



Independent & International

Nature and Risks of Financial Instruments

Retail Clients

This document has been prepared in accordance with the requirements of the Markets in Financial Instruments Directive (MiFID). It provides a general description of the nature and risks of financial instruments, taking account of your categorisation as a Retail Investor, in order for you to make your investment decisions on an informed basis. It does not disclose all the risks and characteristics of the financial instruments in which you may trade, but provides a basic understanding of their major risks and characteristics. You should not deal in financial instruments unless you are aware of the nature of the transactions you are entering into. You should be aware of all commissions, fees and other charges for which you will be liable. These charges will reduce your net profit or increase any loss. You should understand the extent of your exposure to potential loss.

When investing in financial instruments there is a risk that you may lose some, all, or in certain cases more than your original investment. You should consider whether investing in financial instruments is suitable for you in light of your individual circumstances and taking account of your investment objectives and financial position. In deciding whether certain financial instruments are suitable investments, the following information describing the nature and risks of such instruments should be carefully considered.

Non-complex Financial Instruments

Shares / Equities

Owning shares in a company provides an opportunity to benefit from a company's profit and performance, in the form of dividends and capital growth. Shares are generally a volatile asset class, their value tends to go up and down more than other classes such as bonds and regulated collective investments schemes. Some shares are likely to be more volatile than others. This will be based, among other things, on the business, geographic location and size of the company. Your ability to realise shares is an important factor to consider when investing, shares in companies that are not traded on a Stock Exchange can be very difficult to sell. Many shares that are traded on Stock Exchanges are bought and sold infrequently and finding a buyer may not always be easy. Potential investors should be familiar with any company they plan to invest in. Share portfolios are at a greater risk of significant loss if there is a lack of diversity (an over reliance in one particular company, industry sector or country). Other than the cost of acquiring shares you will not be subject to any margin requirements or financial commitments/liabilities. However, as the value of shares may go up or down, when investing in shares there is a risk that you may lose some or all of your original investment.

Dealing in shares may involve risks including, but not limited to the following:

- (a) **Company risk:** risks specific to a company include, the strength of the company's management, its position in the market, any threat of litigation or strike action.
- (b) **Price risk:** share prices may undergo unforeseeable price fluctuations causing risks of loss. A share price can increase or decrease in the short, medium and long-term. General market risk must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence share prices.
- (c) **Dividend Risk:** the dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or losses, dividend payments may be reduced or not made at all.
- (d) **Liquidity Risk:** the liquidity of shares may be affected by whether the shares are listed or unlisted. Where shares are unlisted it may be more difficult to deal in them or obtain reliable information about their value.

Exchange Traded Funds (ETFs)

ETFs are investment products that provide investors with an opportunity to invest in a diversified basket of shares through a single investment instrument. An ETF will generally track the shares of companies that are included in a selected market index, investing in either all of the shares or a representative sample of the shares of the selected index.

The performance of an ETF is likely to be reflective of the performance of the index upon which the ETF is based. ETFs are generally more liquid than normal funds and can be traded in the same way as any normal share. Like shares, ETFs can be subject to volatility, especially in the short term. Some ETFs are likely to be more volatile than others, this will be based, among other things, on the nature and size of the underlying companies and the liquidity/price of the underlying stocks.

Potential investors should be familiar with the nature of the underlying companies of any ETF they plan to invest in. Other than the cost of acquiring ETFs, you will not be subject to any margin requirements or financial commitments/liabilities. However, as the value of ETFs may go up or down, when investing in ETFs there is a risk that you may lose some, or all of your original investment.

Bonds

Bonds are negotiable debt instruments issued by a company or a government body. The duration of the debt as well as the terms and conditions of repayment are determined in advance. Unless stipulated otherwise, the bond is repaid either at the maturity date or by means of annual repayments. As with shares, some bonds are considered to be safer than others. In general, Government Bonds are considered to be subject to less risk than Corporate Bonds. Bond ratings give an indication of an issuer's probability of defaulting, based on an analysis of the issuer's financial condition and profit potential. Other than the cost of acquiring bonds, you will not be subject to any margin requirements or financial commitments/liabilities. However, as the value of bonds may go up or down, when investing in bonds there is a risk that you may lose some, or all of your original investment.

Dealing in bonds may involve risks including but not limited to the following:

- (a) **Insolvency risk:** the issuer may become temporarily or permanently insolvent, resulting in its inability to repay the interest or redeem the bond.
- (b) **Interest rate risk:** uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the price of the security if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in market rates.
- (c) **Credit risk:** the value of a bond will fall in the event of a default or reduced credit rating of the issuer.
- (d) **Early redemption risk:** the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield.

Exchange Traded Commodities (ETCs)

A commodity is a physical substance such as food, grains, and metals, which is interchangeable with another product of the same type, that is traded primarily on the basis of price driven by supply and demand and not on differences in quality or features.

Historically, commodities have been quite complicated to trade, but in recent years alternative and simpler means of investing in commodities have become available. An exchange-traded commodity (ETC) is one such means for investors to invest in specific commodities or a general commodity index, such as cocoa or precious metals. ETCs work by investing in real commodities via futures contracts and in doing so, track a specific commodity or a general commodity index.

The performance of an ETC is likely to be reflective of the performance of the commodity or underlying basket of commodities upon which the ETC is based. ETCs can be traded in the same way as any normal share but can be subject to significant volatility, both in the long term and the short term. Some ETCs are likely to be more volatile than others.

Potential investors should be familiar with the nature of the underlying commodity or commodities of any ETC they intend to invest in. Other than the cost of acquiring ETCs, you will not be subject to any margin requirements or financial commitments/liabilities. However, as the value of ETCs may go up or down, when investing in an ETC there is a risk that you may lose some, or all of your original investment.

Money Market Instruments

The Money Market is a highly liquid professional dealer market that facilitates the transfer of funds (generally in very large denominations) between borrowers and lenders. It generally relates to those instruments that allow for borrowing and lending periods ranging from 1 day to 1 year.

Although Money Market instruments carry less risk than long-term debt, they are not completely without risk. Different instruments carry varying degrees of risk depending on the nature of the lending agreement and the identity of the lender. Potential investors should be aware of such details prior to entering into any Money Market transactions.

Common Money Market instruments include:

- Exchequer Notes
- Commercial Paper
- Treasury Bills
- Repurchase Agreements
- Bankers Acceptance

In general, other than the cost of acquiring Money Market instruments, investors are not subject to any margin requirements or financial commitments/liabilities. As the value of Money Market instruments may go up or down, when investing in such instruments there is a risk that you may lose some, or all of your original investment.

UCITs

A UCIT is a specific type of collective investment that can be operated freely throughout the EU. As with other collective investments, UCITs tend to invest in a range of individual securities, giving investors the opportunity to invest in a diversified product. However, UCITs are prevented from investing in more complex and higher risk securities and are subject to rules which oblige them to reduce the risk of exposure to any particular issuer.

UCITs can be subject to volatility, especially in the short term. Some UCITs are likely to be more volatile than others. This will be based, among other things, on the nature and size of the underlying securities and the liquidity/price of the underlying securities.

Potential investors should be familiar with the nature of the underlying securities in any UCIT they plan to invest in. Other than the cost of investing in UCITs, you will not be subject to any margin requirements or financial commitments/liabilities. However, as the value of UCITs may go up or down, when investing in UCITs there is a risk that you may lose some, or all of your original investment.

Complex Financial Instruments

The following information does not disclose all the risks and features of trading in derivative products such as CFDs, warrants, futures or options. The price of derivative products are directly dependent upon the value of one or more investment instruments on which the derivative is based. Trading in derivatives is not suitable for many Retail Clients. You should not deal in derivatives unless you understand the nature of the transactions you are entering into and the extent of your exposure to risk and potential loss. You should carefully consider, and if necessary, seek professional advice to determine whether trading is appropriate for you in the light of your investment experience, objectives, financial resources and other relevant circumstances. Different instruments involve different levels of exposure to risk, and in deciding whether to trade in such instruments you should be aware of the following information:

Contracts for Differences (CFDs)

A CFD is an agreement between two parties to exchange the difference between the value of the opening and closing price of a share over the period of a contract. The economic benefits of share ownership accrue to the CFD without the requirements of physical delivery (i.e. the investor does not need to own the underlying instrument). A CFD is an open-ended contract with no pre-determined settlement date. Transactions in CFDs are subject to margin requirements and bring about financial commitments and liabilities additional to the initial margin outlay at the time of purchase or sale of a CFD.

A CFD provider requires margin in the form of cash or other acceptable collateral, before a position in a CFD can be taken. This is called the "initial margin". The amount of margin is small relative to the underlying value of the contract so that the transactions are "leveraged" or "geared". If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit. When you "go short" a CFD, (e.g. have a short position in an underlying security) then the risk is unlimited. You should be very familiar with the underlying security of any CFD agreement you enter into.

Futures

A futures contract is a standardised contract to buy or sell a certain underlying instrument at a pre-determined date in the future, at a pre-set price. The price of a futures contract is equal to the price agreed for the underlying asset at delivery date. The profit or loss on a future is determined according to the difference between the agreed price and the actual price at delivery date. Transactions in futures carry a high degree of risk, are subject to margin requirements and bring about financial commitments and liabilities additional to the cost of acquisition.

The amount of initial margin required to initiate a futures contract is small relative to the value of the contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit. This may work against you as well as for you. You may sustain a total loss of initial margin funds as well as any additional funds deposited with the firm to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit.

The placing of certain orders (e.g. “stop-loss” orders, where permitted under local laws, or “stop-limit” orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders.

Options

An option is a financial derivative which represents a contract sold by one party (who is writing the option) to another (who is buying the option). The option buyer has the right, but not the obligation, to buy or sell a security or other financial asset at an agreed-upon price during a certain period of time or on a specific date. There are many different types of options with different characteristics and risks, subject to the following conditions:

Buying options: Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, one can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future.

Writing options: If you write an option, the risk involved is considerably greater than buying an option. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (‘covered call option’) the risk is reduced. If you do not own the underlying asset (‘uncovered call option’) the risk can be unlimited. Only experienced persons should consider writing uncovered options and then only after securing full details of the applicable conditions and potential risk exposure.

Warrants

A standard warrant is a time limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the issuer of the securities. Warrants often involve a high degree of gearing, meaning that a small movement in the price of the underlying asset, whether favourable or adverse, could result in a larger movement in the price of the covered warrant. The price of a warrant may therefore be volatile. You should be aware that if a warrant does not perform as expected, you could lose the whole of your investment plus any commission or transaction charges.

There are two different types of warrants: a Call warrant and a Put warrant. A Call warrant represents a specific number of shares that can be purchased from the issuer at a specific price, on or before a certain date. A Put warrant represents a certain amount of equity that can be sold back to the issuer at a specified price, on or before a stated date.

Covered Warrants

Covered warrants have similar characteristics to an option and give the investor the right but not the obligation to buy (in the case of a Call warrant) or to sell (in the case of a Put warrant) an underlying asset at a predetermined price (known as the strike or exercise price) on or before a predetermined date (known as the expiry or exercise date). Whereas a warrant is only issued in shares, a covered warrant can be issued in any underlying instrument. They are normally only issued by financial institutions whereas warrants are issued by any company. The cost of a warrant is the premium plus transaction costs. A covered warrant, which has no leverage, is often referred to as a certificate. You should be aware that if a covered warrant does not perform as expected, you could lose the whole of your investment.

Other General Risks in Relation to Financial Instruments

Market Availability

Market conditions (e.g. lack of liquidity) and/or the operation of the rules of certain markets may increase the risk of loss by making it difficult or impossible to effect transactions.

Transactions in other Jurisdictions

Transactions on markets in other jurisdictions may expose you to additional risk. Such markets may be subject to regulations which may offer different or diminished investor protection. Before you trade, you should enquire about the rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before your start to trade.

Currency Risks

The profit or loss for transactions in foreign currency-denominated contracts (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

Trading Facilities

Most electronic trading facilities are supported by computer based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms. Such limits may vary.

Off-exchange Transactions

In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off-exchange transactions. It may be difficult or impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. For these reasons, these transactions may involve increased risks. Off-exchange transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarise yourself with applicable rules and attendant risks.

Interest Rates

Changes in interest rates can have an effect on the value of securities. The value of securities, especially bonds, can fall with a rise in interest rates as other investments reflecting the new higher interest rate offer greater returns. Such risk can be offset by diversifying the durations of fixed-income investments held.