COMMERZBANK

Product Group

Equities, Equity Funds, Equity ETFs

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

General characteristics and investment opportunities
Equities represent ownership rights in a company and grant the shareholder legally and contractually defined rights, e.g. entitlement to a profit share of the company, i.e. a dividend, a subscription right in the case of capital increases or information and voting rights at the general meeting. By acquiring equities, investors may benefit both from rising share prices and from distributed dividends, which can vary in their amount or be omitted.

Typical product characteristics
Equities are usually traded on a securities exchange. The share price is determined by supply and demand from market participants. In addition to ordinary shares, a company may also issue preference shares (referred to as preferreds for short). These are granted preferential rights, especially regarding profit distribution or liquidity proceeds in the event of insolvency. Moreover, preference shares differ in their voting rights. Usually, preference shares do not grant the shareholder any voting rights; in specific cases, however, multiple voting rights are provided for.
This product group also includes so-called American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs). For ADRs and GDRs, the original shares are deposited with a custodian bank, which issues corresponding certificates as confirmation of deposit. Thus, investors indirectly acquire rights to the deposited shares and are treated economically the same as shareholders of the shares. ADRs and GDRs are traded on securities exchanges as a proxy for the original shares and are an alternative for issuing foreign shares. Also because of differences in liquidity with ordinary shares of the same company, preference shares, ADRs or GDRs may be quoted higher or lower than ordinary shares.

Besides acquiring equities directly, investors may also choose to invest in equity funds. In an equity fund, a capital management company pools funds from many investors. The company invests these funds in shares of different companies 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. However, this diversification effect decreases if investment funds concentrate on specific investment themes (such as countries or sectors).

Equity exchange traded funds (ETFs) are a special type of equity fund.
They aim to track the performance of a particular index as closely as possible. This is achieved either by direct investment in securities or by replication in the fund assets, for example by using so-called swaps.
A swap-based ETF usually tracks the performance of the underlying index more accurately because, for example, corporate actions of index constituents do not trigger transactions in the fund portfolio. 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 or securities 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 these products, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following:
Price risk: The price of individual equities as well as equity funds is subject to unpredictable and often strong volatility in the equity markets. In addition to company-specific factors, political and general economic trends - the economic risk - as well as sector-specific economic trends - known as sector risk - are also key drivers of equity prices. 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. Investors ought to be aware of the various price driving factors, some of which are interconnected, before investing in equities.
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. Investors are exposed to the possibility of a total loss of the capital invested. Sustainability-related decisions relating to the environment, social aspects and corporate governance also impact on the credit quality of the issuer.
Liquidity risk - Investors or an equity fund may not be able to sell certain equities or equities held in the fund at all or may only be able to sell them at a possibly much lower price. Furthermore, investors are exposed to a de-listing risk if specific equities are delisted from the securities exchange.
Foreign currency risk - Investors are exposed to currency risk when investing in a foreign currency denominated security as performance could be adversely affected by exchange rate movements.

Special characteristics of investment funds

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 if 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 any basic or product 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”.