This publication provides an introduction to Discretionary Mandates for private clients (hereinafter “DMs”). The brochure aims to help clients understand the characteristics, benefits, and risks of DMs and the respective asset classes and financial instruments used.
This brochure is divided into four chapters. The first chapter describes the characteristics, benefits and risks associated with a DM. Chapter two outlines the specific activities performed by Credit Suisse (Switzerland) Ltd. (hereinafter “Credit Suisse”) in relation to DMs. Chapter three describes the individual asset classes and highlights the characteristics and risks related to the relevant types of financial instruments. The method of risk classification of DMs will be elaborated in the last chapter.
What Is a Discretionary Mandate?

By signing a DM, the Client enables Credit Suisse to manage the Client’s money or part of it on his/her behalf. The mandate is given in writing by the Client to Credit Suisse and bears the Client’s signature (the “DM Agreement”).

Credit Suisse invests the Client’s assets in his/her best interests and in accordance with its current strategic asset allocation, the investment strategy agreed with the Client, and any investment instructions given by the Client whereby taking into account the Client’s personal circumstances known by Credit Suisse. In doing so, Credit Suisse utilizes a professional organization with adequately qualified staff. The Client acknowledges through the DM Agreement that Credit Suisse has discretion in making investment decisions and thereby authorizes Credit Suisse to pursue all transactions it judges appropriate. While managing the DM, Credit Suisse is entitled within the investment strategy to purchase, subscribe, sell, give notice, and liquidate several or all financial instruments at its own discretion and without being obliged to obtain individual directives from the Client. Credit Suisse independently selects the financial instruments, date of investment, and type of purchase (e.g. on-exchange or over the counter, cash or forward transaction).

Credit Suisse is authorized to define its strategic asset allocation at its own discretion. In doing so, Credit Suisse can align the strategic asset allocation either for all clients consistently, according to specified client groups, or for each client individually. Hence, Credit Suisse is authorized to standardize the management of DM portfolios.

Risk Aspects Associated with DMs

Financial markets are volatile and hard to predict. Making active investment decisions means trusting oneself to predict movements of the financial markets or a specific financial instrument. Credit Suisse’s investment decisions are based on a structured Investment Process (see page 4) with the purpose of achieving investment gains for the Client. Investment decisions are deemed at the point of decision to be “right”. Over time, they can prove to be “wrong” or have no impact. In this sense, Credit Suisse is not able to guarantee that investment decisions made will lead to gains for the Client. As a consequence, this will impact the return of the Client’s DM and the assets under management. Credit Suisse can give no guarantees as to investment success or the avoidance of losses.
What Are the Activities Performed for a Discretionary Mandate?

Credit Suisse pursues a structured investment process*. It forms the basis for the selection of investment instruments that are acquired and sold within the framework of a DM. Here is an overview of the most important parts.

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Comprehensive Risk Management

What Does a Discretionary Mandate Invest In?

In order to meet the investor’s personal investment target, a professionally optimized portfolio composition is essential. In a portfolio context, the important factor when managing a DM is diversification and risk control. The investment strategy generally covers asset classes such as Liquidity, Fixed Income, Equities, and Alternative Investments according to carefully coordinated ratios.

Risks in the Client’s DM are fundamentally dependent on the investments in different asset classes, regions and currencies. Investments in different asset classes can be achieved through different instrument types, which, in their turn, involve risks.

* For certain mandate types, the investment process may differ in some aspects from the overview provided.
Asset Classes

The following sections describe the risks associated with the different asset classes and instrument types.

**Liquidity**

Liquidity is considered to be cash or short-term investments with a duration below one year (e.g. money market investments).

**Money market investments** are short-term investments with a freely selectable term of up to one year and an agreed interest rate. These investments are generally available over a certain minimum amount. Money market investments are classified on the basis of availability into call money and fixed-term deposits. Call money has an unspecified term. It remains invested until notice is given on the investment (notice period generally 48 hours). Fixed-term deposits have a specified term and cannot be terminated prematurely. They automatically mature at the end of the term and may then be reinvested.

The interest rate is agreed when a direct money market investment is placed. It applies for the entire term of the investment. In the case of call money, the interest rate is generally agreed daily. If call money is held over a longer period, the interest rate may vary from day to day.

Within the money market asset class, DMs typically (but not exclusively) invest in the following currencies: **Swiss franc**, **US dollar**, **euro**, **pound sterling** and **Japanese yen**.

**Possible Benefits**
- Availability at short notice
- Term can be chosen freely
- Deposit protection

**Possible Risks**
- Credit risk
- Market risk
- Liquidity risk
- Foreign currency risk

* A detailed description of each risk can be found on page 10.

**Fixed Income**

Fixed-income investments are short- to long-term debt securities (e.g. bonds). The term is usually up to 30 years. A debt security generally certifies the right to redemption of the investment amount (par value) and any interest payments (coupons). The repayment is made at the end of the term (maturity date). Fixed-income investments may be issued by companies, banks, or the public sector (e.g. federal government, municipalities).

The main characteristics of fixed-income investments are set out upon issuance in an issue prospectus. Fixed-income investments can usually be traded on the secondary market during their term to maturity.

During its term, the market value of a fixed-income investment may fall below the redemption price upon maturity. If issuers default on their payment obligations under a fixed-income investment, there is the risk of a partial or total loss of the capital invested (further details can be found in the “Credit Risk” section on page 10).

**Possible Benefits**
- Stability (less volatile than equities)
- Tradeability (traded in organized capital markets or over-the-counter between trading houses)
- Steady yield (regular coupon payments)

**Possible Risks**
- Credit risk
- Market risk
- Liquidity risk
- Foreign currency risk
- Emerging-market risk

* A detailed description of each risk can be found on page 10.

Within the fixed-income asset class, DMs typically (but not exclusively) invest in the following sub-asset classes:

**Corporate bonds** are bonds issued by corporations and companies. The credit risk related to those bonds depends on the financial condition of the corporation. The risk related to corporate bonds therefore ranges from low to high.

**Government bonds** are bonds issued by a government. Government bonds were traditionally viewed as low-risk or even risk-free financial instruments because of their government backing. But as the European debt crisis has shown, government bonds may also be subject to substantial risks depending on the financial condition (i.e. the debt burden) of the issuing government.
Emerging-market bonds are bonds issued by companies or governments in developing economies. In recent years, emerging-market bonds have gained traction in investor portfolios, which has been attributed to emerging-market bonds’ rising credit quality and conceivably higher yields relative to corporate and government bonds from developed economies. Generally, higher returns come with an increased level of risk, and emerging-market issues do tend to carry higher risks than those associated with corporate and government bonds from developed economies.

Convertible bonds are bonds with a fixed term and a set interest rate that give the holder the right to convert the bond into the issuer’s stock at a predefined ratio during a specified conversion period. Hence, a convertible bond has risk exposure to the fixed-income and equity markets. Therefore, please also review the section on risks related to equity investments.

Inflation-linked bonds are bonds that provide protection against higher-than-expected inflation. The interest rate (sometimes the interest rate and redemption amount) of these bonds is linked to inflation. So the interest rates of inflation-linked bonds increase if inflation rises. Due to the protection against inflation, they usually have lower yields than traditional bonds.

In asset-backed securities, risks (such as a range of receivables) are grouped together and transferred to a special purpose vehicle (SPV). The SPV finances this transaction by issuing securities backed by a pool of assets. If the collateral is a mortgage, this kind of instrument is called a mortgage-backed security. The individual components of the pool of assets would be unattractive or even unobtainable in this form for individual investors. However, the composition of the pool of assets makes it possible to combine and sell a range of assets and risks. By grouping together different types of credit risk, different risk profiles can be created. Even if a pool of assets is created, lack of diversification can lead to a concentration of risk.

Covered bonds are corporate bonds backed by a pool of assets. The pool of assets secures the bond if the issuer of the bond becomes insolvent.

High-yield bonds carry a credit rating below investment grade (i.e. a Standard & Poor’s rating below BBB or a Moody’s rating below Baa). High-yield bonds have a higher risk of default than investment-grade bonds and are therefore expected to generate higher returns.

Equities

With a share, the investor acquires equity securities in a company or a collective investment scheme. Shares are the most common form of equity securities. Equities are securities that give the holder a share in the capital of a stock company.

The development of the share price is dependent on a number of different factors, such as the performance of the company, the market situation, and the general stock exchange environment. It must be generally assumed that the share price will fluctuate. Shareholders participate in the development of the share price, and many stock companies also pay out a dividend.

Within the equities asset class, DMs typically (but not exclusively) invest in countries, regions or markets such as Switzerland, the euro zone, Scandinavia, the United States, the United Kingdom, Japan, and emerging markets. The individual allocation depends on the investment strategy.

Possible Benefits

• Long-term potential for returns (participation in the economic success of the company)
• Additional return through dividend payment
• Pricing and liquidity controlled by regulated stock-exchange trading for listed equities

Possible Risks*

• Credit risk
• Market risk
• Liquidity risk
• Foreign currency risk
• Emerging-market risk

* A detailed description of each risk can be found on page 10.
Alternative Investments

Financial instruments that do not fall under traditional asset classes such as Liquidity, Fixed Income, or Equities are known as Alternative Investments or non-traditional assets. Alternative Investments are favored mainly because their returns generally tend to have a low correlation with those of standard asset classes.

They include hedge funds, managed futures, real estate, commodities, and derivatives contracts.

Within the alternative investments asset class, DMs typically (but not exclusively) invest in gold, commodities, real estate, and hedge funds.

Commodities and gold are unprocessed physical goods that result from mining (e.g. precious/industrial metals), deep drilling in the energy sector (e.g. crude oil or natural gas) or agriculture (e.g. wheat, cotton, livestock, etc.). One can invest in commodities either directly or indirectly. In the case of direct investment, one physically buys the commodity and has to store and transport it. This can result in considerable costs. In the case of indirect investment (e.g. using commodity derivatives), one can agree on physical delivery or cash settlement.

Commodity prices are determined primarily by supply and demand. When a commodity is scarce, its price rises. Excess supply, on the other hand, can lead to a drop in price. The availability of “soft” commodities, such as agricultural goods, is generally dependent on the weather and the availability of water. “Hard” commodities, in contrast, are not subject to any seasonal or weather-related dependency.

Possible Benefits
• Diversification (generally low correlation with general market performance)
• Additional return potential (reasons: many commodities are becoming scarcer, supply bottlenecks)

Possible Risks*
• Credit risk
• Market risk
• Liquidity risk
• Foreign currency risk
• Other risks: cyclical risk, rental and local market risk, environmental risk, changes to the legal situation

Possible Benefits
• Diversification (generally low correlation with general market performance)
• Inflation protection (e.g. by raising rents)
• Steady yield (regular returns from rental payments)

Possible Risks*
• Credit risk
• Market risk
• Liquidity risk
• Foreign currency risk
• Other risks: cyclical risk, rental and local market risk, environmental risk, changes to the legal situation

Real estate investments can be either direct or indirect. Real estate investments within a DM are primarily indirect investments, which include equities/participations, derivatives, and funds that are related to real estate. Indirect real estate investments can offer investors greater benefits than direct investments. They may be associated with lower transaction costs, greater liquidity, and transparency.

Unlike traditional investment funds, hedge funds are generally not subject to any restrictions regarding financial instruments or strategies. However, an increasing number of hedge funds are accepting regulation and are undertaking to improve investor protection by implementing investment restrictions and enhancing transparency and liquidity.

Hedge funds are considered to include any type of investment fund that generally uses derivative strategies (such as forward transactions) to invest the fund’s assets. To do this, they may, for example, use short selling to take advantage of falling market prices. Likewise, loans may be taken out against the fund’s net assets in order to achieve leverage. Besides strategies aimed at continuous moderate performance, higher risk strategies are sometimes implemented in order to achieve above-average returns. Most managers focus on a single investment strategy.

* A detailed description of each risk can be found on page 10.
**Possible Benefits**
- Generally low correlation with a wide range of financial instruments and strategies
- Diversification in the case of hedge funds of funds
- Risk-adjusted return
- Opportunity to participate in markets/strategies that are otherwise difficult to access

**Possible Risks**
- Credit risk (leverage)
- Market risk (short selling)
- Liquidity risk (redemption may be partially or completely suspended)
- Foreign currency risk
- Other risks: little regulation, low transparency, dependency on fund management, less frequent valuation

* A detailed description of each risk can be found on page 10.

**Insurance-linked investments** are securities that allow insurance companies to cover obligations arising upon the occurrence of insured events via the capital market. Here, securities are selected that relate to damages arising from event categories such as earthquakes, hurricanes, windstorms, aviation, etc.

**Possible Benefits**
- Diversification (low correlation with general market performance)
- Low sensitivity to interest rate fluctuations

**Possible Risks**
- Credit risk
- Market risk
- Liquidity risk
- Event risk (should an insured event occur or a threshold value be exceeded, this may lead to a reduction in the value of the individual investment or even a complete loss)
- Model risk

* A detailed description of each risk can be found on page 10.

A **master limited partnership (MLP)** is a publicly traded partnership with limited liability. It combines tax benefits with liquidity on the equity market.

**Possible Benefits**
- Greater potential return

**Possible Risks**
- Liquidity risk
- Foreign currency risk
- Credit risk
- Market risk
- Other risks such as a lack of transparency and corporate organization

* A detailed description of each risk can be found on page 10.
Instrument Types

Gaining exposure to the different asset classes can be achieved by using different instrument types. The most common ones in a DM solution are described below.

Direct Investments versus Indirect Investments
With a direct investment, the investor gains exposure to the respective asset class/financial instrument by holding the financial instrument directly. Indirect investments typically give exposure to an asset class/financial instrument by interposition of a fund vehicle, via a derivative structure, or via a structured product.

Certain indirect investment instruments are issued primarily by financial institutions, which could lead to a concentration of the Client’s portfolio on these issuers and the financial sector in general. In the case of indirect investments, fees and costs can be charged at the indirect investment level as well as at the level of the target investments of the indirect investment.

Collective Investment Schemes
Collective investment schemes are indirect investments that pool the monies of several investors to form the fund assets. These assets are invested in a range of asset classes, such as money market investments, bonds, equities, commodities, or real estate. The fund managers make the concrete investment decisions in line with the defined investment strategy. Exchange traded funds (ETFs) are listed investment funds with no specified final maturity. They are traded on the stock exchange. ETFs are generally not actively managed by fund management companies, but replicate an index passively. As with conventional investment funds, the investment capital represents a special asset that is not included in the bankruptcy estate should the issuer of the investment fund become insolvent (no issuer risk).

Possible Benefits
- Diversification
- Comprehensive investor protection
- Professional fund management
- Opportunity for private investors to participate in markets that are otherwise difficult to access
- Option of investing even small amounts
- High liquidity
- ETFs: high degree of transparency

Possible Risks*
- Market risk
- Liquidity risk
- Foreign currency risk
- Tracking risk
- Emerging-market risk

* A detailed description of each risk can be found on page 10.

Derivatives
Derivatives are indirect investments whose value depends on the values/return of other, more basic, underlying variables. Common underlying values are indices, interest rates, currency exchange rates, or commodity, credit, and equity prices. Derivatives are agreements between two parties with specific conditions (definition of underlying, price, date, contractual obligations, etc.). In general, there are two distinct groups: contracts with standardized features that are traded on an exchange, and non-standardized contracts that are privately traded in the OTC (over-the-counter) market.

The most widespread/popular derivatives are: forwards, futures, options, and swaps. Forwards and futures are contracts to buy or sell a specific amount of a certain asset (underlying) at a certain time in the future for a predetermined price. Forwards are non-standardized contracts that are directly traded between two counterparties (in the OTC market). Futures are standardized contracts that are traded on exchanges. Options are contracts that give the holder (buyer) the right, but not the obligation, to buy (call option) or sell (put option) a specific amount of a certain asset (underlying) for a predetermined price on (European option) or by (American option) a predefined date in the future. On the other hand, the writer (seller) of the option has the obligation to carry out the transaction (i.e. buy or sell the asset) if the option holder exercises the option. Swaps are contracts between two counterparties to exchange cash flows of one party’s underlying asset for those of the other party’s underlying asset (in the future). They are customized contracts that are privately traded in the OTC market.

Derivatives can be used either for risk management purposes, known as “hedging”, i.e. to reduce or eliminate certain risks (e.g. currency risk), or for investment reasons, i.e. hoping for additional investment gains.

Possible Benefits
- Opportunity to hedge existing positions/portfolios for the short term
- Customized payoff patterns can be created

Possible Risks*
- Market risk
- Credit risk
- Liquidity risk
- Foreign currency risk
- Emerging-market risk

* A detailed description of each risk can be found on page 10.
Structured Products
Structured products are classified as indirect investments. They are synthetic financial instruments specially created to meet specific needs that cannot be met by the standardized financial instruments available in the markets. Structured products can be used as an alternative to a direct investment as part of the asset allocation process to reduce risk exposure of a portfolio or to utilize the current market trend. Typical examples of structured products are Capital Protected products, Participation/Yield Enhancement, or the most commonly used structured product, Leverage products.

Possible Benefits
- Opportunity to hedge existing positions/portfolios
- Opportunity to make a low capital investment with leverage effect
- Opportunity to derive an additional benefit from falling prices

Possible Risks*
- Market risk
- Credit (counterparty) risk
- Liquidity risk
- Foreign currency risk
- Other risks: underlying risk, margin call risk, settlement risk, exercise risk, leverage effect risk

* A detailed description of each risk can be found on page 10.

Details of the Most Common Risk Aspects

Below is a description of the most common risks in relation to asset classes and types of financial instruments used for DMs.

Credit risk is the risk of suffering a partial or total loss of the capital invested if the counterparty becomes insolvent (e.g., the default of an issuer of a bond). Securities held in a safekeeping account with Credit Suisse, however, will be segregated in favor of the Client in the event of an insolvency of Credit Suisse. Therefore, there is no credit risk with regard to Credit Suisse for securities held in safekeeping accounts with Credit Suisse. However, there is a credit risk for cash deposits exceeding the amount covered by the deposit protection and securities issued by Credit Suisse.

For risks associated with collateralized securities lending, please refer to the Supplement to the Discretionary Portfolio Management Agreement.

Leverage effect risk is the risk related to leverage products. Leverage products react disproportionately to price gains and losses in the underlying financial instrument and therefore entail a higher risk of loss. The greater the leverage, the higher the risk.

Emerging-market risk is the risk related to a country in transition from a developing to an industrialized economy. Emerging-market economies tend to react more strongly to changes in economic activity than the economies of developed countries. In particular, the markets react to proposed and actual changes in monetary policy, government economic and financial policy, and changes in interest or inflation rates.

Therefore, setbacks can occur in foreign exchange markets even where development prospects were originally considered to be favorable.

Foreign currency risk is a form of risk that originates from changes in the relative valuation of currencies. These changes can result in unpredictable gains and losses when the profits from an investment are converted from the foreign currency into the reporting currency of the client.

Liquidity risk is the risk that a financial instrument cannot be bought/sold within a reasonable period of time at an appropriate price (market price). When certain financial instruments are impossible to sell, or can only be sold with difficulty and at a sharply reduced price, the market is said to be illiquid.

Market risk is the risk that fluctuations in market values (share prices, interest rates, etc.) will have a negative effect on the value of the financial instrument during the term.

Tracking risk is the risk that the return of a mutual fund/ETF may be lower than that of the underlying index or benchmark because the mutual fund/ETF is subject to management fees.

Model risk includes the risk that a model has been designed incorrectly, is applied inappropriately or the wrong input data is used. In the case of mandates based on models, this can also lead to an increased number of transactions.
Instructions May Result in a Departure from the Diversified Strategic Asset Allocation

The execution of any individual instructions issued by the Client (for example the exclusion of asset classes) may result in a departure from the diversified strategic asset allocation and from an optimal combination of asset classes for the respective investment profile. Credit Suisse has to prioritize instructions from the Client. Hence, instructions issued by the Client may cause the Client’s portfolio to become suboptimal in terms of return/risk for the respective investment profile and to deviate from the official view of Credit Suisse. As a result, the portfolio may not be comparable to the composite of the respective investment profile. Furthermore, Credit Suisse is not obligated to monitor investment instruments selected by the Client.

Which Discretionary Mandate Is Right for the Client?

Credit Suisse offers a wide range of different DM solutions with different investment strategies involving different levels of risk. For relative return strategies (seeking an asset return over a period of time compared to one or more reference indices), the level of risk of an investment strategy at Credit Suisse is determined mainly based on its minimum and maximum exposure to different asset classes (Liquidity, Fixed Income, Equities, Alternative Investments). The asset allocation is an integral part of the investment process. Asset allocation describes the distribution of the invested capital to the different asset classes and/or sub-asset classes, regions and currencies. The level of the exposure to the various regions (e.g. emerging markets) may influence the level of overall risk in the portfolio.

For total return strategies (seeking income and capital appreciation to produce a high total return), the level of risk of an investment strategy is determined by volatility, which is a statistical measure that describes the variation of portfolio returns over time.

In the case of rule-based strategies (which invest in individual asset classes on the basis of predefined indicators in order to generate an absolute return), the level of an investment strategy’s risk is determined on the basis of volatility or another suitable risk measure.

Credit Suisse determines the Client’s risk profile based on his/her risk tolerance and risk ability. Based on this risk profile, the Client’s knowledge and experience with regard to discretionary portfolio management services and his/her investment objectives, the Relationship Manager will recommend a suitable investment strategy. In some client situations, the chosen investment strategy might deviate from the Client risk profile defined (e.g. Client has different reference currency than the investment strategy, Client has other investments with other banks). If the Client wishes to invest in an investment strategy that contains more risk than identified by the advisory assessment, the Client should be aware that the solution is likely to deviate from his actual risk ability and risk tolerance.
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