

- 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. However, the main driver for the wider spread was the 6-month duration extension.

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 enhanced flexibility increased the Autos weighting in the index. With two troubled names with very wide spreads (Pizza Express & Thomas Cook) leaving the index, the spread of the S32 series became significantly tighter. Thomas Cook left the portfolio one trading day before defaulting on the 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 error of 5.8bps due to better execution of the roll than assumed by the index. Although the iTraxx Europe S32 has a wider spread than S31, the substantial tightening in the Crossover S32 vs S31 series outweighed this, resulting in the average spread in the ETF dropping to 243bps.

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

Source for all data shown in this document: Tabula, as of 20 September 2019.

The estimated yield calculation involves ageing and repricing the fund portfolio and assuming the spread curves remain constant. The calculation involves a number of assumptions and approximations including around the fund composition remaining constant, rebalancing/rolls and interpolation. The estimated yield is not a guarantee of future returns, which will vary based on market price changes.

Regulatory risk warning: Past performance is not a reliable indicator of future returns.

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

European Crossover Long

The Tabula European iTraxx Crossover Credit UCITS ETF (TECC) managed to generate 7.4 bps positive tracking error due to better execution of the roll than assumed by the index. The estimated 12-month yield dropped 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%

European Crossover Short

Tabula European iTraxx Crossover Credit Short UCITS ETF (TECS) exhibited -6.7 bps of tracking error due to worse execution of the roll than assumed by the index, but the negative 12-month estimated yield was reduced to -5.38% due to lower spread & roll. The ETF therefore became cheaper as a tool for speculating on widening spreads. Meanwhile the credit sensitivity DV01 increased to -6.4 due to the 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%

Source for all data shown in this document: Tabula, as of 20 September 2019.

The estimated yield calculation involves ageing and repricing the fund portfolio and assuming the spread curves remain constant. The calculation involves a number of assumptions and approximations including around the fund composition remaining constant, rebalancing/rolls and interpolation. The estimated yield is not a guarantee of future returns, which will vary based on market price changes.

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