XAIA INVESTMENT

FACTSHEET

31 MAY 2017

XAIA Credit Debt Capital

Share class for institutional investors (I)

Investment objective

XAIA Credit Debt Capital uses valuation discrepancies between the different refinancing instruments of debtors. The fund aims for a return of 3 Month Euribor plus 4.5% p.a. after costs, regardless of the general performance of the equity and bond markets.

Investment strategy (Excerpt from the offering prospectus[1])

The fund is based on a market-neutral investment strategy. It primarily exploits price differences between a reference entity's instruments with varying seniority. To this end, the fund normally invests in bonds from one issuer and enters an appropriate hedging position via equity derivatives. The hedging position has been created in the expectation that it will have adequate correlation to the investment position for the strategy, offsetting potential extreme events on the part of the debtor, such as insolvency.
All capital structure instruments are available, with investments typically made in bonds, convertible bonds, structured bonds and hybrid bonds. Equity derivatives and if appropriate credit derivatives are used for hedging. Moreover, interest and currency risks are neutralized to a large extent through suitable hedging instruments.

Issuance of shares temporarily suspended to protect investors

Effective as of 23 September 2013 we have temporarily suspended the issuance of new fund shares.

Overview

Fund name	XAIA Credit Debt Capital (I)
Fund type	Mutual fund (UCITS IV)
Management company	Universal Investment Luxembourg S.A.
Investment manager	XAIA Investment GmbH
Launch date	13 September 2011
Front load	Not applicable
Redemption fee	From 30.09.2014: 0.00%
Minimum initial investment	EUR 500,000
Minimum subsequent investment	None
Management fee	0.5% p.a.
Performance fee for investment company	20% over a hurdle rate of 3 Month Euribor
Current 3 Month Euribor as reference	-0.330% p.a.
Next adjustment 3 Month Euribor	June 2017
Taxe d'abonnement	0.01% p.a.
Total Expense Ratio (TER)[2]	1.69%
Use of income	Distribution
Risk category[3]	1 2 **3** 4 5 6 7 Risk tolerance
German securities identification number (WKN)	A1JCNM
ISIN	LU0644384843

Current fund data (as of: 31 May 2017)

NAV	EUR 1033.43
Investment ratio	69.07%
Performance May 2017[4]	0.03%
Performance since 01.01.2017[4]	0.63%
Performance in the last 12 month[4]	9.84%
Performance in the last 24 months[4] (p.a.)	6.17%
Performance since launch[5]	18.66%
Performance 2016[4]	13.53%
Fund volume	EUR 207.61 mn
Annualised volatility	2.23%
Maturity before hedging	See page 3
Modified duration after hedging	0.26
Foreign currency portion	See page 3
Foreign currency ratio after hedging	0.77%
VaR[6]	-3.26%

[1] The offering prospectus is available at: www.xaia.com.
[2] Review period 01.01.-31.12.2016; including performance fee.
[3] The sub-fund is in risk category 3, because its price fluctuates relatively little and thus the chance of gains, but also the risk of losses can be relatively low.
[4] After costs.
[5] Consolidated performance after costs.
[6] 99% confidence level, 1month holding period, 1 year historical.

Market Commentary

In May, the outcome of the French election in combination with hopes for a restrengthened Europe that is growing closer together, which were rekindled by this result, provided support to the credit markets, in particular. The iTraxx Crossover continued to tighten to approximately 250 bp and is thus trading at a two-year low. The stock markets have been consolidating, in some instances at historical lows, and government-bond yields, above all in European periphery countries, have been converging to the levels recorded by their counterparts from Germany and France.
Moreover, Mario Draghi dispelled any doubts whether the ECB might leave behind its de-facto zero-interest-rate policy earlier than anticipated based on the pro-European election outcomes of the last few months. At first glance, everything thus seems to be fine, and this is the very reason why risky assets are currently the main beneficiaries in the European credit universe.
A comparison of the performance of the European credit markets with those in the U.S. shows the first noticeable divergence since the temporary crisis in the U.S. market amid the oil price plunge in late 2015. Unlike the iTraxx Crossover, spreads in the U.S. HY segment have widened since early March. This is mainly due to two effects: the abstinence of U.S. corporate bond purchase programs and an U.S. interest-rate cycle that has already progressed further in the direction of a more hawkish monetary policy. Furthermore, another aspect may well play a role, too, namely the fact that the current U.S. Administration can spring all kinds of surprises that have totally unpredictable repercussions on the markets, prompting investors, for their part, to also demand higher risk premiums. Among other things, this has led to a spread narrowing of American steel producers (U.S. Steel 5y CDS minus 75 bp month-on-month) in response to Trump's announcement that he is unwilling to comply with the global climate agreement. This situation is giving rise to interesting constellations within the markets such as pronounced spread dispersion in the U.S. IG market (CDX IG) compared to Europe (iTraxx Main). This means that spread differentials in the U.S. tend to rise on erratic political decisions, while their European counterparts are more concentrated given the ECB's undifferentiated purchase policy. This development has also led to a situation in which opportunities in the market for capital-structure positions can be found virtually exclusively in the U.S. at present, while the distressed segment is the only one to offer selective opportunities in Europe.

Fund Performance

Despite low volatility and narrow spreads, we again succeeded in expanding existing positions in the U.S. HY segment in the steel, energy and automotive-parts sectors at attractive levels in May. In addition, we rebuilt a position (also from the energy sector) that we had last held in the portfolio until October 2016.
On the other hand, we completely closed a position from the telecommunications sector, as its performance potential had largely been exhausted. In addition, we scaled back a position from the healthcare sector.
Overall, the investment ratio thus remained stable at around 69%. The performance came to 3 bp in May and 0.63% on a year-to-date basis, thus falling slightly short of our expectations. As spread volatility increases, we expect to continuously increase the investment ratio and the current return and therefore stick to our annual target of 3M-Euribor + 3.5%.

Performance attribution for May

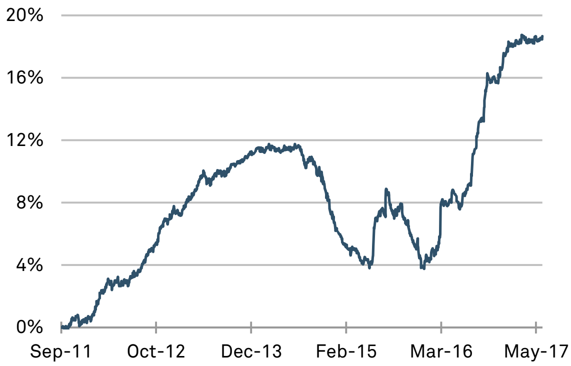
Overall performance	3 bp
Money market	-3 bp
Active management	6 bp

Outlook

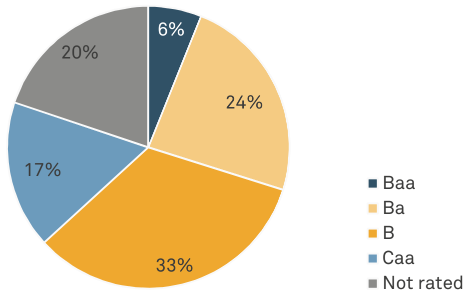
Given the upcoming elections in France and Italy and the possibility of relevant tweets from the US at any time, political developments will remain the dominant factor. Along the way, however, "problem cases" have begun to accumulate in the market: apart from the usual suspects from the European banking sector (Banco Popular), a number of former heavyweights (Agrokor, Noble) are facing extreme refinancing challenges, leading to a sharp increase in default probabilities in the near term.
We regard these developments as the beginning of an emerging spread-widening cycle, with the U.S. HY market, in particular, likely to take the lead in this respect. In all likelihood, dispersion in the U.S. credit market should increase further in the current phase. However, this also means that sectoral developments will gain greater significance. We continue to construct our positions with constant expectations regarding potential returns, which ultimately leads to a portfolio with very homogenous return expectations, while the investment ratio shows more volatility over the cycle.

NAV history XAIA Credit Debt Capital (I)[7,9]

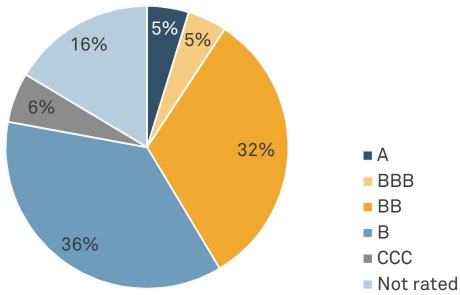
Performance (according to BVI method)[7]



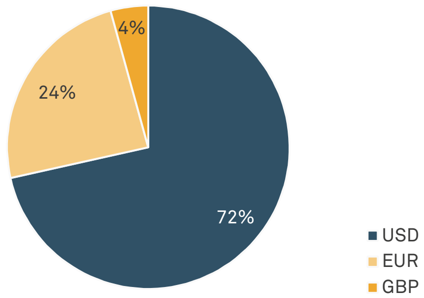
Moody's rating[7,8]



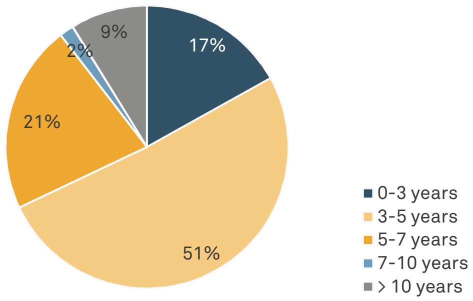
Standard & Poor's rating[7,8]



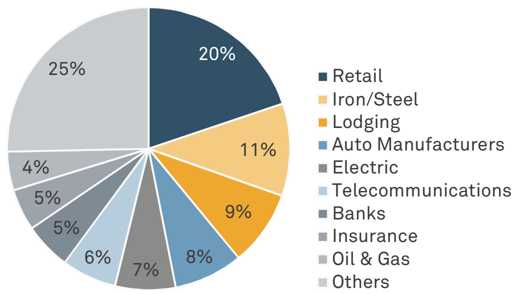
Currencies before hedging[7]



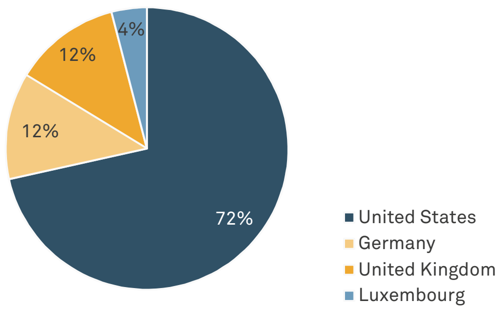
Maturity[7] (weighted average maturity 5.41 years)



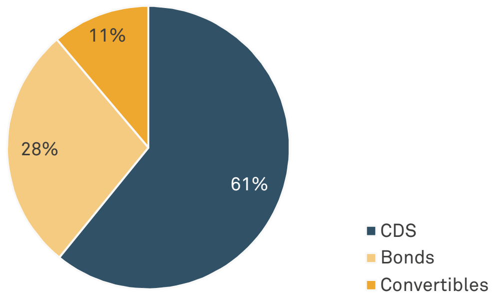
Sector allocation[7]



Country allocation[7]



Asset class distribution[7]



Date	Amount of Distribution
15 January 2013	EUR 50.00
14 January 2014	EUR 42.00
17 January 2017	EUR 53.00

[7]As of 31 May 2017, source: XAIA Investment. The pie charts relate to portfolio composition based on strategic investment positions.
[8]The charts are created by XAIA and are based on the data of the respective rating agencies.

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