Lazard | Frères Gestion

March 2022

Market update on Financial Debt

Ukraine and Russia: Full panorama of potential impact in the short-term and medium-term for the Sector, the Financial Debt segment and our Funds.

Completed on March 6, 2022.

Investment Objective

- **Lazard Credit Fi SRI** is a fixed income fund mainly invested in subordinated debt issued by European financial institutions with a focus on Tier 2 securities.
- **Investment objective:** to outperform compounded ICE BofAML Euro Financial Index, expressed in euros, net of charges, by applying a rigorous discipline of SRI analysis and security selection, over a recommended investment period of three years. This Fund is actively managed. The performance of the Fund is measured against the index, which the Portfolio Manager has estimated to be the most appropriate Benchmark to measure performance. The performance of the Fund aims to exceed the performance of the Benchmark. The Fund is not limited by the Benchmark Index as it has the ability to invest in securities and asset classes not included in the Benchmark Index.

- **Lazard Capital Fi SRI:** is a fixed income fund mainly invested in subordinated debt issued by European financial institutions with a focus on AT1 securities.
- **Investment objective:** to outperform the benchmark index - the Barclays Global Contingent Capital Total Return Index hedged in EUR - expressed in euros, hedged against foreign exchange risk with the euro as the base currency, by applying a rigorous discipline of SRI analysis and security selection, net of charges, assuming reinvestment of net dividends or coupons, over the recommended investment period of five years. This Fund is actively managed. The performance of the Fund is measured against the index, which the Portfolio Manager has estimated to be the most appropriate Benchmark to measure performance. The performance of the Fund aims to exceed the performance of the Benchmark. The Fund is not limited by the Benchmark Index as it has the ability to invest in securities and asset classes not included in the Benchmark Index.

Executive summary

In this note, we detail European banks' exposures towards Ukraine and Russia. We conclude that even for the most exposed entities, those exposures taken in isolation do not explain the recent price correction, even in a worst-case scenario. Disclosures having now been made, the main unknown remains about the indirect consequences, the second order impact of sanctions on the European economy and potentially European banks.

Nevertheless, the crisis has not put any systemic stress on the banking system, which seems very resilient.

Valuations in credit on most segments of the capital structure are now at levels which we have seen in a limited number of cases in the past. Excluding any tail risk, whether a continuous escalation of tensions on the one hand, or a recession in Europe on the other, and once uncertainty diminishes, current spread levels seem attractive for investors on a medium-term basis.

Content

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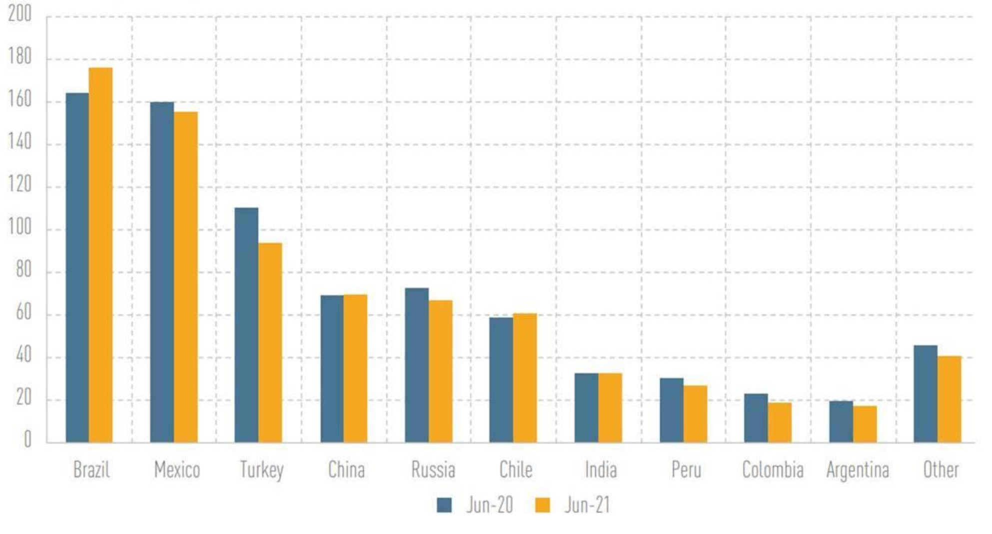
1. Direct Exposure to Ukraine and Russia

Direct exposure that European banks have with Ukraine and Russia should not be problematic as it is very limited overall.

- We have always said that Ukraine is not a significant subject for European financial institutions. Russia is more important, but even including exposure to Russia, it does not put so much pressure on European banks.
- Using EBA data on European banks' emerging countries exposure as of June 2021, we can see in the graph below that European banks' exposure to Russia represents a little bit more than €60bn and exposure to Ukraine is so limited that it does not appear on the graph.
- It is comparable to exposure that European banks have in China or Chile.

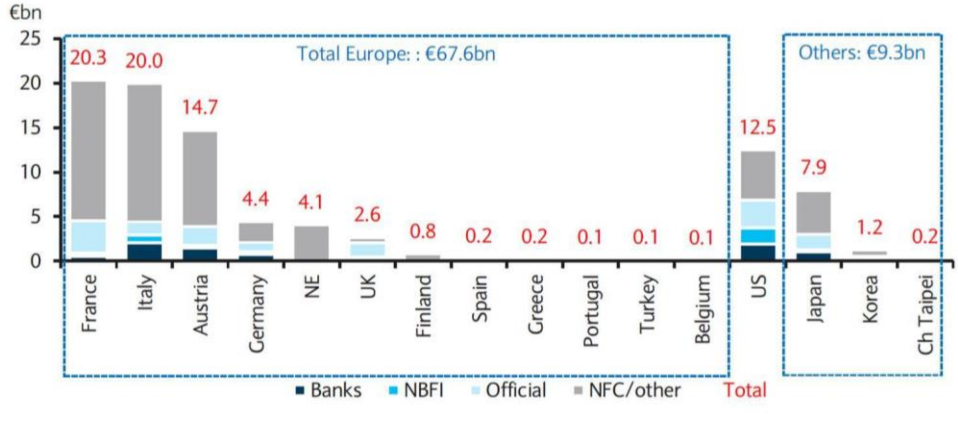
European banks emerging countries exposure



Details by country of that exposure to Russia

The second graph from the BIS with data as of September 2021 shows the distribution of that exposure towards Russia by country with 3 countries having the bulk of that exposure of €67.9bn:

1) **France** = €20.3 bn
2) **Italy** = 20.0 bn
3) **Austria** = €14.7 bn



Source: BIS, Barclays Research, USD value converted to Euro at the exchange rate on 30th Sep 21

Potential worst case capital impact on Main banks with exposure in those two countries

In the tables below we show the main banks with exposure towards Ukraine or Russia. All names are classified in each table according to the maximum potential negative impact they could have on the capital ratios of each entity on an ascending level.

Those figures are to be used with caution as :

- information given by banks is not always fully comparable (including on and off-balance sheet exposures, drawn and undrawn committed credit lines, some netting could have been applied in some cases…)
- they do not include any kind of collateral, guarantees, credit insurance received
- they are not fully comparable in terms of credit quality (loan to a Corporate, a Government, a Household…)
- they do not include any kind of currency or credit hedges put in place (as for instance Raiffeisen which has a €1.4bn currency hedge vs the ruble on which it has around €400m of capital gain, or a +0.44% potential impact on its CET1)

For both countries, we show:

- the CET1 ratio "fully-loaded" at YE21, eventually adjusted for Socgen and Raiffeisen for acquisition (Leasplean) or sale (Bulgarian subsidiary) and dividend not paid in 2022 for 2021 for Raiffeisen
- the impact in capital of writing down to zero the capital of their local subsidiary
- the impact in capital of writing down to zero all their offshore exposure
- the total impact in capital of both above

We wish to emphasize that those 2 scenarios are worst-case scenarios, in which no recovery at all is provided on offshore exposures and banks prefer to write down / sell for zero / to be nationalized their local subsidiaries.

Hence, losses should not exceed those amounts.

Ukraine: worst case capital impact

Starting with Ukraine, we can see that the total impact would be close to zero for all affected entities, with the main ones impacted being:

- OTP = -90 bps
- Raiffeisen = -20 bps

		Ukraine		
Entities	CET1 FL YE21	Capital impact in bps from writing down local subsidiary	Capital impact in bps from writing down offshore exposure	Total Impact in bps
BNP Paribas	12,90%	-0,01%	0,00%	**-0,01%**
Commerzbank	13,60%	0,00%	0,00%	**0,00%**
ING	15,90%	0,00%	-0,07%	**-0,07%**
Société Générale	13,20%	0,00%	0,00%	**0,00%**
Crédit Agricole	11,60%	-0,03%	0,00%	**-0,03%**
Intesa Sanpaolo	14,00%	0,00%	0,00%	**0,00%**
Raiffeisen	14,40%	-0,20%	0,00%	**-0,20%**
Unicredit	15,00%	0,00%	0,00%	**0,00%**
OTP	16,90%	-0,90%	0,00%	**-0,90%**

Source: Morgan Stanley, Bloomberg, Lazard estimates as of 6th March

Source: Lazard Frères Gestion, Morgan Stanley, March 6, 2022.
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Russia: worst case capital impact

Looking now at Russia, we can see that the total impact would be much more significant, even if manageable, with the main entities impacted being:

- **Unicredit** = -184 bps
- **Raiffeisen** = -140 bps
- **OTP** = -137 bps
- **Intesa Sanpaolo** = -117 bps

Entities	CET1 FL YE21	Russia: Capital impact in bps from writing down local subsidiary	Russia: Capital impact in bps from writing down offshore exposure	Russia: Total Impact in bps
BNP Paribas	12,90%	-0,01%	-0,13%	-0,14%
Commerzbank	13,60%	-0,18%	0,00%	-0,18%
ING	15,90%	-0,07%	-0,79%	-0,86%
Société Générale	13,20%	-0,39%	-0,57%	-0,96%
Crédit Agricole	11,60%	0,00%	-0,94%	-0,94%
Intesa Sanpaolo	14,00%	-0,06%	-1,11%	-1,17%
Raiffeisen	14,40%	-0,70%	-0,70%	-1,40%
Unicredit	15,00%	-0,38%	-1,46%	-1,84%
OTP	16,90%	-1,37%	0,00%	-1,37%

Source: Morgan Stanley, Bloomberg, Lazard estimates as of 6th March

Total worst case capital impact

If we sum up the total capital impact on both countries, we get to:

- **Three banks with a total capital impact between -150 bps and -230 bps**
  - **OTP** = -227 bps
  - **Unicredit** = -184 bps
  - **Raiffeisen** = -160 bps
- **Four banks with a total capital impact of around -100 bps**
  - **Intesa** = -117 bps
  - **Credit Agricole** = -97 bps
  - **Société Générale** = -96 bps
  - **ING** = -93 bps

Entities	CET1 FL YE21	Total - Ukraine + Russia: Total capital impact in bps	Total - Ukraine + Russia: CET FL YE21 After Full Losses	Total - Ukraine + Russia: Market move since 18th Feb as % of RWAs	Total - Ukraine + Russia: Market cap loss / Max extreme loss
BNP Paribas	12,90%	-0,15%	12,75%	-2,55%	16,97
Commerzbank	13,60%	-0,18%	13,42%	-2,33%	12,94
ING	15,90%	-0,93%	14,97%	-4,63%	4,97
Société Générale	13,20%	-0,96%	12,24%	-2,66%	2,78
Crédit Agricole	11,60%	-0,97%	10,63%	-2,55%	2,63
Intesa Sanpaolo	14,00%	-1,17%	12,83%	-4,91%	4,20
Raiffeisen	14,40%	-1,60%	12,80%	-4,84%	3,03
Unicredit	15,00%	-1,84%	13,16%	-4,03%	2,19
OTP	16,90%	-2,27%	14,63%	-10,38%	4,57

Source: Morgan Stanley, Bloomberg, Lazard estimates as of 6th March

- Our table above also provides the CET1 ratio fully loaded after the maximum total capital impact taken into account and the Equity market movement as measured in % of RWAs. The last column assesses the multiple of the Equity price movement relative to the potential total capital cost in the worst-case scenario.
- We can clearly see that the market has included in its valuation aspects other than that linked to the exposure to Ukraine (negligible) and Russia (limited).

Capital generation to absorb potentially extraordinary losses

- Lastly, we present below the organic capacity of those banks to generate capital using what is called the PPP (Pre-Provision Profit) which are the earnings before taxes and provisions (and prior to any decision to distribute to shareholders, which could be nil if PPP is under pressure or even negative).
- As can be seen, for every bank in our sample, even after taking a 100% loss on their local exposures, being onshore or offshore, there is some profit left to absorb the cost of risk in other regions / countries / segments.

		Organic Capital Generation	
Entities	CET1 FL YE21	Pretax Pre-Provision Profit (PPP) in 2021 in % of RWAs	Worst Case Loss + PPP
BNP Paribas	12,90%	2,00%	1,85%
Commerzbank	13,60%	0,37%	0,19%
ING	15,90%	2,33%	1,40%
Société Générale	13,20%	2,26%	1,30%
Crédit Agricole	11,60%	2,34%	1,37%
Intesa Sanpaolo	14,00%	3,02%	1,85%
Raiffeisen	14,40%	2,88%	1,28%
Unicredit	15,00%	2,53%	0,69%
OTP	16,90%	3,33%	1,06%

Source: Morgan Stanley, Bloomberg, Lazard estimates as of 6th March

Source: Morgan Stanley, Bloomberg, Lazard estimates March 6, 2022. For illustrative purpose only.
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2. Indirect Consequences

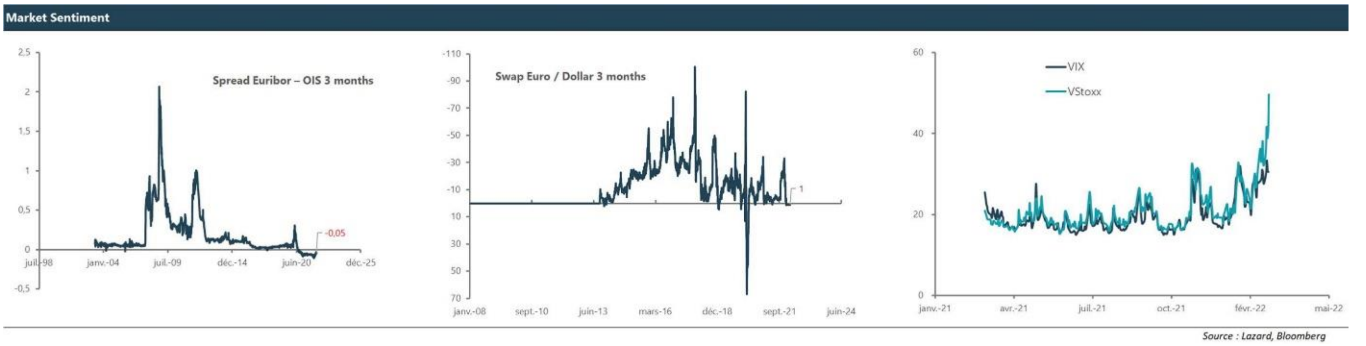
We think that the market has already embedded in its forecasts several indirect consequences and risks, which we can list:

- **A higher inflation rate due to recent commodities' prices spikes**
- **A lower growth rate due to:**
    - Lower purchasing power linked to inflation
    - Markets and clients' contract losses in Ukraine and Russia
    - Uncertainty potentially pushing back investments / purchases from companies and households
- **A potentially more prudent and dovish ECB, with rates that might not increase as much as had been anticipated before that geopolitical event**
- **For equities, a risk on dividends and future share buyback programs and a higher cost of equity due to some uncertainty both at the geopolitical level but also on the macroeconomic level, and due to the rates environment going forward**
- **We think that most of the repricing seen recently is linked to indirect consequences rather than the direct exposure of European banks to Russia and Ukraine.** Those indirect consequences come mainly from the decision by European governments to establish sanctions against Russia, pushing commodities' prices up, notably oil and gas.
- We will only focus on two main aspects which are on systemic risk and recent rates movements, which are important for the revenues and profits outlook of European banks.

Systemic Risk

- When some financial institutions are cut off from their access to interbank funding and the markets, as is the case for some Russian banks, worries can grow about potential contagion to other financial institutions notably in Europe.
- Below are three graphs showing some systemic risk indicators that we monitor on a daily basis.
- **The first two are flashing "green"** (Spread Euribor – OIS 3 months for liquidity tensions in Euros and Swaps Euro / Dollar 3 months for liquidity tensions in US Dollars): European banks do not have any problem of funding, being in Euros or in US Dollars. This is:
    - Reassuring
    - Obvious as after many years of QE, European banks now sit on a lot of cash with 15% on average of their balance sheet placed with Central banks.
- **The only indicator flashing "red"** is the one from the volatility of equities, notably European equities. As spreads are positively correlated with volatility, the higher the volatility / uncertainty, the higher the spreads, and the other way around. This last indicator is more "general" to markets and credit in general rather than specific to financial institutions.

Market indicators of stress and systemic risk

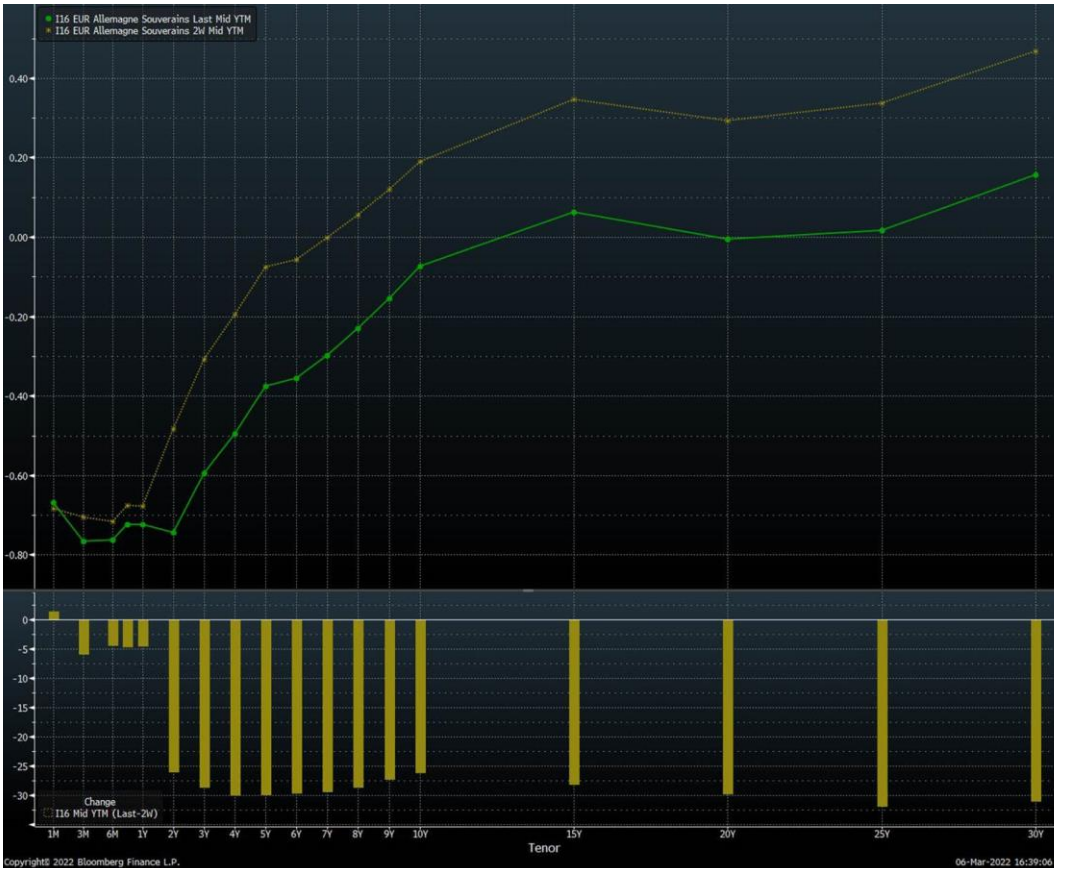


Source : Lazard, Bloomberg

Rates

- Up to before the crisis / war in Ukraine and the tensions between Russia and Western countries, the market was anticipating a rate increase by the ECB of between +25 bps to +50 bps by YE22. Due to the geopolitical situation, **we have seen some classical "flight to quality" with rates decreasing by -25 bps to -30 bps on the full German curve between February 18th and March 4th.**
- We do not yet know what the ECB will do and this week on Thursday March 10th; we still may not have any more clues about what it will do. The ECB should keep all the "optionality" open about QE and rates after the tensions and market movements observed.

German Yield Curve evolution between March 4th and 2 weeks before



Source: Bloomberg, Lazard Frères Gestion, as of March 6, 2022.
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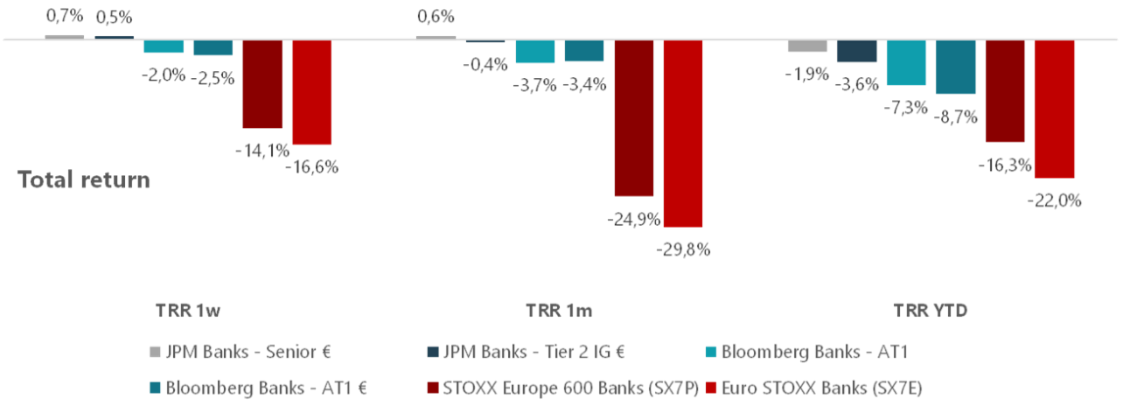
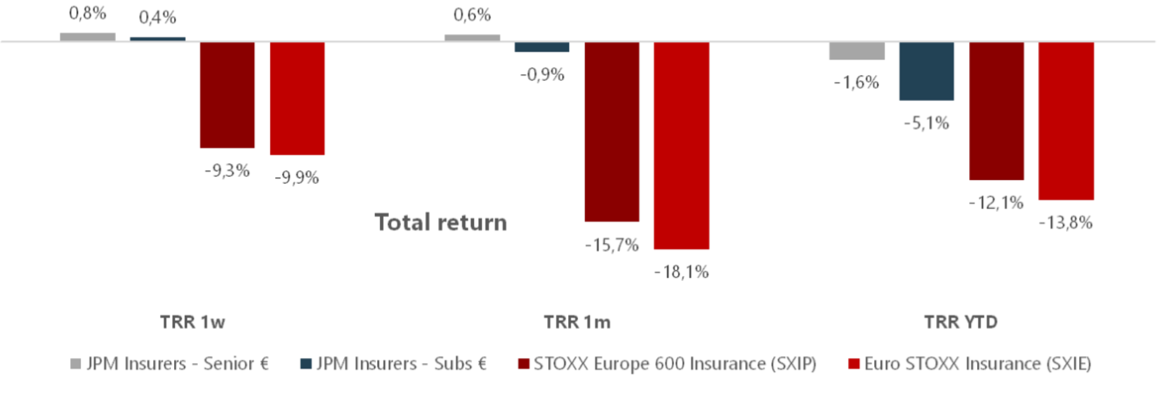
3. Valuation overview

- The recent repricing of the full capital structure for European banks and insurers has been brutal. With the below graph and on the next slide that we monitor on a daily basis, we can see recent TRR for both Banks and Insurers using figures as of March 6, 2022.

Market indices evolution for European Banks



Market indices evolution for European Insurers



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Markets movements per layer in the structure of capital

- On the sample of European banks exposed to Russia and Ukraine, the below table gives an idea of market movements observed for each layer of the capital structure between February 18 and March 6. One caveat, performance for AT1s and Tier 2 are price changes only (no accruals of coupons, but of limited importance over such a short period of time) and are an average of each security for each issuer equally weighted (hence do not take into account the size of each security, nor the currency or maturity bias, or structure of each security in each bucket).
- Except for Raiffeisen, for which both AT1s and Tier 2 have clearly underperformed, the rest of the sample universe has seen a rather muted market pricing evolution.
- **This is because subordinated debt instruments are less sensitive to:**
    - revenues and earnings evolution
    - distribution decisions

	Market Performance since 18th Feb		
Entities	Equity	AT1	Tier 2
BNP Paribas	-27%	-2,9%	-0,2%
Commerzbank	-38%	-4,9%	-1,2%
ING	-33%	-3,4%	-0,1%
Société Générale	-37%	-4,7%	-1,1%
Crédit Agricole	-26%	-3,4%	-0,7%
Intesa Sanpaolo	-31%	-4,3%	-0,5%
Raiffeisen	-56%	-20,3%	-9,1%
Unicredit	-42%	-4,8%	-0,9%
OTP	-40%	-	-0,6%

Source: Morgan Stanley, Bloomberg, Lazard estimates as of 6th March

Credit: what's in the price ?

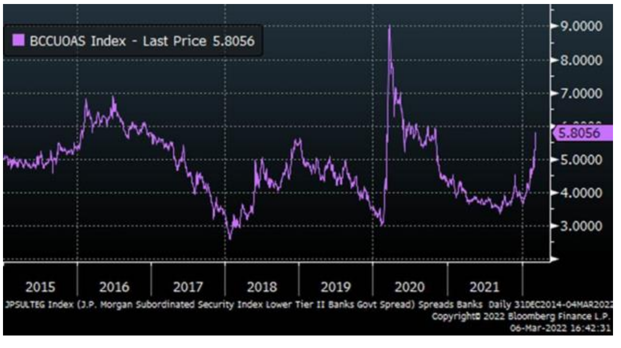
- The table below which shows the picture in terms of yields in Euros, spreads and spreads variation on a YTD basis and vs troughs in February 2020, we can see that:
    - Spreads have roughly increased by +50% on a YTD basis
    - Yields have quasi doubled for most segments since YE21 whereas Euro Rates are quasi flat YTD (between -6 bps for German 2 Y up to +17 bps for 10 Y).

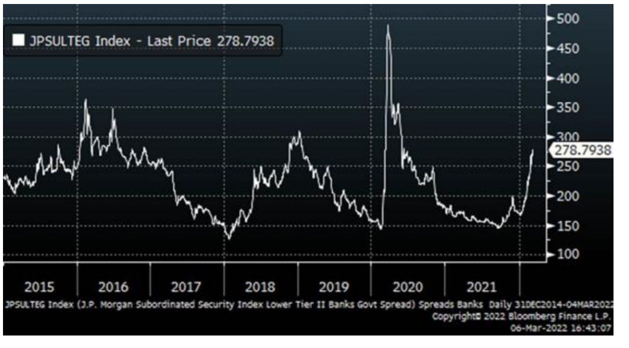
		Yield in €	Spread	Spd Var vs YE21	Spd vs trough in Feb 2020
Banks	Senior - €	0,94%	137	+54	+67
Banks	Tier 2 IG - €	2,31%	279	+108	+135
Banks	Tier 2 HY - €	4,18%	473	+156	+222
Banks	AT1 - All Ccy	5,22%	460	+152	+218
Banks	AT1 - €	6,03%	581	+208	+281
Incos	Senior - €	0,83%	131	+46	+67
Incos	Subs- €	2,60%	294	+109	+83

Source: Bloomberg, Lazard Frères Gestion, as of March 6, 2022.

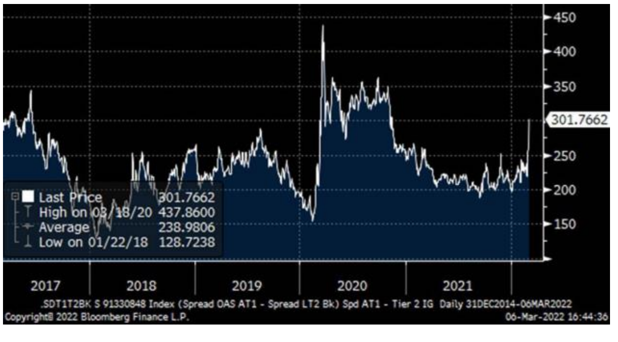
- Using a few graphs for different indices since YE14 (hence roughly seven years + of data), as of March 6, we can observe that:
  - **At current levels of valuation, we have been higher in a very limited number of cases and generally speaking, not for a long period of time**
  - Current valuations are attractive, unless a tail risk scenario occurs
  - We are already back to YE18 levels, higher (AT1s in Euros) or close to (Tier 2 IG)
  - **The spread differential between AT1s and Tier 2 is at a very attractive level at > 300 bps from an historical perspective**
  - Same conclusion for Tier 2 vs Senior debt at > 140 bps
- The only segment which is still expensive on a relative basis and historically is the subordinated debt segment from insurance companies. At 294 bps, we are still around 100 bps below the level reached by YE18 and 150 bps below the maximum level reached in 2016.
- We can only observe that at current pricing, most of the bad news (except for a potential tail risk) is already included in valuation.

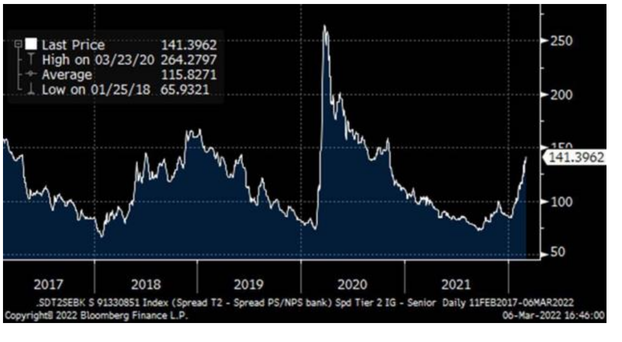
Spreads evolution for Euros AT1s (left) and Euros Tier 2 IG (right)



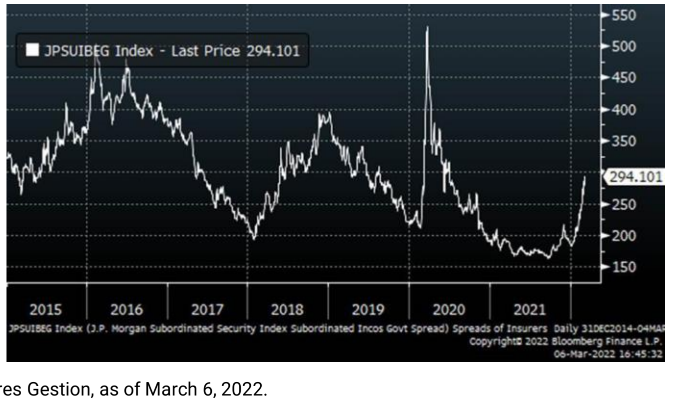


Spreads differential evolution for Euros AT1s minus Euros Tier 2 IG (left) and Euros Tier 2 IG minus Euros Senior debt (right)





Spreads evolution for Euros Insurance companies subordinated debt



Source: Bloomberg, Lazard Frères Gestion, as of March 6, 2022.
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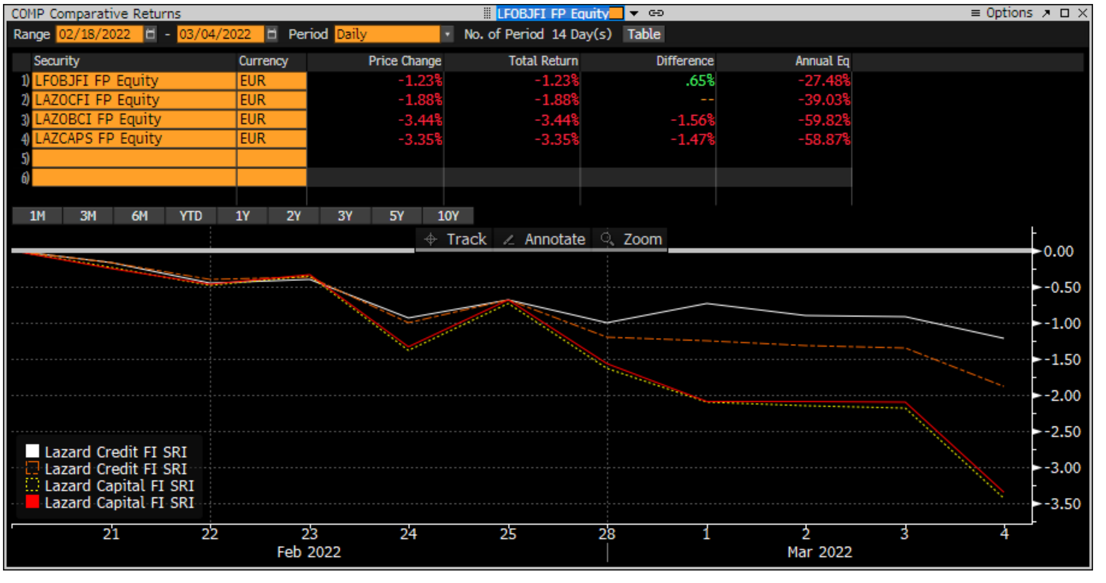
4. Funds overview

- **Lazard Credit Fi SRI :**
    - Share classes in Euros of Lazard Credit Fi SRI ended that period between -1.23% up to -1.88% (PC and PVC share classes).

- **Lazard Capital Fi SRI:**
    - Share classes in Euros of Lazard Capital Fi SRI ended the period between -3.44% to -3.35% (PVC and SC share classes).

- As can be observed in the below graph, we have also suffered significantly during the period from February 18th up to March 4th.



- The recent repricing has pushed the yields of our Funds higher with a range of between 4.2% and 6.1% for Lazard Credit Fi SRI and Lazard Capital Fi SRI respectively as of March 4th (yields to call).
- In US Dollars, we are at 5.6% and 7.5% respectively, with portfolios still having a limited duration of 2.5/2.6.

Funds Datas	Lazard Credit Fi SRI	Lazard Capital Fi SRI
AUM (€ M)	1 711 672 371	1 125 657 192
Duration	2,5	2,6
Yield To Call		
EUR	4,2%	6,1%
USD	5,6%	7,5%
CHF	4,0%	5,9%
GBP	5,7%	7,6%
YTM		
EUR	4,2%	5,8%
USD	5,6%	7,2%
CHF	4,0%	5,6%
GBP	5,7%	7,3%

Source: Lazard Frères Gestion, Bloomberg, March 4, 2022.
The yield is the counterparty of a capital risk. Past yields do not guarantee the capital or future performance. Past performance is not indicative of future performance. The above performance data is for information purposes only and should be assessed over the recommended investment period.
Estimates on yields in different currencies, spreads or sensitivities are based on the best judgment from Lazard Freres Gestion for all the securities included into the portfolio at the mentioned date. LFG does not provide any guarantee on its accuracy or on the methodology used.
For more information about the fund's other characteristics and risks, please refer to the prospectus available from the company on request or on www.lazardfreresgestion.fr
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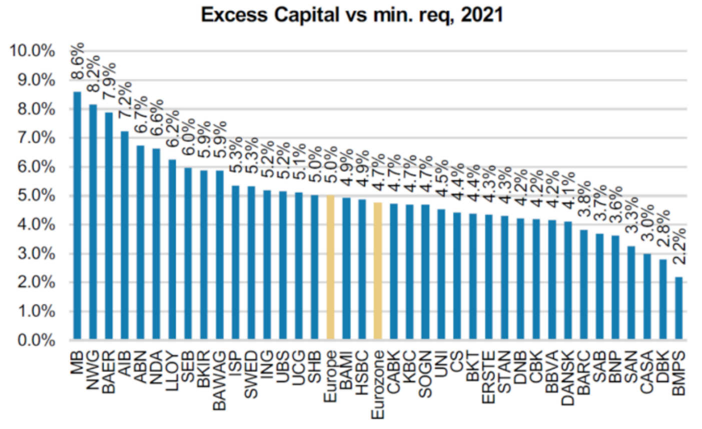
5. Outlook

Short-term Outlook

- European financial institutions were in a position of strength before the start of the current crisis. And we do not think that will change.
- We have seen that exposures to Russia and Ukraine are manageable, even in a worst-case scenario. And if that worst case scenario does not occur, then we have a lot of upside.

Capital

- With around 500 bps of excess core capital, European banks still have a huge cushion to absorb any negative unforeseen event.



Liquidity

- Liquidity is not lacking. European banks sit on 15% of cash on their balance sheet on average. They can withstand a closure of markets for months, quarters, even a year.

Asset Quality

- The most recent trend until the current conflict was very positive with the ratio of NPLs at the lowest point since 2007. Coverage ratios were also at their high points. This means that any extra addition in non-performing loans would be from a very low starting point, with good coverage, hence as long as this is very concentrated in a couple of countries like Ukraine and Russia, we do not foresee a jump in NPLs in Europe.

Cost of risk

- The cost of risk outside of Russia and Ukraine should stay benign in 2022, unless due to the energy crisis in Europe we enter into a recession or stagflation. But even in both of those cases, we do not anticipate a big jump of defaults and provisions. Some cushioning should be expected from European governments to attenuate any potential adverse impact linked to this as we have seen in the recent past.

Profitability

- Profitability was at a record high in 2021 and was expected to stabilize or improve further in 2022 and 2023 thanks for better revenues (more production of new loans, more activity in a European economy recovering from the Covid crisis and higher Rates).
- **Fundamentals are ok and should remain ok.**

Valuation

- The valuations we have seen are attractive at current levels, unless under a tail risk.

Technical factors

- Technical factors are the ones which are less supportive at the moment and explain most of the recent price movements observed. Some de risking from investors has been observed over the last several days / weeks and some outflows have put some pressure on Credit Funds, less able to buy or even obliged to sell.

Source: Lazard Frères Gestion, Company Data, Morgan Stanley Research.
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Market liquidity

- Despite a very "risk off" environment, liquidity in the market for Financial Subordinated debt has been generally good. We have been able to test it on a daily basis and were able to sell some securities even during the worst days over the past two weeks.
- Liquidity to buy or sell is very "technical", meaning that some pockets of liquidity exist for some bonds and not for others, but in general, we never have found a market as harsh as in March 2020, not to mention events or years much further in the past (2011 or 2008-2009).
- One reason for that good level of liquidity is the positioning from banks' traders: before the Ukrainian crisis they were short or flat of risk in general in their trading books whereas they began March 2020 long. That technical factor explains much of the difference in market liquidity / behavior between those periods.

Conclusion

Nevertheless, now the positioning seems much better with a lot of cash available to be deployed by investors when either:

- We see some kind of "de-escalation" in tensions between Russia and the West

or

- Central banks and / or European governments put in place some measures to attenuate the negative impact of the crisis
- We are starting to see both factors. It may be a little bit early, and we should remain prudent as long as nothing more material has occurred, but today's proposal from Russia to stop the war if Ukraine agrees to a list of demands is the first positive sign.
- We have also heard that Europe is looking at relaxing state aid rules to soften the pain suffered by companies exposed to both countries and we are waiting for that European support plan.
- Uncertainty is still very high but seems to be mostly reflected in current valuation. Hence, any additional downside we could observe in the coming future would mostly come from additional de-risking decisions made by investors. Flows will perhaps remain heavy in the very short term until we reach the point where some improvements in geopolitical tensions and / or some support is provided to the economy by the ECB and European governments to reduce the negative impact of sanctions against Russia.

The main tail risks are:

- Continuous escalation between Russia and Western countries, with commodities' prices rising even more
- A recession

The potential counterbalances to those risks are:

- Continuous fiscal support, already assured in 2022 and 2023 thanks to NGEU plan in Europe. We should have more in case the conflict lasts longer
- A revised path on monetary policy is always possible if growth comes under pressure.

Medium-term Outlook

- We do not think that Russia/Ukraine crisis is derailing the positive story about European financial institutions. If they have the ability to withstand this new shock, and we think they will, this will once again show the resilience of European banks to an adverse event.
- We have thought and continue to think that European financial institutions are in very good shape overall, that fundamentals, are good and remain so.

Investors who have the ability to look beyond the current crisis will find very attractive levels in terms of valuation, which should provide good total returns in the medium-term.

Main risks

Lazard Credit Fi SRI

1 2 3 4 5 6 7

Lazard Capital Fi SRI

1 2 3 4 5 6 7

Lower risk, returns are likely to be lower **Higher risk, returns are likely to be higher**

*Exposure in the interest rate and exchange explains the UCITS ranking in this category. The used historical data could not give a reliable indication of the future UCITS risk profile. Nothing guarantees that the above category remains unchanged, and the ranking may evolve in the time. The lowest category is not synonymic of risk-free investment. Capital is not guaranteed.

Risk of capital loss: The Fund is not guaranteed or protected and therefore there is a possibility that you may not get back the full amount of your initial investment. Investors should therefore be aware that they are not guaranteed to get back the money originally invested.

Interest rate risk: Risk of a fall in the value of the assets, and hence in the portfolio, resulting from a change in interest rates. Because of its sensitivity range, the value of this component of the portfolio may decrease, either in the case of a rise in interest rates if the portfolio's sensitivity is positive, or in the case of a fall in interest rates if the portfolio's sensitivity is negative.

Credit risk: Credit risk is the risk that the borrower does not repay his debt or cannot pay the coupons during the lifetime of the security. Risk of a fall in the value of the assets, and hence in the portfolio, due to a change in the credit quality of the issuers or to a change in credit spreads. Because of its credit sensitivity range, the value of this component of the portfolio may decrease, either in the case of a rise in spreads, if the portfolio's credit sensitivity is positive, or in the case of a fall in spreads if the portfolio's credit sensitivity is negative.

Risks linked to contingent or subordinated securities: The Fund may be exposed to contingent or subordinated securities. Subordinated debt and contingent convertible bonds are subject to specific risks of non-payment of coupons and capital loss in certain circumstances. At a certain solvency threshold, referred to as the "trigger" threshold, the issuer may or must suspend the payment of coupons and/or reduce the nominal value of the security or convert such bonds into shares. Notwithstanding the thresholds specified in the issuing prospectuses, the supervisory authorities may apply these rules preventively if the circumstances require, based on a subjective threshold known as the "point of non-viability". These securities expose holders to either a total or partial loss of their investment following their conversion into shares at a predetermined price or because of the application of a discount provided for contractually in the issuing prospectus or applied arbitrarily by a supervisory authority. Holders of these securities are also exposed to potentially large price fluctuations in the event that the issuer has insufficient equity or experiences difficulties.

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Liquidity risk: This is the risk that a financial market can absorb the volumes of sell (or buy) transactions only by significantly decreasing (or increasing) the price of assets when trade volumes are low or when there are market tensions, resulting in a possible decrease in the Fund's net asset value.

Equity risk: Investors are exposed to equity risk. Fluctuations in share prices may have a negative impact on the Fund's net asset value. The Fund's NAV may decrease during periods in which equity markets are falling.

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Risk associated with investment in the futures markets: The use of derivatives may cause exposure to an upward or downward change of the Fund's net asset value.

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