

**CLIENT INFORMATION | 21 MARCH 2023 |**

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## **Ellipsis AM confirms that there are no "CoCos\*" in its convertible & credit high yield portfolios**

The **takeover of Credit Suisse by UBS**, which was decided Sunday for CHF 3 billion, includes a series of additional measures, including a full write-down of the face value of the acquired bank's Additional Tier 1 loans of nearly CHF 16 billion.

The Swiss Financial Market Supervisory Authority (FINMA) justifies this write-off of subordinated debt by exceptional state support.

As a reminder, **Additional Tier 1 (AT1) subordinated debt or Contingent Convertible bonds (CoCos)** are a type of conditional mandatory convertible bond, which is converted into shares of a company when the company's equity ratio falls below a certain level. The bondholder then receives shares in the company, usually after the company's share price has fallen sharply.

**It is very important to note that CoCos are by nature totally different from traditional convertible bonds.** Indeed :

- It is the convertible bondholder who chooses (or not) to exercise his or her right to convert into shares - usually when the share has appreciated - unlike the mandatory conversion of CoCos, which is at the control of the issuer and/or the regulator - and usually occurs after a share has depreciated.
- Unlike traditional convertible bonds, whose behaviour is in principle "convex" thanks to the coexistence of a bond floor and a call option on the underlying share, CoCos have limited upside potential (value of bond flows) but unlimited downside risk. Their behaviour is therefore potentially "concave".

**For these reasons, we do not have and do not wish to hold this type of security in our convertible bond & credit high yield portfolios (open-end funds, dedicated funds and mandates).**

***With nearly 20 years of portfolio management expertise and 1.1bn of AUM in this asset class as at 31/12/2022, Ellipsis AM is one of the top 5 benchmark managers of European convertible bonds<sup>(1)</sup>.***

*\*Cocos: Convertible Contingent Bond*

To find out more about the range of open-ended funds managed by Ellipsis AM:

<https://www.ellipsis-am.com/fra/en/pro/funds/range>

**Ellipsis European Convertible Fund - Ellipsis Disruption Convertible Fund - Ellipsis Global Convertible Fund  
Ellipsis High Yield Fund - Ellipsis Credit Road 2028**

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## DISCLAIMERS

Source: Ellipsis AM, 20/03/2023. **Past performance is not a reliable indicator of future performance.**

- (1) Ranking as at 31/04/2022 based on the funds in our Peer Group. Peer Group composed of Euro funds invested in the Eurozone and/or Europe, belonging to the Refinitiv Lipper "Bond Convertibles Europe" category and meeting the criteria as described in our methodology, available on our website: [https://www.ellipsis-am.com/publication/ComplianceDoc/En\\_Peer-group-methodology.pdf](https://www.ellipsis-am.com/publication/ComplianceDoc/En_Peer-group-methodology.pdf).

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