Tabula European Performance Credit UCITS ETF

Annual commentary

TABULA

- The strategy performed strongly over the full year following initially challenging market conditions including a default and increased market volatility
- Positive risk sentiment combined with coupon and roll returns overcompensated over the year
- The iTraxx European Performance Credit Index rose by 6.9%*
- Tabula European Performance Credit UCITS ETF (ticker: TCEP) tracked well and returned 6.4% after fees*

*Data in this document from inception Aug 21st 2018 – Aug 30th 2019

Market Overview

Spreads and levels of major indices

	30 August 2019	21 August 2018	YoY change
iTraxx Main 5y	48.6	67.9	↓
iTraxx Crossover 5y	251.7	292.7	↓
MSCI Europe NTR (M7EU)	218.3	222.4	↑
BBG Eur Agg Corporate Agg (LECPTREU)	262.4	246.7	↑

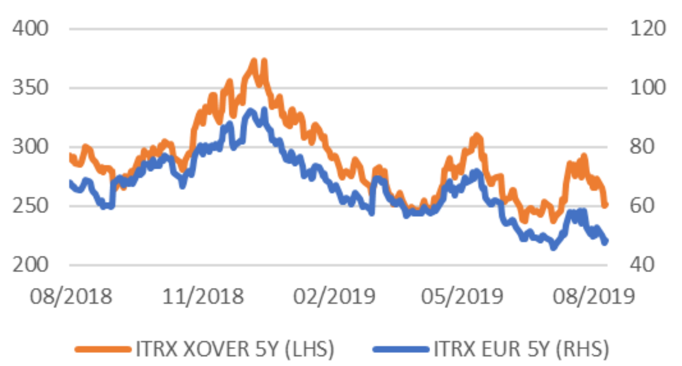
Data: Tabula/ Bloomberg, as of 30 August 2019.
Regulatory risk warning: past performance is not a guarantee of future returns.

Credit spreads in both European Investment Grade (IG) and European High Yield (HY) over the last 12 months can be characterised in two phases. There was a general period of spread widening during Q4 2018 mainly due to geopolitical factors, including US-China trade tensions. Spreads in the iTraxx Crossover and Main widened in the range of 20 to 40% in line with risk assets such as European equities selling off meaningfully (see performance illustrated in chart 1).

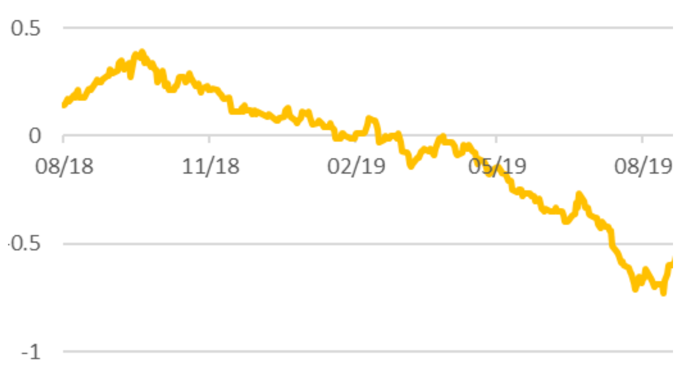
This was followed by a strong recovery rally fuelled by a shift in US central bank strategy, with the reversal of the interest rate hiking cycle. Spreads continued in a downward path, dipping below September 2018 lows, before being interrupted by a brief sell-off in May. The first performance year ended with near record low spread levels in both IG and HY.

Interest rates on the short end of the curve in the Eurozone followed a steady downward path into further negative territory. The chart opposite shows the German Umlaufrendite risk-free rate (GRGYTOT), which fell from a positive 20bps at the time of launching the ETF to -73 bps a year later

iTraxx Europe 5y and ITraxx Crossover 5Y spreads :



German Umlaufrendite (GRGYTOT):



Data for above performance charts: Tabula/Bloomberg, for the period 21 August 2018 to 30 August 2019.
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Performance review

The Tabula European Performance Credit UCITS ETF delivered a positive net return of 6.4% for the first full 12 month period. The positive performance can be attributed mainly to spread income, roll return and positive mark-to-market changes due to tightening spreads in European IG and HY. Negative contributions came from further negative EUR rates on high quality collateral like government bonds as well as a default in one of the subindices.

For professional investors only

The strategy is constantly rolling short-term EUR government bonds of the best rating quality which represented a performance drag.

Performance attribution

Performance attribution breakdown:

1. **Spread**: the CDS spread return contribution overall was 3.10%. Tightening of credit spread curves contributed another approximately 1.83%.

2. **Roll:** The credit curves for IG and HY were upward sloping and fairly steep, contributing another 2.60% of return.

3. **Defaults:** The strategy is negatively impacted by every default in the CDS indices it sells protection on. On 5 October 2018 the Italian company Astaldi defaulted in the iTraxx Crossover Index. Due to it's 60% notional exposure to the Crossover and the already priced in default expectation, the impact on the strategy was limited.

   Generally there is a maximum of 75 names in the Crossover. The strategy is approximately 0.6x leveraged to the Crossover in terms of notional to NAV, so assuming a zero recovery rate, the maximum default payment for an entity would have been 0.6*1/75 = 0.80% of NAV excluding accrued coupon effects. However, the actual recovery rate of Astaldi was 30.875% and the bonds were already trading well below face value in advance of the default therefore the actual negative impact on the strategy was much smaller. It is aggregated into the spread curve movement portion of the performance attribution table above.

4. **Negative EUR rates:** As CDS indices are generally traded on margin, a major part of the portfolio is constantly held in cash equivalents, namely government bonds with short maturity. The ~85% allocated to government bonds of Belgium, France, Germany and the Netherlands yielded slightly above benchmark at Eonia-35bps but still contributed a negative return of 0.54% to the overall return.

Spread	3.10%
Roll	2.60%
Spread Curve Movement	1.83%
Cash	-0.54%
Transaction costs	-0.06%
1y gross return	6.93%
Management fee	-0.51%
1y net return	6.41%

Data: Tabula, from fund inception on 21 August 2018 to 30 August 2019.
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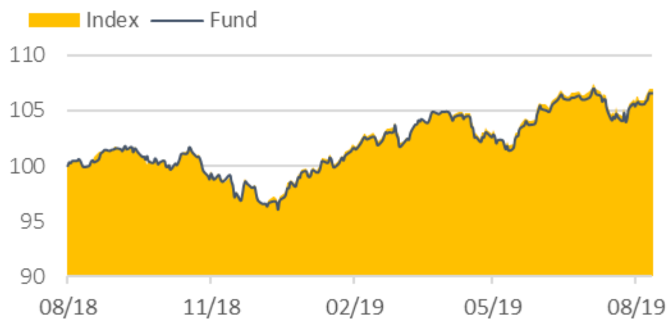
Replication review

The tracking difference for the fund for the first full 12-month period was positive 8.6bps, meaning outperformance before fees of the index. This can mainly be attributed to three factors:

1. Better execution on CDS Index rolls in March/September: The strategy rolls its CDS index positions in accordance with market standards every 6 months into the new "on-the-run" series of iTraxx Main and Crossover.
2. Better CDS execution for client creations: The funds assets grew ~50% over the course of the first year and due to better execution of CDS index positions some outperformance was achieved.
3. Additionally, a favourable return on cash was achieved by investing in short term government bonds of Belgium, France, Germany and the Netherlands which were slightly above that of the benchmark at Eonia-35bps.



Fund net tracking difference (bp)	-43.7
Fund gross tracking difference (bp)	8.6
Cumulative TER (bp)	52.2
Daily tracking error (bp)	0.78

Data: Tabula/Bloomberg, from fund inception on 21 August 2018 to 30 August 2019.
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Outlook

Current spread levels in Europe are near record lows limiting the pure spread yield component to 2.7% as of August month end.

With these low spreads, the roll-component becomes even more crucial. The steepness of the credit curves in IG as well as HY still offers value, bringing the projected yield roll contribution to 1.4%. Low EUR yields on government bonds are expected to reduce the total return by 0.56%. Transaction costs for reinvesting bonds, rebalancing the portfolio and rolling CDS contracts are expected to amount to about 10bps.

The expected 12-month net yield after fees therefore currently stands at 2.98% if spread levels remain unchanged. Changes in spreads will positively or negatively add to the performance.

Important information