RISK DISCLOSURE STATEMENT

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XTELLUS
EUROPE LTD

Document Changes

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1. INTRODUCTION

Xtellus Europe Limited (hereinafter, “the Company”) is an Investment Firm regulated by the Cyprus Securities and Exchange Commission (hereinafter, “CySEC”) with License number 446/24, having its principal place of business at 26 Spyrou Kyprianou, 4040, Limassol, Cyprus and is registered with the Registrar of Companies in Nicosia under the number HE 447781.

The Company is operating under Directive 2014/65/EU of the European Parliament and of the Council (the “Markets in Financial Instruments Directive 2014/65/EU” or “MiFID II”) and under Regulation (EU)600/2014 of the European Parliament and the Council on markets in financial instruments and amending Regulation (EU)648/2012 (the “MiFIR”), which was implemented in Cyprus by the Investment Services and Activities and Regulated Markets Law of 2017 (Law 87(I)/2017) (as the same may be modified and amended from time to time), the Laws for the Prevention of Money Laundering and Terrorist Financing, Market Abuse and Insider Dealing, the General Data Processing Regulation (GDPR) as well as other legislation applicable in the Republic of Cyprus

Xtellus Europe Limited, when providing investment and/or ancillary services to clients (hereinafter referred to as the «client» or «you») may only invest in products that are suitable for you. A key element of our duty to ensure appropriateness, is that we are satisfied that you understand the principal risks associated with each product that you invest.

The financial markets present many different risks of which clients should be aware prior to investing. The purpose of this Risk Disclosure Statement is to provide you with a description of certain generic risks that may be common to all investments and to describe in more detail the nature and risks of the principal types of investments that we may offer. Our objective is to explain the risks in sufficient detail to assist you taking the relevant investment decisions.

All investments and products involve a certain degree of risk which varies between products. You should not agree to invest in any product unless you understand what the product is and which risks are involved. You must also be certain that each product is suitable for you in your particular circumstances as products may not be suitable for all clients, and you should never invest more money than you can afford to lose.

Section 2 describes some general risks and costs of investing. Section 3 describes in more detail certain specific products and some further risks.

The product descriptions and the risks disclosed in this Risk Disclosure Statement are, however, illustrative and cannot be exhaustive. For example, the Risk Disclosure Statement does not deal with risks associated with a particular issuer or counterparty, general economic risks (notably those associated with a particular market, interest rate fluctuations, etc.) or tax risks which may be specific to individual clients. We simply attempt to explain the key characteristics of the main asset classes and to include certain recognized risks of investing in such asset classes. In some cases, it may be necessary for you to refer to information published by other sources.

This Risk Disclosure Statement forms part of the Company's Terms of Business.

The latest version of this document is available on the Company's website: www.xtelluseurope.com.

2. KEY RISKS AND COSTS OF INVESTING

KEY RISKS OF INVESTING

All financial products carry a certain degree of risk and even low risk investment strategies contain an element of uncertainty. The price or value of an investment will depend on movements in the financial markets outside of anyone's control. Past performance is no indicator of future performance.

The nature and types of investment risks will depend on various matters, including the type of investment being made, how the investment was created, structured or drafted, the needs and objectives of particular clients, the manner in which an investment is made or offered, sold or traded, the location or domicile of the issuer, the diversification and concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of borrowing or leverage. Different risks may occur simultaneously and/ or may compound each other resulting in an unpredictable effect on the value of the investments. The risks identified in this Section 2 are common to many of the investments that are offered through the Company. In some cases, in Section 3, we elaborate on these risks when referring to a particular investment, but you should always consider the following general risks when making any investment decision or contemplating any form of allocation to such investments:

Credit Risk - Credit risk originates from the fact that the counterparties may be unwilling or unable to fulfil their contractual obligations, for example, the inability of the counterparty (i.e., issuer of a security) to timely fulfil its contracted financial obligations like dividend payments, interest payments, repayment of principal etc.

The varieties of credit risk include among others the following:

- Settlement Risk: Suppose the Company has traded with a counterparty, perhaps by buying equity or engaging in a spot FX transaction with the counterparty, but there is not a simultaneous exchange of asset for cash. If the Company gives the counterparty something before the counterparty gives the Company the other side of the bargain, there is a settlement risk because the counterparty may default before the Company gets what the counterparty has contracted to give to the Company.
- Pre-settlement Risk: It occurs when the Company engages in a transaction where the counterparty may default prior to settlement giving rise to a potential loss.

Other circumstances where a credit risk may occur are:

- When an investor purchases bonds, he/she actually lends money to the issuer expecting the issuer to make payments of interest and to repay principal

The Company has strict rules as regards the financial state of the potential clients and counterparties. All Company staff must strictly follow the Internal Operations Manual concerning the granting of credits. Among others the following shall be applied:

- Any possible Credit-granting shall be based on sound and well-defined criteria. A process form for the approval, amendment, renewal, and re-financing credits shall be clearly established.
- The ongoing administration and monitoring of their various credit risk-bearing portfolios and exposures, including for identifying and managing problem credits and for making adequate value adjustments and provisions, shall be operated through effective systems.
- Diversification of credit portfolios shall be adequate given the Company's target markets and overall credit strategy.

Market risk - Market risk is the risk of loss caused by movements in the prices of traded assets. It reflects the extent to which the return of the security varies in response to, or in association with, variations in the overall market returns. The Company shall implement policies and processes for the measurement and management of all material sources and effects of market risks if such risks are deemed material.

Liquidity risk - Liquidity risk refers to the risk that an entity may not have enough readily available funds to meet its financial obligations as they come due. This risk arises when there are insufficient funds to cover payments at the required times. Subject to the management of the liquidity risks, the Company is carrying out daily monitoring of the counterparties and its own operations in the frame of the assets and liabilities management.

The Company shall implement robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers. Those strategies, policies, processes and systems shall be tailored to business lines, currencies and entities and shall include adequate allocation mechanisms of liquidity costs, benefits and risks.

The Company shall communicate risk tolerance to all relevant business lines. The Company shall develop methodologies for the identification, measurement, management and monitoring of funding positions. Those methodologies shall include the current and projected material cash-flows arising from assets, liabilities, off-balance sheet items, including contingent liabilities and the possible impact of reputational risk.

The Company shall distinguish between pledged and unencumbered assets that are available at all times, in particular during emergency situations. It shall also consider the legal entity in which assets reside, the country where assets are legally recorded either in a register or in an account as well as their eligibility and shall monitor how assets can be mobilized in a timely manner.

Inflation risk - The possibility that the inflation will rise above the expected rate. In this case the value of assets or income will decrease because inflation shrinks the purchasing power of a currency. Also, inflation causes money to decrease in value at some rate and does so whether the money is invested or not.

Inflation Risk:

- may be defined as the uncertainties involved with the actual value of an investment in future;
- destabilizes and weakens the performance of an investment.

Inflation Risk exposure reflects a stock's sensitivity to unexpected changes in the inflation rate. Unexpected increases in the inflation rate put a downward pressure on stock prices, so most stocks have a negative exposure to Inflation

Currency/foreign exchange risk - the risk that currency exchange rate fluctuations may reduce gains or increase losses on foreign investments. Adverse changes in exchange rates may erode or reverse any gains produced by foreign currency denominated investments and may widen any losses. This may also affect the ability of an issuer to repay a debt denominated in a currency other than reference currency of the security, thereby increasing credit risk. Where securities are denominated in a currency other than the client's reference currency, changes in rates of exchange may have an adverse effect on the value of the investment in the reference currency.

Risk of borrowing to fund investments - clients should always be aware of the risks associated with borrowing to increase their exposure to a particular investment. Borrowing can increase profits if the investment that is purchased using the loan increases in value. However, if the investment decreases in value, the losses caused to the client as a result of the greater exposure to the investment, the costs of the loan and the obligation to provide more collateral and/or to repay the loan at a time which may be most disadvantageous to the borrower, can increase losses substantially.

Tax risk - before a client invests, the client should note the tax consequences of such an investment and take tax advice. Many investments or their issuers do not give any assurance to clients that they will result in or be managed or operated in a way that will ensure the optimal tax outcome for a particular client. Investments may have adverse tax consequences for a client. The information that an issuer provides to a client may not be sufficient to enable the client to complete the client's tax return.

Information risk - the information that is available to clients when making investment decisions in certain investments can vary in quality and accuracy depending on a number of factors, for example, the jurisdiction of the issuer of the investment, the nature of the investment and the obligations applicable to the issuer. For example, bonds or shares issued by emerging market issuers may suffer from such deficiencies.

Emerging markets risk - the term "emerging market" means a securities market in a country which is generally characterized by political instability, precarious financial markets, a potentially weak economy, a potentially challenging legal/regulatory environment and uncertainty concerning that country's economic development. Investments made in emerging markets generally entail specific risks which are not encountered in developed markets. Bonds issued by emerging markets issuers may pay a higher return but this may not compensate fully for the additional risks involved. See also "Emerging Markets" below.

Interest rate risk - Interest rates are a key component in many market prices and an important economic barometer. Fluctuations of Market interest affect the prices of securities. Interest rates are particularly important because they are the key ingredient in the cost of capital. Usually, the price of shares increases if the interest rate falls and vice-versa. Factors that influence the level of market interest rates include:

- Expected levels of inflation;
- General economic conditions;
- Monetary policy and the stance of the central bank;
- Foreign exchange market activity;
- Foreign client demand for debt securities;
- Levels of sovereign debt outstanding;
- Financial and political stability.

Interest rate risk is the probability of an adverse impact on profitability or asset value as a result of interest rate changes.

The Company shall implement systems to evaluate and manage the risk arising from potential changes in interest rates since they affect the Company's non-trading activities.

Regulatory/legal/structural risk - exposure to financial loss arising from the probability that regulatory authorities will make changes in the current rules (or will impose new rules) that will negatively affect the already-taken trading positions (investments).

It is also a risk that the regulatory authority will impose a sanction, either upon the Company or one of its officers, for failing to comply with the regulatory standards applicable in the financial services sector. A variety of different forms of sanction can be applied, including:

- The imposition of conditions upon a license. Conditions can be in a variety of different forms, e.g., removal of particular officer or employee, implementation of remedial action;
- Fines;
- Withdrawal of a license.

Furthermore, the Company faces the risk of possible enforcement action against it, by the competent authority, if it is determined that the Company has:

- Failed to take reasonable care to establish and maintain effective systems and controls to offset the risk that criminals might use the Company to Launder Money;
- Failed to check that employees understood the Anti-Money Laundering training they were receiving;
- Failed to ensure that staff understood their AML responsibilities for the recognition and reporting of suspicions;

Furthermore, possible regulatory risk is the risk that a change in laws and regulations will materially impact on a security, business, sector or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape.

Operational risk - This is the risk that the internal organizational systems of the Company may fail, owning to systems malfunctions or human errors. Operational risk can be defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Most operational risks in the KYC context relate to weaknesses in the implementation of the Company's programs, ineffective systems and control procedures, inadequate training and failure to practice sufficient due diligence.

Operational risk loss can be categorized under the following (overlapping) categories:

- Internal and External fraud: Some person or persons either inside the Company or outside it, or both, have broken regulations, laws or company policies and losses resulted. Insider trading and theft typically come under this category.

- Employment practices and workplace safety: These are losses arising from failure to implement required employment practices and include losses under discrimination suits and workers' compensation.

- Clients, products and business practice: Here losses arise from failure to engage in correct business practice, for instance, via unsuitable sales to clients, money laundering or market manipulation.

- Damage to physical assets: Natural disaster, act of God and terrorism losses come under this category.

- Business disruption and systems failures: These include all hardware, software, telecom and utility failure related losses.

- Execution, delivery and process management: This is a wide category including data entry issues, collateral management, failure to make correct or timely regulatory or legal disclosures, and negligent damage to clients' assets.

Security of Archives Risk - A backup of the electronic archives must be performed. Only authorised personnel using their unique password can access the electronic archives. The files are archived and locked. Only authorized personnel can access them.

Criminal Risk of Money Laundering - this risk applies at both a legal entity and an individual employee level. There is a clear risk of criminal liability where a provider of financial services, i.e., the Company, fails to make enquiries or report his/her suspicions in circumstances when he/she ought to have known that his/her services were being used to facilitate the retention or to conceal the proceeds of criminal conduct.

Civil Risk - There is a risk of civil liability in certain circumstances. The Company may be held liable and ordered to pay compensation to the victims of a breach of trust, fiduciary duty or other fraud if they assist the perpetrator by laundering the proceeds of the fraud in circumstances where it can be established that they have the relevant knowledge.

Under the principle of constructive trust, it might be possible for victims to sue the financial organisation who handled their money which have resulted in the loss, if it can be shown that the financial organisation has failed to institute and maintain proper deterrence procedures not only against money laundering, but also against fraud.

Clearing house protections/settlement risk - on many exchanges, the performance of a transaction may be "guaranteed" by the exchange or clearing house. However, this guarantee is usually in favor of the exchange or clearing house member and cannot be enforced by the client who will therefore be subject to the credit and insolvency risk of the firm through whom the transaction was executed. Settlement risk is the risk that a counterparty does not deliver the security (or its value) in accordance with the agreed terms after the other counterparty has already fulfilled its part of the agreement to deliver. Settlement risk increases where different legs of the transaction settle in different time zones in different settlement systems.

Suspensions of trading - each stock or commodities exchange may in certain circumstances be prompted to suspend or limit trading in all securities or commodities which it lists. Such a suspension would render it impossible for a client to liquidate positions and would accordingly expose the client to losses and delays in their ability to obtain reimbursement upon demand.

Reputational Risk - There is a risk that the reputation of the Company may be damaged in such a way that it may be regarded less positively. Reputational risk always follows the materialization of criminal or regulatory risk – to varying extents.

Reputational risk is the current and prospective impact on earnings and capital arising from negative public opinion. This affects the Company's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the Company to litigation, financial loss, or a decline in its customer base.

Reputational risk poses a major threat to a financial organisation, i.e., the Company, since the nature of the Company's business requires maintaining the confidence of clients, depositors, creditors and the general marketplace. Reputational risk is defined as the potential that adverse publicity regarding a financial organisation's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of the institution.

Financial organisations are especially vulnerable to reputational risk because they can so easily become a vehicle for or a victim of illegal activities perpetrated by their customers. They need to protect themselves by means of continuous vigilance through an effective KYC program.

Assets under management, or held on a fiduciary basis, can pose particular reputational dangers.

Confidentiality Risk - All the Company staff must strictly follow the Internal Operations Manual. All the Company staff must strictly follow the procedures for prohibiting the illegal access to inside information, the establishment of Chinese-Walls as well as the code of business conduct.

Non-systematic or Diversifiable Risk - The risk associated with the specific security which depends on the financial results, the industry sector of the specific Company etc.

Non-systematic risk results from unpredictable factors, such as poor management decisions, successful competitive products, or suddenly obsolete technologies that may affect the securities issued by a particular company or group of similar companies.

An example of non-systematic risk is the possibility of poor earnings or a strike amongst a company's employees.

KEY COSTS OF INVESTING

Making any investment will also involve costs and charges which will vary depending on the nature of the service being offered and the product in which a client is investing. These costs can be material and may have a negative impact on the returns that a client expects to realize from the investment.

Where you invest through the Company you will be provided with a fee schedule which sets out our current transaction and other costs, which shows the basis on which the Company receives from and/or shares remuneration with the providers of products which you have purchased and/or sold.

In relation to some investments that you purchase such as equities and bonds, the Company charges one-off transaction fees, while in others there are ongoing fees which are charged throughout the term of the product. In addition, when you purchase a product such as a fund (described below), there are ongoing fees deducted by the investment manager of the fund and the providers of services and counterparties to the fund which will reduce the value of your investment. You should consider carefully the costs of any investment, and should you require any further information you should contact your Company's representative.

3. TYPES OF INVESTMENTS AND ASSOCIATED RISKS

EQUITY OR SHARE INVESTMENTS AND OTHER TYPES OF EQUITY INSTRUMENTS

Equities are ownership interests representing a share in property, usually a company. Ordinary shares are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share to the shareholder. Where an issuer is wound up (i.e. ceases to exist) holders of equities may lose some if not all their value. Most equities are traded on equity markets in which case they are described as listed.

Some equities, known as preference shares, may have preferential rights to other shares in relation to payments of dividends or repayment on insolvency. However, the term of preference shares often include provisions which mean the issuer can decide not to pay or to delay payment of such dividends.

A depositary receipt (ADRs, GDRs etc.) is a negotiable certificate, typically issued by a Firm, which represents a specific number of shares in a company, traded on a stock exchange which is local or overseas to the issuer of the receipt.

Shares in a company may be offered by way of a prospectus or information memorandum.

Information about the company may also be available by way of published accounts and from other sources.

Equities can reward clients with the potential of higher returns in the form of either capital appreciation of higher incomes through dividend payments in comparison to leaving the investments in cash deposits or money market funds. The increased potential return increases the level of risk of capital loss. Investing in equities usually involves brokerage costs.

Investing in equities carries potential exposure to all the major risk types referred to in Section 2. For example:

Market risk - share prices can fluctuate suddenly and sometimes very sharply. Shares also tend to fall in value when the economy is deteriorating as clients recognize that profits will be lower. Not all shares carry equal risk: the level of risk depends on the company from which the client is buying shares. The value of the shares may increase as company profits increase or as a result of market expectations, but the opposite can also be true.

Credit risk - if a company becomes insolvent, its equities have the most junior status, meaning that equities are repaid only after all other debts of the company have been repaid. This can result in a potentially severe reduction in, or total loss of, their value.

Information risk - the information that is available to clients when making investment decisions in equities can also vary in quality depending on the jurisdiction of the issuer and the rules which apply to such information as noted above.

Investing in equities may also expose a client to inflation and currency risk. Further, the client will be exposed to the specific risks of the industry in which the company operates, for example, a computer chip manufacturer might have exposure to the availability and price of certain metals.

Holders of depositary receipts are also subject to particular risks: the deposit agreement for the investment sets out the responsibilities of the depositary, the underlying share issuer and the holder of the depositary receipt, which may be different from the rights of the direct holders of the underlying shares. For example, the underlying shareholders may be entitled to receive dividends which are not passed onto the holders of the depositary receipts. Any such differences may have an adverse effect on the value of the depositary receipt.

BONDS AND FIXED INCOME INVESTMENTS

A bond is basically a debt instrument issued by a government, company or other corporate entity (an "issuer") and will usually have a maturity date of more than 12 months. A bond enables the issuer to raise money in a low cost, tax efficient way without diluting the interest of shareholders by seeking to raise capital through a share offering. Bonds will typically be issued at close to what is known as 'par' or face value. The bond issuer usually undertakes to pay interest ("the coupon") to the client which will generally be a fixed amount and is paid annually or semi-annually. At the maturity date, the issuer will repay the capital invested typically at par or face value regardless of how the market price has fluctuated before maturity. Bonds can be bought and sold until maturity and values can fluctuate depending on supply and demand and other factors such as interest rates.

Bonds are often referred to as "debt instruments" or "fixed income investments", since the amount of the interest payments is known in advance unless the issuer defaults (although some fixed income investments pay a floating rate of interest).

Bonds can be either secured or unsecured and either senior or subordinated. Secured debt means that collateral has been pledged as security against the issuer's failure to pay, while clients in senior debt instruments are legally entitled to be paid ahead of clients in subordinated (i.e. non-senior) debt instruments issued by the same company. Senior secured debt instruments therefore carry a lower risk of loss than other debt instruments issued by the same company.

Issuers that want to raise money from clients in the bond market are ranked according to how potential clients judge their ability to continue to make the income and capital repayments when they fall due. This is what is referred to as the 'credit rating'. Independent rating agencies are responsible for researching companies and supplying 'grades' or 'ratings' to companies' debt (bond issues). The most readily recognized rating agencies are Moody's, Standard & Poor's and Fitch Ratings. Long-term credit ratings for Moody's, Standard & Poor's and Fitch Ratings respectively range from Aaa / AAA / AAA (highest quality) to C / D / D (in default). As rating categories and rating methodologies differ between the rating agencies, you should familiarize yourself with the relevant rating agency's current publicly available rating categories and rating methodology which will be available from the relevant rating agency's website:

Moody's: http://www.moodys.com/
Standard & Poor's: https://www.spglobal.com/ratings/en/
Fitch Ratings: http://www.fitchratings.com/

You may contact our Company's representative via email (compliance@xtelluseurope.com) if you have difficulty in accessing these materials or would like further explanation of the rating categories or rating methodologies.

Ratings given to an issuer, or a bond may depend, among other things, on its creditworthiness, its ability to continue to make payments to its bond holders in the future and what protection the bond holder has, should the company face financial difficulties.

There are two main subdivisions of bonds depending on their 'credit rating', which indicates to clients the level of risk associated with the company issuing the bond.

Investment grade bonds - with investment grade bonds it is expected that the risk of non-payment or default is low considering the financial position of the issuer. As a result, the income or coupons offered are usually lower than those from sub- or non- investment grade bonds.

Non-investment grade bonds - non-investment grade bonds, also known as High Yield bonds, are higher risk investments. The issuer may be less financially stable and the chance that the issuer will not be able to repay the amount owed to clients is expected to be higher than that of investment grade bonds. See also "Emerging Markets" below.

Bonds are offered by way of a prospectus or information memorandum which can be reviewed by clients.

HOW DOES INVESTING IN BONDS REWARD CLIENTS?

Clients receive a return on their investment in bonds in two ways: income and capital. The income received from the issuer is usually a major part of the overall return to the client. However, as not all issuers have the same financial strength, the weaker issuers may pay more than the stronger in order to compensate clients for the extra risk of non- payment. Similarly, issuers with lower financial strength are more at risk of not being able to repay clients when the bond matures. These companies also have to pay clients more when they borrow to compensate for this extra risk. A capital gain is normally only made where bonds are sold in the secondary market or redeemed at a higher price than at which they were purchased.

WHAT ARE THE RISKS OF INVESTING IN FIXED INCOME INVESTMENTS SUCH AS BONDS?

Although fixed income investments such as bonds are generally regarded as conservative investments with less risk of capital loss than equities, a client is also potentially exposed to all of the major risk types referred to in Section 2. For example:

Liquidity risk - if a client seeks to sell a fixed income investment such as a bond prior to its maturity date, there may be no market for the bond and the client may be unable to sell the bond at the desired time or price or at all. There may be a substantial difference between the secondary market bid (or purchase) and offer (or sale) prices quoted by a market maker for a fixed income investment.

Credit spread risk - the risk of financial loss resulting from a change in the credit spread, e.g. the additional yield that a bond issued by, for example, an A rated issuer must produce over a better rated bond. The value of fixed income investments generally moves in the opposite direction of credit spreads, in particular where such investments pay a fixed rather than floating rate of interest. Values decrease when credit spreads widen and increase when credit spreads tighten.

Interest rate risk - the value of fixed income investments such as bonds (in particular where such investments pay a fixed rather than a floating rate of interest) generally moves in the opposite direction of interest rates (inversely) and, therefore, the value decreases when interest rates rise and increases when interest rates fall. This is because a rising interest rate makes the value of the future interest payments on the bond lower and new issues of bonds must raise their interest rates so that older issues with lower yields become less popular and their price falls.

Early repayment risk - asset-backed securities, which are backed by a pool of assets such as mortgages, automobile loans or credit card receivables, may be subject to early repayment of principal corresponding to early repayment of the underlying assets, in particular where interest rates have fallen, and such assets can be refinanced at a lower interest rate. Callable fixed-rate securities may also be subject to an increased risk of early repayment in such circumstances because the issuer of such securities can issue new securities at a lower interest rate. Early repayment will result in a reduction in value of the relevant securities.

Inflation risk - the returns may not keep pace with inflation because the relationship between inflation and corporate bond prices is inverted; a high rate of inflation will reduce the value of future income or redemption amounts under the bond.

Credit risk - the issuer or guarantor of the bond may have financial difficulties or may become insolvent thereby being unable to meet interest or capital repayments.

Regulatory/Legal risk - the bond may contain provisions for calling bondholder meetings to consider matters affecting the interests of the bondholders generally and may permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meetings and holders who voted in a manner contrary to the majority. Amendments may be made to the terms and conditions of the bonds without the consent of all the bondholders.

Structural subordination risk - where bonds are issued by, or payment on them is guaranteed by, a parent or holding company, payments on the bonds may depend on receipt of dividends or cash loans from subsidiaries.

The relevant issuer or guarantor's ability to receive dividends and loans from its subsidiaries will be subject to applicable local laws and other restrictions. These restrictions could include, among other things, regulatory and contractual requirements and applicable tax laws.

The holder of a bond issued by a parent or holding company may not have any control over whether or not subsidiaries of that company incur significant further indebtedness. In the winding- up of such a subsidiary the claims of the creditors of the subsidiary would normally be required to be met before any surplus amounts are paid to its parent company and to the parent company's creditors (including bondholders).

Contractual or statutory subordination risk - the claims of bondholders may be contractually subordinated or subordinated by legislation to the claims of holders of other obligations of the issuer.

Subordinated bonds are typically unsecured obligations i.e. the holder will have no claim over specific assets of the issuer. Further, in the event of the winding-up of the relevant issuer, it is unlikely that payment of principal or interest will be made until payments have been made to more senior (less subordinated) creditors.

Bonds (including "senior" bonds) issued by Firms are typically subordinated to the claims of certain depositors (deposit accountholders) of the Firm. Bonds (including "senior" bonds) issued by insurance companies are typically subordinated to the claims of policyholders and certain other beneficiaries of the relevant insurer.

Regulators may also have greater powers, or a greater willingness, to use their statutory powers to “bail-in” (i.e. write off or convert into equity) subordinated Firm issuer or insurance issuer securities than senior bonds or other liabilities owed by that regulated entity. Any equity delivered to bondholders on a mandatory statutory conversion may be illiquid or have a low market value.

Although such bonds may pay a higher rate of interest than comparable bonds which are not subordinated, there is a real risk that a client in subordinated bonds will lose all or some of his or her investment should the relevant issuer become insolvent or be subject to other analogous proceedings. See also «Regulatory capital risk» and «Corporate hybrid capital risk» below.

Regulatory capital risk - regulatory capital bonds issued by Firms and insurers contain terms designed to meet the capital requirements of the relevant Firming or insurance group. As well as being subordinated, they may contain issuer - friendly terms such as (i) optional or mandatory interest deferral or cancellation, (ii) mandatory write-down or conversion of principal into equity upon the occurrence of a specified stress event, (iii) deferral of redemption (i.e. repayment of the original investment) and/or (iv) being long-dated (e.g. 30+ years) or having no maturity date at all. They are unlikely to contain typical bond client protections such as extensive restrictions on the business of the issuer, events of default or enforcement rights.

Regulators may also have greater powers, or a greater willingness, to use their statutory powers to bail-in (i.e. write off or convert into equity) regulatory capital securities than senior bonds or other liabilities owed by a regulated entity. Any equity delivered to bondholders on a mandatory statutory or contractual conversion may be illiquid or have a low market value.

Clients in long dated or perpetual bonds may have to bear credit risk on the issuer for a long period and possibly, effectively, indefinitely.

Although such bonds may pay a higher rate of interest than comparable bonds which are not subordinated, there is a real risk that a client in such bonds will have payments on the bonds deferred indefinitely or cancelled or will lose all or some of his or her investment should the relevant issuer become distressed, insolvent or be subject to other analogous proceedings. See also "Contractual or statutory subordination risk" above.

Corporate hybrid capital risk - corporate issuers (such as utility, energy and telecommunications companies) sometimes issue subordinated bonds intended to have a particular effect for accounting or credit ratings purposes. As well as being subordinated, they may contain issuer-friendly terms such as (i) optional or mandatory interest deferral, (ii) mandatory conversion of principal upon the occurrence of a specified event or date and/or (iv) being long-dated (e.g. 30+ years) or having no maturity date at all. They are unlikely to contain typical bond client protections such as extensive restrictions on the business of the issuer, events of default or enforcement rights.

Any equity delivered to bondholders on a mandatory contractual conversion may be illiquid or have a low market value.

Although such bonds may pay a higher rate of interest than comparable bonds which are not subordinated, there is a real risk that a client in such bonds will have payments on the bonds deferred indefinitely or cancelled or will lose all or some of his or her investment should the relevant issuer become distressed, insolvent or be subject to other analogous proceedings. See also "Contractual or statutory subordination risk" above.

High Yield bonds - non-investment grade bonds may suffer from more volatile price movements in the secondary markets than investment grade bonds; in particular, in times of macro-economic or industry- specific uncertainty. Non-investment grade bonds are also expected to be more susceptible to payment default and restructuring proposals than investment grade bonds.

High yield bond issuers tend to be highly leveraged i.e. to have significant amounts of debt outstanding compared to the equity (share) value of the issuer and its group. This may make it more difficult for the issuer to satisfy its payment obligations under the bonds.

While some High Yield bonds purport to give security over assets of the issuer or its group it may be difficult and expensive for bondholders to extract any value from such security if the issuer defaults on scheduled payment under the bonds. The secured assets may not provide any significant value at that time and enforcement of the security may involve lengthy court or other administrative processes (including in foreign countries where enforcement may be more difficult). If assets are to be recovered from the issuer, it could take many years to realize them and any cash proceeds from their sale; the costs of such recovery will have to be met before any cash sums are shared.

Although such bonds may pay a higher rate of interest than comparable investment grade bonds, there is a real risk that a client in such bonds will lose all or some of his or her investment should the relevant issuer become unable to meet scheduled payments, become subject to a debt restructuring proposal, become insolvent or be subject to other analogous proceedings. *See also "Bonds and Fixed Income Investments - What is a Bond? - Non-investment grade bonds" above and also "Emerging Markets" below*.

DIRECT OR INDIRECT INVESTMENTS IN UNQUOTED COMPANIES ("PRIVATE EQUITY")

A "private equity" investment generally involves the placing of investment capital, and especially venture capital, at the disposal of companies, the shares in which are not listed on any stock exchange or other regular market. Recently, however, many large private equity deals involve the buy-out of major listed companies. Private equity investments may take the form, as the case may be, of any of the following: the purchase of a direct shareholding in a company; the purchase of a significant stake in a listed company with a view to influencing the management or strategy of the company; or the acquisition of an interest in an investment fund or other entity (e.g. a partnership) specializing in participations in the form of private equity ("Private Equity Funds").

Private equity investments often require substantial cash investments over a long period with no possibility of an early exit. clients are generally required to commit in advance to responding to subsequent capital calls.

For the recipient companies, the provision of capital in private equity form is principally designed to enable new products or new technologies to be developed; increase working capital; finance acquisitions in the form of "management buy-outs" ("MBOs") or "management buy- ins" ("MBIs"); or improve their balance-sheet situation.

How does investing in private equity reward clients?

The rewards of private equity are principally derived from the increase in value of the underlying investments and the return of capital to clients resulting from the realization of the investments either during the life of the Private Equity Fund or upon its dissolution.

What are the risks of investing in private equity?

Private equity investments expose the client to risks of substantial losses including the entire capital initially invested and may be even greater where the client has undertaken to respond to calls for additional payments. Private equity investments are potentially exposed to all of the risks set out in Section 2 and share many of the risks described in relation to Funds. In addition, the following risks are typical of private equity investments:

Market risk - investments in unlisted companies tend to be highly risky, as such companies are generally smaller, more vulnerable to market fluctuations and technological developments and more dependent on the skills and commitment of a small group of managers, unlike listed companies.

Liquidity risk - such investments, whether made directly or through a Private Equity Fund, may be difficult to liquidate and generally are not transferable. clients should be aware that their capital will be tied up, either completely or with access subject to restrictions, for a long time, even up to 11 or 12 years. No distributions are made prior to exit from investments. clients do not normally have any entitlement to early exit. At the end of the lock-up period, the value of the investment may be significantly lower than its acquisition price, or even zero.

Risk of loss of capital commitment - a private equity investment is designed to obtain a high return on the funds invested so that the risk of loss inherent in such an investment is proportionately higher than in the case of investments of a more traditional nature. The client is contractually obliged to fund all capital calls committed to at the inception of the investment. clients may lose their entire commitment.

Risk related to the choice of the type of investment - the success of a Private Equity Fund will depend on the ability of its managers to identify, select, develop and realize suitable investments. It is not possible to give any assurance that such investments will be made or that they will prove to be profitable.

Diversification risk - the investment vehicle chosen by the client may make only a limited number of investments. Consequently, the overall return might be significantly affected by the negative performance of a single investment or a very small number of investments.

Information risk - there is little or no publicly available information concerning private equity investments, their value and their performance because such investments are not subject to the same controls and the same requirements with regard to publication as regulated retail funds whose shares are offered to the public.

Risk related to a minority shareholding - where a client has the status of a minority shareholder in any given company, it will not always be possible for the client to defend the client's interests effectively.

Risk of lack of recourse - the fund / fund manager generally has limited responsibility visa-vis the client. It is therefore possible that even in the case of a substantial loss caused by negligence, the client may have no effective legal claim against the individuals or entities that were responsible for the loss.

Key person risk - the successful performance of the private equity investments made by the client may largely depend on the experience, contacts and personal skills of the key members of the staff of the company or investment vehicle concerned.

Risk related to the individuals involved - the training and experience of the individuals responsible for managing private equity investments may be limited. Their capital resources may be small, which means that it may be difficult for the client to recover from them the amount of damages which may be incurred if they have breached their duties. In addition, the risk of fraud and malpractice cannot be ruled out.

Legal and tax risk - private equity investments may be sensitive to possible changes having a potentially negative effect in the legal and fiscal systems or in the regulatory systems in force during their existence.

Emerging markets risk - private equity firms are more likely to invest in emerging markets and therefore are exposed to the risks associated with such investments. See Section "Emerging Markets".

Risk related to liquidation - a target investment period is generally defined for private equity investments. Upon liquidation or termination of the investment vehicle, the client may become the direct holder of unlisted securities which are not negotiable, and which are often encumbered with regulatory restrictions with regard to their sale.

OPTIONS

An option is a contract between a buyer and a seller that gives the buyer the right - but not the obligation - to buy or to sell a particular asset (the "underlying") at a later date at an agreed price. In return for granting the option, the seller collects a payment (the "premium") from the buyer. A call option gives the buyer the right to buy the underlying; a put option gives the buyer the right to sell the underlying.

In return for payment of the premium, the buyer of a call option acquires the right to buy from the seller a defined proportion (the size of the contract) of the underlying at an agreed price (the "exercise price" or "strike") during a certain fixed period or on a predetermined date (the "expiration date"). In return for payment of the premium, the buyer of a put option acquires the right to sell to the seller a defined proportion of the underlying at the exercise price during a certain fixed period or on the expiration date.

Where an option provides for physical settlement, the underlying asset is to be delivered if the option is exercised. For example, if the buyer of a physically settled call exercises its option, then the seller must deliver the underlying in exchange for payment of the exercise price. Where an option provides for cash settlement, only cash is to be delivered. For example, if the buyer of a cash settled call exercises its option, then the seller must deliver in cash the difference between the exercise price and the market value of the underlying at the time of option exercise.

The price of an option is closely linked to that of the underlying. Any change in the market value of the underlying will generally result in a greater change in the price of the option. This is the effect of leverage. It means that the client participates disproportionately in any rise or fall in the market value of the underlying.

The contractual specifications of the option are either standardized and traded through an exchange (listed options or exchange traded options) or agreed individually between the buyer and the seller (in the case of mutually negotiated or "over the counter" (OTC) options).

"American style" options are those which may be exercised on any business day up to the expiration date. "European style" options are those which are exercisable only on their expiration date.

What assets can an option apply to?

The assets underlying an option may be capital assets such as shares, bonds, currencies, commodities or precious metals; reference rates or other references, such as interest rates or indices; derivative products (for example swaps, forwards or futures contracts); or combinations of various above- mentioned underlying assets, sometimes referred to as baskets.

What are "in-the-money", "out of the money" and "at-the-money" options?

A call option is "in-the-money" when the current market value of the underlying asset is higher than the exercise price (also referred to as the "strike"). A put option is "in-the-money" when the current market value of the underlying asset is lower than the strike.

A call option is "out-of-the-money" when the current market value of the underlying asset is lower than the strike. A put option is "out-of-the- money" when the current market value of the underlying asset is higher than the strike.

When the current market value of the underlying asset and the strike are the same, the option is "at- the-money".

The intrinsic value of an option is the value to the holder of the option if it could be exercised now. Hence, it is either worthless if the option is out- of- the-money or equal to the difference between the current market price or level of the underlying asset and the option's strike if the option is in- the-money.

What is the margin requirement?

If the client sells an option, the client will be required to provide collateral or "margin" for the entire life of the contract. The margin is set by the Firm and/or exchange to protect against a possible default by the client, and may consist of the underlying asset, cash or other collateral. If the margin proves to be insufficient, the client may be required to provide additional collateral in response to a "margin call". If the client does not provide the required margin in response to the margin call, then the option may be liquidated at a time which may be disadvantageous to the client. This may result in loss of all margin and loss of the entire investment where the investment would otherwise have been profitable had it not been liquidated.

Forms of options

Warrants - a warrant gives the holder the right but not the obligation to buy (in case of a call warrant) or sell (in case of a put warrant) an underlying asset at a predetermined price (strike) from the issuer or receive an equivalent cash amount. Warrants can be issued on a variety of underlying, such as equities, indices, bonds or commodities, and may be listed on an exchange. The performance of the underlying is reflected in the price of the warrant according to a given ratio. Warrants are leveraged instruments, therefore a relatively small movement in the price of the underlying results in a much larger percentage move in the price of the warrant. At maturity, should the price of the underlying be below the strike for a call warrant (or above for a put warrant), the warrant expires worthless. Your maximum loss is always limited to the initial amount invested.

Listed options - listed (or exchange traded) options are standardized options and are traded on specialist exchanges (for example, EUREX, EURONEXT or CBOT) in accordance with the rules and local practices in force and are executed via a clearing house which guarantees the execution and settlement of the transaction.

Over-the-counter (“OTC”) options - OTC options are not listed. They are contracts entered into off- exchange between a buyer and a seller. Thus, a position arising from the purchase or sale of an OTC option can only be liquidated with the same contracting party (the “counterparty”). Such liquidation can be done by either party entering into an exactly off-setting position or unwinding the original option contract. This requires the agreement of both parties.

Customized OTC options, the underlying assets of which may be various, are created especially for each client.

Forms of "exotic" options

Compared with the standard call and put options discussed above ("plain vanilla options"), so- called "exotic" options are subject to various additional conditions and stipulations. There is no limit to the possible structures for exotic options. A distinction is generally drawn between an option whose performance depends upon changes in the underlying asset ("path-dependent") and options relating to more than one underlying asset.

Options on more than one underlying asset

For this type of option, the calculation of the intrinsic value of the option is based on the difference in the change of two or more underlying. This difference can be expressed either in absolute terms ("spread option") or as a percentage which reflects the relative performance of one underlying to another ("outperformance option"). It is therefore the performance differential and not the positive or negative change in the respective prices of the underlying which is the determining factor for this type of option.

Given its specific characteristics, the change in the price of an "exotic" option may differ significantly from that of a "plain vanilla" option throughout its life.

Forms of Option Strategies

If a client enters into two or more options based on the same underlying, which differ either in the option type (call or put), the quantity, the strike, the expiration date or the type of position (long or short), it is referred to as an option strategy. Below is a list of common OTC option strategies:

Collar - a collar is a strategy that combines the purchase of a put option with a lower strike and the sale of a call option with a higher strike on the same underlying. In certain circumstances neither party to the strategy pays a premium; this strategy is known as a "zero cost collar". When combined with the holding of the underlying shares, collars can be used to fully / partially protect existing long share positions with little or no cost paid as the premium to be paid for the put option is offset by the premium received from selling the call option.

The maximum risk for the purchaser of the collar is theoretically unlimited, in that the client will be liable for any increase in the price of the underlying above the strike of the call option times the notional quantity. The maximum risk for the seller of the collar is the strike of the put option times the notional quantity.

Call Spread - a call spread is a strategy that combines the purchase and sale of call options at different strikes on the same underlying. The purchaser (seller) of a call spread purchases (sells) a call option at a lower strike and sells (purchases) a call option at a higher strike. The purchaser of the call spread is giving up any upside potential above the higher strike call and the seller is protected against losses above the higher strike call.

The maximum risk for the purchaser of a call spread is the loss of the premium paid. The maximum risk for the seller of the call spread is the difference between the strikes of the two options times the notional quantity.

Put Spread - a put spread is a strategy that combines the purchase and sale of put options at different strikes and on the same underlying. The purchaser (seller) of a put spread purchases (sells) a put option at a higher strike and sells (purchases) a put option at a lower strike. The purchaser of the put spread is giving up any upside potential below the lower strike and the seller is protected against losses below the lower strike.

The maximum risk for the purchaser of the put spread is the loss of the premium paid. The maximum risk for the seller of the put spread is the difference between the strikes of the two options times the notional quantity.

Straddle - a straddle is a strategy that combines a call option and a put option at the same strike price and on the same underlying. The purchaser (seller) of a straddle purchases (sells) the call option and the put option.

The purchaser of a straddle is exposed to the risk that at expiry the price of the underlying will not be significantly less or greater than the strike. The maximum loss is the loss of the premium paid. The seller of a straddle is exposed to the risk that the price of the underlying will be significantly higher or lower than the strike. The maximum loss for the seller is theoretically unlimited, in that the client will be liable for any increase in the price of the underlying above the strike of the call option times the notional quantity. The seller is also at risk for any decrease in the price of the underlying below the strike of the put option, with the maximum risk under the put option being the strike times the notional quantity.

Strangle - a strangle is a strategy that combines the purchase (sale) of a call option at a higher strike and a put option at a lower strike.

The purchaser is exposed to the risk that at expiry the price of the underlying will not be significantly less than the lower strike of the put option or greater than the higher strike of the call option. The maximum loss is the loss of the premium paid. The seller of a strangle is exposed to the risk that at expiry the price of the underlying will not be between the lower strike of the put option and the higher strike of the call option. The maximum loss for the seller is theoretically unlimited, in that the seller will be liable for any increase in the price of the underlying above the higher strike of the call option times the notional quantity. The seller is also at risk for any decrease in the price of the underlying below the lower strike of the put option, with the maximum risk under the put option being the strike times the notional quantity.

As an option strategy results from the combination of different options, the unwinding or partial unwinding of only some options forming part of a strategy will entail a significant change in the total risk assumed and accepted at the outset.

How does investing in options reward clients?

The buyer of a call option may generate a gain if the market value of the underlying rises or in the case of a put option if the market value of the underlying declines. Any gain will be net of the cost of the premium payable to the seller. The seller of options may generate a gain from the premium.

What are the risks of investing in options?

Risks related to the purchase of call and put options - the value of an option is reduced if, in the case of a call option, there is a fall in the market price of the underlying asset or, in the case of a put option, the price rises. The value of the option may fall as the expiration date approaches, while the market value of the underlying remains the same or fluctuates in a manner in principle favorable to the buyer of the option. This loss of value of the option is due to the passing of time and/or the adverse trend shown by market supply and demand. For this reason, the buyer must bear in mind that the value of the option diminishes as the expiration date approaches and may reach zero in respect of at-the-money or out- of- the-money options. In those circumstances, the maximum loss is equal to the amount of the premium initially paid. If the underlying is itself a derivative (e.g. a future, an option or a swap), after the option has been exercised, both the seller and the buyer are exposed to the risks inherent in this derivative.

Risks related to the sale of options - when you sell an option, the risk is considerably greater than when you are a buyer. You may be liable for margin payments to maintain your position and you may sustain a loss well in excess of the premium you received. The seller must anticipate the possibility that the buyer may exercise its right, even if the intrinsic value of the option is at-the- money or out-of- the-money. In the case of American-style options, the seller must also be prepared for the possible exercise of that right by the buyer at any time during the life of the option. In addition, if the underlying is itself a derivative, after the option has been exercised, both the seller and the buyer are exposed to the risks inherent in this derivative.

Covered call options - a call option is covered if the client owns a corresponding quantity of the underlying equivalent to the size or nominal amount of the option contract. If the current market value of the underlying exceeds the strike and, consequently, the buyer of the call option exercises the option, the seller of the option is deprived of the gain corresponding to the increase in the underlying which must be delivered. If the current market value of the underlying does not exceed the strike, the seller of the option does not incur any loss on the option, but nevertheless remains fully exposed to the risk related to any fall in price of the underlying. In the event that, throughout the life of the option, all or part of the underlying owned by the seller is required to be used as collateral for the option, the only way in which the seller of the option can sell the underlying in order to avoid a future loss is by repurchasing the option.

Uncovered call options - if the seller of a call option does not own the corresponding quantity of the underlying, the call option is described as uncovered. In the case of options with physical settlement, the potential loss is the difference between the strike paid by the buyer and the price the seller must pay to purchase the underlying in the market, if the buyer exercises the option. Where an option with cash settlement is involved, the potential loss is equivalent to the difference between the strike and the market value of the underlying. Since the market value of the underlying may far exceed the strike when the option is exercised, the maximum potential loss cannot be determined in advance and is theoretically unlimited.

In particular, the seller of an American-style option that requires physical settlement of the underlying must bear in mind that the option may be exercised in highly adverse market conditions and that, depending on the circumstances, it may prove difficult, if not impossible, to acquire the underlying asset in order to deliver it.

The seller must be aware that the potential loss may far exceed the amount of the collateral or "margin" provided.

Put options - the seller of an American-style put option with physical settlement is obliged to purchase the underlying at the strike if the buyer exercises the option, even though it may be difficult or impossible to sell the underlying received and substantial losses may be incurred.

The seller's potential loss may be significantly greater than the amount of the collateral or "margin" provided. The maximum potential loss for each option sold is limited to the strike less the premium received.

Combined Contracts - Given the numerous different possible combinations, the risks inherent in each individual contract may be a combination of several specific risks described in this Risk Disclosure Statement. It is therefore not possible to provide a more detailed description.

In a combined contract, the closure of one or more specific components may considerably alter the overall risk related to the position.

Risks related to margin calls - if the client sells an uncovered option, the client will be required to provide collateral or "margin" for the entire life of the contract. The margin is set by the Firm and/or exchange to protect against a possible default by the client, and may consist of the underlying asset, cash or other collateral. If margin proves to be insufficient, the client may be required to provide additional collateral in response to a "margin call". If the client does not provide the required margin in response to the margin call, then the option may be liquidated at a time which may be disadvantageous to the client. This may result in loss of all margin and loss of the entire investment where the investment would otherwise have been profitable had it not been liquidated.

FUTURES CONTRACTS

Under a forward/futures contract, two parties commit to exchange a fixed quantity of an underlying against a cash amount, on a precise date (the maturity date), at a price agreed at the start of the contract. Unlike options which only represent a right to exercise, forward/futures contracts give rise to obligations for both parties. Forward/futures contracts do not require the payment of a premium at the start of the contract.

Depending on the circumstances, the underlying(s) may include shares, bonds, commodities or precious metals, reference rates or other references (e.g. interest rates, currencies or indices).

Futures and forward contracts are very similar in nature but have some differences. Futures are traded on an exchange. They take the form of contracts in which the quantity of the underlying (called the size of the contract) and the maturity dates are standardized. "Over-the-counter" ("OTC") forward contracts are not traded on an exchange and entail specific terms individually agreed between the buyer and the seller.

Futures contracts require an initial margin and variation margin. The “initial margin” is specified when the contract is initiated, whether the client is the purchaser or the seller under the forward contract. Such an initial margin is expressed either as an absolute amount or as a percentage of the size of the contract. In addition, the “variation margin” is calculated periodically throughout the entire life of the contract, generally on a daily basis. This reflects the book profit or loss arising from a change in the value of the underlying. The variation margin may ultimately amount to a sum several times greater than that of the initial margin. The detailed procedure for calculating the variation margin is specified in accordance with the exchange rules and practice or specific contract terms applying in each case. Throughout the life of the contract, a client must maintain margin equal to the sum of the initial and variation margins required.

A client may, in principle, close or liquidate the contract at any time prior to the maturity date. The closing of the contract is dependent on the type of contract and/or the rules and practice of the exchange. The client can either sell the contract or agree an offsetting trade with identical terms. Concluding such an offsetting trade means that the obligations to deliver and receive cancel each other out. The parties to the contract are bound to honor the obligations arising from the contract which have not been closed or offset prior to their expiration date. The following principles apply in such circumstances:

- If the underlying of the contract is a physical asset, settlement is achieved by physical delivery. Only in exceptional cases do the contract provisions or the rules and practice of the exchange call for cash settlement. All other fulfilment specifications, especially the definition of the place of fulfilment, can be found in the relevant contract provisions.
- The difference between physical delivery and cash settlement is that with physical delivery underlying(s) in the quantity specified by the contract must be delivered, whereas with cash settlement only the difference between the agreed price and the market value on settlement must be paid. This means that the client requires more funds to be available for physical delivery than for cash settlement.
- If the underlying of the contract is a reference rate or benchmark, fulfilment by physical delivery is not permitted. Instead, settlement is always in cash.

How does investing in futures contracts reward clients?

A forward/futures contract can offer a client the possibility of eliminating any uncertainty about the future price of an asset (such as a stock or bond). If the expected future price of an asset increases over the life of the forward contract the right to buy the asset at the contract price will have positive value for the client who will at the end of the contract pay less for receiving the asset than its market value. The opposite is however also true if the expected future price decreases over the life of the contract.

What are the risks of investing in forward/futures contracts?

Depending on the change in the value of the underlying throughout the life of the contract, the risks are as follows:

Risks related to contract sales - for contract sales, the client must deliver the underlying at the price originally agreed even if its market value has since risen above the agreed price. In such a case, the client risks losing the difference between these two amounts. Theoretically, there is no limit to how far the market value of the underlying can rise. Hence, the potential losses are similarly unlimited and can substantially exceed the margin provided.

Risks related to contract purchases – for contract purchases, the client must take delivery of the underlying at the price originally agreed even if its market value has since fallen below the agreed price. The potential loss corresponds to the difference between these two values. The maximum loss therefore corresponds to the originally agreed price. Potential losses can substantially exceed the margin required.

Price limit risk - in order to limit price fluctuations, an exchange may set price limits for certain contracts. The client should take the necessary steps to determine what price limits are in place before effecting forward or futures transactions. This is important since closing out a contract can be much more difficult or even impossible if a price limit of this type is reached.

Short selling risk - if the client sells the contract an underlying which the client does not hold at the outset of the contract, this is referred to as a short sale. In this case, the client runs the additional risk of having to acquire the underlying at an unfavorable market value in order to fulfil the client's obligation to effect delivery on the contract's maturity date. Furthermore, short sales may be banned or subject to specific restrictions and/or reporting requirements on certain markets. Consequently, before entering into a contract, the client should establish whether any such fluctuation limits exist.

Margin call risk - futures contracts require the client to provide collateral or "margin" for the entire life of the contract. The margin is determined by the brokerage Firm and/or exchange in its sole and absolute discretion to protect against a possible default by the client, and may consist of the underlying asset, cash or other collateral. If margin proves to be insufficient, the client may be required to provide additional collateral in response to a "margin call". If the client does not provide the required margin in response to the margin call, then the contract may be liquidated at a time which may be disadvantageous to the client. This may result in loss of all margin and loss of the entire investment even where the investment would otherwise have been profitable had it not been liquidated.

Special risks related to over the counter (OTC) contracts - OTC forward contracts are not transacted on a market, since they are a private contract between the buyer and the seller. Consequently, they can only be closed out by agreement with the same contracting party or neutralized by entering into an identical inverse contract with another contracting party (if available) enabling the market risk to be eliminated (but not the credit risk on the counterparties). Early closure of such a contract may consequently turn out to be impossible, or only possible under very unfavorable conditions. In both cases, there may be a very significant loss for the client.

Counterparty risk - the client is exposed to the potential failure of the counterparty to perform the contract and to the insolvency of the counterparty**.** For forward contracts this risk is significantly higher than for futures contracts.

<u>COMMODITIES</u>

WHAT ARE COMMODITIES?

Commodities generally refer to assets such as oil, cocoa, corn and copper. They can comprise both (i) "physical" commodities, which need to be stored and transported, and which are generally traded at a "spot" price, and (ii) commodity contracts, which are agreements either to (a) buy or sell a set amount of an underlying physical commodity at a predetermined price and delivery period, or (b) make and receive a cash payment based on changes in the price of the underlying physical commodity.

Commodity contracts may be traded on regulated specialized futures exchanges (such as futures contracts). Commodity contracts may also be traded directly between market participants "over-the- counter" on trading facilities that are subject to lesser degrees of regulation or, in some cases, no substantive regulation. Accordingly, trading in such "over the counter" contracts may not be subject to the same provisions as, and the protections afforded to, contracts traded on regulated specialized futures exchanges, and there may therefore be additional risks related to the liquidity and price histories of the relevant contracts.

How does investing in commodities reward clients?

When the economy is flourishing, goods and commodity prices tend to increase. A client investing in commodities might be able to take profit of their price increase that will offset partially or completely the increase in inflation. Moreover, commodities tend to have a negative correlation to traditional asset classes (fixed income, equities), meaning that when one asset class has a low value, the other will tend to have a high value, increasing the diversification of the portfolio. Therefore, clients may want to invest in commodities as a way of hedging their portfolio against inflation or as a way of lowering the risk in the portfolio by adding commodities as an asset class for diversification. However, commodities are a risky asset class and frequently may not exhibit these characteristics due to a number of factors. Some of the risks of investing in commodities are highlighted below.

What are the risks of investing in commodities?

Volatility risk - trading in commodities is speculative and may be extremely volatile. Commodity prices are affected by a variety of factors that are unpredictable including, for example, changes in supply and demand relationships, weather patterns and extreme weather conditions, governmental programs and policies, national and political, military, terrorist and economic events, fiscal, monetary and exchange control programs and changes in interest and exchange rates. Commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, the participation of speculators and government regulation and intervention. These circumstances could also adversely affect prices of the relevant commodity. Therefore, commodity prices may be more volatile than other asset classes and investments in commodities may be riskier than other investments.

Risks relating to commodity linked securities - Commodity linked securities which are linked to commodity futures contracts may provide a different return than commodity linked securities linked to the relevant physical commodity and will have certain other risks. The price of a futures contract on a commodity will generally be at a premium or at a discount to the spot price of the underlying commodity. This discrepancy is due to such factors as (i) warehousing, transport and insurance costs and other related expenses being taken into account in the futures contract price and (ii) different methods being used to evaluate general factors affecting the spot and the futures markets. In addition, and depending on the commodity, there can be significant differences in the liquidity of the spot and the futures markets. Accordingly, commodity linked securities which are linked to commodity futures contracts may provide a different return than commodity linked securities linked to the relevant physical commodity.

Investments in futures contracts involve certain other risks, including potential illiquidity - A holder of a futures position may find that such position becomes illiquid because certain commodity exchanges limit fluctuations in such futures contract prices pursuant to "daily limits". Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in the contract can neither be taken nor liquidated unless holders are willing to affect trades at or within the limit. This could prevent a holder from promptly liquidating unfavorable positions and subject it to substantial losses. Futures contract prices in various commodities occasionally have exceeded the daily limit for several consecutive days with little or no trading. Any such losses in such circumstances could have a negative adverse effect on the return of any securities referencing the affected futures contract.

In the case of a direct investment in commodity futures contracts, the invested capital may be applied in whole or in part by way of collateral in respect of the future claims of the respective counterparties under the commodity futures contracts. Such capital will generally bear interest, and the interest yield will increase the return of the client making such direct investment. However, holders of securities linked to the price of commodity futures contracts (rather than the total return) do not participate in such interest yields from the hypothetical fully collateralized investment in commodity futures contracts.

Risk relating to the "rolling" of commodity futures contracts - commodity contracts have a predetermined expiration date, i.e. a date on which trading of the commodity contract ceases. Holding a commodity contract until expiration will result in delivery of the underlying physical commodity or the requirement to make or receive a cash settlement. Alternatively, "rolling" the commodity contracts means that the commodity contracts that are nearing expiration (the "near- dated commodity contracts") are sold before they expire and commodity contracts that have an expiration date further in the future (the "longer-dated commodity contracts") are purchased. clients in commodities apply "rolling" of the component commodity contracts in order to maintain an ongoing exposure to such commodities.

"Rolling" can affect the value of an investment in commodities in a number of ways, including:

The investment in commodity contracts may be increased or decreased through "rolling": Where the price of a near-dated commodity contract is greater than the price of the longer-dated commodity contract (the commodity is said to be in "backwardation"), then "rolling" from the former to the latter will result in exposure to a greater number of the longer-dated commodity contract being taken. Therefore, any loss or gain on the new positions for a given movement in the prices of the commodity contract will be greater than if one had synthetically held the same number of commodity contracts as before the "roll". Conversely, where the price of the near- dated commodity contract is lower than the price of the longer-dated commodity contract (the commodity is said to be in "contango"), then "rolling" will result in exposure to a smaller number of the longer-dated commodity contract being taken. Therefore, any gain or loss on the new positions for a given movement in the prices of the commodity contract will be less than if one had synthetically held the same number of commodity contracts as before the "roll".

Where a commodity contract is in contango (or, alternatively, backwardation) this may be expected to (though it may not) have a negative (or, alternatively, positive) effect over time: Where a commodity contract is in "contango", then the price of the longer- dated commodity contract will generally be expected to (but may not) decrease over time as it nears expiry. In such event, rolling is generally expected to have a negative effect on an investment in the commodity contract. Where a commodity contract is in "backwardation", then the price of the longer-dated commodity contract will generally be expected to (but may not) increase over time as it nears expiry. In such an event, the investment in the relevant commodity contract can generally be expected to be positively affected.

In the case of commodity linked securities which are linked to a commodity contract, the referenced commodity contract will simply be changed without liquidating or entering into any positions in the commodity contracts. Accordingly, the effects of "rolling" described above do not apply directly to the reference asset and the securities. Thus, an client will not participate directly in possible effects of "rolling". However, other market participants may act in accordance with the mechanism of "rolling" and such behavior may have an indirect adverse impact on the value of the reference asset of the securities.

Commodity indices are indices which track the performance of a basket of commodity contracts on certain commodities, depending on the particular index. The weighting of the respective commodities included in a commodity index will depend on the particular index and the index rules governing that index. Commodity indices apply "rolling" of the component commodity contracts in order to maintain an ongoing exposure to such commodities. Specifically, as a commodity contract is required to be rolled pursuant to the relevant index rules, the commodity index is calculated as if exposure to the commodity contract were liquidated, and exposure were taken to another (generally longer- dated) commodity contract for an equivalent exposure. Accordingly, the same effects as described above with regard to "rolling" on the value of a commodity reference asset also apply with regard to the index level of a commodity index.

Regulatory and legal risk - Commodity linked securities are subject to legal and regulatory regimes that may change in ways that could affect the ability of the issuer and/or any entities acting on behalf of the issuer engaged in any underlying or hedging transactions in respect of the issuer's obligations in relation to any commodity linked securities to hedge the issuer's obligations under the securities, and/or could lead to the early redemption of the securities. Any such early redemption may adversely affect the return on the securities. Commodities are subject to legal and regulatory regimes in the United States and, in some cases, in other countries that may change in ways that could negatively affect the value of the securities. Changes in laws and regulations will most likely increase the costs associated with the trading of futures contracts and limit the size of positions that can be held by traders. These factors could in turn result in reductions in market liquidity and increases in market volatility, which could adversely affect the performance of the futures contracts and/or underlying commodities and of securities referencing them.

RISKS, ASSOCIATED WITH CLIENT ASSETS AND PROTECTION MEASURES, INCLUDING CLIENT ASSET PROTECTION IN CASE OF INSOLVENCY

Definition of client assets

Client assets held or controlled by authorized investment firms (Company and any third parties selected) for investment purposes on behalf of their clients are defined as:

- Money, which is money owed to or held on behalf of clients by an investment firm, and may include income relating to an investment such as dividends or interest;
- Securities, which are often represented by a certificate, but are increasingly held in a dematerialized or book-entry form;
- Positions which are contractual rights arising from transactions entered into by an investment firm on behalf of its clients, including mark to market accruals arising from the change in value of futures and options positions. In order for markets to operate effectively, it is unavoidable that authorized firms should hold or control client assets when undertaking investment business on their behalf. Consequently, it is of great importance to client protection and to confidence in markets that customers should

know that their assets will be protected so far as practicable from the risk of loss at the authorized firm which holds those assets.

Main risks associated with client assets

It is important to recognize that investment firms either hold or control client securities of increasingly significant value, far greater than in the case of client money. As settlement periods become shorter and book-entry systems become even more widely used, the value will continue to grow. This fact makes the risks relating specifically to securities much more significant.

Risk of third-party selection

Although it is increasingly the case that clients elect to use a specific third party for the deposit of funds or securities, it is still common for an investment firm to make that choice. Concern has been expressed about the lack of formal responsibility on the part of investment firms for the acts or omissions of their banks, brokers and custodians and about the level of due diligence which should be exercised by investment firms in the choice and ongoing monitoring of such third parties. The issues relate to the need for transparency of the risks associated with holding assets in different jurisdictions, the need to determine who carries those risks (the clients, the Company or the third party) and the need to determine liability in the event of the default or insolvency.

Risk of dealing through related parties

While there is a widespread commercial practice by investment firms of using related parties for the safekeeping of client assets, the risk to the clients through intra-group transactions can be increased. The default of an investment firm is rendered much more likely, for example, by the default of a related custodian bank than by an independent third party.

Risk of dealing trough the chain of investment firms and the cross border dealing

Many securities and derivatives businesses involve a number of parties to a chain of transactions in order for a client's instructions to be fulfilled. For example, a client wishing to buy securities might need to use a broker through which to purchase or sell securities or to gain access to an exchange member for dealing in derivatives. When dealings involve assets crossing into other jurisdictions, additional risks arise for clients. The most important of these is the risk that assets passing from one jurisdiction to another might not be classified as client assets in the jurisdiction in which they are received and will therefore not receive protection as client assets. The integrity of client assets is only preserved if they are passed to a firm which itself extends broadly similar protection for client assets. This can only be achieved if client assets are clearly identified as such when passed to another firm. In this context, particular attention should be paid to the regulatory arrangements which apply when a firm receives client assets from another market professional. If such market professionals are not afforded client asset protection in their own right, retail clients dealing through such professionals might not be protected.

Risk related to omnibus accounts

An omnibus account is defined as an account held by an investment firm with a third party (ex. an Execution Venue) in which client assets are held in aggregate, rather than in individually designated accounts by client, but which nevertheless ensures that the assets are segregated from those of the firm. Individually designated accounts offer the advantage of protecting clients not only from the default of the firm, but also from that of other clients. This distinction becomes particularly significant where a firm defaults because of losses arising on a particular client's account. Nevertheless, a number of mechanisms, such as the requirement to balance the omnibus account with clients' positions on a daily basis, can be employed to minimize the risks associated with such accounts.

Stock lending risk

The main risk to be emphasized is the need for legal certainty as to the owner of the securities and who takes the responsibility for completing stock lending transactions and for the default of counterparties to such transactions. It is essential that securities lending transactions should be subject to clear, preferably industry-standard, legal documentation.

Settlement risk

Much of the securities business conducted worldwide is settled on a delivery-versus-payment (DVP) basis. Although the vast majority of DVP transactions settle without any difficulty, it can happen that there are timing differences between receipt of securities and passing of cash. Clearly if both do not occur simultaneously, one party to the transaction will be at significant, albeit usually short-term, risk. The risk to clients would be the default of an investment firm at a time when client assets are in the course of settlement. In such a scenario, clients' securities may have been delivered to a clearing house or the investment firm's custodian. In either case, if the client has not been paid for the securities, the client is at risk unless there is specific treatment of client assets in the course of settlement, such as the maintenance of separate settlement accounts at custodians and clearing houses which ensure that clients' securities are not mixed with those of the firm.

Measures for client asset protection

The protection of assets held by clients at authorized firms, including third parties, from the risk of loss, whether arising from misuse or from the insolvency of the firm is a central objective of any system of client protection. Clients are dependent on investment firms that conduct a range of activities on their behalf. Authorized firms hold and control client assets, transfer client assets and may use one type of asset (for example, cash) to acquire another (for example, securities) in the course of providing investment services. It is, therefore, critical to the confidence of customers and the markets generally that these assets should be safe when they are held or controlled by an investment firm.

It is important to note that effective client asset protection can be achieved in a number of ways, but often through a combination of methods, commonly including, but not limited to, the methods mentioned below.

Internal controls

In the day-to-day handling of client assets, the importance of preventative measures is the first priority. Avoidance of the circumstances where client asset protection or compensation mechanisms must be relied upon in an insolvency affords the best protection for client assets. The Company implements robust systems of internal controls to ensure that the risk of loss of Client assets through the Company's insolvency is kept to a minimum. For this purpose, the most important controls are those that ensure that:

- Proper books and records are kept at all times;
- Careful third-party selection and due diligence (banks, brokers, depositories and etc.)
- Assets held for clients, and dealings on their behalf, are clearly accounted for and safeguarded;
- Internal and external audits are undertaken of key aspects of the Company's business, including compliance with rules relating to client asset protection;
- Accruals, rights and other entitlements are properly recorded; and
- There is regular reporting to external authorities on the operation of the internal controls dealing with the handling of client assets;
- There is appropriate segregation of duties between front office staff and staff responsible for administering of client assets.

Regulatory supervision

The importance of the effective protection of client assets held by authorized firms is also recognized in the way that regulatory authorities plan and carry out their supervisory responsibilities. The question of whether an authorized firm holds or controls client assets is the important factor in determining the intensity of regulatory supervision to which the firm is subjected. Inspection and reporting arrangements give particular attention to the internal controls noted above. In addition, regulatory authorities ensure that capital adequacy requirements for investment firms which hold client assets are sufficiently prudent, reflect the risks to such assets and are effectively monitored. Regulatory supervision of this kind may also assist in identifying firms which are at risk of becoming insolvent so that appropriate measures may be taken to avoid potential losses to client assets.

Transparency

An important part of client asset protection is clients' awareness of what assets the Company or third-party firm is holding on their behalf, and of the arrangements which exist for their protection. Only if clients are aware of the level and type of risk to which their assets might be exposed to, they can make fully informed decisions about authorized firms and markets. Regular and timely reporting by firms to their customers about assets held on their behalf together with appropriate information about the arrangements for client asset protection, for example through the use of agreed standard forms of disclosure, will also assist clients to act themselves to protect their assets. However, while reporting and disclosure about the way in which client assets are protected is a crucial part of effective client asset protection regimes, such disclosure alone should not be taken to be a substitute for other measures for the purposes of client assets protection. Because of the way in which protections may be affected as a result of cross border dealings, especially where a number of firms are involved, disclosure of the risk of loss of protection of client assets is the responsibility of the investment firm with whom the client deals directly.

Compensation arrangements

The Company is a member of the client Compensation Fund (the «Fund»). The object of the Fund is to secure the claims of the covered customers against the members of the Fund by the payment of compensation for their claims arising from the covered services provided by its members, so long as failure by the member to fulfil its obligations has been ascertained. Please refer to the document client Compensation Fund at the Company's website for more details.

While not directly protecting the assets of clients, various forms of private insurance can protect the interests of clients by providing indemnification against losses involving client assets.

Securitization of money

The Company shall, on receiving any Client funds, promptly place those funds into one or more accounts opened with any of the following:

- central bank
- credit institution

- bank authorized in a third country
- qualifying money market fund

Margin segregation

A very effective way of protecting clients' positions is to ensure that all positions are effectively margined and that client positions are margined separately from those of the firm and non-segregated clients. Although this does not necessarily prevent positions from being frozen upon the default of the firm, it is designed to ensure that client transactions do not offset firms' liabilities and thus their transactions can be transferred or closed out speedily by the exchange or clearing house (unless the default is due to severe market action) without the need for the delay of remitting further funds.

Measures taken by the Clients

It should also be recognized that clients dealing with investment firms may themselves take measures for the protection of assets held by the firm on their behalf. Some examples of this type of arrangement are:

- Investment firms provide their own securitization by the payment of client money into a money fund operated by the firm;
- The client enters into an arrangement with the investment firm to collateralize a cash balance;
- Clients establish accounts in their own name at banks or custodians and permit an investment firm to exercise control over those accounts;
- Clients protect their assets through the use of letters of credit or other arrangements with their bankers, so that money is only provided against proper documentation;
- Clients require special arrangements to recognize or preserve their right to a particular asset.

OTC MARKET TRADING

Exchanges, whether stock markets or derivatives exchanges, started as physical places where trading took place. Some of the best known include the New York Stock Exchange (NYSE), which was formed in 1792, and the Chicago Board of Trade (now part of the CME Group), which has been trading futures contracts since 1851. Today there are more than a hundred stock and derivatives exchanges throughout the developed and developing world.

But exchanges are more than physical locations. They set the institutional rules that govern trading and information flows about that trading. They are closely linked to the clearing facilities through which post-trade activities are completed for securities and derivatives traded on the exchange. An exchange centralizes the communication of bid and offer prices to all direct market participants, who can respond by selling or buying at one of the quotes or by replying with a different quote. The result is a level playing field that allows any market participant to buy as low or sell as high as anyone else as long as the trader follows exchange rules.

Electronic trading has eliminated the need for exchanges to be physical places. Today, the majority of trading on stock exchanges occurs electronically through computer networks.

Unlike exchanges, OTC markets have never been a “place.” They are less formal, although often well- organized, networks of trading relationships centered around one or more dealers.

An over-the-counter market is a market where financial securities are traded through a broker-dealer network as opposed to on a financial exchange. An over-the-counter market is not centralized and occurs electronically between two, such as a trade that occurs between two individuals that buy and sell a share of a company that is not listed on an exchange.

Dealers act as market makers by quoting prices at which they will sell (ask or offer) or buy (bid) to other dealers and to their clients or customers. That does not mean they quote the same prices to other dealers as they post to customers, and they do not necessarily quote the same prices to all customers. Moreover, dealers in an OTC security can withdraw from market making at any time, which can cause liquidity to dry up, disrupting the ability of market participants to buy or sell. Exchanges are far more liquid because all buy and sell orders as well as execution prices are exposed to one another. OTC markets are less transparent and have fewer rules than exchanges. All of the securities and derivatives involved in the financial turmoil that began with a 2007 breakdown in the US mortgage market were traded in OTC markets.

An over-the-counter market can consist of any security, such as equities, bonds, derivatives and currencies.

Stocks: The equities that trade via OTC are often small companies prohibited by the $295,000 cost to list on the NYSE and up to $75,000 on NASDAQ. Some well-known large companies are listed on the OTC markets, such as Allianz SE, BASF SE, Roche Holding Ag, and Danone SA.

Bonds: Bonds do not trade on a formal exchange but banks market them through broker-dealer networks and they are also considered OTC securities.

Derivatives: Derivatives are private contracts arranged by a broker and can be exotic options, forwards, futures, or other agreements whose value is based on that of an underlying asset, like a stock.

ADRs: American Depositary Receipts (ADRs), sometimes called ADSs or bank certificates that represent a specified number of shares of a foreign stock.

Foreign Currency: Foreign currencies that trade on the Forex, an over-the-counter currency exchange. Cryptocurrency: Cryptocurrencies, like Bitcoin and Ethereum trade on the OTC market.

To the average client, buying stocks in the OTC market may appear no different than the same process for exchange-listed securities: Stocks are assigned a unique ticker symbol, and typically are available for trading via the major online brokers.

The OTC market is the default exchange for some securities, like corporate bonds. It's also a viable alternative for companies that don't meet or maintain the requirements—like number of shareholders or monthly trading volumes—to list their shares on the major exchanges.

Alternatively, some companies may opt to remain "unlisted" on the OTC market by choice, perhaps because they don't want to pay the listing fees or be subject to an exchange's reporting requirements.

How does o trading reward clients?

Not all OTC securities are bad investments. For example, many hugely profitable global companies that are listed on foreign exchanges trade OTC in the U.S. to avoid the additional regulatory requirements of trading on a major U.S. stock exchange. Buying stocks through OTC markets can also provide the opportunity to invest in a promising early-stage company. Some companies may want to avoid the expense of listing through the NYSE or NASDAQ.

OTC provides access to securities not available on standard exchanges such as bonds, ADRs, and derivatives.

Fewer regulations on the OTC allows the entry of many companies who cannot, or choose not to, list on other exchanges.

Through the trade of low-cost, penny stock, speculative clients can earn significant returns.

What are the risks of investing through otc markets?

While OTC markets offer opportunity, they also pose risks not found on major exchanges. clients should go in with eyes open, ready to take responsibility for thorough due diligence and prudent risk management. clients are wary of the following risks when trading on OTC markets:

Liquidity Risk Stock price liquidity reflects the ability of shareholders to quickly buy and sell securities near their true market value and to do so without substantial price impact. Illiquid stocks are risky to clients because they might not be able to rapidly sell their holdings without losing money. OTC stocks are less liquid than those listed on an exchange such as the NYSE or NASDAQ. The clients might need to lower their price until it is considered attractive to another buyer. It is possible that clients won't be able to sell the stock once it is acquired.

Lack of Transparency There is much less available information on stocks traded OTC and this market is generally less transparent than the exchange-traded one. Because of that, it is difficult for clients to determine the realistic potential of OTC stocks. OTC prices are not disclosed publicly until after the trade is complete. Therefore, a trade can be executed between two parties via an OTC market without others being aware of the price point of the transaction. This lack of transparency could cause clients to encounter adverse conditions. Comparatively, trading on an exchange is carried out in a publicly transparent manner. This can give some clients added assurance and confidence in their transactions.

Moreover, when stocks are listed on formal exchanges, clients can typically access a great deal more information on them, including reports written by Wall Street analysts, company news and filings, and real-time trading data. How securities are traded plays a critical role in price determination and stability.

Volatility Risk As there is a lack of liquidity and transparency in OTC markets, it eventually paves the way for higher price volatility. This might happen because of a limited number of market participants and zero public information regarding the market. So, risk management techniques are recommended when trading over-the-counter, and it's important to invest only an amount of money that you are comfortable losing.

Regulatory Risk Clients may experience additional risk when trading OTC. While brokers and dealers operating in the US OTC markets are regulated by the Financial Industry Regulatory Authority (FINRA), exchanges are subject to more stringent regulation than OTC markets. clients should exercise caution, especially with thinly traded penny stocks, as there is greater potential for fraud and manipulation.

Fraud Risk Fraudsters use OTC markets to operate pump and dump schemes because there is less regulatory oversight, and securities typically have low values. This allows fraudsters to buy a large amount of the security before promoting it (the Pump). The fraudsters then sell their securities for a large gain (the Dump). The remaining security holders will find it very difficult to sell their holdings and the value will begin to decline quickly.

If you are thinking about purchasing securities on OTC markets make sure it is necessary to understand what you're purchasing and the risk you're taking on. Does the purchase fit your risk tolerance? Will you be financially secure if you are unable to sell your securities quickly?

Can you afford to lose the money? This is very important to conduct research into the company or security as you can to ensure it is a legit and a worthwhile investment.

<u>Undertakings for Collective Investment in Transferable Securities (UCITS)</u>

WHAT ARE UCITS?

UCITS are open-ended undertakings for collective investment in transferable securities. UCITS mean an undertaking the sole object of which is the collective investment in transferable securities and/or in other liquid financial assets of capital raised from the public, and which operates on the principle of risk-spreading and the units of which are, at the request of holders, redeemed, directly or indirectly, out of this undertaking's assets. In plain terms, UCITS are open-ended collective funds raised from investors.

These joint funds are managed by a Management Company and safely kept by a Custodian. The funds (assets) of a UCITS are divided into equal units which belong in their entirety to the unit holders depending on the units that every unit holder possesses. Unit holders have a share in profits as well as in losses and costs that may arise while managing and investing UCITS's assets.

The net value of a UCITS unit is calculated upon the value of the UCITS's assets minus the liabilities and expenses divided by the number of the units in circulation. Some of the UCITS liabilities and expenses include the remuneration of the Management Company, the Custodian's remuneration and other expenses and costs arising from the management and administration of a UCITS

The price at which an investor will purchase a UCITS unit is equal to its Issue Price (Issue price = net unit value + issue's commission percentage).

The price at which an investor will redeem his/her units is equal to the unit's redemption price (Redemption Price = net unit value – Redemption Commission Percentage).

The Issue price and the redemption price of a UCITS unit can possibly exceed or fall short of the net unit value respectively, calculated in accordance with the issue and redemption commission percentage respectively, according to the UCITS Regulation, Status or Articles of Incorporation.

What are the risks of investing through UCITS?

Investing in UCITS may carry the following risks:

a. From the perspective of investors, UCITS are exposed to financial risks as well as certain operational risks, which can lead to capital losses or suboptimal investment performance. Among financial risks, market risk is commonly referenced, defined as the susceptibility of the fund's securities to fluctuations in market value, which may vary over time due to changing market conditions.

In cases where factors other than market risk become relevant, the financial exposure of an investment fund may also be influenced by additional specific risk drivers that emerge at the aggregate portfolio level. Examples include concentration risk or particular aspects of liquidity risk, where liquidity is defined as the ability of a UCITS to meet its obligations (such as redemptions or debt repayment) as they fall due, and to do so at a reasonable cost.

b. From the perspective of UCITS investors, operational risks are associated with the various features and quality of the trading, settlement, and valuation procedures managed by the companies. These risks may elevate the likelihood of losses resulting from human or technical errors.

There are various types of UCITS, each with its own distinct risk profile. It is therefore crucial that you fully understand the risks involved before acquiring any such product. This information is typically available in the relevant product literature, such as the UCITS prospectus.

Investing in UCITS may entail certain risks, which depend on the specific type of UCITS and may include, but are not limited to, credit risk, legal risk, operational risk, market risk, country risk, liquidity risk, settlement risk, exchange risk, and interest rate risk.

Money Market Instruments

WHAT ARE MONEY MARKET INSTRUMENTS?

Money Market Instruments are instruments that are normally dealt with on the money market, such as treasury bills, certificates of deposit, and commercial papers, and that have a maturity at issuance of up to one year.

These instruments are typically characterized by their short-term nature, high liquidity, and low risk, making them suitable for managing short-term financing needs and cash flow management. They are generally issued by governments, financial institutions, or corporations, and their primary purpose is to provide a vehicle for raising short-term funds or managing liquidity.

Money-market instruments under MiFID II are included in the list of financial instruments in Annex I, Section C(2) of the relevant Directive. They form part of the broader regulatory framework aimed at increasing transparency and investor protection within the European financial markets.

What are the risks of investing through Money-market instruments?

Credit Risk in money market instruments refers to the possibility that the issuer will fail to meet its financial obligations, such as repaying the principal or interest on time. While money market instruments are generally considered low-risk, the level of credit risk varies depending on the type of issuer (government, corporation, or financial institution) and market conditions.

Key elements of credit risk in money market instruments include:

- Issuer Default Risk: The risk that the issuer (e.g., a corporation issuing commercial paper) cannot repay the debt, potentially leading to financial loss for investors.
- Downgrade Risk: The risk that an issuer's credit rating is lowered, reducing the value of the instrument and making it harder to sell.
- Concentration Risk: Arising when an investor holds a large portion of instruments from a few issuers, increasing exposure to default if one fails.

Credit risk varies across types of money market instruments:

- Treasury Bills: Considered nearly risk-free due to government backing.
- Certificates of Deposit (CDs): Dependent on the financial health of the issuing bank.
- Commercial Paper (CP): Carries more risk, particularly from lower-rated corporate issuers.
- Repurchase Agreements (Repos): Involves risk related to the quality of the collateral and counterparty.

Factors that influence credit risk include the issuer's credit rating, market conditions, and the maturity of the instrument. Credit risk can be mitigated through diversification, monitoring issuer ratings, using collateralized instruments (like repos), and focusing on high-quality government-issued instruments.

Interest Rate Risk in money market instruments refers to the effect of changing interest rates on the value and returns of these short-term securities. Although less sensitive to interest rate changes due to their short maturities, money market instruments are still impacted in the following ways:

- Impact on Yield: Rising interest rates make newer instruments more attractive, while older ones with lower yields become less competitive. Conversely, falling rates make existing instruments with higher yields more valuable.
- Price Sensitivity: If interest rates rise, the market value of money market instruments may drop, especially if sold before maturity.
- Reinvestment Risk: Falling interest rates make it harder for investors to find similar high-yield opportunities when their instruments mature.

Overall, while interest rate risk is lower in money market instruments compared to longer-term investments, it can still affect returns and reinvestment options.

Liquidity Risk The risk that an investor will not be able to sell or redeem the money market instrument quickly enough, or without a significant loss in value. Although money market instruments are generally highly liquid, in certain market conditions, such as financial crises or periods of market stress, liquidity may dry up, making it harder to sell these instruments quickly at a fair price.

Inflation Risk in money market instruments refers to the possibility that investors may not be able to quickly sell or redeem their investments at a fair price. While these instruments are generally liquid due to short maturities and high demand, liquidity can be affected by:

- Market Conditions: During financial crises or stressed markets, liquidity can dry up, making it harder to sell instruments like commercial paper.
- Instrument Type: Government-issued instruments like Treasury bills are highly liquid, while corporate instruments such as commercial paper or CDs may carry higher liquidity risk.
- Redemption Pressures: Large-scale redemptions in money market funds can force the sale of less liquid assets at a discount.

Reinvestment Risk The risk that interest or principal repayments will have to be reinvested at lower interest rates in a declining interest rate environment. Investors may find that they have to reinvest at lower rates, particularly if the original investment was short-term and interest rates have since fallen.

Market Risk The risk that broader market conditions, such as economic downturns or changes in the financial system, will negatively affect the value of money market instruments. During times of market stress, even highly rated instruments could be affected, especially if there is a flight to safer investments like government securities.

Currency Risk (Exchange Rate Risk) The risk that fluctuations in exchange rates will affect the value of money market instruments denominated in foreign currencies. If the investor holds money market instruments denominated in a foreign currency, changes in exchange rates could negatively impact the value of their investment when converted back to the investor's home currency.

Regulatory/Legal Risk The risk that changes in laws or regulations will negatively impact the value or liquidity of money market instruments. Changes in financial regulations, tax laws, or restrictions on issuers may reduce the attractiveness of money market instruments or limit an investor's ability to sell them.

Settlement Risk The risk that the transaction will not be settled as expected, either because of a failure on the part of the issuer or a counterparty. This can result in delays or losses, though this risk is usually low for high-quality, short-term instruments.

More specifically, settlement risk refers to the possibility that a transaction involving these short-term financial instruments does not settle as expected. This can result in delays, failures in delivery, or even financial losses for investors. Although money market instruments, such as Treasury bills, certificates of deposit, or commercial paper, are generally considered low-risk, settlement risk is an operational risk that can affect the timely exchange of securities and funds.

In conclusion, settlement risk in money market instruments, while generally lower than in other markets, still represents a critical factor for investors to consider. This risk can be amplified in cross-border transactions, during periods of financial stress, or when operational or technical failures occur. Institutions typically employ a range of practices, such as DvP, CCPs, and robust legal agreements, to mitigate these risks and ensure smooth transaction settlements.

4. MONITORING AND REVIEW

The Company will monitor the effectiveness of this Policy on a regular basis, at least annually. The review will also be carried out whenever any material changes occur.

The existing Clients will be notified of any material changes or amendments to this Policy which may be made from time to time. The latest version of the document will also be available on the Company's website.