2013 Market Highlights

First Quarter:
- Policy transitions in Japan affected the Yen early in 2013, which depreciated against the dollar and several other currencies
- Financial crisis in Cyprus prompted a $10 billion bailout
- U.S. equity markets continued to rally despite the “sequestration” debates

Second Quarter:
- Yields declined as weak economic news came from Europe, including lower than expected inflation
- Positive U.S. market sentiment boosted equity markets while sequestration cuts led to a decrease in longer-dated treasury yields
- U.S. Treasury yields were driven up across the board and high yield credit weakened after then U.S. Federal Reserve chairman Bernanke expressed potential for a quantitative easing program slowdown before year-end, which also resulted in a global fixed income sell-off

Third Quarter:
- China continued to make changes to shift from an export-led to a consumption-led economy
- Political turmoil in Egypt increased crude oil prices

Fourth Quarter:
- Partial U.S. government shutdown did not rattle markets as expected

Market Review

2013 started off with generally positive market sentiment after the U.S. “fiscal cliff” crisis was avoided at the end of the prior year. Despite a market sell-off in late May, and the partial U.S. government shutdown in October, directional equities performed positively overall for the year, benefitting from a generally bullish market environment. Event Driven managers benefitted from the completion of a number of high profile deals, as well as stressed and distressed corporate credit positions. Trend followers struggled for much of the year but recouped some of the losses in the last quarter, primarily due to the rally in global equities as well as their ability to capture trends from currency, commodity and fixed income markets.

The Credit Suisse Liquid Alternative Beta (“LAB”) Index, which seeks to replicate the returns of the Credit Suisse Hedge Fund Index, gained 7.35% for the year (Figure 1). The Event Driven sub-strategy was the strongest performer, up 10.88%.

Figure 1: 2013 Credit Suisse LAB Index Performance Comparison by Sector

<table>
<thead>
<tr>
<th>CS Liquid Alternative Beta (“LAB”) Indices</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Broad Industry</td>
<td>7.35%</td>
</tr>
<tr>
<td>Event Driven</td>
<td>10.88%</td>
</tr>
<tr>
<td>Long/Short</td>
<td>7.88%</td>
</tr>
<tr>
<td>Merger Arbitrage</td>
<td>6.95%</td>
</tr>
<tr>
<td>Managed Futures</td>
<td>7.49%</td>
</tr>
<tr>
<td>Global Strategies</td>
<td>5.91%</td>
</tr>
</tbody>
</table>

Source: Credit Suisse, 2014. All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to the accuracy, completeness or reliability of such information. Past performance is no guarantee or indicator of future results.

In the following analysis, we take a deeper look at some of the key drivers of performance in 2013.
Event Driven strategy captured shifts in the markets

Event Driven strategy funds typically invest in various asset classes and seek to profit from potential mispricing of securities related to a specific corporate or market event. Many Event Driven fund managers use a combination of strategies and adjust exposures based on event driven equity or credit opportunities.

The Event Driven strategy benefitted from the successful completion of several merger deals in the first quarter of 2013, while stressed and distressed corporate credit positions, restructuring situations, special situation equities and merger arbitrage all contributed positively in the second quarter. Elevated volatility for the latter part of the year enhanced Event Driven managers’ opportunities for gains.

The Credit Suisse Event Driven Liquid Index, which seeks to track the returns of the Credit Suisse Event Driven Hedge Fund Index, was the highest performing sub-strategy in the Liquid Alternative Beta Index suite in 2013.

The Credit Suisse Event Driven Liquid Index primarily benefitted from a Russell 2000 position, which was the most significant contributor to performance over the course of the year, as well as iBoxx High Yield and Credit Suisse Merger Arbitrage positions, as can be seen in Figure 2. The model successfully adapted to shifts in the market, such as a rotation into Illiquidity Premium in the second quarter of 2013 as volatility picked up in the market, and the rotation out of Distressed Equities in the latter part of 2013.

Figure 2: Performance drivers of the Credit Suisse Event Driven Liquid Index in 2013

![Graph showing performance drivers of the Credit Suisse Event Driven Liquid Index in 2013]

Source: Credit Suisse Asset Management LLC, 2014. Past performance is not a guarantee or indicator of future results.

About the Illiquidity Premium factor

The Credit Suisse Illiquidity Premium factor uses a quantitative methodology to combine liquid index options in order to achieve a risk premium similar to that achieved by holding illiquid securities. The factor is based on the theory that illiquidity risk is made of two components:

- **Opportunity risk**: The risk that a holder may not be able to sell securities at best possible time
- **Liquidation/panic risk**: The risk that, in a market panic, a holder may be forced to sell at worst possible time

Both of these risks are greatest in volatile markets and the payoff profile of a short volatility program behaves similarly to illiquid returns.
**Long/Short Equity benefitted from a positive equity market environment globally**

Long/Short Equity funds typically invest in both long and short sides of equity markets, generally focusing on diversifying or hedging across particular sectors, regions or market capitalizations. Managers typically have the flexibility to shift from value to growth; small to medium to large capitalization stocks; and net long to net short. The Long/Short Equity strategy benefitted from positive equity market conditions globally in 2013.

The Credit Suisse Long/Short Liquid Index seeks to track the returns of the Credit Suisse Long/Short Equity Hedge Fund Index. It was the second best performing LAB strategy in 2013, primarily due to long exposure to S&P 500, Russell 2000, and MSCI EAFE factors.

Performance of the Credit Suisse Long/Short Liquid Index lagged that of the Credit Suisse Long/Short Equity Hedge Fund Index early in 2013, primarily due to its low net exposure versus Long/Short Equity hedge funds in January. As a result, the strategy failed to benefit from a rally in equities at the start of year. The Credit Suisse Long/Short Equity model did increase its net exposure during the February rebalance, after which net exposures remained in-line with Long/Short Equity hedge funds throughout the rest of the year (as demonstrated by the performance shown in Figure 3). While these types of short term deviations can occur when market exposures shift suddenly, research and experience has shown that performance tends to even out after longer periods. For example, in 2009, the Credit Suisse Long/Short Liquid Index underperformed as managers increased exposures quickly during the equity run-up. Conversely, in late 2011, hedge funds cut their positions quickly, missing October gains when markets rallied sharply. Overall, the Credit Suisse Long/Short Liquid Index has a correlation of 87% to the Credit Suisse Long/Short Equity Hedge Fund Index since it was launched in March 2008.

**Figure 3: The Credit Suisse Long/Short Liquid Index performed in line with Long/Short Equity hedge funds after positions were rebalanced in February 2013**

Source: Credit Suisse, 2014. Data in graph is from February 2013 through December 2013. All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to the accuracy, completeness or reliability of such information. Past performance is no guarantee or indicator of future results.

**Managed Futures: Capitalizing on trends across asset classes**

The Managed Futures strategy seeks to capitalize on market trends across a range of asset classes, including: Equities, Fixed Income, Commodities and Currencies. Compared to other hedge fund strategies, Managed Futures is one of the least correlated to broad market indices and can potentially act as a portfolio diversifier. Managed Futures has demonstrated positive expected returns during upward trending markets and the ability to hedge against some negative tail risk events, potentially making it a less expensive but effective hedge over the long term.

The Credit Suisse Managed Futures Liquid Index is a mechanical strategy (see Figure 6) which provides exposure to up and down price trends by systematically tracking 18 of the most liquid and widely traded instruments across asset classes (see Figure 4).
2013 was a particularly good year for the strategy, as market trends provided opportunities for profit. For example, the Managed Futures strategy benefitted from a U.S. equity market rally despite the “sequestration” debates, and also from a short position in the Japanese Yen, which depreciated against the U.S. Dollar due to the aggressive monetary easing policy by the Bank of Japan.

Figure 4: Risk-Weighted Composition of the Credit Suisse Managed Futures Liquid Index as of 12/31/2013

<table>
<thead>
<tr>
<th>Currency Futures (vs USD)</th>
<th>Equity Index Futures</th>
<th>Commodity Indices</th>
</tr>
</thead>
<tbody>
<tr>
<td>• AUD</td>
<td>• S&amp;P 500</td>
<td>• Agriculture</td>
</tr>
<tr>
<td>• CAD</td>
<td>• Eurostoxx 50</td>
<td>• Precious Metals</td>
</tr>
<tr>
<td>• GBP</td>
<td>• FTSE 100</td>
<td>• Industrials</td>
</tr>
<tr>
<td>• EUR</td>
<td>• Nikkei 225</td>
<td>• Energy</td>
</tr>
<tr>
<td>• JPY</td>
<td>• Hang Seng</td>
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</table>

Source: Credit Suisse Asset Management LLC, 2014.

The Credit Suisse Managed Futures Liquid Index was the third best performing LAB strategy in 2013, outperforming the Credit Suisse Managed Futures Hedge Fund Index by 10.04% (see Figure 5). While many trend-followers struggled in June, as positive correlations between fixed income and equities caused cross-asset correlation models to break down, Credit Suisse’s straightforward approach (buy when short-term moving averages exceed long-term and sell when long-term moving averages exceed short-term) resulted in gains for the strategy contributing to this outperformance.

Figure 5: Managed Futures performance in 2013

Figure 6: Overview of Mechanical vs. Factor-Based Strategies

Mechanical Strategies
- Not all strategies can be defined easily in one sentence. As an example, Long/Short Equity managers all buy and sell stocks, but their strategies vary. Some are value investors, while others buy growth stocks. Some are global investors, while others are more regional.
- Replicating the returns of a hedge fund index is the best way to provide typical exposure to such a strategy. Factor based strategies seek to do this by determining the risk exposures of the average hedge fund in these sectors.

Factor-Based Strategies
- Products based on mechanical strategies tend to perform like a typical single-strategy hedge fund.
- Combining both factor-based and mechanical strategies allows for more precise replication of different hedge fund strategies.

Sources: Credit Suisse Asset Management LLC, 2014. Past performance is not a guarantee or indicator of future results. All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information.
The Credit Suisse Managed Futures Liquid Index was primarily long equities throughout 2013, while maintaining an overall short allocation to commodities and currencies. The fixed income allocation shifted in 2Q 2013 to reflect changes in bond markets, as illustrated in Figure 7.

**Figure 7: Credit Suisse Managed Futures Liquid Index composition in 2013**

![Figure 7: Credit Suisse Managed Futures Liquid Index composition in 2013](image)

Sources: Credit Suisse Asset Management LLC, 2014.

**Merger Arbitrage: Uncorrelated return potential**

Merger Arbitrage is an investment strategy that attempts to capture the spread between the price at which a target company trades after a proposed acquisition is announced, and the price at which the acquiring company has proposed to pay for the target. Once a deal is announced, it tends to move independently of broader markets; as a result, merger arbitrage could be an option for investors seeking a strategy that is non-directional with a relatively low correlation to traditional assets.

A number of high profile merger deals made headlines in 2013, including the privatization of Dell, which gained renewed momentum in August when a consortium led by company’s founder, Michael Dell, increased its offer price from $13.65 to $13.75 per share and proposed a special dividend of $0.13. The deal was completed on October 30th. The battle over Clearwire and the $23 billion acquisition of Heinz were also notable deals. Telecommunications ranked as the top sector in 2013, with deal volumes over $250 billion. Real Estate and Oil & Gas sectors were the second and third highest by deal volume in 2013. The Healthcare sector also saw a broad set of activity.

The Credit Suisse Merger Arbitrage Liquid Index seeks to gain broad exposure to the Merger Arbitrage strategy using a systematic approach to invest in a liquid, diversified and broadly representative set of announced merger deals (long the target company, short the acquiring company in the case of stock deals). The Index participated in some of the notable deals mentioned above. Clearwire Corp, which was the subject of a takeover battle between DISH Networks and Sprint Communications, contributed a combined 2.70% to the Index’s return. The attempted acquisition of Best Buy Co added 2.35% in 2013 while the acquisition of Dell Inc added 1.08% to the Index.
Overall Performance Summary

The Credit Suisse Liquid Alternative Beta Index has outperformed other major investable hedge fund benchmarks since its inception, (shown in Figure 8), though all major indices lagged the performance of the non-investable Credit Suisse Hedge Fund Index – a benchmark of approximately 450 open and closed hedge funds with varying liquidity profiles.

Overall, returns for the Credit Suisse Liquid Alternative Beta Index have been in-line with historical expectations. Credit Suisse continuously works to enhance the accuracy of our models, incorporating additional strategies and factors in seeking to achieve the most accurate replication of the hedge fund space. Overall, the Credit Suisse Liquid Alternative Beta Index has tracked the Credit Suisse Hedge Fund Index with a correlation of 86% since its inception in January 2010.

Figure 8: Industry benchmark cumulative performance (January 2010 – December 2013)*

Looking ahead to 2014, investors are increasingly focused on navigating an uncertain fixed income environment and capturing equity gains while limiting downside risk. Adding a diversified hedge fund allocation may offer an uncorrelated source of returns for those seeking to diversify their portfolios. On an individual strategy level, the Managed Futures strategy could be well-positioned to profit from both fixed income and equity trends in 2014 while Merger Arbitrage could profit from the high amounts of cash on company balance sheets, and a steadier economic environment is invigorating interest in further acquisitions.

With over a decade of experience managing and investing in hedge funds, Credit Suisse boasts a combined network of investment teams and intellectual capital that sets us apart as one of the industry’s largest, most established and innovative hedge fund solution providers. The Liquid Alternative Beta group leverages Credit Suisse’s fundamental understanding of hedge fund strategies and expertise in measuring hedge fund performance, as well as working with hedge fund data, to provide liquid, transparent and broadly diversified exposure to the risk and return characteristics of hedge funds. Currently, the team manages multiple investment vehicles with over $1.5 billion in assets.

To learn more about the Credit Suisse Liquid Alternative Beta index platform, visit our website, www.credit-suisse.com/lab or email us at cs.lab@credit-suisse.com.

* The above chart shows cumulative performance beginning with the live start date of the Credit Suisse Liquid Alternative Beta Index, January 2010. Past performance is not a guarantee or indicator of future results.

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