COMMERZBANK

Product Group

Fixed Income Funds with Additional Tier 1 Investment Focus

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the fixed income funds with additional tier 1 (AT1) investment focus product group.

General characteristics and investment opportunities

Fixed income securities are interest-bearing securities, often also called bonds, debt obligations or debentures. The investor lends a certain amount of money to the issuer, e.g. a non-financial or a financial company, and in return receives a bond denominated in euro or a foreign currency. Fixed income securities represent a claim to capital repayment and, typically, to fixed or variable interest payments as compensation for the provision of capital. Their yield is determined by the nominal interest rate, the issue or purchase price, the redemption price and the term of the security. The individual characteristics, such as the interest rate, maturity or ranking in the event of insolvency or liquidation of the issuer, are specified in the terms and conditions of the bond issue.

In a fixed income fund, a capital management company pools funds from many investors. The company invests these funds in different individual fixed income securities from different issuers according to a defined investment strategy and following the principle of risk diversification and manages them professionally. 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. However, a broad risk diversification reduces the reliance on the performance of individual financial instruments. This diversification effect decreases, though, if the investment fund is dedicated to specific investment themes, such as specific countries, currencies or maturity segments. In this case, AT1 bonds constitute the core of the fund portfolio, and investments may be made entirely in such financial instruments. AT1 bonds usually offer a higher interest rate than bonds with a comparable maturity and in the same currency from other capital classes of the same issuer.

Typical product characteristics

The additional tier 1 capital class, which also includes contingent convertible (CoCo) bonds, comprises unsecured, subordinated bank bonds that generally have the following features:

- infinite term, but issuer's right of termination (after five years at the earliest)
- thereafter, the issuer can call the bond on any interest date, provided that sufficient funds are available for repayment (regulatory approval required)
- the issuer may only make interest payments if sufficient distributable profit is generated
- missed interest payments may not be paid in arrears
- if certain trigger events occur, which are specified in the respective bond terms and conditions, the nominal amount will either be converted into shares or permanently or temporarily written down.

With AT1 bonds being more closely linked to an issuer's business performance, corporate news and reports will affect the price of an AT1 bond more strongly, similar to the effect on equities.

In the event of issuer insolvency, the claims of AT1 bondholders are ranked second to last, i.e. all other more senior claims would be satisfied first. AT1 bondholder claims are only senior to shareholder claims. In the event of issuer resolution, AT1 bonds carry the highest risk of conversion or write-down. In some cases, AT1 bondholders were claimed before shareholders of a company.

Material risks of the product group

By investing in these products, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following:

<u>Issuer risk</u> - Also referred to as default risk - when the issuer fails to meet its obligations or can only meet them in part, for example

because of insolvency. Bonds issued by banks are subject to special regulations. If the issuing bank runs into financial difficulties, a regulatory intervention may result in a bailout of the bank, partial or total loss of the investment, or a compulsory conversion into equity, such as shares. As a general rule: The worse the credit rating of an issuer, the higher the default risk, but also the risk premium and the resulting yield. Bonds are generally not covered by deposit insurance. Sustainability-related decisions relating to the environment, social aspects and corporate governance also impact on the issuer.

Interest rate and price risk - When interest rates rise, bond prices generally fall. A downgrade in the issuer's credit rating reduces the value of a bond during its term. Due to their infinite maturity, AT1 bonds carry a significantly higher price risk than traditional bonds.

Termination and reinvestment risk - Bonds held in the fund portfolio may be terminated at an unfavourable time and the fund management may only be able to reinvest the redemption amount at less favourable terms.

Foreign currency risk - The fund as well as the assets 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.

Liquidity risk - during the term of the securities held in the fund, the fund may not be able to sell a security or may only be able to sell it at a possibly much lower price.

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 or a basic information sheet, if available. 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”.