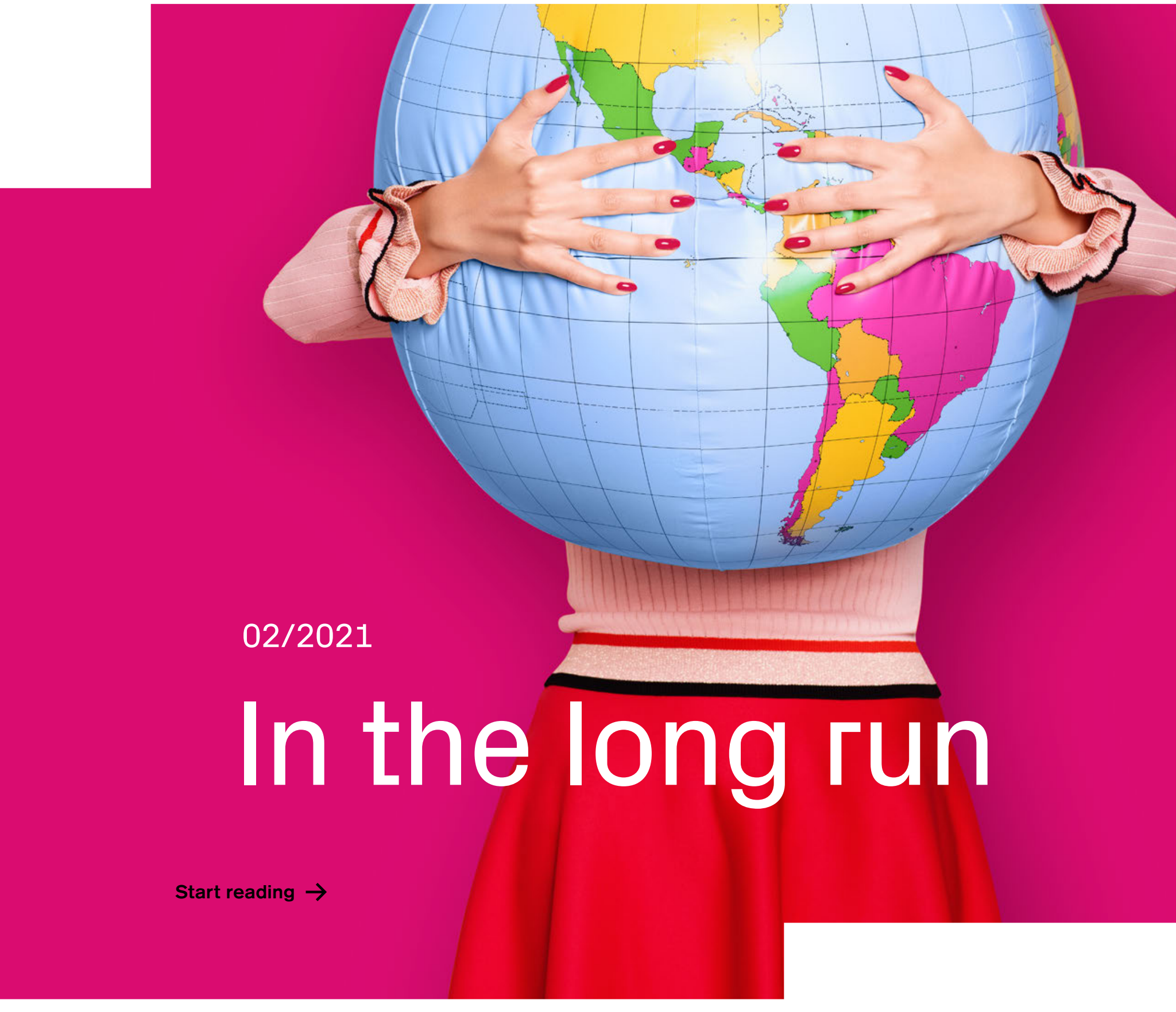
Asset Management

CREDIT SUISSE

Scope



02/2021

In the long run

Start reading →

New perspectives

Even if they are unconventional or uncomfortable, different perspectives can be very useful in drawing the right conclusions and developing suitable investment solutions globally.

In the long run

Environmental, social, and governance (ESG) criteria dictate investor behavior around the world. Their priorities and preferences can shift very dynamically. Long-term principles for decision-making and well-founded investment solutions are more important than ever.

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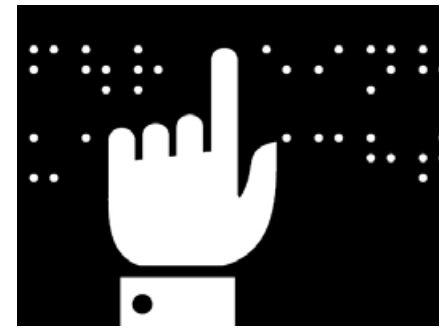

Technology and society

Drilon Kastrati's commitment to accessibility

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New perspectives

Filippo Rima

Head of Asset Management
Switzerland & EMEA

The rapid growth of products and services – no more so than in the world of finance – makes it increasingly difficult to obtain and evaluate the relevant information, as well as use the knowledge gained to draw the right conclusions and act accordingly.

New, unconventional – and perhaps uncomfortable – perspectives can be useful in this context. The viewpoints expressed in the latest issue of Scope provide a welcome insight into such perspectives. They come from leading women known for their outstanding professional expertise and impressive records of achievement. What our interviewees and authors have in common is the ability to develop solutions that are geared to the long run.

Nannette Hechler-Fayd'herbe, Global Head of Economics & Research and Chief Investment Officer of the International Wealth Management division, explains why she expects the global economy to remain on a solid growth path and why the transition to a post-COVID-19 era opens up opportunities for investors.

Daniela Klasen-Martin, Head of ManCo Lux and CEO of Credit Suisse Fund Management S.A., outlines the allure of private assets. She explains that they are less exposed to price fluctuations than publicly traded investments, and can also provide an alternative source of income – particularly for investors with the long term in mind.

Other topics that will occupy our attention on a lasting basis and which we address in the magazine include the huge investments necessitated by infrastructure projects, China's framework conditions for long-term investors, as well as the positive effects of a consistent environmental impact strategy.

The wealth of reading material in the latest issue of Scope is sure to give you plenty of food for thought.

I wish you a stimulating read.

Filippo Rima

The great transition

Investment outlook with

Dr. Nannette Hechler-Fayd'herbe

Global Head of Economics & Research and
Chief Investment Officer International Wealth Management,
Credit Suisse

In our Investment Outlook 2022, we explain why we expect the global economy to remain on a solid growth path and give reasons for our conviction to expect good single-digit equity returns, though more moderate than in 2021. As the world finds pathways to normalize, we believe that the new year will herald a meaningful transition to a post-covid reality that will also be an opportunity to revisit investing for women.

The last two years have been extraordinary – not only for humanity but also for the global economy. Despite the fact that the COVID-19 pandemic now appears more under control thanks to vaccination programs, parts of the global economy, for example labor markets, have yet to stage a full recovery. Business as usual remains unusual – and will stay so for the foreseeable future. When COVID-19 evolved into a global pandemic in 2020, the ensuing lockdowns sent the global economy into the steepest recession on record. This unprecedented shock led to extraordinary fiscal and monetary support, which helped to trigger a sharp recovery. We believe that a recession like no other will bring a unique recovery.

The recovery continued into 2021, driven by strong stimulus effects and pent-up demand. Inflation rose as well – in part due to so-called base effects, such as ongoing logistics network issues and related disruptions. Toward the end of 2021, some central banks had enough confidence in the economic recovery to start reducing some of the emergency stimulus by slowing down asset purchases (tapering). In 2022, inflation should normalize from the elevated numbers of 2021, though it will likely remain above pre-pandemic levels.

Although, in our view, the coming year will be more “normal” than 2021, plenty of special factors are still at work. At the same time, important trends such as climate change and shifting demographics have reached a level of urgency that could very well result in a permanent change of the current economic order.

Against this backdrop, we foresee good albeit less extraordinary returns from global equities in 2022 than in 2021, with earnings remaining the key driver. Equity segments that lagged the global recovery from the pandemic shock are set to emerge as bright spots alongside industries that benefit from secular growth trends. In contrast, government bond yields will deliver negative returns in 2022. In credit, low spreads – both in investment grade and high yield – will barely compensate for the risks that come with higher yields.

The key for investors navigating this environment is to seek out assets with return profiles that depend on different factors. These diversification effects can be further improved with investment strategies that follow non-traditional patterns.

For women there is perhaps no time like the present to revisit and reengage with investing. Our research has shown that women have been affected relatively more than men during the COVID-19 crisis. More women are employed in sectors that have been most affected by the lockdowns, including retail, restaurants, hotels and personal services. It is vital, both for economic and societal reasons, that women find their way back to the labor market as soon as possible. As women return to the labor market, it is essential that women close retirement gaps widened by the crisis and resume building their wealth, all the more so as interest rates remain unattractively low.

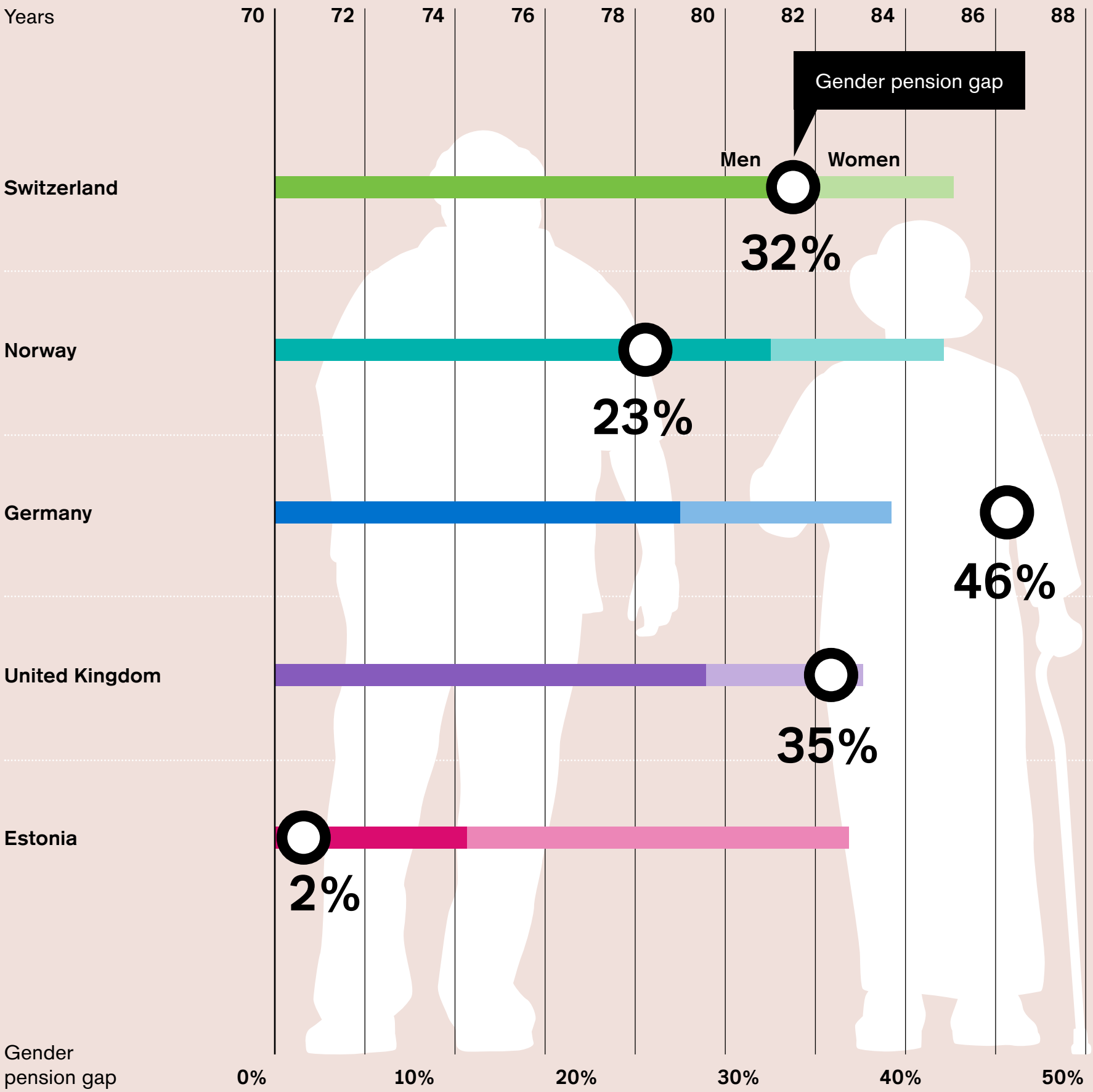
With more than 25 years working as a financial professional, I observe that it continues to be women who are more likely to disengage with their money and hold most of their assets in cash and fixed income. Women tend to be risk averse and often seek to avoid taking risks in their portfolios when they do invest. But in markets, returns are the direct result of taking risk. The outcome is that women too often end up with not enough equities in their investment portfolio and too much cash and fixed income – a clear disadvantage for them in growing their capital over time in a transitioning low interest rate world.

Investment Outlook 2022

Read the new investment outlook on the topic “The great transition”

Read more →

Life expectancy at birth and the gender pension gap in OECD countries



Sources Pensions at a Glance 2019, OECD 2021; Life expectancy at birth (indicator). (Accessed on August 12, 2021), OECD (2021); Credit Suisse.

Note The gender gap in pensions for persons age 65 and over is calculated using the following formula: 1 – women's average pension / men's average pension. It includes persons who obtain old-age benefit (public or private), survival pension or disability benefit.

Building wealth: why it matters

Engaging with their money could not be more pivotal for women. Women's average life expectancy, which exceeds that of men by 4–6 years on average, is above 84 years in some of the member states of the Organisation for Economic Co-operation and Development (OECD). The challenge is that in the zero interest rate world in which we have landed since the global financial crisis, putting cash into a savings account to build wealth no longer suffices.

Investing in "safe" treasury bills or other government bonds is not a very attractive alternative either going forward. Globally, one in five government bonds had negative yields as of November 2021. In Switzerland and Germany, the share of negative yielding government bonds is around 80%. Negative yields mean that if women hold these bonds until they mature (i.e. the payback period), they would end up paying for the opportunity to lend their money to governments instead of having earned a yield. In other words, women would have been sure of only one thing: losing money at maturity if they chose to hold the bonds until expiry. So much for a "safe" investment! Women need to be prepared to take on more risk and expand into multi-asset investing, and equities in particular.

We believe that women cannot afford to ignore their finances and recognize that women face several hurdles when seeking to accumulate wealth. As investors, women do have distinct needs, preferences and characteristics that call for an investment approach that supports them in building their wealth and securing their long-term financial independence. That is why we believe a more nuanced approach that takes into account the financial needs in each of the 4 lifecycles stages of a woman is a great starting point. Every stage is an opportunity for women to learn and fully engage with managing their own money and every stage builds on the last to make their money work harder.

Lifecycle stage 1

Starting out

This lifecycle stage is defined by a relatively low savings rate combined with minimal investment activity, a reflection of the fact that young women tend not to have a steady income as they complete their education or training, and their income tends to be at the lower end of the salary scale when they enter the workforce. This does not mean, however, that it is too early for women to start planning for a secure financial future far down the road. On the contrary, as in other areas of their lives – physical and mental health, education and friendships – young women should take good care of their finances in order to enjoy the benefits throughout their life. Beyond the basic state pension, women should in particular begin building personal retirement savings as soon as possible after they enter the labor market.

Lifecycle stage 2

New responsibilities

As they move beyond the first phase of their career, women tend to have a medium savings rate. Their financial investment activity may really kick off during this period, as they may still have savings even after contributing to occupational and voluntary retirement schemes. Women can still accept a high level of risk (i.e. exposure to equities) during this phase in light of their long investment horizon, especially if they stay on the full-time employment track and thus continue to add to their savings. Their focus will remain on growing their capital at low cost. The most effective way of doing this is via funds managed by professional asset managers, along with ETFs or passively invested funds that track selected reference indices.

For women who decide to take a break in order to take care of children or other dependents, they may need to reduce their earnings and pension contributions, which can lead to wealth setbacks later down the road. Women should ensure that their planning reflects their reduced ability to take risks during this period in order to counteract some of these effects.

Lifecycle stage 3

Shifting priorities

As their careers advance and/or they return to work as their children grow up, women look toward a phase in their lives in which they can generate higher income and therefore savings. Some also carry a mortgage for their primary home or secondary residence. Women at this stage tend to be more sophisticated investors – a reflection of their experience accumulated over two decades of investing, combined with new financial obligations. They may have developed specific investment interests or convictions, be able to devote more time to their finances, or seek to engage more directly in their investment decisions. This is the time when women's investment portfolios can become more diverse and strategic.

Lifecycle stage 4

Planning beyond

At this stage, women's risk tolerance declines as they rely more directly on capital income and predictable cash streams to fund their activities and living costs during their pre-retirement or retirement phase. Hence, the focus now shifts to low-risk investments. Many investors want their portfolios to tilt heavily toward direct bond investments (fixed income) or other income investments with reliable annual cash streams and low volatility on the capital invested. Women who inherit money later in life may need to review their existing investment portfolio and adjust it accordingly. Relatedly, women in this lifecycle stage are thinking about how they would like to pass on their wealth eventually.

The challenges presented by this changing low interest rate environment place the ability to make selective investments wisely and manage finances center stage. That is why constructing an investment portfolio that truly reflects individual needs and goals is time well spent. My most important message is that it is never too late to start investing. This is not to say that a woman who has not previously invested should do so at this exact moment. It is important to have a realistic plan that reflects their age and risk profile. Even the smallest steps can effect change. Enabling women to steer and grow their individual wealth actively will not only have an impact on their own lives and their families, but can shift societies as a whole.

Dr. Nannette Hechler-Fayd'herbe

Dr. Nannette Hechler-Fayd'herbe is Chief Investment Officer for International Wealth Management and Global Head Economics & Research of Credit Suisse. As a voting member of the Global Investment Committee, Nannette helps shape the Credit Suisse House View and communicates insights on the global economy and financial markets to wealth management, institutional and corporate clients. She is the architect of Credit Suisse's thematic equity investment framework Supertrends that harnesses the long-term thinking on societal trends with tangible investor impact. Nannette also serves on the Editorial Board of the Credit Suisse Research Institute, spearheading collaborations with leading academic authorities on the studies of global wealth, investment returns as well as key thought leadership pieces on macro-economic policy issues.

Innovative investment solution aims at positive environmental impact

We are witnessing a rapid shift in values toward sustainability on a global basis; investors, consumers, companies and regulators are all starting to consider new ways of doing things and starting to adapt their lifestyles and business practices to be more considerate of environmental issues. While this reorientation of society still has a long way to go, it is making the idea of “sustainable investing” a significant theme in the investment industry.

Sparked perhaps by Greta Thunberg and other well-known public figures, we see the Millennial generation and Gen Z as driving forces behind this shift, and they are spurring others into action. These two generational cohorts, which claim more vegetarians and vegans than any other in the modern age, are vocally committed to environmental and social issues, and their voice is empowered by the mobile phone and the broad global reach of the social media channels.

Businesses, investors, governments and regulators are all playing catch-up in this changing landscape. Investors are learning fast to appreciate the importance of sustainability in society and the business world, and therefore the need to adopt an ESG (environmental, social and governance) framework in their investment decisions.

From avoiding losses to solving problems

There are a number of different approaches to integrate ESG and sustainability into an investment decision process. The aim of ESG integration, the most important and commonly used ESG approach, is to integrate material ESG factors across the investment process – from research and security valuation through to portfolio construction and monitoring – in order to make better-informed investment decisions. Best-in-class strategies typically limit the investable universe of companies to those with above-average ESG ratings in their industry. Other strategies simply avoid potentially problematic areas such as sectors with extremely high energy intensity, or which use rare earth metals or other limited natural resources. Other strategies emphasize their active engagement with company managements to encourage better business practices to improve ESG issues.

Clients who would like their investments to have exposure to firms that offer solutions in the environmental or social area can choose strategies that focus on investment themes aligned with the UN Sustainable Development Goals (SDG). Investing, for example, in companies that develop clean energy technologies or recycling or climate change mitigation solutions. The purity of a fund's exposure to its theme is clearly a critical issue, which clients need to monitor closely. Some funds that claim to offer a theme focused on environmental solutions may in fact have very little direct exposure to the advertised climate change solutions. Caveat emptor. The greater the purity to the theme, the greater the exposure to firms with a positive contribution to the SDG.

ESG integration in China

Some more tactical ESG strategies focus on evaluating a company's ability to raise their game and improve their ESG credentials from a low starting point. This is particularly pertinent in emerging markets, and in the case of China, where ESG considerations are still generally lower down the list of management priorities. However, this is rapidly changing. According to a study by the United Nations (UNEP FI/PRI)[1], in 2009 only 43% of the largest 300 companies on the Shanghai stock exchange (the CSI 300 Index) voluntarily disclosed ESG data. By 2018 this proportion had risen to 82%. In addition to reporting more ESG statistics, the country is also moving with the times, and adopting more sustainable energy solutions. China's solar energy installation footprint is slated to rise by 50% before the end of 2025 – an incredible achievement with a meaningful impact on rolling back the effects of climate change.

[1] UNEP FI, PRI and SynTao Green Finance, ESG data in China: Recommendations for primary ESG indicators, 2019.

Hand in hand: successful investing and sustainability
Sustainable investing not only helps the environment and society but is also starting to prove to be a positive factor in investment performance. Perhaps this is a self-realizing "virtuous circle." As the popular momentum behind sustainability increases and more investors adopt ESG integration processes, companies that score well on this front are likely to perform better than those that score poorly. This surely is free market capitalism at its best: allocating capital responsibly, to improve sustainability and deliver investment performance, and by the same token punishing companies that show little regard for raising their ESG ratings, or to the economic externalities they create.

Tipping point

Interview with Carly Brewster

Product specialist Equity

Our planet is at a tipping point. It's more important today than ever before to take action. With some of the world's largest countries and conglomerates stepping up to the plate, what can investors do to effect positive change, particularly in the public equities space?
Carly Brewster: Public equity markets are excellent platforms for channeling large capital flows into sustainable initiatives. By allocating funds to companies developing and producing the technologies to help solve environmental challenges like climate change, investors can make a real difference. They provide companies with the capital required to develop these solutions, and they give a clear signal to the market that these technologies are becoming more and more relevant.

What kind of companies are these? What kind of technologies are they delivering and how exactly do they create impact?
The Environmental Impact Strategy invests in companies that deliver environmental innovations enabling others to reduce their ecological footprint. These include companies developing solutions for energy-efficient buildings and transportation, technologies that enable heavy industry to use less material and produce less waste, smart recycling solutions for industry, and clean energy production. What's more, engaged investors can play an active role via proxy voting and by entering into direct dialogue with the companies they invest in.

Is there a yardstick for assessing impact? What do investors usually look for in these companies when thinking about making a difference?
They select companies offering products and services that ultimately help others to pursue sustainability goals. This generally has the greatest impact by helping corporations and communities reduce their carbon emissions, use less energy, materials and natural resources, dispose of waste more responsibly and increase the amount they recycle. In addition to looking for companies that make a significant impact through the technologies and services they provide to the market, investors should also consider how these companies contribute to the Sustainable Development Goals.

Is this impact significant? Are you able to measure the level of impact your portfolio companies are having?
Experienced investors can measure the impact that companies make, but it requires a thorough analysis. Deep-diving into companies' annual reports and sustainability publications is just as important as direct engagement with the companies' senior management. These activities enable investors to determine the degree of impact and report on measures such as megawatt-hours of electricity saved, CO_2 emissions avoided, cubic meters of wastewater treated, and tons of recycled plastic kept out of our waterways.

Key 2020 initiatives

supporting the environmental impact theme

July 2020

EU leaders agree to a new charge on plastic packaging waste

September 2020

EU presents Climate Target Plan to reduce greenhouse gas emissions by at least 55% by 2030

China pledges carbon neutrality by 2060

October 2020

Ukraine approves minimum requirements for energy efficiency in buildings

November 2020

UK outlines a Ten Point Plan for a Green Industrial Revolution

December 2020

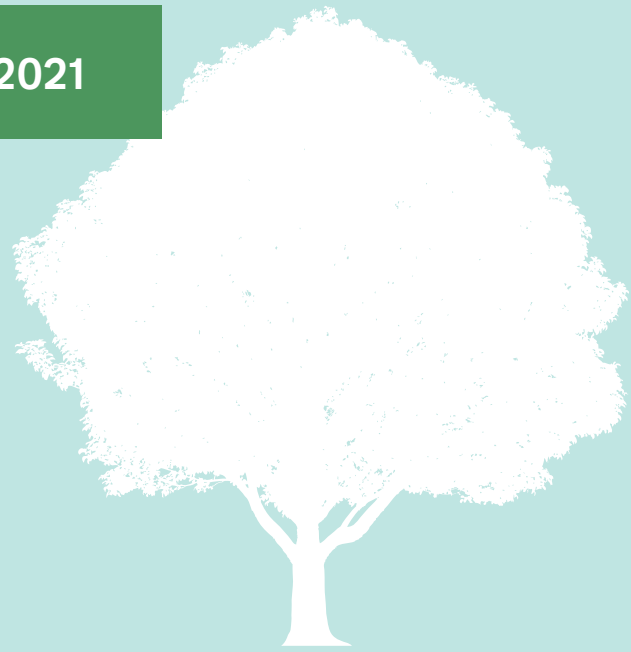
Japan outlines
Green Growth Strategy
through achieving
carbon neutrality in 2050

January 2021

The US officially rejoins
the Paris Agreement,
just hours after Joe Biden
becomes President

February 2021

Hydrogen Economy Promotion and Hydrogen Safety Management Act comes into effect in South Korea



March 2021

Saudi Green Initiative to generate 50% of Saudi Arabia's energy from renewables by 2030 and to plant ten billion trees announced

One-fifth of the world's largest companies now have net-zero target

May 2021

European Commission adopts EU Action Plan: "Towards Zero Pollution for Air, Water and Soil" – a key deliverable of the European Green Deal

US administration approves first utility-scale wind power development in federal waters

The irresistible allure of private assets

Public markets plummeted at the start of the pandemic. Investors like predictable short-term profits and strategic certainty. COVID-19 offered neither of these. By contrast, private assets offer a very different proposition. Here, endurance is rewarded. There is less exposure to the extreme emotional reactions that public markets experience over the short term.

First, let us explain what private assets are and what they have to offer. Private assets include buyout funds, private debt, private equity, venture capital, private real estate and so on. They are essentially any investment opportunity that is not available through public markets. Portfolio managers who invest in private assets aim to tap an alternative source of return that would not be possible if these assets were traded each day. They often look at the operational issues that, if solved, could benefit investors. This might involve digitalizing the business by updating its IT systems. It might also require trimming down or refreshing a product range. Or it could involve shutting down a loss-making division or tilting the business towards more attractive sources of revenue.

The attraction of investing in private assets is that they are less exposed to the short-term volatility found in public markets. Although this makes these assets less liquid, portfolio managers that invest in them are usually more concerned about the fundamentals that support them. Their goal is to unlock the value and growth potential of these investments over the long term.

Investors are already increasing their allocation to private assets
According to the 2021 CIO Sentiment Survey produced by top1000funds.com, many institutional investors are increasing their allocation to private assets. According to these survey results, investors now appear more willing to pay an illiquidity premium and lock up their cash for longer in private assets.

There have been two powerful factors driving investors towards private assets over the past decade. The first includes the changes experienced in the way investors construct portfolios. The second centers on the huge improvements made in regulatory infrastructure, particular in leading jurisdictions such as Luxembourg.

The rise of risk premia investing
Investors have been shifting their focus away from traditional asset allocation for some time. Many are constructing their portfolios using individual sources of risk premia rather than focusing on broader traditional asset classes.

Extraordinarily low interest rates have driven this trend as they have flooded public markets with liquidity and created significant asset price inflation across asset classes. Subsequently, returns between asset classes have become more correlated, reducing the diversification benefits from traditional asset allocation. This has led investors to seek alternative and less correlated sources of premia, which has driven them towards private assets.

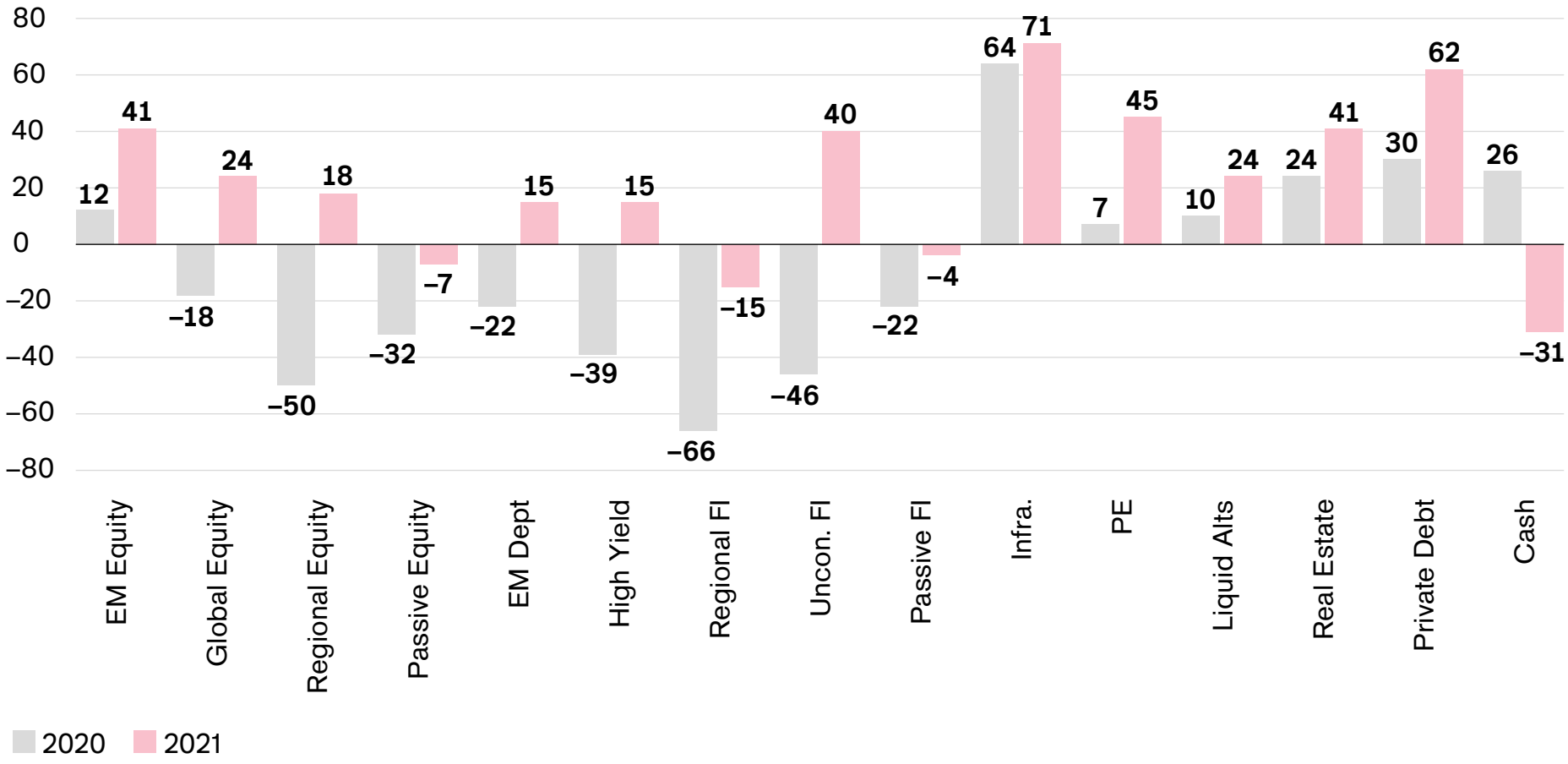
The advances made in fund infrastructure
Another reason why investors are more willing to invest in private assets is because the regulatory environment has evolved and, consequently, fund infrastructure has improved. It has made private assets much more attractive to institutional investors.

Luxembourg is an interesting example. Huge changes have been made to Luxembourg's fund infrastructure for private assets, driven predominantly by changes in the European regulatory framework. Subsequently, Luxembourg's regulator has now authorized over 267 alternative investment managers (abbreviated AIFMs), while 600 have been registered.

Real estate, private equity and private debt have since all experienced a significant increase in assets under management. Real estate experienced 7.2% growth in 2020, bringing its total assets under management to €88.2 billion. Meanwhile, private equity has seen its own assets under management grow to EUR 148 bn, equating to 19% year-on-year growth as of the end of September 2021. Private debt over the same period has climbed 14.5%, increasing its assets under management to over EUR 56 bn.[1]

Investors are shifting their allocation towards private assets

in percent



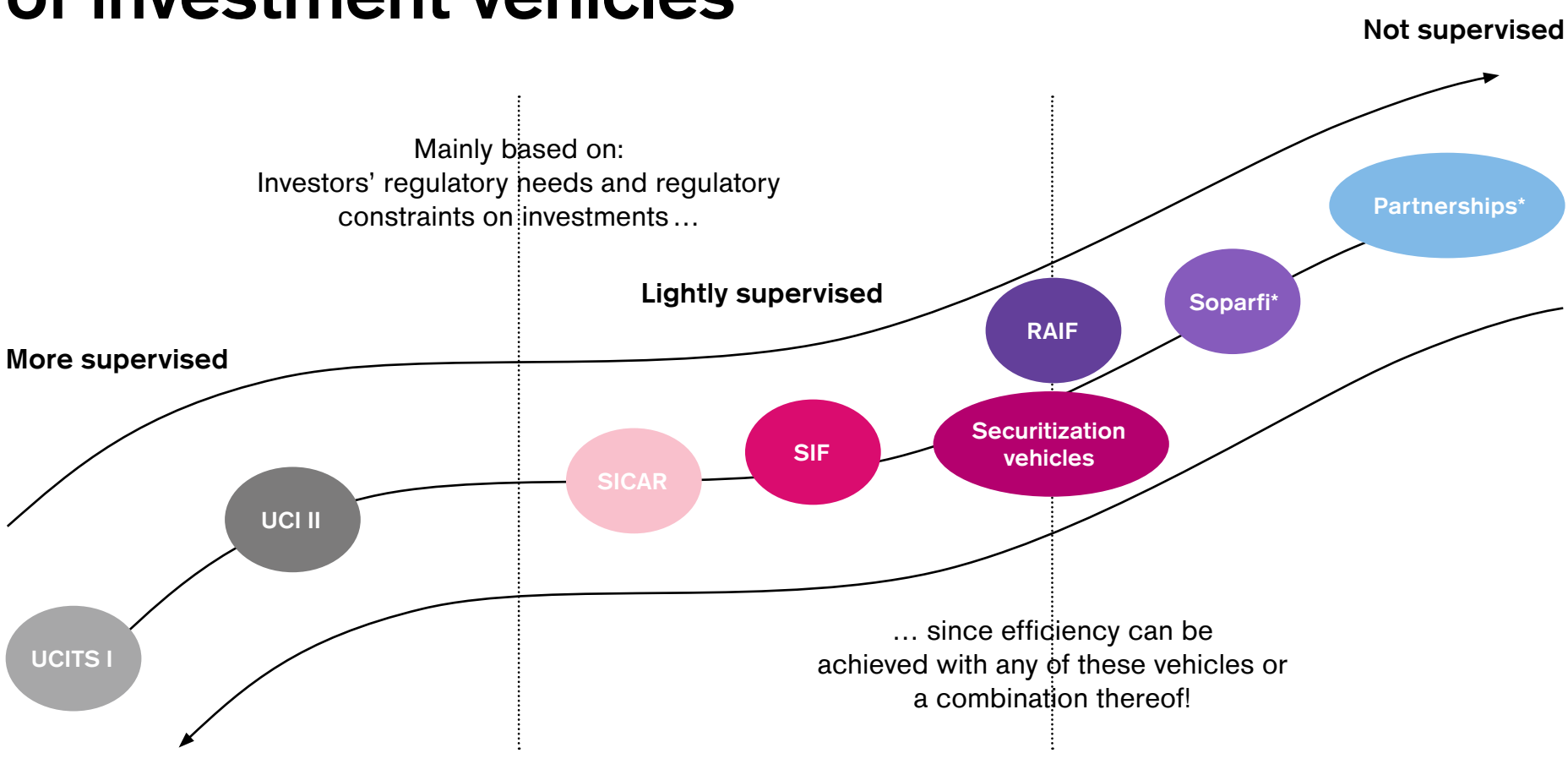
Source 2021 Sentiment Survey, top1000funds.com

These improvements in regulatory infrastructure have meant that there is now far more choice and transparency for those investing in private assets. Fund providers can launch products faster to market using the various regulatory structures and benefit from the European passport introduced by the Alternative Investment Fund Management Directive (AIFMD).

Specialized Investment Funds (SIFs) are one such example. These are typically used for real estate and private equity funds and are approved by the regulator.

Reserved Alternative Investment Funds (RAIFs) are another example. Here, the fund is not regulated, but the manager running the fund is. One of the attractions of this type of structure is that regulated managers can launch funds much more quickly than if they use an SIF structure.

Luxembourg offers a wide range of investment vehicles



Source Alternative investment and private assets, Association of the Luxembourg Fund Industry.

* may be subject to AIFM Law

[1] ALFI Real Estate Investment Funds Survey

Finally, there is the partnership structure, which reflects the traditional LP/GP structure, which is commonplace with private asset investing. These structures are, for instance, favored by Anglo-Saxon asset managers as they can easily replicate parallel funds they may have in Delaware. However, the structure itself is not regulated; by appointing a regulated manager you obtain the AIFMD passport and can distribute in Europe.

Final thoughts

The attraction to private assets has been driven by a combination of changes in the investment environment and better regulation. Technology has also played an important role, alongside innovative solutions that have made private assets much more accessible.

The future is bright for private assets. They fulfil a need and desire that investors have. The market is now far more liquid and more accessible than in the past. This has made the allure of private assets irresistible.

Daniela Klasen-Martin

Daniela Klasen-Martin joined Credit Suisse on September 15, 2021 as a Managing Director to assume the roles of Head of ManCo Lux and CEO of Credit Suisse Fund Management S.A. She holds a Master of Science in Business Administration and International Economics from Linköping University (Sweden) and has 24 years of professional experience in the financial services industry in Luxembourg. Ms. Klasen-Martin has extensive knowledge of funds, including non-financial assets, such as real estate and private equity.

Why emerging market debt needs both a passive and active approach

Most investors already allocate to emerging market debt (EMD). It is an area of investment that has become an established part of many fixed-income portfolios. EMD now represents 18.0% of global bond issuance, which is significant.[1]

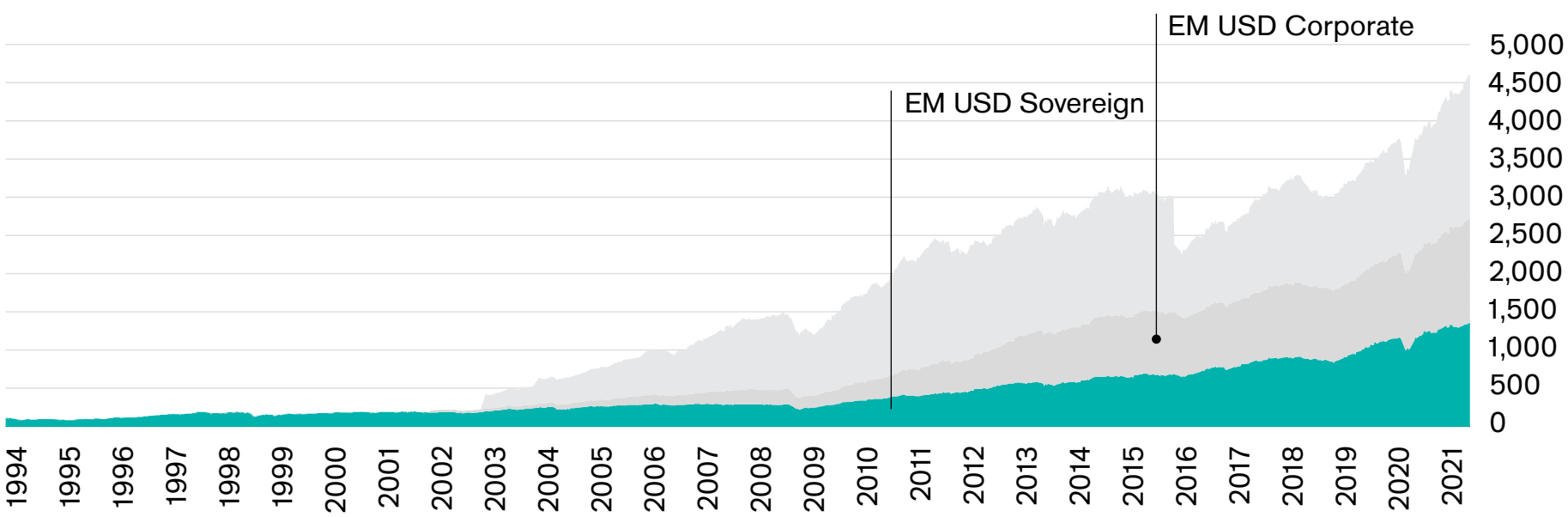
However, most investors also still hold far less than this amount as a fixed income allocation. In the past, smaller allocations may have been warranted. Back then there was less liquidity, greater default risk and less diversity to be found in EMD.

This picture has now changed. EMD as a market has matured. For instance, many sovereign bonds issued in emerging markets have gradually been rated upwards, moving from high yield to investment-grade status. By contrast, many developed market issuers have experienced moderate downgrades since the financial crisis 13 years ago. Subsequently, there has been a convergence in credit quality between the two.

Emerging market bonds have become an established group of asset classes
EMD is no longer a niche allocation. It has swelled to over USD 4.6 tn in assets in just two decades (see chart below). It should also not be defined as a single asset class, but rather as a series of different asset classes that offer unique sources of risk premia (see chart).

The emerging market debt universe has swelled to USD 4.6 trillion

in USD billion



EMBIGLOBAL total index market value
CEMBI BROAD total index market value
GBI-EM Broad Div traded index market value in USD

Source J.P. Morgan indices, as of May 31, 2021

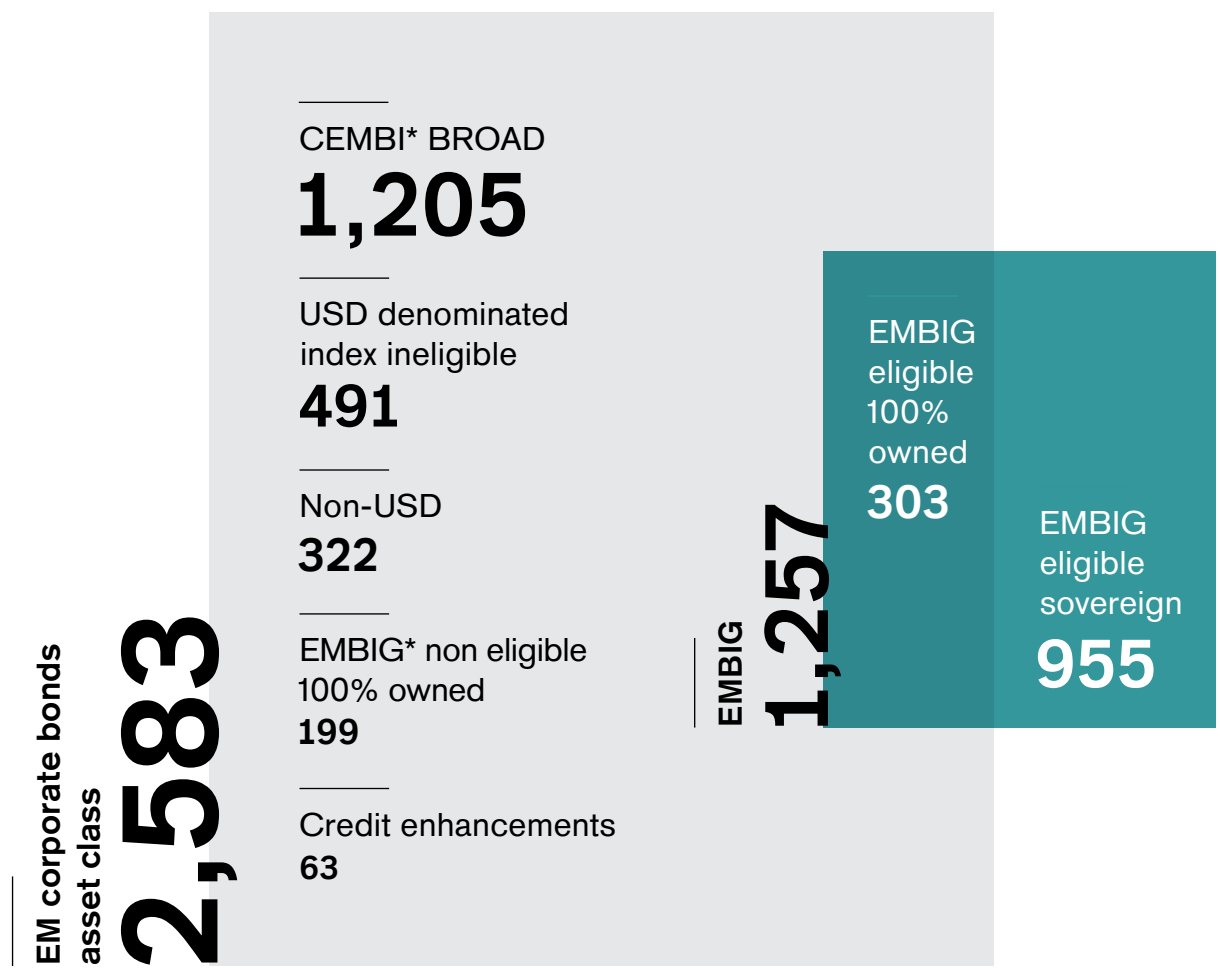
[1] J.P. Morgan

There's a huge variety of emerging market bonds available
There are hard-currency emerging market bonds. These include sovereign bonds (issued by governments) and corporate bonds (issued by companies). Both are asset classes in their own right.

These hard-currency bonds are typically denominated either in US dollars or other major currencies, such as euros, pound sterling or Japanese yen. The hard-currency market alone accounts for USD 3 tn in assets. To put this into context, this is half the size of the US investment-grade corporate bond market, and more than twice the size of the US high-yield market.[2]

The emerging market debt universe is vast and complex

in USD billion



Sources J.P. Morgan indices, Credit Suisse (May 2021)

* CEMBI – Corporate Emerging Markets Bond Index, EMBIG – Emerging Market Bond Index Global

[2] J.P. Morgan

Added to hard-currency bonds, there are also local-currency emerging market bonds. This market has grown rapidly over the past decade. Burgeoning US government deficits and the potential for a future weakening of the US dollar has encouraged greater levels of local currency bond issuance from emerging markets. From an investor's perspective this offers even more ways to diversify a fixed income portfolio and provide additional sources of risk premium.

Overall, this has become a huge and diverse market that is difficult to ignore.

Investors should combine both a passive and active approach with EMD
There are benefits from combining both a passive and active approach to emerging market debt. In combination, both can offer a very effective way to manage an emerging market debt portfolio.

Passive investing

There are now significant amounts of liquidity offered across the emerging market bond universe as the market has matured. There have also been significant technological developments in bond indexation, which have helped investors gain quick access to this market while minimizing tracking error risk.

This gives investors an enormous amount of flexibility in managing their overall exposure to emerging market bonds, regardless of which asset class they focus on. It is relatively easy to quickly add or remove exposure to an index and there are a wide variety of indices on offer. Two of the most popular are the JPM EMBI Global Diversified index, which comprises USD-denominated debt, and the JPM GBI-EM Global Diversified index, which contains local currency debt.

Active investing

Beyond passive investing, there are also a variety of risk premia on offer if you take an active approach. For instance, there are inefficiencies found across EMD due to the size and complexity of this market. This is an area where active portfolio management can add value.

Emerging markets differ in how they issue and structure debt. An experienced active investor understands these different micro-structures within each market and can take advantage of these differences.

They can also gain exposure to bonds that lie outside the index and actively position themselves relative to an index to manage exposure to interest rate risk or credit risk. Overall, the broader universe that an active manager has access to can help them improve liquidity, the level of yield and exposure to duration risk.

They can also take advantage of special situations. For instance, they could tactically tilt into distressed bonds that are shunned by risk-averse investors. They can also capitalize on inefficiencies within the market by either selling emerging market bonds in anticipation of a downgrade or buying at lower prices following a downgrade.

Another interesting source of return is through the primary issuance market. Unlike an index, active managers can actively participate during issuance season. They can also take advantage of smaller issuers that an index might not capture due to liquidity constraints within the index.

There are benefits from taking both a passive and active approach to emerging market bonds. By combining the two, an investor can build a dynamic and well diversified emerging market debt portfolio.

Investments in the trillions

Technological advances and climate change are lending new momentum to infrastructure projects, and as a result the need for investment has skyrocketed. In the G20 nations alone, the funding gap will be USD 15 trillion in each of the next 20 years. Filling a gap of this magnitude requires the support of private investors.

The term infrastructure has been typically associated with streets, bridges, power plants, hospitals, schools and airports. Today, however, the range of infrastructure projects is much broader. The digital revolution and climate change are opening up investment opportunities that didn't exist only a few years ago. Global capital requirements are steadily increasing. Investors could benefit from some guidance here.

Growth in data traffic

Driven by cloud computing and the new 5G wireless standard, digitalization and data traffic are becoming increasingly important drivers of growth in the infrastructure asset class. Data centers have benefited from the rise in video conferences in the wake of so many more people working from home, and from hybrid multi-cloud architectures as well. It has become apparent that even in the most technologically advanced regions, the existing potential has not yet been exhausted.

In the United States, President Biden's infrastructure plans will doubtless stimulate further growth in data traffic. China is pressing ahead with the technological development of rural areas. India, too, and certain regions in Africa have recognized that they need to catch up, and will be moving ahead with relevant projects.

The energy industry and decarbonization

If we are to reduce the CO_2 emissions caused by power generation, there is no way to avoid renewable sources of energy. With the costs of wind energy and solar technology falling and efficiency increasing, renewables are becoming the most affordable sources of new electrical power. They are also benefiting from political support – for example, the infrastructure plans put forward by President Biden and the EU's climate goals.

As part of its Green Deal, the EU wants to achieve climate neutrality by 2050 through the European Climate Law. To reach that goal, greenhouse gas emissions need to decrease significantly in the coming decades. As an interim step, the EU has committed to reducing its emissions by at least 55% by 2030. In an effort to adapt its regulations to the goals for 2030 and 2050, the EU is currently engaged in revising its legal provisions addressing the climate, energy and traffic within the framework of the Fit for 55 package.

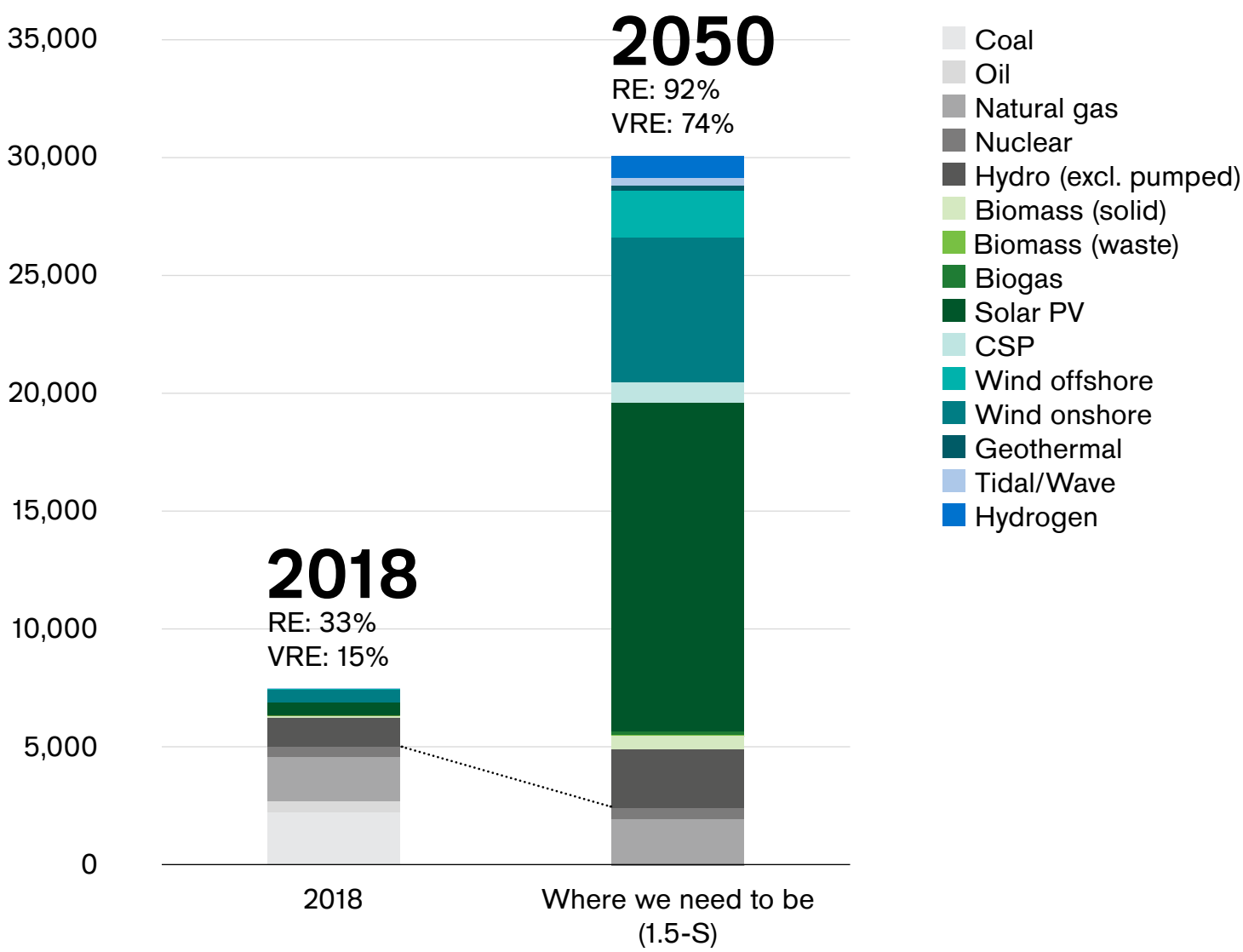
The challenges are enormous, as we are only at the beginning of a huge stretch of growth.

Cash flows resulting from power prices are of particular interest to investors. These cash flows are negotiated in advance during the initial investment phase with the operators of solar or wind farms – much as in regulated power markets.

RE × 10

The installed production capacity of renewable sources of energy (RE) needs to increase nearly tenfold by 2050, relative to 2018. According to calculations by the International Renewable Energy Agency (IRENA), this means, in absolute numbers, that the annual newly installed production capacity – 2,800 gigawatts (GW) in 2020 – needs to expand to 27,700 GW by 2050. Approximately half of this capacity is likely to come from solar photovoltaic systems, with wind power accounting for an additional 8,100 GW by 2050.

Electricity capacity (GW)



Note 1.5-S = 1.5°C Scenario; CSP = concentrating solar power; GW = gigawatts; PV = photovoltaic; RE = renewable energy; TWh/yr = terawatt hours per year; VRE = variable renewable energy.

Source IRENA (2021), World Energy Transitions Outlook: 1.5 °C Pathway, International Renewable Energy Agency, Abu Dhabi. IRENA = International Renewable Energy Agency

Green infrastructure on a growth trajectory

Despite COVID 19, investments in technology aimed at addressing climate change reached an all time high of USD 524 bn in 2020. If we also include measures taken to increase energy efficiency, the total is nearly USD 800 bn. At the UN Climate Change Conference 2021 (COP26), held in Glasgow in October/November 2021, it became clear that investments in green infrastructure will continue their trajectory of strong growth.

Source IRENA (2021), World Energy Transitions Outlook: 1.5 °C Pathway, International Renewable Energy Agency, Abu Dhabi. IRENA International Renewable Energy Agency

The transport sector: Between the pandemic and electrification
Every link in the supply chains will be affected by the gradual transition to power generated by renewable sources of energy. This includes not only industrial production, but also transport and transport infrastructure. Indeed, electrification and the spread of emobility are already well underway and demonstrating considerable potential for growth. Operators of airports and cargo ports, toll roads and railways have recorded significant corrections during the COVID-19 pandemic, which might now prove to be entry opportunities.

Opportunities for investors
Cloud computing, climate neutrality, transport capacities and other infrastructure systems have one thing in common: a need for major investment. So much capital is required that national budgets cannot meet the need, and private business must fill the gap.

Infrastructure projects are attractive to investors for a number of reasons. Many are by nature long-term projects, with time horizons that extend over many years. Chances are good that market fluctuations will even out over time. At the same time, cash flows are quite stable and not particularly cyclical, since the markets are highly regulated and/or have high barriers to entry. Another advantage is that in regulated markets, the permissible interest rates on investments are periodically adjusted to capital market rates, ensuring adequate returns. While yields may be relatively modest, their consistency makes them a good pension substitute. In non-regulated markets, infrastructure operators often enjoy a quasi-monopoly, which gives them considerable power to set prices.

Lessons from the pandemic
COVID-19 has demonstrated that official restrictions do not affect all infrastructure facilities in the same way. Travel restrictions have led to a particularly significant drop in the revenues of airport concessions, with toll roads close behind, while there was a much smaller decrease in revenues in the freight and electricity sectors. Telecommunications infrastructure was among the winners, fueled by online shopping, streaming services and the shift to working from home.

USD 131 trillion

To achieve the goal of limiting the rise in global temperatures to no more than 1.5 °C by the end of this century, international investments of USD 131 tn will be needed by 2050, according to estimates from the International Renewable Energy Agency (IRENA). These investments should focus primarily on generating electricity from renewable sources of energy, developing the power transmission grid, the electrification of traffic and buildings, and promoting efficiency and innovation.

Investing in China is a long-term strategy

Former Chairman Deng Xiaoping once said “to get rich is glorious.”

This declaration marked a turning point for China. The country was ready to emerge. Yet rather than merely coming out from the shadows, what we witnessed was an economic explosion. It was a force so powerful that it propelled China past the world’s most developed economies, making it the second largest economy after the US.[1]

The progress made since then is astonishing. According to the World Bank, in the 1990s, 750 million people in China were living below the international poverty line – roughly two-thirds of the population. By 2012, that figure had fallen to 90 million. By 2016, the number had fallen even further to a mere 7.2 million people.[2]

China has moved from a country with an economy barely larger than Italy’s at the turn of the millennium to one that could soon become the globe’s biggest. It has already secured its position as the world’s largest exporter, taking over this role from the US (see chart).

China’s global economic influence is therefore unquestionable. It has become such a vital part of global markets and our global economy that it should represent a sizable allocation in a well-balanced global portfolio.

It would also be fair to say that simply getting rich in China is not as glorious as it was during Deng Xiaopeng’s time. China’s evolution has led it to a point where the leadership’s agenda emphasizes a path to common prosperity, seeking to realign the existing balance between growth and a more expansive social agenda.

Geopolitical considerations remain an issue to keep an eye on, and while its regulatory landscape continues to evolve, China’s long-term narrative remains intact. The country’s physical, social, cultural and economic influence will shape the future world we live in.

China’s economic prowess should prove enduring

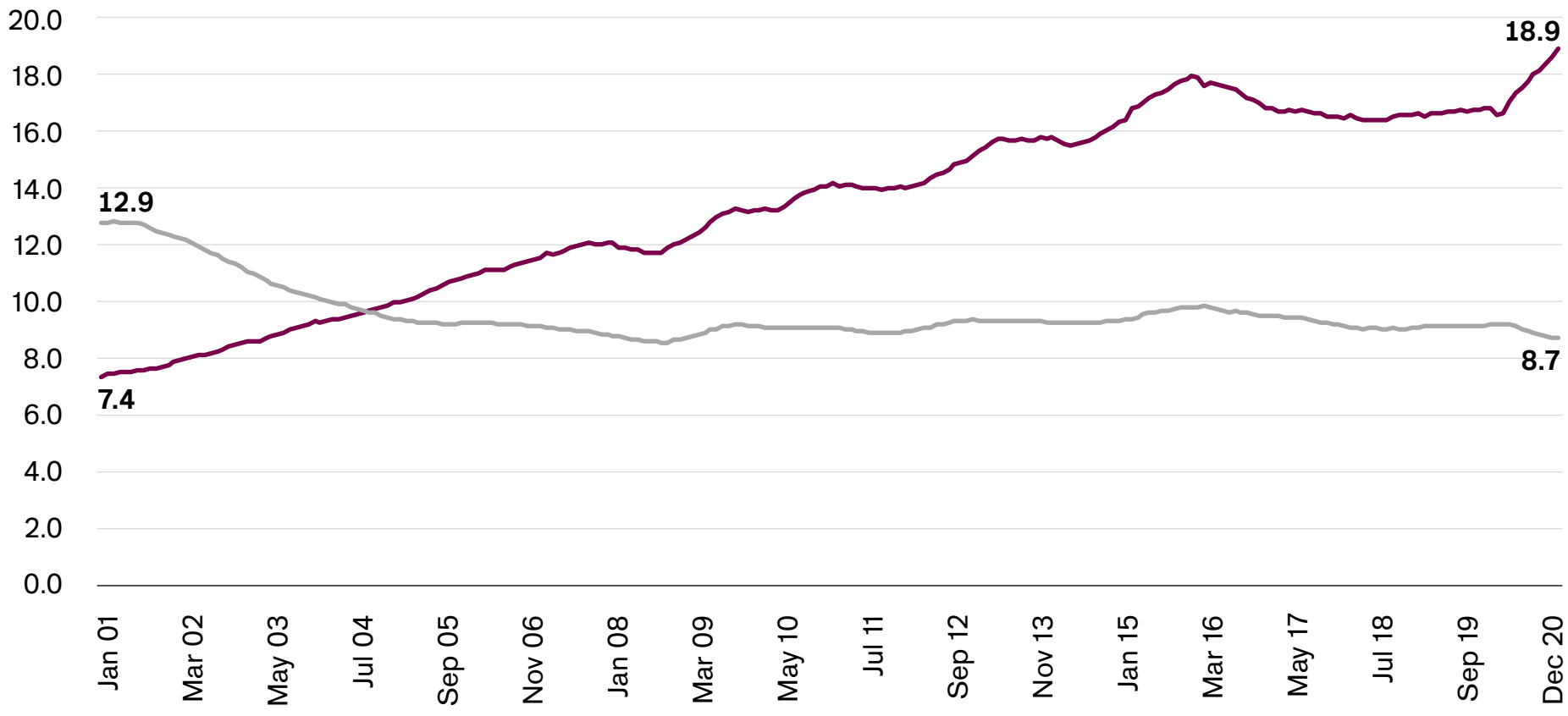
For decades, China has provided the world with cheap high-quality consumer goods. China itself also has over a billion consumers who are eager to spend on fashion, gadgets and properties. Its emerging middle class aspires to the same high quality of living experienced in developed markets. Consequently, tastes and fashions are changing, favoring more proteinrich diets and consumer goods.

[1] Worldometer. (December 31, 2017). GDP by Country – Worldometer. https://www.worldometers.info/gdp/gdp-by-country/

[2] Goodman, B. J. (February 28, 2021). Has China lifted 100 million people out of poverty? BBC News. https://www.bbc.com/news/56213271

China's rise to manufacturing dominance

Global share of exports, in percent



Source United Nations trade statistics

Note Monthly, 12-month rolling average of the global share of exports, December 2020

The short term, however, remains beset by uncertainty over the direction of the pandemic. It remains to be seen whether and to what extent lockdowns will be reintroduced. But this need not lead to drastically negative economic impacts. The continuation or even tightening of restrictions should generate still more pent-up demand. Coupled with the build-up in global savings resulting from previous lockdowns, we are likely to see a significant post-pandemic increase in demand for China's manufactured goods.

Hints of what may come have been seen following the recent period of relative calm resulting from vaccination campaigns. China's retail sector, for instance, has recorded a sharp uptick, with online retail sales growing 12.1% year-on-year as of June 2021.[3]

[3] National Bureau of Statistics of China. (July 16, 2021). Total Retail Sales of Consumer Goods Went Up by 12.1 percent from January to June 2021. http://www.stats.gov.cn/English/PressRelease/202107/t20210716_1819547.html

The country continues to break through new barriers
China's stock market value has hit USD 10 tn.[4] The country has more than 850 million internet users as of Q1 2021, more than anywhere in the world.[5] The World Bank projects that China will experience 8.5% real GDP growth in 2021, followed by 5.4% in 2022 and 5.3% in 2023. China could overtake the US and become the world's largest economy by as early as 2028.[6]

In fact, there are many reasons to be bullish about China over the long term. China's economy has fared well throughout the pandemic. Its factories reopened earlier than anywhere else in the world, giving it a first-mover advantage. While much of the world remained in lockdown, China was able to supply medical and computer equipment, which were in high demand particularly at the apex of the pandemic.

China's economy has become large and diverse. Its rapid development is being powered by a myriad of sectors and drivers. China has a large middle class that is still growing and contributing positively to private consumption.

China's journey toward long-term domestic growth
China is bolstering its regulatory regime, especially within the technology sector, with the objective of gaining more control over long-term domestic growth. It also wants to modernize its technology sector so it can cater for its own consumers and become more technologically self-sufficient.

Measures by China focused on its technology industry should help it achieve these goals over the longer term. The country is highly ambitious and intends to expand the breadth and depth of its technology sector far beyond the activities that its current mega techs are engaged in (i.e. Ali Baba, Tencent and Baidu).

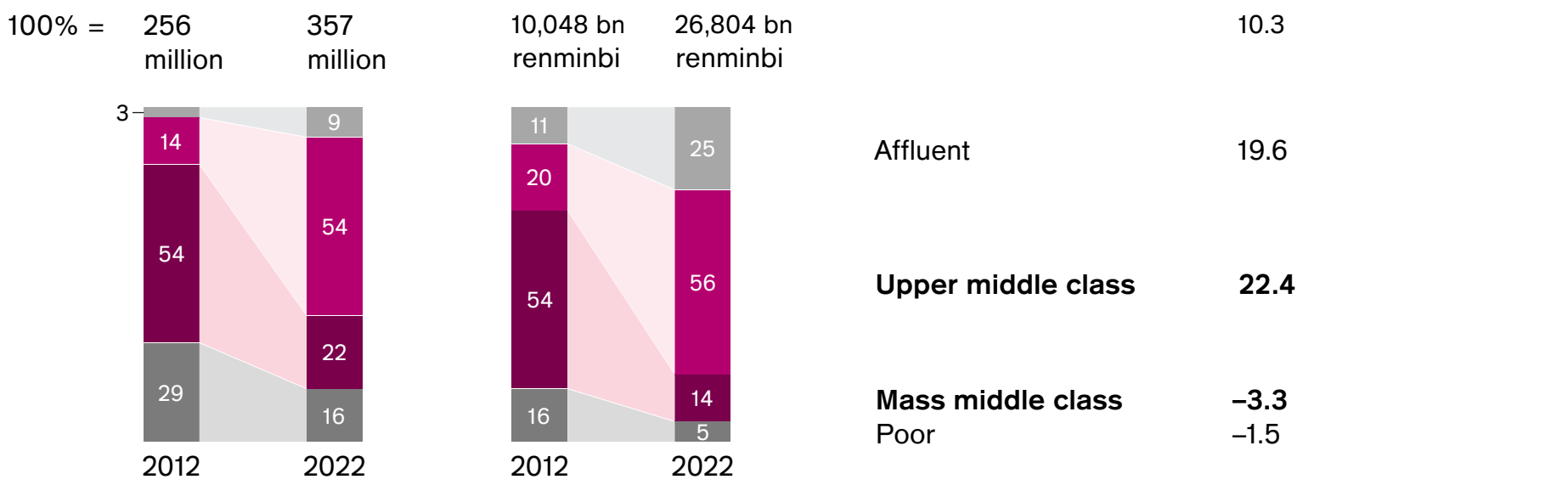
Technological innovation in China is thriving
China is starting to invest in its own semiconductor manufacturing capabilities, which could end global chip supply shortages by next year. It is also making huge advances in medical technology, drone technology and 5G communications. China is also forecast to become the biggest electric vehicle producer in the next few years.[7]

[4] Bloomberg News. (2020, October 13). China's Stock Market Tops $10 Trillion For First Time Since 2015. Bloomberg.Com. https://www.bloomberg.com/news/articles/2020-10-13/china-s-stock-market-tops-10-trillion-for-first-time-since-2015
[5] Statista. (2021, July 19). Countries with the highest number of internet users Q1 2021. https://www.statista.com/statistics/262966/number-of-internet-users-in-selected-countries/
[6] China Economic Update – June 2021. (2020, December 31). The World Bank. https://www.worldbank.org/en/country/china/publication/china-economic-update-june-2021
[7] Statista. (2021b, August 5). Electric vehicle production forecast – selected countries 2023. https://www.statista.com/statistics/270537/forecast-for-electric-car-production-in-selected-countries/

Beyond Tesla, which manufactures in China, there are many new Chinese electric vehicle companies that have emerged domestically, such as BYD, NIO, Xpeng, Li Auto and SAIC Motor.

In short, there is a huge amount of innovation now within China's technology sector that may not be so obvious to the outside world.

China's growing middle class



* Figures may not sum to 100% because of rounding; data for 2022 is projected.
** Defined by annual disposable income per urban household, in 2010 real terms; affluent, >229,000 renminbi (equivalent to >USD 34,000); upper middle class, USD 106,000 to 229,000 renminbi (equivalent to USD 16,000 to USD 34,000); mass middle class, 60,000 to 106,000 renminbi (equivalent to USD 9,000 to USD 16,000); poor, <60,000 renminbi (equivalent to <USD 9,000).
*** Compound annual growth rate

Source Motley Fool, https://www.fool.com/investing/general/2014/04/27/3-ways-to-profit-from-chinas-exploding-middle-clas.aspx

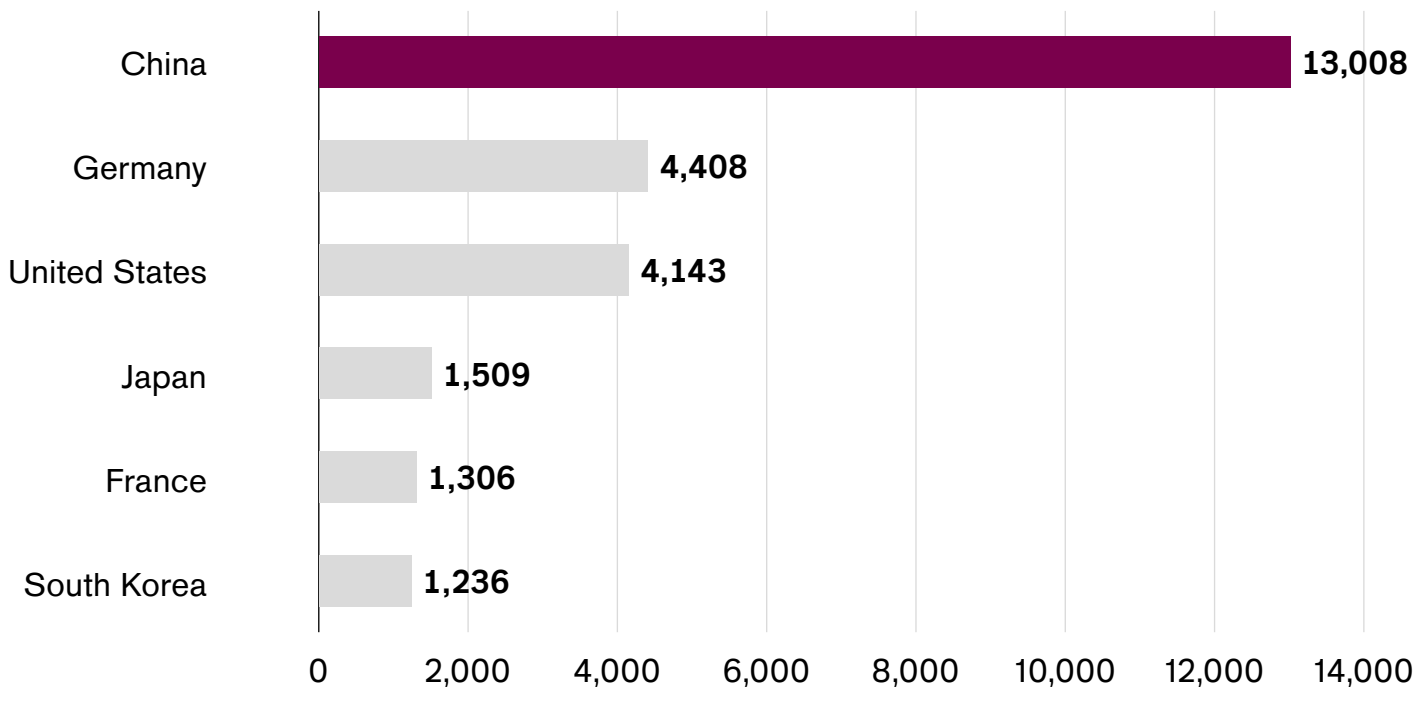
China poised to make great sustainability strides
President Xi Jinping has announced China's intention to become carbon neutral by 2060. This will bring a huge amount of opportunities in climate-friendly projects. These include sustainable energy, mass battery storage, electric vehicle charging stations, energy-efficient semiconductor chips and recycled materials.

China is already the world's largest polluter and is heavily reliant on coal power. As the workshop of the world, the country imports carbon emissions from consumers of other countries. Consequently, China is taking on the burden of emissions from foreign countries alongside its own.

A huge amount of investment will therefore be needed to get the country to climate neutrality by 2060. It could launch what is potentially the largest renewable energy program in the world, which could create an abundance of new investment opportunities for ESG investors.

Projected production of electric vehicles and plug-in hybrid electric vehicles in selected countries between 2018 and 2023

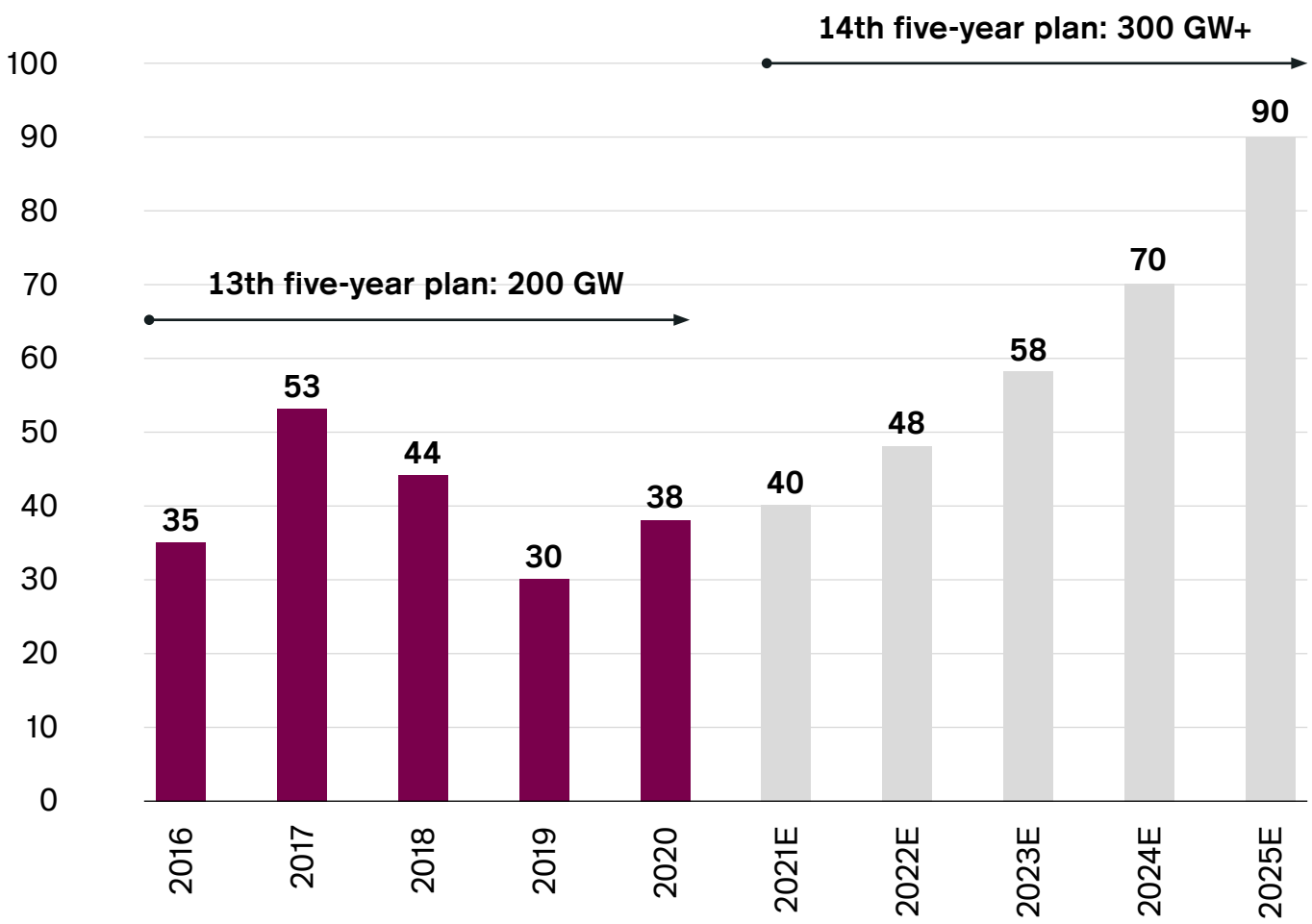
EV production in 1,000 units



Source Statista, March 2021

China's solar energy capacity is expected to rise 50% from 2021 to 2025

in GW

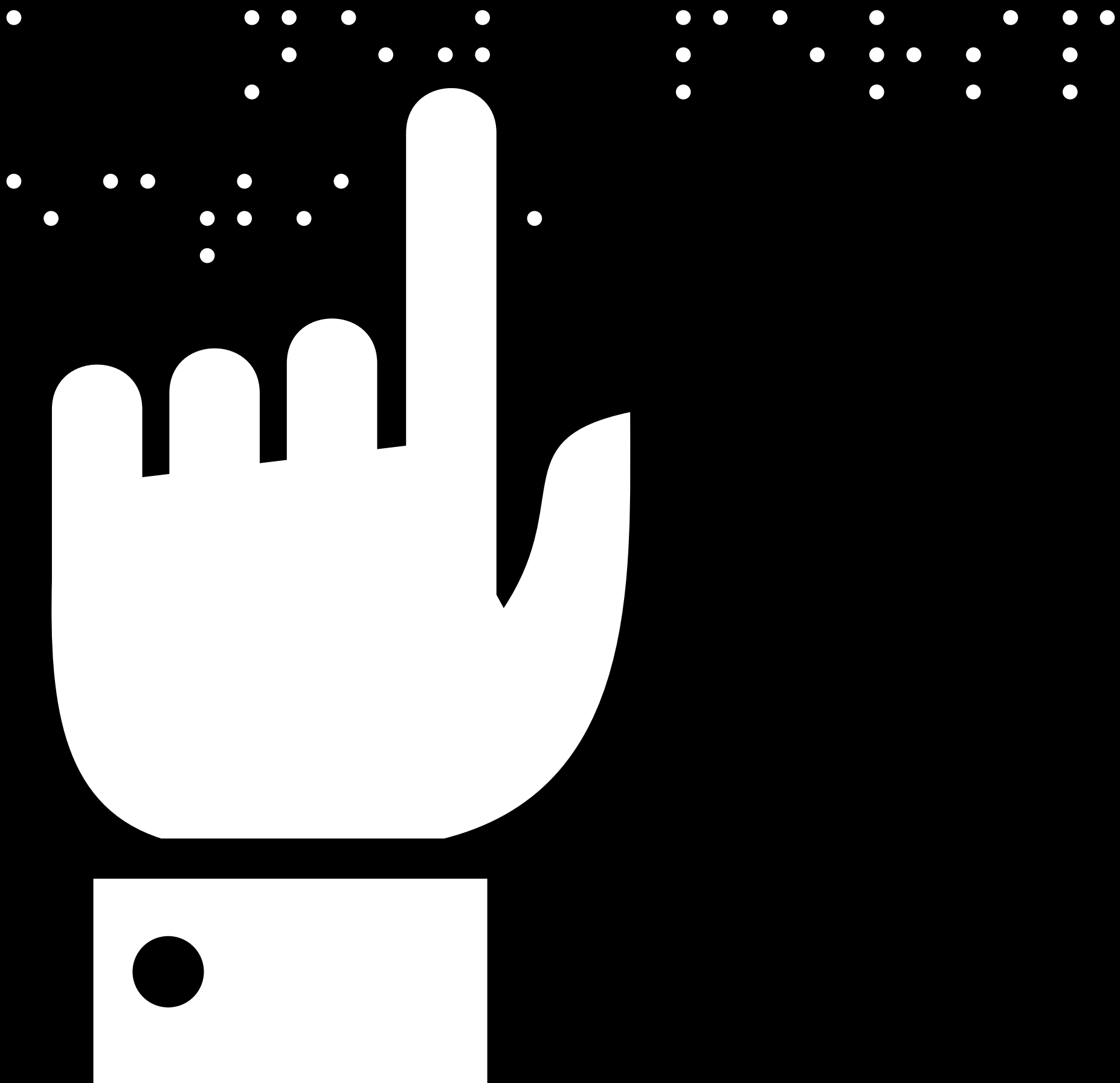


Source Intelligent PV, September 2020

China well positioned for the future

Investors should extend their horizon when it comes to China and those companies that will be exposed to China's long-term growth. Many of these companies offer the power of compounding the earnings they make. They stand to outlive geopolitics and regulatory changes, opening up attractive opportunities to investors with a view to the future.

A new perspective



As a visually impaired member of the Chief Digital Officer & Strategy team, and as a private individual, Drilon Kastrati is passionately committed to moving forward with digital apps for disadvantaged people and making them available worldwide. Originally from Kosovo, he knows from personal experience that digitalization can open up new perspectives.

There are a number of reasons why Drilon Kastrati is making every effort to support digital transformation. First, as someone who has earned a degree in economics, he is aware of the potential that new technologies have to offer and their impact on sustainable development. Second, he views technological innovations as an effective means of reducing the gap between economically and socially vulnerable countries and the industrialized world. And third, digital tools and apps are of immediate importance for Drilon Kastrati as an individual – for his life, his personal ambitions and his professional goals – as he has been nearly blind since the age of 16. It was for that reason that he had to abandon his apprenticeship as a machine designer.

New perspectives, thanks to innovative technologies
“After receiving that devastating diagnosis, I was able to get back on my feet thanks to new technologies,” he remembers. While studying banking and finance at the University of Zurich, he found that visually impaired students had no or only very limited access to learning materials and specialized literature. He decided to change that.

In his work for Credit Suisse Asset Management, where he has been a member of the Chief Digital Officer & Strategy team since November 2018, he seeks to promote the expansion of e-learning tools and make them accessible to visually impaired people all over the world. In particular, computers with screen readers, which provide access to reading, writing, calculating and other apps, have proved to be exceptionally helpful. Such technologies also offer interesting investment opportunities for companies and other investors.

“I want to be an example and show that someone with limited eyesight is fully capable of taking on challenging roles – including roles where you would not expect to have people with a disability,” Drilon Kastrati explains.

A citizen of the world and champion of inclusion

However, his interest in promoting digital innovations is rooted in far more than just his personal circumstances: “I am committed to the concept of inclusion and to ensuring that every member of our society is able to participate fully and equally in the life of that society.” This poses challenges that can only be overcome through global action.

The nonprofit organization One Young World (OYW) provides a platform for addressing these challenges. Every year, it brings together thousands of 18- to 30-year-olds from business, academia and NGOs to participate in a summit meeting. The participants want to be actively involved in shaping the future, find solutions for education, the climate and social development, and form networks aimed at achieving a positive impact.

Credit Suisse also took part in this year’s One Young World Summit 2021 conference, which was held in Munich in July. It was one of the more than 20 globally active companies that sent a delegation to the conference, making its members OYW ambassadors. Speaking for the Credit Suisse delegation was Drilon Kastrati, who called for greater speed and a more targeted approach in exploiting the potential of new technologies, in particular for the benefit of disadvantaged individuals and population groups as well. In his remarks, he acknowledged that he would like to start with Kosovo, where he was born. The country, with just under two million inhabitants, is a good place to conduct a pilot project that will enable visually impaired children to read and write texts in their own language. As a true man of action, Drilon Kastrati has already made contact with the Kosovo Association for the Blind and held constructive discussions. An app that allows blind children to listen to books is already being developed and is currently in the test phase.

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