

Asset Management

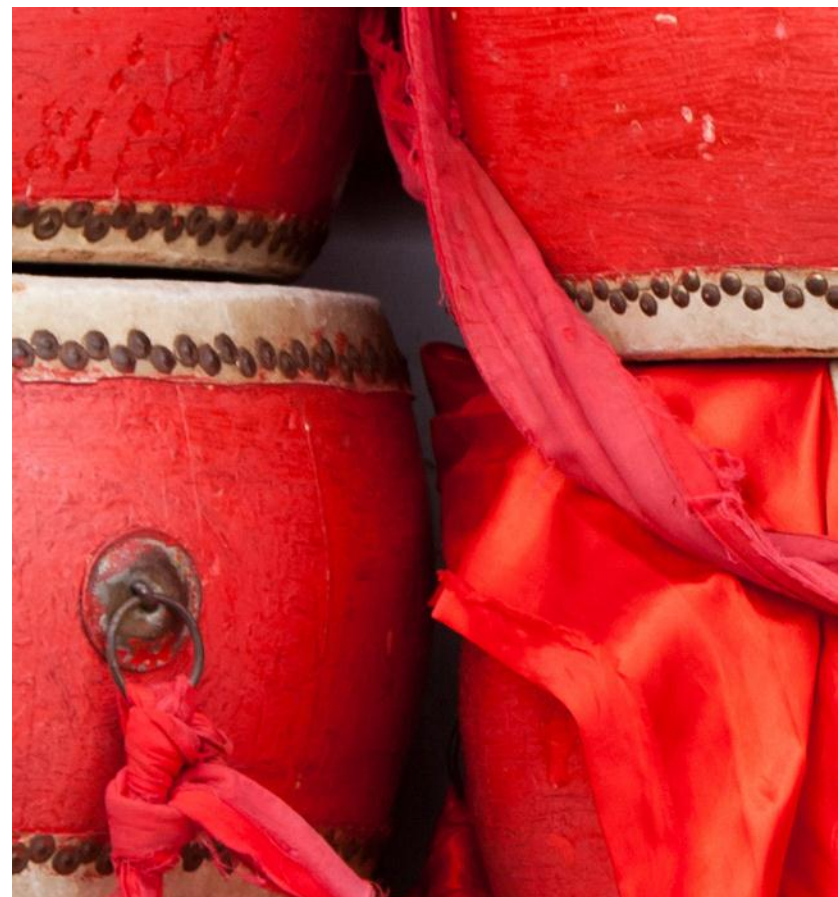
Investing in Asia's Debt Markets

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Head of Fixed Income Asia

April 2013

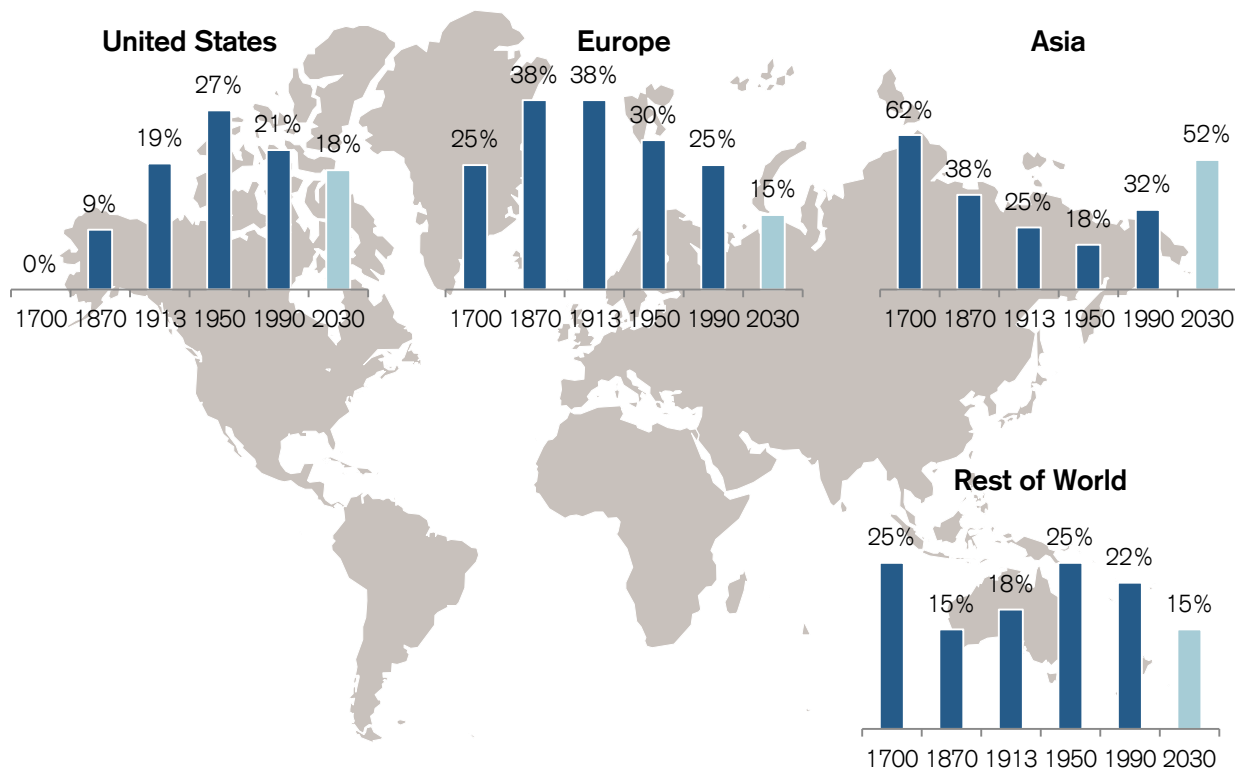
Content

- **How to Capture the Asian Growth Story**
- Hard or Local Currency Bonds? Risk and Return Opportunities
- Onshore vs. Offshore RMB: Which Way Forward for Investors



Asia's Footprint on the Global Economy

- According to the Asian Development Bank, per capita income in Asia is expected to rise six fold by 2050 and the share of global GDP is expected to increase to 52%.
- Asia is the world's fastest growing economic region and comprises 60% of the world's population.



Source: Angus Maddison, IMF, Credit Suisse. Data as of 31.12.2010.

Strong GDP Growth Rates in Asia vs. Developed Markets

	2012 (in %)	2013 est. (in %)	2014 est. (in %)
Asia ex-Japan	6.1	6.7	6.6
China	7.8	8.1	7.8
Hong Kong	1.1	3.1	3.6
India	5.5	6.6	7.0
Indonesia	6.3	6.3	5.9
South Korea	2.4	3.2	3.5
Singapore	1.5	2.2	3.3
Thailand	5.6	4.6	4.4
Philippines	6.6	5.3	5.3
Malaysia	5.0	5.2	4.9
Australia	3.5	2.4	2.4
USA	2.1	2.0	2.5
Euro Zone	-0.4	0.0	1.1
Germany	0.9	0.7	1.8
France	0.0	0.0	0.7
Italy	-2.1	-0.8	0.8
Spain	-1.3	-1.1	0.5
United Kingdom	0.0	1.0	1.5

Historical performance indications and financial market scenarios are no guarantee for current or future performance.

Source: Credit Suisse Research. Data as of 01.02.2013.

Positive Credit Trend in Asia over the Last Decade

Asia		
	2001	2013
China	BBB	AA-
Hong Kong	A+	AAA
India	BB	BBB-
Indonesia	CCC	BB+
Korea	BBB+	A+
Malaysia	BBB	A-
Philippines	BB+	BB+
Singapore	AAA	AAA
Taiwan	AA	AA-
Thailand	BBB-	BBB+
Australia	AAA	AAA

Developed Markets		
	2001	2013
Canada	AA-	AAA
France	AAA	AA+
Italy	AA	BBB+
Germany	AAA	AAA
Japan	AA	AA-
UK	AAA	AAA
USA	AAA	AA+
Portugal	AA	BB
Ireland	AAA	BBB+
Greece	A	B-
Spain	AA-	BBB-

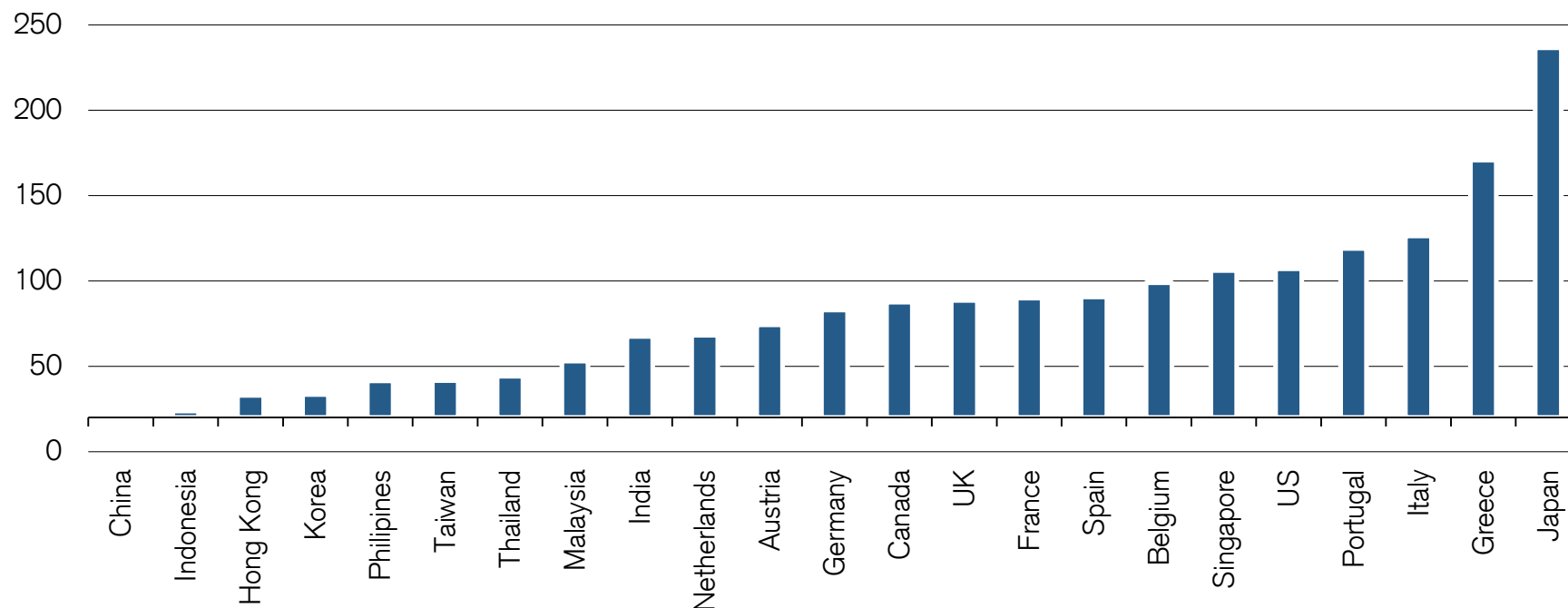
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Source: Bloomberg, S&P, Data as of 27.02.2013.

Strong Fundamentals for Most Asian Currencies

- Depreciation risk in traditional hard currencies has increased, affected by high inflation, current account deficits and government debt.
- Asian economies supported by stronger balance sheets with less indebtedness.

General Government Gross Debt to GDP (2012, in %)



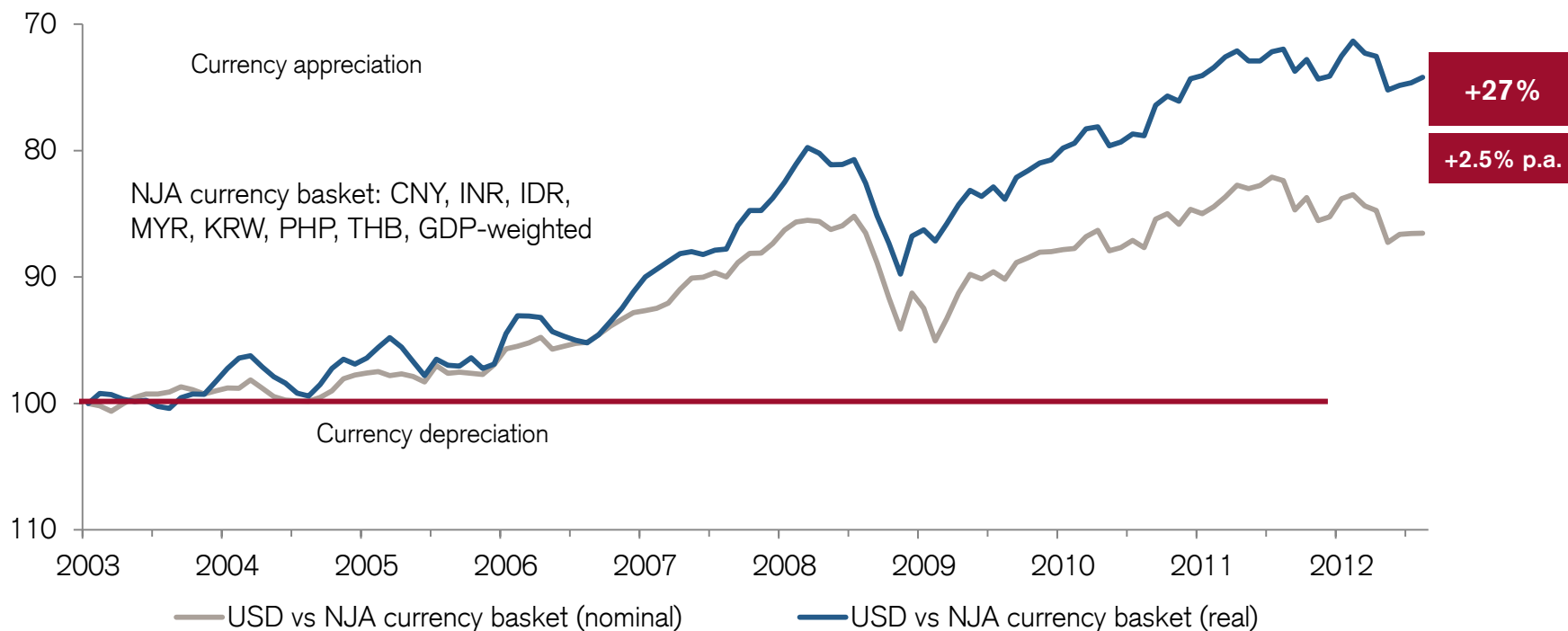
Historical performance indications and financial market scenarios are no guarantee for current or future performance.

Source: IMF, Datastream, Credit Suisse. Data as of 31.12.2012.

Appreciation of Asian Currencies

- The Asian region overall exports more than it imports leading to current account surpluses which is a positive driver for currency appreciation.
- We therefore expect currency appreciation in selected Asian currencies.

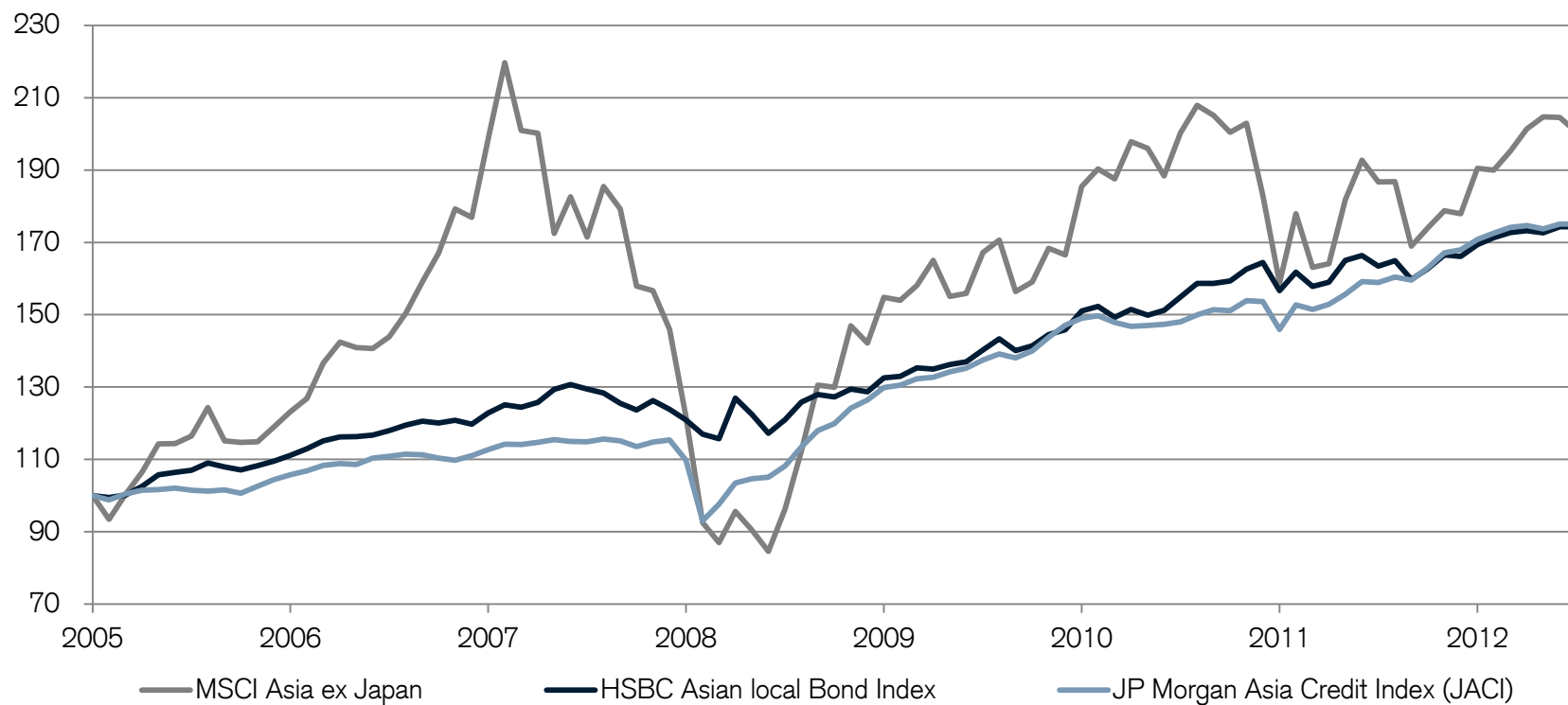
Asian Currencies Experience a Great Degree of Appreciation



Historical performance indications and financial market scenarios are no guarantee for current or future performance.

Source: IMF, Datastream, Credit Suisse. Data from 28.02.2003 to 31.12.2012.

Bond and Equity Performance in Asia



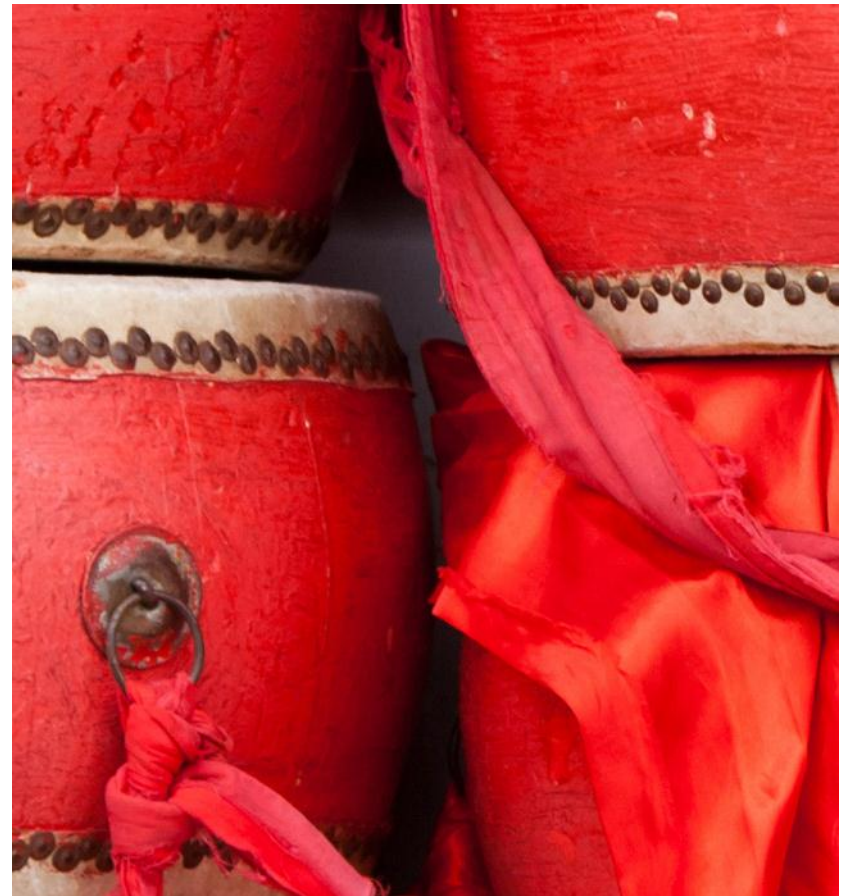
Performance per year	2006	2007	2008	2009	2010	2011	2012	Total	p.a.
MSCI Asia ex Japan	33.74%	40.52%	-52.23%	72.53%	19.93%	-17.07%	24.65%	100.50%	9.72%
JP Morgan Asia Credit Index (JACI)	7.32%	5.37%	-9.82%	28.28%	10.61%	4.12%	14.52%	75.03%	7.75%
HSBC Asian Local Bond Index	13.31%	8.16%	0.98%	6.33%	12.17%	5.00%	9.60%	74.28%	7.69%

Historical performance indications and financial market scenarios are no guarantee for current or future performance.

Source: Credit Suisse. Data from 30.09.2005 to 31.03.2013.

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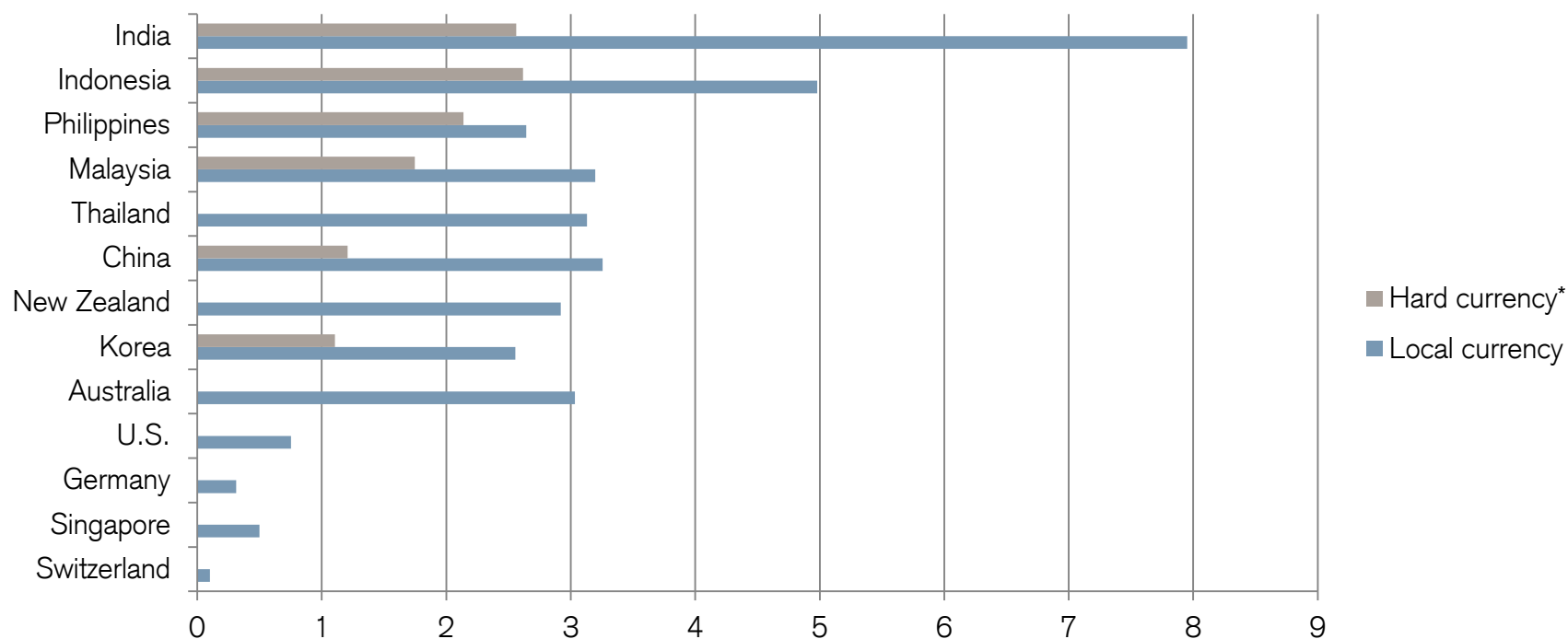
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Attractive Bond Yields

- Significant yield pickup relative to U.S. and European government bonds.
- Attractive local currency valuations versus global counterparts.

5-Year Government Benchmark Bond Yield per Country



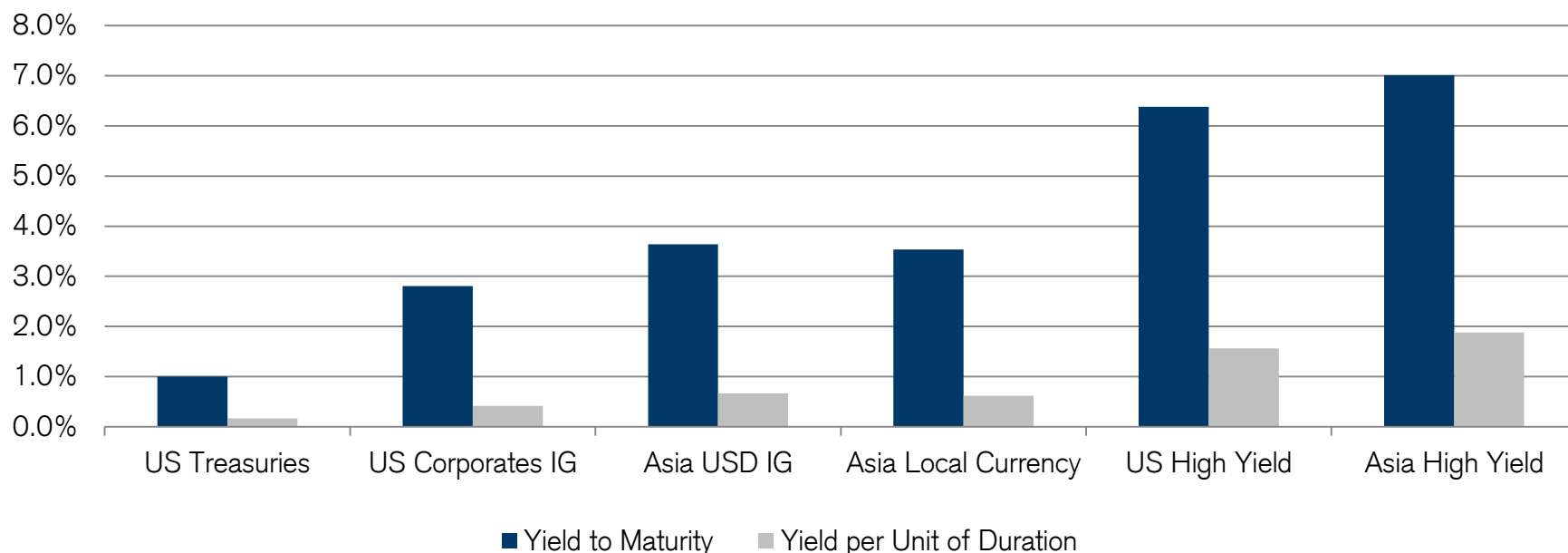
*Hard currency: sovereign or quasi sovereign bonds
Historical performance indications and financial market scenarios are no guarantee for current or future performance.

Source: Bloomberg. Data as of 25.03.2013.

Asian Credits Look Attractive Compared to U.S. Counterparts

- Asian bond markets offer a yield pickup relative to U.S. fixed income markets on a risk adjusted basis.

Yield per Fixed Income Asset Class



Underlying Indices:

US Treasuries: ML U.S. Treasury Master Index (GOO0)

US Corporates IG: ML U.S. Corporate Master Index (COA0)

Asia USD IG: JP Morgan Asia Credit Index Investment Grade (JACIIGYM)

Asia Local Currency: HSBC Asia Local Bond Index (HSLIAY)

US High Yield: ML US High Yield Master II Index (H0A0)

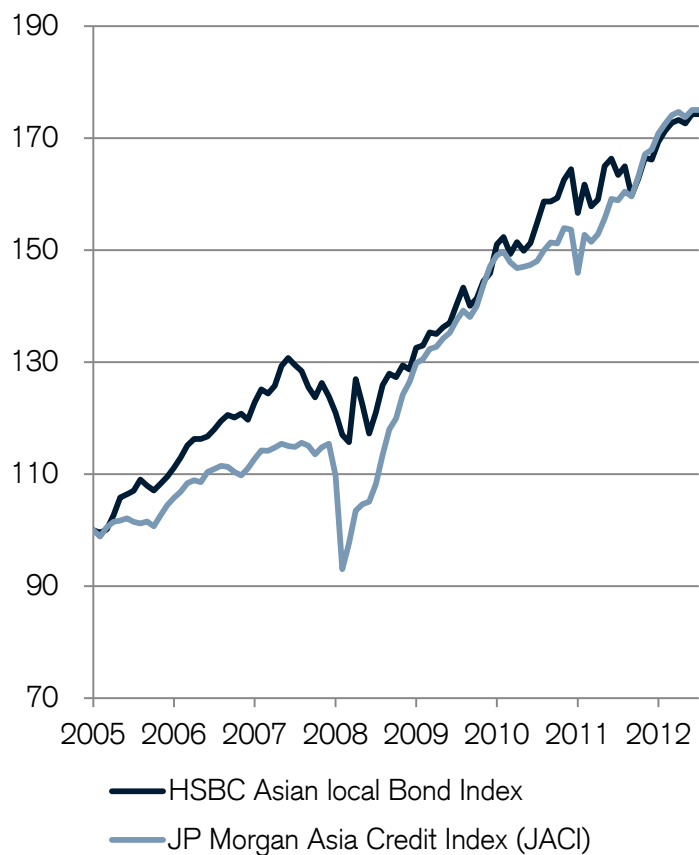
Asia High Yield: ML Asian Dollar Corporates High Yield (ACHY)

Historical performance indications and financial market scenarios are no guarantee for current or future performance.

Source: Bloomberg.

Data as of 28.03.2013.

Historical Analysis : JP Morgan Asia Credit Index vs. HSBC Asian Local Bond Index – Performance Chart



Statistics	JP Morgan Asia Credit Index	HSBC Asian Local Bond Index
Cumul. Return	75.03%	74.28%
Ann. Return	7.75%	7.69%
Volatility (ann.)	8.17%	7.10%
Averag. month ret	0.62%	0.61%
Best month	5.92%	9.73%
Worst month	-15.22%	-4.75%
Max drawdown	-19.53%	-11.49%
Drawdown period	6	9
Recovery period	7	10
Sharpe Ratio	0.70	0.81
YTM	4.36	3.54

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Source: Credit Suisse. Data from 30.09.2005 to 28.03.2013.

Our Philosophy

- To exploit the full potential of Asian bond market opportunities we favor distinctive strategies.

→ **Favor corporate bonds in hard currency**

→ **Favor sovereigns in local currencies**

	Local currency	Hard currency
Market volume/liquidity corporates	✓	✓✓✓
Market volume/liquidity sovereigns	✓✓✓	✓
Market diversification	✓	✗
Sector diversification	✓	✓✓✓
Currency diversification	✓	✗
Currency appreciation potential vs. USD	✓	✗

Source: Credit Suisse.

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Access Is Key

QFII

- Qualified Foreign Institutional Investor
- Launched in 2002
- Participate in A-share RMB shares, onshore domestic bonds/funds
- As of March 2013, 213 overseas institutions approved to invest USD 40 bn (out of a total quota of USD 80 bn)

RQFII

- RMB QFII, launched in December 2011
- Allows qualified investors in HK to invest off-shore RMB into China A-shares/bond markets/funds
- Quota increased to RMB 70 bn (USD 11.3 bn) in April 2012, currently shared by 24 companies
- Talks ongoing to increase quota to RMB 270 bn (USD 43.5 bn)

“CNH”

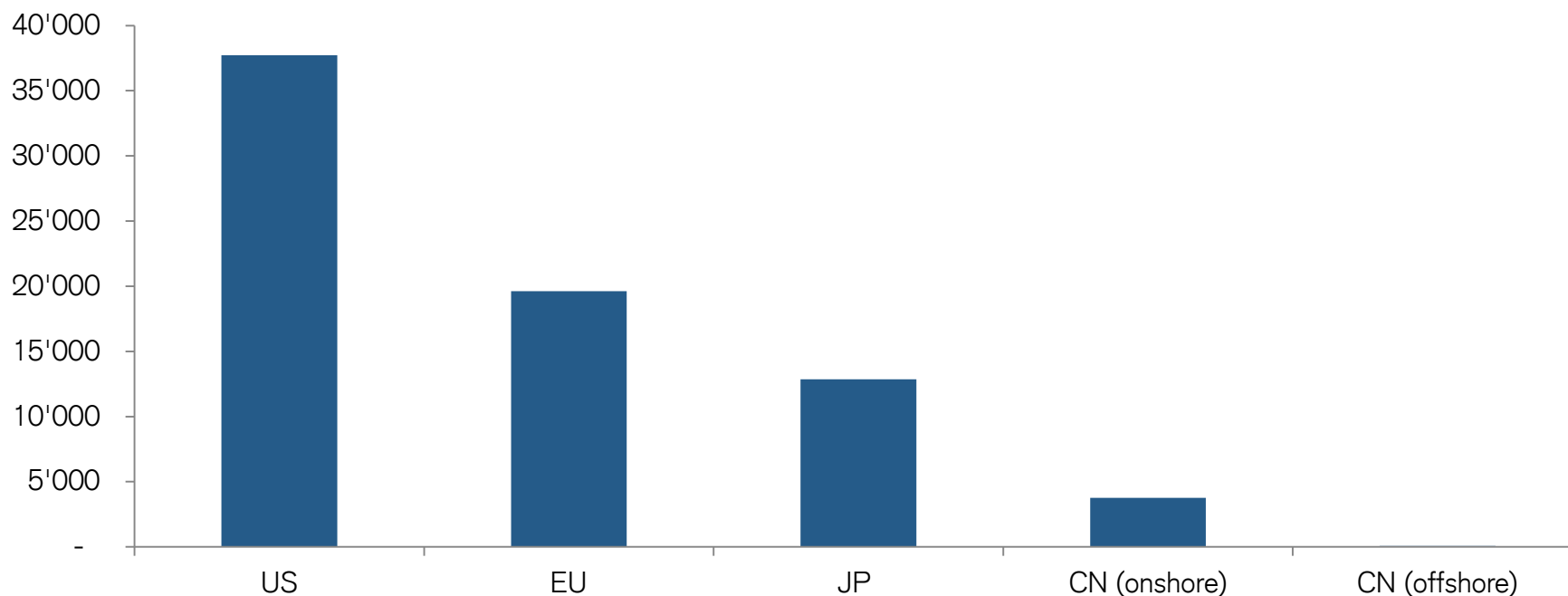
- Offshore RMB bond market in HK
- Started in 2007
- Market outstanding of USD 60 bn as of December 2012
- Offshore RMB spot/forward markets

Source: PBOC, CSRC, Asiabondonline, Credit Suisse.

The Chinese Domestic Bond Market is the 4th Largest...

- The domestic RMB bond market (CNY) is the 4th largest in size after the US, the Eurozone and Japan.
- Compared to the offshore (CNH) market, it is significantly bigger in size (~60 times) thereby providing broader sector, issuer and maturity diversification as well as higher liquidity.

Outstanding Bond Market Debts (in USD bn)

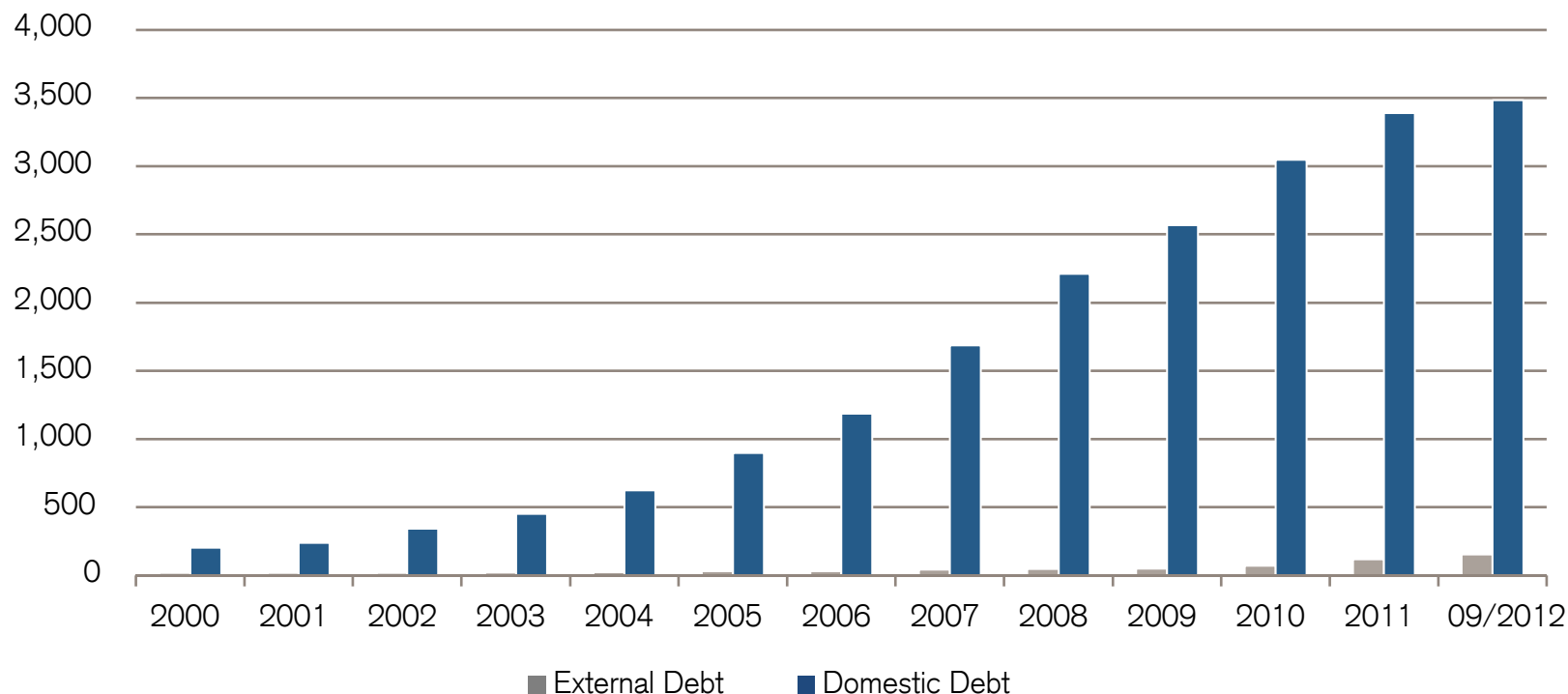


Source: U.S. Dep. of Treasury, ECB, ADB, ChinaBond. Data as of October 2012 (US, JP), November 2012 (EU, CN).

...and is Growing Rapidly

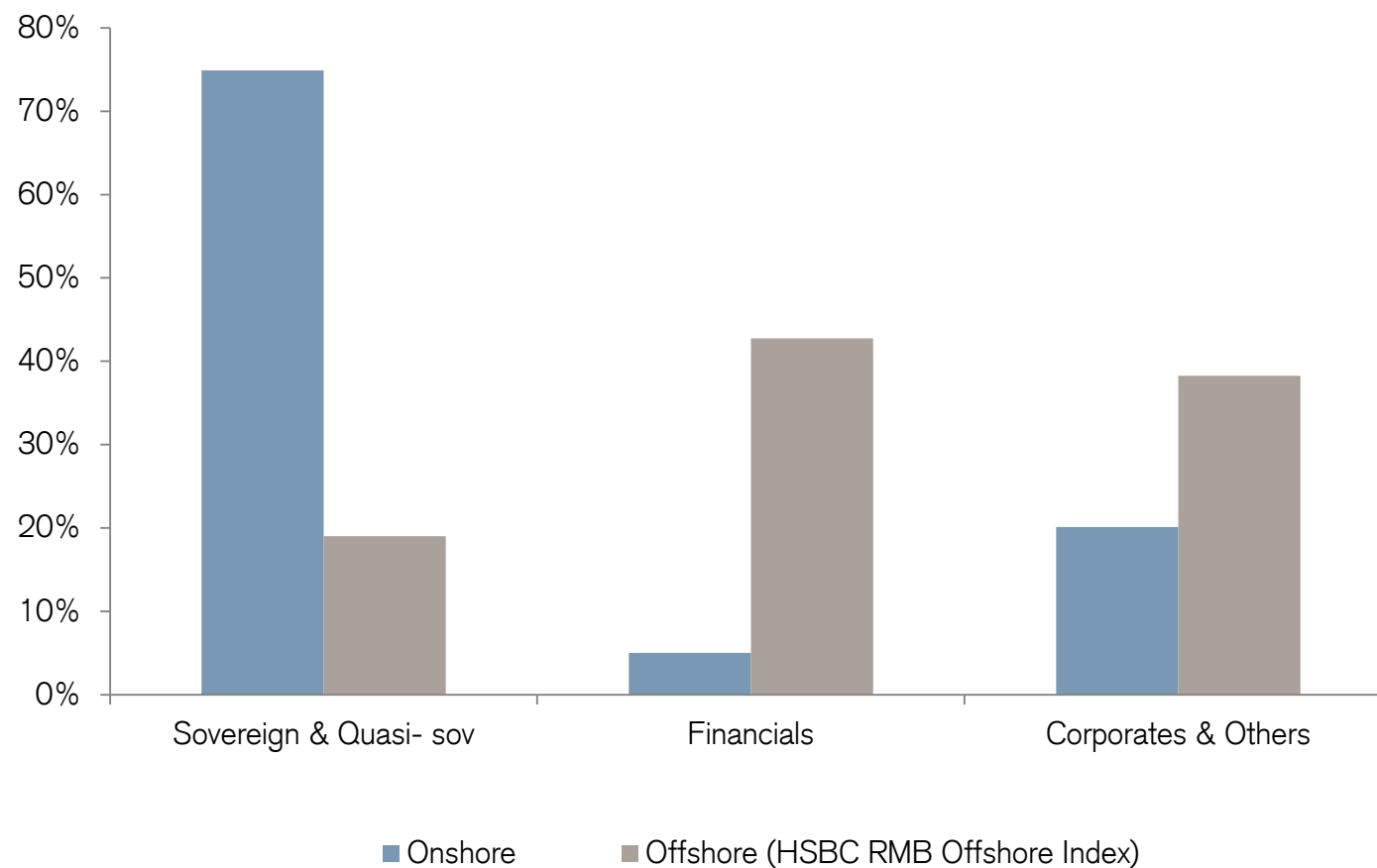
Domestic vs. External Debt in China

USD bn



Source: BIS, Credit Suisse. Data as of 30.09.2012.

Domestic vs. Offshore Bond Markets Segmentation

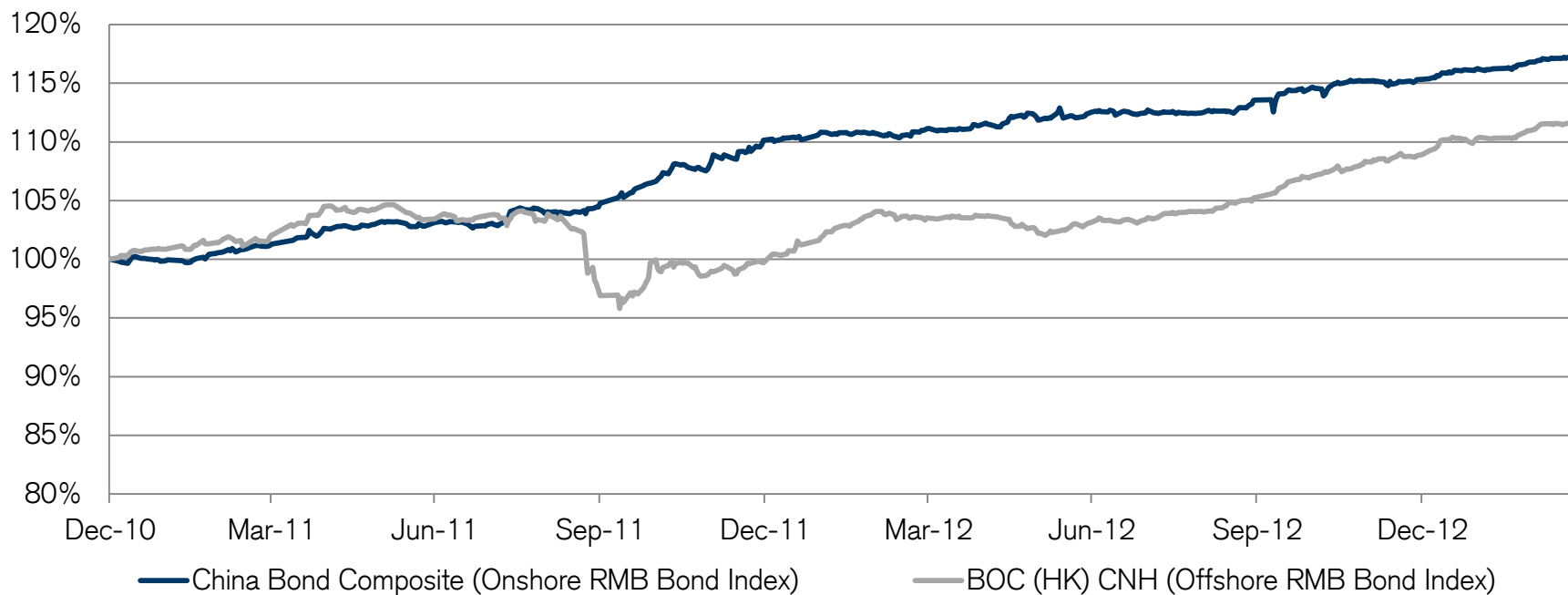


This is an indicative asset allocation, which may change over time.

Source: Bloomberg, HSBC CNY Asian Local Bond Index, HSBC CNH Asian Local Bond Index. Data as of 27.03.2013.

Domestic Market more Attractive vs. Offshore Bond Market

Onshore RMB (CNY) Bond Market vs. Offshore RMB (CNH) Bond Market (in USD)

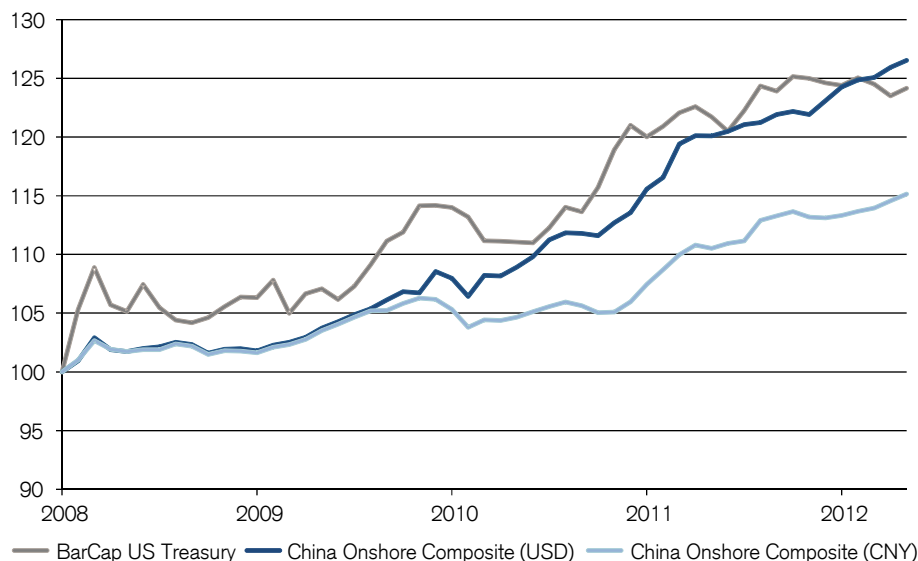


Index Name	Annualized Return	Annualized Volatility
China Bond Composite (Onshore RMB Bond Index)	7.17%	2.05%
BOC (HK) CNH (Offshore RMB Bond Index)	4.76%	6.11%

Historical returns or financial market scenarios are not a guarantee for current or future performance.

Source: Credit Suisse. Data from 31.12.2010 to 28.03.2013.

Historical Performance Comparison



Statistics	Barclays US Treasury	China Onshore Composite
Cumul. Return	24.14%	26.53%
Ann. Return	5.12%	5.58%
Volatility (ann.)	5.02%	2.43%
Averag. month ret	0.41%	0.45%
Best month	5.31%	2.45%
Worst month	-2.92%	-1.43%
Max drawdown	-4.30%	-1.96%
Drawdown period	6	2
Recovery period	11	3
Sharpe Ratio	0.98	2.21
YTM	0.92%	4.36%

Performance per year	2009	2010	2011	2012	2013	Total	p.a.
BarCap US Treasury in USD ¹	-3.57%	5.87%	9.81%	1.99%	-0.81%	24.14%	5.12%
China Onshore Composite in USD ²	-0.37%	5.56%	10.34%	4.75%	0.75%	26.57%	5.59%
China Onshore Composite in CNY ³	-0.32%	2.05%	5.33%	3.60%	0.55%	15.15%	3.31%
Currency impact USD/CNY	-0.05%	3.50%	5.02%	1.14%	0.21%	11.42%	2.28%

¹ Barclays US Agg. Total Treasury Index unhedged in USD

² ChinaBond Composite Total Return Index unhedged in USD

³ ChinaBond Composite Total Return Index unhedged in CNY

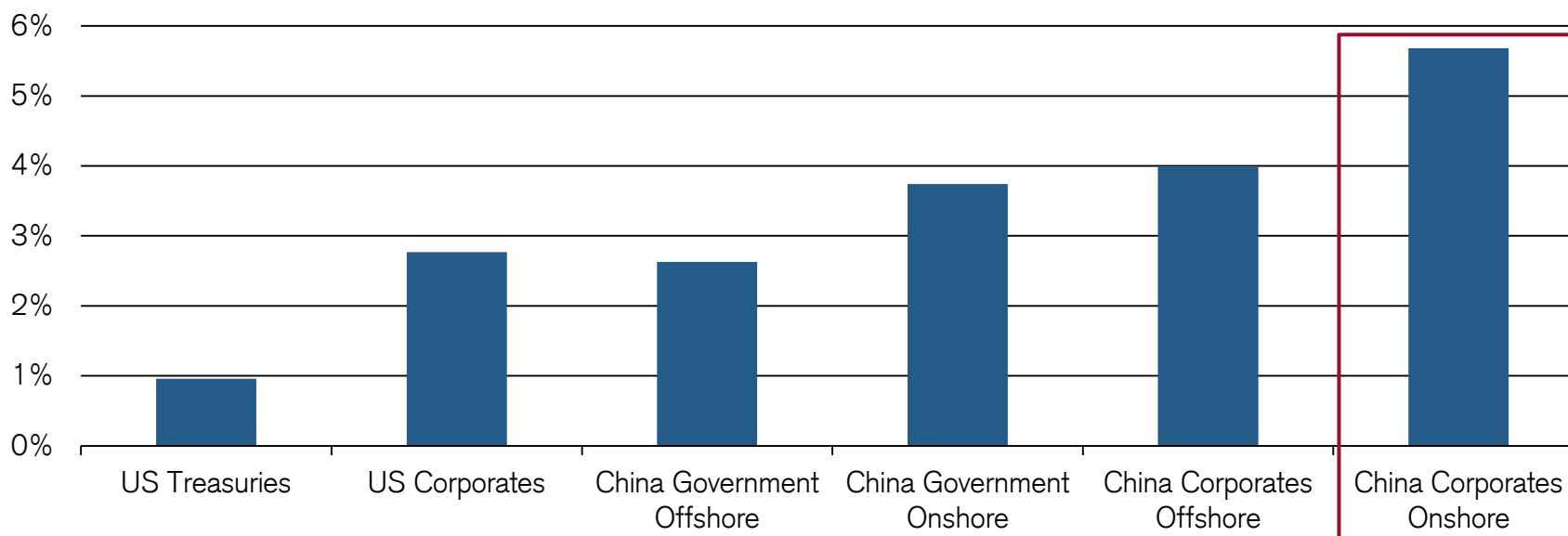
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Source: Barclays, ChinaBond, Credit Suisse. Data as of 28.02.2013.

Attractive Yield Pick-up Compared to Other Markets

- Approximately 1.5% yield pick-up compared to the China offshore bond market.

Yield to Maturity of Selected Bond Markets



Underlying Indices:

US Treasuries: ML U.S. Treasury Master Index

US Corporates: ML U.S. Corporate Master Index

China Government Offshore: HSBC Offshore Government Renminbi Bond Index

China Government Onshore: HSBC China Local Currency Government Bond Index

China Government Offshore: HSBC Offshore Renminbi Non-Government Bond Index

China Government Onshore: ChinaBond Corporate Bond Index

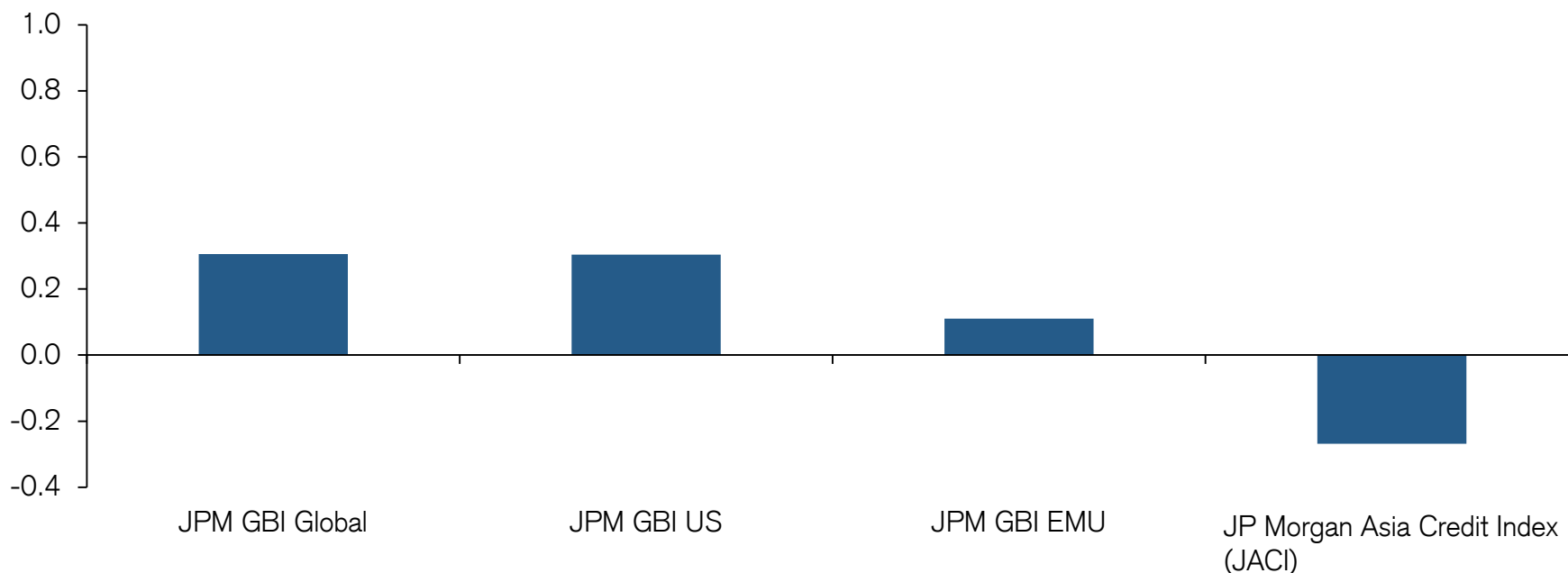
Historical performance indications and financial market scenarios are no guarantee for current or future performance.

Source: BoAML, ChinaBond, HSBC. Data as of 28.01.2013.

Low Correlation vs. Other Bond Markets

- Diversification benefit thanks to low correlation to the global bond markets.

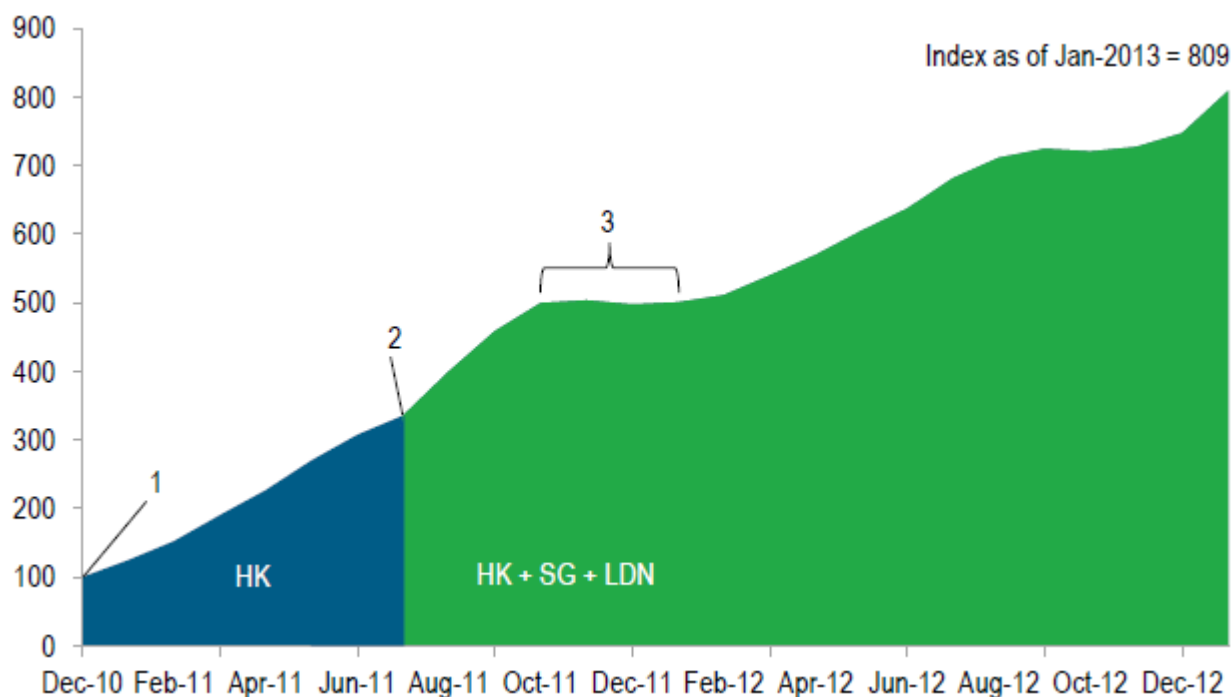
Correlation coefficient of the Chinese Domestic Government Bond Market (in USD unhedged)



Source: Bloomberg, JPM, Credit Suisse. Data from 01.10.2005 to 30.11.2012.

Quick Internationalizing of the Renminbi (RMB)

- The RMB is playing an increasing role as a store of wealth, for trade settlement or capital raising purposes.
- Its role is likely to increase significantly in the next years as the Chinese authorities seek a liberalization of the interest rate market and a greater use of the RMB as a currency for trade settlement.



Note: the index aims to measure the overall growth in the usage of the RMB. It is computed on a monthly basis, based on 4 market components: (1) CNH deposits, (2) trade settlement and other international payments, (3) Dim Sum bonds and certificates of deposits and (4) FX turnover.

Historical returns or financial market scenarios are not a guarantee for current or future performance.

Source: Standard Chartered, as of January 2013.

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