

A guide for investors

Financial instruments



BANKING – INSURANCE – LEASING

This brochure is an information brochure issued by ING Luxembourg and established within the context of the “MiFID II” legislation (directive on markets for financial instruments, which aims to provide clear, transparent and unambiguous information to investors).

This summary brochure is **by definition simplified**.

The financial instruments concerned by MiFID II and discussed here are bonds, shares, units in Undertakings for Collective Investment in Transferable Securities (UCITS), alternative investments and the principal derivative instruments (namely options, futures, etc.).

Any investment decision assumes that the investor has at least a general knowledge of the associated risks. This brochure is thus intended to present the principal characteristics, the different types, the benefits and disadvantages (see Part I), as well as the risks associated with the various investment instruments which we offer (see Part II), with the aim of ensuring that the investor understands correctly and accepts the risks relating to these investment instruments.

Furthermore, because they depend on a client’s personal situation and are subject to certain fluctuations, the tax and legal aspects of these investment instruments are deliberately excluded from this guide.

This brochure in no way represents a recommendation or investment advice.

For any question regarding the instruments described in this brochure, we recommend that clients contact their relationship manager.

November 2023 Edition

Table of contents

| | |
|---|-----------|
| Part I. Rights and duties: what you need to know before opening a securities account | 6 |
| 1. First steps in investment | 6 |
| 2. Different ways of investing | 6 |
| 2.1. Investing on your own (Execution only) | 6 |
| 2.2. Get investment advices from ING Luxembourg (advisory mandate) | 7 |
| 2.3. Entrust ING Luxembourg to manage your investments (discretionary portfolio management mandate) | 7 |
| 3. Investor profile | 7 |
| 3.1. Risk profile | 8 |
| 3.2. Sustainability profile | 8 |
| 4. Clients protection | 8 |
| 4.1. Clients Classification | 8 |
| 4.2. Appropriateness test | 9 |
| 4.3. Suitability test | 9 |
| 4.3.1. Test on the global risk of the portfolio | 9 |
| 4.3.2. Test on the diversification of the portfolio | 9 |
| 4.3.3. Test on the investment horizon | 9 |
| 4.4. ESG Suitability test | 10 |
| 4.5. Target Market test | 10 |
| 4.6. Best order execution | 10 |
| 4.7. Top 5 execution venues report | 10 |
| 5. Client reports | 10 |
| 5.1. MiFID II Reports | 10 |
| 5.2. Reports and notices | 11 |
| 6. Holding of your assets | 11 |
| 6.1. Sub-custodians network | 12 |
| 6.2. Assets protections in case of Bankruptcy | 12 |
| 7. Inducements | 12 |

Part II. The financial instruments cited by MiFIDII **14**

1. Bonds **14**

1.1. Description 14

1.2. General characteristics 15

1.3. Principal types of bonds 15

1.3.1. Bonds by nature 15

1.3.2. Bonds by issuer 16

1.4. Advantages and disadvantages of bonds 16

1.4.1. Advantages 16

1.4.2. Disadvantages 16

2. Shares **17**

2.1. Description 17

2.2. General characteristics 17

2.3. Principal types of shares 18

2.4. Advantages and disadvantages of shares 18

2.4.1. Advantages 18

2.4.2. Disadvantages 18

3. Collective investment entities (OPC) **19**

3.1. Description 19

3.2. General characteristics 19

3.3. Principal types of OPC 19

3.3.1. Distinction by distribution policy 19

3.3.2. Distinction by investment strategy 19

3.4. Advantages and disadvantages of OPC in general 20

3.4.1. Advantages 20

3.4.2. Disadvantages 21

| | |
|---|-----------|
| 4. Alternative investments | 21 |
| 4.1. Description | 21 |
| 4.2. Principal types of alternative investments | 21 |
| 4.2.1. Property investments | 21 |
| 4.2.2. Alternative funds | 21 |
| 4.2.3. Private equity | 21 |
| 4.2.4. Gold, gold mines, precious metals and raw materials | 21 |
| 4.3. Advantages and disadvantages of alternative investments | 22 |
| 4.3.1. Advantages | 22 |
| 4.3.2. Disadvantages | 22 |
| 5. Derivative financial instruments | 22 |
| 5.1. Description | 22 |
| 5.2. General characteristics | 22 |
| 5.3. Principal types of derivative financial instruments | 23 |
| 5.3.1. Options | 23 |
| 5.3.2. Futures and Forwards | 23 |
| 5.3.3. Instruments with similarities to options | 24 |
| 5.3.4. Warrant (French warrant) | 24 |
| 5.3.5. Preferential subscription right | 24 |
| 5.3.6. Right of attribution | 24 |
| 5.3.7. Representative certificate | 24 |
| 5.4. Advantages and disadvantages of derivative financial instruments | 24 |
| 5.4.1. Advantages | 24 |
| 5.4.2. Disadvantages | 25 |

| | |
|--|-----------|
| Part III. The different types of risk of investment instruments | 26 |
| 1. The different types of risk - Definitions | 26 |
| 1.1. Insolvency risk | 26 |
| 1.2. Liquidity risk | 26 |
| 1.3. Market risk | 26 |
| 1.3.1 General points | 26 |
| 1.3.2 Foreign markets | 26 |
| 1.3.3 Emerging markets | 26 |
| 1.4. Currency risk | 27 |
| 1.5. Interest rate risk | 27 |
| 1.6. Price volatility risk | 27 |
| 1.7. Risk of absence of income | 27 |
| 1.8. Capital risk (or reimbursement risk) | 27 |
| 1.9. Other risks | 27 |
| 2. Summary table | 28 |

Part I.

Rights and duties: what you need to know before opening a securities account

1. First steps in investment

Do you see your money working for you in the long term and want to grow your capital through other means than traditional savings products?

Then investing sounds like an interesting solution for you.

When referring to investment products, stocks and bonds come first to mind but it is not limited to that. Different products like mutual funds, exchange trade funds (ETF), structured products, derivative products, commodities and precious metals may also be considered. You will find in part II of the Investor Guide a description of these different investment products as well as their inherent risks.

The total profit you make from your investments is called a “return” and is expressed as a percentage of the capital invested. Investment products like stocks, bonds, mutual funds have historically offered higher returns compared to traditional savings accounts.

However, they can also bear a higher risk and there are no guarantees of returns: in the event of higher market volatility, the value of some investments can fall or even become zero.

This is why it is important to do your research and diversify your portfolio especially if you are investing on your own. This is known as **Execution only**.

Under certain conditions, you can also benefit from the **Advice** of financial professionals to help you make informed investment decisions (through an Advisory mandate) or entrust a **Discretionary portfolio management** team with the management of your investments (through a Discretionary portfolio management mandate).

The first thing to do is to set money aside in a savings account to be immediately available in case of need.

When you have a comfortable level of savings set aside, you can start thinking of investing part of it on the financial markets. The first question to ask yourself is what goals you want to achieve with your investments. There are many reasons for investing in investment products. Investing is a means to achieve specific financial goals such as buying a home, funding your children’s education, retiring comfortably, diversifying your patrimony, leaving a financial legacy for your heirs, investing in companies or funds that align with your ethical, environmental and social values.

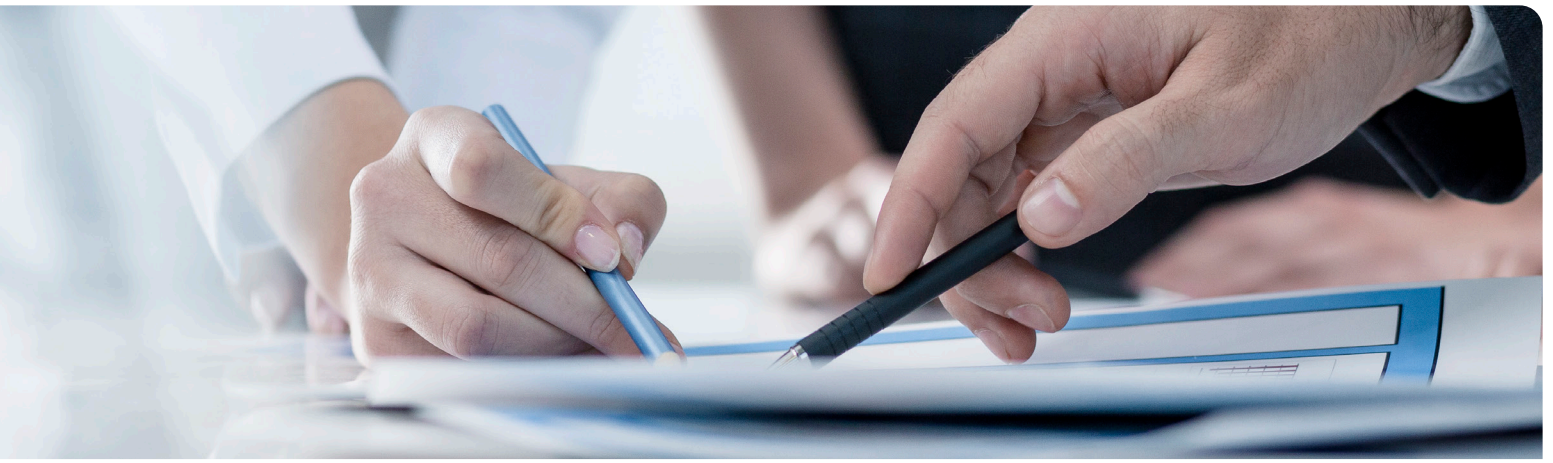
In this regard, it is important that the investment of your choice is in line with your objectives and your personal situation.

2. Different ways of investing

Three types of investment solutions exist at ING Luxembourg, depending on the level of autonomy you want when you invest: Execution only, Advisory mandate and Discretionary portfolio management mandate.

2.1 Investing on your own (Execution only)

This type of service is intended for clients who have good investment knowledge and who wish to invest their money in investment products without receiving recommendations from ING Luxembourg’s experts. With this service, you remain in full control of your portfolio. The Bank receives your orders and takes care of transmitting your investment instructions to its network of agents (brokers, transfer agents), settling the transaction, booking the transaction in your custody account and safeguarding your assets over time.



For Retail clients, the preferred channel for your transactional activity is your My ING Online Bank, which allows you to invest easily in equities on a number of stock exchanges, as well as in the ING in-house funds.

A wider range of products (funds, bonds, structured products) is also available by reaching ING Luxembourg contact center. Wholesale clients who benefit from this type of service can request access to the Triple-A transaction and reporting tool where they can place their orders.

On an ad hoc basis, a client advisor may recommend financial instruments issued or offered by an ING Group entity (in-house funds and structured products).

2.2 Get investment advices from ING Luxembourg (advisory mandate)

Whether you are new to the world of investing or have a good experience of investments, with the Advisory service, you will receive personalized recommendations from ING experts, while remaining in control of the products in which you wish to invest.

Depending on your **investor profile**, the entire range of ING funds is open to you, as well as a list of products selected by our team of investment experts (non-independent advice).

The advisory service is governed by a specific agreement between the client and the Bank. Please contact us for further details and access to the terms and conditions of the service.

2.3 Entrust ING Luxembourg to manage your investments (discretionary portfolio management mandate)

You don't have the financial knowledge needed to manage your investment portfolio yourself, or you simply don't have the time. We'll do it for you! With the discretionary management mandate, your portfolio is

in the hands of ING's experts, who will take advantage of the best market opportunities for you. Working with a dedicated team, you define your objectives, the degree of security, your investment horizon and the amount to be invested.

Subject to certain conditions, you will be offered various formulas ranging from investing in in-house funds to customized management through a diversified range of investment products (funds, equities, bonds, etc.).

The discretionary management service is governed by a specific agreement between the client and the Bank. Please contact us for further details and access to the terms and conditions of the service.

Find out more about ING Luxembourg investment solutions on www.ing.lu/investmentsolutions

3. Investor profile

Not all investors have the same knowledge and experience when it comes to investment products, nor the same risk appetite or financial needs. One investor may choose to take more risk in the hope of a higher return, while another may prefer to play it safe and settle for a lower return. Some can afford to invest their money for more than 10 years, while others need it back in 5 years to realize a project.

In order to help you make your own investments in full transparency and to ensure that the financial products and services offered to you are suitable for your individual circumstances, ING Luxembourg will establish your Investor Profile.

In this context, the MiFID II Directive (Markets in Financial Instruments Directive), which has the main objective of enhancing investor protection and transparency, requires financial institutions, including banks, to conduct a thorough assessment on client's:

- › knowledge and experience of financial products.
- › financial situation and, in particular, the client's ability to bear losses
- › risk tolerance and risk/return profile compatibility
- › objectives and needs like investment horizon, type of income... as well as
- › preferences in terms of environmental, social and governance (ESG) related objectives.

This assessment is carried out by means of an investor questionnaire which you will be asked to complete before investing and renew it every two years while you invest. It consists of a series of questions designed to gather information on the aspects described above.

Investing in the financial markets is not the best solution for clients not willing to run the risk of capital loss. Clients declaring in the investor questionnaire that they cannot afford to bear a loss of capital will not be authorized to invest in financial products with ING Luxembourg. For professional clients who invest in Execution Only, banks are not obliged to establish an investor profile.

At the end of this assessment, the Bank will assign you both a Risk profile and a Sustainability profile.

Find out more about MiFID II on www.ing.lu/Mifid

3.1 Risk profile

The risk profile is the weighted summary of your investment objectives and financial situation. The general approach can be illustrated with the table below

| Profile | Risk level/Expected return | | | | |
|--------------|----------------------------|-----|---------|------|-----------|
| | Very low | Low | Average | High | Very high |
| Aggressive | | | | | ◆ |
| Dynamic | | | | ◆ | |
| Balanced | | | ◆ | | |
| Moderate | | ◆ | | | |
| Conservative | ◆ | | | | |

Short term
→
 Investment horizon
→
 Long term

3.2 Sustainability profile

The Sustainability profile follows a **similar** approach, **completed by the investor's individual Sustainability answers.**

| Profile | Level of preference in sustainability | | | |
|-------------|---------------------------------------|-----|---------|------|
| | No | Low | Average | High |
| Impact | | | | ◆ |
| Sustainable | | | ◆ | |
| Responsible | | ◆ | | |
| Traditional | ◆ | | | |

ING Luxembourg will use the answers of the investor questionnaire as well as the profiles determined to provide you with the right level of protection and information and assess whether a specific investment product is appropriate for your individual circumstances.

Depending on how you have chosen to invest, controls will take the form of a simple warning (Execution only) or may lead to the product being prohibited (in advisory mandate) if inappropriate. Different reports will also give you an overview of your portfolio (deviation or alignment) with your profiles.

4. Clients protection

In order to ensure that customers are provided with the appropriate level of protection and information, the Bank will process the following:

4.1 Clients Classification

Clients have different levels of knowledge and experience of investment products and therefore require different and appropriate levels of information. In compliance with MiFID II, ING Luxembourg classifies its clients into 3 categories.

- › **Retail clients** – e.g. private individuals, (micro/mid)-corporates, (semi-)public entities (in certain cases);
- › **Professional clients** – e.g. (mid)-corporates, some private individuals and (financial) institutions;
- › **Eligible Counterparty** – e.g. financial institutions, pension funds.

When you enter into a relationship with ING Luxembourg, you are by default classified as a retail client (or non-professional), unless the Bank disposes of additional information to assign you a different classification. The retail client category benefits from the highest level of protection, as it is assumed that the level of knowledge and experience is lower than that of a professional investor who is able to adequately assess the risks involved when investing. Classification as a professional client or eligible counterparty is made following an assessment based on defined criteria.

Professional clients (per se) and eligible counterparties investing in Execution only are not required to complete the investor questionnaire and are therefore not protected by the MiFID tests described below.

4.2 Appropriateness test

The purpose of the appropriateness test is to ensure that you understand the different investment products in which you may invest. This test is carried out on the basis of the information collected and assessed through the Investor Profile Questionnaire. In case of a joint account or if you have appointed one or more agents to manage your securities account, the Bank will ask you to mention the lowest level of knowledge among all the joint account holders or among the account holder and the agent(s).

For each category and complexity of products (bonds, stocks, collective investment funds, exchange trade funds (ETF), commodities & precious metal, structure products and derivatives) a level of knowledge and experience will be assigned to you.

- **None:** I don't know the characteristics or the risks associated with this instrument.
- **Basic:** I would need some advice before taking a decision about this instrument.
- **Good:** I understand the characteristics and risks of this instrument and I'm able to take a decision based on the documentation available.
- **Advanced:** Thanks to my professional experience and/or my studies, I have in-depth knowledge of the characteristics and risks of this instrument.

If you wish to invest on your own in a product for which you have stated that you have no knowledge or experience, our transactional systems will warn you, but the decision to invest will still be yours. As part of an advisory mandate, you will not be allowed to invest in this category of products unless you review your level of knowledge and experience via an update of the investor questionnaire.

4.3 Suitability test

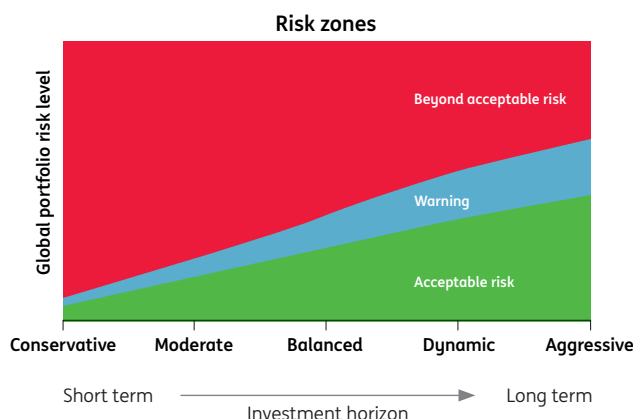
Within ING Luxembourg, the suitability test is the set of rules and controls that enables the Bank to monitor the alignment of the clients' portfolio risk with the investor risk profiles assigned to it. As a result of these tests, in the event of a deviation, the client is informed via the portfolio report.

4.3.1 Test on the global risk of the portfolio

The purpose of this test is to protect the client from deviation between the overall risk level of their portfolio and the risk level defined as acceptable for their investor risk profile.

By way of illustration, an investment in an option (classified as a "high risk product") may lead for the client's portfolio to have a level of risk that is not appropriate for their risk profile.

As shown below, each risk profile tolerates a different overall portfolio risk level. In general, the longer the investment horizon, the higher the acceptable risk in the portfolio.



Depending on the way of investing you have chosen, this control may take the form of a simple warning (Execution Only) or may lead to a prohibition of the transaction (in Advisory mandate) if it leads to a portfolio risk that is unacceptable for the client's investor profile.

4.3.2 Test on the diversification of the portfolio

The aim of this test, as its name suggest, is to check that the level of diversification of the portfolio is adequate with regard to the investor profile of the client. To each type of instrument a level of risk is assigned. Depending of the level of risk of the instrument a percentage of holding is defined as acceptable with regard to the total value of the portfolio. This acceptable percentage of holding varies depending on the risk profile of the client.

For illustration, for a client with a "conservative" risk profile, the acceptable percentage of holding with a high level of risk will be lower than for a client with an "aggressive" risk profile.

4.3.3 Test on the investment horizon

The purpose of this test is to check that the global investment horizon of the client's portfolio is consistent with the recommended investment horizon defined for the investment profile of the client. With ING Luxembourg the recommended investment horizon has been defined as follows:

| | Investment horizon |
|--------------|--------------------|
| Profile | Years |
| Aggressive | > 10 years |
| Dynamic | 7-10 years |
| Balanced | 5-7 years |
| Moderate | 3-5 years |
| Conservative | 0-3 years |

4.4 ESG Suitability test

ESG is the acronym for Environmental, Social, and Governance. It refers to the three key factors used to measure the sustainability impact of an investment, such as, but not limited to, climate change, biodiversity, human rights, anti-bribery and corruption.

The purpose of this test is to check that the global composition of the client's portfolio is consistent with the client's environmental, social and governance preferences collected through the investor questionnaire on three dimensions: Principal Adverse Impact (PAI), Sustainability as defined by SFDR and European Taxonomy.

Find out more about ESG on www.ing.lu/SFDR

4.5 Target Market test

For each product distributed by a financial institution, such as funds, MiFID II requires banks to define the standard profile of the client to whom the product can be sold (positive target market), but also to whom it cannot be proposed (negative target market). The purpose of this control is to reduce the risk of selling to the clients a product that does not match their investor characteristics, objectives and needs.

To illustrate, imagine that you want to buy a car. If you have a large family and want to go on holiday by car, a 2-seater sports car will not be one of the options suggested by the salesman.

With regard to financial instruments, the main criteria taken into account before proposing a product to the client are the following:

- › The type of MiFID client classification appropriate for the product (Retail, Professional)
- › The knowledge and experience required to invest in the product
- › The level of loss that the client is prepared to accept, which must commensurate with the potential loss that the product may cause
- › The level of risk that the client is prepared to take, relative to the return the product may generate
- › The client's investment horizon, in terms of the minimum time period required to hold the product in order to expect a return
- › The alignment between the client's sustainability preferences in terms of environmental, social and governance objectives and the objectives supported by the product in this regard.

Depending on how you have chosen to invest, controls will take the form of a simple warning (Execution Only) or may lead to the product being prohibited (in advisory management) if inappropriate.

4.6 Best order execution

Best Execution is a set of measures and diligence that banks must take to obtain the most favorable price for their clients under prevailing market conditions. For example, depending on the nature and size of the client order, the Bank may take into account the liquidity of the market, but also transaction costs or settlement fees, when selecting the broker and the market venue where the order is to be executed.

Find out more about ING Luxembourg best order execution on www.ing.lu/Mifid

4.7 Top 5 execution venues report

In line with the Best Execution Policy, ING monitors and performs a detailed analysis of the most popular execution venues and the instruments for which orders have been placed over the past year.

The aim of this report is to enable investors to make meaningful comparisons and analyze the choice of top five execution venues in respect to each class of financial instrument. The report gives the client an overview of where orders are most frequently placed in order to offer them the best deals.

Find out more about ING Luxembourg top 5 execution venues on www.ing.lu/Mifid



5. Client reports

When investing in financial products, the Bank will provide clients with a set of reports on a recurring or on ad hoc basis, when a transaction is executed.

5.1 MiFID II Reports

One main objective of MiFID II regulation is to enhance transparency. In this context, dedicated reports will provide MiFID Retail clients with information on cost and charges relating to their investments, result on their suitability test, portfolio performances, valuation, operations and key information on products.

| Report name | Execution only | Advisory | Discretionary portfolio management | Description | Frequency |
|---|----------------|----------|------------------------------------|--|--|
| Pre-trade suitability report | | x | | The result of the appropriateness, suitability and target market controls. | At trade |
| Pre-trade cost and charges | x | x | | Summary of the estimated cost and charges related to the acquisition, the detention and the potential sale of the financial instrument held by the client. | At trade |
| Quarterly portfolio report | x | x | x | Set of the necessary information regarding the client portfolio's performance, operations, valuation, suitability and costs & charges. | Quarterly |
| Loss alerting on portfolio and leveraged instruments | x | x | x | Alerts sent to clients when the value of their portfolio or leveraged instruments falls by more than 10% compared to the previous reporting period. | Ad hoc |
| PRIIPS KID | x | x | | A 3-page document, written in a comprehensible manner, detailing financial data of the product, a risk/reward indicator and chart showing the past performance of the product designed to help investors understand investment products behavior and support comparison with other similar products. | Ad hoc*, triggered by a funds or structured products transaction |

*You can also check the KIDs for our current financial instruments offer at the following link www.ing.lu/kid

5.2 Reports and notices

Additional to the MiFID II required reports, ING will also provide reports and notices which keep investors informed of the actions performed on their securities account.

| Report name | Execution only | Advisory | Discretionary portfolio management | Description | Frequency |
|--------------------------------|----------------|----------|------------------------------------|--|-------------------------------|
| Fiscal report | x | x | x | Presents the movable income to help clients to fill their tax return (including dividends, coupons, capital gains, etc.). Customized reports are produced for France, Belgium and Luxembourg residents. | Yearly |
| Execution notice | x | x | | Notice confirming the execution of the transaction including the type of order, the market venue, the execution time, the price and the charges. | At trade, next banking day |
| Corporate events notice | x | x | | Information notice detailing the operation concerned (dividend payment, merge, General meeting...). In case of a voluntary operation, it includes a response section. | Ad hoc, triggered by an event |



6. Holding of your assets

As custodian Bank, ING Luxembourg takes care of the assets held in the client's investment accounts, reflecting at all times their market value and quantity, with all the due diligence required.

The Bank will also inform the client of corporate events affecting the assets held and will reflect their impact

on the instruments (e.g. acquisition of a company held in the client's portfolio by another, change in the company's denomination, dividend payment, redemption of a bond...).

To illustrate, let's take the case of the company Facebook, whose name becomes Meta. This type of corporate event is transparent for the client. The Bank will ensure that the correct and updated situation of the client's portfolio is reflected at all times. For some other events, called voluntary action, such as an optional dividend payment in cash or in shares, the client's choice will be required. There will be a default option available, if no response is given.

In the context of the Shareholder Rights Directive II EU 2017/828 and the obligation of the Bank acting as Nominee for funds, clients will be informed on General and Extraordinary meeting agenda and under certain conditions will have the possibility to exercise their voting rights. Please contact us for further details and access to the terms and conditions of the service.

6.1 Sub-custodians network

In order to be close to the market and to receive rapid and accurate information on events that may affect financial instruments, the Bank is supported by a network of local third-party banks, known as sub-custodians, with whom ING Luxembourg holds the positions of all its clients globally, generally by country of issuer or main market venue.

To illustrate, let's take the French stock of TotalEnergies. The global position of all client assets in this stock is held with Caceis Investor Services, which specializes in the French market. The assets are held in a special account called "Assets held on behalf of clients" and are segregated from the Bank's own assets.

Find out more about ING Luxembourg sub-custodian network on www.ing.lu/custodian and Segregation options in General Terms and Conditions of the Bank on www.ing.lu/terms

6.2 Assets protections in case of Bankruptcy

In the event of failure of the Bank or of one of its sub-custodian, financial instruments such as securities held on behalf of clients do not fall within the liquidation assets, and they are returned to the client.

However, it may turn out that some of these financial instruments have vanished due to e.g. fraud or administrative negligence. In this case, the Investor Compensation Scheme or *Système d'indemnisation des investisseurs Luxembourg* ("SIIIL") where ING Luxembourg is an affiliate, covers the compensation of clients up to an amount of EUR 20,000 per person and per institution.

ING Luxembourg is also a member of the Luxembourg Deposit Guarantee Fund (FGDL), therefore in case of insolvency, your cash deposits are protected up to EUR 100,000.

7. Inducements

Under MiFID II, inducements are remuneration, commission, or non-monetary benefits (like participation in conferences, or seminar) that financial professionals like banks may receive from financial products manufacturers (e.g. Promotor of Fidelity or Blackrock funds) as a result of offering their financial products (range of funds) to clients.

The Bank accepts only inducements that are designed to enhance the quality of the relevant service to the client. For e.g. inducement received may finance Research designed to provide valuable insights for clients into financial markets or investment opportunities.

Inducement must never impair compliance with the Bank duty to act honestly, fairly and professionally in accordance with the best interest of its clients such as recommending one financial product over another when it is not in the best interest of the clients.

When providing discretionary portfolio management services, ING will not keep or pay any form of monetary inducements and will not accept any form of non-monetary inducements. If any inducement is received, they will be transferred to the concerned clients and they will be notified.

Inducements related to independent investment advice, have to be paid in full to the client. The advice services provided by ING are not independent.

In order to increase transparency related to the inducements, ING will disclose the existence, type and amount of the inducement, if any, before executing a transaction. If the amount cannot be disclosed up front, the calculation method will be described. Nevertheless, the client will receive a post transaction notice with the amount of the inducement.

All inducements received by ING are communicated annually in the management report. The annual reports can be found at www.ing.lu/reports

Find out more about Inducement on www.ing.lu/Mifid

HOW CAN WE HELP

For support on online banking, information on our products and our services or any other question or claims, your Contact Center is available from Monday to Friday, 08.30 am to 06.00 pm.

Find out more about how we can help you on www.ing.lu/contact

Part II.

The financial instruments targeted by MiFID II



We refer to the table in part III for the “Risk” aspects associated with this type of financial instrument.

1. Bonds

1.1. Description

A bond is an IOU from an issuer; it represents a fraction of a borrowing issued by an issuer for which the holder of the bond receives interest (coupons).

The issuer may be:

- › a public entity, within Luxembourg or outside of it;
- › a private company based in Luxembourg or outside of it;
- › an international entity;
- › a lending institution (we then speak of a deposit receipt rather than a bond).

Their principle is simple: an interest rate entitles the holder to receive a periodic coupon, for a period of borrowing, a purchase price and a reimbursement price on maturity.

Certain bonds nevertheless have particular features which we shall discuss in point 1.3 (principal types of bonds).

1.2. General characteristics

Primary/secondary markets

Bonds are issued in the primary market and may be subscribed for a defined period. After this period, the bonds may be traded (purchase/sale) on the secondary market, in which prices vary daily (when interest rates rise, prices fall and vice versa).

Nominal amount

The nominal amount corresponds to the size of the bond issue divided by the number of bonds issued. Coupons are calculated on the basis of this amount.

In this way, a bond for a nominal amount of 5,000 EUR and of a coupon of 5% will generate a coupon of 250 EUR for its holder ($5,000 \times 5\%$), if the coupon is paid annually.

Reimbursement procedures

A bond is generally reimbursed on its final maturity date, but may be reimbursed in advance through annual reimbursements or, more rarely, by a random draw. Certain bonds have particular reimbursement procedures (under certain conditions), at the option of the issuer or of the bond holder, for example.

Nominal interest rate

This is the interest rate displayed on the bond, which, when applied to the nominal value of the bond, allows the amount of payable coupons to be calculated. For example, an interest rate of 7% with a nominal value of 1,000 EUR will generate coupons of $7\% \times 1,000 \text{ EUR} = 70 \text{ EUR}$, if the coupon is paid annually.

Return

The return on the final maturity of the bond expresses the average annual income from a bond.

Issue price and reimbursement value

A bond may be issued at par (issue price = 100% of the nominal value), above par (e.g., nominal value of 100, displayed price of 102) or below par (e.g., nominal value of 100, displayed price of 98). The reimbursement value on maturity is often 100% of the nominal value, but a reimbursement premium may be stipulated.

Duration

The duration is determined when the bond is issued, but an early reimbursement (“call”) may be foreseen. An early reimbursement or call means that the issuer reserves the right, on certain dates or for certain periods determined at the time of the issue, to terminate the loan and to reimburse its holder at a price determined in advance.



The duration also influences the return on the bond. In general, the longer the duration of the borrowing, the higher the interest rate.

Quality of the issuer

The majority of issuers receive a rating, a standardised code, attributed by independent rating agencies (Moody's, Standard & Poors, Fitch, etc.). This rating provides an assessment of the solvency of the debtor. The higher the rating (e.g. AAA), the lower the debtor risk. Over the life of the bond, this rating may nevertheless be revised.

1.3. Principal types of bonds

We can distinguish bonds from two perspectives: their nature or their issuer.

1.3.1. Bonds by nature

Ordinary bonds

The ordinary bonds have a fixed duration and have a fixed interest rate over the whole of this period. Holders of ordinary bonds do not benefit from any particular privilege; in the event of bankruptcy of the issuer, they are reimbursed after all of the priority creditors.

Priority bonds

Holders of priority bonds are reimbursed as a priority, in the event of bankruptcy of the issuer. The reimbursement of the capital and interest is guaranteed by certain assets of the issuer.

Subordinated bonds

Holders of subordinated bonds are only reimbursed, in the event of bankruptcy of the issuer, after all of the other bondholders (priority creditors and ordinary creditors).

Zero-coupon bonds

Zero-coupon bonds are characterised by having no coupon (interest is not distributed annually, but capitalised until maturity); and by issuance below par, i.e. on issuance, the investor pays less than the nominal value (the issue price is much less than the

reimbursement price since it is equal to the present nominal value on the date of issue and at the fixed interest rate).

Indexed bonds

These are bonds with a return linked to the evolution of one or other index (e.g.: inflation, gold price, stock index or a share price, a given exchange rate); different indexation clauses may be provided: e.g., only the reimbursement price is indexed and no coupon is paid.

Variable rate bonds (or floating rate: Floating rate notes (FRN))

In this type of bond, the level of the coupon is not fixed but is periodically revised. The coupon may, for example, be linked to a market rate, e.g. 6-month Euribor. The coupon shall be calculated as a function of the fixing for 6-month Euribor on the observation date.

Convertible bonds

Convertible bonds, like ordinary bonds, have a fixed interest rate and a fixed duration. What distinguishes them is the right (and not the obligation) for the holder of the bond to demand its conversion into shares, during one or several given periods, under conditions set in advance.

Warrant bonds

A bond with warrants is linked to a share; the warrant provides the right to purchase the underlying share at a price set in advance. When separated from its warrant, the bond becomes an ordinary bond. Separated from the bond, the warrant possesses the characteristics of all warrants (see point 5.3.3).

Reverse convertible debt securities

A "reverse convertible" is a current debt security for which the coupon should be considered as remunerating the option which the issuer (generally a bank) reserves to reimburse the debt securities on maturity, either in cash at the nominal value of the securities in question, or with a certain number of shares or their countervalue in cash. These securities are always reimbursed at the choice of the bond issuer.

Perpetual bonds

These are bonds for which no date of maturity is set. They are nevertheless generally accompanied by a “call” (early reimbursement).

Structured bonds

Also called “Structured Notes”. These are bonds with a given maturity and which may offer a coupon linked to the evolution of an underlying instrument.

The underlying instruments of a structured bond may be collective investment undertakings, shares, indices, a basket of shares, (indices on) raw materials, etc.

Step up bond

A bond with an interest rate which rises during the life of the bond. The rates and the periods to which they apply are set at the time of the issue.

Step down bond

A bond with an interest rate which falls during the life of the bond. The rates and the periods to which they apply are set at the time of the issue.

Mandatory convertible

A bond which is mandatorily convertible into shares on maturity.

The interest rate of this type of bond is generally lower than that of the classic bond, even if the growth prospects of the issuing company are favourable at the time of issuance of the bond.

The risk linked to this type of bond is that the reimbursement takes place at a point when the share price has fallen sharply. It is thus possible that the underlying investment falls heavily as a result.

1.3.2. Bonds by issuer

Deposit receipts

These are an IOU from a borrower (the financial institution) to a lender (the investor).

In return for the principal paid to the financial institution, the investor receives interest on the entrusted amount over the concluded duration (often 1 to 5 years, sometimes 10 years or more).

On maturity, the principal amount is reimbursed. We distinguish ordinary deposit receipts with a rising interest rate, with capitalisation (the annual interest is not distributed, but added on each occasion to the initial amount), with optional capitalisation (= growth bonds) or with periodic payment (quarterly, monthly, half-yearly).

Government bonds

Government bonds are fixed income bonds with an annual coupon issued by a State.

Corporate bonds

A bond issued by a company or a “corporate bond” is a debt security representing a stake in a long-term loan issued by a private sector company.

In general, the interest rate is higher than on deposit receipts or government bonds in order to offset a higher credit risk.

Eurobonds

Eurobonds are bonds issued at international level (in several countries at the same time) by private companies, public institutions, sovereign States and international entities, outside of the country of the currency in which they are issued.

They are generally denominated in different currencies.

The currency of the issue (currency risk), the quality of the Company which issues the borrowing (the issuer), the return and the possibility of early reimbursement elements which the investor must consider when choosing euro-bonds.

1.4. Advantages and disadvantages of bonds

1.4.1. Advantages

- › In principle and for most bonds, this type of investment does not offer any uncertainty (amount, interim income date and reimbursement of capital are determined at the time of the issue).
- › The bonds provide remuneration exceeding that offered by short-term investments and this with a level of risk less than that represented by investments in shares. This remuneration is generally even more attractive when the issuer’s rating is low (but this is also accompanied by higher risk).
- › The bonds allow investors seeking revenue to generate an attractive return.
- › Investments in bonds, essentially in bonds of OECD States, may be made starting from very modest amounts and are hence accessible to everyone.
- › In addition to a regular income, bonds may generate capital gains when market rates fall below the rate of the held bond. Conversely, when rates rise, they may generate a capital loss.
- › Unlike “private” investments, as a rule, bonds are negotiable at any time on a secondary market depending on available liquidity.

1.4.2. Disadvantages

- › The capital guarantee is only effective on maturity.
- › During the life of the borrowing, the value of the bond will fluctuate depending on various factors, of which

the evolution of interest rates and the financial solidity of the issuing company are the main ones.

- › The real value of the principal on reimbursement on the final maturity is generally less than that of the principal at the time of the issue, on account of inflation. This phenomenon, termed “monetary erosion”, is all the greater, the higher the inflation rate and the longer the bond duration. It must be offset if the nominal interest rate exceeds the average rate of inflation over the duration of the bond.
- › A bond may only be acquired under the initial conditions during the subscription period. Outside of this period, the bond shall be acquired at a variable price, and the purchase price shall be increased by brokerage fees.



2. Shares

We refer to the table in part II for the “Risk” aspects linked to this type of financial instrument.

2.1. Description

Shares form part of the equity base of a company. Shareholders are hence the owner of the Company pro rata to the number of shares which they hold.

Private individuals who invest generally opt for an instrument which does not expire (and from which they may only withdraw by selling the share, since there is no contractually provided reimbursement), without fixed income and without a nominal value or fixed value.

The share price represents a compromise between income (dividends and capital gains) and risks. The latter are influenced by many factors, both intrinsic to the company (such as its financial, technical and commercial situation, its investment policy, its prospects and those of its economic sector, etc.) and external, since the stock market is influenced by political events, the economic and monetary situation, both international and national, and by emotional or irrational elements which may accentuate (both upwards and downwards) the price fluctuations of the stock market.

All of these complex factors influence share prices and may make them very volatile in the short term. Investment in shares should thus be regarded as a long-term investment. Certain shares are often grouped together in a “index”.

These group together shares with common characteristics, whether from a geographical perspective

(National indices such as the LuxX, the Bel 20, the CAC 40, the DAX, the Footsie, the Dow Jones, the Nikkei), or from a sectoral or market capitalisation perspective (indices of small caps, etc.).

A share is termed “preferred” when any benefit is granted to its shareholder in addition to those granted to the ordinary shareholders. This is often the case of a right to receive a fixed amount in the event of liquidation and a fixed dividend before the ordinary shareholders.

The benefits granted to the preferred shares are recorded in the articles of association of the Company.

2.2. General characteristics

Forms

The share is termed a “bearer” share when its owner is not entered in the register of the Company, unlike the registered share.

The share is termed “dematerialised” when it is only represented by registration in an issue account. Dematerialisation may be executed at the time of the issuance of the share or by conversion of the “materialised” share into a “dematerialised” share.

Return

It is the possible dividend and the fluctuation in the price (variation of value, termed a capital gain or loss) which represents the return (“return”) of a share.

Risk

Investors are exposed to the full risk of the company (they do not receive any income if the company performs badly and in the event of bankruptcy, shareholders rank after creditors in the allocation of the proceeds from the sale of the assets, in other words, most of the time, they do not recover anything in the event of bankruptcy). By contrast, as a joint owner, the shareholder has the following rights:

Rights associated with the share

› **right to a dividend:** if the company has generated profits and the general meeting decides to distribute them as a whole or in part (and not to reinvest them or allocate them to reserves), the shareholder is entitled to part of these profits, termed dividends. These may vary from one year to the next, as a function of the profits generated, but also of the distribution policy of these. If the financial year has ended with a loss, there may be no distribution of dividends. These are hence never guaranteed.

Dividends are generally distributed in cash. Sometimes, the shareholder may also have the option of receiving these in the form of new shares (stock dividend), in a proportion established in advance.

› **voting rights** at the ordinary and extraordinary general meetings for the approval of the annual financial

statements, the appointment and dismissal of the directors, the approval of the amount of the dividend distributed to the shareholders; the shareholder thus has a right to monitor management.

› **right of information:** before the general meeting, the shareholder may inspect the Company's financial statements, the content of its portfolio of securities, the report by the statutory auditors, as well as other information, whether periodic or occasional, notified by the company; the shareholder may ask for explanations of the company's situation.

› **right of allocation:** in the event of liquidation, the shareholder shall be entitled to a part of the company's assets.

› **preferential subscription right** (priority for new shares), in the event of a capital increase decided with the agreement of the shareholders. A shareholder who does not wish to participate in this capital increase may sell his/her preferential subscription right in the stock market if the share is listed. Some companies may distribute free shares, termed "bonus" shares.

› **right of transfer:** for listed companies, the shareholder may sell his/her shares on a stock market.

2.3. Principal types of shares

Shares representing the share capital of the Company

These shares may have the following features:

› **Actions with or without voting rights**

Shares with voting rights allow the shareholder, as a joint owner, to participate in the general meeting and to take part in the vote and the management of the Company. Shares without voting rights provide entitlement to a dividend which may not be less than that granted to shares with a voting right.

› **Privileged or preferred shares**

These shares may provide entitlement, before all of the other shares, to a portion of the annual profit. In the event of dissolution of the Company, they shall be reimbursed before all of the others.

Shares not representing the share capital of the Company

Unlike classic shares, non-equity profit shares do not represent the share capital or a material contribution and cannot have a nominal value.

They are issued as consideration for a non-financial contribution to the company, in other words a contribution which cannot be determined. They provide entitlement to a part of the profit over the life of the Company or when it is dissolved. Their holders may only exercise their voting right in restricted cases.

Listed shares

In order for a share to be listed, certain conditions set by the market authorities must be fulfilled. The introduction

of a share to a stock market is also termed an IPO (Initial Public Offering).

Stock market listings (IPO, Initial Public Offering)

IPO is the term used when a company issues shares for the first time on a stock market. A company which makes a stock market listing has the principal objective of collecting funds to drive its investment and its growth. In order for a company to list on a stock market, it must meet certain conditions (minimum size, publication of regular and detailed information, "Corporate Governance" rules, etc.). Private investors may also have access to stock market listings.

Sector shares

From a stock exchange investment perspective, four sectors may be distinguished:

- › cyclical shares (construction, raw materials, chemicals);
- › growth shares (telecoms, pharmacy, IT);
- › financial shares (banks and insurers);
- › defensive shares, representing assets for consumption and services to private individuals (production and distribution).

2.4. Advantages and disadvantages of shares

2.4.1. Advantages

- › In financial terms, it has been demonstrated that over the long term, the return from a share is greater than that of a bond. This is notably explained by the risk premium demanded by the investor. Unlike a bond, the return on a share consists above all of the capital gain which the share accrues over time, and not only of the income (dividend) which it distributes.
- › Liquidity: if its shares are listed, the shareholder may sell them every day via a stock market. The "liquidity" of a share indicates the ease with which it may be purchased or sold.

2.4.2. Disadvantages

Investment in shares is a risky investment (see the table, part II):

- › depending on the profitability of the Company, the dividend represents variable income (as opposed to the fixed income generated by a bond);
- › the market value of the share fluctuates as a function of the prospects of the Company and of the general trend in the markets.

3. Collective investment entities (OPC)

We refer to the table in part II for the “Risks” aspects linked to this type of financial instrument.

3.1. Description

The term “Collective Investment Entities” (hereinafter referred to as “OPC”) is a general term which designates an entity, with or without a legal personality, which raises funds from the public and invests these collectively in a series of securities according to the principle of the allocation of the risks.

OPC represent a form of collective management of portfolios. The most popular OPC are the SICAV. The term ‘OPC’ nevertheless covers an entire series of products with a specific nature.

- › SICAV [UCITS](open end investment companies);
- › Investment funds;
- › SICAF (closed end funds) including SICAFI (property);

We shall restrict ourselves here to SICAV and investment funds.

3.2. General characteristics

- › SICAV and investment funds can both increase or reduce their capital on a periodic basis (in general daily). The major difference between the two forms is that a SICAV is a legal person, while an investment fund is not: the fund is the undivided property of its shareholders. This notably has tax implications which we shall not discuss here.
- › OPC are subject to specific legislation, as well as to the prudential control of the CSSF (Financial Sector Supervisory Commission).
- › Asset management is entrusted to specialists, who invest the collected amounts in various securities (shares, bonds, money market instruments, property certificates, currencies, forward investments, etc.), observing the investment policy of the fund described in the prospectus. The investor has no right of inspection of the investment policy followed by the OPC. In order to know whether an OPC corresponds to your requirements, you should refer to its issue prospectus
- › OPC reinvest the funds which are entrusted to them by the public according to the principle of allocation of risks.

- › Inventory value corresponds to the market value per share of the net assets of the portfolio. This inventory value is calculated periodically, usually daily, and is published in the financial press.
- › OPC are managed in the exclusive interests of their participants.
- › The investment policy of an OPC may be very broad and benefits from access to a range of instruments and stock markets which a private individual does not have. OPC must observe the provisions on informing investors.

3.3. Principal types of OPC

In addition to the distinction between OPC according to their legal form, we may also distinguish them by their management policy and investment strategy.

We shall briefly summarise these distinctions here.

3.3.1. Distinction by distribution policy

We draw a distinction between a distribution OPC, on the one hand, and a capitalisation OPC on the other.

Certain OPC give investors the choice between the two types.

Distribution OPC

These allow investors the possibility of receiving a periodic dividend (most frequently an annual dividend). All or part of the income received is then passed on to their holder.

Capitalisation OPC

The income received is not distributed to the holders but is automatically reinvested and added to the invested capital and replaced.

There is no distribution of income or of dividends. Investors only benefit from the return on their investment when they sell their units, at which point, they receive income in the form of a capital gain.

3.3.2. Distinction by investment strategy

There is currently a multitude of OPC, principally SICAV.

The OPC fall into several major groups as a function of the type of securities held in the portfolio (liquidity, bonds, shares, precious metals, property certificates or a combination of two or more of these values).

Money market OPC

liquidity and in short-term securities, such as term deposits, treasury certificates, bonds with short maturities, commercial paper and certificates of deposit.

Bond OPC

Invest principally in debt securities.

Equity OPC

Invest principally in shares of companies and to a minor degree in derivative products on shares (see point 5.3), such as warrants, options, etc.

Mixed OPC

Invest in both shares and in bonds.

We may distinguish several types of mixed funds by their risk profile:

- › mixed “defensive” OPCs mainly invest in risk-free investments (e.g., 75% invested in bonds, most of which are in stable currencies es);
- › “balanced” mixed funds allocate their assets in a more or less balanced way between non-risky investments (bonds) and risky investments (shares);
- › “dynamic” or “aggressive” mixed funds mainly invest in risky investments (e.g., 75% is invested in shares).

Property OPC

Invest principally in property assets. OPC which invest solely in other property OPC or property certificates fall into this category (SICAFI).

Funds of funds

Are OPC which invest in other OPC. Managers of funds select other fund managers for a region, a sector, a theme, etc.

Hedge Funds

(cf. point 4.2.2) Funds using so-called “alternative” or non-traditional portfolio strategies with the aim of hedging against stock market fluctuations or which are speculative or which seek to generate positive returns regardless of the evolution of financial markets (absolute return strategy (these funds are also called “absolute return” funds). A certain number of these funds also seek, within the context of these strategies, to establish a “leverage effect”, which considerably increases the risks. There are nevertheless also low-risk hedge funds.

Index OPC

These OPC have an investment policy of following the evolution of a benchmark index as faithfully as possible (e.g., a national stock index (the LuxX in Luxembourg) or a sector index).

The evolution of the OPC thus follows the average performance of the relevant index.

ETFs

An ETF is a fund which is often an index fund, listed on a stock market. The investor thus has the possibility of benefiting, in a single transaction, from the performance of an index, a basket of shares, a basket of bonds or of raw materials. The ETF allies the benefits of shares (simplicity, continuous market price) to those of traditional funds (access to a wide variety of securities, diversification).

Capital protection OPC

- › This SICAV offers its subscribers a promise of a minimum return, linked to the performance of an underlying instrument or a guarantee of reimbursement of a minimum capital amount on a given maturity.

An example of a SICAV with capital protection is:

- › A SICAV which allows full exposure over a 6-year period to the increase in the CAC40 (an index consisting of 40 shares in the monthly settlement market, from all economic sectors, drawn from the hundred largest companies by market capitalisation). During this period, the index rises by 150%. On maturity, investors receive 150% more than their initial investment. If, on the other hand, the CAC40 has failed to rise or even fallen, investors will nevertheless receive their initial capital.
- › It should be noted that this protection is most frequently conditional and that it is obtained by payment of insurance policies, so-called “hedges”, obtained e.g. in the options market.

3.4. Advantages and disadvantages of OPC in general

3.4.1. Advantages

Diversification

OPC allows investors to establish a diversified portfolio with an allocation of risks.

Management by professional managers

More profitable and more effective; professionals may react more rapidly to the state of the market. For investors who do not have the time, inclination or knowledge required to manage their own portfolio with the purchase and sale of shares at suitable moments, selecting and arbitrage in bonds, etc., an OPC offers an appropriate solution.

Economies of scale

In view of the importance of the implemented measures, these funds can benefit from lower costs (e.g. on market transactions) and in this way, secure better returns.

Investments appropriate to the needs of the investor

The multiplicity of existing OPC and the specific character of each of them provides a suitable response to the specific and varied requirements of investors.

Possibility of investing small amounts

Even with a small bet, investors may participate in several markets or even several currencies; with a diversified portfolio with small amounts.

Access to specific markets

Markets which are hard or impossible for individual investors to access (e.g. Asian markets) or sophisticated financial products (options, futures).

Liquidity and transparency

The inventory value (for SICAV) or the stock market price (for SICAF) is often calculated daily. Furthermore, the OPC are obliged to observe provisions on investor information. As a function of the type of fund and of the underlying instrument in which the OPC invests, certain advantages specific to the financial instrument in question must be considered (see the heading “benefits” for each of the financial instruments discussed in this brochure. We highlight, for example, the benefit of a ratchet fund, which locks in an interim rise definitively and secures it at maturity, whatever happens).

3.4.2. Disadvantages

- Expenses: units and shares of OPC generally result in payment of management expenses (the most significant share of the expenses), of entry and exit expenses (which may vary sharply according to their specific characteristics and according to the financial institutions which market them).
- Depending on the type of fund and of the underlying asset in which the OPC will invest, certain disadvantages specific to the financial instrument in question must be considered (see the heading “disadvantages” for each of the financial instruments covered in this brochure. For example, we would highlight the higher risk represented by an equity OPC relative to a bond OPC).

4. Alternative investments

We refer to the table in part II for the “Risk” aspects linked to this type of financial instrument.

4.1. Description

Alternative investments are those which cannot be executed through standard asset classes (bonds, shares or money markets). They present unique characteristics in terms of their risk/return ratio. In numerous cases, they have a high degree of sophistication.

4.2. Principal types of alternative investments

We may distinguish four large groups of alternative investments:

- property investments (property);
- hedge funds;
- private equity;
- gold, gold mines, precious metals and raw materials (“commodities”)

4.2.1. Property investments

Real estate certificates

Real estate certificates (or land certificates) are titles which gives their holder a right to a portion of the rent and of the resale price of the property (or of the group of properties) to which it relates. The issuer is officially the owner of the property; the holder of the certificate is merely the financier.

Property SICAF (SICAFI)

A SICAFI is a closed-end investment company which invests in property. These are securitised properties, i.e. the investor acquires properties not directly, but indirectly, by purchasing a title representing the properties of the SICAFI. A SICAFI must mandatorily invest in several properties (no more than 20% of its assets in a single property complex).

These are principally office, commercial or semi-industrial properties, albeit sometimes residential properties. SICAFI may also hold property certificates and titles of property companies.

4.2.2. Alternative funds

An alternative fund is an investment product which seeks to maximise performance through alternative investment strategies and to generate positive returns, whatever the evolution of financial markets. The investment practices of hedge funds are, for example, leverage effects, short sales, the use of derivative products and arbitrage.

Hedge funds are often complex products, reserved for experienced investors (see point 3.3.2).

4.2.3. Private equity

This term refers to the capital provided to companies which are not listed on a stock market. Various reasons may favour this type of investment (development of new products and technologies, balance sheet strengthening, boosting working capital, etc.).

A private equity investment may also be made through funds, allowing the risk linked to an individual company to be limited.

4.2.4. Gold, gold mines, precious metals and raw materials

Precious metals have always been regarded as investment vehicles.

Gold represents the most widely used precious metal for investment purposes. It is traditionally regarded as a safe haven investment in exceptional circumstances

(notably war and political instability). Relative to other forms of investment, it has the benefit of being easily tradable throughout the world and at a known price, when it is expressed in accordance with international standards. The reference price for gold is quoted in US dollars (USD) per ounce. This relates to unallocated gold, i.e. which cannot be delivered physically. Gold is principally traded through futures and options (see point 5.3). In parallel, there is an important physical market quoted in local currency (euro, etc.) and possibly in local units (kilo, ounce, tael).

Nowadays, it is the futures and options market which dominates trends, followed by the physical market. Fluctuations may be significant. Furthermore, for investors based in Euros, currency risk should not be underestimated.

The other precious metals, with markets which are highly speculative and not recommended to small investors, are principally silver, platinum, palladium, iridium, rhodium, etc.

These metals are principally traded in US dollars on US markets. Under normal market conditions, they are not generally available in physical form.

Raw materials (commodities): investments are principally made through commodity futures and forward commodity agreements (for which a unit is exchangeable for another unit of the same raw material) such as wheat, precious metals, oil, gas, cotton, coffee, etc.

Traders conduct such transactions in order to hedge themselves against any adverse price developments, and investors/speculators in order to profit from the price fluctuations in the markets in which these goods are traded.

4.3. Advantages and disadvantages of alternative investments

4.3.1. Advantages

Alternative investments are investment instruments which in principle offer the benefit of a low correlation with traditional investments. They thus permit a significant improvement in portfolio diversification and an improvement in the long-term return while reducing risk.

4.3.2. Disadvantages

- › The liquidity of alternative investments is generally lower than that of traditional investments.
- › These products are intended for experienced investors who follow market developments very closely.

5. Derivative financial instruments

We refer to the table in part II for the “Risk” aspects linked to this type of financial instrument.

5.1. Description

What is a derivative financial instrument?

Derivative financial instruments (or products) were developed to hedge the risks linked to exchange rates, interest rates and principally volatility. They are called derivative since they “derive” from the underlying financial instruments which they are intended to hedge.

They may be used for hedging or for speculative purposes. A derivative financial instrument provides exposure to the changes in value of the underlying asset without owning it. It may also permit the long-term purchase of the underlying asset at a price determined in advance. A derivative product should not be confused with an investment in the underlying security. After the expiration of its exercise, it loses all of its value.

5.2. General characteristics

The leverage effect

Derivative financial instruments allow a very significant profit to be realised relative to the size of the investment. This is called the leverage effect. For example, in order to invest in options, it is sufficient to pay the premium. The potential profits may be considerable.

The associated risk is nevertheless equally significant: the whole of the investment may be lost. The leverage effect thus works in both directions. You should never forget that the hope of a large gain goes hand-in-hand with a higher risk, with this termed the ‘sledgehammer’ effect. The investor who sells an option receives the premium, but conversely may be exposed to a limited risk (sale of a call option, without owning the underlying instrument).

For risk-friendly investors

Derivative financial instruments are high risk investments: the return on the investment is extremely variable and the recovery of the invested amount is very uncertain. Derivative products should thus only represent a limited part of the overall portfolio.

Specialist financial markets offer standardised contracts and manage pricing, allowing anyone to buy or sell contracts by systematically locating a counterparty.

5.3. Principal types of derivative financial instruments

The principal categories of derivative financial instruments are: options, warrants and futures.

5.3.1. Options

An option is a financial instrument which quite simply gives its holder the right, but not the obligation to buy (call option) or sell (put option), an underlying asset at a predetermined price on a given date (so-called European style) or during a given period (American style).

Many options are not linked to a given share, but to a basket of shares, the evolution of which is measured by a stock index. The option grants a right to its purchaser/holder, but imposes an obligation on its seller/issuer: if the holder of the option expresses a wish to execute a transaction, the seller shall be obliged to execute this transaction. In exchange for having an obligation, the seller receives a premium. The premium that the seller receives is the remuneration for the obligation, and hence for the risk which it agrees to assume. The premium is the price of the option and translates what the market is willing to pay for the right to exercise which it represents. Certain options may form the object of transactions on a secondary market.

EXAMPLE OF A CALL OPTION

Consider the case of a call option allowing the purchase over the next three months of share “x” at a price of €50, supposing that the current share price is €45 and that the option costs €1.50. The purchaser who has paid a price of €1.50 for this option hopes that within three months, share “x” will have risen sufficiently for it to be more advantageous to exercise the option (i.e. to pay € 50 in order to obtain a share) than to buy the share via the stock market. In this case, the total cost price will be €51.50 (exercise price of €50 + option price of €1.50).

If, three months later, the share is worth €55, the investor will earn €3.50 ($€55 - €51.50$) by exercising his/her option and by reselling the share directly into the market.

For prices above the cost price (€51.50), the option provides an ever-greater benefit. The value of a call option thus increases with the probability that the market price exceeds the exercise price, and this probability is all the greater the longer the duration of the option and the higher the volatility of the share. Conversely, if share “x” is worth less than €50, the investor will not exercise the option and will sustain a loss (representing a gain for the seller

of the option), but this will be limited to at most his/her initial investment, namely the price of the option, i.e. €1.50. Given the purpose for which it is bought, the call option is thus a bullish contract.

EXAMPLE OF A PUT OPTION

In the example of share “x”, the put option permits the sale of the share at €50 within three months and we suppose that the price of the option is €1.

If, on maturity, the share loses ground and falls to €45, the holder of the option will exercise his/her right and will earn 4 euros ($€50 - €45$ (the share price) - €1 (the option price), by selling at €50 an option which it may purchase at €45 in the stock market. If, by contrast, the share price on maturity is greater than €50, the option holder will allow its option to expire without exercising it, and the transaction will be offset by a loss limited to the amount of the premium paid, i.e. €1.

In practice, it is rare for the option to be exercised, since it entails the purchase or sale of shares at the exercise price, to which the usual stock exchange expenses apply. Market positions may be unwound by closing transactions, which are much cheaper. In this way, the holder of the option will waive his/her right through a closing sale and the seller may terminate his/her obligation of delivery by a closing purchase.

5.3.2. Futures and Forwards

The “future” is a forward agreement by which two parties undertake to purchase or to sell a given quantity of an underlying instrument (currencies, bonds, stock indices, etc.) at a fixed price and on a given date in the future.

Unlike options, “futures” agreements contain the notion of an obligation for both parties: the purchaser of “futures” undertakes, on maturity of the contract, to receive the underlying instrument through payment to the seller of an amount termed the “due amount”. For its part, the seller of “futures” makes a commitment to deliver the underlying instrument on maturity in exchange for the due amount. “Forwards” are similar structures which are not listed on a stock market. They may be tailored to the specific needs of clients.

5.3.3. Instruments with similarities to options

Warrants have very many similarities with options (call/put).

A warrant is a financial instrument (security) which gives its purchaser the right but not the obligation, to buy (call warrant) or sell (put warrant) an asset during a defined period at a predetermined price.

The investor shall exercise the right if it is advantageous. The value of this right corresponds to the price of the warrant (= premium).

The warrant is comparable to the option albeit with a longer life.

The asset may be a share, a basket of securities, a bond, a currency, a commodity or an index and is also benchmarked as the instrument underlying the warrant.

5.3.4. Warrant (French warrant)

A warrant is an instrument which gives its holder the right to subscribe to a share or bond, at a price set in advance and until a set date. The warrant may not be exercised for resale before it matures.

The warrant may be attached to a share or bond or be autonomous.

The issuance of warrant is linked to the creation of new securities.

Contrary to the subscription rights which have a very short duration, warrants are generally valid for more than a year.

This is a financial instrument with a high leverage effect. Indeed, its price is usually lower than the price of the underlying instrument and generally fluctuates as a function of the latter. In this way, any increase in the price of the underlying instrument entails an amplified increase in the price of the warrant. Conversely, any reduction in the price of the underlying instrument represents a proportionately larger loss.

Often used during increases of capital, this is then termed a Equity Warrant.

5.3.5. Preferential subscription right

The subscription right is a coupon detached from a share which gives the right to an ordinary shareholder to subscribe to new shares during a given period, at a price set in advance.

This is a financial instrument with a high leverage effect. Indeed, its price is habitually far below the price of the share in question and generally fluctuates as a function of the latter. In this way, any increase in the share price entails an amplified increase in the price of the subscription right. Conversely, any reduction in the share price represents a loss which is all the greater.

Before maturity, the holder of the right may exercise his/her option at any time (notably if the price of the share

has risen above the exercise price of the right) or sell it in the market for rights, where this exists.

5.3.6. Right of attribution

The right of attribution is a negotiable right, detached from a share which gives its holder the right to receive the new shares free of charge. This right is detached on the starting date of the transaction and may be negotiated in the stock market as an autonomous security.

Certain companies, with the aim of securing the loyalty of their shareholder base, issue bonus shares. You should realise that these shares in no way modify the wealth of the shareholder.

Indeed, suppose that the share capital of a company consists of 50,000 shares with a nominal value of 10 EUR, and that at the same time, the company has 500,000 EUR in reserves.

We may envisage incorporating these reserves into the share capital. The new capital shall hence be composed of 100,000 shares. Each shareholder shall then receive a new share for each existing share. Essentially, he/she is no richer, but merely has twice as many shares at half the share price (since the stock market price will adjust accordingly).

During this type of transaction, each existing shareholder who meets the transaction conditions will receive a right of attribution allowing him/her to assert his/her rights to the future shares. This right of attribution is freely assignable, notably for shareholders who do not wish to receive additional shares.

5.3.7. Representative certificate

The certificate representing shares is issued by financial companies at the request of the issuer of the shares and is intended, for example, for circulation abroad. A certificate represents a certain number of shares and is a bearer instrument. The certificate may be tradable in the country in which the represented share is issued.

5.4. Advantages and disadvantages of derivative financial instruments

5.4.1. Advantages

- Derivative financial instruments offer investors the possibility of hedging all or part of certain categories of assets of their portfolio when the assets comprising the portfolio are likely to experience an adverse and significant evolution.
- They also offer the possibility of speculating on a significant short-term gain, by virtue of the leverage effect.
- Derivative financial instruments allow highly dynamic management of positions.

5.4.2. Disadvantages

- › Derivative financial instruments listed on markets are generally standardised in order to permit the existence of an efficient market.

The underlying asset hence does not always correspond precisely to the asset which the investor wishes to hedge. A tailored hedge may be executed, but this will be to the detriment of the product's liquidity.

These may generate a loss which is notably greater than the initial investment and theoretically an unlimited loss for certain types of derivative products.

- › They are intended for experienced investors.

Part III.

The different types of risk of investment instruments



1. The different types of risk - Definitions

1.1. Insolvency risk

The Insolvency risk of the debtor is the probability, for the issuer of the security, that it is no longer able to meet its commitments. The quality of the issuer of a security is very important, since it is the party liable for the reimbursement of the initial capital. It is essential to evaluate this risk carefully. The weaker the financial and economic condition of the issuer, the higher the risk of no reimbursement (or of only partial reimbursement). The interest rate offered by this type of issuer will evidently be higher than that offered, for a similar product, by a better-quality debtor.

One element of the solution to this problem is the rating: the risk assessment, also termed a rating, established by an independent rating agency, e.g. Standard & Poor's, Moody's or Fitch. We nevertheless note that the rating is not a fixed item and may hence evolve during the life of the product.

1.2. Liquidity risk

It is possible you may wish to recover your funds (capital + any interest) before the investment matures, either because you need the funds, or in order to invest in a more profitable product.

Liquidity risk is the probability, on the part of the investor, of encountering difficulties in recovering the entire amount of the initially invested capital before the set maturity (if there is one). The liquidity of an investment is influenced by several factors, namely:

- › the volume of market transactions on which the product is traded: prices fluctuate more on a narrow market in which a significant order may entail a sharp change in price. The deeper the market, the lower the liquidity risk;
- › the costs relating to withdrawal from an investment;
- › the time necessary to recover the funds (payment risk).

1.3. Market risk

1.3.1. General points

The price of investments fluctuates as a function of the supply and demand of the market, of investor perceptions and of the prices of any underlying or related investment or evidently, of sector and economic factors. These may be entirely unpredictable.

1.3.2. Foreign markets

Any foreign investment or investment with a foreign element may be subject to the risks of foreign markets, which may entail risks differing from local markets. In certain cases, the risks will be higher. The potential profit or loss associated with transactions on foreign markets or of contracts denominated in foreign currencies will depend on fluctuations in exchange rates.

1.3.3. Emerging markets

Prices may be extremely volatile, above all in emerging markets. Price differences may be common and dislocations of markets are not infrequent. Furthermore, as news on a country is published, the financial markets may react with rises and/or falls in prices within a very short time interval. Emerging markets generally lack the transparency, liquidity, effectiveness and monitoring of more developed markets. For example, these markets still lack regulations governing manipulation and insider offences or other provisions conceived to "level the playing field" in terms of availability of information and the associated uses and abuses in these markets. They may also be affected by political risks. It may prove difficult to adopt risk management practices for investments in emerging markets, such as forward currency agreements.



1.4. Currency risk

When you invest in a currency other than the euro, there is inevitably a foreign exchange risk, which is also termed a currency risk. Currency risk is the probability that an adverse evolution of the currency in which you invest reduces the return of the investment. If the evolution of the currency is unfavourable, the return will be eroded following the capital loss due to the conversion into euros. If the evolution is favourable, the investment will benefit from its “normal” return, as well as from a capital gain due to the favourable exchange rate. Five major regions may be distinguished from the perspective of “currency” risk: the Eurozone, the European countries outside of Euroland (United Kingdom, Switzerland, Sweden, etc.), the dollar zone, Japan and emerging countries (Asia excluding Japan, Latin America and Central Europe).

1.5. Interest rate risk

Interest rate risk is the risk linked to a change in market interest rates, entailing a reduction in the price of the security. For fixed rate investments, such as bonds, interest rate risk is translated by the risk that a change in rates does not generate a change in the bond price and hence a capital gain or loss. In the case of a sale on the secondary market before maturity at a point when the market interest rate exceeds the nominal rate of the bond, the saver will suffer a capital loss. Conversely, if the market rate is less than the nominal rates, the saver will enjoy a capital gain, with any other element remaining unchanged.

Example: a 10-year bond issued in 2001, with a rate set at 5% will witness a fall in its value if the market rate rises to 6% in 2002. Conversely, if the rate falls to 4%, its value will increase. For variable rate investments, like shares, an increase in interest rates will generally have a negative impact on the evolution of the price of the shares.

1.6. Price volatility risk

Volatility risk is the probability that the price of a variable income investment is subject to stronger or weaker market fluctuations, entailing a capital gain or a capital

loss of the security. The investor shall register a capital loss in the event of a reduction in the price and a capital gain in the event of an increase in the price.

1.7. Risk of absence of income

The risk of absence of income is the probability that the investor cannot withdraw income from his/her investment. This results in an absolute loss due to inflation and a relative loss in relation to a remunerative investment (termed the opportunity cost).

1.8. Capital risk (or reimbursement risk)

The capital (or reimbursement) risk is the probability that the investor does not recover the whole of his/her initial investment on maturity or on withdrawing it. When you invest in shares, for example, the capital risk is significant, since the invested capital fluctuates according to the financial and economic condition of the company, as well as according to the evolution of stock markets.

1.9. Other risks

For risks specific to a type of investment, see the summary table in point 2.

2. Summary table

This table presents the specific risks associated with each financial instrument.

| | 1. BONDS | | |
|---------------------------|---|--|---|
| | 1.1. Deposit receipts | 1.2. Government bonds/Linear bonds | 1.3. Other bonds |
| Insolvency risk | Negligible, since lending institutions form the object of a close monitoring by the CSSF | No risk. In OECD countries, the State is considered as the highest quality borrower (sovereign state). | Depends on the quality of the issuing company. This quality is assessed by rating agencies which assign "ratings" to companies. The higher the assigned rating, the lower the risk. Rating agencies are nevertheless not infallible and accidents periodically occur (above all for Eurobonds/convertibles, etc.). |
| Liquidity risk | Relatively liquid investment instruments. Deposit receipts are not officially negotiable on a stock market. If the investor wishes to make an early withdrawal of funds invested in a deposit receipt, he/she may either seek a purchaser, or ask his/her bank to repurchase the deposit receipt at a price to be agreed with the latter party. | <ul style="list-style-type: none"> ➤ Government bonds: low risk. Government bonds are easily negotiable instruments, easy to resell under appropriate conditions before maturity, through the financial markets. ➤ Linear bonds: low risk given the high volume of long-term government debt, the significant activity in the secondary market and the role played in it by "market makers". | Depends on the existence and operation of a secondary market for the security. The higher the transaction volumes, the lower the liquidity risk. |
| Market risk | <p>The phenomenon of currency depreciation, termed inflation, reduces the relative purchasing power for the amount of the coupons received, with the consequence that the amount of the reimbursement on maturity no longer corresponds to the amount at the time of issuance in terms of purchasing power.</p> <p>This risk is all the higher when the maturity is far in the future and the interim payments (coupons) are small.</p> | Idem deposit receipt | Idem deposit receipt |
| Currency risk | <p>None, since the deposit receipt is mandatorily denominated in euros (financial institutions do not issue deposit receipts in other currencies).</p> <p>The currency risk depends on the currency in which the loan is issued; for investments in euros, it is hence zero. It may be high for investments in other currencies.</p> | <p>None, since the deposit receipt is mandatorily denominated in euros (financial institutions do not issue deposit receipts in other currencies).</p> <p>The currency risk is a function of the currency in which the loan is issued; for investments in euros, it is hence zero. It may be high for investments in other currencies.</p> | The currency risk depends on the currency in which the borrowing is issued; for the investments in euros, it is hence zero. It may be high for the investments in other currencies. |
| Interest rate risk | The interest rate is set in advance for a given duration. Provided that it is observed, the Interest rate risk is zero. | Idem deposit receipt | Idem deposit receipt |
| Volatility risk | In the event of a sale on the secondary market at a point when the market rate is above the nominal rate, the investor will suffer a capital loss. In the opposite case (market rate below the nominal rate), the investor will realise a capital gain. | Idem deposit receipt | <p>Idem deposit receipt.</p> <p>Furthermore, the quality of the issuer also has an impact on the price of the bond (cf. Insolvency risk).</p> |
| No income risk | None | None | <ul style="list-style-type: none"> ➤ Classic bonds paying interest: low risk ➤ Structured bonds linked to shares or stock indices: potentially high-risk, on account of income being reliant on the evolution of the underlying instruments. ➤ Convertible bonds: interest is paid until the time of the conversion. |
| Risk of capital | None | None | Structured bonds: according to the stipulated conditions of the structured bond, the capital risk may vary from 0% (full capital protection) to 100% (no capital protection). The reimbursement conditions may then depend on relatively risky underlying instruments (shares, stock indices, etc.). |
| Other risks | None | None | Bonds may be accompanied by a call option, allowing the issuer to reimburse the loan in advance at a determined price and on a determined date (right used when the market interest rate is significantly lower than the coupon of the bond). |

| | 2. SHARES | 3. COLLECTIVE INVESTMENT UNDERTAKINGS | 4. ALTERNATIVE INVESTMENTS |
|---------------------------|---|--|--|
| | | | 4.1. Property |
| Insolvency risk | The shares represent risk capital. The company which issues them is thus not obliged to reimburse them. In the event of bankruptcy, the shares may lose practically all of their value. | The risk that an OPC becomes insolvent may be practically excluded. The diversity of portfolio assets strongly reduces the debtor risk. OPC authorised in Luxembourg are closely monitored entities which comply with very strict regulations. Debtor risk is evidently more significant for OPC which specialise in loans to debtors with a higher risk. | Depends on the quality of the issuing company. The greater the internal diverse location of the investment, the lower the risk (a SICAFI will consequently be less affected by this risk than a property certificate). |
| Liquidity risk | Liquidity is guaranteed by the existence of an organised market, the stock market. It depends above all on the volume of transactions on the security: the higher the market capitalisation of the company, the deeper and hence more liquid the market in its shares. | <ul style="list-style-type: none"> ➤ Low for the majority. These securities may always be sold under conditions in line with the market. ➤ Variable for SICAF: despite their stock market, liquidity varies very greatly from one fund to another and over time. During a bearish market phase, the disagios are sometimes significant and selling is difficult. | <ul style="list-style-type: none"> ➤ Certain certificates are not listed on Euronext Brussels, but may be negotiated at the Ventes Publiques Hebdomadaires [Weekly public sales]'s (VPH). For the quoted certificates, liquidity depends on the transaction volume. The number of property certificates issued is generally quite limited. ➤ The same is true of the liquidity of a SICAFI. Certain medium or small SICAFI have fewer transactions. When the market is narrow, however, a sale or purchase order may influence the price if there are not many counterparties. |
| Market risk | The market risk (uncertainty regarding evolution of interest rates, inflation, economic cycle, political situations, not to mention unexpected events) may never be overlooked in equity markets. For foreign stock markets, there is a specific risk that their evolution may be overall more unfavourable than that of Euronext. | Funds domiciled in Luxembourg benefit from a legal framework with adequate prudential controls, unlike certain funds domiciled in other countries. In the same way, legislation on money laundering and investor protection is stricter in some countries, notably in Luxembourg, relative to others. | None |
| Currency risk | Limited for shares denominated in euros. Even if the share is quoted in euros, there is a currency risk if part of the assets or the revenues of the Company are denominated in other currencies. For the other currencies, this depends on their volatility: risk of a currency loss at the time of reselling the shares. The evolution of an exchange rate may have both a negative and a positive effect on the return on an investment in shares. | This depends on the currency in which the portfolios and their respective underlying instruments are denominated. | None for property certificates denominated in euros. |
| Interest rate risk | In general, an increase in interest rates in the market has a negative impact on the evolution of share prices. This effect is indirect. If rates rise, for example, this means that it will be more expensive for a company which finances itself through borrowing, which will weigh on its financial expenses. Furthermore, if bonds become more attractive, equity markets will tend to suffer, since this will reduce the attraction of the investors to risk capital. | This depends on the underlying instruments in which the OPC invest. Within the context of a bond OPC, for example, this risk is equal to the interest rate risk of an ordinary bond with a residual maturity equal to the average maturity of the bond portfolio of the bond fund. Interest rate risk exists during the entire investment period. | Yes. Sensitivity to evolutions in interest rates (in principle, an increase in market rates entails a reduction in value, like for company shares). Since property certificates/SICAFI are long-term investments, their returns are partially dependent on long-term rates. |
| Volatility risk | This depends strongly on the quality of the Company, on the evolution of its sector of activity and on the general evolution of the stock market. A so-called "speculative" share has a price volatility risk above that of a share of a company with stable activities. | This depends on the underlying instruments in which the OPC invests. In general, the diversification characterising the OPC offers a lower volatility than that of the underlying instruments considered individually. | Yes. Strongly depends on the evolution of the property sector and of the characteristics specific to the property (location, age, quality of materials, quality of the lessees, etc.). |
| No income risk | The dividend represents variable revenue. The company may decide, for various reasons, not to distribute dividends in certain years. | Everything depends on the distribution policy to which the investor has adhered. A capitalisation OPC does not distribute revenue, unlike the distribution OPC. | The distributed income is variable: it depends notably on the rate of occupation of the property and on indexation of rents. The coupon may also entail a reimbursement also a reimbursement of the initial investment. |
| Risk of capital | The investor assumes the total of the company. There is always a risk of reselling a share at a loss (i.e. at a price less than the purchase price) or of a risk of a 100% capital loss. This risk is high, above all in the short term. | Depends on the evolution of the price of the unit of the OPC as a function of the evolution of financial markets. | <ul style="list-style-type: none"> ➤ Property certificate: at the time of sale of the property, a capital gain or a capital loss may be realised; the value of the certificate at the final maturity will then be unknown. ➤ SICAFI: no, other than the volatility risk of the price, since, in principle, the SICAFI has an unlimited duration, with no capital reimbursement provided on any date. |
| Other risks | None | Depends on the nature of the underlying instrument. | Depends on the nature of the underlying instrument. |

| | 4. ALTERNATIVE INVESTMENTS | | 5. DERIVATIVE FINANCIAL INSTRUMENTS |
|---------------------------|---|--|---|
| | 4.2. Hedge Funds | 4.3. Gold, gold mines, raw materials | |
| Insolvency risk | The absence of transparency for investment policy is a significant risk factor. | Not applicable | The risk lies in the counterparty not observing its commitments. The solvency of the issuer should be insured. If this is a monitored institution, the risk will be relatively low but never non-existent. |
| Liquidity risk | Investments in Hedge Funds generally have poor liquidity. The period between the sale of the units and the credit to the investor's account may vary from several weeks to several months. | <ul style="list-style-type: none"> › Physical gold: risk quite low, except for certain specialist gold items. › Goldmining shares: depends on the transaction volume. › Raw materials: see derivative instruments, since it is principally through commodity futures and forward agreements that investments are made in raw materials. | Derivative products are negotiable on organised secondary markets (cf. Euronext) or to over-the-counter directly with a lending institution ("over-the-counter" agreement). The liquidity is nevertheless relevant: there is no guarantee of securing a favourable price at the time of resale. |
| Market risk | Hedge Funds are generally established in countries in which monitoring by authorities is limited or non-existent, significantly increasing risk, e.g. failure to observe the investment strategy, of endangering of the financial structure, etc. | None | None |
| Currency risk | Currency risk is a function of the currency in which the Hedge Fund is quoted and of currencies in which the assets of the funds are designated. | <ul style="list-style-type: none"> › Since the gold price is set in dollars on global markets, fluctuations of this currency may offset or accentuate a reduction in the gold price. › The same applies for the price of raw materials, which is also generally set in US dollars on global markets. | None for derivative products denominated in euros. The currency risk may be high for the derivative products in other currencies, above all in volatile currencies. |
| Interest rate risk | Depends on the nature of the strategy, but has a low correlation with traditional equity and bond markets. | <ul style="list-style-type: none"> › The evolution of interest rates may also affect the prices of goldmining shares. In general, a rise in interest rates will have a negative impact on the gold price (since the opportunity cost of holding physical metal increases) and, consequently, on the price of gold mining shares. › The evolution of interest rates in global markets also has an indirect effect on raw materials prices by exercising an influence on the level of consumption and, consequently on the demand for these raw materials. | The evolution of interest rates has an impact on share prices and indirectly on the price of derivative products. Furthermore, derivative products for which the underlying instrument is a bond type are all the more sensitive to such an evolution. |
| Volatility risk | Price volatility may be significant and entail a reduction in value. Volatility nevertheless depends on the strategy followed. | <ul style="list-style-type: none"> › The gold price and the price of mining shares are very volatile. There is hence a significant risk of resale at a loss, at a market price less than the purchase price, above all in the short term. › Volatility of raw materials prices is highly significant and varies as a function of numerous parameters, including global demand for the raw material in question, but also of geopolitical factors, which are often less predictable but which nevertheless strongly influence prices. | Since derivative products are speculative instruments, their price is very volatile. This reflects the evolutions and anticipations of the underlying assets. |
| No income risk | As a general rule, Hedge Funds are capitalisation funds. | <ul style="list-style-type: none"> › Holding of physical gold does not generate any income. Gold mining shares provide entitlement to a dividend, although variable income might not be distributed in certain years. › Raw materials: see derivative products. | Derivative products do not generate income, but only a possible capital gain, depending on the price of the underlying assets. |
| Risk of capital | The broad range of products used, including derivative products, and the capacity for recourse to borrowing in order to produce a leverage effect, may cause a significant loss at the time of resale if the manager takes poor decisions. | <p>Significant risk of reselling at a loss, at a market price below the purchase price.</p> <p>Holding of physical gold offsets reimbursement risk.</p> | No reimbursement. The result of the investment is highly variable and recovery for the invested amount is highly uncertain. On maturity, the derivative product loses all of its value. |
| Other risks | | The investor will sometimes find it difficult to obtain sufficiently specific and adequate information. This makes an investment in this field riskier. | In the event of an adverse evolution in the underlying asset, the derivative product may lose all of its value (for the purchaser, loss limited to the premium paid). Risk possibly unlimited in the event of sale (or of reimbursement). |

This document is published by ING Luxembourg.

The information mentioned in this document is provided for information purposes only. ING Luxembourg does not provide any guarantee as to the exhaustive, accurate and current nature of this information.

In no event does this guide constitute investment advice or a recommendation.

Tax and legal aspects are intentionally not addressed in this publication. Customers are advised to contact a tax and/or legal expert before making any investment decisions.

The Bank's liability may not be engaged following use of the information provided in this guide.

All rights reserved. The information contained in this document may not be copied, reproduced, distributed or transmitted to any person whatsoever at any time without prior written permission from ING Luxembourg.

Subject to supervision by the Commission de Surveillance du Secteur Financier (CSSF), 283, route d'Arlon, L-2991 Luxembourg, direction@cssf.lu, tel. + 352 26 25 11.



+352 44 99 1



26, Place de la Gare
L-2965 Luxembourg



contactcenter@ing.lu



www.ing.lu

ING Luxembourg S.A.

R.C.S. Luxembourg B.6041
T.V.A. LU 11082217
BIC: CELLLULL

