currency. This index employs a cap of 5% per country, which Schmitz-Esser believes helps limit the concentration of specific issuers within the index.

Although bonds in local currencies allow investors to benefit from slightly higher yields, the volatility of emerging market currencies must also be taken into consideration. In some situations, this risk could pay off. China is a good example because its role in the global economy is becoming increasingly important, which bolsters demand for its currency.

China’s presence is also being felt in index compositions. Starting from the end of October 2021, Chinese renminbi sovereign bonds will gradually be incorporated into the FTSE World Government Bond Index (WGBI). In the 36 months that follow this event, the weighting of Chinese government bonds within the index is expected to rise to over 5%. This should also help increase the allocations made by global investors to emerging market bonds.

“Diversification remains one of the most important protective measures for investors when investing in emerging market sovereign debt.”

Valerio Schmitz-Esser
Head of Index Solutions

Index:
EM Sovereign

Rating:
BB+

Historical data annualized over 10 years:

Return:	5.67%
Volatility:	7.97%
Sharpe ratio[1]:	0.63

Key data:

Yield to maturity*:	4.97%
Duration:	7.90
Spread:	334

Index:
EM Sovereign IG

Rating:
BBB+

Historical data annualized over 10 years:

Return:	5.28%
Volatility:	6.73%
Sharpe ratio:	0.69

Key data:

Yield to maturity*:	3.29%
Duration:	9.17
Spread:	147

Index:
US Corporate IG

Rating:
BBB–/BBB

Historical data annualized over 10 years:

Return:	4.91%
Volatility:	5.09%
Sharpe ratio:	0.83

Key data:

Yield to maturity*:	2.18%
Duration:	8.05
Spread:	90

Index:
US Corporate BBB

Rating:
BBB

Historical data annualized over 10 years:

Return:	5.41%
Volatility:	5.92%
Sharpe ratio:	0.80

Key data:

Yield to maturity*:	2.44%
Duration:	7.94
Spread:	113

[1] The Sharpe Ratio helps investors understand the return of an investment compared to its risk.

* The yield to maturity shown is calculated as of May 31, 2021 and does not take into account costs, changes in the portfolio, market fluctuations, and potential defaults. The yield to maturity is an indication only and is subject to change.

Sources Bloomberg, J.P. Morgan Indices

Index:
US Corporate HY

Rating:
B+

Historical data annualized over 10 years:

Return:	6.25%
Volatility:	7.10%
Sharpe ratio:	0.79

Key data:

Yield to maturity*:	4.73%
Duration:	4.99
Spread:	330

Index:
EM Corporates

Rating:
BBB–

Historical data annualized over 10 years:

Return:	5.45%
Volatility:	6.11%
Sharpe ratio:	0.78

Key data:

Yield to maturity*:	4.34%
Duration:	4.89
Spread:	296

Index:
EM Corporates IG

Rating:
BBB+

Historical data annualized over 10 years:

Return:	5.16%
Volatility:	4.75%
Sharpe ratio:	0.95

Key data:

Yield to maturity*:	3.13%
Duration:	5.55
Spread:	175

Index:
EM Corporates HY

Rating:
BB–

Historical data annualized over 10 years:

Return:	5.86%
Volatility:	9.26%
Sharpe ratio:	0.56

Key data:

Yield to maturity*:	5.96%
Duration:	4.02
Spread:	457

* The yield to maturity shown is calculated as of May 31, 2021 and does not take into account costs, changes in the portfolio, market fluctuations, and potential defaults. The yield to maturity is an indication only and is subject to change.

Sources Bloomberg, J.P. Morgan Indices

Setting sights on corporate bonds
The reason why emerging market corporate bonds are so attractive is because of the irregular structure of this market. This creates opportunities for investors. “In this market, added value can be generated by actively selecting bonds and managing duration,” explains Gonzalo Borja, Head of Fixed Income Emerging Markets at Credit Suisse Asset Management. Borja goes on to explain: “At the moment, we see better opportunities in corporate bonds issued in hard currencies. They feature a significant spread relative to both the investment grade and high yield bonds in developed markets.”

The investment grade segment in the US received support from the US Federal Reserve over the past year and achieved a yield of roughly 2%. Comparable bonds from emerging markets, on the other hand, have shorter durations – five years on average – and yields that are 80 to 100 basis points higher. According to Borja, based on the JPM CEMBI broad Diversified Index, “when we compare European investment grade bonds with hard-currency emerging market credit, there is a difference of roughly 100–120 basis points for the same borrower quality after hedging cost.”

In the past, emerging market sovereigns were preferred because corporate bonds had a relatively small market cap. For dynamic asset allocation, the focus was on local currencies. The situation, however, has now changed due to the influence of loose central bank monetary policy. Higher US Treasury yields have put pressure on government debt in emerging markets and made corporate bonds more competitive. Their characteristically short durations also allow for a more flexible response to changing spreads.

In terms of the risk/return ratio, emerging market bonds in hard currencies have a much better profile than European and US corporate and sovereign bonds. The opportunities are there. You just need to recognize them and take advantage of them.

Risk warning Bond markets carry risks of issuer default and are subject to economic and market fluctuations. Emerging markets can be prone to more pronounced moves than developed markets, including to the downside.

Aladdin enlightens ESG investors

The alignment of portfolios with ESG criteria is widely recognized as a welcome development, but it can result in higher costs for implementation. Now, however, Aladdin has introduced a new capability. The globally proven platform has been expanded and can now assist investors in evaluating data and analytics for sustainable investments.

Originally developed primarily as a risk management tool, Aladdin is now mainly used as a simulation and modeling platform applying that risk lens across its platform for investors who would like to invest and manage their assets according to environmental, social, and governance (ESG) considerations. This expansion will also benefit asset managers due to the greater depth of reporting they are expected to provide on the sustainability of their investments. While the disclosure of relevant information had mainly taken place on a voluntary basis in the past, it is now increasingly becoming a regulatory requirement. The most recent example of this is the European Union's Sustainable Finance Disclosure Regulation (SFDR). This legislation has been binding upon financial service providers since March 2021 and aims to make it easier for investors to assess the degree of sustainability of an investment.

ESG criteria integrated into the platform

Aladdin's expanded solution combines comprehensive portfolio management and trading tools with sophisticated risk analysis on a single platform. It also includes Aladdin Research, which supplies portfolio managers with ESG-related information around the clock. Users can engage with the data and ratings visually and interactively. This makes it possible to depict a portfolio's performance in accordance with ESG criteria as well as the associated sustainability risks.

Aladdin enables users to upload internal investment recommendations, including ESG parameters, in accordance with client-specific requirements and to assess them in comparison with other reporting tools in the Aladdin ecosystem.

Market participants anticipate that Aladdin will quickly become established worldwide for the identification and assessment of ESG factors and will help to manage the flood of ESG data more efficiently and to distribute and apply it in a more targeted manner within organizations.

Investor's helper

The Aladdin platform was designed by BlackRock for institutional investors and has been employed by Credit Suisse Asset Management (Switzerland and EMEA) since the beginning of 2019. The name "Aladdin" is an acronym which stands for "Asset, Liability, and Debt and Derivative Investment Net work." It is a digital system that supports investors through every stage of the investment and asset management process – from research and idea development to portfolio creation and analysis to reporting. Aladdin and its risk analytics are relied upon by over 200 institutions, including BlackRock. Clients include insurers, pensions, corporations, asset managers, banks, and official institutions.

The full ESG program

Users can analyze a portfolio's positioning, risk, and returns from an ESG angle with the same platform and a consistent set of data is used throughout the entire investment process.

Explore

Interactive portfolio analysis and charting across the book of business

Aladdin Research

ESG research commentary on companies
ESG surveillance and screening

Portfolio Construction/ order generation

Portfolio Construction
Portfolio modeling, including optimization and order generation

ESG in Aladdin

ESG data aims to quantify a company's exposure to – and management of – ESG issues, risks, and opportunities. With Aladdin, we are democratizing access to this data by offering a set of headline Sustainalytics and Refinitiv ESG metrics at no additional cost.

Investment insights

Integrating ESG metrics – both vendor and proprietary into Aladdin's toolkit enables clients to leverage the data in portfolio analysis, research, and ideation, and portfolio construction workflows.

Integrated third-party data

Over 2,000 ESG measures from MSCI, Sustainalytics, and Refinitiv are available, provided appropriate licensing is in place. Additional vendor integration is coming later this year.

Proprietary data access

Aladdin clients can easily integrate and leverage proprietary ESG data throughout the Aladdin platform, in addition to vendor measures.

Regulatory support

Aladdin offers relevant ESG data for regulatory and disclosure reporting purposes, alongside templates that help clients get started.

Source BlackRock (May 2021), Aladdin Sustainability Tear Sheet

“We want to give children worldwide a chance.”

Interview with Prof. Dr. med. Jean-Pierre Bourquin

Chief Physician at the Center for Oncology, Hematology, Immunology, SCT and Somatic Gene Therapy at University Children’s Hospital Zurich

Advancements in pediatric oncology can largely be traced back to innovative research methods that University Children's Hospital Zurich has developed in collaboration with leading global institutions. Chief Physician Prof. Dr. med. Jean-Pierre Bourquin explains why a new era is dawning in oncology and why private sector support is so important.

Prof. Bourquin, you head up oncology at University Children's Hospital Zurich. Why did you become a doctor?
Jean-Pierre Bourquin: I was about to study architecture at ETH Lausanne or pursue projects spanning the fields of art and science. Sounding out what is feasible, striking a balance for my fellow human beings, fostering a deep connection with affected families – these are the factors that motivated me to become a doctor.

And why did you decide to specialize in pediatrics?
Maybe it has something to do with my family. My grandfather August Hotz was head of the nursing school in Zurich and a dedicated pediatrician. He passed away when my mother had barely entered adolescence. During my studies, I was immediately drawn to the children's ward. I was fascinated by this world inhabited by children and the special atmosphere that filled the air. I would make exactly the same decision today.

How does pediatric oncology differ, medically speaking, from adult oncology?
Even if the basic mechanisms are similar and we can learn a great deal from one another childhood tumors are fundamentally different. In simple terms, cancer is caused by mistakes in the way our genes are programmed. I like to use the analogy of a computer that suddenly does something different because parts of the program have been misdirected. When the baby is still in the womb or in its early life, it is other factors that cause these mistakes. In adulthood, different stressors come into play over time. These tumors are generally even harder to treat in adults than they are in children. Pediatric oncology is its own specialist area, and thankfully one that has a successful history in research and development.

What advancements have been made in recent years?
A new era is dawning in oncology: personalized medicine and immunotherapies are revolutionizing treatments. As the largest pediatric center for oncology in Switzerland, we are helping to shape this development. In our two specializations of brain tumors and leukemia, nothing other than excellence will do: we want to do pioneering work and push our research to find groundbreaking insights. This means we can give a chance to children worldwide who are suffering from serious or untreatable tumors.

Which future technologies/therapies are currently undergoing intensive research?
We are heavily involved in the development of new methods to identify critical biological dependencies directly on patient tumor cells. We are able to switch off a wide range of genes to single out those that the tumor needs to exist. We can use this same method to test therapeutic substances in the laboratory to see how effective they are on tumor samples of affected patients. The intention is therefore to step up the development of new therapies in the next few years. In addition, research is being conducted into various methods to sharpen our body's own defenses against tumors – something that is being met with great success for certain forms of leukemia. We hope that it will soon be possible to treat cancer just as effectively or even more so, but with fewer side effects.

The Children's Hospital recently launched an app for children with leukemia. What does this app do?
This app is an efficient link between families, specialist medical staff, and the clinic. Those involved will have access at all times to precise therapy plans and the results of key tests. This will make it significantly easier to manage outpatient therapy at home. The responsible team will have an interactive overview of tasks and pending items for each patient. Support for appointments and frequently asked questions will be significantly improved as a result.

The app was developed with the support of Credit Suisse Asset Management. What form did this collaboration take?
We had complete freedom in terms of design. The specialists at Credit Suisse Asset Management provided us with close supervision and support during development, especially when it came to integrating the app into the Children's Hospital's operating environment. Thanks to the hard work and commitment of Dr. Michael Neugebauer, a young and talented doctor and a gifted computer scientist, as well as our senior physicians Dr. Sabine Kroiss and Dr. Nicole Bodmer, we now have an innovative app at our disposal that will also be of great interest to other clinics.

Why are private individuals and private institutions so important to the future of the Children's Hospital?
It would simply be impossible to set up a competitive research department without the tremendous support received from donors and sponsors. Their help means that we will be able to continue our pioneering work in pediatric oncology and develop life-saving therapies for seriously ill children. With that in mind, fundraising remains one of my most important tasks. I'm extremely grateful that over the years I've been able to count on the valuable support of companies such as Credit Suisse Asset Management.

New digs

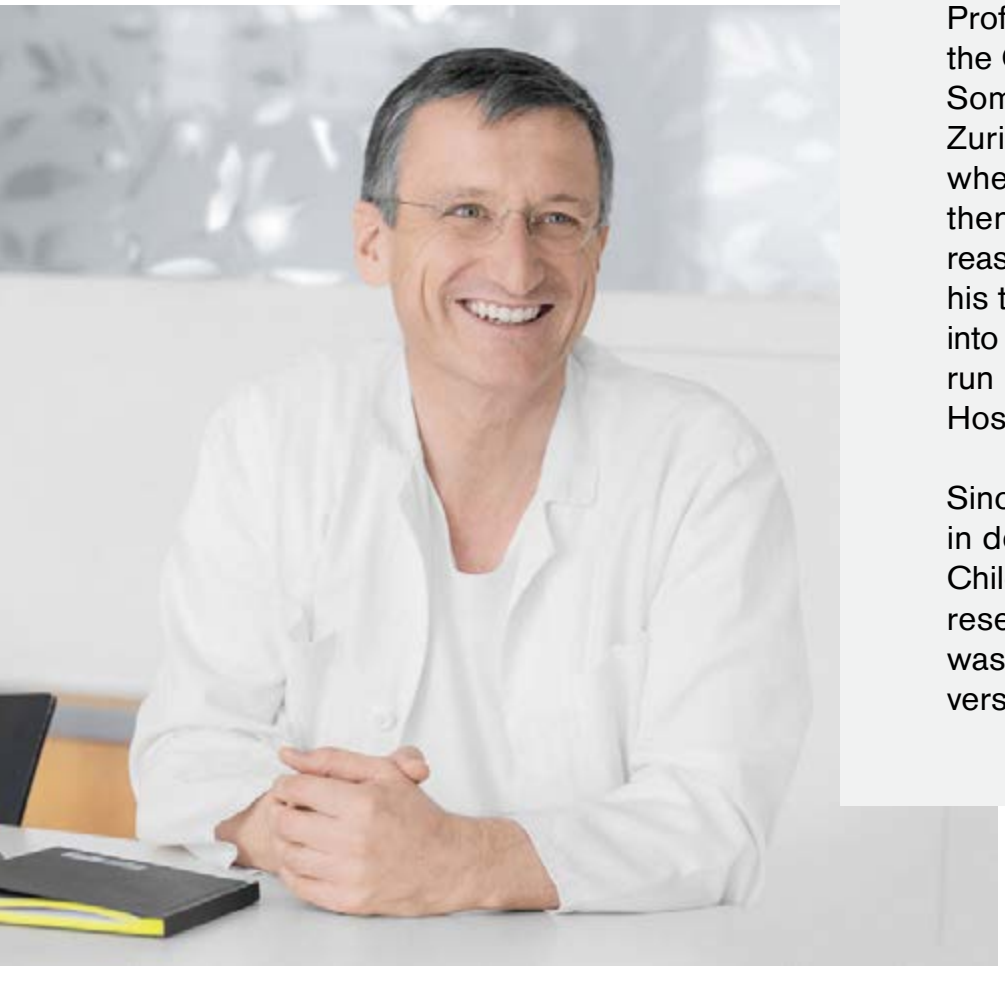
Children's Hospital Zurich – known colloquially in the region as "Kispi" – is the largest University Children's Hospital in Switzerland and one of the leading centers for pediatric and youth medicine in Europe. It employs around 2,300 staff, who each year care for around 100,000 young patients from their first day of life to their 18th birthday.

Since the capacity of the current site in Zurich-Hottingen has reached its limits, the Children's Hospital is constructing a new facility with support from the private sector in Zurich-Lengg. It is tailored throughout to the needs of young patients. The new complex consists of a circular building housing laboratories, teaching areas, and research facilities, as well as a leading-edge intensive care hospital.

The origins of the Children's Hospital can be traced back to Conrad Cramer. It was at the initiative of this generous private individual that in 1868 the "Eleonorenstiftung" was founded in memory of his prematurely deceased wife, which in turn gifted CHF 50,000 to the City of Zurich to found a children's hospital. The "Eleonorenstiftung" remains the legal entity of the Children's Hospital to this day.

What are your expectations of the new Children's Hospital?
The new building – which I find extremely exciting from an architectural standpoint – offers us a unique opportunity to implement changes. We need to shake loose from rigid structures and place a greater emphasis on flexibility so we can react more quickly, decide more freely, foster interdisciplinarity and innovation, and enable individuality.

In oncology, we want to prepare the next generation of specialist teams and make a decisive contribution to improving the lives of children living with cancer worldwide by providing them with more effective tools to manage their disease and by giving them better chances of recovery.



Jean-Pierre Bourquin

Prof. Dr. med. Jean-Pierre Bourquin is Chief Physician at the Center for Oncology, Hematology, Immunology, SCT and Somatic Gene Therapy at University Children's Hospital Zurich. He was born in Zurich and grew up in Lausanne, where he completed the first half of his medical studies. He then transferred to the University of Zurich, among other reasons because of its academic orchestra. After completing his training at Children's Hospital Zurich, he was accepted into the renowned Fellowship Program for Pediatric Oncology run by Harvard Medical School at the Boston Children's Hospital and Dana Farber Cancer Institute.

Since 2004, Jean-Pierre Bourquin has played a pivotal role in developing a national pediatric leukemia program at Children's Hospital Zurich, and today he is one of the leading researchers and clinical experts in this field. In 2019 he was appointed Professor of Pediatric Oncology at the University of Zurich.

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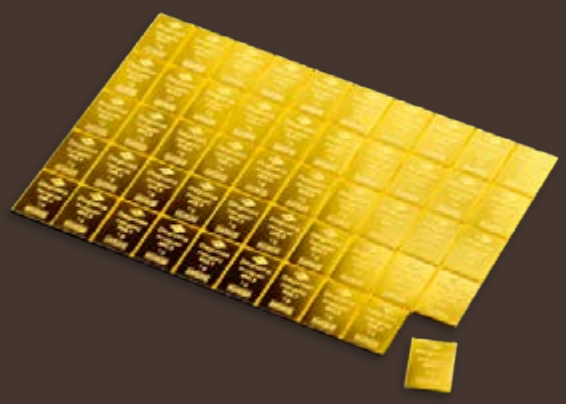

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