XAIA INVESTMENT

FACTSHEET

31 MAY 2017

XAIA Credit Basis II

Share class for institutional investors (I)

Investment objective

The XAIA Credit Basis II takes advantage of distortions in the bond and credit markets and aims to achieve an excess return of 3.5% over 3 Month Euribor at a moderate risk profile.

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

The fund is based on a market-neutral investment strategy. Its broadly diversified, international investment universe comprises government bonds, corporate bonds, convertible bonds, tradable loans, asset backed securities and structured bonds. Potential issuer defaults are hedged through credit default swaps (CDS), while other capital market risks, such as equity, interest and currency risks are hedged through the use of corresponding derivatives.

The fund's primary source of income are price differences between the different investment instruments and the derivatives used for hedging generated by distortions on the bond and credit markets.

The Management aims to structure the fund's positions in such a way as to ensure ongoing hedging against potential defaults of reference entities irrespective of price performance.

Due to this largely risk-neutral portfolio, the fund has an extremely low correlation to other asset classes.

Issuance of shares temporarily suspended to protect investors

Effective as of 4 April 2011 we have temporarily suspended the issuance of new fund shares.

Overview

Fund name	XAIA Credit Basis II (I)
Fund type	Credit Fund international
Management company	Universal Investment Luxembourg S.A.
Investment manager	XAIA Investment GmbH
Launch date	11 January 2010
Front load	Not applicable
Redemption fee	From 31.03.2013: 0.00%
Minimum initial investment	EUR 1,000,000
Minimum subsequent investment	None
Management fee	0.8% p.a.
Performance fee for investment company	15% over a hurdle rate of 3 Month Euribor + 2% p.a.
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]	0.88%
Use of income	Distribution
Risk category[3]	1 2 3 4 5 6 7 Limited risk tolerance
German securities identification number (WKN)	A0YDMY
ISIN	LU0462885301

Current fund data (as of: 31 May 2017)

NAV	EUR 983.18
Investment ratio	75.44%
Performance May 2017[4]	0.01%
Performance since 01.01.2017[4]	0.37%
Performance in the last 12 month[4]	1.56%
Performance in the last 24 month[4] (p.a.)	-0.25%
Performance since launch[5]	22.55%
Performance 2016[4]	1.06%
Fund volume	EUR 775.05 mn
Solvency ratio (CRSA)	40.08%
Annualised volatility	0.86%
Maturity before hedging	See page 3
Modified duration after hedging	0.20
Foreign currency portion	See page 3
Foreign currency ratio after hedging	0.74%
VaR[6]	-1.12%

[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 2, because its price fluctuates little and thus the chance of gains, but also the risk of losses can be 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 uni-verse.

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. These developments have also led to a situation in which opportunities in the market for negative bases are more frequently found in the U.S. at present, while the distressed segment is the only one to offer selective opportunities in Europe.

Fund Performance

In May, we were able to completely whittle down one basis package each from the European sovereign segment and the U.S. energy sector, as both exposures had already reached the anticipated return. In addition, we completely disposed of a small position that was on the verge of its final maturity, selling it at par, because a credit event would have occurred upon the last coupon payment in June at the latest (which would have resulted in us getting par then, too). Among European corporates, we succeeded in reducing two positions trading close to their call prices at attractive levels. Furthermore, we adjusted the hedges of various positions by toping up the corresponding bonds or rolling the CDS into longer maturities. At the end of May, the investment ratio stood at 75%, with the month-on-month reduction inter alia being attributable to the call of a bond from the European telecommunications sector that had been announced in March.

Narrow spreads are still dominating the market environment, which is reflected in both the investment ratio and the current monthly performance of 1 bp. The negative trend in active management can be explained by fact that some names in the European HY market are being traded as refinancing candidates, which has had a greater-than-proportionate impact on their CDS spreads (compared to their bond spreads).

Performance attribution for May

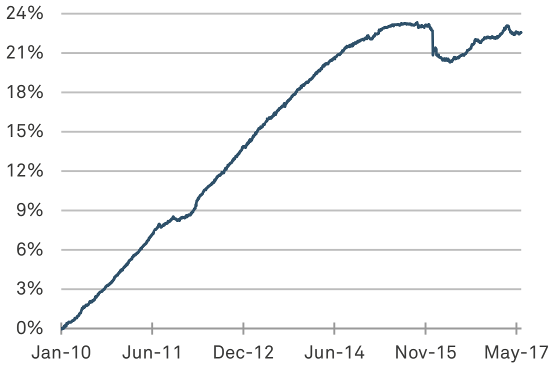
Overall performance	1 bp
Money market	-3 bp
Current Basis	16 bp
Basis narrowing/active management	-12 bp

Outlook

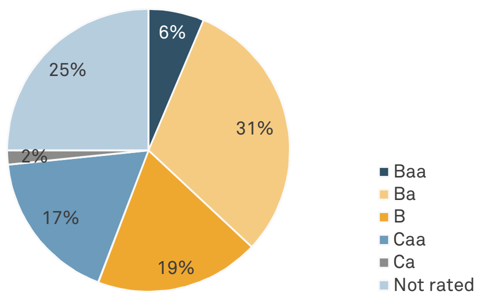
Given the upcoming elections in France and Italy and the possibility of relevant tweets from the US at any time, political developments will remain the dominant factor. Along the way, however, "problem cases" have begun to accumulate in the market: apart from the usual suspects from the European banking 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. This is one of the reasons why we will stick to a lower investment ratio and our basis-picking strategy.

NAV history XAIA Credit Basis II (I) in EUR[7]

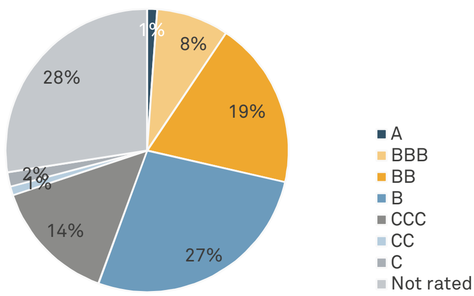
Performance (according to BVI method)[7]



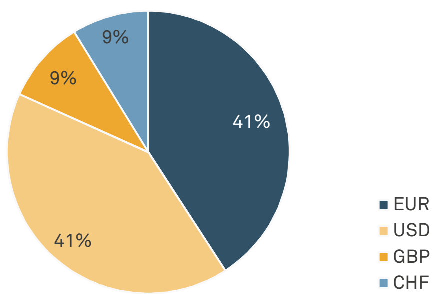
Moody's rating[7,8]



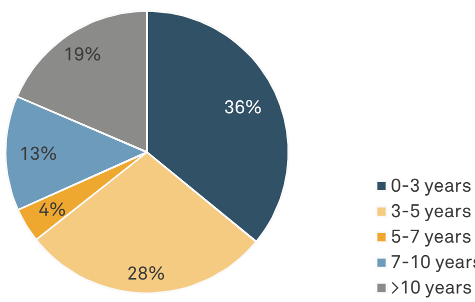
Standard & Poor's rating[7,8]



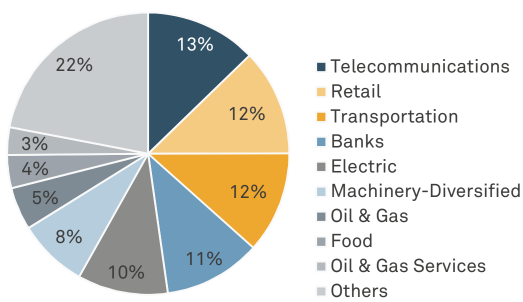
Currencies before hedging[7]



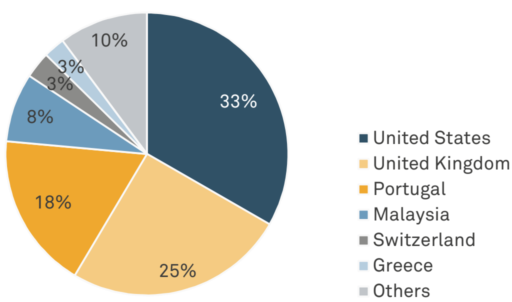
Maturity[7] (weighted average maturity 6.35 years)



Sector allocation[7]



Country allocation[7]



Distribution of asset classes by high grade/high yield (Moody's)[7,8]

	High Grade	High Yield	Not Rated	Total
Bonds	6.37%	77.60%	16.03%	100.00%

Distribution of asset classes by high grade/high yield (Standard & Poor's)[7,8]

	High Grade	High Yield	Not Rated	Total
Bonds	9.42%	63.10%	27.47%	100.00%

Date	Amount of Distribution
18 January 2011	EUR 42.50
17 January 2012	EUR 40.00
15 January 2013	EUR 40.00
14 January 2014	EUR 42.00
13 January 2015	EUR 31.00
15 January 2016	EUR 10.00
17 January 2017	EUR 20.00

[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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