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.**

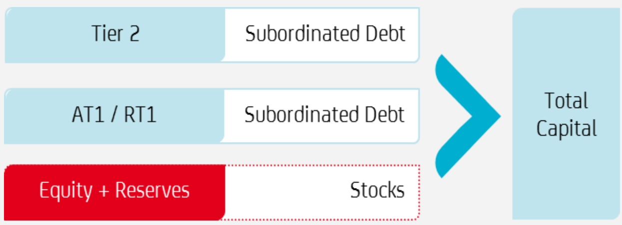
To meet their capital requirements, banks and insurance companies have to issue AT1 and RT1 bonds. Under the Basel 3 regulation, banks are allowed to cover **1.5% of their risk weighted assets** with AT1 instruments as part of their total capital requirement. Under Solvency 2, insurers can have up to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

CoCos are located in the lower-end of the capital structure



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.

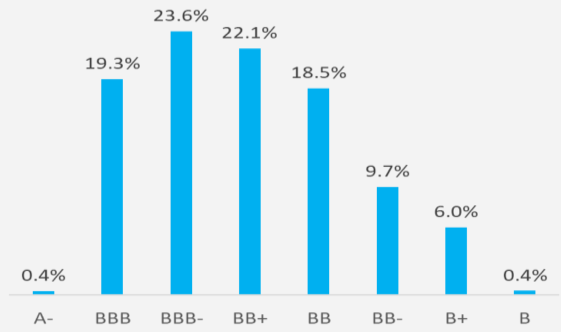
The index is built with strong selection criteria and reflects the underlying performance of **EUR 152bn of outstanding CoCos,** corresponding to the issuance of **142 bonds** as of the end of August.

Index Features

Bonds	• Only Additional Tier 1 or Restricted Tier 1 • Denominated in **USD** or **EUR**
Liquidity and rating filters	• 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	• **Market value-weighted** • **Monthly** rebalancing • Calculated daily • **Independent valuation** (Solactive)

Source: Solactive, 2020

Index Rating Split



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

UC AXIOM Global CoCo Bond UCITS ETF

Highly Diversified
- AT1 and RT1 instruments
- **Global exposure**
- Most diversified index on the market with **EUR 152bn** market cap and **142 bonds**

High level of income
- **5.15%** yield to maturity
- **6.44%** yield to call
- **6.30%** average coupon

Low interest rate sensitivity
- Modified duration of 3.34
- **Well positioned** in a rising interest rate environment

Quality exposure
- Only **100% Investment Grade issuers** on senior unsecured debt
- Average rating: **BB+**

Innovative
- Currently **the only product, that provides a real exposure** to the CoCo market by replicating a **market value-weighted index**

Tactical Allocation
- A quick access to AT1 and RT1 market enabling **tactical allocation or beta management**
- **Excellent diversification tool** alongside High-Yield corporate bonds

A unique partnership
- A unique partnership between a specialist in the financial sector: **Axiom AI** and a major pan-European commercial bank: **UniCredit**

No Currency Risk
- Currency exposure on USD CoCo bonds **is hedged** via forwards in bandwidths (no 1:1 hedging)

Potential Risks of Investment

Coupon risk
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.

Interest rate risk
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.

Extension risk
The possibility of redemption date not taking place as expected. The maturity date initially proposed may be exceeded

Credit risk
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.

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
- Ccurrency: EUR
- Income: Accumulating

- Launch date: Feburary 28th 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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