NS PARTNERS
SINCE 1964

# OVERVIEW OF THE MAIN FEATURES AND RISKS ASSOCIATED TO FINANCIAL INSTRUMENTS

**The aim of the information in this document is to provide an overview of the main features of and risks associated with the financial instruments in which NS Partners Europe S.A. (hereinafter referred to as "the Company") and the fund managers chosen by NS Partners Europe S.A. might invest. Please do not hesitate to contact us for further information if you have any specific questions or are interested in specific financial instruments.**

**This document does not, however, deal with the fiscal and legal consequences of transactions involving financial instruments. We would therefore advise that you seek personal advice from an expert in these areas prior to making any investment.**

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# I BASIC RISKS

**These risks apply to any type of investment, including those with a very low risk profile. However, depending on the financial instrument concerned, one or more of the risks described below may apply cumulatively, resulting in an overall increase in the level of risk faced by the investor.**

## 1. Economic risk

Changes in the activity of a market economy can impact on interest rates, exchange rates and various real and monetary macroeconomic variables, thereby causing the price of financial instruments to fluctuate. Roughly speaking, the prices fluctuate in line with the extent

and duration of structural trends and economic cycles (recession, stagnation, expansion). Economic cycles, as well as market sentiments, can have a variety of effects on the different sectors of the economy. Furthermore, countries may not face the same structural situations and find themselves at different stages in the economic cycle.

Failure to consider how the economy will develop or inaccurate analysis of what will happen in the economy could lead to financial losses.

Past performance of a financial instrument is no guarantee of that instrument's future performance. Falls in value, resulting in losses for the investor, are always a possibility.

Consequently, investors must constantly ensure that their investments are appropriate with their financial situation.

A basic distinction should be drawn between general economic risk and the specific risk associated with the company itself (please refer to "2. Price risk" below), which will both influence how the share price evolves over time.

## 2. Price risk

Price risk is the risk of a decline in the value of a security or a portfolio. Price risk depends on numerous factors, such as management of the entity, market capitalization, financial standing, including cash flow, geographical location of operations, supply and demand for the investment product, or market sentiment.

## 3. Risk of inflation

An investor is exposed to the risk of losing money on their investment due to level of inflation. A loss of value caused by such changing levels can impact on the real value of the existing assets as well as on the real return that ought to be earned on these assets. Therefore, real returns must be considered, in other words the spread between monetary performance and the rate of inflation.

Where the rate of inflation exceeds the return generated by the financial instruments (capital gains and interest), the result is a loss in real value of the capital that was effectively invested.

## 4. Sovereign risk and transfer risk

It is possible that a foreign debtor, despite being solvent, might not be in a position to pay all or part of their interest payments or debts on time due to being unable to make transfers from their country of origin as a result of, for example, economic, political or social instability in the country in question.

This means that payments due to the investor may not be made because of a currency shortage or limits being placed on foreign transfers. With regard to financial instruments issued in a foreign currency, there is the possibility that the investor could receive payments in

a currency that can no longer be converted due to the exchange control procedures.

Moreover, even in the absence of any crisis, state interventionism in some sectors of the economy (e.g. nationalization) could have an influence on the value of the investor's assets. In some extreme cases, the investor's assets could even be confiscated or frozen by the local authorities or the investor's rights restricted.

There is no way of protecting against such risks. However, the ratings given to countries and news published in the press can be a source of useful investment information in this regard.

More generally, the instability of the political and/or economic and/or social situation in some countries may cause prices to fluctuate sharply within a short period.

### 5. Exchange rate risk

Holding financial instruments in a foreign currency involves an element of exchange rate risk. Depending on the currency of investment, the same security could generate a profit or record a loss.

In addition, with corporate activities being linked to a greater or lesser extent to exchange rates, changes in these rates are likely to impact on the value of the financial instruments issued.

The elements that influence a country's exchange rates are the country's rate of inflation, interest rates' spread and rates of productivity compared with abroad, the general assessment of how the economic cycle is

developing, the global political situation and the security of investments. Additionally, events of a psychological nature, such as a crisis of confidence in political leaders, can be sufficient to weaken a country's currency.

### 6. Liquidity risk

Liquidity, from an investor's perspective, is the possibility of being able to sell the financial instruments that they hold at any time.

This means that in the event of insufficient market liquidity, the investor runs the risk of no longer being able to sell their financial instruments at market price. A basic distinction should be made between a lack of liquidity resulting from the relationship between supply and demand and a lack of liquidity linked to features specific to the financial instrument or to market practices.

A lack of liquidity resulting from an imbalance between supply and demand exists when there is only or almost only supply (selling price) or only or almost only demand (buying price) for a financial instrument. In these circumstances, a sale or purchase agreement cannot be executed immediately and/or can only be partially executed (partial execution) and/or can only be executed on the basis of unfavorable conditions. Furthermore, it is likely that higher transaction costs will be applied.

A lack of liquidity due to features specific to the financial instrument or to the market practices arises, for example, in the event of a long registration procedure for transactions in registered shares, long execution times due to market practices or other types of restrictions such as, for example, financial instruments that require

a long notice period before a disposal can proceed (e.g. hedge funds).

### 7. Psychological risks

Irrational factors can influence the general development of prices as in the case of opinions or rumors that can cause prices to drop considerably even if the financial situation and the outlook for the companies concerned have not developed in a negative way.

### 8. Credit risk

Credit risk, with regards to bonds, will depend on the credit worthiness of the debtors of instruments, which is the expectation whether or not the debtor will be able to keep up the interest payments and repay the principal amount at the end of the term of the financial instrument.

Purchases of financial instruments that are financed through credit involve several additional risks. Firstly, additional guarantees may be demanded – sometimes on a short-term basis – in the event that the credit limit is

exceeded due to the way in which the price of the pledged assets evolves. If the investor is not in a position to provide such guarantees, the Company may be forced to sell the client's financial instruments at an unfavorable price.

Secondly, the loss suffered due to an unfavorable price development could be greater than the initial investment. Fluctuations in the price of the pledged financial instruments may, as a result, have a negative influence on the capacity to repay the loans.

It must not be forgotten that the leverage effect caused by purchasing financial instruments using credit creates a high sensitivity to price fluctuations and, whilst creating opportunities for higher gains, also creates scope for greater losses.

### 9. Interest rate risk

Generally, changes in interest rates, whether they are short-term or long-term in nature, can have a major impact on the value of financial instruments.

### 10. Risk related to issuer solvency and solvency of the clearing facility

The insolvency of the issuer of financial instruments or of the clearing facility through which these instruments are traded may result in the partial or total loss of the funds invested by the investor.

### 11. Additional risks on the emerging markets

Emerging markets are the markets of countries with an average or low level of per-capita income based on the definition of the World Bank. More specifically, they are markets in countries with a certain degree of political instability, where the markets and economic growth are relatively uncertain, where the financial market is still developing. This definition encompasses a large number of markets in Latin America, Africa and Eastern Europe, as well as some Asian countries.

Generally, the risks described above are intensified on these markets.

Political or economic flux (e.g. inflation, exchange rates) will therefore have a greater influence on the value of investments on emerging markets than in developed countries. Similarly, the reaction to a natural disaster or act of war is often more pronounced with longer-term consequences in the emerging markets.

Additionally, emerging markets often have less developed rules in place with regard to the settlement or clearing of transactions, which means that accounting errors or failure to deliver instruments in practice can occur more frequently.

Finally, the prudential controls on these markets and the rules governing investor protection are frequently weak.

## 12. Sustainability risk

Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the financial instrument. Sustainability risk can either be a risk on its own or have an impact on other portfolio risks and contribute significantly to other risks, such as but not limited to market risk, liquidity risk or credit risk. These risks, if they materialise, can have a significant impact, up to and including a total loss, on the value and/or return of the financial instrument.

## 13. Other basic risks

### 13.1. Risks linked to information

This risk relates to the risk of making inappropriate investment decisions due to a lack of information or based on incomplete or inaccurate information. This may be due to unreliable databases, a poor understanding of the information that is available or communication errors.

### 13.2. Transmission risks

When placing an order, the investor must provide the Company with specific information for the transaction to be executed (instrument, type of order, volume, execution date etc.). The more precise the information contained in the order, the less likely it is that a transmission error will be made.

### 13.3. Risks linked to transaction costs

The Company, but also other national or foreign intermediaries, may be involved in the execution of an order (e.g. brokers), in which cases expenses and commissions levied by these intermediaries will be charged to the investor.

An investment only becomes profitable once all of these costs have been covered.

### 13.4. Political Risk

Political risk is the risk of government measures having negative consequences for the investor

### 13.5. Reinvestment Risk

Reinvestment risk is the risk that the money paid back to the investor once the investment product matures is not enough to reinvest in an equivalent product

### 13.6. Unforeseen events

Unforeseen events such as far-reaching regulatory changes or terrorist attacks, can have a major impact on the performance of the investments.

# II SPECIFIC RISKS RELATING TO INVESTMENTS

## 1. Time deposits

**A time deposit is a money deposit that earns interest on a fixed date and on the basis of a predetermined rate.**

### A. Features

› **Return**
Interests payements

› **Duration**
Short-term (< 4 years), medium-term (4-8 years) or long-term (> 8 years)

› **Interest**
Interest paid depends on the terms and conditions of the deposit in question, e.g. fixed interest for the entire term or variable interest, often based on the financial market rates (e.g. LIBOR or EURIBOR).

### B. Advantages

Depending on market conditions, these products can generate more stable returns than other fixed-income products.

### C. Risks

The main risks facing these products are inflation, exchange rate, interest rate and counterparty risk as described under I. above.

## 2. Bonds

**Bonds are negotiable registered or bearer instruments issued by a commercial company or public authority to investors who lend the issuer capital. The nominal value of each bond, at the time of the issue, corresponds to a fraction of the total amount of the loan. Bonds are issued as fixed-interest or variable- interest products. The term and the form of reimbursement are predetermined. Some structured products take the legal form of a bond and will therefore be presented in the chapter devoted to structured products.**

The investor who buys a bond (the creditor) is the holder of a lien with regard to the issuer (the debtor).

The creditworthiness of the company will depend upon the rating it was given by the well-known rating agencies (Standard & Poor's, Moody's Investor Services and Fitch Ratings)

### A. Features

› **Yield**

Interest payments, possible increases in value (difference between the purchase price/issue price and the selling/settlement price)

› **Duration**
Short-term (< 4 years), medium-term (4-8 years) or long-term (> 8 years)

› **Currency**
National currency of the investor or a foreign currency. Provision may be made for the principal to be reimbursed and the interest to be paid in different

currencies, in which case the bond may include an option to limit exchange rate risk

› **Form**
Individual security with a predetermined nominal value, which may be delivered to the investors or represented jointly in the form of a global certificate deposited with a custodian bank.

› **Issue value**
At par (100% of nominal value), below par (issue price lower than nominal value) or above par (issue price higher than nominal value).

› **Place of issue**
Either the domestic market of the investor or, equally, a foreign market.

› **Principal payment**
- On predetermined dates: in the absence of provisions to the contrary and provided that the issuer does not become insolvent, the bond issues are redeemed when the bond matures, or in the form of annual repayments (generally after a blocked period) or on different dates by means of a draw (generally after a blocked period);
- On non-predetermined dates: the issuer may reserve the right to redeem the bond at a date subsequently determined at its discretion.

› **Interest**
Interest paid (also known as coupon interest) depends on the terms and conditions of the bond issue, e.g. fixed interest for the entire period or variable interest, often based on the financial market rates (e.g. LIBOR or EURIBOR). In the event of the latter, a minimum and/or maximum rate may be set.

› **Specific features** (e.g. relationship between issuer and investor)
As stipulated in the issue terms and conditions of the bond concerned.
There are thus different kind of bonds, depending on their features and covenants (e.g. government bonds vs corporate bonds, bonds from emerging markets, bonds with a fixed maturity vs perpetual bonds, bonds with a fixed vs a variable interest rate, subordinated bonds, etc.)

**B. Advantages**
Depending on market conditions, these products can generate more attractive yields than other fixed-income products.

**C. Risks**

› **Risk of insolvency**
The issuer risks being temporarily or permanently insolvent, resulting in its inability to pay the interest due and/or repay the bond issue. The solvency of an issuer can change depending on how various factors develop over the term of the bond. This could be due in particular to changes in the economic cycle, changes relating to the company or the issuer's area of activity and/or the country concerned, as well as to political developments that trigger major economic consequences.
The relative relevancy of this risk varies according to whether the bonds are issued by a public authority or private institution. The risk is also dependent on the nationality of the issuer in the case of a public entity, or the type and area

of activity of the issuer in the case of a private institution (bank, industrial undertaking etc.), as well as being dependent, in a more general way, on the financial soundness of the latter.
The risk is more limited in nature if the bonds are linked to guarantees. However, in this instance, the added protection for the investor is dependent on the status and solvency of the guarantor.
In this regard, it should be noted, generally speaking, that bonds issued by entities considered as being safe tend to offer lower yields. The risk of the investor losing their entire investment is correspondingly lower.
A deterioration in the issuer's solvency also has unfavorable repercussions on how the prices of the financial instruments concerned develop.

- **Interest rate risk**
  The uncertainty surrounding the future development of interest rates means that the investor who buys a fixed-rate financial instrument is assuming the risk of a falling price should interest rates increase. The sensitivity of a bond to changing interest rates depends in particular on its residual maturity, its nominal rate of interest and its redemption structure.

- **Risk of credit rating being downgraded**
  If a rating agency downgrades the rating of a bond by one or more degrees, the result could be a fall in the capital value of that bond.

- **Risk of early redemption**
  The issuer of a bond has the option of including, for its benefit, a right to early repayment and may make use of this right particularly if market interest rates fall. Early redemption in this way could impact on the investor's expected return.

- **Risk associated with lottery bonds**
  Bond issues that are amortized on the basis of a draw, and the duration of which is therefore difficult to determine, may lead to unpredictable changes in the return that can be expected from the corresponding bond.

- **Risk linked to country of issue**
  If the bond is issued on a foreign market, it will, in principle, be subject to the law of the country of issue. The investor should therefore investigate the impact that the application of this foreign law could have on their rights.

- **Risks specific to certain bonds**
  Additional risks may exist in the case of some types of bond, for example floating rate notes, reverse floating rate notes, zero bonds, bonds in foreign currencies, convertible bonds, bonds linked to indices or options, "subordinated" bonds etc.
  In such cases, the investor is encouraged to inform themselves on the risks set out in the issuing prospectus and to refrain from acquiring such instruments before having assessed all of related risks.
  The developments described are merely intended as an overview of the additional risks encountered by the investor with regard to these special types of bonds.

### Floating rate bonds

Floating rate bonds can take several different forms, such as, for example:

- Floor floater bonds are bonds for which a minimum rate of interest is guaranteed. This means that if the total of the reference rate and the margin is below a certain level, the investor will be paid interestthat is at

least equal to the fixed minimum rate. Correspondingly, in the case of cap floaters, the interest that the investor can receive is limited to a predetermined maximum rate.

- With these bonds it is impossible to forecast the effective return on the investment once the bond has been issued as this will depend on what happens to market rates.
- In the case of some variable-rate bonds, the conditions may also stipulate that the rate of interest varies in the opposite direction to market rates (reverse floating rate bonds). For these medium-term to long-term bonds, the interest rate paid to the investor is based on the difference between a fixed rate and a reference rate (e.g. 16% minus LIBOR). This means that the amounts paid to the investor increase when the reference rate falls. The value of these bonds generally fluctuates to a greater extent than in the case of fixed rate bonds with the same maturity.
- Another variation is the convertible floating rate bond, which gives the investor or the issuer (depending on the issue terms of the bond) the right to convert the bond into a classic fixed-rate bond. If this right is reserved for the issuer, the return on the bond may be lower than that anticipated by the investor.

### Zero bonds

Zero bonds do not include any kind of coupon. Instead of periodic interest payments, the investor receives the difference between the settlement price and the issue price (in addition to reimbursement of capital). This type of bond is generally issued below par and redeemed at par. The amount paid to the investor therefore depends on the term of the bond, the solvency of the borrower and the rates that generally apply on the markets.

In other words, such bonds grant the right to be paid a single amount on a future date if the bond is held to maturity (the fiscal consequences of which vary according to country). Conversely, if the bond is sold before maturity, the investor will only be paid the selling price of the bonds.

As a result, if market rates rise, the value of these bonds will fall more dramatically than in the case of identical bonds with the same maturity due to their higher duration. Furthermore, if the bonds are denominated in a foreign currency, the exchange rate risk is heightened as there are no interest payments at regular intervals. Rather, there is just the payment of one amount at a predetermined date in the future.

### Combined-interest bonds or step-up bonds

In the case of combined-interest bonds or step-up bonds, the investor does not receive interest payments at one single rate throughout the entire life of the bond. However, these bonds are similar to fixed-rated bonds to the extent that the interest rate is predetermined as of the issue and does not depend on market rates. In fact, the interest rate only changes over the life of the bond as determined at the time of issue. It is therefore agreed in the case of combined-interest bonds that the investor will not be entitled to payment of interest during the early years of the bond's life but that they will subsequently be entitled to payment of interest at an above-average rate for the remaining years. These bonds are generally issued and redeemed at par.

In the case of step-up bonds, relatively low levels of interest are paid initially, followed by a higher rate of interest during the ensuing years. These bonds are generally issued and redeemed at par.

### Phased interest rate bonds

Phased interest rate bonds are a combination of fixed- rate and variable-rate bonds. They generally have a life of 10 years and entitle the holder to interest payments at a fixed rate in the early years. During first years, the investor receives interest calculated according to a variable rate based on market levels. During final years of the bond's life, the investor again receives an interest payment calculated on the basis of a fixed rate.

### Index-linked bonds

For index-linked bonds, the redemption price and/or the interest are determined on the basis of the level of a predetermined index or managed account – at the time of redemption or payment of interest – and are therefore not fixed in advance. These bonds are frequently zero-coupon bonds.
Generally, this type of bond is issued in two tranches: bull bonds (bonds whose value rises when the index rises) and bear bonds (bonds whose value rises when the index falls). The risk for the investor is that the value of their bond could fall while the value of the index falls (bull bonds) or if the value of the index rises (bear bonds).

### "Subordinate" bonds

With regard to "subordinate bonds", it is in the investor's interests to acquire information on repayment's priority of the bond compared with other bonds issued by the same issuer since, in the event of the issuer defaulting, these bonds might only be reimbursed after payment of
all creditors who have a higher ranking (preferential bonds and pari passu clause).
However, generally speaking, the more the investor has a favorable position in the case of bankruptcy, the less likely it is the bond yield will be high, all things being equal.

### Convertible bonds/bonds with warrants

In this instance, the investor is granted the right to exchange their bonds, on a certain date or during a certain period, for equities of the issuer at a rate determined in advance. There is generally a minimum blocked period during which time the investor may not exercise their conversion right. If the conversion right is not exercised, the bonds will remain fixed-rate bonds redeemable at par upon maturity.
Because of the conversion right, this type of bond entitles the holder to payment of interest at a lower rate than the yield on ordinary bonds. The value of these bonds basically depends on the value of the underlying equities. This means that if the equity price falls, the value of the bond also falls. The risk of the bond losing value is therefore greater than in the case of bonds without a conversion right (but generally lower than the risk of loss associated with a direct investment in the equities concerned).
There are also bonds that grant the investor the right to subscribe for equities of the issuer in addition to the bond and not as an alternative. This subscription right is embodied in a certificate (warrant) that can be detached from the

bond. The certificate may be traded separately. The investor may subscribe for equities of the bond issuer by presenting the certificate and according to the predetermined conditions. The investor also holds the bond until maturity. As in the case of bonds with a conversion right, the periodic interest payments are generally low. Moreover, the value of such bonds, if they include a certificate, is also dependent on the value of the underlying equities. If the bonds do not come with a certificate, they take the form of a classic bond and their value is dependent on market rates.
Some of the bond forms described above entitle the certificate-holder to buy or sell another predetermined bond at a fixed price.

#### Reverse exchangeables

With regard to "reverse exchangeable", it is not the buyer of the bond, but the company that issued the bond who has the right to pay out in shares rather than in cash.

## 3. Equities

**An equity (or share) is an instrument used by a company to raise money for its operations and investments, and provided to the shareholder to confirm their rights in a company. It may take the form of a registered or bearer share. The share is presented as a fraction of the capital of a joint stock company.**

### A. Features

- **Return**
  Dividends and price increases are possible.
- **Shareholder rights**
  Financial rights and rights of participation. These rights are determined by law and the articles of association of the issuing company.
- **Disposal of shares**
  In the absence of any statutory provision to the contrary, the disposal of bearer shares can be affected without any specific formalities, whilst restrictions frequently apply in the case of registered shares.
  Alongside ordinary shares (whose features are described here above), there are also special types of shares, which have specific features. For example, preferential shares have certain preferential right over ordinary shares, while priority shares are registered in the Client's name and give the Client special rights such as taking decision relating to new share issues.

### B. Advantages

Basically, the investor benefits from voting rights and participates in the company's profits. He may also benefit from higher returns than they would have earned from investments in time deposits or in bonds.

### C. Risks

- **Company risk**
  The party acquiring shares is not a creditor but a provider of capital and therefore becomes a co-owner of the joint stock company. As a result, they participate in the company's development, as well as in the opportunities and risks relating to this development, which may lead to unexpected changes in

the value of the investment. The extreme case is that the issuing company could go bankrupt, which is likely to result in the total loss of the investment.

› **Price risk**
Share prices can be subjected to unpredictable fluctuations, generating losses. Rises and falls in prices over the short-term, medium-term or long-term alternate without possibility of precisely defining the duration of these cycles. A basic distinction should be drawn between general market risk and the specific risk associated with the company itself. These two risks influence share price over time.

› **Dividend Risk**
The dividend paid on a share is mainly determined by the profit generated by the issuing company. Thus, if the company only records a small profit or makes a loss, there is the possibility that the dividend will be reduced or that none will be distributed at all.

› **Liquidity risk**
Some shares are not easy to buy or sell. Even shares that are listed on stock exchanges can be illiquid,
as there is little supply or demand for these shares. Therefore, if a party buys or sells a large quantity of these shares, this will usually cause a sharp fluctuation in the price of these instruments.

## 4. Rights issue

**A. Features**
A rights issue is an issue of share in a particular company. Rights issues are only available to shareholders who already hold existing shares. The subscription right is the right to buy a certain number of new shares at a fixed subscription price in the near future.
The subscription rights have a value because the only way to buy new shares at an advantageous price is by exercising these right.

**B. Risks**

› **Risk of dilution**
In the event of the issuing rights, a risk of dilution exists, as the company's shares are distributed among more shareholders, thereby resulting in old shareholders holding a smaller proportion of the total share capital, having less control over the company, and a smaller portion of profit.

## 5. Profit-sharing bonds

**Profit-sharing bonds represent proprietary rights as defined in the issue conditions of the bonds.**

**A. Features**
They generally take the form of claims with a nominal value entitling the holder to share in profit.
Basically, a distinction should be made between fixed or variable-distribution profit-sharing bonds and profit- sharing bonds with an option right or conversion right.

**B. Risks**

› **Risk of non-distribution or of reduced repayment**
In the event of the issuing company recording losses, the investor faces the risk of no interest being

distributed if no provisions are in place for a minimum payment, as well as the risk of a reduction in the amount that is repaid.

› **Risk of insolvency**
Should the issuing company go bankrupt, there is the risk that the total amount invested could be lost.

## 6. Investment funds

**An investment fund is a company or structured collective entity which pools the money of a certain number of investors with the aim of investing such money in a range of assets in accordance with the principle of risk spreading, enabling the shareholders or participants to benefit from the results of its management of their assets.**

### A. Features

› **Open-ended funds**
In the case of an open-ended fund the number of units, and consequently the number of participants, cannot generally be determined. The fund may issue new units or redeem units that have already been issued. From the investor's perspective, the fund is obliged to redeem units, at its Net Asset Value, at the agreed redemption date and in accordance with the contractual provisions.

› **Closed-end funds**
In the case of a closed-end fund, the issue is restricted to a predetermined number of units. Unlike an open-ended fund, the fund is not obliged to redeem units. The units may only be sold to third parties or, where applicable, on a secondary market. The price obtained will be based on the situation with regard to supply and demand at any given time.

### B. Advanatges

The unitholder receives a proportion of the fund's income.
The diversification at the level of the underlying investments made by the fund makes it possible to increase the probability of a profit, at least to limit the risk of a loss.
Generally, the fund benefits from more favorable conditions (particularly with regard to transaction costs) compared to direct investments in the same underlying securities.
Investment funds may specialize in very specific sectors or be global in nature. They may make use of the full range of financial instruments and set themselves performance targets based on indices, sub-indices based on a theme (growth, value etc.) or with a specific geographical focus (Asia, US, BRIC etc.), or bond or money market indices, or they may work towards an absolute performance target.

### C. Risks

The risks linked to investing in investments Funds depend mainly of the securities in which the fund itself invests (equity fund, bonds fund, liquidity fund, property fund, theme-based fund, etc.). The risk attached to such investment is generally low due to the diversification of the portfolio. However, the management risk and risk of unit price falling are specific risks relating to investing in an investment fund.

› **Management risk**
Given that the return on the investments in an investment fund depends, among other factors, on the skills of the managers and the quality of their

decisions, errors of judgement during the management of the fund can result in losses or falls in value.

› **Risk of unit price falling**
The units in investment funds are exposed to the risk of their price falling, such falls reflect a corresponding fall in value of the underlying securities that comprise the fund assets, all other things being equal. The more highly diversified the investments are, the lower the risk, in theory, of significant losses being made. Conversely, the risks are heightened in the case of more specific investments with less diversification.
It is therefore important to be aware of the general and specific risks associated with the financial securities contained in the fund.

The investor must be aware of the risks specific to each fund and, in particular, refer to the relevant fund prospectus.

## 7. Derivative instruments

**Derivatives are financial instruments the value of which changes in accordance with how the asset on which it is based - the underlying - evolves. This underlying may be the price of a share, a stock exchange index, an interest rate, a currency, the price of a commodity, or even another derivative product.**

With regard to derivative products, a distinction can be made in particular between:

a) **Option transactions**, where one of the parties is entitled but not obliged to enter into a transaction. One party (the party that sold the option) is bound by a firm commitment whilst the other party (the party that has acquired the option) may choose whether or not to exercise the option.
b) **Transactions for forward delivery**, where the parties agree to a transaction that must be executed on a fixed date in the future. In the case of a transaction for forward delivery, the parties undertake, by means of firm commitment, to execute the transaction on the agreed date.

Transactions involving such products generate major risks of losses being suffered and can even result in all of the invested capital being lost. Because this type of transaction can result in calls for a margin during the life of the product, investors must ensure that they have sufficient liquidity prior to initiating such a transaction.

### 7.1. Option transactions

**Options are derivative instruments whose value changes in line with the performance of the underlying. The party that buys an option is granted the right to acquire (call) or sell (put) the underlying asset at a given time or during a certain period for a predetermined basic price and in exchange for payment of a premium to the other party, the seller of the option.**

**The particular features of the option may be standardized or defined on a case-by-case basis between the buyer and the seller.**

**A. Features**

› **Duration**
The duration of the option is the period from the date of subscription until the day on which the option right expires.

› **Relationship between the option and the underlying**
This relationship determines the number of units of the underlying that the holder of an option may buy (call) or sell (put) by exercising their option right.

› **Strike price**
The strike price is equivalent to the previously agreed price at which the holder of the option may buy or sell the underlying assets when exercising their option right.

› **Strike date**
Options that may be exercised at any time until their expiry date are known as American options. Options that may only be exercised on their maturity date are referred to as European options. However, the latter may be freely traded on the secondary market prior to their expiry provided that the market is liquid.

› **Exercise terms and conditions**
The option may include physical delivery, in which case the buyer of a call option has the right to deliver the underlying in exchange for payment of the strike price or the buyer of a put option has the right to deliver the underlying to the seller in exchange for payment of the strike price by the seller. The option may also include cash settlement, in which case the spread between the strike price and the market value of the underlying falls due, provided that the option is in-the-money.

› ***In-the-money, out-of-the-money, at-the-money* options**
A call option is in-the-money when the market value of the underlying exceeds the strike price. Thus, a call option is out-of-the-money when the market value of the underlying is lower than the strike price.
A put option is in-the-money when the market value of the underlying is lower than the strike price.
Thus, a put option is out-of-the-money when the current market value of the underlying exceeds the strike price.
When the market value and the strike price are identical or as good as identical, the option is said to be at-the-money.

› **Option value**
The price of an option depends on its intrinsic value as well as on a series of other factors (time value), particularly the time to expiry and the volatility of the underlying. The time value reflects the probability of the option being in-the-money. This means that this value is more important for long-term options based on a very volatile underlying.

› **Margin**
During the life of an option, the seller must either guarantee sufficient quantity of the underlying or provide other guarantees. The margin is determined by the Company. The markets demand a minimum margin for listed options. If the level of the margin paid by the investor proves to be insufficient, the Company may demand additional guarantees, sometimes on a very short-term basis.

› **Form**
*Option certificates (warrants, listed options*)
The rights and obligations associated with the option concerned are guaranteed by the issuer.
While warrants are very similar to listed options, they differ because:
- an option is issued by the Stock exchange, and a warrant by banks;
- an option is a standard contract and a warrant is not;
- an option can be written while a warrant cannot;

- a warrant is exercised against the issuing institution while an option is exercised against the writer of the same option.

*Traded options*

Traded options are standardised options whose rights and obligations are not guaranteed and that are traded on certain specific markets.

*Over-the-counter (OTC) options*

OTC options are options traded outside the market or on an OTC basis. Their degree of standardisation is based on market practices. They may also be personalised
in accordance with investors' needs. This type of option is not listed and is rarely evidenced in the form of
a certificate.

› **Leverage effect**

Any change in the price of the underlying results,
in principle, in a proportionately higher change in the price of the option right.

› **Buying a call or a put option**

The buyer of a call option hopes that, during the life of the option, the price of the underlying will rise, resulting in a rise in the value of their option right, whilst the buyer of a put option will benefit when the price of the underlying falls.

› **Selling a call or a put option**

The seller of a call option expects the value of the underlying to fall whilst the seller of a put option will make a profit if the price of the underlying rises.

› **Information documents**

More information on the risks specific to options is available in the information documents on option trading from the markets on which these options are traded.

The following documents in particular contain relevant information:

- "Characteristics and Risks of Standardized Options", information on the options traded on the Chicago Board Options Exchange, available on request from
- the Company and at www.cboe.com;
- "La note d'information (visa COB n° 00-1228 du 4 juillet 2000)" on options traded on the Euronext MONEP market (Paris market for tradable options), available on request from the Company and at www.monep.fr;
- "Officieel bericht opties en futures" relating to options and futures traded on AEX, available from the Company upon request.

**B. Advantages**

During the term of the option, the beneficiary of the option is granted the right to acquire or sell certain assets. The prospects of making a profit are high given the leverage effect resulting from the use of an underlying. For the counterparty, the main benefit of such a transaction is an improvement in the return on an existing position.

**C. Risks**

› **Price risk**

Options are traded on a market or outside of a market and are subject to the laws of supply and demand.

An important aspect in determining the price of the option is knowing if there is a sufficiently liquid market for the option in question. The real or expected development of the price of the underlying as well as the liquidity of the latter

also play a key role. Generally speaking, a call option will lose value when the price of the underlying falls, whilst the opposite applies to a put option. However, the price of an option is not just determined by changes in the price of the underlying but also by a series of other factors such as the duration of the option or the frequency or intensity of changes in the price of the underlying (volatility).
As a result, the risk of the option losing value may be present even if the price of the underlying remains unchanged.

- **Risk of leverage effect**
  The leverage effect of the option means that the reaction to changes in the value of the underlying is a more marked reaction. It therefore offers the prospect of higher profits whilst also creating the risk of higher losses. If the risk associated with the purchase of an option increases, the greater the significance of the option's leverage effect.

- **Buying an option**
  The purchase of an option is a highly volatile form of investment, and the probability that the option will expire with no value whatsoever is very high.
  In such an instance, the investor would have lost all of the amount used to pay the initial premium plus commissions. Following the purchase of an option the investor can hold the position to maturity or carry out a transaction in the opposite direction or, indeed, in the case of "American" options, exercise the option before maturity.
  The exercising of the option may involve settlement in cash of a differential or the purchase or delivery of the underlying asset. If the option is based on futures, exercising that option means taking a position in futures and accepting the related obligations which involve adapting to the margins.

- **Selling an option**
  Selling an option is generally riskier than buying an option.
  In effect, even if the price obtained for the option is fixed, the losses that could result to the detriment of the seller are potentially unlimited.
  If the market price of the underlying fluctuates unfavorably, the seller of the option will find themselves obligated to adapt the margins in order to maintain the position. If the sold option is "American" in type, the seller could be called on at any time to settle the transaction in cash or to buy or deliver the underlying asset. In the event that the sold option related to futures, the seller will take up a position in futures and will be subjected to the obligations relating to the adjustment of the margins.
  The seller's exposure to risk can be reduced by taking up a position in the underlying (stocks, index or other) that corresponds to that linked to the option sold.

- **Acquisition of underlying during short selling**
  The seller of a non-covered (naked) call option is not in possession of the underlying at the time of the contract being concluded (short selling).
  In the case of an option with physical delivery, the investor's risk of loss corresponds to the difference between the strike price at which the underlying will be delivered in the event of the option being exercised and the price that they will have to pay to acquire this underlying. In the case of an option with settlement, the investor's risk of loss corresponds to the difference between the strike price and the market value of the underlying.

As the market value of the underlying can exceed the strike price by a considerable amount upon the option being exercised, the risk of loss facing the investor, in the capacity of seller of the option, cannot be determined in advance and could, in theory at least, be unlimited.
This risk is higher for "American" options that may be exercised at any time and thus at an inopportune moment for the seller of the option.
An additional risk facing the investor in the capacity of seller of the option is that they might not be able to provide the requisite underlying at the time of the option being exercised or could only be able to provide it at very unfavorable conditions (particularly in term of cost) given the market situation.
In this context, it is worth remembering that the potential loss could also exceed the amount of the margin paid by the investor.

› **Specific risks linked to options traded on an OTC basis**
A position resulting from the buying or selling of an OTC option may only be settled with the agreement of the counterparty.

› **Specific risks linked to combined transactions**
Combined transactions involve the conclusion of two or more option contracts with the same underlying that differ in terms of the type of option right or the option features.
Various different combinations are possible. It is therefore impossible to describe the risks associated with each combination in this document, and investors are duly advised to obtain information on the risks specific to the considered combination.
It should be noted, however, that for every combined transaction, the elimination at a given stage of one or several options may result in major changes in the investor's risk position.

› **Specific risks linked to "exotic" options**
Exotic options are subject to additional conditions or clauses. Their payment structures cannot be realized through any combination of transactions.
Exotic options may be "tailor-made" OTC options or option certificates.
The range of possible exotic options is infinite, with the result that it is impossible to describe the risks presented by each type of "exotic" option in this document.
However, as a general rule, "exotic" options present the following additional risks compared with classic options.

Options dependent on the overall development of the underlying

The market value of the underlying is the determining factor throughout the entire life of the option and not simply upon expiry or on the strike date. The investor must therefore consider any fluctuations in the underlying throughout the term of the option to assess the likelihood of profits being generated or the risk of losses.

**Barrier options**

The rights associated with barrier options come into existence (knock-in options) or cease to exist (knock-out options) totally and irreversibly if, during a predefined period, the market value of the underlying reaches a given level.

**Payout options**

Payout options entitle the investor to payment of a fixed amount that is set in advance:

- "Digital" options

The payment is only made if, at the maturity date, the market value of the underlying is above (digital call) or below (digital put) the strike price. In this case, if the option is in-the-money, the seller of the option must pay the amount that was initially fixed.

- Lock-in options

The payment is only made if, during the life of the option or during a predetermined period during the life of the option, the market value of the underlying reaches a level fixed in advance. Once the fixed level has been reached, the seller of the option must pay the amount that was initially fixed irrespective of how the price of the underlying subsequently develops.

- Lock-out options

The payment is only made if, throughout the life of the option or a predetermined period during the life of the option, the market value of the underlying has never reached one or certain levels fixed in advance. In such a case, as soon as the level(s) is/are reached, the option ceases to be valid and loses all value, irrespective of how the price of the underlying subsequently develops.

**Asian options**

In the case of Asian options, an average value is calculated on the basis of the market value of the underlying during a predetermined period. This average is used to fix the value of the underlying that is to be delivered (average-rate option) or of the strike price to be paid (average-strike option). Such a reference to an average value can result in the following:

- *average-rate option*: the value of the option upon expiry is lower for the buyer and higher for the seller than the difference between the strike price and the market value of the underlying on the expiry date;
- *average-strike option*: the strike price of the call option is higher than the price initially fixed or the strike price of the put option is lower than the price initially fixed.

**Lookback options**

In the case of lookback options, the market value of the underlying is determined at periodical intervals over a predetermined period.

In the case of a strike lookback option, the lowest price (call) or the highest price (put) is retained as the strike price.

In the case of a price lookback option, the strike price remains unchanged but the highest price (call) or the lowest price (put) is retained to fix the value of the underlying.

The risk is therefore that the retained strike price or value of the underlying differs from the market values recorded on the expiry date. Therefore, in the above cases, the seller must be aware of the fact that the most unfavorable strike price or market value will always be applied to any calculation of amounts or exercising of rights.

**Contingent options**

Investors who buy contingent options must only pay the premium if the market value of the underlying reaches or exceeds the strike price during the life of the option ("American" option) or on the expiry date ("European" option).

The risk is therefore that the investor will have to pay the full premium even if the option is just in-the-money or at-the-money.

**Cliquet and ladder options**

- Cliquet option: The strike price is periodically reset for the following period – generally at regular intervals – at the level of the market value of the

underlying. An intrinsic value is therefore, where applicable, fixed and locked in over the life of the option.

- Ladder option: In this case, adjustments are only made at periodic levels if certain market values have been reached. In general, only the highest market value is retained.

In addition to the intrinsic value of the option when it expires, the seller of a cliquet option must also pay all of the locked-in market values whilst the seller of a ladder option must pay the highest market value. As far as the seller is concerned, the amount due could therefore be well in excess of the option's intrinsic value at maturity.

### Options linked to several underlying's

**Spread and outperformance options**

These two types of option are based on two underlying's.

In the case of spread options, the value of the option is based on the absolute difference in how the underlying's perform.

In the case of outperformance options, the reference is to the relative difference, i.e. the better performance of one underlying compared against the other is considered.

The risk is that, despite the market values of the underlying's developing positively, the spread could remain constant or even fall and thus impact on the value of the option.

**Compound options**

Compound options are options whose underlying's are also options.

These products therefore offer major leverage effects, which can result in high financial commitments.

## 7.2. Futures and forwards

**Futures are contracts traded on the markets that are standardized in terms of the quantity of the underlying (for example commodities) and the expiry date of the transaction. OTC transactions for forward delivery or forwards are contracts that are not traded on a market, offering standardized features or agreed on an individual basis between the buyer and the seller.**

### A. Features

› **Initial margin required**

An initial margin is set upon the conclusion of the contract, be it for the forward purchase or sale of an underlying. This margin is basically expressed as a percentage of the countervalue of the contract.

› **Variation margin**

A variation margin is periodically set and demanded from the investor throughout the duration of the contract. This represents the accounting gain or loss resulting from the modification of the contractual value or the underlying. The variation margin may be several times as high as the initial margin. The method used to calculate the variation margin throughout the duration of the contract or in the event of settlement is based on the stock exchange rules and the contractual terms specific to each contract. The investor must immediately respond to requests from the Company with regard to the payment of a variation margin.

› **Settlement**

Basically, the investor may, at any time during the term of the contract, end or settle the contract prior to the expiry date either by selling the contract or by concluding a contrary contract with regard to the obligations to deliver instruments/take receipt of instruments. In the event of the latter, the conditions of the contrary contract shall be such that the obligations with regard to delivery and taking receipt from the two contracts cancel each other out.
Settlement results in the risk positions being closed: any gains and losses accumulated up to settlement are finalized.

› **Execution**

Contracts that have not been ended upon their expiry date must be honored by the parties concerned.
Contracts with assets as the underlying may, in principle, can be honored either through the effective delivery of the underlying (e.g. commodities) or by means of cash settlement (even if the first option is the most common in practice) whilst contracts whose underlying is a reference rate (other than currencies) cannot be honored through the effective delivery of the underlying. In the case of effective delivery of the underlying, the contractual performance must be provided in full, whilst, in the case of a cash payment, only the spread between the price agreed upon the conclusion of the contract and the market value at the time of the contract being executed is due for payment.
This is why the investor needs more liquidity for a contract that provides for effective delivery of the underlying than for a contract that stipulates payment in cash.

**B. Advantages**

Possibility of major gains depending on market value of an underlying upon maturity, all the more so if the initial amount of invested capital was low.
Possibility of also guaranteeing existing positions.

**C. Risks**

› **Change in the value of the contract or of the underlying**

The investor will face a risk if the way in which the effective value of the contract or the underlying price is not as expected by the investor at the time of the contract being concluded.
If the value of the contract or underlying increases, the forward seller must nevertheless deliver the underlying at the price initially agreed, which may be significantly lower than the current price. For the seller, the risk is thus equivalent to the difference between the price agreed when the contract was concluded and the market value on the expiry date. As the market value can, in theory, rise indefinitely, the potential loss for the seller is also unlimited and could be considerably higher than the margin required.
If the value of the contract or underlying falls, the forward buyer must nevertheless take receipt of the underlying at the price initially agreed, which may be significantly higher than the current market value. For the buyer, the risk is thus equivalent to the difference between the price agreed when the contract was concluded and the market value on the expiry date. The buyer therefore risks a maximum loss in the amount of the price that was initially agreed. This loss can be significantly higher than the asked margin.
The transactions are valued regularly (marked-to- market) and the investor must at all times have a sufficient cover margin. If the margin is insufficient, the investor must provide a variation margin without delay. Otherwise the transaction will be liquidated early and, basically, at a loss.

› **Difficult or impossible realization**
In order to limit excessive price fluctuations, a market may fix price limits for certain contracts. In such a case, the investor must bear in mind that when a price limit is reached it could be very difficult, if not impossible for a period of time, to end the contract. Consequently, all investors must enquire as to the existence of such price limits prior to entering into a forward or future contract.
It is not always possible (due to the market and the transaction terms) to engage in transactions that would enable the risks relating to the transaction that is in progress to be eliminated or reduced.
Stop-loss transactions, where possible, do not always enable the loss to be limited to the specified amount but will be executed once the limit has been reached on the market, making them "at best" orders.

› **Acquisition of underlying during short selling**
Selling an underlying on a forward basis without being in possession of that underlying at the time of the contract being concluded (short selling) also means running the risk of having to acquire the underlying at a very unfavorable market price so as to be in a position, upon the expiry of the contract, to honor the obligation of effective delivery of the underlying.

› **Specific risks linked to OTC forwards**
In the case of standardized OTC forward transactions, the market is generally transparent and liquid. This means that it is generally possible for the contracts to be fulfilled. There is no market for OTC forwards, with contractual terms and conditions for OTC transactions. This is why the contract can only be realized with the agreement of the counterparty.

› **Risks specific to forward exchange products**
A forward exchange transaction involves the sale or purchase of a currency at a future date on the basis of a price that is fixed when the contract is concluded.
This type of investment can be used to eliminate exchange rate risk. Furthermore, there is no requirement for a premium to be paid when the contract is concluded.
The main risk facing the investor is the loss of a gain if the way in which exchange rates develop is more favorable than the development expected at the time of the contract being concluded.

› **Specific risks linked to combined transactions**
Various different combinations are possible. It is therefore impossible to describe the risks associated with each combination in this document, and investors are duly advised to obtain information on the risks specific to the envisaged combination.
However, generally speaking, the risks relating to such transactions can develop as the transactions making up the combination are concluded.

› **Risk of leverage effect**
The leverage effect of the future means that the reaction to changes in the value of the underlying is exacerbated. It therefore offers the prospect of higher profits whilst also creating the risk of higher losses, than it could be made with a direct investment in the underlying asset.

### 7.3. OTC Treasury products

**A. Features**

Treasury products are 'Over the Counter' transactions and are also known as OTC derivatives. With these types of transactions, you enter into an agreement with a counterparty. An OTC derivative has an underlying asset which can be a currency, an interest rate, securities, etc. As not standardized, you cannot buy or sell an OTC derivative through the stock exchange.

**B. Application**

An OTC derivative is usually used to cover financial risks. This is also known as 'hedging'. However, you can also invest in OTC derivatives for speculative reason.

**C. Risks**

Investing in OTC derivatives is risky for the following reasons:

- You cannot sell them through a stock exchange;
- The agreement often involves an embedded large leverage level;
- It implies counterparty risk hence credit risk;
- The price is not necessary public;
- The collateral can exhibit a basis risk

## 8. Structure products or EMTN

**Structured products are combinations of two or more financial instruments that together make up a new product. At least one of these instruments must be a derivative.**

**The most frequently traded structured products are those with a capital protection element. These can be traded on a market or on an OTC basis.**

**There are different types of structured products, such as certificates, guaranteed products, protection products, leveraged products, etc.**

**Given the many different possible combinations, each structured product presents its own features and risks to the extent that the risks associated with each component part are mitigated or even eliminated or exacerbated as a result of the combination. Investors should therefore obtain information on the risks specific to the structured product concerned. This type of information is available in, for example, the brochures or commercial form sheets describing the product.**

### 8.1. Specific case of structured products with capital protection (e.g. GROI, PIP, PEP, GRIP)

**A. Features**

**Double-component**

This type of product generally has two components: a fixed-income investment product (e.g. bonds or monetary investments) and an option or combination of options. This enables the investor to profit from the way in which the value of one or more underlying's develop whilst at the same time limiting the risk of losses. The capital protection aspect may, where applicable, only cover a portion of the invested assets. Furthermore, the capital protection aspect and the participation aspect can be split into separate components to guarantee the independence of the components or even to be able to sell them individually.

**Capital**

Totally or partially guaranteed (at maturity). The capital protection component means that the proportion of the nominal value of the product to be repaid to the investor at maturity can be determined irrespective of any change in the value of the participation component.

**Return**

The option component or direct investment in the underlying asset determines how and to what extent the investor can benefit from the development in the value of the underlying. This component therefore makes it possible to evaluate the potential gain over and above the capital protection component.

**Flexibility**

The products can be adapted in line with the needs of each client and to each type of underlying.

**B. Advantages**

Investing in a market whilst reducing the risk of loss of capital that would apply to a direct investment in the same market. Returns can be higher than investments on the money market or in bonds with an equivalent level of protection.

**C. Risks**

› **Risks at the level of the capital protection component**

The capital protection is based on the product's nominal value and not its issue price or purchase price on any secondary market. This means that the guarantee for the investor is only in the amount of the nominal value of the product so that capital protection does not necessarily signify repayment of 100% of the invested capital. Consequently, the protection is reduced if the purchase or issue price is higher than the nominal value and, similarly, rises if the purchase or issue price is lower than the nominal value, particularly during a subscription at a price other than par or following a transaction after the initial issue. The robustness of the guarantee depends on the robustness of the issuer. The capital is therefore only guaranteed if the issuer of the guarantee can meet its commitments.

The maximum risk of loss is thus limited to the difference between the price paid and the capital protection afforded upon final maturity. However, during the product's life, its price could fall below the amount of the capital protection, which would increase the risk of loss in the event of a sale before maturity. The capital protection is only guaranteed for the investor if they hold the product until maturity and is not guaranteed in the event that early redemption is requested.

Upon maturity, if the capital is not guaranteed on a 100% basis, the investor will not be paid the full amount of the sums initially invested.

› **Risks at the level of the option/direct investment component**

Depending on how prices on the financial markets move, this component may have a value of zero upon maturity. The risks associated with this component correspond to the risks linked to the option or combination of options or direct investment used.

In consideration of the capital guarantee, the investor may obtain a return that is lower than that which they would have earned from a direct investment in the underlying.

› **Liquidity risk**

The liquidity of the investment is only guaranteed beyond a certain amount, most frequently in exchange for a bid/ offer spread and/or an exit penalty for early termination.

## 8.2. Specific case of convertible reserve or discount certificate structured products without capital protection

**A. Features**

**Forward product**

The investor receives a guaranteed coupon in a given currency but accepts a risk with regard to their capital upon maturity.

**Underlying**

Shares, indices, baskets etc.

**Capital**

Preserved if the market value of the underlying does not fall below the strike price upon maturity.

**Redemption**

In cash or through delivery of the underlying, at a predetermined strike price, if this price has fallen or risen. If the value of the underlying is higher than the strike price at maturity, the investor receives the guaranteed coupon plus 100% of the capital initially invested (in cash). If the value of the underlying is lower than the strike price, the investor receives the guaranteed coupon plus the underlying at the strike price.

**Flexibility**

The products can be adapted to each type of underlying.

**Discount certificate**

In this case, the investor only receives the coupon upon maturity but initially buys this product with a reduction.

**B. Advantages**

The income is higher than that earned on investments in money market products.

This is basically a short-term investment, making it easier to assess the potential income.

**C. Risks**

› **Risk with regard to capital**

Capital protection is not guaranteed if, at maturity, the investor receives the underlying instead of the invested capital.

The risk at this level is very closely linked to the development in the market value of the underlying.

› **Liquidity risk**

The liquidity of the investment is only basically guaranteed from a certain amount.

› **Exchange rate risk**

For products denominated in currencies other than the underlying currency, the investor is exposed to an additional exchange rate risk.

## 8.3. Specific case of certain credit derivatives

### *8.3.1. Credit linked notes ("CLN")*

**A. Features**

An investment in a CLN is comparable to a direct investment in a variable-rate note issued by the same issuer.

**B. Risks**

› **Double Risk**

Investors who acquire a CLN bear the credit risk related to the issuer of the CLN as well as that of the underlying reference entity/entities. If a credit event occurs, the investor either receives a debt obligation (a security or a loan)

issued or guaranteed by the corresponding reference entity or settlement in cash in the amount of the value of the debt security, calculated on the basis of the credit event concerned.

› **Risk increased by the concept of a credit event**
The term "credit event" is described in the broad sense and covers more than a mere default on the part of the reference entity concerned. It does in fact include, for example, the deferment of a coupon's maturity date or of redemption, or a reduction in the nominal coupon or the amortized amount of a loan. Thus, a credit event can create losses for the holder of a CLN even if there has been no instance of defaulting in the strict sense. In other words, it is more likely that a credit event will occur than that there will be an instance of defaulting.

› **Extent of risk of loss**
A credit event could, in the case of a CLN, cause greater losses than the average losses on stocks recorded by the same reference entity, since the issuer of the CLN generally has a larger choice of debt obligations to issue in the event of default and can therefore chose the least expensive stock. With some structures, this risk is attenuated by the fixing of predefined recoverable amounts which, for example, determine in advance the loss that will be made should a credit event occur.
Moreover, the loss can be greater in the case of delivery of a stock or a loan with a duration that is greater than that of the CLN or in the event of valuation based on such a stock/loan. The main rating agencies, however, are familiar with these two features and take due account of them when rating CLNs.

### *8.3.2. Collateralized debt oblogatins ("CDOs")*

**A. Features**
CDOs are also structured products, created on the basis of an underlying basket or portfolio of debt securities, particularly bonds, loans and/or credit default swaps.
A CDO is generally split up into several tranches offering different levels of risk for the underlying basket of debt securities. Basically, the equity or junior tranche is the most vulnerable to a credit event and each of the successive tranches (mezzanine and senior) correspond to a higher redemption priority and, as a result, a higher credit rating.

**B. Advantages**
These synthetic structures enable investors to invest in the underlying credits, which are not always available by means of direct bond investments.

**C. Risks**

› **Risk linked to tranche system**
Losses recorded at portfolio level affect investors in the equity or junior tranche in the first instance, followed by investors who have invested in the mezzanine and senior tranches. Investors in a higher tranche only suffer losses if a credit event results in the loss of the full amount of lower tranches (waterfall payment based on priority). This means that the mezzanine and senior tranches are partially protected against portfolio losses, whilst equity and junior tranches are directly exposed to payment incidents in the underlying portfolio.
Credit events affecting a small part of the underlying portfolio can therefore generate major losses, even as far as the total loss of the capital invested in the equity or junior tranches. Furthermore, higher ranking tranches may be hit by a default correlation risk, resulting in a fall in their value.

› **Risk linked to long-term nature of investment**
Depending on various factors, the value of credit derivatives may fluctuate greatly before maturity if, for example, credit events occur or if there are movements at the level of the portfolio credit range.
Furthermore, the initial rating of a credit derivative may improve or deteriorate, as is the case with all debt securities. The credit rating of a given instrument reflects the (long-term) default risk of the said instrument until maturity and not the short-term market risk. Generally speaking, investors opting for credit derivatives are advised to engage in a long-term investment policy and to be in a position to hold on to securities until they mature.

› **Risk linked to low liquidity**
Credit derivatives are seldom liquid, even if there is a secondary market organized by the banks that promote the products in question.

## 9. Synthetic products

**Synthetic products – passive investments and certificates, in the main – are characterized by the fact that they have identical or similar profit and loss structures to those of certain traditional financial instruments (shares or bonds). Synthetic products result from the combination of two or more financial instruments that together make up a new product. Certificates based on baskets bring together a given selection and quantity of shares, and are a typical example.**

**Synthetic products are traded on or off market.**

**Given the various different possible compositions, each synthetic product comes with its own risks. However, generally, it should be noted that the risks linked to synthetic products do not necessarily match the risks associated with the financial instruments grouped within these products. Before acquiring one of these products, it is therefore very important that investors obtain detailed information on these risks, by referring to the product description for example.**

### 9.1. Passive investments (e.g. BLOC warrants, DOCU, GOAL)

**A. Features**

**Limited loss**
When acquiring a passive investment, the investor acquires an underlying (share, bond or currency) and simultaneously subscribes for a call option on the same underlying. The investor receives a premium in exchange, which limits their loss if the price of the underlying falls.
Limited potential profit The potential profit from an increase in the value of the underlying is limited to the option's strike price.

**Guarantee**
The investor must, for classic passive investments, deposit the underlying as a guarantee, thereby becoming a passive investor.

**Synthetic passive investment**
This type of investment is based on the idea of reproducing or replicating classic passive investments. This reproduction is achieved, however, using one single transaction. The acquisition of the underlying and the issuing of the call option are both carried out synthetically, using derivatives. The purchase prices of such a product is equivalent to the price of the underlying, minus the premium received for the sale of the call option. The product is therefore sold at a more advantageous price than the underlying.

**Execution**

At maturity, the contract is executed either through payment in cash or by the physical delivery of the underlying. If the price of the underlying is higher than the strike price, the investor receives a certain cash sum. If, the underlying price is lower than the strike price, the underlying is physically delivered to the investor.

**B. Advantages**

Through the sale of a call option (classic passive investment) or thanks to the proceeds from the sale of the call option included in the product price (synthetic passive investment), a fall in the price of the underlying results in a lower loss than the loss that could be made on a direct investment in the underlying.

**C. Risks**

Unlike structured products with guaranteed capital, synthetic passive investment does not offer any protection against falls in the value of the underlying.

This means that if the price of the underlying rises and, at maturity, is higher than the option strike price, the investor will receive the price that was initially fixed in the form of a cash payment. If the value of the underlying at maturity is not as high as the investor expected at the time of purchasing the product, the return on the product could be lower than the return on an investment into a money market fund over the same period.

If the price of the underlying, at maturity, is equal to or less than the option strike price, the investor will receive the underlying. The potential loss that could be suffered by the investor is thus linked to any fall in the market value of the underlying up until maturity. The potential loss can be up to the full value of the investment, just as if the investor had invested directly in the underlying.

However, the option premium limits the effects of any fall in value in the underlying.

### 9.2. Certificates/EMTN (e.g. PERLES)

**A. Features**

› **Diversification**

A certificate enables an investor to acquire a debt based on several underlying's or whose value is made up of several indicators.

› **Some common certificates**

- Certificates based on an index:
  These reflect the market as a whole and are based on an official index (e.g. DAX, CAC etc.).
- Certificates based on a specific region:
  These are composed of indices or companies from a specific region (e.g. Eastern Europe, Pacific etc.).
- Certificates based on a basket:
  These are composed of a selection of national or international companies from the same sector (e.g. biotechnology, telecoms etc.), indices, bonds or other underlying's.

**Guarantee**

These certificates are guaranteed.

**Maturity and tradability**

Generally, certificates have a fixed term of between one and three years. However, they can be traded at any time.

**Limited duration**

Incorporated into the securities, the certificates have a limited duration.

**Investor rights**

No right to vote or right to dividends/interest relating to the underlying's.

**Redemption**

Redemption is carried out upon maturity based on:

- a certain amount per index point, in the case of a certificate based on an index;
- the difference between the stock market value at maturity and the strike price, in the case of a certificate based on a region or basket.

**B. Advantages**

Even a modest investment can be spread across several instruments or risk factors, thereby minimizing the latter.

This type of product offers the same potential gains or losses as a comparable direct investment in the underlying's but, given the diversification of the index, it is possible to limit or even eliminate the risks specific to the companies that make up the index and therefore to limit the risk of losing the total investment.

These products are basically not particularly expensive (particularly due to the fact that they do not entitle the holder to dividend/interest rights and do not come with voting rights).

**C. Risks**

› **Transfer of Risk**

Investments in index, region-based or basket certificates face the same risks of loss as direct investments in the relevant shares. However, this type of investments means that these risks are spread.

The risks do not disappear altogether but can be mitigated to the market or sector on which the certificate is based.

› **Lack of rights**

Unlike in the case of direct investments, the investor does not have a voting right and is not entitled to any dividend or interest payments linked to the underlyings.

This means that any fall in the value of certificate cannot be offset by the receipt of dividends or interest.

› **Risk linked to issuer**

In addition to the risk of insolvency on the part of the companies included as underlying's in the certificate, the investor is also exposed to the risk associated with the issuer, in other words the del credere risk of the banking institution that issues the certificates.

› **Risk of leverage effect**

The leverage effect of the certificate means that the reaction to changes in the value of the underlying products is exacerbated. It therefore offers the prospect of higher profits whilst also creating the risk of higher losses. If the risk associated with the purchase of a certificate increases, the greater the significance of the certificate's leverage effect.

Certificates of this kind generally involve a greater level of volatility than classic certificates and can lose all of their value very quickly.

## 10. "Alternative" investments funds

**A. Features**

› **"Alternative" investments**

An alternative investment is an investment in a domestic or foreign investment and participation fund that differs from traditional investments in shares or bonds in terms of the type of investments made by the fund in question.
The most well-known forms of "alternative" investment are, for example, hedge funds, whose investment strategies most frequently comprise short selling, leverage effects and the use of derivative financial instruments.
These funds often take the form of "offshore" funds domiciled in, for example, the Bahamas, Bermuda, the Cayman Islands, Panama or the Netherlands Antilles.
Hedge funds are free to choose the products and markets (including emerging markets) in which they wish to invest, as well as the various different trading model (electronic markets, OTC etc.). Generally, this type of fund will set the minimum investment amount at a high level. The remuneration paid to the managers of these funds is often performance-linked.
Investments in private equity (risk capital, financing the acquisition of companies) also rank under alternative investments. Private equity involves investing money in companies that are not listed on the stock exchange, and often do not yet have a proven track record in the market, for example because they have just started. Private equity can also be made in companies that do have a proven record, but need extra-money to grow their activities.
Private equity investments can be made directly, or through the use of private equity funds.
Within the framework of alternative management, the assets can also be invested directly in financial instruments (shares, fixed-rate bonds, floating-rate bonds, zero coupon bonds, convertible bonds and money market instruments). The choice of financial
instruments are not limited in terms of industry, sector or region, or in terms of the types of stock or instrument or in terms of the currencies in which they are expressed or with regard to financial instruments that replicate the performance of indices.
Generally, alternative management does not involve a performance comparison with an index or reference benchmark. Its aim is absolute (positive) return.
Alternative management is based on a broad range of investment strategies, the classification of which is somewhat arbitrary. Moreover, many funds bring together several different styles in their day-to-day management or practice management methods that include features from more than one of the major styles described below. Each of these styles has a different profile in terms of return, risk and correlation (or market risk).

**B. Management strategies referred to as alternative**

› **Long / short Equity funds**

The basic strategy of these funds is to reduce the risk of a long position in a portfolio of stocks by short selling other stocks. Having reduced their exposure to market risk in this way, the funds create a leverage effect to increase the potential return. These funds
often take up a long position on stocks that are judged to be undervalued and short positions on stocks judged to be overvalued. The short component can also include positions on indices. In more detail, the following applies:

- long / short directional: Stock picking is the main source of performance for this type of fund, generally based on fundamental analysis of the companies in question.

- Funds referred to as market neutrals invest in a balanced way in longs and shorts, with the aim of minimising the correlation with the market and reducing fund volatility. This strategy calls on in-depth analysis of the risks alongside fundamental analysis.

› **Event driven funds**

These funds profit from specific events that occur in the life of companies: restructuring, mergers, spin-offs. This type of strategy is generally not greatly affected by market trends.

- Special Situations funds invest in opportunistic strategy funds benefit from IPOs, takeovers, surprising levels of income and other specific events affecting the issuer.
- Distressed securities funds invest in stocks, mainly bond or bank debts, that are greatly undervalued due to defaults or during rescue plans. This type of strategy is used in the United States in particular, where the legislation is conducive to this approach.

› **Arbitrage funds**

These funds use inefficiencies in the market to generate a return, attempting to identify price or return differentials that are not justified by the issuer's economic situation. They enter the market when they believe that there is a strong probability of such anomalies disappearing. Arbitrage funds are sometimes referred to as relative value funds. A
distinction can be drawn between the following trends:

- Fixed income arbitrage: The fund captures the price anomalies existing on the bond markets.
- Convertible bond arbitrage: The arbitrage is carried out between a "long position" on a convertible bond and a short position on the share. The managers profit from the phenomenon of convexity with regard to convertible bonds.
- Mortgage (or Asset) backed securities: The fund profits from anomalies on the mortgage security market (as well as the market for related derivative instruments) in the USA.
- Merger arbitrage: This type of fund focuses on takeovers and mergers by buying the acquired company and selling the acquirer.

› **Traders / CTA (commodity trading advisors) funds**

These funds take up falling and rising positions on the market with a major leverage effect (shares, bonds, futures, commodities, foreign exchange etc.). Generally, these funds do not take up long- term positions. What they do is take advantage of excessive price variations over the short-term, even
following trends (trend followers). Their correlation with the share and bond markets is low.
Thus ;

- Systematic funds invest on the basis of sophisticated quantitative models that require complex IT systems.
- Discretionary funds are more heavily based on a fundamental analysis of the market.

› **Macro players funds**

These are the funds that play on the major macroeconomic trends. They pursue an opportunist strategy. They are based on a fundamental macroeconomic analysis and count on the market reacting to changes in economic policy

(interest rates, foreign currency movements etc.). They invest in all types of financial asset and on all markets as the opportunities present themselves. Significant use is often made of leverage effects via futures contracts and options.

› **Activist funds**
These funds profit from very specific situations and sometimes go as far as to create the event, for example by forcing the management of a company to change its strategy.

› **Reference is also made to niche players**
These include:
- Opportunistic funds with no fixed strategy which profit from return opportunities as they discover them.
- Funds of funds which are funds investing in other alternative investment funds whilst acting in one or more of the segments described above. All of these strategies can also be clustered according to geographical region and sector, in the same way as traditional funds.

› **"Short Sellers" funds**
These are funds which engage solely in short selling. They seek out stocks that are considered to be overvalued and thus expected to fall. Their main selection criterion is a deterioration in the issuer's fundamentals.
Each fund comes with its own risks, to the extent that it is not possible to provide an exhaustive description here of the risks associated with each investment in this type of product. Some indication of this risk is provided instead. Investors are encouraged to seek out information on a case-by-case basis before investing in such products by, for example, consulting the fund prospectus and the various annual, half-yearly or quarterly reports.

**C. Advantages**
The potential profits are attractive compared with the level of risk (volatility risk).

**D. Risks**

› **Leverage effect**
This is an area in which the investment strategies can spark off a high level of risk. To take an example, using leverage effects means that even a small development on the market can create major gains but, at the same time, can also result in substantial losses. In some cases, there is the risk of losing the entire investment.

› **Lack of transparency**
The net asset value of such investment instruments is not generally known when the investor decides to make or liquidate an investment of this kind. This is explained by the fact that a prior notice must be given
before any such transaction is carried out. As a result, the net asset value can only be calculated once the investment has in fact been made or settled.
Furthermore, the investor who makes an "alternative" investment will in many cases only have a small amount of information. What are sometimes very complex strategies pursued by investment funds are frequently lacking in transparency for the investor. Changes in strategy, which could result in a tangible increase in the level of risk, are often poorly understood if not entirely underestimated by the investors.

› **Potentially limited liquidity**

"Alternative" investments have strongly varying degrees of liquidity. Some can have very limited liquidity.
Such investments can be subject to lock-up periods or to penalties if they are liquidated before the end of a given period. This is explained by the relatively low liquidity of the investments integrated into such instruments, which are designed more for the long term.
Moreover, with regard to the techniques used for alternative investments, many are based on financial instruments that are not liquid or that are subject to legal restrictions, transfer restrictions or other limits.
It is therefore possible that the sale of an alternative investment will only be authorized at periodic intervals or on certain dates, after giving several weeks' notice, such as four times per year on set dates. Due to a difference between the selling and buying price, the proceeds from the sale might not correspond to the net asset value of the instrument.
In the case of hedge funds, redemptions can only be carried out monthly, quarterly or annually, whilst the lock-up period for private equity funds can be in excess of ten years.
All in all, given the complexity of the underlying investments made by these funds, adjustments to the net asset value can prove necessary after receipt of the audited annual accounts. As a result, some "alternative" investment funds hold back a portion of the investor's units, if the investor decides to liquidate 100% of its units, until such time as it receives the audited annual statement.

- **Minimal regulatory framework**
  Many funds in this sector are based off shore (offshore funds). This means that they are frequently subject to only a minimum of regulation. Numerous problems or delays can occur in the execution of orders to buy or sell units in these funds, for which the Company cannot assume any responsibility. The enforceability of rights is not systematically guaranteed.
  Any investor interested in "alternative" investments and in offshore funds in particular must therefore be aware of the related risks. The specific investment products should be studied carefully prior to,any investment.

- **Short selling**
  The investment funds in which the Company invests, for the client's account, can engage in short selling of stocks likely to expose the portion of assets of the fund committed to such activities to an unlimited risk, where this is due to there being no upper price limit for these stocks. However, the losses will be limited to the amount invested in the fund in question.

- **Assessment of investment funds**
  The net asset value per unit of the funds in which the investments are made is not audited (with the exception of the value calculated at the end of the financial year). Therefore, to value these funds, the Company bases its calculations, in the main, on non- audited financial information provided by the funds, the administrative agents and/or the market makers.
  In the event that the financial information used by the funds to determine their own net asset value per unit is incomplete or imprecise, or if the said net asset value does not reflect that value of the investments made by the funds, the value of these assets will be inaccurate.

- **Lack of custodian banks**

In the case of some of the investment funds in which the assets are invested, the function of custodian bank is exercised by a prime broker rather than a bank.
These brokers do no always have the same credit ratings as banks. Additionally, unlike custodian banks which develop in a regulated environment, these brokers merely assume the tasks of holding the assets in custody without being subject to any regulatory supervision.

› **Performance commission**
Given the specialized nature of these funds, some if not most make provision for a performance commission to be charged.

› **Duplication of charges**
Investing in an investment fund rather than investing directly in the financial instruments in which the fund itself invests generates additional charges for the client.

› **Additional risks linked to private equity investments / funds**
Investments in private equity typically face the following additional risks:

- No guarantee of a return for the investor:
  The risk for the investor is that they might not recoup all of their invested capital, or could even lose the entire amount. Past performance of these investments is in no way a guarantee for future performance as the investment environment is in constant flux (new geographical sectors, new specialist fields etc.). In particular, an economic upturn often creates strong competition with regard to the acquisition of companies, whilst it can be difficult to withdraw from such investments during slower phases of the economy.
- Low liquidity:
  These funds generally have a duration of between eight and twelve years. There is no recognized secondary market for this type of investment.

This means that in the event of a withdrawal of a private equity fund (which may require payments over several years), the penalty can be very severe, extending as far as the defaulting of all rights on the amounts already invested in this type of investment.

With regard to the committed funds being made available, the investor must pay particular attention to the generally very short periods of notice (sometimes limited to 7 days) and ensure that they have sufficient liquidity that can be provided at short notice should capital be called for.

## 11. Real estate investments

**Real estate investments cover investments in all property such as residential, office, commercial etc.**

**A. Features and advantages**
These investments are generally made through investments in fund or in listed investment companies, resulting in a certain degree of diversification. This diversification should, in principle, help decrease the volatility of the portfolio and act as a hedge against inflation.
Certain real estate investments may have the same features as private equity investments.

**B. Risks**

› **Potentially limited liquidity**
The liquidity and tradability of the real estate investments are subject to major fluctuations. These investments are not generally liquid and do not always enable the investor to make short-term profits.
Listed real estate companies and open-ended funds that invest in real estate generally have a daily market. Furthermore, real estate investments in the form of closed-end funds may only offer monthly, quarterly or annual liquidity, with a minimum holding period of several years.

› **Leverage effect**
In the event of a leverage effect, market fluctuations can generate considerable profits but also high losses.

› **Other risks**
The risk of investing in property carries general risks such as market risk, interest rate risk, but also specifics risks such as the risk of falling property values, tenants defaulting of the rent, vacancy, falling rental prices, etc.

## 12. Specific risks linked to the loan of financial instruments

The loan, by an investor, of financial instruments, results in the transfer of ownership of these instruments (including any related rights and any resulting debts) in favor of the borrower. In the capacity of lender, the investor acquires a contractual right to repayment in instruments of the same type, quantity and quality with regard to the borrower.

The investor is therefore exposed to the risk of bankruptcy, insolvency, reorganization procedure or other similar procedure of the borrower, or seizure or blocking measures affecting the borrower's assets.

The investor may only dispose of these financial instruments that have been lent once they have been returned to them. Whilst waiting for their return, which can take several days, they therefore run the risk of not being able to sell these financial instruments at a time when their market value is high. Furthermore, the investor cannot have any guarantee that the return will take place on a specific date, which means that they risk not being able to exercise their rights in good time (e.g. voting rights relating to financial instruments).

It could happen that the borrower, when required to redeliver the financial instruments, proves incapable of acquiring such instruments on the market. In such case, the investor could receive a sum of money equivalent to the value of the loaned financial instruments at a given time in place of the financial instruments.

If the borrower provides security as a guarantee of repayment of the loan of financial instruments, the possibility cannot be excluded that the value of the assets forming the object of the guarantee could be lower than the value of the loaned instruments at the time of the guarantee being realized.

**This document makes no claim to describe in an exhaustive way all of the risks inherent to investments in financial instruments. Rather, its aim is to provide some basic information and to raise the client's awareness of the existence of risks associated with all investments in financial instruments. The client is advised not to make any investment unless they are sure that they are fully aware of all of the risks and to tailor their investments to their net worth, requirements and experience.**