COMMERZBANK

Product Group

Commodity Funds, Commodity ETFs

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the commodity funds, commodity ETFs product group.

General characteristics and investment opportunities
This product group offers investors the opportunity to invest in the commodities asset class and, in principle, to benefit from rising commodity prices as well as to participate in any other returns generated by the fund. Investment funds or exchange traded funds (ETFs) investing in shares of commodity companies that are active in the extraction or processing of commodities are not included in this product group.

The term "commodities" typically refers to raw materials. Commodities are divided into four main categories:

- Precious metals (e.g. gold, silver),
- Industrial metals (e.g. aluminium, copper),
- Energy (e.g. oil, gas) as well as
- Agricultural commodities (e.g. wheat, maize).

Commodities are traded on specialised spot markets or futures exchanges or directly over-the-counter between market participants. While the term "spot" refers to immediate delivery of the commodity, a forward price is related to delivery in the future. Only precious metals are regularly traded in spot markets; all other commodities are usually traded via derivatives, so-called futures contracts.
These contracts generally have fixed terms and are regularly replaced shortly before expiry (e.g., monthly or quarterly). In case of a longer-term maturity, contracts must be periodically closed, and new contracts must be opened ("rolling"). Prices between the two futures contracts might differ significantly and this can potentially be unfavourable.

Typical product characteristics
In a commodity fund, a capital management company pools funds from many investors. The company invests these funds in different commodities according to a defined investment strategy following the principle of risk diversification and managing them professionally. The price of a fund unit depends on the price performance and the income generated by securities and commodity derivatives held by the fund and may therefore be subject to considerable fluctuations. However, a broad risk diversification reduces the reliance on the performance of individual financial instruments. This diversification effect decreases, though, if investment funds concentrate on specific investment themes (such as particular commodity segments).

Commodity exchange traded funds (ETFs) are a special type of commodity fund. They aim to track the performance of a particular index as closely as possible. This is achieved either by direct investment in financial instruments or by replication in the fund assets, for example by using so-called swaps. Swaps are over-the-counter derivatives. A swap-based replication adds the particular risk that the swap partner may no longer be able to meet its payment obligations under the swap transaction (counterparty risk). To minimise the default risk of the swap counterparty, it provides e.g., cash, securities or precious metals in sufficient amounts as collateral. The fund investor is exposed to the risk that, in the event of insolvency, this collateral may not be sufficient to fully satisfy the claims.

Material risks of the product group
By investing in commodity funds / commodity ETFs, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following:
Risk of loss - The price of a fund unit depends on the price performance and the income generated by financial instruments held by the fund, such as securities and derivatives, and may therefore be subject to considerable fluctuations. Compared to other asset classes, commodities often experience greater price volatility as well as possibly lower liquidity. The driving factors behind commodity prices are complex, as changes in supply or demand, for example, have bigger implications. Besides general economic and political trends, additional price drivers are also evident, e.g., weather conditions in the case of agricultural commodities. Factors that are beyond the scope of rational analysis are also

relevant in the pricing process. In this context, the psychology of market participants plays a significant role.
Sustainability-relevant aspects impacting the extraction costs of commodities. As a result, this can have a negative impact on the respective commodity price.
Foreign currency risk - the fund as well as the commodities held in it may be denominated in either euro or a foreign currency. If denominated in a foreign currency, investors are exposed to adverse changes in the exchange rate of the foreign currency.
Issuer risk, i.e., investors are exposed to a default risk on the part of the issuer of the securities held in the fund if there is no collateral or insufficient collateral in the event of realisation.

Holders of investment fund units are subject to special risks, for example that unit redemption may be temporarily suspended due to insufficient fund liquidity, for example in the event that many investors wish to redeem their units at the same time, or that a fund may be liquidated in an orderly manner.

When funds experience liquidity shortages, fund management companies have certain options to address them. They may, for example, introduce redemption notice periods. This means investors would have to notify the fund company of their intention to redeem their fund units some time in advance.

The fund company may also impose redemption restrictions. For example, fund companies may choose not to meet redemption requests for a certain period of time, or only partially, if the number of redemption requests exceeds a certain threshold.

Furthermore, a fund company may allocate transaction costs arising from unit redemptions or unit issues based on the cost originators. These transaction costs may be included in the calculation of the net asset value of a fund, up to a predefined rate.

These options are intended to prevent fund companies from having to completely suspend unit redemptions, which would be even more detrimental to investors.

Further information and costs
For further details on these aspects and the product, please refer to the relevant sales prospectus and basic information sheet. In principle, inflation trends impact your investment performance. A resulting loss of purchasing power affects both the income generated and your capital invested. When acquiring, holding and eventually selling securities and derivatives, costs will impact returns. For further details, please refer to the respective cost information before entering into a securities transaction.

For further details on the characteristics and risks of the products, please refer to the brochure “Basic Information on Securities and Other Investments”.