COMMERZBANK

Product Group

Guarantee / Capital Protection Funds

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the guarantee / capital protection funds product group.

General characteristics and investment opportunities
In an investment fund, a capital management company (CMC) pools funds from many investors. The company invests these funds in different individual equities or bonds according to a defined investment strategy and following the principle of risk diversification and manages them professionally. The specific characteristics of an investment fund are described in the sales prospectus.
By purchasing shares, the investor participates in the equity capital of a company and becomes its shareholder. Among others, the shareholder is entitled to a dividend payment on the retained earnings. The share price is determined on a securities exchange by supply and demand from market participants.
In the case of fixed income securities - also known as bonds or debt obligations - the investor lends an amount to the issuer, e.g. a company, a bank or a country, and in return receives a debt obligation - denominated in euro or a foreign currency - which entitles the investor to repayment and interest. Bonds carry a fixed or variable interest rate.
Besides bonds, derivatives are typically used to implement the investment strategy of this product group. While the bonds in the fund portfolio are intended to ensure capital protection, the derivative positions may serve different purposes. By acquiring futures or call options on equity indices, for example, a fund aims to participate in rising share prices. If a CMC invests part of the fund assets directly in equities, it may use futures or put options to temporarily or partially hedge the price risk associated with the equity investment.
Investors can benefit from capital gains and potentially regular distributions by investing in these funds. At the same time, the fund-specific capital preservation concepts are designed to protect against or limit capital losses.

Typical product characteristics
Guarantee funds provide investors with a guarantee, which may relate to distributions, the repayment of the capital invested or a percentage thereof, or performance over a specified period of time. Guarantor can be the CMC itself or a third party, e.g. a financial institution. This makes the guarantee subject to the credit quality of the respective guarantor. Guarantee funds may be closed-ended or open-ended.

Capital preservation funds pursue an investment strategy aimed at hedging the value of the fund's assets at maturity or at the end of a specific capital preservation period. Their investment strategy is based on buying options, for example, to serve as a hedge. The hedging instruments may increase in value during the term, which would be reflected accordingly in the fund share price. However, the hedge position value may also decrease. Unlike for a guarantee fund, the CMC does not guarantee that the hedge will be effective at maturity.

When purchasing guarantee or capital preservation funds, investors need to consider other special characteristics, such as the effect of hedging costs on final returns. In addition, the complex hedging structures included in the fund portfolio may have a significant and possibly not always transparent impact on the redemption price of a fund share. Depending on market trends, the redemption price during the term or capital preservation period may also fall significantly below the anticipated preservation level, as capital preservation and performance participation are only ensured at the specified date. In addition, the fund prospectus might provide that the fund shares may not be redeemed on a daily basis, thereby limiting its liquidity.

Material risks of the product group
By investing in guarantee / capital preservation funds, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following:
Issuer risk - 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 credit quality.
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 security during its term. Asset prices are subject to unpredictable and often strong volatility on the capital markets. In addition to company-specific factors, political and general economic trends - the economic risk - are also key drivers of asset prices.
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. When sold, the proceeds may be less than the value of the original capital invested.
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, the held securities and derivatives may not be able to be sold, or only 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 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”.