

Credit Suisse Swiss Pension Fund Index Q3 2018



Index versus mandatory minimum rate of return

since January 2000

Q3 2018: +0.80%

- Positive return in Q3 2018
- Highly positive return contribution from Swiss equities
- Equity component once again on the rise

Market review

The global economy was largely stable in the third quarter. This benefited equity markets, which ended the quarter higher with lower volatility than in the preceding three-month period. Yields on major government bonds rose slightly, while the US dollar diverged from other leading currencies. Commodities once again ended the quarter slightly higher.

- Global economic growth remained stable in the third quarter at a healthy level. Whereas the US grew more strongly than the other regions, economic activity in China showed a slowdown. The government was forced to stimulate the economy. In Europe, on the other hand, surveys point to a more stable situation. Restrictive monetary policy, weaker currencies, and local difficulties weighed on growth in a number of emerging markets. The US and China raised tariffs on an increasing number of goods. Meanwhile, inflationary pressure rose steadily in the developed countries.
- The Fed hiked interest rates by a further 25 basis points in September. In contrast, the European Central Bank reaffirmed its intention to end the bond-buying program in December 2018 and leave interest rates unchanged until at least the summer of 2019. The Swiss National Bank also left interest rates unchanged, though it reiterated its concerns about the strength of the Swiss franc. Meanwhile, the Bank of England raised its key interest rate by 25 basis points in August. In addition, emerging-market central banks increasingly made use of interest rate hikes in a bid to stabilize their currencies and ward off inflationary pressures.
- Global equity markets ended the third quarter around 5% higher than in the second quarter. Individual markets nevertheless showed relatively strong divergence. US equities advanced strongly on the back of higher corporate earnings. Meanwhile, European and emerging-market stocks continued to lag behind. Pharmaceuticals and technology were the most attractive sectors, despite the trade war and selling pressure in emerging-market technology stocks. This contrasted with underperformance by materials, energy, and utilities.
- Bond markets were affected by the political uncertainty in Europe, as well as by the trade war between the US and China. Government bond yields rose slightly in general, while corporate bonds performed positively due to the narrowing of credit spreads versus government bonds. High-yield bonds as well as bonds from developing countries were in robust form.
- The US dollar turned in a mixed performance after a positive showing in the second quarter. The euro was down slightly, as the bright economic environment became overshadowed by political uncertainties. The Swiss franc, on the other hand, benefited from the political uncertainty and trade war. The pound, meanwhile, was weighed down by Brexit pressures. The emerging-market currencies lost ground against the dollar, with the Argentinian and Turkish currencies particularly badly hit.
- After a positive first half, the Credit Suisse Commodities Index advanced by just over 1% in the third quarter. Energy prices rose due to tighter supply and possible sanctions against Iran. By contrast, industrial commodities were hit by trade disputes and weakness in Chinese markets. Precious metals as well as agricultural products had a weak quarter, with prices of the latter depressed by the prospect of a good harvest in the fall.

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.

Credit Suisse Swiss Pension Fund Index rises again slightly in the third quarter

- In the third quarter, the Pension Fund Index rose by +0.80% to close at a level of 173.03 points at the end of September 2018, from a baseline of 100 at the beginning of 2000.
- After performing weakly at the beginning of 2018, the Pension Fund Index rose again slightly in the third quarter.
- Overall performance was boosted by a positive contribution in July 2018 (+1.21%). However, the positive trend reversed in August (-0.52%), which even a slightly positive September (+0.12%) was unable to offset.
- Most of the positive performance in the third reporting quarter was attributed to equities, with Swiss equities contributing 0.54% to returns and foreign equities 0.39%.
- Bonds, on the other hand, delivered a negative performance. With their total contribution of -0.25%, they stood in the way of a better result.
- Real estate, mortgages, and alternative investments had a negligible contribution.
- It is worth highlighting the slightly positive contribution from liquidity (+0.05%), which mainly stems from the foreign-exchange forward transactions in this category.

Table 1: Performance contribution (quarterly)

Credit Suisse Swiss Pension Fund Index (1.1.2018–30.9.2018)

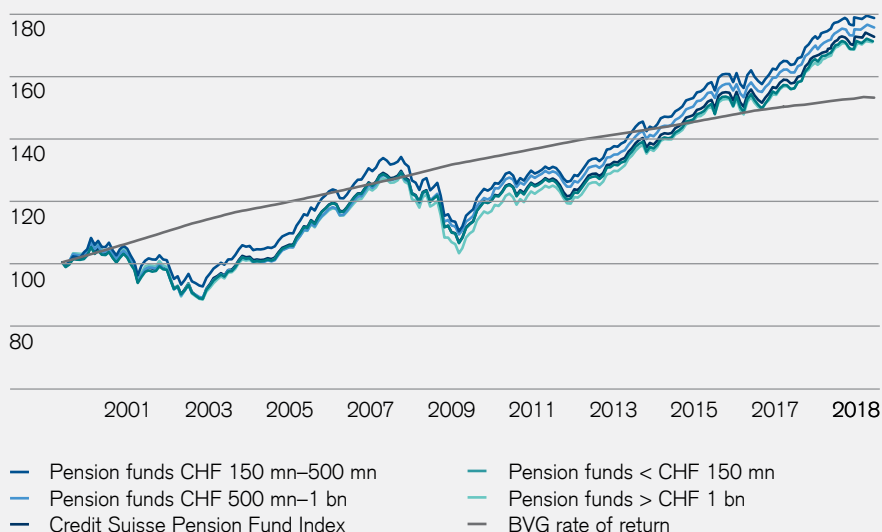
	Q1 18	Q2 18	Q3 18	Q4 18	YTD
Liquidity	-0.02%	-0.13%	0.05%		-0.10%
CHF bonds	-0.15%	-0.06%	-0.13%		-0.33%
Foreign currency bonds	-0.05%	0.01%	-0.12%		-0.17%
Swiss equities	-0.65%	0.22%	0.54%		0.10%
Foreign equities	-0.47%	0.64%	0.39%		0.55%
Alternative investments	-0.01%	0.05%	-0.01%		0.02%
Real estate	0.03%	0.15%	0.07%		0.25%
Mortgages	0.00%	0.00%	-0.01%		-0.01%
Other	-0.01%	-0.03%	0.03%		0.00%
Total	-1.33%	0.85%	0.80%		0.31%

Credit Suisse Swiss Pension Fund Index significantly above BVG mandatory minimum rate of return

■ The index of the BVG mandatory minimum rate of return (1% p.a. since January 1, 2017) rose by 0.38 points (0.25%) to 153.24 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 0.55% above the BVG requirement in the third quarter of 2018.

- The annualized return on the Credit Suisse Swiss Pension Fund Index (since January 1, 2000) amounted to 2.97% as of September 30, 2018. This contrasts with an annualized BVG mandatory minimum rate of return of 2.30%.
- Pension funds with assets of between CHF 150 million and CHF 500 million once again achieved the highest annualized return (since January 1, 2000) as of September 30, 2018, at 3.16%.

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 2013–2018

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
2013										140.95	141.50	141.30
2014	141.53	143.11	143.80	144.68	146.55	146.91	147.27	149.01	149.32	150.06	151.64	152.23
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			

Table 3: Monthly returns 2013–2018

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Annual return
2013										1.30%	0.39%	-0.14%	5.76%
2014	0.16%	1.12%	0.48%	0.61%	1.29%	0.25%	0.24%	1.18%	0.21%	0.50%	1.05%	0.38%	7.73%
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%				0.31%

Table 4: Performance by pension fund segment size, 2018

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
Credit Suisse Swiss Pension Fund Index	-0.04%	-1.26%	-0.03%	1.29%	-0.55%	0.12%	1.21%	-0.52%	0.12%				0.31%
Pension funds > CHF 1 bn	0.11%	-1.25%	-0.09%	1.25%	-0.42%	0.08%	1.13%	-0.44%	0.21%				0.56%
Pension funds CHF 500 mn–1 bn	0.07%	-1.13%	-0.03%	1.04%	-0.35%	0.16%	1.12%	-0.34%	0.04%				0.55%
Pension funds CHF 150–500 mn	-0.04%	-1.25%	-0.10%	1.25%	-0.53%	0.15%	1.20%	-0.51%	0.06%				0.22%
Pension funds < CHF 150 mn	-0.15%	-1.31%	0.09%	1.44%	-0.72%	0.09%	1.30%	-0.64%	0.15%				0.23%

Table 5: Annualized performance

1.1.2000–30.9.2018

	Annualized performance since January 1, 2000
Credit Suisse Swiss Pension Fund Index	2.97%
BVG rate of return	2.30%
Pension funds > CHF 1 bn	2.92%
Pension funds CHF 500 mn–1 bn	3.06%
Pension funds CHF 150–500 mn	3.16%
Pension funds < CHF 150 mn	2.92%

Performance by asset class

Monthly returns

Table 6: Credit Suisse Swiss Pension Fund Index 2018

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
Liquidity	0.97%	-0.15%	0.37%	0.23%	-0.30%	0.12%	-0.26%	5.92%	-0.08%				6.86%
CHF bonds	-0.64%	-0.22%	0.32%	-0.42%	0.31%	-0.16%	-0.23%	0.30%	-0.51%				-1.25%
Foreign currency bonds	-1.85%	0.23%	1.30%	1.20%	-1.82%	0.19%	0.31%	-2.31%	0.72%				-2.10%
Swiss equities	0.10%	-4.03%	-0.64%	3.31%	-3.12%	1.32%	4.81%	-1.09%	0.19%				0.53%
Foreign equities	1.11%	-2.73%	-0.78%	3.96%	-0.61%	0.17%	2.47%	-1.45%	1.11%				3.13%
Alternative investments	-0.29%	-0.21%	0.34%	1.51%	-0.62%	-0.22%	0.06%	-0.92%	0.61%				0.23%
Real estate	-0.23%	-0.21%	0.33%	0.56%	-0.02%	-0.01%	0.64%	-0.34%	-0.11%				0.61%
Mortgages	-0.27%	0.03%	0.18%	-0.11%	0.22%	0.00%	-0.14%	0.23%	-0.22%				-0.07%
Others	0.09%	-0.20%	0.05%	-0.91%	0.29%	-0.53%	1.12%	0.66%	-0.53%				0.03%
Total	-0.04%	-1.26%	-0.03%	1.29%	-0.55%	0.12%	1.21%	-0.52%	0.12%				0.31%

Table 7: Benchmark indices for the last 12 months

1.10.2017–30.9.2018

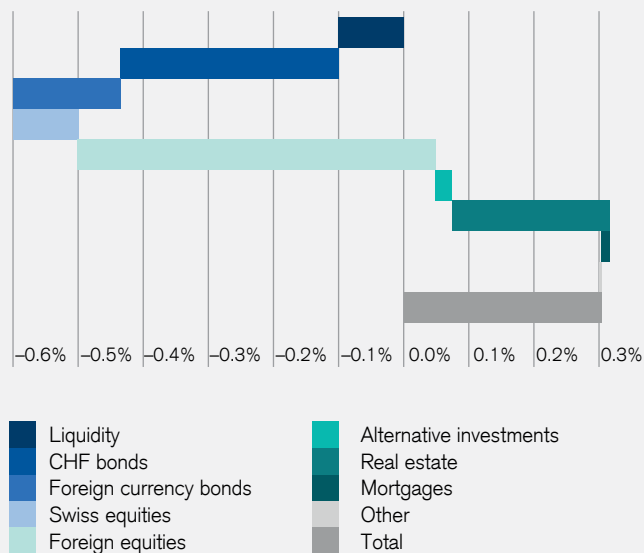
	Oct. 17	Nov. 17	Dec. 17	Jan. 18	Feb. 18	Mar. 18	Apr. 18	May 18	Jun. 18	Jul. 18	Aug. 18	Sep. 18	YTD
CHF bonds SBI AAA-BBB 1-15Y (TR)	0.30%	-0.08%	0.08%	-0.74%	0.09%	0.33%	-0.48%	0.69%	-0.15%	-0.47%	0.57%	-0.65%	-0.82%
Foreign currency bonds Bloomberg Barclays Global Aggr. (TR)	2.63%	-0.40%	-0.41%	-3.47%	0.76%	2.41%	1.72%	-1.44%	0.55%	-0.46%	-2.21%	0.13%	-2.14%
Swiss equities SPI (TR)	1.50%	0.67%	0.72%	-0.13%	-4.46%	-0.67%	3.29%	-3.42%	1.60%	5.53%	-1.45%	0.63%	0.52%
Foreign equities MSCI AC World ex Switzerland (NR)	5.27%	0.41%	0.85%	0.81%	-2.55%	-0.84%	4.40%	-0.48%	0.42%	2.62%	-1.54%	1.45%	4.18%
Real estate direct/ investment foundations KGAST Immo-Index (Switzerland) (TR)	0.40%	0.37%	0.83%	0.34%	0.32%	0.34%	0.33%	0.33%	0.34%	0.35%	0.43%	0.51%	3.34%
Real estate funds SXI Real Estate Funds (TR)	-0.85%	-2.15%	5.49%	-0.97%	-1.09%	0.21%	0.62%	-1.47%	0.10%	1.81%	-2.33%	-1.27%	-4.38%

Positive third-quarter returns heavily driven by equities

- Swiss equities were the most positive in the quarter under review (+3.87%), but lagged the SPI (TR) (+4.65%).
- Foreign equities were positive in the third quarter (+2.11%), but just behind the MSCI AC World ex Switzerland (NR) (+2.51%).
- Swiss bonds posted a quarterly return of -0.45%, but were +0.10 percentage points above the SBI AAA-BBB 1-15Y (TR).
- Quarterly return of -1.29% for foreign bonds was significantly above Bloomberg Barclays Global Aggr. (TR) with -2.54%.
- Real estate posted a positive quarterly return (+0.18%) and was +0.44 percentage points above the benchmark index (50% KGAST and 50% SXI Real Estate Funds Broad [TR]).
- Liquidity (cash, FX forwards for currency hedging) posted a very positive return (+5.56%), but with a contribution of only 0.05%.

Chart 2:

Performance contribution (YTD) Credit Suisse Swiss Pension Fund Index 2018



Scale: Return in percent (%)

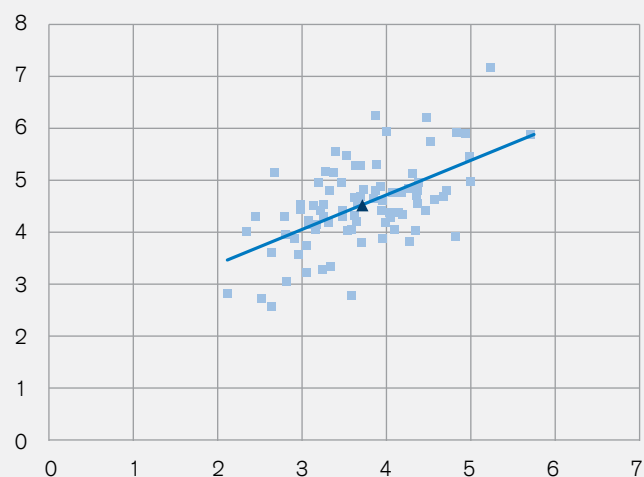
Risk/return positions

Five-year line – annualized return falls in the reporting quarter while annualized risk remains stable

- The unweighted average annualized return fell by -0.17 percentage points to 4.46% between the second and third quarter of 2018 on unchanged risk (3.71%).
- The Sharpe ratio therefore deteriorated slightly from 1.43 in Q2 2018 to 1.39 in Q3 2018.
- Medium-sized pension funds (CHF 500 million to 1 billion) continue to exhibit the best risk/return ratio (Sharpe ratio of 1.63).
- Pension funds with an investment volume of more than CHF 1 billion have the highest median return at 4.82%, although the distribution of returns within this group varies considerably.
- Pension funds with an investment volume of between CHF 500 million and CHF 1 billion exhibit the lowest median (4.10%), while at the same time the distribution of returns within this group is the most homogenous.

Chart 3:

Annualized risk/return comparison; five-year view, monthly results from October 2013 to September 2018



X-axis: annualized risk in percent (%)
Y-axis: annualized return in percent (%)
▲ : Q3 2018

Table 8: Risk/return ratios

1.10.2013–30.9.2018

	Risk	Return	Sharpe ratio
Credit Suisse Swiss Pension Fund Index	3.71%	4.46%	1.39
Pension funds > CHF 1 bn	3.66%	4.58%	1.47
Pension funds CHF 500 mn–1 bn	3.00%	4.41%	1.63
Pension funds CHF 150–500 mn	3.55%	4.41%	1.43
Pension funds < CHF 150 mn	4.00%	4.48%	1.28

Table 9: Return bandwidths

1.10.2013–30.9.2018

	Minimum	1st quartile	Median	3rd quartile	Maximum
Credit Suisse Swiss Pension Fund Index	2.57%	4.05%	4.53%	4.89%	7.17%
Pension funds > CHF 1 bn	3.06%	4.30%	4.82%	5.15%	5.90%
Pension funds CHF 500 mn–1 bn	3.97%	4.00%	4.10%	4.54%	4.96%
Pension funds CHF 150–500 mn	2.57%	3.87%	4.51%	4.83%	6.24%
Pension funds < CHF 150 mn	2.72%	4.05%	4.41%	4.89%	7.17%

Our risk/return overview shows the five-year view. It should be noted that only portfolios that formed part of the index for the entire observation period are included. Portfolios created on January 1, 2014, for example, are not included in the five-year observation period (1.10.2013–30.9.2018).

Asset allocation

Increase in equity allocation

- An increase can be observed for foreign equities (+0.15 percentage points to 18.73%) and Swiss equities (+0.37 percentage points to 14.22%). Liquidity showed the biggest decrease (−0.23 percentage points to 4.39%). There was minimal change for the other asset classes.
 - CHF bonds −0.15 percentage points to 24.00%
 - FC bonds −0.11 percentage points to 6.55%
 - Alternative investments −0.03 percentage points to 6.01%
 - Real estate −0.01 percentage points to 22.83%
 - Other investments −0.08 percentage points to 1.06%
 - Mortgages +0.11 percentage points to 2.22%

Chart 4:
Asset allocation

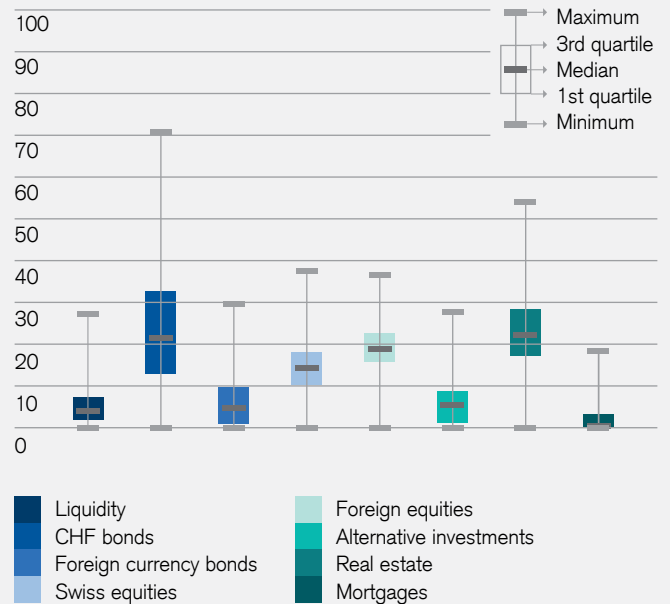
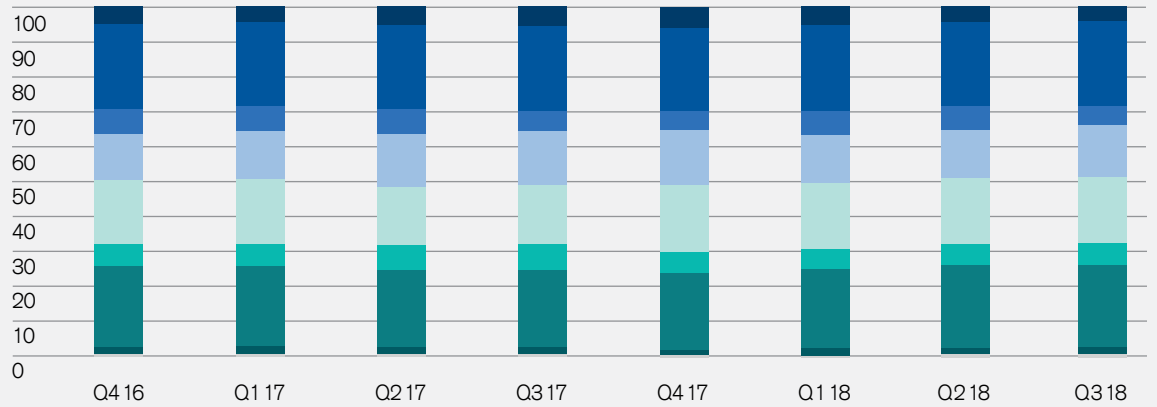


Chart 5:
Asset allocation for the last eight quarters



Scale: in percent (%)

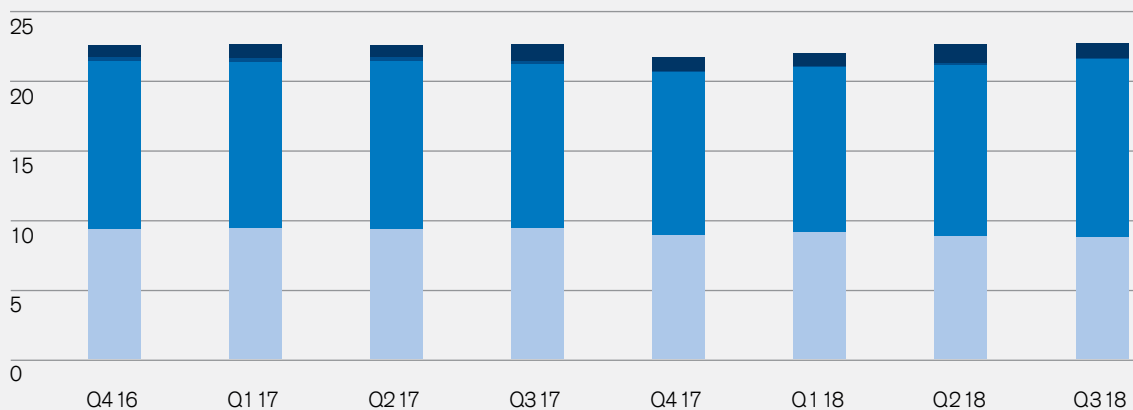
■ Liquidity	4.88%	4.33%	5.05%	4.98%	5.25%	5.22%	4.62%	4.39%
■ CHF bonds	24.29%	24.05%	23.93%	23.76%	23.87%	24.34%	24.15%	24.00%
■ Foreign currency bonds	7.07%	6.92%	7.00%	7.01%	6.82%	6.93%	6.66%	6.55%
■ Swiss equities	13.31%	13.78%	13.69%	13.78%	14.51%	13.88%	13.85%	14.22%
■ Foreign equities	18.20%	18.53%	18.19%	18.46%	19.24%	18.63%	18.58%	18.73%
■ Alternative investments	6.16%	6.15%	6.15%	5.96%	5.71%	5.89%	6.04%	6.01%
■ Real estate	23.00%	23.06%	23.14%	22.82%	22.02%	22.40%	22.84%	22.83%
■ Mortgages	2.07%	2.10%	2.12%	2.10%	2.09%	2.21%	2.11%	2.22%
■ Other	1.02%	1.06%	0.73%	1.15%	0.49%	0.50%	1.14%	1.06%

No change in real estate

- The overall share of real estate was virtually unchanged at the end of the third quarter of 2018 (−0.01 percentage points to 22.83%).
- A slight shift could be seen away from indirect foreign real estate investments (−0.07 percentage points to 1.22%) in favor of indirect Swiss real estate (+0.09 percentage points to 12.28%).

- The proportion of Swiss real estate investments increased slightly by +0.07 percentage points to a total of 21.45%, whereby the proportion of Swiss direct investments remained virtually unchanged (−0.02 percentage points) and the shift was mainly due to the increase in the proportion of Swiss indirect real estate investments by +0.09 percentage points.

Chart 6:
Real estate allocation for the last eight quarters



Scale: in percent (%)

■ Foreign real estate, indirect	0.84%	0.96%	0.97%	1.01%	0.92%	0.92%	1.29%	1.22%
■ Foreign real estate, direct	0.31%	0.32%	0.34%	0.33%	0.15%	0.16%	0.17%	0.16%
■ Swiss real estate, indirect	12.31%	12.15%	12.13%	11.85%	11.87%	12.00%	12.19%	12.28%
■ Swiss real estate, direct	9.54%	9.63%	9.70%	9.63%	9.09%	9.33%	9.19%	9.17%
Total	23.00%	23.06%	23.14%	22.82%	22.02%	22.40%	22.84%	22.83%

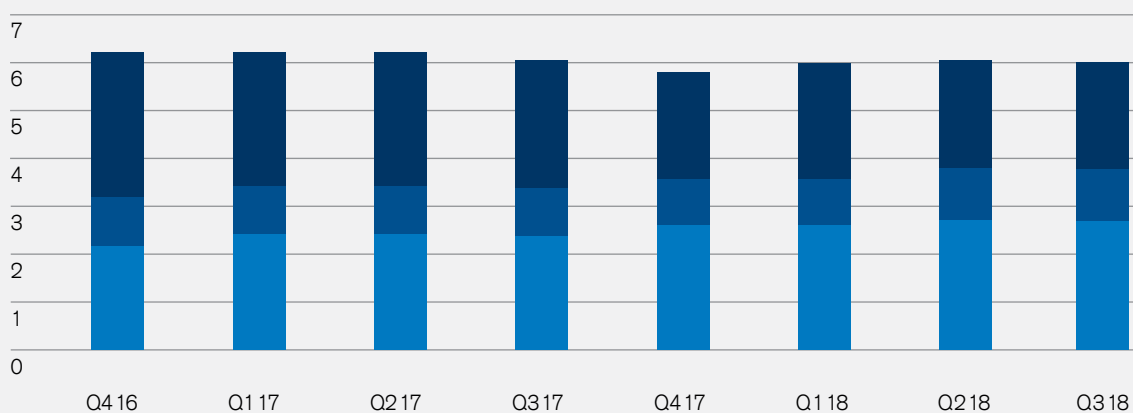
Slight decrease in proportion of alternative investments

- The alternative investments component fell slightly compared with the previous quarter (−0.03 percentage points to 6.01%).
- The hedge funds component showed the biggest decrease (−0.03 percentage points to 2.62%).

- The private equity component increased marginally (+0.01 percentage points to 1.09%).
- The commodities component was exactly the same as in the preceding quarter at 2.30%.

Chart 7:

Allocation of alternative investments for the last eight quarters



Scale: in percent (%)

	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18
■ Hedge funds	3.01%	2.75%	2.85%	2.70%	2.34%	2.46%	2.65%	2.62%
■ Private equity	1.00%	1.01%	1.03%	0.99%	0.81%	0.80%	1.08%	1.09%
■ Commodities	2.15%	2.38%	2.28%	2.27%	2.56%	2.62%	2.30%	2.30%

Modified duration

- The modified duration for the overall index fell further in the reporting quarter and stood at 5.58 as of September 30, 2018 (level at end June 2018: 5.65).

- Pension funds with assets of between CHF 500 million and CHF 1 billion exhibited the highest modified duration at the end of September 2018 of 6.18.
- The lowest modified duration as per end September 2018 (5.43) was observed in pension funds with investment assets of below CHF 150 mn.

Table 10: Modified duration 2018

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Credit Suisse Swiss Pension Fund Index	5.93	5.88	5.86	5.65	5.67	5.65	5.61	5.60	5.58			
Pension funds > CHF 1 bn	6.04	6.03	6.13	5.78	5.75	5.73	5.66	5.66	5.64			
Pension funds CHF 500 mn–1 bn	6.39	6.37	6.32	6.25	6.28	6.32	6.11	6.10	6.18			
Pension funds CHF 150–500 mn	5.78	5.72	5.62	5.53	5.59	5.56	5.59	5.59	5.54			
Pension funds < CHF 150 mn	5.93	5.87	5.86	5.56	5.54	5.55	5.45	5.44	5.43			

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 allocation in the third quarter of 2018

■ In the current reporting quarter, a shift was evident in favor of the Swiss franc component to 77.91% (+1.44 percentage points).

■ All other currencies experienced a decline:

- JPY (–0.11 percentage points to 0.37%)
- GBP (–0.14 percentage points to 0.29%)
- USD (–0.99 percentage points to 4.74%)
- EUR (–0.47 percentage points to 2.50%)

Chart 8:
Currency allocation for the last eight quarters

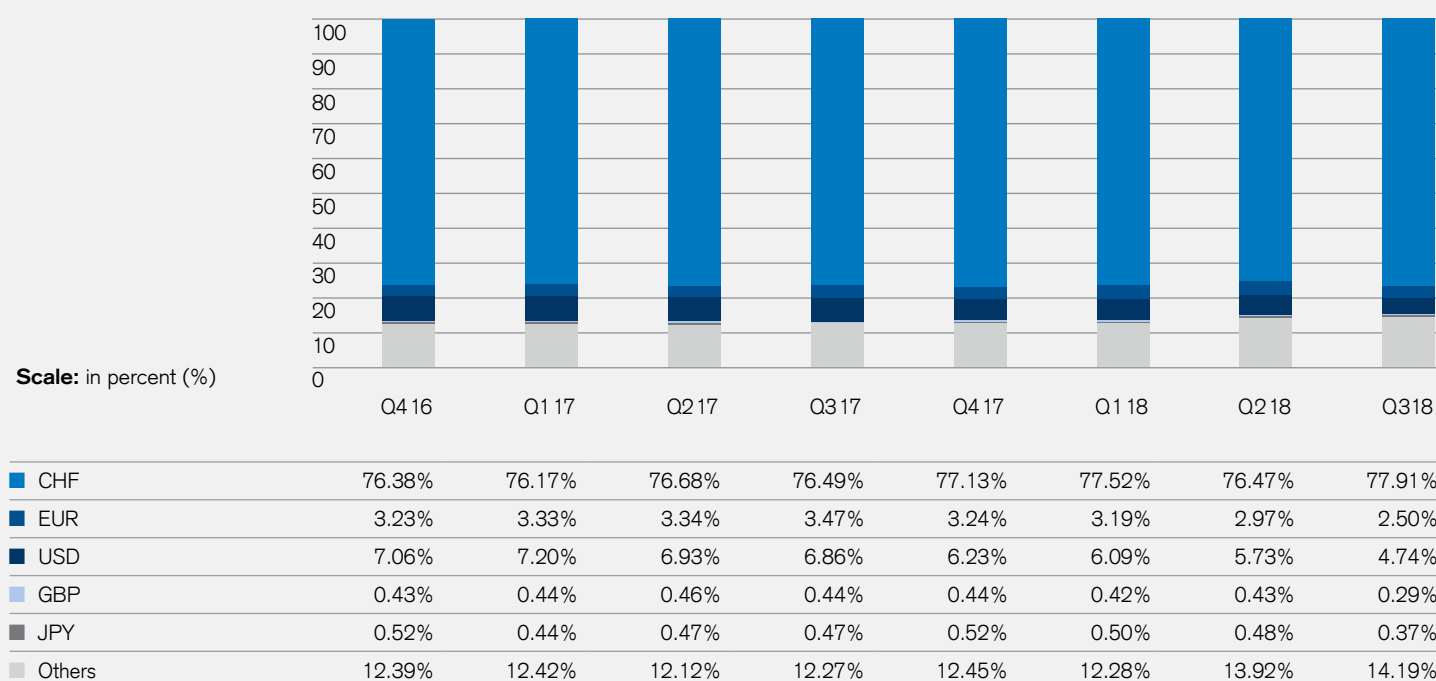


Table 11: Foreign exchange rates against the CHF, 2018

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	YTD
EUR	–1.04%	–0.47%	2.18%	1.55%	–4.05%	1.02%	–0.08%	–2.86%	0.83%				–3.05%
USD	–4.61%	1.66%	1.33%	3.37%	–0.69%	1.00%	–0.30%	–2.31%	1.00%				0.24%
GBP	0.28%	–1.50%	3.16%	1.50%	–4.05%	0.21%	–0.94%	–3.21%	1.34%				–3.38%
JPY	–1.55%	4.00%	1.67%	0.47%	0.03%	–0.93%	–1.34%	–1.38%	–1.40%				–0.58%

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Credit Suisse does not offer tax advice. Tax aspects were not taken into account in the calculation of the return.

Source: Credit Suisse, otherwise specified.

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