

SCHEDULE OF FINANCIAL INSTRUMENT RISK DISCLOSURES

PART I: INTRODUCTION

This Schedule of Financial Instrument Risk Disclosures is for use by professional clients of ECM Asset Management Limited, First International Advisors, LLC, and (with respect to its portfolio management and certain investment advisory activities) Wells Fargo Securities International Limited only and must not be relied on by anyone else. It cannot disclose all the risks and other significant aspects of the financial instruments we may advise you on or which we may purchase, sell or subscribe for on your behalf ("**financial instruments**"), but is intended to give you information on and a warning of the risks associated with them so that you are reasonably able to understand the nature and risks of the specific types of financial instrument.

You should not authorise us to advise you on or invest in these or any other financial instruments unless you understand the nature of the contract you may enter into and the extent of your exposure to risk. You should also be satisfied that the financial instrument is suitable for you in light of your circumstances and financial position and, where necessary, you should seek appropriate independent advice.

Risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of any investment. In any of the situations described below, the use of leverage (which has the effect of magnifying potential positive or negative outcomes), if permitted by you, may significantly increase the impact of any of the risks described.

All financial instruments carry a certain degree of risk and even low risk investment strategies contain an element of uncertainty. The types of risk that might be of concern will depend on various matters, including how the instrument is created, structured or drafted. The specific risks of a particular financial instrument or transaction will depend upon the terms of the financial instrument or transaction and the particular circumstances of, and relationships between, the relevant parties involved in such financial instrument or transaction. Different instruments involve different levels of exposure to risk and in deciding whether to act on our advice or authorise us to invest on your behalf in such instruments you should be aware of the guidance set out below:

PART II: FINANCIAL INSTRUMENTS

Set out below is an outline of the major categories of risk that may be associated with certain generic types of financial instruments, which should be read in conjunction with Parts III and IV, Not all of these instruments will necessarily be within your permitted investment universe.

1. SHARES AND OTHER TYPES OF EQUITY INSTRUMENTS

1.1 General

A risk with an equity investment is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business, and the company's performance may deteriorate vis à vis its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail.

Shares have exposure to all the major risk types referred to in Part III below. In addition, there is a risk that there could be volatility or problems in the sector that the company is in. If the company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become very difficult to dispose of.

1.2 Ordinary shares

Ordinary shares are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders which could take the form of cash or additional shares. Ordinary shares usually carry a right to vote at general meetings of the issuer.

There is no guaranteed return on an investment in ordinary shares for the reasons set out in 1.1 above, and in a liquidation of the issuer, ordinary shareholders are amongst the last with a right to repayment of capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.

1.3 **Preference shares**

Unlike ordinary shares, preference shares give shareholders the right to a fixed dividend the calculation of which is not based on the success of the issuer company. They therefore tend to be a less risky form of investment than ordinary shares.

Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but shareholders will have a greater preference to any surplus funds of the issuer than ordinary shareholders, should the issuer go into liquidation. There is still a risk that you may lose all or part of your capital.

1.4 **Depository Receipts**

Depository Receipts (ADRs, GDRs, etc.) are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, traded on a stock exchange which is local or overseas to the issuer of the receipt. They may facilitate investment in the companies due to the widespread availability of price information, lower transaction costs and timely dividend distributions. The risks involved relate both to the underlying share (see 1.1 – 1.3 above) and to the bank issuing the receipt. In addition, there are important differences between the rights of holders of ADRs and GDRs (together, "**Depository Receipts**") and the rights of holders of the shares of the underlying share issuer represented by such Depository Receipts. The relevant deposit agreement for the Depository Receipt sets out the rights and responsibilities of the depository (being the issuer of the Depository Receipt), the underlying share issuer and holders of the Depository Receipt which may be different from the rights of holders of the underlying shares. For example, the underlying share issuer may make distributions in respect of its underlying shares that are not passed on to the holders of its Depository Receipts. Any such differences between the rights of holders of the Depository Receipts and holders of the underlying shares of the underlying share issuer may be significant and may materially and adversely affect the value of the relevant instruments. Depository Receipts representing underlying shares in a foreign jurisdiction (in particular an emerging market jurisdiction) also involve risks associated with the securities markets in such jurisdictions, which, along with other factors such as the performance of the underlying shares, could affect the value and liquidity of the Depository Receipts. As the legal owner of the shares underlying the Depository Receipts is a bank, in the event that the bank becomes insolvent it is possible that a purchaser of any such Depository Receipts may lose its rights in respect of the underlying shares.

2. **WARRANTS**

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security could result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

The right to subscribe for any of the financial instruments listed in 1 above or 3 or 4 below which a warrant confers, is invariably limited in time, with the consequence that if the investor fails to exercise this right within the pre-determined time-scale, the investment becomes worthless.

If subscription rights are exercised, the warrant holder may be required to pay to the issuer additional sums (which may be at or near the value of the underlying assets). Exercise of the warrant will give the warrant holder all the rights and risks of ownership of the underlying financial instrument.

A warrant is potentially subject to all of the major risk types referred to in Part III below, including the risk of the issuer's insolvency.

You should not authorise us to advise on or buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a covered warrant). For these instruments, see 6.3 below.

3. **MONEY-MARKET INSTRUMENTS**

A money-market instrument is a borrowing of cash for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower. Unlike in an overdraft, the borrower must specify the exact amount and the period for which he wishes to borrow. Like other debt instruments (see 4 below), money-market instruments may be exposed to the major risk types in Part III below, in particular credit and interest rate risk.

4. **DEBT INSTRUMENTS/BONDS/DEBENTURES**

All debt instruments are potentially exposed to the major risk types in Part III below, in particular credit risk and interest rate risk.

Debt securities may be subject to the risk of the issuer's inability to meet principal and/or interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, general market liquidity, and other economic factors, amongst other issues. When interest rates rise, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities/lower coupons tend to be more sensitive to interest rate movements than those with shorter maturities/higher coupons.

Debt securities issued by banks, certain other financial services firms and, in some cases, their parents and other affiliates may be vulnerable to "bail-in" or equivalent measures, where the issuer (or an affiliated bank or firm) undergoes a resolution (or bank rescue) procedure. In a bail-in, a governmental or other regulatory body (known in the EU as a "resolution authority") may require investors' rights under such securities to be written-off in whole or part, or converted into equity. The purpose of such bail-in is to prevent the bank (or other firm) from entering into insolvency proceedings and will therefore precede formal insolvency. This means that the holders of bank and related debt securities may lose some or all of their investment, where the issuer is in financial difficulty, even outside of an insolvency scenario and absent the technical default of the issuer.

However, depending on the applicable regulatory regime, certain safeguards or exclusions may operate so as to protect, or mitigate the loss to, such investors. For example, under the applicable EU regime (the Bank Recovery and Resolution Directive), secured creditors (including secured bond holders) are protected from bail-in (but only to the extent of the value of the collateral/security) and, in principle, no such creditor should be put in a worse position than they would have been in the event of the formal insolvency of the issuer.

5. **UNITS IN COLLECTIVE INVESTMENT SCHEMES**

Collective investment schemes and their underlying assets are potentially exposed to all of the major risk types referred to in Part III below, including insolvency risk relating to the issuer of the underlying assets.

There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to 'pool' their assets and have these professionally managed by an independent manager. Investments may typically include gilts, bonds and quoted equities, but depending on the type of scheme, may go wider into derivatives, real estate or any other asset. There may be risks on the underlying assets held by the scheme and investors are advised, therefore, to check whether the scheme holds a number of different assets, thus spreading its risk. Subject to this, investment in such schemes may reduce risk by spreading the investor's investment more widely than may have been possible if he or she was to invest in the assets directly.

The reduction in risk may be achieved because the wide range of investments held in a collective investment scheme can reduce the effect that a change in the value of any one investment may have on the overall performance of the portfolio. Although, therefore, seen as a way to spread risks, the portfolio price can fall as well as rise and, depending on the investment decisions made, a collective investment scheme may be exposed to many different major risk types.

The valuation of a collective investment scheme is generally controlled by the relevant fund manager or the investment adviser (as the case may be) of the collective investment scheme. Valuations are performed in accordance with the terms and conditions governing the collective investment scheme. Such valuations may be based upon the unaudited financial records of the collective investment scheme and any accounts pertaining thereto. Such valuations may be preliminary calculations of the net asset values of the collective investment schemes and accounts. The collective investment scheme may hold a significant number of investments which are illiquid or otherwise not actively traded and in respect of which reliable prices may be difficult to obtain. In consequence, the relevant fund manager or the investment adviser may vary certain quotations for such investments held by the collective investment scheme in order to reflect its judgement as to the fair value thereof. Therefore, valuations may be subject to subsequent adjustments upward or downward. Uncertainties as to the valuation of the collective investment scheme assets and/or accounts may have an adverse effect on the net asset value of the relevant collective investment scheme where such judgements regarding valuations prove to be incorrect.

A collective investment scheme and any collective investment scheme components in which it may invest may utilise (inter alia) strategies such as short-selling, leverage, securities lending and borrowing, investment in sub-investment grade or non-readily realisable investments, uncovered options transactions, options and futures transactions and foreign exchange transactions and the use of concentrated portfolios, each of which could, in

certain circumstances, magnify adverse market developments and losses. Collective investment schemes, and any collective investment scheme components in which it may invest, may make investments in markets that are volatile and/or illiquid and it may be difficult or costly for positions therein to be opened or liquidated. The performance of each collective investment scheme and any collective investment scheme component in which it may invest is dependent on the performance of the collective investment scheme managers in selecting collective investment scheme components and the management of the relevant component in respect of the collective investment scheme components.

In addition, the opportunities to realise an investment in a collective investment scheme is often limited in accordance with the terms and conditions applicable to the scheme and subject to long periods of advance notice (during which the price at which interests may be redeemed may fluctuate or move against you). There may be no secondary market in the collective investment scheme and therefore an investment in such a scheme may be (highly) illiquid.

6. DERIVATIVES, INCLUDING OPTIONS, FUTURES, SWAPS, FORWARD RATE AGREEMENTS, DERIVATIVE INSTRUMENTS FOR THE TRANSFER OF CREDIT RISK, FINANCIAL CONTRACTS FOR DIFFERENCES

The risks set out in 6.1- 6.5 below may arise in connection with all types of derivative contract, whether it is in the form of a listed instrument, an OTC instrument, or a securitised financial instrument such as a note or a certificate.

6.1 Derivatives Generally

A derivative is a financial instrument, the value of which is derived from an underlying asset's value. Rather than trade or exchange the asset itself, an agreement is entered into to exchange money, assets or some other value at some future date based on the underlying asset. A premium may also be payable to acquire the derivative instrument.

There are many types of derivative, but options, futures and swaps are among the most common. An investor in derivatives often assumes a high level of risk, and therefore investments in derivatives should be made with caution, especially for less experienced investors or investors with a limited amount of capital to invest.

Derivative instruments have a limited life, and may (unless there is some form of guaranteed return to the amount invested in the financial instrument) expire worthless if the underlying asset does not perform as expected. If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated off-exchange derivatives where there is no exchange market on which to close out an open position), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

On-exchange derivatives are subject, in addition, to the risks of exchange trading generally, including potentially the requirement to provide margin. Off-exchange derivatives may take the form of unlisted transferable securities or bi-lateral "over the counter" contracts ("**OTC**"). Although these forms of derivatives may be traded differently, both arrangements may be subject to credit risk of the issuer (if transferable securities) or the counterparty (if OTCs) and, like any contract, are subject also to the particular terms of the contract (whether a one-off transferable security or OTC, or a master agreement), as well as the risks identified in Part III below. In particular, with an OTC contract, the counterparty may not be bound to "close out" or liquidate this position, and so it may not be possible to terminate a loss-making contract. Off-exchange derivatives are individually negotiated. As the terms of the transactions are not standardised and no centralised pricing source exists (as exists for exchange traded instruments), the transactions may be difficult to value. Different pricing formulas and financial assumptions may yield different values, and different financial institutions may quote different prices for the same transaction. In addition, the value of an off-exchange derivative will vary over time and is affected by many factors, including the remaining time until maturity, the market price, price volatility and prevailing interest rates.

Derivatives can be used for speculative purposes or as hedges to manage other investment or economic risks. In all cases the suitability of the transaction for the particular investor should be very carefully considered.

You are therefore advised to ask about the terms and conditions of the specific derivatives and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of an underlying asset and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or Clearing House to reflect changes in the underlying asset.

Normal pricing relationships between the underlying asset and the derivative may not exist in all cases. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to assess 'fair' value.

The points set out below in relation to different types of derivative are not only applicable specifically to these derivatives but are also applicable more widely to derivatives generally. All derivatives are potentially subject to the major risk types in Part III below, especially market risk, credit risk and any specific sector risks connected with the underlying asset.

6.2 **Futures/Forwards/Forward rate agreements**

Transactions in futures or forwards involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures and forwards trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures and forwards transactions have a contingent liability, and you should be aware of the implications of this, in particular margining requirements: these are that, on a daily basis, with all exchange-traded, and most OTC off-exchange, futures and forwards, losses incurred will have to be paid over in cash on a daily basis and if there is a failure to do so, the contract may be terminated. See further, 1 and 2 of Part IV below.

6.3 **Options**

There are many different types of options with different characteristics subject to the following conditions.

Put option: a put option is an option contract that gives the holder (buyer) of the option the right to sell a certain quantity of an underlying security to the writer of the option at a specified price (the strike price) up to a specified date (the expiration date).

Call option: a call option is an option contract that gives the holder (buyer) the right to buy a certain quantity of an underlying security from the writer of the option, at a specified price (the strike price) up to a specified date (the expiration date).

Buying options: Buying options involves less risk than selling options because, if the price of the underlying asset moves against an investor, the option can simply be allowed to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if a call option on a futures contract is bought and the option is later exercised, the future must be acquired. This will expose you to the risks described under 'futures' and 'contingent liability investment transactions'. Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation an investor may subsequently be called upon to pay margin on the option up to the level of the premium. If there is a failure to do so as required, the position may be closed or liquidated in the same way as a futures position.

Writing options: If an option is written, the risk involved is considerably greater than buying options. An investor may be liable for margin to maintain a position (as explained in 6.2 above) and a loss may be sustained well in excess of the premium received. By authorising us to write an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price.

If an investor already owns the underlying asset which has been contracted to sell (known as 'covered call options') the risk is reduced. If you do not own the underlying asset (known as 'uncovered call options') the risk can be unlimited. Only experienced persons should contemplate authorising us to write uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

Depending on the type of option entered into, there may be increased exposure to market risk (see Part III: Generic Risk types, paragraph 4 – Market Risk below) when compared to other financial instruments. There are several option styles including (but not limited to) American-, European- and Bermuda-style. An American-style option may be exercised at any time prior to its expiration. A European-style option may only be exercised on a specific date, its expiration date. A Bermuda-style option may be exercised on certain specified dates during the term of the transaction.

If you authorise us to buy an American-style call option and the relevant market price of the underlying asset never rises above the strike price on the option (or if we fail to exercise the option on your behalf while such condition exists), the option will expire unexercised and you will have lost the premium paid for the option. Similarly, if you authorise us to buy an American-style put option and the relevant market price for the underlying asset does not fall below the option strike price (or if we fail to exercise the option on your behalf while such condition exists), the option will not be exercised and you will have lost the premium paid for the put option.

Purchasing European-style or Bermuda-style options may carry additional market risk since the option could be "in-the-money" for part or substantially all of the holding period but not on the exercise date(s). A call option is

"in-the-money" if the strike price is lower than the relevant market price for the underlying asset. A put option is "in-the-money" if the strike price is higher than the relevant market price for the underlying asset.

It is even possible for the holder of an exercised, "in-the-money" option to lose money on an option transaction. Such a situation exists whenever the value received under the option fails to exceed the purchaser's costs of entering into the option transaction (the premium and any other costs and expenses).

If you are authorising us to be a potential writer of an option on your behalf, you should consider how the type of option affects the timing of potential payment and delivery obligations thereunder. As the writer of a European-style option, the timing of any payment and delivery obligations is predictable. Absent early termination, no settlements will be necessary prior to the expiration date. As the writer of an American-style option, however, you must be certain that you are prepared to satisfy potential payment and delivery obligations at any time during the exercise period (possibly quite soon following the sale of the option).

Traditional options: Certain London Stock Exchange member firms under special exchange rules write a particular type of option called a 'traditional option'. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

6.4 **Contracts for differences**

Certain derivatives are referred to as contracts for differences. These can be options and futures on the FTSE 100 index or any other index of an exchange, as well as equity, currency and interest rate swaps, amongst others. However, unlike other futures and options (which may, depending on their terms, be settled in cash or by delivery of the underlying asset), these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option as referred to in 6.2 and 6.3 above. Transactions in contracts for differences may also have a contingent liability.

6.5 **Swaps**

A swap agreement is a derivative where two counterparties exchange one stream of cash flows against another stream, calculated by reference to an "underlying" (such as securities' indices, bonds currencies, interest rates or commodities, or more intangible items).

A swap agreement may also be combined with an option. Such an option may be structured in two different ways. On the one hand, "swaptions" are transactions that give the purchaser of the swaption the right, against payment of a premium, to exercise or not to exercise, until the agreed maturity date, its right to enter into a pre-agreed swap agreement. On the other hand, "caps", "floors" and "collars" enable a party, against payment or receipt of a premium, to protect itself against, or to take an exposure on, the variation on the value or level of an underlying.

A major risk of off-exchange derivatives (including swaps) is known as counterparty risk, whereby a party is exposed to the inability of its counterparty to perform its obligations under the relevant financial instrument. For example, if a party, A, wants a fixed interest rate loan and so swaps a variable rate loan with another party, B, thereby swapping payments, this will synthetically create a fixed rate for A. However, if B goes insolvent, A will lose its fixed rate and will be paying a variable rate again. If interest rates have risen significantly, it is possible that A will struggle to repay.

The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting both as principals and as agents utilising standardised swap documentation to cover swaps trading over a broad range of underlying assets. As a result, the swap market for certain underlying assets has become more liquid but there can be no assurance that a liquid secondary market will exist at any specified time for any particular swap.

7. **STRUCTURED PRODUCTS**

Structured products, designed to fulfil a particular trading or market objective, may combine the features of two or more financial instruments such as a bond and a derivative, with derivatives tending to constitute an integral part of structured products. Structured products may involve an element of leverage, so a relatively small movement in the value of the relevant underlying asset or index can have a significant effect on the value of a structured product. Structured products are often high risk investments and investors can face the risk of losing some or all of the money invested in them.

Structured products are generally not traded on regulated markets, with investors taking the risk taken on the counterparty issuing the structure. In the absence of a recognised market for structured products, it can be difficult for investors to obtain reliable information about the value of their investments and the extent of the risks to which

they are exposed; the lack of a recognised market and the customised nature of structured products may also negatively affect the liquidity of the structured product.

8. **FOREIGN EXCHANGE TRADING**

Engaging in foreign exchange (“fx”) trading (buying one currency in exchange for another) exposes investors to the risk of adverse changes in exchange rates. Exchange rates can be volatile and are driven by a variety of factors relating to the economies of the territories whose currencies are being traded.

The “gearing” or “leverage” often obtainable in fx trading means that a small deposit or down payment can lead to large losses as well as gains. Some fx transactions have a contingent liability, which means that investors may be liable for margin to maintain their position and losses may be sustained well in excess of the premium received. Investors may sustain a total loss of any margin they deposit to establish or maintain a position. If the market moves against an investor, it may be called upon to pay substantial additional margin at short notice to maintain the position. If an investor fails to do so within the time required, its position may be liquidated at a loss and it will be responsible for the resulting deficit.

A counterparty's insolvency or default may lead to positions being liquidated or closed out without consent of the other party. In certain circumstances, we may not get back the actual assets lodged as collateral on your behalf and payments in cash may have to be accepted.

PART III: GENERIC RISK TYPES

1. **GENERAL**

The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. Past performance is no indicator of future performance.

The nature and extent of investment risks vary between countries and from instrument to instrument. These investment risks will vary with, amongst other things, the type of investment being made, including how the financial instruments have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the issuer, the diversification or concentration in a portfolio (e.g., the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of leverage.

The risk types set out below could have an impact on each type of investment.

2. **LIQUIDITY**

The liquidity of a financial instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions (for example a disruption on the relevant exchange) or infrastructure issues, such as a lack of sophistication or disruption in the settlement process. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position. This may occur, for example, at times of rapid price movement if the price rises or falls to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit losses to intended amounts, but market conditions may make it impossible to execute such an order at the stipulated price. In addition, unless the contract terms so provide, a party may not have to accept early termination of a contract or buy back or redeem the relevant financial instrument and there may therefore be zero liquidity in the financial instrument. In other cases, early termination, realisation or redemption may result in you receiving substantially less than was paid for the financial instrument or, in some cases, nothing at all.

3. **CREDIT RISK**

Credit risk is the risk of loss caused by borrowers, bond obligors, guarantors, or counterparties failing to fulfil their obligations or the risk of such parties' credit quality deteriorating. Exposure to the credit risk of one or more reference entities is particularly relevant to any credit linked financial instrument such as credit linked notes, and the potential losses which may be sustained, and the frequency and likelihood of such losses occurring, when investing in credit linked financial instruments may be substantially greater than when investing in an obligation of the reference entity itself.

4. **MARKET RISK**

4.1 **General**

The price of investments goes up and down depending on market supply and demand, investor perception and the prices of any underlying or allied investments or, indeed, sector, political and economic factors. These can be totally unpredictable.

4.2 **Overseas markets**

Any overseas investment or investment with an overseas element can be subject to the risks of overseas markets which may involve different risks from those of the home market of the investor. In some cases the risks will be greater. The potential for profit or loss from transactions on foreign markets or in overseas denominated contracts will be affected by fluctuations in overseas exchange rates.

4.3 **Emerging Markets**

Price volatility in emerging markets, in particular, can be extreme. Price discrepancies, low trading volumes and wide pricing spreads can be common and unpredictable movements in the market not uncommon. Additionally, as news about a country becomes available, the financial markets may react with dramatic upswings and/or downswings in prices during a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency, market infrastructure, legal certainty and regulation found in more developed markets. For example, these markets might not have regulations governing market or price manipulation and insider trading or other provisions designed to "level the playing field" with respect to the availability of information and the use or misuse thereof in such markets. They may also be affected by sector, economic and political risk. It may be difficult to employ certain risk and legal uncertainty management practices for emerging markets investments, such as forward currency exchange contracts or derivatives. The impact of the imposition or removal of foreign exchange controls at any time should be considered, as well as potential difficulties in repatriation of assets. The risks associated with nationalisation or expropriation of assets, the imposition of confiscatory or punitive taxation, restrictions on investments by foreigners in an emerging market, sanctions, war and revolution should also be considered.

5. **CLEARING HOUSE PROTECTIONS/SETTLEMENT RISK**

On many exchanges, the performance of a transaction may be "guaranteed" by the exchange or clearing house. However, this guarantee is usually in favour of the exchange or clearing house member and cannot be enforced by the client who may, therefore, be subject to the credit and insolvency risks of the firm through whom the transaction was executed. There is, typically, no clearing house for off-exchange OTC instruments which are not traded under the rules of an exchange (although unlisted transferable securities may be cleared through a clearing house).

Settlement risk is the risk that a counterparty does not deliver the security (or its value) in accordance with the agreed terms after the other counterparty has already fulfilled its part of the agreement to so deliver. Settlement risk increases where different legs of the transaction settle in different time zones or in different settlement systems where netting is not possible. This risk is particularly acute in foreign exchange transactions and currency swap transactions.

6. **INSOLVENCY**

The insolvency or default of the firm with whom we are dealing on your behalf, or of any brokers involved with your transaction, may lead to positions being liquidated or closed out without consent or, indeed, investments not being returned. There is also insolvency risk in relation to the investment itself, for example of the company that issued a bond or of the counterparty to off-exchange derivatives (where the risk relates to the derivative itself and to any collateral or margin held by the counterparty).

7. **CURRENCY RISK**

In respect of any foreign exchange transactions and transactions in derivatives and securities that are denominated in a currency other than that in which your account is denominated, a movement in exchange rates may have a favourable or an unfavourable effect on the gain or loss achieved on such transactions.

The weakening of a country's currency relative to a benchmark currency or the currency of your portfolio will negatively affect the value of an investment denominated in that currency. Currency valuations are linked to a host of economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange controls which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency. Hedging can increase or decrease the exposure to any one currency, but may not eliminate completely exposure to changing currency values.

8. **INTEREST RATE RISK**

Interest rates can rise as well as fall. A risk with interest rates is that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could impact negatively on other financial instruments. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments; interest income on floating rate instruments cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of floating rate instruments at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. If the terms and conditions of the relevant instruments provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Changes in market interest rates have a substantially stronger impact on the prices of zero coupon bonds than on the prices of ordinary bonds because the discounted issue prices are substantially below par. If market interest rates increase, zero coupon bonds can suffer higher price losses than other bonds having the same maturity and credit rating.

9. **REGULATORY/LEGAL RISK**

All investments could be exposed to regulatory, legal or structural risk.

Returns on all, and particularly new, investments are at risk from regulatory or legal actions and changes which can, amongst other issues, alter the profit potential of an investment. Legal changes could even have the effect that a previously acceptable investment becomes illegal. Changes to related issues such as tax may also occur and could have a large impact on profitability. Such risk is unpredictable and can depend on numerous political, economic and other factors.

For this reason, this risk is greater in emerging markets but does apply everywhere. In emerging markets, there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

The type of laws and regulations with which investors are familiar in the EEA may not exist in some places, and where they do, may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that an overseas investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in overseas courts.

10. **OPERATIONAL RISK**

Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact on all financial instruments. Business risk, especially the risk that the business is run incompetently or poorly, could also impact on shareholders of, or investors in, such a business. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.

PART IV: TRANSACTION RISKS

1. **CONTINGENT LIABILITY INVESTMENT TRANSACTIONS**

Contingent liability investment transactions, which are margined, require an investor to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If you authorise us to trade in futures, contracts for differences or sell options, the margin deposited to establish or maintain a position is subject to total loss. If the market moves in an adverse manner, substantial additional margin may be required to be paid at short notice to maintain the position. If there is a failure to do so within the time required, the position may be liquidated at a loss and the resulting deficit must be paid. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when the contract is entered into.

2. **COLLATERAL**

If collateral is deposited as security with a counterparty, the way in which it will be treated will vary according to the type of transaction and where it is traded and the terms of any financial instrument contract entered into. There could be significant differences in the treatment of collateral, depending on whether trading on your behalf is occurring on a regulated market (see 4 below), with the rules of that exchange (and the associated clearing house) applying, or on another exchange or, indeed, off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if dealings should ultimately prove profitable, you may not get back the same assets deposited, and payment in cash may have to be accepted.

Where your collateral is subject to total title transfer to a counterparty, you should note that:

- (a) The assets cease to be your assets and you will no longer have a proprietary claim over them. They will not be held subject to the rules of the FCA's Client Assets Sourcebook or of another applicable regulator in safe custody (where they are financial instruments) or subject to FCA's Client Money Rules or other applicable client money protection (where they are cash). The assets become assets of the counterparty and they can deal with them in their own right;
- (b) You will have an unsecured contractual claim against the counterparty for re-transfer of equivalent assets; and
- (c) As a result, the assets will not be subject to a trust or otherwise insulated in the counterparty's insolvency. And, in such event, you may not receive back everything so transferred to the counterparty and you will only rank as a general creditor. The FCA's Client Money Distribution Rules which are set out in the CASS 7A of the FCA Handbook ("**Client Money Distribution Rules**") will not apply to these assets where they are cash and you will not be entitled to share in any distribution under the Client Money Distribution Rules.

3. **OFF-EXCHANGE TRANSACTIONS**

FCA has categorised certain exchanges as recognised or designated investment exchanges. A list of these exchanges can be found on the FCA website. Transactions which are traded elsewhere may be exposed to substantially greater risks.

4. **SUSPENSIONS OF TRADING**

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

5. **STABILISATION**

Transactions may be carried out in securities where the price may have been influenced by measures taken to stabilise it.

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. Regulations allow stabilisation in order to help counter the fact that, when a new issue comes on to the market for the first time, the price can sometimes drop for a time before buyers are found.

Stabilisation is carried out by a 'stabilisation manager' (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilising manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

The Stabilisation Rules:

- (a) Limit the period when a stabilising manager may stabilise a new issue;
- (b) Fix the price at which he may stabilise (in the case of shares and warrants but not bonds); and
- (c) Require him to disclose that he may be stabilising but not that he is actually doing so.

The fact that a new issue or a related security is being stabilised should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

6. **NON-READILY REALISABLE INVESTMENTS**

Both exchange listed and traded and off-exchange investments may be non-readily realisable. These are investments in which the market is limited or could become so. Accordingly, it may be difficult to assess their market value and/or to liquidate your position.

7. **REPURCHASE AGREEMENTS**

A repurchase agreement is a transaction governed by an agreement by which a counterparty transfers securities, commodities, or guaranteed rights relating to title to securities or commodities where that guarantee is issued by a recognised exchange which holds the rights to the securities or commodities and the agreement does not allow a counterparty to transfer or pledge a particular security of commodity to more than one counterparty at a time, subject to a commitment to repurchase them, or substituted securities or commodities of the same description at a specified price on a future date specified, or to be specified, by the transferor, being a repurchase agreement for the counterparty selling the securities or commodities and a reverse repurchase agreement for the counterparty buying them.

In relation to repurchase transactions, in the event of the failure of the counterparty with which cash has been placed there is the risk that collateral received may yield less than the cash placed out, whether because of inaccurate pricing of the collateral, adverse market movements, a deterioration in the credit rating of issuers of the collateral, or the illiquidity of the market in which the collateral is traded. Repurchase transactions carry risks similar to those associated with optional or forward derivative financial instruments.