COMMERZBANK

Product Group

Other Equity Instruments (e.g. REIT, SPAC)

In this information sheet, Commerzbank provides information on the underlying characteristics as well as the opportunities and risks of the “other equity instruments” product group.

General characteristics and investment opportunities
This product group comprises special forms of publicly listed companies. 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
A REIT (Real Estate Investment Trust) is a publicly listed real estate company that must meet certain conditions to qualify for preferential tax treatment. These include a focus on specific business activities (ownership and management of real estate) as well as the distribution of a high share of profits as dividends. To be recognised as a German REIT, the registered corporate domicile must be in Germany. In addition, the company must distribute at least 90% of its profits as dividends, invest at least 75% of its assets in real estate and generate at least 75% of its gross income from real estate. Furthermore, the company is required to have a permanent share free float of 15% (25% at the time of the IPO).

In contrast to open-ended real estate funds, the share price of REITs is determined by supply and demand on the securities exchange, as is the case with all shares. The share price may therefore deviate significantly from the net asset value (property value less debt divided by the number of REIT shares). Like open-ended real estate funds, REITs are exposed to income risk from possible property vacancies, potentially leading to reduced distributions.

Foreign REITs may have features not typically applied in Germany, which are specified in the sales prospect. This and other regulatory requirements may give rise to additional risks.

SPAC is short for Special Purpose Acquisition Company, also known as a “blank check company”. A SPAC is a publicly traded shell company, without any operating activities or fixed assets, established for the sole purpose of acquiring another company or companies or investing in one or more economic assets. The primary objective of a SPAC is to raise capital by means of an IPO, which makes SPACs equivalent to empty shell companies. The shares of these shell companies are usually placed at relatively low prices. The funds collected by a SPAC during the IPO will initially be placed in an escrow account. A SPAC seeks to make one or more corporate or economic asset acquisitions within a predetermined period of time. Upon establishment of a SPAC, it is usually determined what type of companies it will buy in terms of size and sector, and this is usually outlined in the issuing prospectus. Investors can use SPACs to invest in unlisted companies or economic assets. However, investors commit their capital to companies or assets that are unknown to them at the time of investment. Thus, information on the company's history, objectives, competitive position and key figures is often not available, which is normally needed to assess the opportunities and risks of a capital investment. If a SPAC fails in acquiring companies or economic assets within the specified period of time, the shell company is usually dissolved. When a SPAC is liquidated, investors are usually not exposed to the risk of a total loss, but usually at most are returned the issue value from the IPO. Investors who have acquired the SPAC shares via the securities exchange at a possibly higher price are usually limited to the issue price for compensation upon redemption in case of liquidation.
In addition, SPAC shareholders may be subject to unfavourable conditions in the event of mergers of sought after target companies. Upfront and operating costs of a SPAC (for example, share and warrant awards on favourable terms to founders, advisor and auditor fees, due diligence costs) may also be a factor in a merger.

Material risks of the product group

By investing in these financial instruments, investors benefit from return opportunities, but are also exposed to additional material risks. These include the following:

Price risk - The price of these equity instruments 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 risks: 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. Furthermore, investors are exposed to a de-listing risk, if specific equities are de-listed 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.

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”.