

UC AXIOM GLOBAL COCO BONDS UCITS ETF

Boost and diversify your income

CoCo Bonds: AT1 and RT1 Basics

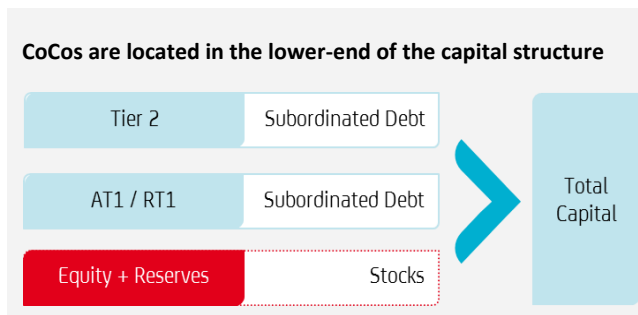
After the financial crisis, regulators have placed **stricter capital requirements** on banks and insurance companies to ensure market stability and rebuild investors' confidence and trust. This new framework (Basel 3 and Solvency 2) has led to the emergence of new capital instruments **generally called "CoCos": Additional Tier 1 for banks and Restricted Tier 1 for insurance companies.**

To meet their capital requirements, banks and insurance companies have to issue AT1 and RT1 bonds. Under the Basel 3 regulation, banks are allowed to cover **1.5% of their risk weighted assets** with AT1 instruments as part of their total capital requirement. Under Solvency 2, insurers can have up to **20% of total Tier 1 capital in RT1s.**

The bank AT1 market, born 6 years ago in 2013, has grown to nearly **EUR 196 billion today.** The insurance RT1 market, born in 2017, is smaller but growing,

Additional Tier 1 or Restricted Tier 1 instruments are junior subordinated debt securities that are **included in capital.** To qualify as Tier 1 capital, the instruments need to be:

- perpetual with a minimum five-year non-call
- have fully discretionary coupons and
- a contractual trigger to principal write-down or equity conversion.



Source: Axiom, 2020

For AT1s, the contractual trigger occurs when a bank's Common Equity Tier 1 (CET1) capital ratio falls **below 7% for high-trigger CoCos** (and 5.125% for low-trigger CoCos). For RT1s, the contractual trigger is usually **75% of Solvency 2 requirements** or lower than 100% for three months.

CoCos bonds offer a significant yield premium over senior debt since they have a trigger and a loss absorption mechanism. By opposition, **CoCo bonds offer more stable returns than banks stocks.**

The Index – Mechanics and Calculations

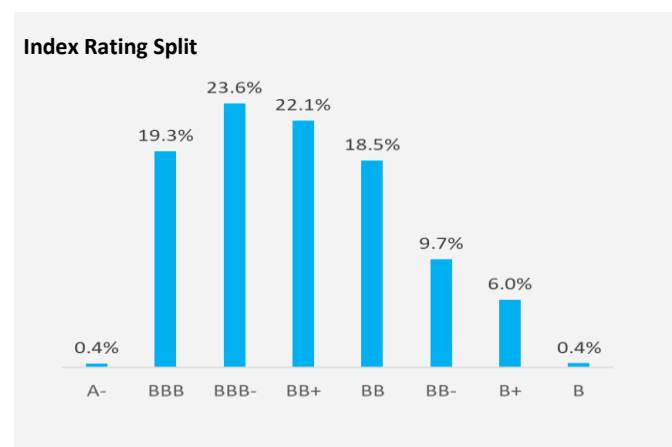
The objective of the ETF is to track the performance of the **Solactive AXIOM Liquid Contingent Capital Global Market TR Index – EUR hedged (Bloomberg ticker SOLAXICC).**

SOLAXICC aims to provide exposure to the performance of **the most liquid EUR and USD** denominated Additional Tier 1 and Restricted Tier 1 bonds issued by global financial institutions.

The index is built with strong selection criteria and reflects the underlying performance of **EUR 152bn of outstanding CoCos**, corresponding to the issuance of **142 bonds** as of the end of August.

Index Features	
Bonds	<ul style="list-style-type: none"> • Only Additional Tier 1 or Restricted Tier 1 • Denominated in USD or EUR
Liquidity and rating filters	<ul style="list-style-type: none"> • Minimum Issuance size of 500mn (EUR or USD) • Issuers are rated investment grade on senior unsecured debt, by at least one of the three major rating agencies • Bid offer size >1 million (EUR or USD)
Index construction	<ul style="list-style-type: none"> • Market value-weighted • Monthly rebalancing • Calculated daily • Independent valuation (Solactive)


Source: Solactive, 2020



Source: Solactive, August 2020

- **100% of the issuers are rated investment grade** on senior unsecured debt, by at least one of the three major rating agencies 43% of the bonds are rated Investment Grade.
- Number of bonds that are in positive watch and could be upgraded into Investment Grade: **12 bonds**

Key Advantages and Potential Risks of the UC AXIOM Global CoCo Bonds UCITS ETF

 <p>UC AXIOM Global CoCo Bond UCITS ETF</p>	<p>Highly Diversified</p> <ul style="list-style-type: none"> • AT1 and RT1 instruments • Global exposure • Most diversified index on the market with EUR 152bn market cap and 142 bonds 	<p>High level of income</p> <ul style="list-style-type: none"> • 5.15% yield to maturity • 6.44% yield to call • 6.30% average coupon 	<p>Low interest rate sensitivity</p> <ul style="list-style-type: none"> • Modified duration of 3.34 • Well positioned in a rising interest rate environment 	<p>Quality exposure</p> <ul style="list-style-type: none"> • Only 100% Investment Grade issuers on senior unsecured debt • Average rating: BB+
	<p>Innovative</p> <ul style="list-style-type: none"> • Currently the only product, that provides a real exposure to the CoCo market by replicating a market value-weighted index 	<p>Tactical Allocation</p> <ul style="list-style-type: none"> • A quick access to AT1 and RT1 market enabling tactical allocation or beta management • Excellent diversification tool alongside High-Yield corporate bonds 	<p>A unique partnership</p> <ul style="list-style-type: none"> • A unique partnership between a specialist in the financial sector: Axiom AI and a major pan-European commercial bank: UniCredit 	<p>No Currency Risk</p> <ul style="list-style-type: none"> • Currency exposure on USD CoCo bonds is hedged via forwards in bandwidths (no 1:1 hedging)

<p>Potential Risks of Investment</p>	<p>Coupon risk</p> <p>This is the possibility that the coupon is not paid (outside any resolution situation). The non-payment of a coupon can be definitive as is at the discretion of the issuer.</p>	<p>Interest rate risk</p> <p>Investors are exposed to interest rate risk. Interest rate risk is the risk that bond market interest rates may rise, which would cause bond prices to fall.</p>	<p>Extension risk</p> <p>The possibility of redemption date not taking place as expected. The maturity date initially proposed may be exceeded</p>	<p>Credit risk</p> <p>In the event of resolution, default or deterioration in the quality of the issuers, the value of the bonds in which the fund is invested will fall.</p>
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Main Features of the UC AXIOM Global CoCo Bonds UCITS ETF

UC AXIOM Global CoCo Bonds UCITS ETF	
• Listing Exchange:	Xetra Germany
• Wrapper:	UCITS ETF (FCP)
• Annual costs:	Up to 0.39% (All-in fee)
• Replication Method:	Physical
• Investment Region:	Global
• Issuer profile:	Banks and insurance companies
• Currency:	EUR
• Income:	Accumulating
• Launch date:	February 28 th 2019
• Initial Share Price:	EUR-hedged class: EUR 100,000.00 USD-hedged class: USD 100,000.00
• Distribution:	AT, FRA, GER, IT, LUX, UK
• Share classes / ISIN:	EUR-hedged class: LU1873136789 USD-hedged class: LU1873136862 GBP-hedged class: LU1994969134 (activation on request)
• Tickers	EUR-hedged class: CCNV GY Equity USD-hedged class: CCNU GY Equity

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