

Credit Suisse Swiss Pension Fund Index Q1 2020



Credit Suisse Swiss Pension Fund Index

Swiss pension funds by comparison

Q1 2020: -7.16%

YTD 2020: -7.16%

- First non-positive quarter since Q4 2018
- Since the index began, performance has only been weaker in Q3 2001 (-7.91%)
- Extremely negative return contribution from foreign equities

Market review

The global economy contracted in the first quarter of 2020. Equity markets performed negatively amid high volatility, and yields on key government bonds were also lower. Meanwhile, the USD was unchanged against most leading currencies.

- The measures taken by many countries to combat the COVID-19 pandemic constricted economic activity and led to a slump in global economic output. Chinese consumer spending, investment, and trade nevertheless enjoyed a rebound in March, after having fallen sharply in February. By contrast, March saw a sharp fall in these indicators for other major economies such as the US and the euro zone. There was also a big jump in US unemployment, most notably in the service sector. Various major economies took comprehensive measures to support companies and households.
- The US Federal Reserve (Fed) cut interest rates by 150 bp, spent trillions of dollars purchasing securities, and resumed quantitative easing. The European Central Bank relaxed financing conditions for banks and purchased securities. The Bank of England likewise reduced interest rates and bought assets. By contrast, the Swiss National Bank and the Bank of Japan left their key interest rates unchanged. Central banks in various emerging markets also cut interest rates.
- Due to its impact on the world's economy, COVID-19 also had a significant impact on global equities. Share prices lost around 20% of their value in the first quarter, with Europe underperforming the US. The Swiss equity market proved to be one of the strongest, posting a loss of 11%. As for the emerging markets, Latin American equities took the biggest hit. Chinese shares, on the other hand, showed greater resilience. Healthcare, information technology, and consumer staples were the strongest sectors, while energy, financials, and commodities underperformed. March saw the Chicago Board Options Exchange Market Volatility Index (VIX) reach a very high level in historical terms.
- On the fixed-income side, government bonds delivered positive returns. This came as central banks implemented aggressive purchasing programs to stave off recession as a result of the COVID-19 shock. Liquidity in the market for US treasuries normalized toward the end of the quarter, though not across the entire market. Yields on ten-year US government bonds reached a historical low of less than 1%. Spreads widened significantly, but tightened again slightly following the resumption of unlimited quantitative easing. Investment-grade corporate bonds from industrialized and emerging markets achieved single-digit losses. The investment-grade segment outperformed high-yield bonds and fixed-income investments from emerging markets in hard currency.
- COVID-19 caused volatility to rise on currency markets, too. The Fed's decision to adopt accommodative monetary policy led to initial weakness in the USD. However, this was soon reversed due to the high demand for USD liquidity as well as the sell-off on global equity markets. The EUR shed 2.3% against the USD. In an uncertain market environment, safe-haven currencies such as the JPY and CHF were the winners. The Swiss National Bank significantly ramped up its intervention in the foreign exchange market in a bid to contain the upward pressure on the CHF against the EUR. Oil-sensitive currencies were particularly badly hit by the sharp decline in oil prices.
- The Credit Suisse Commodity Benchmark dropped by 36% in the period observed as industrial activity came to a pandemic-induced standstill. The fact that the oil market simultaneously suffered not only a sharp decline in demand but also a supply shock led the energy sub-sector to post the biggest fall. Base

The Credit Suisse Swiss Pension Fund Index is calculated on the basis of the equally weighted gross returns realized by Swiss pension funds (prior to deducting management costs) whose assets are held at Credit Suisse under a global custody arrangement. Asset management and advisory tasks, however, are performed by the pension funds themselves or by third parties. In its role as global custodian, Credit Suisse has no influence on the performance of individual pension funds.

metals likewise showed a negative performance. Meanwhile, the less-cyclical agricultural sector was more stable. Gold benefited from its role as a safe haven and delivered above-average performance.

Credit Suisse Swiss Pension Fund Index dominated by COVID-19 in Q1 2020

The Pension Fund Index fell by 13.32 points, or -7.16%, in the quarter under review; this is the first non-positive quarter since Q4 2018. As of March 31, 2020, the index stood at 172.81 points, based on a starting level of 100 points at the beginning of 2000. March (-5.49%) was the poorest month, followed by February (-2.26%) and January (+0.51%). Since records began, performance has only been weaker in Q3 2001 (-7.91%).

The lion's share of negative performance in the first reporting quarter was attributable to equities (-5.45%). Swiss equities achieved a return contribution of -1.58%, while foreign equities made a contribution of -3.86%. Real estate also turned in a negative performance. With a contribution of -0.42%, this asset class was unable to build on the positive result of the previous quarter. Bonds (incl. convertible bonds) also weighed on the result with a performance contribution of -1.02%. Alternative investments and other investments were fairly unremarkable, but nonetheless ended in negative territory. By contrast, liquidity made a slightly positive contribution.

Table 1: Performance contribution (quarterly)

Credit Suisse Swiss Pension Fund Index (1.1.2020–31.12.2020)

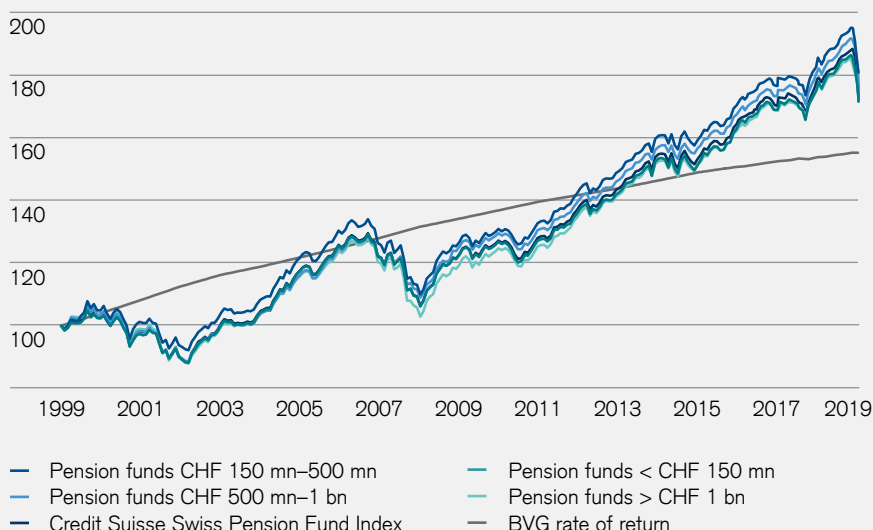
	Q1 20	Q2 20	Q3 20	Q4 20	YTD
Liquidity	0.02%				0.02%
CHF bonds	-0.71%				-0.71%
Foreign currency bonds	-0.28%				-0.28%
Convertible bonds	-0.04%				-0.04%
Swiss equities	-1.58%				-1.58%
Foreign equities	-3.86%				-3.86%
Alternative investments	-0.24%				-0.24%
Real estate	-0.42%				-0.42%
Mortgages	0.00%				0.00%
Other	-0.06%				-0.06%
Total	-7.16%				-7.16%

Credit Suisse Swiss Pension Fund Index above BVG mandatory minimum rate of return over long term

■ The index of the BVG mandatory minimum rate of return (1% p.a. since January 1, 2017) rose by 0.39 points (0.25%) to 155.54 points in the reporting quarter from a baseline of 100 in January 2000. The return of the Credit Suisse Swiss Pension Fund Index is therefore -7.41% below the BVG requirement in the first quarter of 2020.

■ The annualized return on the Credit Suisse Swiss Pension Fund Index (since January 1, 2000) amounted to 2.74% as of March 31, 2020. This contrasts with an annualized BVG mandatory minimum rate of return of 2.21%.

Chart 1:
Performance by pension fund segment size



Scale: Index level

BVG rate of return

until 31.12.2002	4.00%
from 1.1.2003	3.25%
from 1.1.2004	2.25%
from 1.1.2005	2.50%
from 1.1.2008	2.75%
from 1.1.2009	2.00%
from 1.1.2012	1.50%
from 1.1.2014	1.75%
from 1.1.2016	1.25%
since 1.1.2017	1.00%

Table 2: Index level 2015–2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
2015	149.45	153.54	154.53	154.71	154.51	151.98	154.82	151.40	149.99	154.04	155.54	153.67
2016	152.24	151.26	152.92	154.35	156.35	155.97	157.73	158.65	158.62	157.48	157.73	159.63
2017	160.03	162.97	164.03	165.65	166.57	165.92	167.78	167.87	168.95	170.97	171.22	172.48
2018	172.42	170.25	170.20	172.40	171.44	171.65	173.73	172.82	173.03	170.69	170.63	166.96
2019	172.06	174.21	176.13	179.15	176.66	179.49	181.14	181.37	182.27	183.16	185.49	186.14
2020	187.09	182.86	172.81									

Table 3: Monthly returns 2015–2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
2015	-1.83%	2.74%	0.64%	0.12%	-0.13%	-1.64%	1.87%	-2.21%	-0.93%	2.70%	0.97%	-1.20%	0.95%
2016	-0.94%	-0.64%	1.10%	0.94%	1.29%	-0.24%	1.13%	0.58%	-0.01%	-0.72%	0.16%	1.20%	3.87%
2017	0.26%	1.83%	0.65%	0.99%	0.55%	-0.39%	1.12%	0.06%	0.64%	1.20%	0.14%	0.74%	8.05%
2018	-0.04%	-1.26%	-0.03%	1.29%	-0.55%	0.12%	1.21%	-0.52%	0.12%	-1.35%	-0.04%	-2.15%	-3.20%
2019	3.05%	1.25%	1.10%	1.71%	-1.39%	1.60%	0.92%	0.13%	0.49%	0.49%	1.27%	0.35%	11.48%
2020	0.51%	-2.26%	-5.49%										

Table 4: Performance by pension fund size segment in 2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
Credit Suisse Swiss Pension Fund Index	0.51%	-2.26%	-5.49%										-7.16%
Pension funds > CHF 1 billion	0.47%	-2.27%	-5.41%										-7.12%
Pension funds CHF 500 mn–1 bn	0.41%	-2.20%	-5.42%										-7.12%
Pension funds CHF 150–500 mn	0.54%	-2.09%	-5.28%										-6.75%
Pension funds < CHF 150 mn	0.54%	-2.53%	-5.89%										-7.77%

Table 5: Annualized performance

1.1.2000–31.3.2020

	Annualized performance since January 1, 2000
Credit Suisse Swiss Pension Fund Index	2.74%
BVG rate of return	2.21%
Pension funds > CHF 1 bn	2.68%
Pension funds CHF 500 mn–1 bn	2.83%
Pension funds CHF 150–500 mn	2.93%
Pension funds < CHF 150 mn	2.68%

Performance by asset class

Monthly returns

Table 6: Credit Suisse Swiss Pension Fund Index in 2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
Liquidity	0.65%	-0.18%	0.07%										0.55%
CHF bonds	1.67%	0.65%	-4.68%										-2.47%
Foreign currency bonds	0.39%	0.03%	-5.66%										-5.27%
Convertible bonds	1.72%	-1.87%	-9.56%										-9.72%
Swiss equities	0.07%	-7.50%	-5.80%										-12.80%
Foreign equities	-1.65%	-7.63%	-13.64%										-21.54%
Alternative investments	0.09%	-0.67%	-3.14%										-3.71%
Real estate	1.32%	-0.09%	-2.79%										-1.60%
Mortgages	-0.05%	0.03%	0.19%										0.17%
Other	0.21%	-3.30%	-9.87%										-12.66%
Total	0.51%	-2.26%	-5.49%										-7.16%

Table 7: Benchmark indices

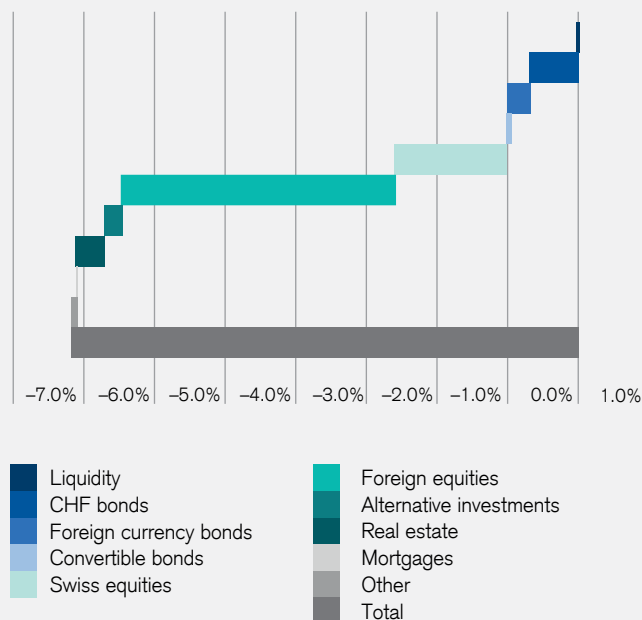
1.1.2020–31.3.2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
CHF bonds SBI AAA-BBB 1-15Y (TR)	1.32%	0.47%	-4.39%										-2.68%
Foreign currency bonds Bloomberg Barclays Global Aggr. (TR)	0.87%	1.04%	-2.28%										-0.41%
Swiss equities SPI (TR)	0.26%	-7.56%	-4.86%										-11.82%
Foreign equities MSCI AC World ex Switzerland (NR)	-1.56%	-7.75%	-13.79%										-21.71%
Real estate direct/ investment foundations KGAST Immo-Index (Switzerland) (TR)	0.33%	0.32%	0.53%										1.18%
Real estate funds SXI Real Estate Funds Broad (TR)	3.64%	-0.62%	-6.25%										-3.45%

Negative first-quarter return heavily driven by equities

- Swiss equities were negative in the quarter under review (-12.80%) and underperformed the SPI (TR) (-11.82%).
- Foreign equities were highly negative (-21.54%), but slightly outperformed the benchmark MSCI AC World ex Switzerland (NR) (-21.71%).
- Quarterly return of -5.27% for foreign currency bonds was significantly behind the Bloomberg Barclays Global Aggr. (TR) (-0.41%). The likely cause of this was strong exposure to corporate bonds and emerging markets bonds, which posted significantly lower returns than the benchmark.
- Swiss bonds were negative (-2.47%), but slightly ahead of the SBI AAA-BBB 1-15Y (TR) (-2.68%).
- Real estate was negative (-1.60%) and lower than the benchmark (50% KGAST and 50% SXI Real Estate Funds Broad [TR]) (-1.08%).
- Liquidity (cash, FX forwards for currency hedging) posted a positive return (0.55%).

Chart 2:
Contribution waterfall YTD 2020



Scale: Return in percent (%)

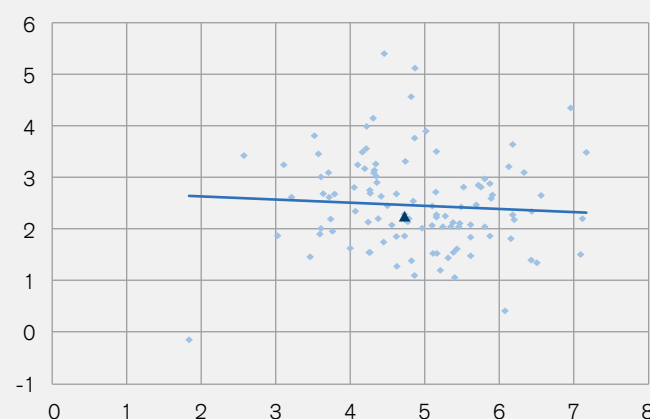
Risk/return positions

Five-year line – falling annualized return in the reporting quarter, as annualized risk rises

- The unweighted average annualized return in Q1 2020 fell by 1.84 percentage points compared with the fourth quarter of 2019 to 2.26% amid rising risk (+0.73% to 4.73%).
- The Sharpe ratio therefore deteriorated from 1.19 in Q4 2019 to 0.63 in Q1 2020.
- Medium-sized pension funds (CHF 500 million to 1 billion) continue to exhibit the best risk/return ratio (Sharpe ratio of 0.70).
- Pension funds with an investment volume of > CHF 1 billion exhibit the highest median return (2.62%).
- Pension funds with an investment volume of between CHF 150 and 500 million show the lowest median return (2.15%).
- Pension funds with an investment volume of less than CHF 150 million show the lowest Sharpe ratio (0.57).

Chart 3:

Annualized risk and return comparison;
Five-year analysis, monthly values from April 2015 to March 2020



X-axis: annualized risk in percent (%)
Y-axis: annualized return in percent (%)
▲ : Credit Suisse Swiss Pension Fund Index

Table 8: Risk/return ratios

1.4.2015–31.3.2020

	Risk	Return	Sharpe ratio
Credit Suisse Swiss Pension Fund Index	4.73%	2.26%	0.63
Pension funds > CHF 1 bn	4.63%	2.31%	0.65
Pension funds CHF 500 mn–1 bn	4.34%	2.31%	0.70
Pension funds CHF 150–500 mn	4.59%	2.28%	0.65
Pension funds < CHF 150 mn	5.08%	2.18%	0.57

Table 9: Return bandwidths

1.4.2015–31.3.2020

	Minimum	1st quartile	Median	3rd quartile	Maximum
Credit Suisse Swiss Pension Fund Index	-0.19%	1.93%	2.28%	2.98%	5.37%
Pension funds > CHF 1 bn	1.03%	2.13%	2.62%	3.04%	4.13%
Pension funds CHF 500 mn–1 bn	0.38%	2.08%	2.46%	3.13%	3.86%
Pension funds CHF 150–500 mn	-0.19%	1.86%	2.15%	2.79%	5.37%
Pension funds < CHF 150 mn	1.07%	1.56%	2.24%	2.75%	5.08%

Note: The Sharpe ratio shows the return in excess of the risk-free interest rate divided by the volatility of a financial instrument, and is used to measure risk.

The risk/return figures in Table 8 are annualized values for the past five years. A portfolio only contributes to the return and risk of the index during the periods in which this portfolio is included in the index. The data points in Chart 3, by contrast, show the figures for the portfolios that were part of the index at the end of the reference quarter, regardless of the date they joined the index, as well as the figures for the index itself. The data points of recently added portfolios may have been removed if the annualization led to meaningless outliers.

Asset allocation

Changes in analysis methodology

Since Q3 2019, we have calculated the Credit Suisse Swiss Pension Fund Index on our new Investment Analytics platform. Based on the experience we have gained as a result, as well as feedback from participating pension funds and other recipients of our reports, we will gradually implement refinements and enhancements in order to improve the informative value of the Credit Suisse Swiss Pension Fund Index.

In a first step, starting in Q1 2020 we have changed the allocation of securities to the asset categories as follows:

- Until now, foreign currency bond funds whose currency risk is hedged against the Swiss franc also counted as CHF bonds. This logic continues to apply at CHF bond level; going down one level, however, we now differentiate between CHF bonds (including investment funds) and CHF-hedged foreign currency investment funds. As in the past, unhedged foreign currency bond funds appear in a separate, third category, together with foreign currency bonds.
- Mortgage bonds no longer appear under mortgages, and instead are included under bonds.
- Convertible bonds are shown in a separate category.

Decline in equities; increase in most other asset classes

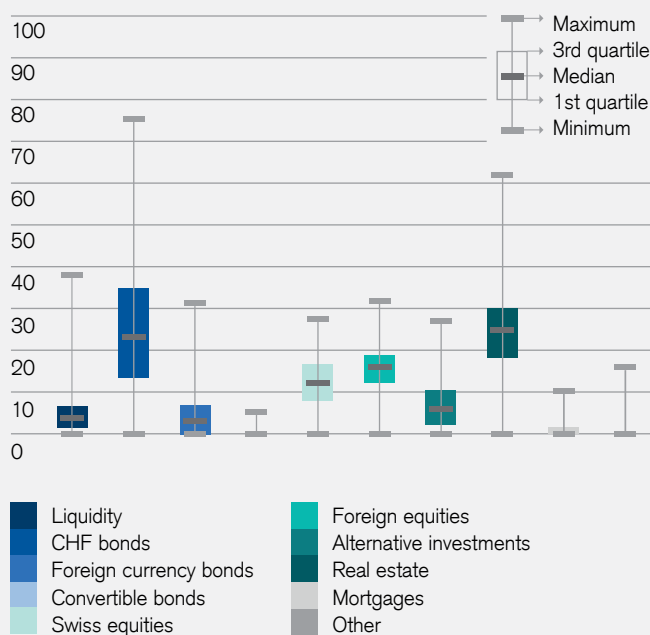
- The fall in share prices led to a shift in favor of other asset classes, with the main increases in real estate, alternative investments, and bonds. The mortgage component increased slightly and liquidity also showed an increase. The convertible bonds component saw a slight decline.

- Real estate +1.28% to 24.74%
- CHF bonds +0.81% to 26.40%
- Alternative investments +0.50% to 6.69%
- Liquidity +0.45% to 6.00%
- Mortgages +0.09% to 1.44%
- Convertible bonds –0.02% to 0.34%
- Foreign currency bonds –0.08% to 5.15%
- Swiss equities –0.73% to 12.55%
- Foreign equities –2.31% to 16.23%

- Senior loans are shown in a separate category.
- In the case of foreign equities, we can split currency-hedged investment funds by region.
- In the case of foreign real estate funds, we distinguish between those with and those without currency hedging, and no longer separate them into direct and indirect.
- In the case of Swiss real estate, we differentiate between investment funds on the one hand, and direct investments and investment foundations on the other.
- Structured products as well as mixed funds fall into the “Other” category.
- In addition, we have checked all securities currently contained in the Credit Suisse Swiss Pension Fund Index to ensure they are each correctly assigned.

These changes mean that the history for the allocation to asset categories starts afresh from January 1, 2020, since there is no longer any comparability with the previous periods. The history of all other analyses, in particular returns, remains valid and continues with the data calculated for the first quarter of 2020.

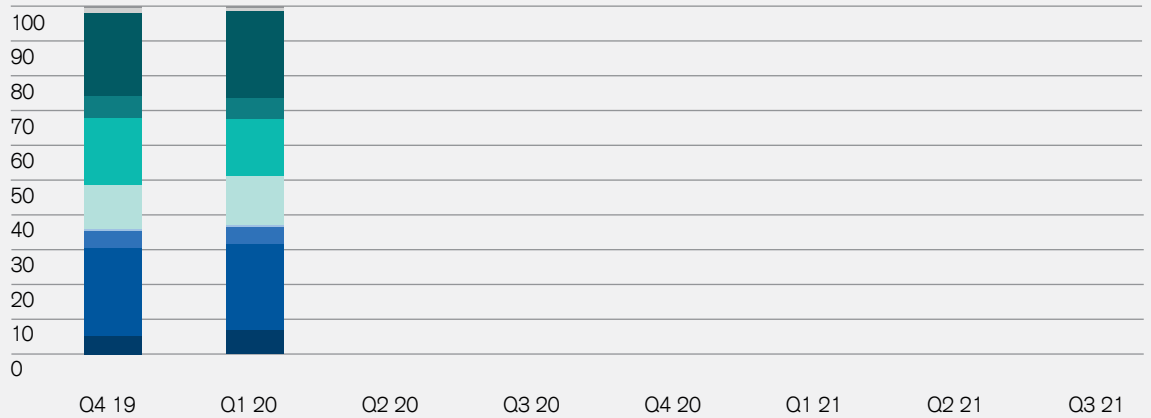
Chart 4:
Asset allocation



Scale: In percent (%)

Chart 5:

Asset allocation for at the end of the quarter for the last eight quarters (start of new analysis method at the end of Q4 2019)



Scale: In percent (%)

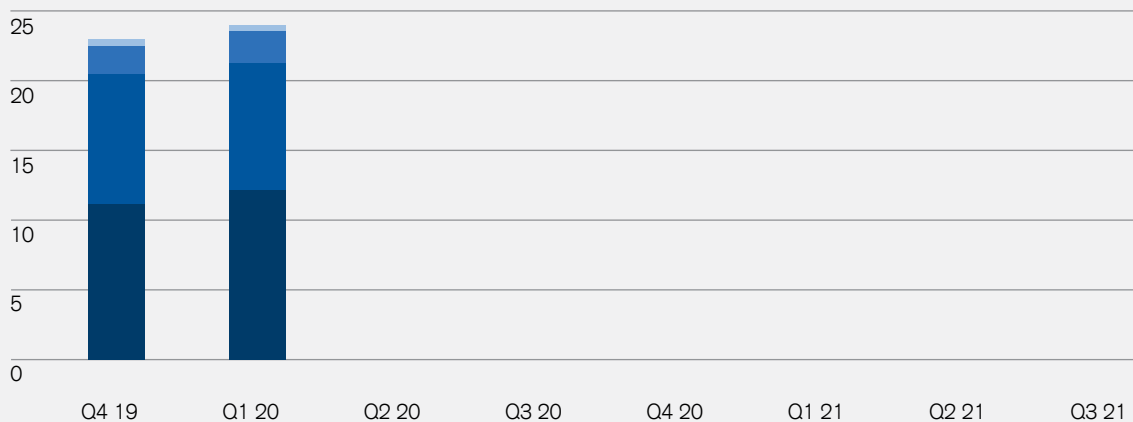
■ Liquidity	5.55%	6.00%
■ CHF bonds	25.60%	26.40%
■ Foreign currency bonds	5.23%	5.15%
■ Convertible bonds	0.37%	0.34%
■ Swiss equities	13.28%	12.55%
■ Foreign equities	18.53%	16.23%
■ Alternative investments	6.20%	6.69%
■ Real estate	23.46%	24.74%
■ Mortgages	1.36%	1.44%
■ Other	0.43%	0.46%

Increase in real estate

- The total proportion of real estate was up as of the end of Q1 2020 (+1.28% to 24.74%).
- A shift was observed toward Swiss real estate (+1.23% auf 21.69%) (direct and investment foundations +0.87% to 12.07%, investment funds +0.36% to 9.62%).

- Foreign real estate increased slightly (+0.05% to 3.05%).

Chart 6:
Real estate allocation for the last two quarters



Scale: In percent (%)

■ Swiss direct/investment foundations	11.20 %	12.07 %
■ Swiss investment funds	9.26 %	9.62 %
■ Foreign hedged	2.03 %	2.13 %
■ Foreign unhedged	0.97 %	0.92 %
Total	23.46 %	24.74 %

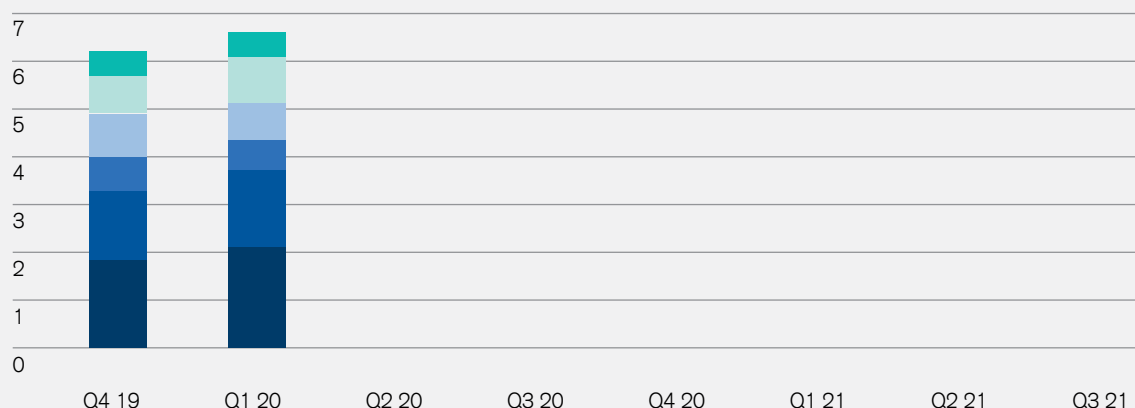
Increase in alternative investments component

- The alternative investments component increased compared with the previous quarter (+0.50% to 6.69%).
- The biggest increase was observed in private equity (+0.16% to 1.54%).

- The hedge fund component likewise increased (+0.14% to 2.01%).
- The infrastructure component increased by +0.07% to 0.92%.

Chart 7:

Allocation of alternative investments for the last two quarters



Scale: In percent (%)

	Q4 19	Q1 20
■ Hedge funds	1.87%	2.01%
■ Private equity	1.38%	1.54%
■ Commodities	0.60%	0.66%
■ Insurance-linked	0.92%	0.98%
■ Infrastructure	0.86%	0.92%
■ Senior loans	0.58%	0.58%
■ Other	6.20%	6.69%

Modified duration

- The modified duration for the overall index decreased to 5.06 as of March 31, 2020.
- Pension funds with assets > CHF 1 billion exhibited the highest modified duration (5.72) as of the end of March 2020.
- The lowest modified duration as of the end of March 2020 (4.57) was observed in pension funds with investment assets of < CHF 150 million.

Table 10: Modified duration in 2020 (at month-end)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Credit Suisse Swiss Pension Fund Index	5.42	5.20	5.06									
Pension funds > CHF 1 bn	5.80	5.89	5.72									
Pension funds CHF 500 mn–1 bn	6.72	5.80	5.67									
Pension funds CHF 150–500 mn	5.08	4.74	4.60									
Pension funds < CHF 150 mn	4.73	4.72	4.57									

Note: The modified duration indicates the direct sensitivity of the bond price (in percentage terms) to a 1% change in the market interest rate. Only direct bond investments are used in calculating the modified duration; collective investments are excluded.

Currency allocation

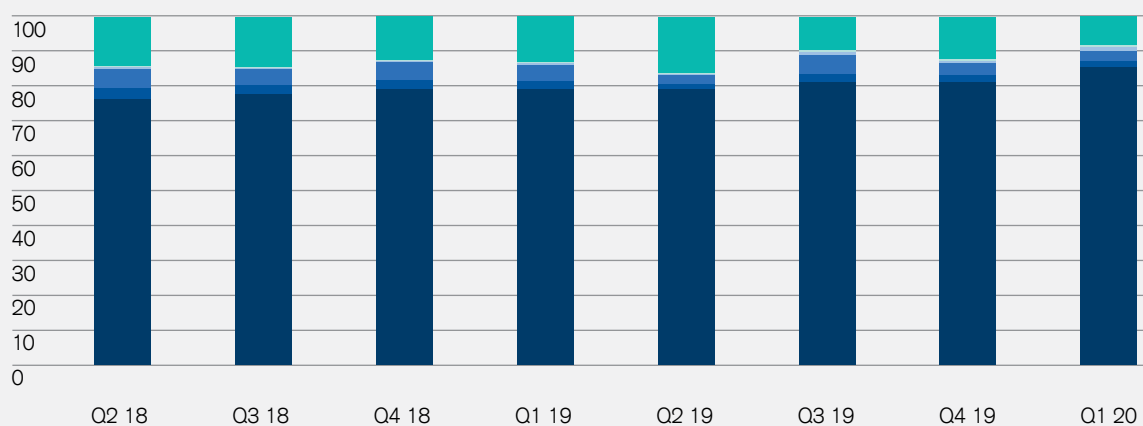
Increase in Swiss franc component in the first quarter of 2020

■ In the current reporting quarter, a positive shift was evident in the CHF component to 83.77% (+2.18%).

■ The main currencies showed an increase versus the other currencies.

- JPY (+0.04% to 0.55%)
- GBP (+0.05% to 0.70%)
- USD (+1.20% to 4.68%)
- EUR (+0.38% to 2.19%)
- Other (-3.85% to 8.11%)

Chart 8:
Currency allocation for the last eight quarters



Scale: In percent (%)

	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20
CHF	76.47%	77.91%	79.31%	78.40%	79.40%	81.33%	81.59%	83.77%
EUR	2.97%	2.50%	2.68%	2.47%	1.46%	2.31%	1.81%	2.19%
USD	5.73%	4.74%	5.25%	4.68%	2.69%	5.43%	3.48%	4.68%
GBP	0.43%	0.29%	0.32%	0.31%	0.12%	0.80%	0.65%	0.70%
JPY	0.48%	0.37%	0.36%	0.33%	0.17%	0.73%	0.51%	0.55%
Other	13.92%	14.19%	12.44%	13.18%	16.18%	9.40%	11.96%	8.11%

Table 11: Foreign exchange rates against the CHF in 2020

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
EUR	-1.69%	-0.52%	-0.15%										-2.35%
USD	-0.40%	0.36%	-0.04%										-0.08%
GBP	-0.90%	-2.75%	-2.96%										-6.49%
JPY	-0.13%	0.85%	-0.12%										0.59%

Source: Credit Suisse, unless otherwise specified.



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