

- The iTraxx index roll into the new S32 series commenced on Friday September 20th, affecting Tabula ETFs linked to the iTraxx Europe (Main) and iTraxx Crossover indices.
- MarkIT publishes a new series of their iTraxx CDS Indices semi-annually on March 20th and September 20th. The Europe (Main) index (125 equally weighted Investment Grade names) and the Crossover (75 equally weighted Sub-investment Grade names) are updated based on liquidity and sector criteria.
- The new index series which has an initial duration of 5.25 years and is known as the “on-the-run” series is bought, while the “off-the-run” series with 4.75 years duration, is sold. By rolling into the most current series investors try to materialize a roll-yield and maintain a high liquidity profile.
- Index methodology changes: Starting with the S32 roll, the previous sector caps in both indices were loosened to allow for more flexibility while increasing the importance of liquidity as a selection factor.

S32 iTraxx Europe (Main) constituent changes

Ins: Peugeot (Autos), Unibail-Rodamco (Real Estate), Koninklijke DSM (Life Science), PostNL (Logistics), Wendel (Industrial), Thales (Defense).

Outs: Experian (Travel), Auchan (Consumer), Reckitt Benckiser (Consumer), Sodexo (Consumer), RELX (TMT), Wolters Kluwer (TMT).

The new rule favours Autos & Industrials as they typically have more names with particularly high liquidity explaining the tilt from Consumers to Auto which contributed to the 54.3 bps wider spread in the new series. The main driver for the wider spread is still coming from the duration extension of 6 months though.

S32 iTraxx Crossover constituent changes

Ins: Auchan (Consumer), Schaeffler (Auto), Crown European Holdings (Industrial), Europcar (Auto), Verisure (Consumer), Faurecia (Auto), Cirsia (Consumer), Teollisuuden Voima (Energy), Volvo Car AB (Autos).

Outs: Peugeot (Auto), Galp (Energy), Lagardere (Communication), Pizza Express (Consumer), Thomas Cook (Leisure), WindTre (Communication), Vue (Consumer), Cable & Wireless (Communication).

Similar to iTraxx Europe the new flexibility increased the Auto part of the index. With two troubled names with very wide spreads (Pizza Express & Thomas Cook) leaving the index the spread of the S32 series got significantly tighter. Thomas Cook, in particular, left the portfolio one trading day before defaulting on 23rd of September. The duration extension added ~15bps but the composition change dragged ~50bps setting the new spread level at 215 bps.

European Performance Credit

The Tabula European Performance Credit UCITS ETF (TCEP), rolled its position in iTraxx Europe as well as iTraxx Crossover with a positive tracking of 5.8 bps due to better execution of the roll. The wider spread of iTraxx Europe S32 vs. S31 was not enough to compensate for the substantial tightening in Crossover in S32 resulting in a now average spread of 242bps for the ETF.

The updated estimated 12 months yield now stands at 2.96% p.a net after fees.

Spread	2.43%
Roll	1.68%
Cash	-
Transaction Costs	0.56%
1Y est. Yield excl fees	-
Mgmt fee	0.10%
1Y est. Yield incl fees	3.46%
	-
	0.50%
	2.96%

(Sep 20, 2019)

European Crossover Long and Short

The Tabula European iTraxx Crossover Credit UCITS ETF (TECC) managed to generate 7.4 bps positive tracking by better execution of the roll. The 12-months yield estimate reduced to 2.10% due to the tighter spread in S32 of iTraxx Crossover. The credit duration lengthened to 5.25 years, combined with the current notional-to-NAV ratio of 0.88 bringing the credit sensitivity DV01 to 4.8.

Spread	1.90%
Roll	1.23%
Cash	0.56%
Transaction Costs	0.07%
1Y est. Yield excl fees	2.50%
Mgmt fee	0.40%
1Y est. Yield incl fees	2.10%

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Tabula European iTraxx Crossover Credit Short UCITS ETF (TECS) exhibited -6.7 bps of tracking in executing the roll, but reduced the negative 12-months yield estimate to now -5.38% due to lower spread & roll. The ETF therefore got cheaper as a tool to speculate on widening spreads while increasing the credit sensitivity DV01 to now -6.4 due to lengthening of the credit duration.

Spread	2.49%
Roll	1.60%
Cash	0.74%
Transaction Costs	0.06%
1Y est. Yield excl fees	4.88%
Mgmt fee	0.50%
1Y est. Yield incl fees	5.38%

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