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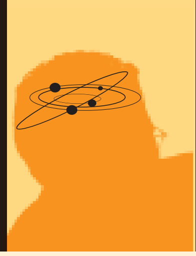
PWM
PROFESSIONAL WEALTH MANAGEMENT
SOLUTIONS FOR EUROPEAN DISTRIBUTORS



TARGET RETURN PRODUCTS

SIGHTS SET ON POSITIVE PERFORMANCE

Products with the potential to deliver high returns while retaining a focus on capital preservation can cut the mustard during uncertain market conditions

Firm evidence of an economic recovery traditionally prompts investors to switch out of fixed income assets on expectations of generating higher returns from other products. However, while global economic growth remains strong, we believe that during this business cycle the switch will not be as pronounced.

‘Given the current uncertainty over the direction of financial markets, many investors are looking for products capable of preserving capital, while offering the potential to deliver an attractive return over a full market cycle’
Jana Benesova-Tuma, CSAM

In particular, factors such as higher oil prices, rising interest rates and continued geopolitical uncertainty have led to market volatility. This suggests it would be prudent for investors to maintain a balanced approach to their asset allocation.

In the current investment environment, growing numbers of investors are seeking an asset manager that can offer innovative solutions, both to take advantage of potential growth and protect against downside risk.

Given the current uncertainty over the direction of financial markets, many investors are looking for products capable of preserving capital, while offering the potential to deliver an attractive return over a full market cycle.

CONCEPTS

To meet this need, asset managers need to develop new concepts. One possibility is based on a strategy that takes a blended approach to investing in diverse fixed income products, which provides investors with a transparent, positive performance objective that remains within strict risk parameters. Investment ideas such as Credit Suisse Asset Management’s (CSAM) Target Return concept aim to target a steady, positive return through optimising the portfolio’s allocation across a wide range of fixed income assets.

By taking full advantage of an expanding range of investment opportunities within the fixed income universe, solutions are available that offer investors the potential for a significant pick-up in yield during any given point of a market cycle. An analysis of historical returns demonstrates that throughout both equity bull and bear markets over the last eight years, there has always been sufficient scope for fixed income asset managers to deliver positive returns. (See Chart 1.)

IMPLEMENTATION

The successful execution of this strategy relies upon the expert knowledge of an ever-expanding range of fixed income instruments. These include core issues from “traditional” borrowers through to more “specialist” securities such as emerging market debt, Central European debt, convertibles and high yield.

Central to the success of this strategy is the integration of a proprietary risk management tool, developed especially for the Target Return concept. This risk management and optimisation tool is applied within the context of a tried and tested investment process, overlaying qualitative investment decisions to provide a value enhancing combination.

1

Asset class performance over time

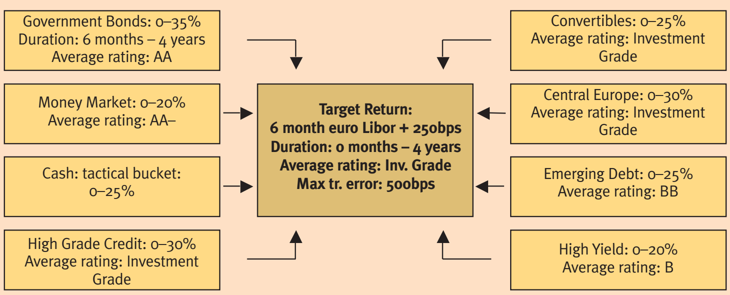
1996	1997	1998	1999	2000	2001	2002	2003
Global Emerging Debt (USD) 38.31%	Euro Converts (Euro) 33.73%	Euro Converts (Euro) 27.84%	Global Emerging Debt (USD) 25.97%	Global Emerging Debt 13.66%	Central Europe FI (Euro) 19.92%	Global Emerging Debt (USD) 13.7%	Equities 28.87%
Euro Converts (Euro) 23.43%	Equities 23.33%	Equities 25.58%	Equities 21.04%	Corporates (A rated USD) 9.53%	Corporates (A rated USD) 10.96%	Corporates (A rated USD) 12.62%	USD High Yield (USD) 28.12%
Equities 22.94%	USD High Yield (USD) 13.26%	Central Europe FI (Euro) 24.11%	Euro Converts (Euro) 20.80%	Central Europe FI (Euro) 8.06%	Euro Govts (Euro) 5.90%	Euro Govts (Euro) 8.7%	Global Emerging Debt (USD) 25.66%
USD High Yield (USD) 11.27%	Global Emerging Debt (USD) 13.02%	Euro Govts (Euro) 10.22%	Central Europe FI (Euro) 8.33%	Euro Govts (Euro) 7.37%	USD High Yield (USD) 4.48%	Central Europe FI (Euro) 8.29%	Euro Converts (Euro) 8.13%
Euro Govts (Euro) 8.24%	Corporates (A rated USD) 8.30%	Corporates (A rated USD) 9.44%	USD High Yield (USD) 2.31%	Euro Converts (Euro) 1.32%	Global Emerging Debt (USD) -0.79%	USD High Yield (USD) -1.89%	Corporates (A rated USD) 6.05%
Corporates (A rated USD) 3.24%	Euro Govts (Euro) 5.80%	USD High Yield (USD) 2.35%	Corporates (A rated USD) -2.36%	USD High Yield (USD) -5.12%	Euro Converts (Euro) -1.80%	Euro Converts (Euro) -5.73%	Euro Govts (Euro) 3.89%
		Global Emerging Debt (USD) -14.35%	Euro Govts (Euro) -2.38%	Equities -8.1%	Equities -11.88%	Equities -22.09%	Central Europe FI (Euro) -10.07%

Different asset classes perform well at different times; the key is to know which one to be in at what time

Source: Lipper Hindsight V; data from 1995 to 2003. USD data used for illustrative purposes only, as Euro data has a short historic track record

2

Targeting returns

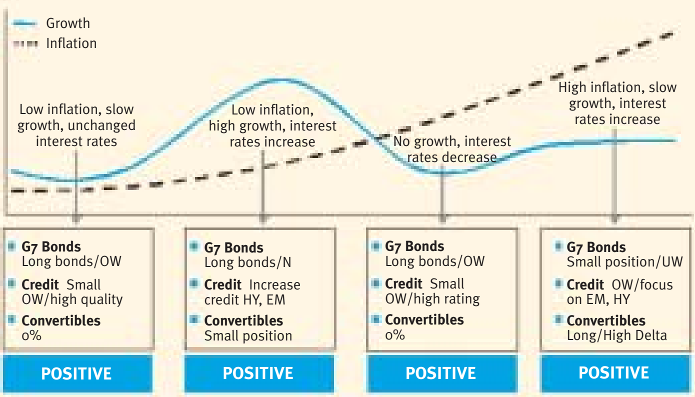


The Target Return concept optimally blends together fixed income assets to provide a targeted positive return, for a modest level of risk (model portfolio)

Source: CSAM

3

Positive potential



OW = Overweight
N = Neutral
UW = Underweight
HY = High Yield
EM = Emerging Markets
HG = High Grade

Fixed income markets offer the potential to deliver positive returns, whatever the prevailing conditions

Source: CSAM

Each fixed income asset category is selected on the merits of prevailing market conditions, and is typically weighted within specific investment ranges. (See Chart 2.) This ensures the overall portfolio is well diversified and makes full use of the low correlation between some of the respective underlying fixed income investments, to help minimise the overall risk profile.

Within the Target Return concept, approximately two-thirds of the added value comes from a proven top-down asset allocation process, which leverages an extensive fixed income platform and proprietary risk management system. Allocations to different strategies are undertaken on a modular basis, allowing specialist asset class teams to manage the underlying assets.

RESEARCH

Specialist portfolio managers should be supported by an experienced global credit research team, which should also make use of an asset manager's equity research platform. Bottom-up stock selection techniques can deliver the remainder of added value.

Within each fixed income asset category, performance is primarily derived from four areas:

- Security selection within the corporate bond universe;
- Yield curve management of government bonds;
- Active management of convertibles, capable of capturing the upside benefits of equity markets, or enhancing credit value; and
- Active management of money market and cash positions.

CONTROLS

A key feature of the Target Return concept is the emphasis paid to implementing strict risk controls. For this, CSAM's fixed income team has developed a comprehensive process whereby each asset class has predetermined profit and loss taking levels set monthly. Termed an asset class "envelope", both upside and downside scenarios are measured against the actual performance of each asset class on a daily basis.

Triggers are set should the upside envelope limit be broken where profit taking may occur. Similarly, if the downside envelope limit is broken, the position is re-evaluated and re-allocation may occur.

Constant benefit

Key benefits of a fixed income product following the 'Target Return' concept:

- **Directly addresses growing investor demand for a product that targets a certain level of positive return, whilst preserving capital, within a strict risk controlled framework.**
- **Aims to provide a consistent total return throughout all phases of the market cycle by applying the value enhancing combination of a tried and tested investment process and a dedicated risk management tool.**
- **Leverages characteristics of low correlation aspects between certain asset classes to help minimise the product's overall risk profile.**

'Specialist portfolio managers should be supported by an experienced global credit research team, which should also make use of an asset manager's equity research platform'

ATTRACTIONS

An important feature of a multi-asset class investment strategy is its ability to generate positive returns in a variety of economic scenarios. (See Chart 3.) This potential to deliver positive returns exists whether the focus is on "traditional" issuers, or by unlocking the value from specialist securities that have historically shown a low correlation with the interest rate cycle. Thus, with a rising yield environment, as we are currently seeing, emerging market debt, convertibles and high yield products all hold attractions, given that they have demonstrated their ability to produce superior positive returns even when government bond yields are rising.

Jana Benesova-Tuma, fixed income portfolio manager, Credit Suisse Asset Management