



350 Main St., Suite 9  
Bedminster, NJ 07921  
+1908.781.0560 (Office)  
+1908.781.0601 (Fax)  
+44 (0) 208.432.6138 (London)  
precidian.com

June 15, 2016

VIA ELECTRONIC SUBMISSION

Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1090

Re: SR-NYSEArca-2016-08

Dear Mr. Fields:

Precidian Funds LLC ("Precidian") believes it would be remiss if we didn't point to the growing body of evidence in support of our application. As evident from the early adoption of our structure by some of the world's largest asset managers (Blackrock, Capital, SSgA, Invesco PowerShares, Cohen & Steers) to the recent purchase of an ownership stake in Precidian Investments by Legg Mason, clearly the industry leaders believe that the Precidian structure not only addresses their needs but also the needs of their clients for an ETF solution. So too, have major U.S. exchanges endorsed the need for our solution, NYSE Arca through the 19b4 process (requiring the SRO to make representations to the ability of the market makers to make efficient markets and the exchange to competently surveil the new ETF) and BATS who intends to submit a letter of support in coming weeks. In addition, backing continues to grow from independent analysts covering the ETF and Asset Management Industry. The most recent report (see attached report) from Craig Siegenthaler at Credit Suisse, "*Precidian's Nontransparent ETF Model Could Provide Best Option for Traditionals to Defend Against Passive ETFs,*" makes clear his lack of optimism for Eaton Vance's NextShare structure, the only structure approved by the SEC to date. Mr. Siegenthaler goes on to point out many of the benefits of Precidian's ActiveShares<sup>SM</sup> structure stating, "We believe there are four clear advantages of the ETF structure to the mutual fund: (1) tax efficiency, (2) cost, (3) liquidity, (4) transparency." Other points that Mr. Siegenthaler makes:

**Nontransparent ETFs – Best Option for Active Managers:** We continue to think a new ETF structure that is being proposed by Precidian (a private firm partially owned by LM) and the NYSE could provide the best chance of success for active managers to defend against iShares, Vanguard, StateStreet, PowerShares, WisdomTree, and the rest of the ETF market. For example, if a portfolio manager runs an identical strategy through an A class mutual fund (common share class with upfront load, sub-TAs, and 12b-1s), an I-class mutual fund (most competitive MF but has minimum hurdles, only exists in certain accounts, and also has a sub-TA fee), and a NTETF – we think the NTETF would cannibalize a lot of the AuM in most channels with the exception of the commission-based platforms. So we think the early adopters of Precidian's NTETF could have a head-start in protecting their business from passives and new regulations, and also be successful in winning clients from competitors that only exist in the older mutual fund structures.

**Broker Sign-ups... not a risk:** While EV's NextShares model has been having trouble signing-up large/established broker-dealers, we see this as less of a risk for Precidian. Specifically, Precidian does not use a new technology that requires system updates and education. Precidian's NTETFs will function exactly like the existing ETFs in the market place, only it won't provide transparency. So when NYSE begins trading the first batch of Precidian NETFs, investors will be able to buy and sell them through their existing accounts at traditional brokerage firms, financial supermarkets, and discount brokers. And when clients learn of the key advantages versus their existing A, C, I mutual funds, we expect the cannibalization to occur.

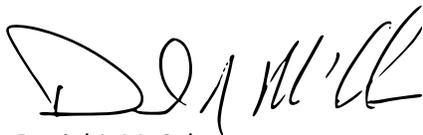
**High Quality Early Adopters:** In 2014, several large asset management firms agreed to license Precidian's technology. This list includes BlackRock (\$4.6Tn), Capital Group (\$1.4Tn), Invesco (\$780B), State Street (\$2.4Tn), and we also believe Legg Mason (\$670B) will be an initial adopter too given its 20% ownership. Combined, these firms represent almost \$10Tn of AuM. Alternatively, Eaton Vance's NextShares model has licensed its technology to firms representing about \$600B of AuM in total.

**Fee Structure:** Precidian's NTETF will have a structure similar to every other ETF. There will be a management fee collected for the asset manager and transaction expenses (small commission + bid-ask), but no upfront load, no trailers, and no TAs/sub-TAs. So its NTETF will function well on most direct platforms (discount brokers, financial super-markets), and on fee-based/advisory platforms (traditional brokerage, IRAs, RIAs) - which are gaining share from commission-based accounts (and this will accelerate with DOL rule implementation in 2017/18). There are only two differences between the Precidian model and existing ETFs: (1) transparency, (2) Precidian provide the flexibility of a 12b-1 fee for ETFs that will target commission based platforms.

**We are not optimistic on EV's Nextshares** because (1) it's not a true ETF (hybrid mutual fund), (2) requires investment & education, (3) no large brokers have signed-up, (4) none of the largest asset managers have signed-up (unlike Precidian), (5) cost savings for most fund managers may be less than initially anticipated. We also think that if Precidian gains SEC approval, that its model will eventually win versus NextShares.

Thank you for the opportunity to submit this letter and for your consideration of these comments. Questions regarding these comments may be directed to the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel J. McCabe". The signature is fluid and cursive, with a large initial "D" and "M".

Daniel J. McCabe  
CEO, Precidian Investments LLC

# US Asset Managers

## SECTOR REVIEW

Research Analysts  
Craig Siegenthaler, CFA

Christian Bolu

Ari Ghosh

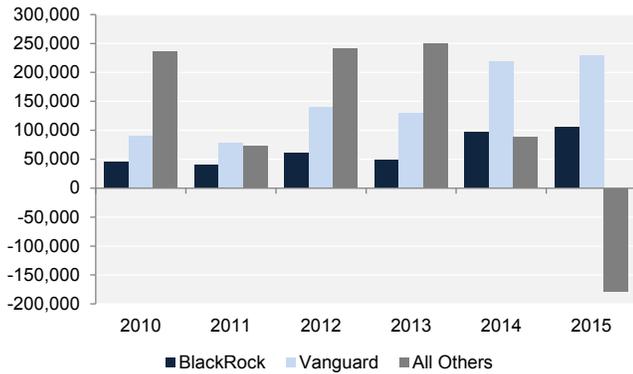
## Precidian's Nontransparent ETF Model could Provide Best Option for Traditionals to Defend Against Passive ETFs

*We believe there are four clear advantages of the ETF structure to the mutual fund: (1) tax efficiency, (2) cost, (3) liquidity, (4) transparency. However, underperformance of actives versus passives (after fees) over the last decade has also tilted the demand for product from active to passive (and passive exists in ETF form while most active products do not).*

- **Global ETF Wave Accelerating in 2015-18:** We estimate increased investor education on the ETF model, continued migration from commission-based accounts to advisory/fee-based, new regulations in the US (DOL Rule) and outside the US (CRM2-Canada, MiFID2-Europe, RDR-UK) will cause a large share shift in industry AuM from funds to ETFs over the next five years. ETF share in the US is 15% today, but we think it could eventually reach 40-60% over the next ten years. So the question on every CEO's mind is - how can active traditional, benchmark-relative managers fight back?
- **Nontransparent ETFs – Best Option for Active Managers:** We continue to think a new ETF structure that is being proposed by Precidian (a private firm partially owned by LM) and the NYSE could provide the best chance of success for active managers to defend against iShares, Vanguard, State Street, PowerShares, WisdomTree, and the rest of the ETF market. For example, if a portfolio manager runs an identical strategy through an A-class mutual fund (common share class with upfront load, sub-TAs, and 12b-1s), an I-class mutual fund (most competitive MF but has minimum hurdles, only exists in certain accounts, and also has a sub-TA fee), and a NTETF – we think the NTETF would cannibalize a lot of the AuM in most channels with the exception of the commission-based platforms. So we think the early adopters of Precidian's NTETF could have a head-start in protecting their business from passives and new regulations, and also be successful in winning clients from competitors that only exist in the older mutual fund structures.

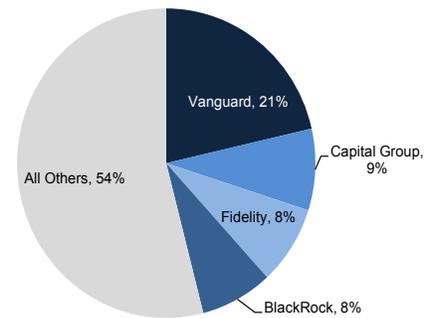
*Continued on the next page...*

**Figure 1: US Mutual Fund and ETF Net Flows (USD in \$Ms)**



Source: Credit Suisse Asset Manager Research, Simfund (LT flows ex Money Mkt)

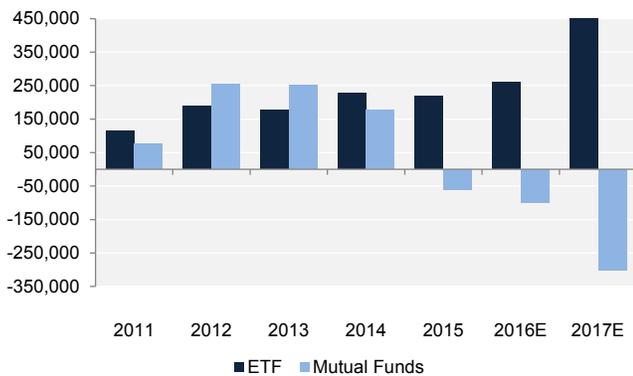
**Figure 2: US Retail Market Share (Mutual Fund + ETF AuM)**



Source: Credit Suisse Asset Manager Research, Simfund (LT AuM ex Money Mkt)

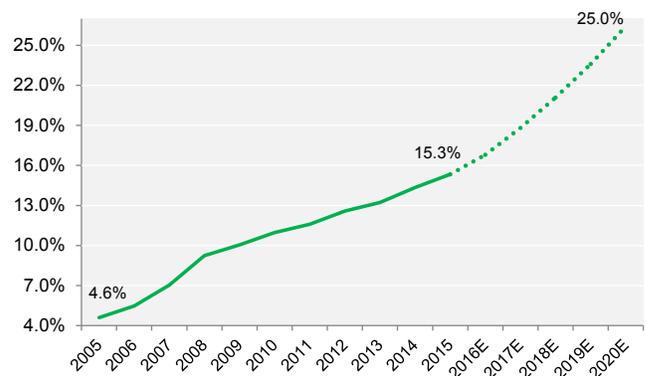
- SEC Approval Process:** Last week, the NYSE re-filed its amended 19b-4 with the SEC's trading & markets division to permit the trading of 15 Precidian nontransparent ETFs. We estimate this pushes the next deadline into the September/October timeframe (90 day process + 60 day extension), which could be the next opportunity for Precidian to gain approval for its nontransparent ETF model (we think the SEC's Division of IM's parallel approval process is likely linked to T&M). The SEC is being thoughtful with this new structure, and is covering all of the key areas of risk – with much of the SEC's questions/comments focused on the exchange's ability to make an efficient/liquid market near the NTETF's VIIV (see next page) without access to daily portfolio holdings. We think Precidian's initial 15 ETFs, which focus on liquid US markets, avoid most of the issues that many attribute to ETFs (creation/redemption, liquidity/arb, price to NAV gap...). While it's difficult handicapping the SEC approval process, we think there is a 50%+ probability that Precidian gains approval in 2016 or 2017.

**Figure 3: ETF vs. Mutual Fund Net Flows (USD in \$Ms)**



Source: Credit Suisse Asset Manager Research, Simfund, LT flows ex-Money Market

**Figure 4: US ETF Market Share**



Source: Credit Suisse Asset Manager Research, Simfund

## Key characteristics of Precidian's NTETF structure:

1. Precidian's model only discloses holdings quarterly
  2. Precidian's redemption process is carried through a "confidential account" without disclosing the identity of the securities
  3. Precidian's NTETFs will be quoted through a verified intraday indicative value (VIIV) every second during normal trading hours (930am – 400pm ET)
- **SEC Comment Letters:** The SEC received four letters – three positive (including LM's CEO Joe Sullivan) and one negative which was from Gary Gastineau (founder and patent owner behind Eaton Vance's NextShares model). Mr. Gastineau makes several points on the fact that it's more difficult to make an efficient market when you lack the detail on the underlying securities. Note: Vanguard's ETF model has been nontransparent since 2000, and Gary Gastineau has a rev-share arrangement with Eaton Vance's NextShares model (main competitor for Precidian).
  - **Support from Legg Mason:** In 1Q16, LM announced that they purchased a 20% equity stake in Precidian. Earlier in 1H15, LM also hired Rick Genoni and Brandon Clark from Vanguard, who were responsible for building Vanguard's fast-growing ETF business. While we think many asset managers have underinvested for the future, we are positive on LM's recent affiliate additions (ETFs, alts, infrastructure, solutions) which we think will provide key net flow contributions over the next five years. Additionally, LM's ETF strategy is not to launch pure passive ETFs and enter the price war with Vanguard, iShares, and Schwab, but instead focus on both active and smart beta segments. Specifically, we eventually look for LM to re-launch some of its popular products (ClearBridge Aggressive Growth, Western Core) in either transparent or nontransparent ETF structures. LM recently launched four smart beta ETFs (UDBI, DDBI, EDBI, LVHD) by leveraging the technology of its QS affiliate. We also think the support of Legg Mason could help Precidian with the approval process, and also with the eventual distribution (while LM will likely be a first-mover with the NTETF launch).
  - **Broker Sign-ups... not a risk:** While EV's NextShares model has been having trouble signing-up large/established broker-dealers, we see this as less of a risk for Precidian. Specifically, Precidian does not use a new technology that requires system updates and education. Precidian's NTETFs will function exactly like the existing ETFs in the market place, only it won't provide transparency. So when NYSE begins trading the first batch of Precidian NETFs, investors will be able to buy and sell them through their existing accounts at traditional brokerage firms, financial supermarkets, and discount brokers. And when clients learn of the key advantages versus their existing A, C, I... mutual funds, we expect the cannibalization to occur.
  - **High Quality Early Adopters:** In 2014, several large asset management firms agreed to license Precidian's technology. This list includes BlackRock (\$4.6Tn), Capital Group (\$1.4Tn), Invesco (\$780B), State Street (\$2.4Tn), and we also believe Legg Mason (\$670B) will be an initial adopter too given its 20% ownership. Combined, these firms represent almost \$10Tn of AuM. Alternatively, Eaton Vance's NextShares model has licensed its technology to firms representing about \$600B of AuM in total.
  - **Fee Structure:** Precidian's NTETF will have a structure similar to every other ETF. There will be a management fee collected for the asset manager and transaction expenses (small commission + bid-ask), but no upfront load, no trailers, and no TAs/sub-TAs. So its NTETF will function well on most direct platforms (discount brokers, financial super-markets), and on fee-based/advisory platforms (traditional brokerage, IRAs, RIAs) - which are gaining share from commission-based accounts (and this will accelerate with DOL rule implementation in 2017/18). There are only two differences between the Precidian model and existing ETFs: (1) transparency, (2) Precidian provide the flexibility of a 12b-1 fee for ETFs that will target commission-based platforms.

- **Precidian will not be the first non-transparent ETF model – Vanguard was first.** When Vanguard first received exemptive relief in 2000, it received approval for an ETF that was not transparent, and was allowed to make creations/redemptions with baskets of securities that did not exactly match the index (non-prorata). Vanguard has a patent on this model, which actually exists as a separate share class from its index mutual funds.
- **Detail on Precidian's Patents:** We believe Precidian's patents extend to ~2030, which has a slightly longer time-frame than Eaton Vance's NextShares. After 2030, third-parties will be able to re-create the structure either internally or market and sell it to other asset managers. If Precidian gains SEC approval and is successful, we actually think the scale it builds by 2030 would provide a material "moat" for Precidian, and it could then reduce prices in 2031 to make it very costly for copy-cats to re-create its model versus licensing the technology directly. We estimate Precidian will charge around 2-5 bps of AuM to license its model.
- **Asset classes –** Precidian's initial 15 NTETFs are focused on US listed securities (including ADRs), which will all trade during standard US market hours. Given the SEC's focus on the ability to maintain a tight spread (price to NAV), we think it makes sense for Precidian to first concentrate on the most liquid US asset classes that trade in parallel to build a stronger case for the model, and help the next round of approvals. Alternatively, less liquid international markets (e.g., India) could be more difficult given the "stale" fund NAV that would exist during US trading hours, as the ETF explores economic reality and moves away from NAV (which is composed of pricing from the last trades in Indian trading hours). In the fixed income class, we also think less liquid loan classes (high yield), or geographies in different time zones (global bond), or securities that take time to get the underlying asset (bank loans = asset-liability mismatch) could trade at wider spreads to NAV than US equities – so we think it's prudent for Precidian to consider these classes with a later launch.
- **We are not optimistic on EV's Nextshares** because (1) it's not a true ETF (hybrid mutual fund), (2) requires investment & education, (3) no large brokers have signed-up, (4) none of the largest asset managers have signed-up (unlike Precidian), (5) cost savings for most fund managers may be less than initially anticipated. We also think that if Precidian gains SEC approval, that its model will eventually win versus NextShares.
- **Here are the 15 NTETFs that Precidian proposed in its first filing:** (1) Precidian U.S. Managed Volatility Fund; (2) Precidian Strategic Value; (3) Precidian Large Cap Value; (4) Precidian Focused Dividend Strategy; (5) Precidian U.S. Large Cap Growth; (6) Precidian U.S. Core Equity; (7) Precidian U.S. Mid Cap Growth; (8) Precidian Total Return; (9) Precidian High Dividend Yield; (10) Precidian Small Cap Dividend Value; (11) Precidian Multi-factor Small Cap Core; (12) Precidian Multi-factor Small Cap Growth; (13) Precidian Large Cap Core Plus 130/30; (14) Precidian Mid Cap Core Plus 130/30; and (15) Precidian Small Cap Core Plus 130/30.
- **Here is a link to Precidian's most recent 19b-4 filing with the SEC's Division of Trading and Markets:**

<https://www.federalregister.gov/articles/2016/05/23/2016-12028/self-regulatory-organizations-nyse-arca-inc-order-instituting-proceedings-to-determine-whether-to>

**Companies Mentioned** (Price as of 01-Jun-2016)

**BlackRock** (BLK.N, \$364.59)  
**Eaton Vance** (EV.N, \$36.41)  
**Invesco** (IVZ.N, \$31.31)  
**Legg Mason** (LM.N, \$34.22)  
**The Charles Schwab Corp** (SCHW.N, \$30.81)  
**WisdomTree Investments** (WETF.OQ, \$11.83)

## Disclosure Appendix

---

**Important Global Disclosures**

I, Craig Siegenthaler, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

**As of December 10, 2012 Analysts' stock rating are defined as follows:**

**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

*\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

**Restricted (R)** : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Volatility Indicator [V]** : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector\* relative to the group's historic fundamentals and/or valuation:

**Overweight** : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**Market Weight** : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**Underweight** : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*\*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

**Global Ratings Distribution**

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	57%	(39% banking clients)
Neutral/Hold*	34%	(21% banking clients)
Underperform/Sell*	9%	(44% banking clients)
Restricted	0%	

*\*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: [http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

This material is intended for your use only and not for general distribution. This material is not intended to promote or procure a particular outcome in the UK referendum on membership of the European Union (the "Referendum"). Credit Suisse does not promote or endorse either campaign in the Referendum. This material does not constitute, and should not be interpreted as, a recommendation by Credit Suisse as to the merits of a particular outcome of the Referendum.

---

**Important Regional Disclosures**

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report may participate in events hosted by the subject company, including site visits. Credit Suisse does not accept or permit analysts to accept payment or reimbursement for travel expenses associated with these events.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit <https://www.credit-suisse.com/sites/disclaimers-ib/en/canada-research-policy.html>.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

---

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at <https://rave.credit-suisse.com/disclosures> or call +1 (877) 291-2683.

---

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: <https://www.credit-suisse.com/who-we-are>. This report may contain material that is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse AG or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change. Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other communications that are inconsistent with, and reach different conclusions from, the information presented in this report. Those communications reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other communications are brought to the attention of any recipient of this report. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase. Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed. This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is issued and distributed in Europe (except Switzerland) by Credit Suisse International, One Cabot Square, London E14 4QJ, England, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse AG; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A or its affiliates; in Mexico by Banco Credit Suisse (México), S.A. (transactions related to the securities mentioned in this report will only be effected in compliance with applicable regulation); in Japan by Credit Suisse Securities (Japan) Limited, Financial Instruments Firm, Director-General of Kanto Local Finance Bureau (*Kinsho*) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Seoul Branch, Credit Suisse AG, Taipei Securities Branch, PT Credit Suisse Securities Indonesia, Credit Suisse Securities (Philippines) Inc., and elsewhere in the world by the relevant authorised affiliate of the above. Credit Suisse (Hong Kong) Limited ("CSHK") is licensed and regulated by the Securities and Futures Commission of Hong Kong under the laws of Hong Kong, which differ from Australian laws. CSHK does not hold an Australian financial services licence (AFSL) and is exempt from the requirement to hold an AFSL under the Corporations Act 2001 (the Act) under Class Order 03/1103 published by the ASIC in respect of financial services provided to Australian wholesale clients (within the meaning of section 761G of the Act). Research on Taiwanese securities produced by Credit Suisse AG, Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This report has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (each as defined under the Financial Advisers Regulations) only, and is also distributed by Credit Suisse AG, Singapore branch to overseas investors (as defined under the Financial Advisers Regulations). By virtue of your status as an institutional investor, accredited investor, expert investor or overseas investor, Credit Suisse AG, Singapore branch is exempted from complying with certain compliance requirements under the Financial Advisers Act, Chapter 110 of Singapore (the "FAA"), the Financial Advisers Regulations and the relevant Notices and Guidelines issued thereunder, in respect of any financial advisory service which Credit Suisse AG, Singapore branch may provide to you. This information is being distributed by Credit Suisse AG (DIFC Branch), duly licensed and regulated by the Dubai Financial Services Authority ("DFSA"). Related financial services or products are only made available to Professional Clients or Market Counterparties, as defined by the DFSA, and are not intended for any other persons. Credit Suisse AG (DIFC Branch) is located on Level 9 East, The Gate Building, DIFC, Dubai, United Arab Emirates. This research may not conform to Canadian disclosure requirements. In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S. Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority or in respect of which the protections of the Prudential Regulation Authority and Financial Conduct Authority for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report. CS may provide various services to US municipal entities or obligated persons ("municipalities"), including suggesting individual transactions or trades and entering into such transactions. Any services CS provides to municipalities are not viewed as "advice" within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. CS is providing any such services and related information solely on an arm's length basis and not as an advisor or fiduciary to the municipality. In connection with the provision of the any such services, there is no agreement, direct or indirect, between any municipality (including the officials, management, employees or agents thereof) and CS for CS to provide advice to the municipality. Municipalities should consult with their financial, accounting and legal advisors regarding any such services provided by CS. In addition, CS is not acting for direct or indirect compensation to solicit the municipality on behalf of an unaffiliated broker, dealer, municipal securities dealer, municipal advisor, or investment adviser for the purpose of obtaining or retaining an engagement by the municipality for or in connection with Municipal Financial Products, the issuance of municipal securities, or of an investment adviser to provide investment advisory services to or on behalf of the municipality. If this report is being distributed by a financial institution other than Credit Suisse AG, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse AG, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content. Principal is not guaranteed. Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

Copyright © 2016 CREDIT SUISSE AG and/or its affiliates. All rights reserved.

Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.