COMMERZBANK

Product Group

Exchange Traded Commodities (ETCs)

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the exchange traded commodities (ETCs) product group.

General characteristics and investment opportunities
This product group offers investors the opportunity to invest in the commodities asset class and, in principle, to benefit from rising commodity prices. Exchange traded commodities (ETCs) track individual commodity price trends or commodity indices as an underlying, taking into account any recurring product costs. The term “commodities" typically refers to raw materials. A wide range of commodities is traded on the commodity markets. Commodities are divided into four main categories:

- Precious metals (e.g. gold, silver, palladium, platinum),
- Industrial metals (e.g. aluminium, copper),
- Energy (e.g. diesel, petrol, oil, gas) as well as
- Agricultural commodities (e.g. wheat, maize).

Unlike exchange traded funds (ETFs), ETCs are not investment funds. ETCs are debt securities denominated in euro or another currency with an indefinite or very long maturity, for which investors are not entitled to receive regular interest payments or distributions. Issuers of ETCs are special purpose vehicles established for this purpose only. Collateral pools managed by trustees are often set up to increase investor protection. These may be the underlying itself, such as gold, or other assets.

Typical product characteristics
Compared to other asset classes, commodities are often subject to greater price volatility and may be less liquid. The driving factors behind commodity prices are complex, as changes in supply or demand, for example, have bigger implications. Besides general economic and political trends, additional price drivers are also evident, e.g. weather conditions in the case of agricultural commodities.
Commodities are globally traded on specialised spot & futures exchanges or over the counter directly between market participants. While the term "spot" refers to immediate delivery of the commodity, a forward price is related to delivery in the future. Precious metal ETCs usually refer to the spot price, for all other commodities, trading usually takes place via derivatives, so-called futures contracts. If an ETC refers to a futures price, expiring futures contracts are constantly exchanged for new, longer-term contracts. The price of the expiring and the new contracts might differ considerably, which can be disadvantageous to investors who hold the ETC for a longer period of time.

Swap-based ETCs, which may be used with commodity indices, involve the issuer passing your invested money to a counterparty in a swap transaction and receiving the cash flows of the underlying in return. 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, securities or precious metals in sufficient amounts as collateral. Investors are 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 ETCs, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following material risks:
Risk of loss - investors receive reduced sales proceeds because the price of the underlying has declined by a certain amount. This can lead to a total loss if the underlying becomes worthless. Sustainability-relevant aspects impact on the extraction costs of commodities. As a result, this can have a negative impact on the respective commodity price.
Foreign currency risk - ETCs as well as the underlying 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, investors may not be able to sell the security or may only be able to sell it at a possibly much lower price.
Issuer risk - investors are exposed to a default risk on the part of the issuer if there is no collateral or insufficient collateral in the

event of realisation. ETCs are generally not covered by deposit protection.

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”.