

## FIXED INCOME INSTRUMENTS

# A UNIVERSE TO CONSIDER

The range of fixed income products on the market means investors' portfolios can be matched to prevailing conditions, according to Credit Suisse Asset Management

**S**tockmarket declines over the past three years have seen a number of investors reconsider their asset allocation mix and risk/return objectives.

Two clear trends have emerged. Firstly, the uncertain political and economic outlook for 2003 has impacted traditional equity and bond markets, leading investors to search for products that offer exposure to a more diverse investment universe.

Secondly, growing numbers of investors are seeking more than relative benchmark outperformance: they are targeting a certain level of positive return – at the right risk price – and want a fund manager to deliver that year in, year out, whatever the market environment.

To achieve the objective of a positive investment return, investors are actively seeking products that include a greater variety of asset classes capable of capturing the upside benefits in difficult, as well as more stable, market conditions.

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The diversity of an ever-expanding fixed income universe now offers a potentially attractive solution to this goal. Analysing data for fixed income products over the last seven years<sup>1</sup>, which includes both bull and bear market phases, provides a clear indication that positive investment returns could have been readily achieved, for a relatively modest risk budget, throughout all periods (see Chart 1 below).

By focusing on actively blending these fixed income asset segments together, it would have been possible for investors to achieve returns in

**1**

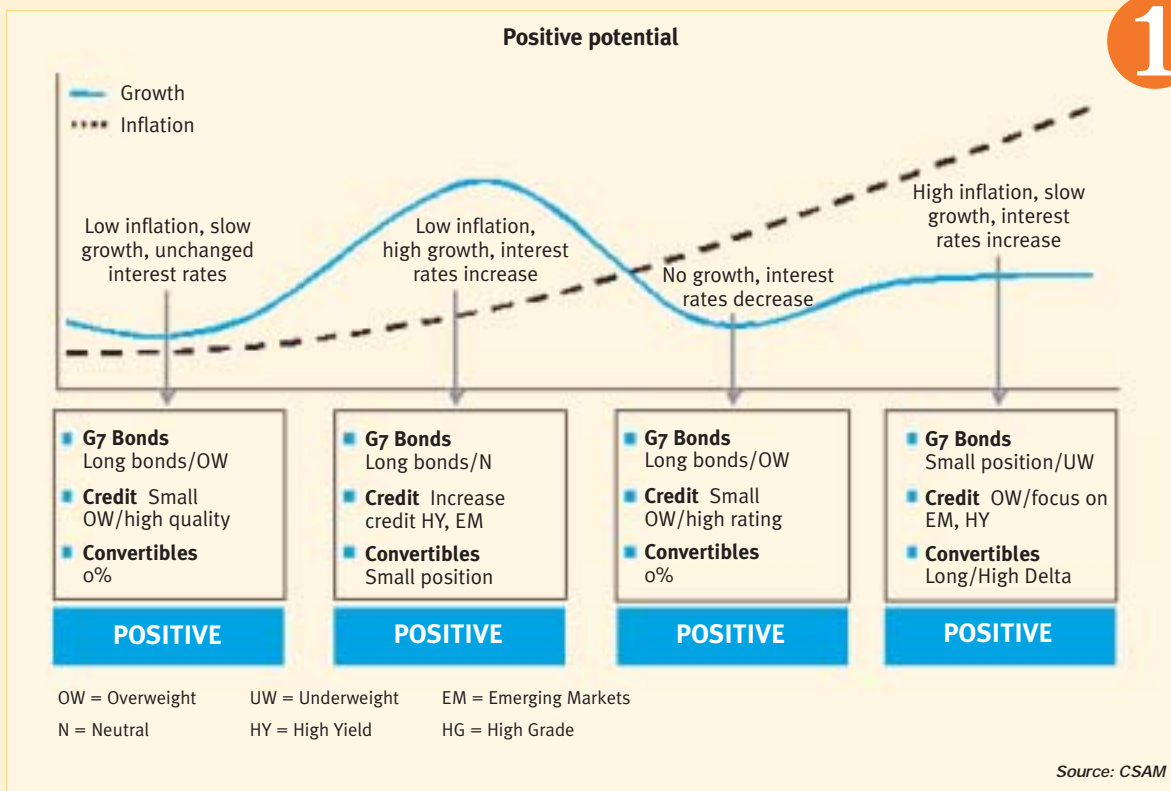
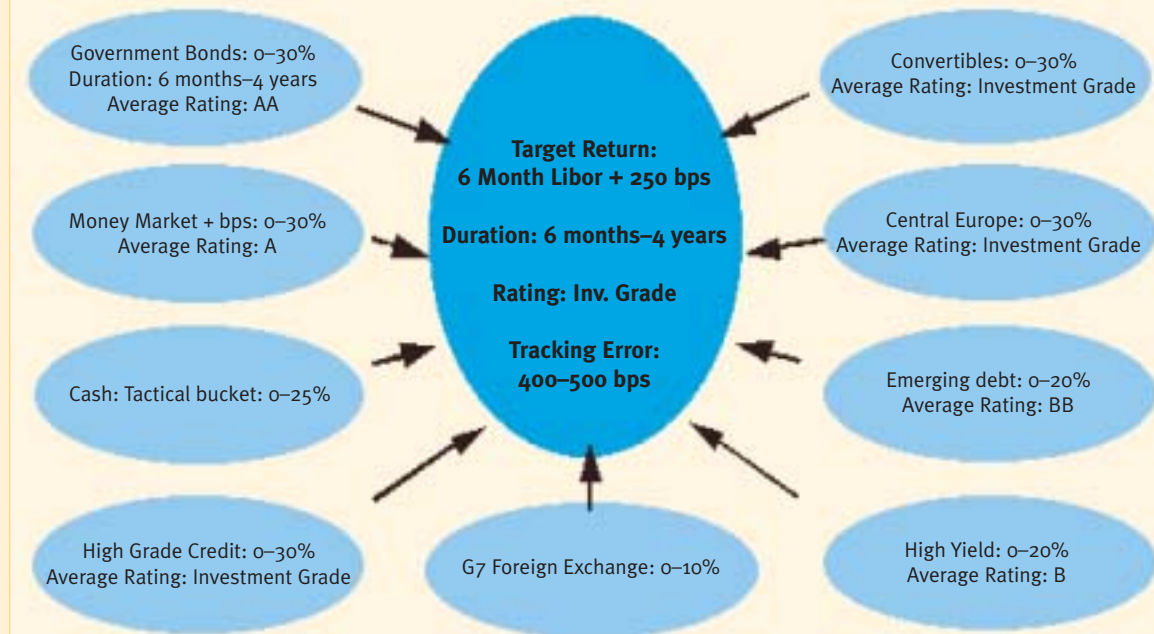


Chart 1 illustrates how at any given point in the economic cycle there is sufficient upside potential within the range of fixed income instruments to enable positive returns to be targeted

2

**Investment universe for Credit Suisse Asset Management's new Target Return Product**



Source: CSAM

By blending a range of fixed income asset classes, Credit Suisse Asset Management aims to build a portfolio that can consistently target a benchmark of Six Month Euro Libor plus 250 basis points

positive territory throughout all points of the economic cycle.

We believe positive returns are obtainable whether the focus is on core fixed income instruments from more "traditional" issuers; or on unlocking the value from trends in developing areas such as emerging Europe; or on the use of convertibles to ensure some participation in the upside potential of equity markets, without exposing investors to any significant downside risk.

» NEW STRATEGIES

Asset managers are recognising the need to provide investors with an enhanced return, whatever the market conditions. It is necessary to develop innovative product concepts, which seek to deliver targeted returns by optimising portfolio allocation across a diverse fixed income universe.

We will shortly be launching a new targeted return product, which will be managed by blending together a wide range of fixed income instruments on a "best of class" basis, to achieve a gross targeted return of 250 basis points above six-month Euro Libor.

Institutions have been successfully utilising these investment strategies for more than two years.

If we take the example of Credit Suisse Asset Management, our fixed income portfolio, which seeks to deliver a gross return of US\$ Libor plus 300 basis points, has persistently outperformed its benchmark since launch on 31 August 2000<sup>1</sup>.

The new targeted return product, designed for distribution across Europe, will be managed by this same team and will shortly be available on the market. (See Chart 2 above)

Allocation across the respective asset types requires expert knowledge of the dynamics behind an expanding range of fixed income instruments, which has grown extensively in recent times. It is necessary to draw on the extensive experience of a long-standing fixed income team, which can actively allocate a portfolio's assets between a range of fixed income instruments in-line with prevailing market conditions.

» VALUE

In addition to optimised asset allocation decisions, value is expected to be derived from the underlying fixed income instruments, whether this be from the more traditional "core" assets investing in highly rated borrowers or "enhanced" segments of the portfolio that invest in more specialist areas such as



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**Win Robbins, Credit Suisse Asset Management**

convertibles, high yield and emerging European debt. Central to such a product's success is an emphasis on clarity and focus. Each step of our four-stage investment process, from top-down analysis to bottom-up portfolio construction, must leverage global expertise across a number of investment disciplines, and be distilled into clear investment decisions both at the asset allocation and stock selection levels.

» DISCIPLINE

A key feature to any such fixed income product must be the emphasis placed on implementing strict risk controls. A well-designed risk management system plays an important role in contributing to the outcome of the investment strategy, and ultimately the overall performance of the product.

This must involve constant monitoring of market trends and the use of sophisticated tools to quantify absolute and relative risk.

An experienced fixed income team is well-placed to develop a comprehensive process, whereby each asset class has predetermined profit and loss taking levels set monthly.

Both upside and downside scenarios are measured against the actual performance of the asset on a daily basis. Should the upside limit be exceeded, profit taking kicks in, and, in the event that any downside limits should be breached, a sell decision is triggered and reallocation takes place.

» TARGET RETURN

The investment strategy of a targeted return product positions it within a diverse spectrum of possible investors, ranging from those who are keen to avoid current equity market volatility, through to those who want to participate in a strategy that offers enhanced return for a limited level of risk across all points of the market cycle.

*Win Robbins, fixed income business head for London and Europe ex Switzerland, Credit Suisse Asset Management*

<sup>1</sup> CSAM internal data @ performance between 01/01/1996 to 31/12/2002  
<sup>2</sup> CSAM internal data @ performance between 31/08/2000 to 28/02/2003

» CORPORATE STATEMENT

Credit Suisse Asset Management (CSAM) is one of the world's largest asset managers and one of the few with a truly global platform. CSAM has more than 2,142 employees in 22 offices across three regions worldwide, clients in more than 50 countries and total assets under management of more than US\$297.4 billion as at 31 December 2002. We offer a full range of financial investment products and services to institutional, retail and private clients.



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