Risk Disclosure Factsheet

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1 General information about risk

Financial instruments can provide returns such as dividends (from shares or mutual funds) or interest (from fixed income instruments). The value of an instrument may rise, or fall compared to the original price. The total return combines price changes with any dividends or interest received.

Risk means the chance that the return on an investment could be negative, meaning a financial loss. The level of risk varies between different financial instruments. Generally, higher risk may offer higher return potential, but also a greater chance of loss.

• Higher risk usually means more price changes

• Lower risk usually means more stable prices

One way to reduce risk is to diversify across markets and types of instruments. If you invest in foreign currencies, you may also face currency risk.

Clients should be aware:

- All financial instrument transactions carry financial risk

- You are responsible for the risks you take

- You must understand the contracts, terms, and conditions

- You must review transaction statements and correct any errors

- You must monitor your investments regularly

- You must take action if an investment performs poorly

- Transactions outside regulated markets carry special risks due to limited information

This applies even if you received advice before the transaction.

2 Different types of risk

• Market risk – the risk that the whole market or parts of it may fall in value.

• Credit risk – the risk that the issuer or counterparty may not be able to meet their payment obligations.

• Price volatility risk – the risk that the price of a financial instrument changes a lot in a short time.

• Price risk – the risk that the price of a financial instrument goes down.

• Tax risk – the risk that tax rules or rates may change or be unclear.

• Currency risk – the risk of losses due to changes in exchange rates.

• Leverage risk – the risk that using borrowed money or derivatives increases both possible gains and losses.

• Legal risk – the risk that laws or regulations may change or are unclear.

• Company-specific risk – the risk that a single company does worse than expected, which can lower the value of related investments.

• Sector-specific risk – the risk that a specific sector does worse than expected, lowering the value of investments in that sector.

• Liquidity risk – the risk that it may be hard to buy or sell a financial instrument at the desired time.

• Interest rate risk – the risk that the value of an investment changes due to market interest rate changes.

3 Overview of financial instruments

3.1 Fixed income instruments

Fixed income instruments are loans made to an issuer. The investor receives interest payments. There are distinct types of fixed income instruments depending on the issuer, the type of security, the time until repayment, and how the interest is paid.

3.2 What is the risk I take?

Returns are closely linked to the level of risk. More risk may bring higher returns but also increases the chance of loss. Our advisors can help you find a risk level that suits you. Risks with fixed income instruments include price changes due to interest rate movements and the possibility that the issuer cannot repay the loan. State and municipal issuers are generally low risk. Mortgage institutions and companies are usually considered creditworthy. Fixed income instruments are generally less risky than shares.

3.3 What affects the return?

If you hold a fixed income instrument until maturity, your return is usually fixed. However, the value can change if sold early. If interest rates rise, existing bonds become less attractive and fall in price. If rates fall, prices of existing bonds may rise.

3.4 Money market instruments

Money market instruments are short-term financial instruments that are repaid within one year. They are usually bought at a discount (for example, at 99%) and repaid at full value (100%). The difference is the return. Examples include treasury bills (issued by governments) and commercial paper (issued by companies and banks). They usually offer a better return than savings accounts and have low credit risk.

3.5 Bonds

A bond is a loan to an issuer that pays interest (a coupon) and repays the full amount at maturity (at least one year). Coupon bonds pay interest regularly. If the market rate is higher than the bond's coupon, the bond trades at a discount. If the market rate is lower, the bond trades at a premium. Zero-coupon bonds pay no regular interest but are sold at a discount and repaid at full value.

3.6 Government bonds

Government bonds are issued by the state to finance its expenses. They are generally low-risk and can have long maturities, up to 30 years. They may be coupon or zero-coupon bonds.

3.7 Mortgage bonds

Mortgage bonds are issued by mortgage institutions to support their lending. They carry slightly more risk than government bonds and usually offer a higher return. They are often zero-coupon and may have maturities up to 15 years.

3.8 Covered bonds

Covered bonds are issued by approved institutions. They are backed by specific assets to protect investors and are generally considered safe investments.

3.9 Corporate bonds

Companies issue corporate bonds to raise money. Risk and return vary widely depending on the company's financial strength. They can be coupon or zero-coupon bonds and may have maturities up to 10 years.

3.10 Retail bonds

Retail bonds are aimed at private investors and are available in smaller amounts. They are issued by governments, companies, and mortgage institutions. Returns depend on the issuer's credit quality. Maturities are usually up to five years.

3.11 Inflation-linked bonds

These bonds protect against inflation. They repay both interest and compensation for inflation. They can be coupon or zero-coupon bonds and are issued by governments or companies.

3.12 Lottery bonds

Lottery bonds are issued by the government. Instead of regular interest, holders enter a lottery to win prizes. The original amount is guaranteed. Maturities are usually up to five years.

3.13 Subordinated loans

Subordinated loans are riskier than regular bonds. If the issuer goes bankrupt, subordinated loan holders are repaid only after other debts are settled. These loans often offer higher returns. They can be fixed coupon or zero-coupon and usually have maturities up to five years.

3.14 Mutual funds

A mutual fund is a collection of investments like shares, bonds, and other instruments. Investors buy units in the fund and own a share of the fund's assets. A professional company manages the fund according to set rules and investment goals.

3.15 Equity funds

Equity funds invest mostly in shares. They are good for long-term savings. These funds can have large short-term price changes but historically have given better long-term returns than fixed income investments.

3.16 Fixed income funds

These funds invest in interest-paying instruments like bonds or treasury bills. They are suitable for both short- and long-term investments.

3.17 Mixed funds

Mixed funds invest in both shares and bonds. The fund rules usually state the percentage of each type of asset.

3.18 Index funds

Index funds follow a market index by investing in the same shares or bonds that make up the index. They are also available as exchange-traded funds.

3.19 Exchange-traded funds

These are usually index funds that are bought and sold like shares on the stock exchange. They track a specific index and are easy to trade.

3.20 Hedge funds

Hedge funds try to give a return no matter if the market goes up or down. They can take more investment risks than regular funds. Because of this, they may offer high returns but also carry more risk, especially if they use borrowed money (leverage).

3.21 Shares

Shares represent ownership in a company. If the company earns profits, it may pay a dividend to shareholders. Shareholders can also vote at company meetings. Different share classes (like A and B) may have different voting rights. Only public companies can have their shares traded on the stock market.

3.22 Depository receipts

Depository receipts represent shares in foreign companies but are traded locally. They carry both market risk and currency risk.

3.23 Convertibles

Convertibles are bonds that can be converted into shares. They pay interest like a bond and can become shares later. They usually offer higher interest than dividends from the related shares.

3.24 Structured products

Structured products combine different financial instruments to create custom investments. They may include capital protection, leverage, and links to shares, currencies, or interest rates. Their value depends on the performance of other assets. They can offer high returns but carry high risks, especially if leverage is used.

3.25 Capital-protected investments

These investments protect the amount you invest. They combine a safe bond part (to protect capital) and a market-linked part (to generate return). Even if the market goes down, you get back your original amount, but not the interest you could have earned elsewhere.

3.26 Certificates

Certificates follow the price of an asset like a share, index, or currency. They may offer fixed or conditional returns and can be complex. There are distinct types like bonus certificates, credit-linked certificates, and coupon certificates.

3.27 Bonus certificates

You receive a bonus if the asset price stays above a certain level during the term. If the asset falls below that level, the return matches the market.

3.28 Credit-linked certificate

The return depends on the credit events (like bankruptcy) of companies in a group. Fewer credit events mean higher returns. Each event reduces the future return.

3.29 Coupon certificates

These pay fixed or conditional coupons based on how the linked market performs. Some pay regardless of market, others only if conditions are met.

3.30 Coupon certificates - conditional coupon

These pay a coupon only if the linked market stays above a set level on specific dates. If it stays above this level at the end, you also get back your full investment. If it falls below, the return follows the market's performance.

3.31 Coupon certificate - secure coupon

These pay a fixed annual coupon regardless of market performance. You get back your investment if the market stays above a protection level. If not, the return depends on the market.

3.32 Long and Short certificates

These follow the daily performance of a market. A Long certificate rises if the market goes up, while a Short certificate rises if the market goes down. There is no leverage.

3.33 Bull & Bear certificates

Bull certificates gain value when the market rises. Bear certificates gain value when the market falls. They use daily leverage, so they are meant for short-term investments.

3.34 Spread certificates

These are based on the performance difference between two assets. You earn a return if the 'long' asset does better than the 'short' asset.

3.35 Warrants

Warrants can earn a return when the market rises (call warrants) or falls (put warrants). They allow high potential returns with limited capital but can also lead to large losses.

3.36 Derivatives

Derivatives are instruments like options, futures, or swaps, whose value depends on another asset. They can be used for risk management or speculation. Derivatives often involve leverage, which increases both potential gains and losses. They require close monitoring and understanding.

3.37 Types of derivatives

Derivatives include options, futures, and swaps. Their value depends on assets like stocks, currencies, or interest rates.

3.38 Options

An option gives the buyer the right (but not the obligation) to buy or sell an asset at a set price before a set date. The buyer pays a premium to the seller. Sellers have an obligation to buy or sell if the option is exercised.

3.39 Forwards/Futures

These are contracts where both parties agree to buy/sell an asset at a set price on a future date. Forwards are settled at expiry; futures are settled daily.

3.40 Swaps

Swaps involve exchanging cash flows, such as interest or currency payments, between two parties. They are used to manage risk or reduce costs.