CM-Equity AG

Client Information Package
for CM-Equity Asset Management

("Information Package")

Last updated 31/12/2021

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Content

CM-Equity AG

General Information regarding the Company and its Financial Services

("Company Information")

In this document, CM-Equity AG ("the Company") provides important information about the Company, its financial services, and prices to its existing and prospective clients (“the Client”) as well as other readers.

Language for Client Communication
Unless Client communication has not been regulated in the Asset Management Agreement, the Client may communicate with the Company at any time in German or English. Generally, the Client receives all relevant documents of the Company in the German language. As per request, the English version of the respective document is to be delivered to the Client.

Means of Communication
The Company generally communicates with the Client by letter and, if necessary, by fax. If the Client chooses to contact the Company using electronic means of communication, e.g., e-mail, then the Company reserves the right to contact the Client by the same means. If the Client and the Company have agreed upon e-mail as means of communication in the Asset Management Agreement, the Company will make use of that means of communication.

Our Contact Details for Client Communication

Address:	CM-Equity AG
	Kaufingerstraße 20, 80331 Munich
Telephone:	+49 (0)89 1890474-0
Facsimile:	+49 (0)89 1890474-99
E-mail:	pm@cm-equity.de
Website:	www.cm-equity.de

Taping of telephone calls, electronic and other communication
The Company will tape all telephone calls and electronic communication with the Client without any further notice to the Client.

The Company tapes telephone calls and electronic communication in connection with the execution of customer relations, notably with the provision of financial services which draw to the acceptance, transmission, and execution of client orders. The taped communication is kept safe on data storage mediums. If the Client disagrees on the taping, the Company is not allowed to execute any investment services for the Client via phone or electronic communication if this investment services draw to the acceptance, transmission, and execution of client orders.

The Company furthermore automatically tapes all in and outgoing telephone calls with Clients which are not mentioned in in the section above.

The Client consents to the taping and safekeeping of the recorded communication under the above sections 1 to 3 for the period of five years from the time of taping. If legal or regulatory guidelines require a longer safekeeping period, the Client also consents to the relevant longer safekeeping (seven years).

The Client can request a copy of the taped communication from the Company during the safekeeping period.

If the Client does not agree with the taping, the Client should immediately notify the Company.

Authorization for the Provision of Financial Services
CM-Equity AG is monitored and licensed by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungen*) pursuant to § 32 sect. 1 and 2 KWG (German Moneylender's Act) regarding the following activities:

Investment brokering for the purpose of § 1 sect. 1a sentence 2 no. 1 KWG, Investment advice for the purpose of § 1 sect. 1a sentence 2 no. 1a KWG, Investment banking for the purpose of § 1 sect. 1a sentence 2 no. 1c KWG, Contract brokerage for the purpose of § 1 sect. 1a sentence 2 no. 2 KWG, Financial portfolio management for the purpose of § 1 sect. 1a sentence 2 no. 3 KWG, Own-account trading for the purpose of § 1 sect. 1a sentence 2 no. 4 KWG, Own-account business operations for the purpose of § 32 sect. 1a KWG.

Employment of Tied Agents
In addition to its own employees, the Company may collaborate with Tied Agents in their capacity as independent financial advisors on the basis of contractual agreement. These Tied Agents may provide Financial Advice Services (e.g., securities, derivatives), solely for the account of and subject to liability of the Company. All Tied Agents must be registered with the public register for Tied Agents at the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*).

Financial Market Authority
The Company is subject to supervision of the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*), Graurheindorfer Straße 108, 53117 Bonn, and Marie-Curie-Str. 24-28, 60439 Frankfurt am Main, Website: www.bafin.de.

Agreement Conditions
For securities transactions, there shall be an Asset Management Agreement between the Client and the Company. This agreement shall be provided along with this Information Package. Kindly read the following documents along with the Information Package carefully:
- Conflict of Interest Policy
- Best Execution Policy
- Distance Selling Information including Revocation Notes for Distance Selling
- Disclosure of non-consideration of adverse effects on sustainability factors
- Information on Engagement Policy

Depending on your investment, please also refer to/ regard the following documents:
- Risk Disclosure for Investments in Securities
- General Information and Risk Disclosure for Futures Transactions

Investment Guidelines
Within the scope of Asset Management, the Company covers the Investment Guidelines, the risk level of the investments and specific conditions and limit liabilities of the Company to the Client.

Benchmark
The Company uses benchmarks as an evaluation method to insure transparency of the management of the financial portfolio. The benchmark is different for each investment strategy (e.g., DAX, MSCI World, REXP), and is defined in accordance with the investment objective and investment strategy. In the case

of individually selected portfolios and special Client requests, either the benchmark will be individually agreed upon, or will the use of a benchmark be waived.

Information about Financial Instruments
On behalf of the Client, the Company will execute transactions in financial instruments (stocks, bonds, mutual funds, derivatives (e.g., futures), foreign exchange (Forex) and others) for the Client's account according to the investment strategy selected. Detailed information about these financial instruments, how they work, and their prospects and risks can be found in the document "Risk Disclosure for Investments in Securities" and "General Information and Risk Disclosure for Futures Transactions" provided together with this document.

Valuation of Financial Instruments
The Company uses the following valuation criteria to value the financial instruments held in the Client's portfolio:

Investment funds are valued in accordance with the unit prices published by the respective investment fund company.

The value of listed securities will be determined in accordance with the respective closing price on the most liquid stock exchange for these securities.

If no stock market price is provided for the financial instrument, then the Company shall determine the market value using general valuation principles.
The valuation of the financial instruments in the Client portfolio is performed no later than the agreed upon reporting deadlines.

The Company may pool Client orders in the form of a block order before forwarding these for execution. If this block order is transacted at different prices, then the company shall arrange the allocation to the individual Client portfolios based on average figures. The downside to the individual Client is therefore unlikely, however, still possible.

Client Reporting
When providing Asset Management Services, the Company generally provides a quarterly outline of the Financial Portfolio Management Services (Reporting).

Should the Company and the Client approve a credit-financed portfolio or individually agreed upon the use of leveraged financial instruments (Leveraged Portfolio), the Company will report to the Client on a monthly basis.

The Company shall inform the Client should the Assets lose more than 10% of their value determined in the last report or information provided by the Company to the Client. Furthermore, the Company shall inform the Client on every further 10% the Assets lose in their value determined based on the last regular reporting.

Should the Client request a statement for each individual security, the Company reserves its right to extend the reporting duty to an annual basis.

Best Execution Policy
The general principles of order execution ("Best Execution Policy") can be found in the attachments to this document. Further details may be requested from the Company at any time.

Dealing with Potential Conflicts of Interest
The detailed information on dealing with potential conflicts of interest can be found in the “Conflict of Interest Policy” enclosed with this document. Further details regarding this policy may be requested from the Company at any time.

Costs
The current costs for any services provided by the Company are set forth in the Company's Pricing Policy which is attached to the contracts.
In the context of an asset management agreement there is a management fee equal to a percentage of the Net Asset Value (NAV) of the Client`s assets under management. The Company shall also be entitled to a performance fee, such that the Company may benefit from the increased rising value of the Client's portfolio.

It is possible that additional costs and taxes may be incurred resulting from transactions in conjunction with the financial instruments and securities services which have been procured on the Client’s behalf. These expenses may not necessarily be covered by the overall fee and may then be invoiced to the Client. The invoiced amount will be debited from the Client’s asset management account via direct debit. The Client shall reserve their right to object.

In addition, charges of the Institute Servicing the Account may be incurred. For further information, please refer to the pricing list of the Institute Servicing the Account.

The Company will inform the Client on time before conclusion of a securities transaction or an asset management agreement about all possible costs involved (ex-ante). On a yearly interval the Client will receive a statement on the actual costs involved with the Asset Management Agreement (ex-post).

Measures to Protect the Entrusted Client Assets
As an asset management service provider, the Company is not permitted to hold or receive the Client’s financial instruments or money. To holding and trading of financial instruments, the Company shall use the services provided by banks and other registered institutions. All deposits shall be with institutions that are legally authorized to the safekeeping and administration of deposits.

German Securities Trading Companies Compensation Fund (EdW)
The Company is a member of the German Securities Trading Companies Compensation Fund (*Entschädigungseinrichtung der Wertpapierhandelsunternehmen* – EdW), 10865 Berlin, pursuant to § 2 of the German Deposit Guarantee and Investor Compensation Act (EAEG). The EdW protects the Company's liabilities to the Client. Compensation shall be paid, should the Company - in breach of its legal duty - not be able to return Assets owing to the Client.

The Clients compensation claim shall be determined by the amount and extent of the liabilities of the Company to the Client, taking the Company's right to offset and retain into consideration. The compensation claim is currently limited to 90 % of the liabilities and a maximum amount of EUR 20,000. Claims which have been issued by the Company to secure bearer bonds and registered bonds as well as liabilities from own bills of exchange are not protected.

Claims for damages resulting from improper investment advice are not covered. In addition, neither claims by specific investors, as per § 3 sect. 2 of the German Deposit Guarantee and Investor Compensation Act (EAEG), such as claims by special credit institutions, insurance companies, investment companies, mid-size and large corporations within the meaning of § 267 sect. 2 and 3 of the German Commercial Code (HGB), nor claims by the public sector are protected.

CM-Equity AG

Conflict of Interest Policy

Asset management companies seek to safeguard and to strike a proper balance between the interests of their clients, shareholders, and employees. However, asset management companies providing a wide variety of high-quality financial services to their clients are not always able to avoid conflicts of interest.

In accordance with the German Securities Trading Act (§63 Sec. 2 WpHG new version) CM-Equity AG ("the Company") would like to provide the following information to its existing and prospective clients ("the Client") pertaining to the nature and origin of possible conflicts of interests and the measures it has put in place to avoid such conflicts of interest.

Conflicts of interest may arise between the Company, the management of the Company, its employees or other individuals who are associated with the Company, and its clients, or amongst its Clients.

Conflicts of interest may arise as follows:

- Entrepreneurial interest of the Company to optimize it`s revenue and profit;
- Between the Company's profit orientation (with reference to the sale of financial instruments, especially instruments designed by the Company) and the Asset Management Services and Investment Advisory Services;
- With regard to any order recommendations or placements within the scope of the Company's Asset Management Services or Investment Advisory Services for Clients or Client groups, conflicts of interests between Clients may arise from failure of fair order allocation among individual Clients or Client Groups because of technical limitation or manual failure;
- When the Company provides Asset Management Services and simultaneous Investment Advisory Services for the same financial instrument;
- When the Company provides Asset Management Services or Investment Advisory Services parallel to market-making activities or proprietary trading activities in the same financial instruments;
- When the Company gives or receives any gift, benefit, compensation, or remuneration (e.g. placement commission, renewal commission, non-cash benefits and others) to or from third parties relating to Investment Services for the Client; There is a strict prohibition of any monetary remunerations in matters of Asset Management Services. An exception are minor non-monetary remunerations, which are eligible to support the Quality of this services.
- In the case of performance-related compensation for the Company's executives, employees and Tied Agents;
- When granting any gift, benefit, compensation, or consideration to the Company's executives, employees and Tied Agents;
- From other business activities of the Company or its Tied Agents, especially with reference to proprietary trading gains, the Company's proprietary trading activities on behalf of third parties, and the sale of securities issued by the Company. The Company offers a variety of services to foreign issuers of company shares on the German capital market. For this purpose, the Company conducts proprietary trading and proprietary businesses;
- When the Company provides Financial Services within the scope of the Company's functions for its Clients and Client groups. Clients may be in competition with one another. The administration and management of mutual funds and concurrent Asset Management Services may also be in competition with one another;
- From relations of the Company or its Tied Agents with issuers of financial instruments, e.g. existing credit relations, participation in public offerings and cooperations;

- Upon preparation of financial analyses about securities offered to Clients;
- Should the Company's employees and Tied Agents pursue secondary activities (e.g. preparation of financial analyses for newsletters);
- Upon the Company's access to certain insider information which is not publicly disclosed;
- From personal relations of the Company's employees or the management or people associated with them or
- their involvement in the advisory board or board of directors.

In order to prevent inappropriate interests influencing the Company's services, e.g. Advice Services, order execution, asset management or financial analysis, the Company and its employees are committed to stringent ethical standards. The Company expects its employees to act in a diligent, fair, legal, and professional manner at all times and comply with market standards and, in particular, the best interest of the Client.

To avoid potential conflicts of interest from the outset, the Company has implemented the following organizational measures, including but not limited to:

- Obligation to comply with the ethical code of the *Verband unabhängiger Vermögensverwalter VuV* and to comply with the Company`s own ethical policy;
- Implementing comprehensive organizational provisions in our organizational guidelines to protect the best interest of the Client and the obligation to be compliant with them;
- Adoption of multilevel process integrated and process independent control mechanisms;
- Obligation to disclose certain business and individual relations.

In Detail the Company has implemented the following measures, including but not limited to:

- Implementing organizational procedures to safeguard Client interests in the fields of Investment Advisory and Asset Management, e.g. approval processes for new financial products and control if these products align with the Clients risk appetite and investment objectives;
- Pooling of orders to guarantee the joint order execution for all Clients;
- Disclosure of all costs related with the Company`s services and the financial products. These disclosures should give an overview on which effect the overall costs have on the yield of the financial products or the financial services provided by the Company;
- Complying with regulations regarding the acceptance and granting of compensation, as well as related unequivocal disclosures;
- Imposing self-regulatory constraints for our services;
- The delineation of divisions and the simultaneous control of the flow of information between these divisions (the creation of areas of confidentiality);
- Putting all companies and employees for whom conflicts of interest may arise within the scope of their duties in a Restricted List. These employees are obligated to disclose all of their transactions in and holdings of financial instruments;
- Ongoing control of all transactions carried out by the Company's employees on their own accounts;
- Ongoing training of the Company's employees, especially in matters of potential conflicts of interests and how to avoid them;
- Disclosing to the respective Clients all conflicts of interest which cannot be avoided prior to completing a transaction or providing advisory services.

Compliance with the above mentioned regulations is regularly monitored by the Company's compliance representative. The compliance representative audits and decides in accordance with the statutory requirements, reports directly to the Board, and acts independently and shall not seek or take instructions from any other party.

Regarding the asset management service in particular, the Company wishes to point out the following conflicts and compliance procedures in place:

1. In conjunction with the sale of securities, the Company generally receives compensation (remunerations) from issuers, investment companies, foreign investment trusts, and third-party companies acting on behalf of the aforementioned. The Company receives remunerations based on the performance of the securities transactions.
   All remunerations which are received for services provided by Tied Agents are partly or wholly transferred to their distribution partners (e.g., Tied Agents, investment advisors, and other investment intermediaries).
   The Company is pleased to provide its Clients with further details pertaining to the receipt or the granting of any gift, benefit, remuneration, or consideration as follows:
   - Distribution remunerations in Investment Brokerage shall be paid in the form of placement remunerations.
   - Placement remunerations in Investment Brokerage may be incurred with the distribution of mutual funds and other financial instruments. These remunerations are paid by the issuers of these securities as a one-time sales-based payment. The amount of the placement remunerations generally corresponds with the Agio, which may be charged upon purchase of mutual fund shares or other financial instruments. Up to 100 % of the Agio is forwarded to the Company's distribution partners.
   - All remunerations taken in Investment Brokerage have to be suitable to support the quality of the Services.
   - In Asset Management it is strictly prohibited to take any remuneration. An exception are minor non-monetary remunerations, which support to advance the quality of the Services provided by the Company. Such minor non-monetary remunerations are e.g. information materials on financial products, training, technical services or seminars.
   - The Company must disclose all remunerations to the Client prior to signing a contract or exercising its Services (ex-ante cost reporting).

   Employees of the Company may receive non-cash benefits in the form of training, further education, distributional support, or in the form of participation in cultural and social events hosted by issuers.

   - The collection of the aforementioned payments and any gift, benefit, compensation, or consideration may enable the Company to provide more efficient and higher-quality distributional infrastructures for the acquisition and sale of financial instruments. The payments may also be used as remuneration for distribution costs. This remuneration is factored into the calculation of the fees, so that the Client may benefit from overall lower costs.
   - The amount of the placement remunerations and renewal commissions may vary, depending on the issuer and the financial product, and may also partially be dependent on so-called commission scales of the issuers, specified by volume, and paid for respectively. It therefore may not be possible to determine the exact amount until the completion of the transaction or the billing of the commission. Should the Client request to be informed about these amounts, they shall be notified by the Company. In individual cases, further information regarding the amount of remunerations and commissions may be requested at any time from the Company.
   - A conflict of interest may arise from placement remunerations for the Company or from remunerations for the Tied Agents. The Company and its employees commit themselves to stringent ethical standards. The Company expects its employees to act in a diligent, fair, legal, and professional manner always and comply with market standards and, in particular, with the best interest of the Client.

2. By signing the Asset Management Agreement, the Client explicitly delegates all decisions pertaining to the purchase and sale of financial instruments to the Company as an Asset Manager. This allows the Company to make decisions regarding the purchase and sale of financial instruments without having to obtain prior consent, as agreed upon in the Investment Guidelines. This may create a conflict of interest. Any associated risks shall be reduced by adequate organizational measures, by adhering to an investment selection process that focuses on the Client's interests. The Company may also, independently from these measures, disclose and account for the scale of minor non-monetary remunerations prior to closing the Asset Management Agreement with the Client.

3. Another conflict of interest may arise when agreeing to performance-related compensation. The Client must understand that the Asset Manager may take disproportionately high risks to increase the performance and, as such, their commissions. The Company's internal monitoring of investment decisions combined with fixed incentive components shall reduce these risks.

4. The Company may receive minor non-monetary remunerations from other service providers in conjunction with any securities transactions, such as information materials on securities or other financial instruments, training, technical services, and access to third-party information systems. The acceptance and receipt of these benefits may not be directly connected to services provided. The Company shall use these benefits to provide its high-quality services and to continuously improve the quality of its services.

5. Competition may arise between investment funds managed by the Company and the Asset Management Client. The same may occur/ happen to Clients for whom the Company provides own-account trading and own-account business operations services, and Clients using Asset Management services. Even though, the Company has put organizational precautionary measures into place, such as the separation of functional responsibilities and the creation of areas of confidentiality, it may still be possible that a conflict of interest between the Company and the Clients arises when executing Client transactions or own-account transactions.

6. Tied Agents or independent intermediaries may receive performance-based commissions and fixed fees from the Company. Moreover, Tied Agents may receive remunerations from third parties like mutual fund companies and security issuing houses in addition to the agent commissions paid by the Company.

7. The Company's financial analyses provide information about potential conflicts of interest in conformity with the law.

Further information regarding this Conflict of Interest Policy may be requested from the Company at any time.

CM-Equity AG

Best Execution Policy

A. General information

1. Scope of Application

The following principles apply to the direct execution of client orders via CM-Equity AG (hereinafter referred to as "the Company") for the purpose of buying or selling securities or other financial instruments (e.g., options) on behalf of its client (“the Client”). In this context, execution refers to the conclusion of a financial transaction (commission-based transaction) in a suitable market with another party pursuant to the Client‘s order or the Asset Management Agreement for the account of the Client. Should the Client and the Company enter into a purchase agreement for financial instruments (fixed-price transaction), point 6 of this Best Execution Policy shall apply. These principles also apply if the Company buys financial instruments to fulfill its obligations under the Asset Management Agreement for the account of the Client.

2. Objective of the Order Execution

All Client orders may be transacted using different modes of execution or different execution venues (e.g., stock exchanges or other trading platforms, domestic or foreign, floor trading or electronic trading). The following paragraphs describe the modes of execution and possible execution venues for significant types of financial instruments, where the best execution of transactions in the interest of the Client may commonly be expected. They shall be the Company's choice for executing the Client's orders.

The Company understands that, in choosing venues, the best possible result of the order execution may depend primarily on the total fee, taking into consideration all execution costs. Securities are generally subject to price volatility and, as a result, price developments disadvantageous to the Client cannot be excluded. For this reason, the Company may primarily consider those execution venues where a complete execution of orders is probable and possible in a timely manner. The Company shall also take additional relevant criteria into consideration (e.g., market conditions, safety, and execution).

The criteria shall be weighted according to the Client's individual rating. The Company primarily take the total costs (final price) into consideration. The total costs commonly contain the price for the financial instrument as well as any costs associated with the order execution, including fees of the execution venue, clearing costs etc. Moreover, the speed and the probability of the execution, as well as the practicability of the execution platform and quality of the electronic data exchange which may have an influence on the total fees, is also considered as criteria. (Art. 27 Sec. 1 MiFID II).

Criteria	**Weight**
Price	50 %
Overall Costs	30 %
Speed and probability of execution	10 %
Practicability of the execution platform and quality of the electronic data exchange	10 %

3. Priority of Instructions

The Client may issue instructions to the Company regarding their preferences for the order execution. Such instructions have priority over the Best Execution Policy.

Should the Client's instructions refer to a foreign execution venue, the Company may commission brokers with access to the respective venue to execute orders. These brokers may execute the orders in accordance with their own Best Execution Policy and local regulations. The broker may also forward an order which the Client requested to be executed on a specific execution venue to another execution venue due to local regulations. In such case, the Company is obligated to execute the orders in accordance with all instructions/agreements regarding the execution venue and forwarding of the order to a broker.

Note: Should instructions be given, the Company shall not execute the order in accordance with this Best Execution Policy. Notwithstanding all regulations pursuant to point 3 of this Best Execution Policy remain applicable, even if Client instructions are given.

4. Forwarding of Orders

In specific cases, the Company may not execute the Client's order, but may forward it - in full accordance with these principles - to a third-party investment services company. The Client's order shall then be executed in accordance with the third-party investment services company's policies.

The Company must review the Execution Policy of the third-party investment services company with due diligence and monitor compliance with these regulations.

All Client instructions shall be forwarded to the third-party investment services company along with the order.

5. Deviating Execution in Individual Cases

Where market conditions or disruptions require a deviating execution, the Company shall execute the order in the Client's best interest (§ 384 HGB (German Commercial Code)).

6. Fixed-Price Transactions

Should the Company and the Client have an agreement regarding the purchase of financial instruments at a fixed or determinable price (fixed-price transaction), this Best Execution Policy shall only be applicable in a restricted manner. In this case, an execution, as described above, may be omitted. The Company and the Client are in fact obligated to provide the financial instruments owed and to pay their purchase price. In the case of fixed-price transactions, the Company shall perform their duties regarding executing orders in the best way by quoting prices as close to market prices as possible. The following principles provide information on timing of fixed-price services offers from the Company.

The same guidance is applied if the Company offers securities for subscription via public or private offering, or if the Company and the Client have an agreement pertaining to financial instruments (e.g., options) that are not tradable on stock exchanges.

7. Aggregating Orders

The Company may pool orders for multiple Clients and arrange for their execution as aggregated orders (block trades) if, considering the order volume, securities class, market segment, current market liquidity

and price sensitivity of the relevant financial instrument, this appears advisable in the Clients' best interests. The Company shall only aggregate orders if it is unlikely to be detrimental to individual Clients.

8. Review of the Best Execution Principles

At least on an annual basis, the Company shall review this Best Execution Policy. A review may be carried out more frequently should the Company become aware of a material change such that the best execution of Clients' orders cannot always be guaranteed on the execution venues covered by these principles. The Client shall immediately be notified of any material changes.

9. Individual Agreements between the Company and the Client

This Policy is not applicable to individual agreements between the Company and the Client.

B. Best Execution Policy for Different Types of Financial Instruments

1. Interest-Bearing Bonds and Zero-coupon Bonds

Interest-bearing bonds and zero-coupon bonds may be purchased directly through the Company and sold back to it. The current terms of offering, the price, may be requested from the Company at any time. The purchase and sale of interest-bearing bonds and zero-coupon bonds shall be concluded as fixed-price transactions.

Note: For fixed-price transactions, the profit share of the Company shall be included in the fixed price. Additional costs (e.g., brokerage fees) may not be incurred.

Should a fixed-price transaction between the Company and the Client not be realized, the Company shall execute the Client's orders on a commission basis as follows:

Should the size of the order allow for execution on the stock exchange, the Company shall execute the order in interest-bearing bonds on a national stock exchange. Should the financial product not be listed in the domestic country, the order shall be executed on a foreign stock exchange which allows for such execution. Should the order execution be impossible due to its size, the Company shall execute the order in the interbanking market with other investment services companies, provided that the professional or private Client has agreed to this in general or on individual case basis. Should there be no such Agreement between the professional or private Client and the Company or should the off-exchange execution be impossible for limited orders, the order shall be executed on the national stock exchange, if listed there, or otherwise on any foreign stock exchange where a listing exists.

2. Stocks

Any orders in German stocks that are listed in Germany shall be executed on the domestic stock exchange (fully electronic trading (XETRA) or floor trading).

Orders in foreign stocks that are both listed on a domestic and a foreign stock exchange shall be executed on the domestic stock exchange to avoid the higher execution fees of foreign exchange orders.

Since the execution fees for big orders are rather marginal, the Company may choose a stock exchange in the country where the issuer's head office is located. A different venue shall be selected, should the main trading venue for the foreign stock not be located in the country of the issuer's head office, or

should the compliance of the execution be in danger. The same guidance is applied to orders in foreign stocks which are not tradable in the domestic country.

The Company may collaborate with other qualified brokers with access to the respective execution venue to execute orders in a foreign country. These brokers shall execute the orders in accordance with their own execution policy and laws and regulations governing their professional activities.

Should the size and scope of the order require an execution deviating from the principles stated herein, the Company shall execute the order in accordance with the Client's best interests.

3. Certificates - Options

Buying or selling orders of certificates or options shall generally be executed by the Company on a commission basis on a domestic stock exchange where the certificates and options are listed. Should they not be listed on a domestic stock exchange, but on a foreign stock exchange, the Company shall execute the orders on the foreign execution venue.

For any certificates or options issued by the Company or associated companies, the Company may offer to buy or sell the certificates and options directly through the Company (fixed-price transaction).

4. Derivatives

Derivatives include, but are not limited to, standardized future contracts that are traded on derivatives exchanges or future contracts that have been bilaterally agreed upon by the Client and the issuing company. Depending on the financial instrument, special conditions or agreements may apply (e.g. special conditions for financial futures, master agreement for financial futures).

The Company shall execute orders in exchange-traded derivatives on the exchange where the financial contract is traded.

Derivatives that are not exchange-traded (e.g., over-the-counter options, forward exchange transactions, swaps, or a combination of the aforementioned) are bilateral contracts between the contracting parties. Should the Company not be the Client’s contracting partner, the Company may place such contracts with other investment service companies or may enter such contracts on behalf of and for the account of the Client.

5. Shares in Mutual Funds

In accordance with the provisions of the Investment Act, the issue of shares in mutual funds at the issue price, as well as their redemption at the redemption price, is not subject to legal provisions pertaining to the best execution of Clients' orders.

In accordance with the Investment Act, the Company categorically executes buying or selling orders for shares in mutual funds by transferring them to the KAG or to any company authorized to execute such orders, even if the specific mutual funds are listed on a domestic stock exchange.

Buying or selling orders of Exchange Traded Funds (ETFs) shall be executed on the exchange that the funds are listed on.

8. Warrants

The domestic warrants trading starts on the first day of the subscription period and endures over the entire subscription period. During this period, the warrants may be exercised or traded. Any orders issued by Clients shall be forwarded to a German stock exchange venue for execution. A settlement of fractional amounts (*Spitzenregulierung*) may result from the execution of the warrants. In such case, all orders will be registered unlimitedly. Should the Company not have received any instructions from the Client at the end of the penultimate day of the warrant trading, it shall sell all domestic warrants belonging to the Client's portfolio holdings at market. The Company may arrange for foreign warrants to be sold at market according to the usual practices of the country concerned.

9. New Issues

In the case of new issues of securities that are not publicly offered by the Company, the best possible execution within the framework of the Best Execution Policy is the acceptance of the subscription application and allocation or delivery of the respective securities by the issuing company.

C. List of Stock Exchange Venues

1. Domestic Stock Exchanges

Should orders be executed on a domestic stock exchange, the following venues shall be used (in alphabetical order).

Stock Exchanges
Berlin Stock Exchange (http://www.boerse-berlin.de)
Dusseldorf Stock Exchange (http://www.boerse-duesseldorf.de)
Frankfurt Stock Exchange (http://boerse-frankfurt.com)
Hamburg Stock Exchange (http://www.boersenag.de)
Hanover Stock Exchange (http://www.boersenag.de)
Munich Stock Exchange (http://www.boerse-muenchen.de)
Stuttgart Stock Exchange (http://www.boerse-stuttgart.de)
Tradegate Exchange (http://www.tradegate.de)
XETRA (http://deutsche-boerse.com)

Futures and Options Exchanges
EUREX (http://www.eurexchange.com)

2. Foreign Country Stock Exchanges

<u>Execution directly by the Company</u>
The following foreign venues shall be used for orders executed directly by the Company without involvement of financial services companies or other companies:

Stock Exchanges
Vienna – Vienna Stock Exchange (http://www.wienerborse.at),
Zurich - SIX Swiss Exchange (http://www.six-swiss-exchange.com/), if the order involves a security issued by the Company.

<u>Execution via Brokers</u>
The order execution on all other foreign stock exchanges shall be handled through local brokers.

Excerpt of the list of venues that are accessible to the Company via brokers:

Stock Exchanges

Europe
Athens - Athens Exchange (http://www.ase.gr)
Barcelona - Bolsa de Barcelona (http://www.borsabcn.es)
Bern - BX Berne eXchange (http://www.berne-x.com)
Bratislava - Burza cenných papierov v Bratislave/Bratislawa Stock Exchange (http://www.bsse.sk)
Budapest - Budapesti Ertektözsde/Budapest Stock Exchange (http://www.bse.hu)
Dublin - Irish Stock Exchange (http://www.ise.ie)
Helsinki - NasdaqOMX (http://www.nasdaqomx.com)
Istanbul - Istanbul Stock Exchange (http://www.ise.org)
Copenhagen - NasdaqOMX (http://www.nasdaqomx.com)
London - LSE, London Stock Exchange (http://www.londonstockexchange.com)
Madrid - Bolsa de Madrid (http://www.bolsamadrid.es)
Milan - Borsa Italiana Italian Equities Markets/London Stock Exchange Group (http://www.borsaitaliana.it)
NYSE Euronext (http://www.euronext.com)
- Amsterdam, - Brussels, - Luxembourg, - Paris, - Lisbon
Oslo - Oslo Børs (http://www.oslobors.no)
Prague - Burza Cennych Papiru Praha/Prague Stock Exchange (http://www.pse.cz)
Stockholm - NasdaqOMX (http://www. nasdaqomx.com)
SWX Europe (http://www.swxeurope.com/)
Tallinn - NasdaqOMX (http://www. nasdaqomx.com)
Valletta - Borza Ta`Malta/Malta Stock Exchange (http://www.borzamalta.com.mt)
Vienna- Wiener Börse (http://www.wienerborse.at/), should the order not be executed directly by the Company
Zagreb - Zagrebacka Burza (http://www.zse.hr)
Zurich - SIX Swiss Exchange (http://www.six-swiss-exchange.com/), should the order not be executed directly by the Company

The Americas
Mexico/D.F. - BMV, Bolsa Mexicana de Valores (http://www.bmv.com.mx)
NASDAQ (http://www.nasdaq.com)
NYSE Euronext - New York Stock Exchange (http://www.nyse.com/)
Sao Paulo - BM&FBOVESPA, (http://www.bovespa.com.br)
Toronto - The Stock Market, Canadian Stock Exchange | TMX Group (http://www.tsx.com)

Asia
Bangkok - The Stock Exchange of Thailand (http://www.set.or.th)
Hong Kong - HKEx, Hong Kong Exchanges and Clearing Limited (http://www.hkex.com.hk)
Jakarta - Bursa Efek Indonesia/IDX Indonesia Stock Exchange (http://www.idx.co.id/)
Kuala Lumpur - Bursa Malaysia (http://www.klse.com.my)
Philippines - PSE, Philippine Stock Exchange (http://www.pse.com.ph)
Seoul - KRX, Korea Exchange (http://sm.krx.co.kr)
Shanghai - SSE, Shanghai Stock Exchange (http://www.sse.com.cn)
Shenzhen - Shenzhen Stock Exchange (http://www.szse.cn)
Singapore - SGX, Singapore Exchange Ltd. (http://www.ses.com.sg)
Taipei - TWSE, Taiwan Stock Exchange (http://www.twse.com.tw/en/)
Tel Aviv - TASE, Tel-Aviv Stock Exchange (http://www.tase.co.il)
Tokyo - Tokyo Stock Exchange Group (http://www.tse.or.jp)

Australia
Australia - ASX, Australian Securities Exchange (http://www.asx.com.au)
New Zealand - NZX Limited (http://www.nzx.com)

Africa
Johannesburg - JSE Ltd (http://www.jse.co.za)
Futures and Options Exchanges

Europe
Athens - ADEX, Athens Exchange S.A. Derivatives Market (http://www.adex.ase.gr)
London - LIFFE Futures & Options/NYSE Euronext Group (http://www.euronext.com)
Madrid - MEFF, Spanish Financial Futures & Options Exchange (http://www.meff.es)
Milan - Borsa Italiana Italian Derivatives Markets/London Stock Exchange group (http://www.borsaitaliana.it)

USA
Chicago - CBOE, Chicago Board Options Exchange (http://www.cboe.com)
Chicago - CME Group (http://cmegroup.com)
New York - CME Group (http://cmegroup.com)
New York - ICE Intercontinental Exchange (https://www.theice.com/homepage.jhtml)
Asia
Hong Kong - HKEx, Hong Kong Stock Exchange (http://www.hkex.com.hk)
Singapore - SGX, Singapore Exchange (http://www.sgx.com)
Tokyo - TSE, Tokyo Stock Exchange Group (http://www.tse.or.jp)

3. Brokers
Currently, the following brokers provide services to the Company:

HSBC Trinkaus & Burkhardt AG
Interactive Brokers UK Ltd.
Tradestation Securities Inc.
IG Markets Ltd.
Swissquote Ltd.
Forex Capital Markets (FXCM) Germany
BMO Capital Markets, Track Data Securities
Asia Plus Securities Public Co. Ltd.
China International Capital Corp. Hong Kong
Hartleys Ltd.
Kim Eng Securities Hong Kong, Indonesia, Singapore, Thailand
PT AM Capital Indonesia
Southern Cross Equities Ltd
Loted Overseas Bank Hong Kong, Malaysia, Singapore
NBF International S. A.
BNP Paribas S.A. Niederlassung Deutschland (DAB)
V-Bank AG
sino AG

CM-Equity AG

Revocation Policy for the Asset Management Agreement
("Revocation Policy for Distance Selling")

Right of revocation

Section 1
Right of revocation

You may **revoke** your contractual declaration **within 14 days without stating reasons by means of a clear declaration**. The period begins after conclusion of the contract and after you **have received** the contractual provisions, including the General Terms and Conditions, as well as **all the information listed below under Section 2** on a durable medium (e.g. letter, fax, e-mail). **To meet the cancellation deadline, it is sufficient to send the cancellation in good time** if the declaration is made on a durable data medium. The revocation is to be addressed to:

CM-Equity AG
Kaufingerstraße 20
80331 Munich
fax: +49 (0)89 1890474-99
email: info@cm-equity.de

Section 2
Information required for the start of the revocation period

The information referred to in the second sentence of Section 1 shall include the following:

1. the identity of the financial institution; the public business register in which the legal entity is registered, and the associated register number or equivalent identifier shall also be provided;

2. the main business activity of the financial institution and the supervisory authority responsible for its authorization;

3. the business entity's address for service and any other address relevant to the business relationship between the business entity and the consumer; in the case of legal entities, associations of persons or groups of persons, also the name of the person authorized to represent the entity;

4. the essential characteristics of the financial service as well as information on how the contract comes into being;

5. the total price of the financial service, including all related price components, as well as all taxes paid via the financial institution or, if no exact price can be stated, its basis of calculation, which enables the consumer to check the price;

6. additional costs, if any, as well as an indication of possible further taxes or costs that are not paid through or charged by the financial institution;

7. an indication that the financial service relates to financial instruments which, because of their specific characteristics or the operations to be carried out, are subject to specific risks or whose price is subject to fluctuations in the financial market over which the financial institution has no control, and that returns generated in the past are not indicative of future returns;

8. details regarding payment and fulfilment;

9. the existence or non-existence of a revocation right, as well as the conditions and details of exercise, in particular the name and address of the person to whom the revocation is to be declared, and the legal consequences of the revocation, including information on the amount that the consumer must pay for the service provided in the event of revocation, insofar as the consumer is obliged to pay compensation for lost value (underlying provision: Section 357a of the German Civil Code);

10. the contractual terms of termination, including any contractual penalties;

11. the Member States of the European Union whose law the financial institution uses as a basis for establishing relations with the consumer prior to the conclusion of the contract;

12. a contractual clause on the law applicable to the contract or on the competent court;

13. the languages in which the contractual terms and conditions and the prior information referred to in this revocation notice will be communicated, as well as the languages in which the financial institution undertakes to communicate, with the consumer's consent, during the term of this contract;

14. the indication whether the consumer can use an out-of-court complaint and redress procedure to which the financial institution is subject and, if so, its access requirements.

Section 3
Consequences of revocation

In the event of an effective revocation, **the services received by both parties shall be returned**. You shall be obligated to **pay compensation** for the value of the service rendered up to the time of revocation if you were informed of this legal consequence prior to submitting your contractual declaration and have expressly agreed that the execution of the consideration could be started before the end of the revocation period. If there is an obligation to pay compensation for lost value, this may mean that you must fulfil the contractual payment obligations for the period until the revocation. **Your right of revocation shall expire** prematurely if the contract **has been completely fulfilled by both parties at your express request** before you have exercised your right of revocation. **Obligations to refund payments must be fulfilled within 30 days.** The period begins for you with the dispatch of your revocation declaration, for us with its receipt.

End of the revocation instruction

CM-Equity AG

Disclosure of non-consideration of adverse effects on sustainability factors

(Art. 4 Disclosure Regulation)

Due to legal requirements (Art. 4 para. 1 a para. 2 Disclosure Regulation or Art. 4 para. 5 a Disclosure Regulation) we are obliged to provide the following information:

- Investment decisions may have adverse effects on the environment (e.g. climate, water, biodiversity), on social - and employee concerns, and may also be detrimental to the fight against corruption and bribery.

- As a matter of principle, we have a considerable interest in fulfilling our responsibility as a financial services provider and in helping to avoid such effects in the context of our investment decisions or investment recommendations. However, the implementation of the legal requirements stipulated for this purpose is, according to the current state of affairs, unreasonable due to the existing and still impending bureaucratic framework conditions. Moreover, major legal issues are still unresolved.

- To avoid legal disadvantages, we are therefore currently prevented from making a public statement to the effect that and in what way we take into account adverse impacts on sustainability factors (environmental concerns, etc.) in the context of our investment decisions or investment recommendations. Therefore, we are required to state on our website that we do not take them into account for the time being and until further clarification (Art. 4 para. 1 b Disclosure Regulation or Art. 4 para. 5 b Disclosure Regulation).

However, we expressly declare that this handling does not change our willingness to contribute to a more sustainable, resource-efficient economy with the aim of reducing the risks and impacts of climate change and other environmental or social ills in particular

CM-Equity AG

Information on Engagement Policy

(Section 134 b German Stock Corporation Act)

In our capacity as asset manager within the meaning of Section 134a (1) no. 2 of the German Stock Corporation Act (AktG), CM-Equity has the obligation to describe its engagement policy within the meaning of Section 134b AktG.

- CM-Equity does not exercise any shareholder rights within the meaning of Section 134 b (1) no. 1 AktG that are based on participation in the Company. In particular, no voting rights are exercised at shareholders' meetings of stock corporations.

- The monitoring of important matters of the companies within the meaning of § 134b (1) no. 2 AktG is carried out by taking note of the legally required reporting of the companies in financial reports as well as ad hoc announcements.

- There shall be no exchange of views with the corporate bodies and stakeholders of the Company within the meaning of Section 134b (1) No. 3 AktG.

- There is no cooperation with other shareholders within the meaning of Section 134 b (1) no. 4 AktG.

- In the event of conflicts of interest within the meaning of Section 134b (1) No. 5 of the German Stock Corporation Act (AktG), disclosure is made to the parties concerned in accordance with the statutory provisions and clarification of the further course of action is provided with them.

- There is no annual publication on the implementation of the participation policy within the meaning of Section 134b (2) of the German Stock Corporation Act (AktG) because no corresponding rights are exercised.

- Voting behavior within the meaning of Section 134b (3) of the German Stock Corporation Act (AktG) is not published because there is no participation in voting.

CM-Equity AG

Risk Disclosure for Securities Transactions

(“Securities Risk Disclosure”)

I. General risks of investing

This part of the brochure is intended to make you, as an investor, particularly aware of the economic relationships which can, under certain circumstances, lead to major changes in the value of your investment.

This part describes typical risks which apply equally to all forms of the investment instruments dealt with in this brochure (general risks). A description of additional risks which are specific to the different forms of investment in securities follows in Part II.

Please note in particular that several risks may combine and thus intensify one another, which can lead to particularly dramatic changes in the value of your investment.

1. Risks related to the economic cycle

Risks related to the economic cycle mean the risks of drops in price which occur because the investor has not, or has not properly, taken account of economic developments in making an investment decision and consequently makes a securities investment at the wrong time or holds securities during an unfavourable economic phase.

The economic cycle

Economic activity follows a cyclical wave-like course around the path of long-term economic growth. The typical economic cycle lasts between three and eight years and can be divided into the following four phases:

1. Bottoming out of the economic cycle, recession (or in extreme cases, depression)
2. Recovery and expansion
3. Economic boom, peak of the economic cycle
4. Contraction, leading to recession

The duration and extent of the individual economic upward and downward phases vary, as do the effects on individual sectors of the economy. Furthermore, it should be remembered that another country may be at an earlier or later stage of the economic cycle.

Effects on prices

The changes in levels of economic activity within a national economy always affect prices of securities: The prices fluctuate in approximately the same rhythm as (although usually ahead of) the cyclical upward and downward phases of the economy.

For you, as an investor, this means that forms of investment which are to be recommended and can be expected to produce profits in certain phases of the economic cycle are less appropriate in another phase and may result in losses. Please note, therefore, that in every investment decision, the "timing" - i.e. the choice of the time at which you buy or sell securities - plays a decisive role. You should therefore constantly re-examine, in the light of the economic situation, the composition of your capital investment portfolio in terms of types of investment and countries of investment (and, if necessary, make adjustments to previous investment decisions).

Securities prices (and also exchange rates) react, in particular, to proposed and actual changes in government economic and financial policy. For example, domestic measures, and even strikes, have a strong influence on the overall economic situation of a country. This means that setbacks may occur on capital and foreign exchange markets even in places where the prospects of economic development initially seemed favourable.

2. Inflation risk (purchasing power risk)

Inflation risk means the risk that the investor will suffer a financial loss as a result of a fall in the value of money (i.e. inflation). Both the real value of the existing assets and also the real income which the assets are supposed to generate are subject to this risk.

Real yield as a benchmark

It is a fact that an annual inflation rate of, for example, four to five per cent would, in only six years, lead to an erosion of the value of money of around a quarter, and in twelve years would reduce the purchasing power of the money by half.

As an investor, you should therefore pay attention to the "real yield" (or similarly "real return"). This means that the difference between the yield and the inflation rate, which in the case of fixed-interest securities may also be called the "real interest rate". During most phases of the economic cycle and interest rate phases in the past, bonds have produced a positive real interest rate in Germany. However, if one also takes into account the tax on income from capital assets, it has not always been possible to make up for the loss in purchasing power.

Nor do shares, as so-called "real assets", offer complete protection against inflation. The reason for this is that the purchaser is not generally interested in the intrinsic value of a share but in its earning potential. Depending on the level of inflation and on the earnings realised in the form of dividend income and price gains (or losses), the real yield can turn out to be positive or negative.

Resistance to inflation of real assets as compared with monetary assets

No general statement can be made about the extent to which an investment is likely to retain its real value, i.e. is safe from inflation. Long-term comparisons have shown that real assets achieved better investment results and thus retained their value better than monetary assets. Even during the periods of extreme inflation and currency revaluation following the two World Wars (especially 1923 and 1948), real assets proved to be more stable than the fixed money claims of creditors. On the other hand, there have since been periods interspersed, some of them quite long, in which monetary investments performed better than investments in real assets.

3. Country risk and transfer risk

Country risk refers to the risk that a foreign debtor, despite itself being solvent, will not be able to meet its interest and redemption payments because of the inability or unwillingness of its country of domicile to effect the transfer.

Country risk includes, on the one hand, the risk of economic instability, and, on the other, the risk of political instability. Payments of money to which you are entitled may not be made because of a lack of foreign exchange or because of restrictions on monetary transfers abroad. In the case of securities in foreign currencies, it may be that you receive dividends in a foreign currency which, as a result of the introduction of foreign exchange restrictions, can no longer be converted.

Impossibility of protecting oneself

There is no protection against such a transfer risk. Destabilising events within the political and social system can lead to government interference in the service of foreign debts and to the suspension of payments from a particular country. Political events may have an impact on the world's (closely interlinked) capital and foreign exchange markets; they may cause prices to rise or give rise to bearishness. Examples of such events include changes in the constitution, the economic system or the political power structure, national and international crises, revolutions and wars as well as events triggered by natural catastrophes. Even election prospects and results can, depending on the economic programmes of the parties coming into power, sometimes affect the currency and the stock market activities in the country in question.

Country ratings as an aid to decision-making

The country ratings published by some economic magazines are of great importance. These involve the classification of the countries of the world according to their credit quality. Country ratings serve as an aid to decision-making in the assessment of country risks.

4. Currency risk

Investors are exposed to a currency risk when they hold securities denominated in a foreign currency and the underlying exchange rate falls. A rise in the value of the euro (i.e. a fall in the value of the foreign currency) means that foreign assets valued in euros fall in value. Thus, in addition to price risk, foreign securities are also subject to currency risk - even if the securities are traded on a German exchange in euros. Investors are likewise exposed to currency risk with other foreign-currency instruments, such as overnight or time deposits denominated in foreign currency.

Long-term structural factors such as inflationary trends in the respective national economics, differences in economic productivity, long-term trends in net foreign currency reserves and obligations, and sustained trends in the relation between export and import prices all have an influence on the value of a country's currency. Over the long term, these factors determine the valuation of the currency in relation to others.

Cyclical influence factors can result in medium-term deviations of exchange rates from their long-term equilibrium levels. These may lead to considerable fluctuations in either direction, sometimes prevailing over a longer period of time. These medium-term trends may for example be influenced by differences in real rates of interest, trade or current account balance figures, or decisions regarding monetary and fiscal policy.

Short-term factors such as current market opinion, acts of war, or other political conflicts can influence both the exchange rate as well as the level of market liquidity in certain currencies.

If the global geopolitical situation is tense, those currencies considered to be especially safe profit the most (the "safe haven argument").

As an investor, you should pay particular attention to the question of currency, because currency developments can quickly erode any advantage in terms of yields, and, indeed, can affect the yield achieved to such a degree that, in retrospect, an investment in domestic currency would have been more advantageous.

5. Volatility

Prices of securities fluctuate over time. The measure of these fluctuations within a defined time interval is termed "volatility". Volatility is computed on the basis of historical data using certain statistical procedures. The higher the volatility of a security, the more extreme are the upward and downward price movements. Investing in securities with high volatility is accordingly riskier, as this is accompanied by a higher potential for losses.

6. Liquidity risk

The liquidity of an investment means the extent to which it is possible for the investor to sell his assets at any time at fair market prices. This is usually the case if an investor can sell his securities such that a selling order of normal size (measured in terms of the sales volumes which are usual on the market) will not lead to noticeable price fluctuations and does not need to be executed at a markedly reduced price.

As a basic rule, the breadth and depth of a market are decisive for rapid and unproblematic securities transactions. A market has depth if there are many open selling orders at prices just above the prevailing market price and, conversely, many open purchase orders at prices just below the current market price.

A market can be described as broad if these orders are not only numerous but also correspond to large total amounts.

Illiquidity caused by unmatched supply and demand

Narrow and illiquid markets can make it difficult to buy or sell securities. In many cases, quotations are made for days on the stock exchange without any trading taking place. For such securities, only supply (offer price) or only demand (bid price) exists at any particular price. In these circumstances, your purchase or selling order cannot be carried out immediately, or it can, but only in parts (partial execution) or only on unfavourable conditions. In addition, you may also end up incurring higher transaction costs.

Particular difficulties may arise in executing your buy or sell order when the relevant security is not traded on a stock exchange or other organised market.

Illiquidity despite market making

For many securities, the market maker (the issuer or a third party) provides continuous daily bid and offer prices over the entire life of the security. It is, however, not always obligated to do so. Illiquidity may thus arise even in markets with market making. You thus face the risk that you may not be able to sell the security at the point in time you desire.

Illiquidity due to the features of the security or market practices

Liquidity may also be restricted for other reasons:

- For securities which are registered in the name of the owner, changing the registration may take time.
- The customary settlement period can be as long as several weeks, so that if you are the seller of the security, you receive the proceeds from the sale with a corresponding delay.
- Sometimes it is not possible to sell securities immediately after their purchase. If you have a short-term need for liquidity, you might need to take out a bridging loan - and pay the costs.

7. Risks related to market psychology

Irrational factors very often influence general price developments in financial markets. Moods, opinions and rumors can result in a significant fall in prices, even though the profit situation and future prospects of the companies need not have changed for the worse. These risks of market psychology particularly affect shares and is therefore examined further in Part II.2.

8. Risk of buying securities on margin (financing with loans)

The use of your securities portfolio as collateral for a loan (referred to as "buying on margin") is one possible means of retaining your liquidity and freedom of action as an investor. Depending on the type of security, the portfolio can be used to varying degrees as collateral. The collateral value of fixed-interest securities is generally higher than that of shares.

But please note: Loan-financed, speculative commitments should not exceed a certain proportion of the investment, even if you are very adventurous. Only in this way can you ensure that you will not have to sell securities during a market slump because you are in need of money, or because the situation of the market has become uncertain. Even if the market moves in a way you did not anticipate, you not only have to accept the resulting loss but also to pay interest on the loan and repay principal. Before concluding a transaction, please therefore check your financial situation to ascertain whether you will be able to pay interest and possibly repay the loan at short notice even if, instead of making the expected profit, you sustain a loss. You face the following risks in particular:

- changes in the loan interest rate;
- losses in the collateral value of your portfolio due to a drop in prices;

- requirement to provide additional funds from other sources to restore the required margin ratio and pay further loan charges (particularly debit interest, which is not covered by the securities used as collateral for the loan;
- if additional funding is not provided or is not adequate, forced sale of all or parts of your portfolio assets at a loss;
- forced liquidation of all portfolio assets, subject to legal requirements regarding realization of collateral;
- liability to repay any remaining debt if the proceeds of portfolio liquidation are inadequate.

You should be aware that, even with a portfolio consisting entirely of bonds, using this as collateral is associated with risks: Especially in the case of long-term bonds, a steep rise in the capital market interest rate can lead to price losses, so that the bank which is providing the credit may demand additional security from you because you have exceeded your collateral limits. If you are unable to provide this security, the bank may be forced to sell the securities in your portfolio.

9. Tax risks

Tax risks can also affect an investment:

Taxation of the investor

As an investor who is interested in yields and preservation of capital, you should give some consideration to the tax treatment of your investment. Ultimately, the important thing for you is the net income, i.e. the income after deduction of taxes.

Effects on the capital market

Changes in a country's tax laws which affect investors' income and/or companies' profits can have positive or negative effects on the capital market prices.

Important note: Before making an investment, you should find out about its tax treatment and establish whether the investment in question satisfies your personal expectations in this particular respect.

10. Other general risks

In the following paragraphs, a number of further risks will be mentioned which you should be generally aware of when investing in securities. These do not always only involve possible financial losses. In some cases you must also consider other kinds of disadvantages: For instance, it can take an unexpectedly long time and a lot of effort to fulfill certain obligations associated with, and make the dispositions necessary for, a securities investment.

10.1. Information risk

Information risk means the possibility of making bad decisions as a result of missing, incomplete or incorrect information. Incorrect information can result from the use of unreliable sources of information, from incorrect interpretation of originally correct information or from errors in the transmission of information. An information risk can also arise through the availability of too much or too little information or through information which is not up to date.

10.2. Transmission risk

When you issue orders for securities, this must be done according to fixed rules so that you are protected against misunderstandings and unequivocally entitled to execution of the orders. Each order issued to a bank by an investor must therefore contain certain essential details: These include, in particular, the instruction to buy or sell, the quantity or nominal value, and the exact description of the security.

Please note: The extent to which the transmission risk can be minimised or eliminated depends very much on you - the more precise you make your order, the less risk there is of an error.

10.3. Requests for information by foreign companies

Regardless of whether you buy, sell or hold your foreign securities through a domestic or foreign bank, foreign securities are subject to the laws of the country in which the purchase, sale or custody takes place. Both your own rights and obligations as well as those of the bank are determined by the laws of that country, which may also include the disclosure of your name. Such laws often entitle or even obligate the company to obtain information about its shareholders. This also regularly applies to regulatory authorities, securities exchanges and other entities authorised to oversee the financial markets. The context of such requests for information on the part of governmental authorities may be, for example, cases where insider trading or market price manipulation is suspected. These are circumstances which are treated likewise in Europe and Germany under the requirements of the Federal Financial Supervisory Authority *(BaFin)* or other financial market supervisory authorities. In individual cases where your custodian bank is obligated to provide information which includes disclosure of your name, it will inform you of this.

10.4. Risks of holding securities in your own custody

If you retain (or wish to retain) custody of your securities, you should bear in mind that if these certificates are lost - e.g. through fire or theft - a notification procedure, which can result in considerable costs, will have to be instituted through the courts in order to re-establish your rights. It can take several years to obtain new certificates, i.e. from the taking of the first steps - reporting the loss - to the declaration of invalidity and the issue of replacement certificates. If a third party has acquired the securities in good faith, you may have lost them forever.

Disadvantages resulting from missing important deadlines

Apart from losing the certificates themselves, you may also suffer other financial disadvantages. For example, people who retain custody of their securities often only find out by chance, years later, on the presentation of interest certificates, that the bond has already been due for repayment for some time, whether as a result of the drawing of lots or as a result of early redemption. The result is a loss of interest. Furthermore, it often happens that dividend coupons are presented which embody a subscription right which has since expired. In many cases, exercising such a right at the right time would have brought in many times the annual dividend.

Foreign registered securities should never be kept by the holder. If they are kept in this way, the holder's name and address is listed in the issuer's official register. The immediate consequence is that all information concerning the company and all dividends are sent directly to the shareholder - without going through a custodian bank. If the securities pass by way of inheritance, it may not always be possible to sell them easily. The investor who retains custody may also be unable to deal with the documents, information and demands sent to him in foreign languages. The professional service offered by the custodian bank relieves him of the risks associated with this.

10.5. Risk of holding securities in custody in foreign countries

Securities purchased in foreign countries are held in custody by the bank through third-party custodians in the respective foreign countries. Foreign custody generally occurs in the country where either the issuer of the security or the exchange on which the security has been acquired is domiciled. The liability of the bank is limited here to diligence in the selection and providing of instructions to the foreign custodian.

With regard to the foreign custody, the securities are subject to the laws and market practices of the respective country where they are held in custody. Your bank holds the full or partial ownership in the securities, or the comparable legal rights in the country of custody. It takes care that any security interest,

right of retention, or similar right with respect to customer assets only apply insofar as they arise from the purchase, custody or normal activity of the securities. The bank holds the securities in trust for you and provides a credit entry in your securities account *("WR-Gutschrift").* It cites the foreign country in which the securities are being held.

Custody in foreign countries can lead to higher costs and longer delivery times. This is particularly the case when securities are being transferred. For example, it may take longer if a customer transfers his securities account to another bank.

If the foreign custodian should become insolvent, the priority of claims is determined by applicable local law and the legal position granted to your bank. Your bank or a third party appointed by it has arranged with the foreign custodian to mark the custody accounts there with the suffix "customer account" in order to avoid claims on your securities, even when these are held together with the securities of other customers or of your bank. Your bank has further arranged that the foreign custodian will provide immediate notice of any court seizure, enforcement measure, or other intervention related to customer assets, so that the necessary measures may be taken to protect your legal position. Court seizures, enforcement measures, or other interventions against the foreign custodian may, however, result in you having limited access to your securities, or no access at all, until the court proceedings have been resolved. There are also legal risks involved in enforcing your claims.

Securities held in foreign custody may also be impaired by force majeure, acts of war or nature, or claims by third parties. The bank assumes no liability for losses arising from such events.

Please note: Social transformation in so-called "emerging market countries" is often accompanied by far-reaching changes in national legal regimes. A reliable assessment of the legal position of custodial arrangements is not always possible. There is therefore the risk that it may be difficult to enforce your rights as an investor.

11. Effect of ancillary costs on expected profit

When securities are bought and sold, various ancillary costs (transaction costs, commission) are incurred in addition to the current price of the security. For instance, banks usually charge their customers a commission which is either a fixed minimum commission or a proportional commission which depends on the value of the order. The terms offered necessarily differ in this respect since the banks are in competition with one another. If domestic or foreign third parties are involved in carrying out your order (such as German order book brokers or brokers on foreign markets), you must remember that you will also be charged for their brokerage fees, commissions and costs (third-party costs).

In addition to these costs, which are directly associated with the purchase of a security (direct costs), you must also take into account the consequential costs (e.g. account maintenance fees). Before buying or selling a security, you should therefore find out about the type and amount of any costs which may be involved - only in this way can you reliably evaluate your prospects of making a profit as a result of your investment decision.

Please note: The higher the costs are, the longer it will take before the anticipated profits are realised, since these costs must first be covered before a profit can be made.

II. Risks specific to particular investments

1. Risks specific to interest-bearing securities

In addition to the general risks described above, interest-bearing securities, also involve a number of risks which are particular to them. These include credit risk, the risk of changes in interest rates, the risk of early redemption, the risk of the bond being drawn for redemption and other specific risks associated with individual types of bond. Even though interest-bearing securities are regarded as being a relatively safe form of capital investment in comparison with other forms of investment in securities, you should familiarise yourself with the different sources and kinds of risk in order to be able to reliably assess your

chances of making a profit and to judge as accurately as possible the alternative possibilities of investing in interest-bearing securities.

1.1. Credit risk

Credit risk refers to the risk of insolvency or illiquidity on the part of the debtor, i.e. a possible - temporary or permanent - inability to fulfill its interest and/or redemption obligations on time. Alternative names for credit risk are the debtor or issuer risk.

Causes of changes in credit quality

The credit quality of an issuer may change during the life of a bond as a result of developments in the overall economic environment or the specific environment of the company in question. This can be caused by three factors:

- Changes in the economic climate which can seriously impair the profit situation and solvency of issuers. The pressure increases the longer economic recovery is delayed.
- Changes the causes of which are to be found in individual companies, sectors or countries. Examples of these include high national deficits and economic crises.
- Political developments with serious economic consequences which affect a country's ability to pay.

A deterioration in the credit quality of an issuer has a corresponding negative effect on the price of the securities in question (risk markdown). Credit risk tends to be higher, the longer the remaining life of the bond. In the case of zero bonds, particular attention should be paid to the credit quality of the issuer of the bond, in order to increase the certainty of redemption, since with this type of bond the interest payments are deferred and are only paid out together with the capital upon final maturity (for other specific risks associated with this form of investment see Section II 1.5).
With bonds, the credit quality of the issuer is - along with the stability in value of any security which may have been provided for the bond - one of the most important factors influencing the decision-making process of an investor. Ongoing high credit quality ensures the fulfillment of the debtor's contractual obligations - i.e. the payment of interest and the repayment of capital upon redemption. However, the credit quality of an issuer can deteriorate to such a degree during the life of the bond that the interest and redemption payments are not merely endangered, but rather are defaulted on completely.

Yield as measure of credit quality

First-rate credit quality on the part of the debtor is generally associated with a lower yield, since a bond of this sort will from the outset carry a lower nominal rate of interest than a bond issued at the same time by a debtor with a lower credit rating. Thus, government bonds, for example, usually produce a lower yield than bonds from corporate issuers.

As an investor, you must consider whether you are prepared to accept a lower yield in return for a higher degree of security or whether you wish to achieve a higher yield, albeit at a higher risk. As a rule of thumb: The higher the yield of a particular security in comparison with usual market yields, the greater the risk for the investor.

Issuers with low credit ratings and thus comparatively high yields are only suitable for investors who are aware of the risk. In the case of high-yield bonds or so-called ”junk bonds”, the credit quality of the issuer is usually very low and there is a risk of a total loss, particularly in times of economic recession.

Rating as an aid to decision-making

Ratings are used to assess the probability that the interest and redemption amounts payable in connection with the bonds issued by a debtor will be paid on time and in full.

Independent rating agencies publish their ratings in the form of a credit rating or classification of the debtor or its issues. Each rating agency uses its own rating symbols.

The rating systems take account of both quantitative and qualitative criteria. The analysis includes the overall economic situation in the country in which the issuer is domiciled and involves not only an analysis of the tendencies in the relevant sector and of the individual situation of the issuer, but also an economic and legal assessment of the terms of the issue.

The rating which is given to an issuer or its bonds has an effect on the formulation of the terms of bonds which have yet to be issued, in particular the amount of the yield. A bond with a first-class rating therefore generally offers you as an investor a lower yield than bonds with a lower rating.

Please note: Changes in the rating during the term of a bond may result in changes in the price of the bond.

Important note on the use of ratings: The rating is not a substitute for your judgement as an investor and should not be understood as a recommendation to buy or sell particular securities. The rating is simply intended to assist you in making an investment decision and is only one factor which must be considered and weighed along with others in the valuation process. Since the rating is often not altered until after an issuer's credit quality has changed, you must form your own judgement despite the availability of existing ratings. You should also note that not all issuers are given a rating and that the quality of a bond issue without a rating may well be better that that of an issue with a rating.

1.2. Risk of changes in interest rates during the term (price risk)

The risk of changes in interest rates is one of the central risks associated with interest-bearing securities. Fluctuations in interest-rate levels are always to be expected on the money market (short to medium term) and capital markets (long term), and these can change the price of your securities on a daily basis.

The risk of changes in interest rates results from the uncertainty concerning future changes in the market interest rate. The buyer of a fixed-interest security is exposed to the risk of a change in interest rates in the form of a price loss if the market interest rate rises. Fundamentally, the effects of this risk become more pronounced as the market interest rate rises, the remaining term of the bond is longer, and the nominal interest paid on the bond is lower.

Relationship between changes in interest rates and prices

The price of interest-bearing securities depends on supply and demand. These two factors are based first and foremost on the relationship between the nominal interest rate of the bond and the current level of interest rates on the money market and capital markets (= market interest rate).

- The nominal interest rate of a fixed-interest bond is generally fixed for the life of the bond on the basis of the market interest rate effective at the time of issue. During the life of the bond, however, the price may deviate considerably from the initial price. The extent of this deviation depends in particular on changes in the level of the market interest rate.
- The market interest rate is largely influenced by government budgetary policy, the policy of the central bank, the development of the economy, the inflation rate, foreign interest rates and anticipated exchange rate levels. However, the importance of individual factors is not directly quantifiable and varies over the course of time.

A change in the market interest rate following the issue of a fixed-interest security has an inverse effect on the price of the security: In the event of an increase in the market interest rate, the price of the bond generally falls until its yield is approximately equal to the market interest rate. Conversely, in the event of a fall in the market interest rate, the price of the bond rises until its yield is approximately equal to the market interest rate.

The reason for this is that fixed-interest bonds are provided with interest "coupons" corresponding to a fixed percentage of the original nominal value. When interest rates rise, this fixed rate of interest for an existing bond becomes comparatively less attractive, which leads to selling in the market. For this reason, the market price of an existing bond may fall below its nominal value. Falling rates generally

lead to the opposite effect, i.e. that the fixed interest being paid on the bond becomes more attractive, leading to an increase in the market price of the bond.

The yield of a fixed-interest security is its effective interest return, which depends on the nominal interest rate (the “coupon”), the issue or, as the case may be, purchase price, the redemption price and the (remaining) life of the fixed-interest security.

Sensitivity to changes in interest rates depends on the remaining life and coupon

The extent to which a bond reacts to changes in the market interest rate depends substantially on two factors: the (remaining) life of the bond and the level of the nominal interest rate (coupon) of the bond.

The degree to which the price of a bond reacts to changes in interest rates is measurable. A frequently used measure to characterise the sensitivity of a particular bond to changes in rates is the modified duration. The modified duration is the percentage amount by which the price of the bond will change when the market interest rate changes by one per cent. This means that the higher the duration, the more strongly the price of the bond reacts to changes in interest rates.

Different bonds display different sensitivities to interest rates. Bonds with long lives (terms) have a higher duration than similar bonds with short lives because the relative advantage or disadvantage of a higher or lower coupon is more pronounced for long-term bonds than for short-term securities. Furthermore, the same is true if we are talking about just one bond: In the course of time, a bond with a long term becomes a bond with a short (remaining) term. This means that the interest-rate sensitivity of the bond gradually diminishes.

An additional factor which has effects on the duration of a bond is the amount of the coupon of the bond compared to the prevailing relevant market interest rate for the relevant currency. A bond which from the start has a relatively high coupon is less sensitive to changes in interest rates than a bond with a relatively low coupon. The reason for this is that, in the case of the bond with the comparatively high coupon, investors receive an amount corresponding to the nominal value of the bond more quickly which they can then reinvest.

Fixed-interest securities are subject to considerable risks associated with changes in interest rates in times of steeply rising capital market interest rates. Of course, the price changes which occur are only relevant to you if you do not hold the bond until the end of its term. Otherwise, at the end of the bond’s term, at the latest, the bond will be redeemed at its nominal value – assuming that the issuer is solvent.

1.3. Risk of early redemption

In the terms and conditions of the issue, which are contained in the issuer prospectus, the debtor under a bond may reserve a right of early redemption *(Kündigungsrecht).* Bonds are often issued with such a one-sided right of early redemption during periods of high interest rates. If the market interest rate falls, the risk for you, as an investor, that the issuer will exercise its right of early redemption increases. In this way, the issuer can reduce its liabilities or refinance itself more cheaply through the issuer of a new bond, thus reducing its interest burden.

Longer-term fixed-income securities on the Eurobond market are frequently issued with this one-sided right of early redemption on the part of the issuer, also known as a “call right”. For you as an investor, early redemption may lead to deviation from the anticipated yield. This is compensated for by the fact that such bonds generally feature a higher yield from the outset compared to similar bonds without a right of early redemption. On the other hand, the risk exists that, in case of an early redemption due to exercise of the issuer’s call right because of changed market conditions, a new investment may be less favorable than the previous investment (reinvestment risk).

1.4. Drawing risk

Redeemable bonds which are repaid according to a drawing of lots *(Auslosung)* entail particular risks for you, because the fact that the life of such bonds cannot be calculated with arithmetic certainty can

lead to changes in yields. If you purchase a bond at a price of over 100 % and the bond is then repaid at par at an unexpectedly early date, as a result of a drawing of lots, this shortening of the life of the bond leads to a deterioration in the yield to you.

1.5. Risks associated with individual types of bond

Certain individual types of bond entail different, and in some cases additional risks:

Floating-rate notes

The difference between these and fixed-interest bonds is in the uncertain interest income: Because of the fluctuating levels of interest income, you cannot determine the final yield of floating-rate notes at the time of purchase. This also makes it impossible to compare the profitability of such notes with that of investments featuring longer-term fixed-interest periods If the terms and conditions of the bond provide for frequent interest payment dates at short intervals, you bear a corresponding reinvestment risk if the market interest rates fall. This means you can only reinvest the interest payments which you receive at the lower interest rate prevailing at that time. During their term, floaters may be subject to price fluctuations, the size of which depends particularly on the credit rating of the issuer.

More pronounced price fluctuations with reverse floaters: In the case of reverse floaters, the interest income changes in the opposite direction to the reference interest rate: If the reference interest rate rises, your interest income as an investor falls, whereas it rises if the reference interest rate falls.

Unlike ordinary floaters, the price of a reverse floater is heavily dependent on the level of yields from fixed-interest bonds with a comparable life. The price fluctuations of reverse floaters move in the same direction, but are much more pronounced than in the case of fixed-interest bonds with a comparable life. The risk for the investor is high if there are prospects of a rise in long-term market interest rates, even if the short-term interest rates are falling. In this case, the rising interest income does not adequately compensate for the price losses of the reverse floater, as these are overproportionately high.

Zero bonds

In the case of zero-coupon bonds (“zero bonds”), because the issuer prices are well below par as a result of discounting, changes in the market interest rate have a much greater effect on the price than is the case with ordinary bonds. If market interest rates rise, zero bonds suffer greater price losses than other bonds with the same life and credit quality. Therefore, it should be noted that zero bonds involve a particularly high risk of price fluctuation because of the leverage effect on the price. In the case of zero bonds in a foreign currency, there is also an increased currency risk because the interest payments are not distributed throughout the life of the bond, but rather are made on a single date, namely together with the repayment of the capital on final maturity.

Foreign-currency bonds and dual-currency bonds

As a buyer of foreign-currency bonds, you are exposed to the risk of fluctuating exchange rates. In the case of a dual-currency bond, the fluctuations in the exchange rate can also affect the price of the bond unless the terms and conditions of the bond include a currency-adjustment clause for the investor. In the latter case, which is called a "quanto structure", currency risk does not apply because the amount of the coupon in the nominal currency of the bond is independent of changes in the currency of the reference interest rate. Without such a clause, changes in the exchange rate have a greater effect on the price of the bond, the greater the foreign currency component of the bond.

Convertible bonds

The price of a convertible bond is largely determined by the price of the underlying share. If the share price rises, the price of the bond rises, too. If the share price falls, the price of the convertible bond will also fall.

Intermediate position between bond and share: Due to the linking to a particular share, the price risk of convertible bonds is generally higher than in the case of bonds without a right of conversion, but lower than in the case of a direct investment in the share concerned. This is because, due to the fixed interest rate of the bond, the price risk of the convertible bond has a bottom limit: The price will fall no further than the point at which the yield from the convertible bond corresponds to the market interest rate for issuers of comparable credit quality. The position is different with bonds providing for mandatory conversion: In their case, the price of the share is what matters most, so that the price risk is much higher.

The nominal interest rate of a convertible bond is usually lower than that of a bond without a right of conversion, so that the periodic interest payments are relatively low.

Please note: If, as an investor, you exercise your right of conversion and acquire the relevant share, you become subject to the usual risks of a shareholder. This applies also if the terms and conditions of the convertible bond provide for mandatory conversion (see part II. 2)

Bonds with warrants attached

As with convertible bonds, capital investment in bonds issued with warrants is generally associated with lower periodic interest payments (coupons). The interest rate is usually below the rates for bonds without such an option right.

The price of a bond with warrants attached (a "cum-warrant bond") will follow rises in the price of the share (or underlying asset). Because of the bond's fixed interest rate, there is a bottom limit to the price risk of the warrant-linked bond: The price of a warrant-linked bond will fall no further than the point at which its yield corresponds to the market interest rate for issuers of comparable credit quality.

The bond without warrants attached ("bond ex warrant") is a straight interest-bearing security; its price is based primarily on the capital market interest rate. The risks associated with the warrant on its own - i.e. without the bond - are described in part II. 6 "risks specific to warrants (option certificates")

Structured bonds

A comparison of index-linked bonds and plain-vanilla bonds makes the following clear: While, as an investor holding plain-vanilla bonds, you generally receive - depending on the credit quality of the issuer - a fixed rate of interest based on the capital market interest rate, the yield on index-linked bonds moves within a specific range. The floor generally lies between zero per cent and a minimum rate of interest that is lower than the market rate. Depending on the repayment rate, the yield may also be negative. There is generally an upper limit to the yield, but it is possible that this may be higher than the market yield on plain-vanilla bonds.

While index-linked bonds offer the chance of a yield that is higher than the market yield, equity bonds specify this from the outset. However, because principal is not guaranteed, equity bonds may also produce losses if share prices drop. This is true even if you purchased the bond at its nominal value and you have received interest payments. Let us take a closer look at the risks associated with equity bonds and index-linked bonds in the following:

- Equity bonds: As the buyer of an equity bond, you receive high regular interest payments. The interest rate is normally much higher than the rates for plain-vanilla bonds.
  You should, however, have a positive opinion regarding the share that is to be delivered, as you may have to take delivery of it on the due date on the pre-arranged terms and conditions. On the due date, the price of the share is compared with the delivery threshold of the equity bond:
  - If on the due date the price of the share is higher than the delivery threshold or if both prices are identical, the nominal value of the bond will be repaid to you. You will incur a loss if you purchased the equity bond during its term at a higher price than the repayment price and you are also unable to cover the difference by means of the interest obtained during the term of the bond.
  - If on the due date the price of the share is lower than the delivery threshold, the bond issuer will deliver the shares. In this case, the current market value of the shares delivered will

generally be less than the capital originally invested. If the stock corporation fails, you could in an extreme case even receive worthless shares. The size of a potential loss is the difference between the price originally paid for the bond and the lower price of the shares delivered, minus the interest payments obtained. If you hold the shares delivered, you carry the risks of an equity investment from the delivery date onwards.

During the term of the equity bond, its price is influenced by the following factors:
- Changes in the capital market interest rate for similar terms,
- Performance of the underlying share,
- Volatility (intensity of fluctuation) of the underlying share.

The price may therefore fluctuate more sharply than is the case with a plain-vanilla bond. Falling share prices lead to falling equity bond prices. The risk of a drop in price during the term of the bond increases the more the share price falls below the delivery threshold and the shorter the remaining term of the bond is. The more the share price falls below the delivery threshold, the more the tradability of the bond may be restricted because of the lack of market demand.

In the case of so-called "two-asset equity bonds", the share prices and the equity bond delivery thresholds are also compared on the fixed date. If either of the two share prices is lower than the corresponding delivery threshold, the issuer will deliver the shares. As there are several underlying shares, the probability of a delivery of shares increases. It increases even further if a two-asset reverse convertible is based on shares that display a negative correlation, i.e. their prices move in opposite directions.

- Index-linked and equity-basket bonds: Where these types of bonds are concerned, the total payout amount at maturity of the bond is made up of the following components:
  - a guaranteed repayment amount (percentage of the nominal amount),
  - a fixed minimum rate of interest (if provided for),
  - participation in the rise in the index or basket of equities, possibly limited to a certain percentage and/or capped.

  The amount cannot be determined in advance. It ultimately depends on whether and to what extent the expected performance of the underlying index or basket of equities materialises; sometimes it may not exceed a certain maximum amount.

  During their term, the movement in the price of these bonds depends on different parameters that may change over the course of time. Essentially, the following factors influence the price:
  - the performance of the index or equity basket,
  - the volatility (intensity of fluctuation) of the index or equity basket,
  - changes in the market interest rate for a comparable term.

  Please note: It may well happen that the price falls below the promised repayment amount during the term of the bond.

  Index-linked bonds which, thanks to a positive index performance during their term, promise a relatively high repayment amount, will react more strongly to index movements. On the other hand, bonds which, because of the index performance so far, offer no yield or only a very small yield, generally react more strongly to interest rate changes.
  The shorter the remaining term of the bond is, the closer the price of the bond will move towards the nominal amount or the fixed repayment rate.

- Other structured bonds: The biggest risk attaching to synthetic bonds lies in the lack of transparency of the structure behind the bond. This directly affects the issuer's repayment and/or interest payment commitment and may ultimately lead to the total loss of the capital you invest. Synthetic bonds are often highly complex in structure. Specific advice on product features and the way these instruments work is only possible in each case on the strength of a detailed description of the transaction. Before buying such a synthetic bond, you should thus not fail to closely study the relevant securities prospectus and the terms and conditions of the issue, as the probability of loss may be very high.

2. Risks specific to shares (equities)

It is characteristic of the risks specifically associated with shares that their pricing depends to a large extent on factors which cannot be calculated rationally. In addition to the risk factors described in Section 2.1 to 2.3, the "psychology of market participants", which is dealt with in Section 2.4, also plays an important role. The methods which have been developed for dealing with the flood of information to be considered in making an objective investment decision (Section 2.5) also involve interpretation risks. Do make sure you are aware of the various risk factors, some of which are interrelated, before you invest in shares.

2.1. Business risk (insolvency risk)

As a buyer of a share, you are not a creditor, but a contributor of equity capital and thus a co-owner of the stock corporation. With the acquisition of the share, you participate in the economic development of the company; you become, in effect, an entrepreneur and thus stand to benefit from the associated opportunities, while at the same time bearing the risks.
The business risk involves the danger that the investment will perform differently from what was originally expected. Nor can you be certain that you will recover the invested capital. In extreme cases, i.e. if the company becomes insolvent, an investment in shares can mean the complete loss of the amount invested, since shareholders only receive a share of the proceeds of liquidation after all creditors' claims have been satisfied.

2.2. Price risk

Share prices are subject to unpredictable fluctuations. Short-, medium- and long-term upward and downward movements succeed one another without any discernible fixed relationship for the lengths of the different phases being identifiable.
In the long term, price movements are determined by the company's profits, which in turn are influenced by developments in the economy as a whole and the general political situation. The influences of economic, currency and monetary policy overlap in the medium term. In the short term, current events of limited duration, such as industrial disputes or international crises, may influence the mood of the market and thus the price of the shares.

Distinction between two sources of risk

From the point of view of a purchaser of shares, a basic distinction can be made between the general market risk and the risk specific to a particular company (and thus to the shares in question). Both affect share prices, either on their own or cumulatively.

<u>General market risk</u>

The general market risk of a share (also known as the systematic risk) is the risk of a change in price which is attributable to the general trend on the stock market and is not directly related to the economic situation of the individual company. In theory, therefore, all shares are subject to the same market risk. Accordingly, the share price of a company can fall on the stock exchange in line with the overall market trend, even though nothing has, in fact, changed in the company's current economic situation. Thus, a change in market interest rate levels may have an indirect affect on the stock market. As a rule, the stock market reacts - usually with a certain time lag - to rising interest rates with falling share prices and, conversely, to falling interest rates with rising share prices. However, a direct and automatic correlation - as in the case of bonds - does not exist here.

The factors which can trigger this sort of general fall in prices are extremely varied and can scarcely be calculated since they may overlap with one another. Even first-class shares may suffer severe price losses as a result of a negative basic trend on the stock market. As an investor, you cannot expect that an unfavourable price change will necessarily, or immediately, be reversed: It is

quite possible that a slump will last for months or even years.

Nor can you reduce the general market risk by a wide distribution of shares among different companies and sectors within a market. The wider the shares are distributed, the more precisely will the portfolio reflect the development of the market.

Risk specific to a particular company

The risk specific to a particular company (also known as the unsystematic risk of a share) means the risk of a downturn in the price of a share as a result of factors directly or indirectly affecting the issuing company. The causes of such a change in the price of a specific share may lie in the company's operational situation - e.g. in incorrect management decisions, or failure to comply with legal or regulatory obligations. They may also result from general external economic factors.
As a result of risks specific to the company in question, share prices may follow a quite individual trend which is contrary to the general trend. It should be noted that even the fact that the shares have gone up in price for many years is no guarantee that they will be equally successful in the future. The extent of price changes cannot be estimated accurately in advance and may vary from company to company, from sector to sector and from country to country. However, it is this very fact that allows you to reduce the specific company risk by diversifying your share investments.

Penny stocks

Exchange-listed shares are often termed "penny stocks" when their price over a long period remains below a level such as EUR 1. These shares cannot be identified with any particular branch of industry. Penny stocks are often extremely volatile because of their speculative character, so that very sharp price fluctuations are also possible in the course of a day.

"Penny stocks", however, may also refer to stocks which are not traded on a stock exchange and whose price is usually less than an mount such as USD1. These types of penny stocks are often offered for sale or purchase by just a single brokerage house. This is the case, for example, for certain exotic shares or participation certificates for which a market regulated and supervised by officially recognised bodies (an organised market) along the lines of a stock exchange does not exist. You should exercise particular care before effecting trades in such non-exchange listed and frequently illiquid securities. Because there is no organised market, the danger exists that securities purchase may not be sold, or may only be sold under unfavourable conditions or at a depressed price. It should also be noted that there is generally a lack of a transparent price determination mechanism, such that it cannot always be determined whether the prevailing bid or offer price actually corresponds to market supply and demand. There may be a wide gap (spread) between the bid and offer prices, particularly when the security is only offered for sale or purchase by a single entity.
Moreover, because of the narrow market, penny stocks are subject to a great risk of market manipulation by market participants.

2.3. Dividend risk

The dividend on a share is principally based on the profits achieved by the stock corporation. In profitable years, the dividend can rise. However, if the company shows low profits or suffers a loss, the dividend may be reduced or even may not be paid at all. Please note: Years of uninterrupted dividend payments are no guarantee of future dividend payments, and these cannot simply be taken for granted.

2.4. Psychology of market participants

Rising or falling prices on the stock market as a whole, or of a single share, depend on the judgements of market participants and thus on their investment behaviour. Not only objective factors and rational considerations, but also irrational opinions and mass-psychological behaviour influence the decision to buy or sell securities. Share prices thus reflect the hopes, fears, suspicions and moods of buyers and sellers. In this respect, the stock market is a market of expectations where the boundary between objectively-based and more emotional behaviour cannot be drawn clearly.

Examples of psychological factors influencing share prices

In the following paragraphs, a number of typical phenomena and factors are described which can trigger share price movements which often cannot be justified on economic grounds.

Mood of the market

In a rising market, the investing public tends to gain in confidence, to accept new risks and, for emotional reasons, no longer to stand by their original, rational decisions. Negative price-relevant events which go against the general trend are simply ignored or are deemed to have already been taken into account in the current prices. In such phases, price levels on the share market rise continuously, at times resulting in a boom or "bull market".

This same emotional way of looking at matters can also be seen - but in reverse - if share prices fall persistently. Positive price-relevant events which go against the general trend are simply ignored or are deemed to have already been taken into account in the prices. Sometimes this results in a slump (or "bear market").

Depending on the mood of the market, a circumstance which would be regarded positively in a friendly market environment may be regarded as negative on another occasion. In such cases, the market trend diverges from reality as a result of the mood of the market.

Opinion leader

Usually, each investor endeavours to base his investment decisions on as many sources of information as possible in order to reduce uncertainty regarding future developments affecting the capital market. Analysts' recommendations, press publications and stock exchange circulars are of particular significance in this context. These "opinion leaders" provide guidance for a wide range of investors and can reinforce the current market trend (multiplier effect and bandwagon effect). This can trigger price changes which are often not justifiable on economic grounds and which can lead the individual investor to come to erroneous valuations.

Speculation-reinforcing trends

Because of the uncertainty concerning future developments, any investment decision involves speculative elements. As soon as wide circles of investors are led to speculate in a particular direction as a result of having been psychologically "infected", there is a risk that the development of the market will tend to detach itself form economic reality. During such phases of exaggeration, even comparatively insignificant economic or political events which either fail to confirm (or indeed which call into question) the previous market trend can lead to a sudden turnaround in prices and trends.

Market technology

Drastic price movements can also be triggered within seconds by computer-assisted trading activities. This leads to the risk of self-accelerating processes, whereby falls in prices as a result of sales automatically cause a flood of further selling.

Globalisation of markets

Price trends on important foreign stock exchanges often point the way for the domestic stock exchange. Because of this interlinking of market psychologies, developments on foreign stock exchanges can - with varying time lags and to varying degrees - be reflected on the domestic exchange.

Company-related measures

The market may respond differently to official announcements, or even widespread rumours, of impending company-related measures, such as increases in share capital, inter-company agreements, offers to purchase securities, take-over bids or delisting.

In a favourable market climate, a capital increase, for instance, will tend to push up the share price, assuming that the market believes that the "ex-rights reduction" (*Bezugrsrechtsabschlag*) will be rapidly recovered and that the dividends will remain constant despite the wider capital base. In contrast, in a less favourable market climate the company's need for capital may be interpreted as a sign of weakness and thus may lead to a fall in share prices.

2.5. Risk involved in price forecasting

When trading in shares, buying and selling at the right time ("timing") is the most decisive factor for the success of the investment. Numerous methods of analysis, such as fundamental analysis and chart analysis, attempt to collect together and interpret the wide variety of market-relevant, price-relevant and technical factors so as to provide a basis for making a promising investment decision. fundamental analysis focuses on making the right selection from the shares on offer, whereas chart analysis is used principally to assist in the decision on the timing of the transaction.

Fundamental analysis: Fundamental share analysis is a method of evaluating companies on the basis of company-specific data and the economic environment. The aim of fundamental analysis is to determine the "fair" or "appropriate" price of a share. The process is based on the classic method of analysing balance sheets and profit and loss accounts, as well as a series of share-price-related factors such as the dividend yield or the price-earnings ratio. Fundamental analysis provides indications of undervalued or overvalued shares or companies and thus a basis for developing a corresponding trading strategy on the stock market.

Chart analysis: Chart analysis (also known as "technical analysis") is a technique for interpreting charts (generally, charts of past price performance). The aim is to derive share price forecasts and identify share price potential in order to identify appropriate times for buying and selling. The chart is a graphic representation of price developments and turnover trends, usually for a share or an equity index, but also for sectors and currencies, over a selected period of time.

A chart analyst works on the hypothesis that share prices follow certain patterns which are repeated in a similar way over the course of time and which therefore - once recognised - can be used to predict price developments. Many market participants take chart factors into account in making their investment decisions, and this in turn affects prices in the form of a "self-fulfilling prophecy", meaning that the more often the price development predicted by a particular technical configuration takes place, the more investors act on this in order to take account of the anticipated price effect in their strategies.

In principle, fundamental analysis is based on the information currently available and uses this to develop forecasts of future developments. These conclusions will not necessarily prove to be correct if, for example, current economic and political situations and their possible effects on the companies have been assessed incorrectly.

With regard to chart analysis, it should be remembered that charts can be interpreted subjectively and that conclusions derived from them only have a certain degree of probability and can never be regarded as certain. Forecasts based on technical chart patterns may therefore prove incorrect in retrospect. Decisions to buy or sell shares thus always remain decisions which have to be made without any certainty about future developments.

2.6. Risk of loss and alteration of individual shareholder rights

The individual participation rights (*Mitgliedschaftsrechte*) embodied in shares may be altered by various company-related measures, culminating in the loss of shareholder status, or may be replaced by other rights. Depending on the legal system in force at the seat of the stock corporation, this may take place following a change in legal form, amalgamation, division or absorption of the company or on conclusion of inter-company agreements. Once such measures take effect, individual rights, such as entitlement to payment of a dividend, may cease to exist. Where a change in legal form takes place, investors may become shareholders of a different company which does not necessarily grant participation rights similar to shareholder rights. The major shareholder is often also entitled under the respective legal system to

squeeze out minority shareholders. In the event of a squeeze-out, investors no longer participate in a company at all once the relevant measure has been carried out.

Often shareholders are legally entitled to compensation (*Abfindung*) for the loss of participation rights. In the case of German stock corporations, compensation usually has to be provided in cash. In addition, regular payments (e.g. in the form of so-called "guaranteed" dividends) or shares in other companies may be offered as compensation, provided that this is stipulated under the law for the relevant measure. The right to compensation may at the same time depend on other conditions, e.g. the shareholder's objection to the planned measure.

It is not always ensured that compensation matches the value of lost participation rights. In the case of German stock corporations, the adequacy of statutory compensation and conversion ratios can be reviewed in special court proceedings (*Spruchverfahren*). The floor for cash compensation is usually an amount calculated on the basis of market prices or the higher actual company valuation attributed to shares.

The measures outlined above or related financial considerations may force you to abandon your investment in the company concerned on a date specified by third parties. Thereafter, you no longer share in the company's profits. It may also be years in some cases before disputed compensation is paid out in full. If you refuse to accept compensation that is offered to you, you should make allowance not only for any changes in your participation rights but also for the different framework for your investment (e.g. shareholder structure, share price). Different measures may, in particular, also result in different tax treatments of your investment.

2.7. Risk of delisting

The listing of shares on a stock exchange considerably increases their free tradability at any time (fungibility). However, stock corporations are usually free under the respective provisions of stock exchange law to have their shares delisting from the stock exchange. While this does not directly affect a shareholder's participation rights, it may prove extremely difficult to sell shares that are no longer listed on a stock exchange.

Under the respective provisions of stock exchange law or the company law in force at the seat of the company, offering compensation in cash is often a condition for delisting. With regard to the adequacy and enforceability of entitlement to compensation in cash, please refer to the previous Section 2.6.

3. Risks specific to profit participation certificates *(Genussscheine)*

As the holder of profit participation certificates *(Genussscheine)*, you bear several basic risks which are described below. Since the terms of profit participation certificates vary considerably and similarities may only exist on a very basic level, you should always carefully examine the specific risks associated with the various alternative forms of such investments.

Depending on the terms, the price of the profit participation certificate is strongly influenced by the issuing company's share price and/or the market interest rate. If the price of the relevant share is falling and the capital market interest rate is rising, the profit participation certificate is subject to a price risk.

3.1. Distribution risk

Unless the terms and conditions guarantee a minimum interest return independent of the balance sheet result, the interest return on the profit participation certificate is linked to the existence of a profit sufficient for distribution. In the event of the issuing company making a loss, you do not receive any dividend as holder of a participating certificate.

3.2. Redemption risk

Please note that if the issuing company makes a loss during the life of the profit participation certificate, you not only forego a distribution (as described above) but there can also be a reduction in the redemption amount.

3.3. Risk of early redemption

If a right of redemption *(Kündigungsrecht)* is laid down in the terms and conditions of issue of a profit participation certificate, this may lead to early redemption. If market interest rates have fallen, the reinvestment possibilities become less attractive. You should therefore pay attention to the terms and conditions of the issue, particularly as regards issuers' right of redemption and the redemption price in the event of early redemption.

3.4. Risk of subordination

As holder of a profit participation certificate, you are usually treated as a subordinated creditor in the event of the insolvency or liquidation of the issuer. This means that your capital investment will only be repaid, if at all, after the claims of all other creditors have been satisfied.

4. Risks specific to certificates

In addition to the basic risks outlined in Part I, a number of risks should be taken into account which are specific to certificates. The risk profile of a certificate is additionally determined by all the risks specific to its underlying assets. As the terms and conditions of certificates vary, you should carefully examine the individual certificate to determine which specific risks are entailed.
Please also note: Many securities offered under the product name "certificates" display risks similar to those associated with warrants. In this connection, please read in particular Part II Section 6.8.

4.1. Risks associated with all types of certificates

Issuer risk

Issuer risk is common to all certificates. In addition to the risk of the issuer of the certificate being unable to pay, there is also the risk of insolvency of the companies, the securities of which are underlying assets of the certificate.

Price risk

The price of a certificate depends first and foremost on the price of the underlying asset on which it is based. All the influencing factors, both positive and negative, which lead to changes in the price of the underlying, thus have an effect on the price of the certificate.

The more volatile the underlying asset, the greater the price fluctuations (volatility) of the certificate. This correlation plays a particularly important role in the case of leveraged certificates. This is also true for certificates whose underlyings are traded on less established stock exchanges, or stock exchanges in emerging market countries. In these cases, lack of market breadth and limited market liquidity may result in larger fluctuations, which can have a direct effect on the value of the respective certificate.

Please note: The only possibility of a positive return is an increase in the value of the certificate. Potential losses in the value of certificates due to declines in the underlying asset cannot be offset because certificates do not provide other income such as interest or dividend payments.

Liquidity risk

Certificates are traded as stand-alone securities and as such as subject to the forces of market supply and demand. When purchasing certificates, you should generally pay attention to whether there is a

sufficiently liquid market in the certificate under consideration, and whether binding bid and offer rates are provided at all times by the issuer or a third party. Under normal circumstances, the issuer provides indicative bid and offer prices for the certificate on a continuous basis, but is not legally obligated to do so. Bid and offer quotes may also differ substantially from each other.

Please note: In order to avoid the risk of buying or selling at a price which is outside the normal market range, you should take the precaution of using limit orders.

Risk of loss in value

The purchase of certificates does not provide entitlement to a settlement amount at maturity which can already be determined today. Rather, the settlement amount is solely determined by the value of the underlying asset at the maturity date. Thus, the settlement amount may lie considerably below the purchase price. In extreme cases, this may lead to a total loss of the invested capital.

Correlation risk

As a rule, the price of a certificate does not exactly follow the price of its underlying assets during the course of its life. For example, in the case of an underlying which is rising in value, the certificate may initially rise to a lesser extent because the dividends retained by the issuer flow into the value of the certificate on a discounted basis.

Other factors may also influence the price performance of certificates. Among these are

- the market level of interest rates,
- possible ex-dividend or ex-subscription rights deductions to the shares included in the index,
- market expectations, and
- exchange rates, in case the exchange rate risk for certificates with underlying assets priced in foreign currency has not been hedged.

In exceptional situations, e.g. in the case of very high volatility of the underlying asset, it may occur over short periods of time that the price of the certificate moves contrary to that of the underlying asset.

Influence on the certificates of hedging transactions by the issuer

The issuer generally protects itself completely or partly against the financial risks arising from certificates through so-called “hedging transactions” in the underlying asset, e.g. the underlying shares. These hedging transactions by the issuer may have an influence on the market price of the underlying. The execution or unwinding of these hedging transactions may have a detrimental effect on the value of the certificates, or on the repayment amount to which the certificate holders are entitled. This is particularly the case where hedging positions are unwound simultaneously with the maturity of the certificates, or in the case of leveraged certificates with stop loss barrier (refer to Section 4.3), when the knock-out event is triggered.

Currency risk

With regard to currency risk, a distinction must be drawn between two varieties of certificates: certificates with currency hedging (the so-called “quanto structure”), and the certificates which are no hedged as to foreign-currency exposure.

In the case of certificates which are not hedged as to foreign-currency exposure, there may be currency risks whether the certificate is sold prior to maturity or held until maturity. This may even be the case when the certificate price is quoted in euros, or when repayment is made in euros.

Risk of delivery of the underlying security

For certificates on a single underlying security, repayment through delivery of the underlying security is generally possible. In view of this fact, you as the investor should have a favourable opinion of it,

because in the case the price of the underlying asset is below the fixed repayment amount, you will instead receive this underlying security. Its current market value may lie significantly below the price you paid to purchase the discount certificate, and in extreme cases can lead to a total loss of invested capital. A loss is realised when you sell the delivered underlying security at a price which lies below the purchase price for the certificate paid by you. If you choose to hold rather than sell the underlying security received, you will be subject to the risks of loss associated with these underlying securities, e.g. shares.

4.2. Risks specific to certificates because of their structure

Risks specific to discount certificates

Correlation risk

It should be noted that the price performance of discount certificates generally does not exactly follow the price performance of the underlying asset. This is primarily caused by the limited profit potential due to the cap.

Risks specific to bonus certificates

Risk of loss of capital at maturity

Insofar as the price of a bonus certificate has not touched or fallen below the defined barrier during its life, the bonus or capital protection mechanism does not apply, and the investor receives a repayment amount corresponding to the closing rate of the underlying asset on the maturity date. Consequently, this may be considerably below the purchase price which you paid for the bonus certificate – and in extreme cases may lead to a total loss of invested capital.

Correlation risk

In general, the price of a certificate will broadly rise and fall along with the price of the underlying asset, but it will not exactly follow it. In the underlying asset trades close to the barrier, this may lead to increased price fluctuations (volatility) in a bonus certificate, particularly as it approaches maturity, because in this case, even small movements in the price of the underlying may determine whether or not the bonus is to be paid.

In the case of sale during the life of the certificate, the defined repayment scenarios have only a limited influence on the price.

Liquidity risk

In the case of sharp drops in the underlying asset below the barrier, it may become difficult to sell the certificate to the general market during its life, such that the issuer of the certificate would be the only potential trading partner. Under normal circumstances the issuer provides continuous indicative bid and offer prices for the certificate, bit it not legally obligated to do so.

Risks specific to express certificates

Risk of loss of capital at maturity

Insofar as the price of the underlying lies below the defined barrier at maturity, the investor is repaid an amount which corresponds to the closing market price for the underlying asset on the maturity date. This may be considerably less than the purchase price which you paid for the express certificate – and in extreme case may lead to a total loss of invested capital.

Correlation risk

In general, the price of a certificate will broadly rise and fall along with the price of the underlying asset, but it will not exactly follow it. In the case of express certificates, the repayment amount in case of early

maturity is defined in the term and conditions for the product. This means that very strong price fluctuations in the underlying, particularly at the start of the certificate term, are not reflected in a linear fashion. The potential price appreciation of an express certificate is limited to the predetermined repayment amount.

If the underlying asset trades close to the repayment threshold shortly before one of the relevant record dates, this will lead to increase price fluctuations (volatility) of the express certificate, as in this situation, even a small movement in the price of the underlying may determine whether or not an early repayment is triggered.

Liquidity risk

In the case of sharp drops in the underlying asset below the barrier, it may become difficult to sell the certificate on the general market during its life, such that the issuer of the certificate would be the only potential trading partner. Under normal circumstances, the issuer provides continuous indicative bid and offer price for the certificate, but is not legally obligated to do so.

4.3. Risks specific to certificates because of their structure

Please note: Leveraged certificates may entail a very high probability of losses or even the total loss of invested capital.

An investment in leveraged certificates should always be preceded by a detailed examination of the specific features embodied in the term and conditions of the leveraged certificate under consideration, and of the opportunity for profit and risks of loss connected with its purchase.

Risk of total loss caused by knock out

The terms and conditions of the certificate may provide that the certificate becomes worthless if a “knock-out” event occurs, thus resulting in a total loss of the capital invested in the certificate.

Risk of leverage effect

Leveraged certificates are characterized by a leverage effect. Fundamentally, leveraged certificates react overproportionately to changes in the market price of the underlying asset and thus entail a higher risk of loss.

Influence of ancillary costs on potential profit

In the case of all leveraged certificates, the combination of minimum commission amounts or fixed per-transaction (purchase or sale) commissions together with the low order amounts (price of the leveraged certificate times number of units) may lead to disproportionately high costs, which in extreme cases may exceed the value of the leveraged certificates many times over.

Redemption only at maturity; saleability of certificates

As an investor, you cannot assume that there will be a liquid market for certificates under all circumstances, or that it will be possible to realize investments in the certificates at any point in time through sale of the certificates. Thus, there can likewise be no assurance that it will be possible to sell certificates in time before a knock-out threshold is triggered. Even as underlying asset approaches this threshold, it may no longer be possible to sell the certificate.

5. Risks specific to investment funds

Like few other forms of investment in securities, investment funds provide the investor with the possibility of investing capital according to the principle of risk diversification, by using a professional fund manager who allocates the invested capital among different investments.

However, even though you are not directly confronted with many of the special risks associated with other forms of capital investment, you do ultimately - depending on the focus of the individual fund's investments - bear a share of the full risk involved in the investments represented by the fund units.
It should not be forgotten that specific risks apply even to investments in investment funds and that these can have a significant effect on the value of your investment.

5.1. Fund management

When buying investment fund units, you make an investment decision by choosing a particular investment fund; your decision is based on the investment principles which are to be followed by this fund. Beyond this, you cannot influence the composition of the fund assets: the specific investment decisions are taken by the management of the investment company.

Investment funds which show a significantly better investment return over a particular period than that which would have been obtained from a direct investment or another investment fund owe this to the ability of the persons managing the fund and thus to the correct decisions made by the management. However, positive results achieved by the investment fund in the past cannot simply be projected into the future.

There is less of a management risk in the case of index funds. Here, in accordance with the relevant terms and conditions, the capital invested in the fund is invested more or less exactly in the percentage weighting of the index concerned, so that the return on the investments essentially reflects the development of the index.

5.2. Issuing surcharges (loads) and other fund costs

The issuing surcharge or "load" *(Ausgabeaufschlag)* and internal costs for the administration and management of the fund may result in overall costs for you as an investor which would not arise, or at least not to this extent, in the case of a direct purchase of the underlying securities. As these costs differ in size and can also vary in composition, they may have a negative effect, depending on how long you hold the fund units.
If you hold the fund units for a short time, investing in a high-load fund may be more expensive than investing in a no-load fund. However, in the latter case, holding the fund units for a longer period may be disadvantageous, as the generally higher ongoing fund administration and management fees grow larger and larger over the course of time. Therefore, when buying investment fund units, always also consider the overall costs in the context of your own personal investment term horizon.

5.3. Risk of a fall in the price of the investment fund units

Investment funds are subject to the risk of falling investment prices since falls in the prices of the securities contained in the fund are reflected in the price of the investment fund units.

General market risk

A broad distribution of the fund's asset according to various criteria cannot prevent a downward tendency on one or more stock markets from leading to a fall in the investment fund unit prices. The risk potential here is generally higher in the case of equity funds than in the case of bond funds. Index funds, the aim of which is to track an equity index (e.g. the DAX German equity index), a bond index or other index, will also show a corresponding fall in the unit price in the event of a fall in the index.

Concentration of risk through special are of investment emphasis

Specialised equity funds, specialised bond funds and speciality funds generally have a more pronounced risk and earnings profile than funds which are more widely diversified. Since the terms and conditions contain stricter requirements regarding the possible investments, the management's investment policy is more focused. This on the one hand provides the basis for a higher price potential, but on the other hand also means a higher degree of risk and price volatility. In deciding to invest in

such a fund, you therefore accept from the outset a greater range of fluctuation in the price of your investment fund units.

The investment risk increases the more specialised the fund is:

- Regional funds and country funds are exposed to a higher loss risk because they are dependent on the development of a particular market rather than using the markets of many countries in order to achieve a greater risk diversification.
- Industry funds such as commodities, energy and technology funds include a considerable loss risk because a broad, cross-sector risk diversification is ruled out from the outset.
- In the case of investment funds which also invest in securities denominated in foreign currencies, you must also remember that, in addition to the normal changes in the price, and country risks can arise.

5.4. Risk of suspension of repurchase

Every holder of an investment fund unit can request that his share of the fund assets be paid out to him on redemption of the investment fund units. The units are repurchased at the current repurchase price, which corresponds to the value of the share.

The terms and conditions of the investment fund may, however, stipulate that the capital investment company is entitled to suspend repurchase of investment fund units if exceptional circumstances exist which appear to call for a suspension after taking due account of the interests of the fund holders. In this exceptional case, there is the risk that it may temporarily not be possible to redeem the investment fund units on the date desired by the holder

5.5. Risk of misinterpretation of performance statistics

It is usual to use a performance concept to measure the investment success of an investment fund.

Performance concept: This term is used to describe a concept for the assessment of the increase in the value of a capital investment, which is applied in the case of investment funds as a means of evaluating the performance of the fund management. It determines the amount which an initial investment of 100 has produced within a certain period, assuming that the dividends are reinvested at the unit price effective on the date of distribution (method used by the *Bundesverband Investment und Asset Management* [Federal Association of German Investment and Asset Management Companies]).

As an investor, you should note that performance statistics are a suitable yardstick for comparing management performance only to the extent that the funds are comparable in terms of their investment principles. They indicate which results the individual fund managements have achieved on the basis of the same investment amounts. However, the performance criterion does not adequately reflect the success for the investor:

- Performance ranking tables often fail to take into account the issue surcharge (load). This can mean that because of the higher load, and despite the better management performance of the fund, you as an investor effectively achieve a lower yield than with a less well-managed fund with a lower or no load.
- Performance ranking tables usually assume that all earnings, including any tax payable on them, are reinvested. As a result of variation in the taxation of individual investment funds, or the incomes derived from them, funds with a lower statistical increase in value may in fact offer you a better performance than those with a higher increase in value.

Pure performance statistics also fail to consider the most important investment criterion, which is the risk which the fund manager has taken in order to achieve the attained return. The risk taken by the fund manager is reflected in the fluctuation range of the fund's price (volatility). The price volatility of a fund may, for example, be expressed as a so-called "Sharpe ratio", which is the ratio of the return of an investment to its volatility. The greater the Sharpe ratio, the more favourable was the performance

relative to a risk-free investment. The Sharpe ratio thus enables the comparison of two funds, one of which provides weaker returns but which is less prone to fluctuation in value. Pure performance statistics do not provide for comparisons of funds from the aforementioned standpoint. Please also note: Even when you include figures such as the Sharpe ratio in your investment decision, you should be aware that the figures are always based on past performance and that this is no assurance of future performance.

Conclusion: Pure performance results often only partially satisfy an investor's information requirements, and require interpretation. A fund yield calculated on the basis of past performance only offers limited assistance when making an investment decision for the future. There is also a risk that one might fail to analyse the market situation and the factors influencing the markets. Therefore, if you decide to invest in investment funds, you should always take into consideration the current capital market situation, the volatility of the fund's performance, and your own personal risk tolerance.

5.6. Risks specific to investment companies in the legal form of a stock corporation with fixed capital

In this case, as an investor you are usually shareholder of the respective investment company. Shares of these companies are traded on supply and demand. The price may differ significantly from the actual asset value.

5.7. Risks specific to exchange-traded investment funds

In the case of funds which were not specifically structured for exchange trading, the market price may differ from the unit price, i.e. the value of the fund assets divided by the number of units. A reason for this is that prices on exchanges are based on supply and demand. Differences also result from differences in timing for determination of the unit price. While the investment company determines the unit price at the end of each day, stock exchanges generally trade on current prices which change throughout the day.

Depending on the rules of the individual exchange, the participating brokers make either binding price offers or non-binding price indications. In the case of non-binding price indications, it can happen that an order is not executed.

5.8. Risks specific to open-end real estate funds

Open-end real estate funds are subject to an income risk as a result of the possibility that the properties might remain unoccupied. Problems with finding an initial tenant can arise, in particular, when the fund carries out its own building project. Properties which remain unoccupied longer than usual can affect the earning capacity of the fund and result in reductions in dividends.

Please note that, with open-end real estate funds, the repurchase of investment fund units, which is possible as in the case of securities-based funds, may be subject to restrictions. The investment company may impose special rules for redemptions. Additionally, the terms and conditions may stipulate that in the event of large-scale repurchases of investment fund units, further repurchases may be excluded - even for a fairly long period of up to two years. In such a case, it is not possible to convert investment fund units back into money during this period.

Real estate funds often temporarily invest liquid funds in other forms of investment, especially interest-bearing securities. This part of the fund's assets is then subject to the special risks which apply to the particular form of investment chosen. If, as is quite common, open-end property funds invest in projects abroad, the investor is also subject to currency risks, since the market and earnings value of a foreign property is converted into euros each time the offering or redemption price of the unit is calculated.

6. Risks specific to warrants (option certificates)

Please note: The likelihood of losses or even the total loss of the invested capital is particularly high in the case of warrant. Therefore warrants require a precise knowledge of their functionality and the risks typically associated with them. This applies especially to exotic warrants since the product's specific characteristics indeed offer interesting opportunities but often also risk of very quickly realized losses. An investment in warrants should always be preceded by a thorough study of the concrete composition of the securitized rights in the respective warrant and the opportunities and (loss) risks associated with the purchase of a particular warrant.

Please also note: Many of the securities offered under the product name “certificates” carry risks that are similar – or possible identical – to those associated with warrants.

6.1. General price risk

Warrants are traded as securities in their own right and, as such, are subject to the forces of supply and demand. When buying warrants, you should therefore generally establish whether there is a sufficiently liquid market for the warrant your specifically have in mind and whether binding buying/selling prices are quote for it at all times by the issuer or a third party. Such buying and selling prices may also deviate considerably from one another at times. This is true particularly in the case of exotic warrants embodying new and in some cases complex option structures which are not easy to value in price terms.

Please note: in order to avoid the risk of paying a price which is far removed from the market value, you should make your sell and buy order subject to price limits.

The only chance of making profit which a warrant usually offers an investor lies in an increase in its price. A warrant embodied neither a claim to the payment of interest nor a claim to payment of a dividend and therefore produces no periodic income. This also means that possible price losses on the warrant cannot be compensated by other earnings.

Important factors in determining the prices of warrants are in particular:

- the actual price of the relevant underlying asset and expectations of market participants regarding its price,
- the anticipated frequency and intensity of fluctuations in the price of the relevant underlying asset (volatility), and
- the term of the option embodied by the warrant.

These price determinants are looked at more closely in the following three sections.

6.2. Risk of loss due to changes in the price of the underlying asset

A change in the price of the asset underlying the option right embodied by a warrant may reduce the value of the warrant. A drop in the value of the warrant always occurs over-proportionately in relation to changes in the price of the underlying asset (leverage effect) and may even make the warrant worthless. A call warrant generally goes down in value if the price of the underlying asset falls, the value of a put warrant falls if the market price of the underlying asset rises.

The special features of exotic warrants may strengthen these correlations even further: The value of a digital warrant structured according to the “all or nothing principle” is influenced more strongly than the value of a traditional warrant by fluctuations in the prices of the underlying asset around the agreed strike price. If the current price of the underlying asset approaches a knock-out barrier lying below the strike price, this will drastically accelerate the drop in value of a knock-out call warrant. The same applies if the price of the underlying asset approaches a knock-out barrier of a knock-out put warrant that lies above the agreed strike price.

On the other hand, the special features of exotic warrants may also cause different reactions to changes in the price of the underlying asset:

- For example, a call warrant generally gains in value if the price of the underlying asset rises. However, if the call warrant in question is provided at the same time with a knock-out barrier

lying above the agreed strike price, a further rise in the price of the underlying asset towards the knock-out barrier will adversely affect the value of the warrant; if the price of the underlying asset approaches the barrier, this will lead to a drastic drop in the value of the warrant and, if it reaches the knock-out barrier, to the total loss of the capital invested.

- There is a similar situation in the case of a put warrant that is provided with a knock-in barrier lying above the strike price: The value of a put warrant rises if the price of the underlying asset falls. This only applies without restriction, however, if the agreed knock-in barrier is touched beforehand, which presupposes a rise in price.

Range warrant also display special features. The value of a range warrant is influenced to a crucial extent by whether the price of the underlying asset in quoted within the agreed range. Theoretically, the value of a range warrant is highest if the value of the underlying asset lies in the middle of the range. Price movements towards the “middle of the range” consequently tend to result in a rise in the value of the option. Movements in the price of the underlying asset away from the middle of the respective range towards an edge generally lead, in the other hand, to a drop in the value of the option. If the edges of the range warrant are at the same time designed as knock-out barriers, this considerably increases the drop in value which occurs if the price of the underlying asset approaches on of the barriers. The extent of the drop in value depends, in turn, on the specific type of option. It is clearest in the case of a double knock-out range warrant, where reaching either of the two barriers leads to the complete extinction of the option right, i.e. to a total loss of the entire option investment. It may be lower if the knock-out option is designed in such a way that the option right expires if the barriers are touched but the amounts “accumulated” over the term up to this point are paid out.

6.3. Risk of loss due to changes in the volatility of the underlying asset

Changes in the frequency and intensity of fluctuations in the price of the underlying asset anticipated by the market participants (implied volatility) may also reduce the value of a warrant even if the price of the underlying asset does not change. A generally positive development in the price of the underlying asset does not necessarily result in a rise in the price of the warrant. The price of the warrant may even fall if the performance of the underlying asset is over-compensated by a decreasing volatility with a negative effect on the value of the warrant.

The volatility of the underlying asset generally plays an even more important role in the valuation of exotic warrants than in that of traditional warrant. Both the “all or nothing structure” of digital warrants and the limitation of the option right by way of “ancillary agreements” (knock-in/knock-out barriers) mean that the value of the warrant is more strongly dependent on changes in the breadth and frequency of the fluctuation in the price of the underlying asset. An increase in the volatility of the underlying asset, for example, heightens at the same time the probability of a knock-out barrier being touched.

Changes in the anticipated volatility particularly influence the value of range warrants. These warrants are geared to a stagnating or sideways development in the price of the underlying asset. An increase in the anticipated frequency and intensity of fluctuations in the prices of the underlying asset may therefore – particularly if the “edges” of the agreed range constitute knock-out barriers at the same time – cause a drastic drop in the value of the warrant.

6.4. Risk of loss due to a drop in the time value

Depending on the expectations which the market participants have with regard to the future performance of the underlying asset, they are prepared to pay an amount of varying size for a warrant which differs to a greater or lesser degree from the intrinsic value of the option embodied by the warrant. Thus, the time value of a warrant, i.e. the premium paid on top of its intrinsic value, changes on a daily basis. On expiry of the life of a warrant, the time value falls until it finally reaches zero. The fall accelerates as the date of expiry approaches.

Please note: purchases of warrants which still have a relatively high time value shortly before expiry are therefore associated with particular risks.

Range warrants thus again display special features. In the case of such warrants, the fact that the price of the underlying asset does not change or only changes at any rate within the agreed range leads to a positive and value-enhancing effect. We can therefore talk in this case of a “gain in time value” accompanying the reduction in the life of the warrant.

6.5. Risk associated with leverage

A typical feature of warrants is their leverage effect on the earnings prospects of the invested capital: They always react over-proportionately to changes in the price of the underlying asset and thus offer higher chances of profits during their life – but at the same time high risks of incurring a loss. This is because the leverage works in both directions – i.e. not only upwards in favourable price phases, but also downwards in unfavourable phases. The greater the leverage, the riskier the purchase of a warrant is. The leverage effect is particularly strong in the case of warrants with very short remaining lives.

These principles apply equally to exotic warrants; depending on the type of option right, the leverage effect may, however, be much greater than in the case of traditional standard warrants. The “all or nothing structure” of digital warrants and “supplementation” of the option to include ancillary agreements (barrier warrants) have the effect of increasing both the chances of making a profit and the risk of incurring losses.

Range warrants which are geared not to participation in a price movement but to the generation of a profit where markets are stagnating display certain special features as regards their leverage effect. However, these warrants also react over-proportionately to changes in the price of the underlying asset. This applies particularly of the price of the underlying asset approaches an edge of the agreed range. If the upper and lower limit of the range are at the same time knock-out barriers, this in turn increases the leverage effect and the risk of losses associated with it.

6.6. Risk of a drop in value or total loss

The rights under warrants may expire or decrease in value, since these securities always only embody rights which are of limited duration and additionally provide in some cases rights linked to the occurrence or non-occurrence of a specific event. The shorter the remaining life the higher your risk of a loss in value may be.

Drop in value

If, during the life of the warrant, the price of the warrant does not change in the way that you had anticipated, you may suffer a loss upon its sale. Due to the limited life you cannot rely on the price of the warrant recovering in time, i.e. before the end of its life.

In the case of exotic warrants, the following rule applies: The closer a knock-out barrier is to the current price of the underlying asset or the further away a knock-in barrier is from the current price of the underlying asset, the greater is the risk of a loss in value.

Total loss

The purchase of warrant can result in a total loss of the amount invested, irrespective of the financial solvency of the issuer and simply as a result of unfavourable market developments, the occurrence of a specific event and the expiry of the life of the warrant.

If your expectations about how the market will develop turn out to be incorrect, e.g. the price of the underlying asset does not develop in the way you anticipated or a knock-out barrier is reached or a knock-in barrier is not reached, your warrant will expire worthless. The same applies if you decide not to exercise your rights under the warrant, or forget to do so, unless the specific terms and conditions of the warrant stipulate that they will be exercised automatically. You will then have lost your entire option investment, the purchase price plus the costs incurred.

Please note: You must continuously monitor your investment because of the possibility that it will expire worthless and because of the often high volatility of warrants.

6.7. Risk of inability to limit losses

Transactions designed to exclude or limit the risks associated with warrant transactions (particularly the sale of the warrant) may not be possible or only possible at a price that will mean a loss for you.

6.8. Risk resulting from complexity of exotic warrant products

The individual elements of exotic warrants provide virtually limitless scope for combination. Exotic warrants accordingly embody multi-structured warrant strategies comprising several elements. Both standard warrants and exotic warrants are suitable as “building blocks”. The performance of these structured products may be difficult to follow in individual cases. There is increased exposure to loss if the effects to different warrant elements cancel each other out or enhance each other. Transactions in structured warrant products therefore require in particular a close examination of the features and the operation of the option embodied by the warrant and the option strategy.

6.9. Issuer risk

The issuer of a warrant needs not be identical with the issuer of the underlying asset. In such cases, you bear, in addition to the risk of insolvency associated with the securities forming the underlying asset of the warrant, the risk of default on the part of the issuer of the warrant.

6.10. Influence of ancillary costs on potential profit

With all warrants, minimum or fixed commissions or transaction (purchase and sale) combined with a low order value (price of the warrant times quantity) can lead to cost which, in extreme cases, may exceed the value of the warrant several time over. Additional costs arise, as a rule, if the option is exercised. Together with the costs that are directly linked to the purchase of warrants, these additional costs may be not inconsiderable when compared with the price of the warrant. All costs have a detrimental effect on expected profit, as a sharper price fluctuation is necessary to enter the profit zone than that regarded as realistic by the market.

Please note: You should find out about any costs which may be involved before placing an order. Only in this way can you calculate under which conditions your investment will enter the profit zone (e.g. the size of the required rise in the price of the underlying asset, the minimum length of time the price of the underlying asset must remain within the agreed range of a single-range option, etc.). The basic rule is: The higher the costs, the longer it takes to reach the profit threshold, even if the price develops as anticipated, since these costs must be covered before a profit can be made. If the price does not perform as anticipated, the ancillary costs add to the resulting loss.

6.11. Currency risk

When you buy warrants where the payout is in foreign currency, or where the price of the underlying asset is determined by foreign currency (e.g. in the case of gold), you are additionally exposed to currency risk. In this case, your exposure to loss is tied not only to the movement in the price of the underlying asset. Developments on the foreign exchange market may also cause additional, incalculable losses. Exchange rate fluctuations may

- reduce the value of the claims you have acquired,
- increases the strike price that you will be required to pay when exercising a put warrant if the strike price has to be paid in foreign currency, and
- reduce the value or the sale proceeds of the asset delivered to you or the value of the payment made to you.

6.12. Effect on warrants of hedging transactions by issuer

The issuer generally protects itself completely or partly against the financial risks arising from issuance of the warrants through so-called "hedging transactions" in the underlying asset, e.g. the shares on which the warrants is based. These hedging transactions by the issuer may have an influence on the market price of the underlying. The execution or unwinding of these hedging transactions may have a detrimental effect on the value of the warrants, or similarly on the redemption amount to which the warrant holders are entitled. This is particularly the case where hedging positions are unwound simultaneously with the maturity of the warrants, or in the case of barrier options, when the knock-out event is triggered.

7. Risks particular to alternative investments

Alternative investments are usually undertaken by way of indirect investments, such as funds or certificates. In this case, the risk profile is determined firstly by all the risks of the indirect investment instrument, and secondly by the risks particular to the underlying assets (hedge funds, private equity, commodities). If you have chosen such an indirect investment form, please read the respective section about its risks, and in any case, read the following section which addresses the particular risks of hedge funds, private equity and commodities.

7.1. Risks associated with hedge funds and private equity

Risk arising from lack of current valuation

Valuation of the investment assets is carried out only on defined valuation dates. Valuations between these are subject to later adjustments or revisions on the next principal valuation date. The valuation of illiquid investment assets is based on estimates by the fund manager, which by their nature are subject to particular uncertainties. Depending on the fund composition, valuation may require a longer period if time. A current valuation is thus only available at certain points in time. In addition, some funds only give very limited information as to the nature of their investments an their respective performance, so that it is often difficult to establish an to check the valuations on the investment strategies of these funds over a longer period of time. For you as an investor, the most significant risk resulting from this is that the purchase or selling price may not necessarily correspond to the actual value of the asset.

Risks arising from compensation system

Usually the overall compensation of fund managers or persons acting in a comparable function consists of a fixed base salary and a performance-related bonus. These performance bonuses can lead to considerably more aggressive investment behavior by the fund manager than would be the case without such an incentive. Portfolio structures incur fees on several levels (e.g. funds, portfolio managers, investment advisers). This may lead in some instances to reduced returns in comparison to direct investments.

Liquidity risk

Hedge funds, private equity funds and investment products based on them partly invest in illiquid financial instruments and holdings for which there may be no or only a very limited secondary market. Insofar as market prices are determined for actual investments made, these may be generally subject to large fluctuations. Unwinding individual investments and risk positions may in specific cases therefore be impossible for the fund. Unwinding holdings may frequently result in substantial loss of principal. The illiquidity of a fund´s assets adversely affects the marketability of the fund units or other investment product purchased by the investor.

With regard to liquidity risk, a distinction must be made between redeeming shares, and transferring them as a secondary sale:

<u>Redemption of fund units or exercise of investment products</u>

Typically, specific time periods laid down in the contractual conditions must be observed. This may mean that there is a defined period of time between the binding decision to exit the investment/exercise and the determination of the repayment value, during which time the investor bears the market risk. There may be a further period of time between the determination of the settlement value and its payout.

Off-exchange transfers (secondary sale)

This possibility may be contractually excluded, and to the extent that it is not, it falls to the investor to find a potential buyer.

Dependency on fund managers

Decisions on investments are made solely by the fund managers. The holdings and the performance of the fund assets are to a substantial degree dependent on fund managers and their teams. It is rare for a fund manager to manage only the fund. The possibility of a change in fund management at short notice and the negative effects this could have on the business activity of the fund must also be taken into consideration.

7.2. Risks particular to hedge funds

Leverage effect

Hedge funds in some cases make use of considerable amounts of credit in order to finance their investments. This results in a “leverage effect”, as more capital may be invested than the capital actually provided by investors. If the market performance is unfavourable, there is a higher risk of loss because the interest and principal payments on the loan must nevertheless be repaid from funds assets. The greater the use of leverage, the greater is the chance that the risk will lead to a total loss of the invested capital. In this case, the fund units would then be worthless.

High-risk investment strategies, techniques and instruments

Hedge funds can undertake high-risk investments without any restrictions. Such investments are inevitably exposed to a high risk of loss – partial or total. If the fund has invested its cash wholly or substantially in a single risky transaction of this kind, investors are further exposed to the risk of losing their investment in full (total loss) or to a large extent. An increased risk of loss generally always exists if the fund concentrates its investments on typically high-risk financial instruments, industries or countries.

Risky transactions in which hedge funds may engage include the purchase of high-risk securities, short sales, all types of exchange-traded and off-exchange (OTC) derivative transactions, as well as transactions in commodities and commodity derivatives. An exhaustive list of all available investment strategies is not possible due to the fact that there are no regulatory limits on these.

Purchase of distressed or very high-risk securities

The investment strategy of some hedge funds is directed towards the purchase of distressed securities whose issuers are facing financial difficulties. Sometimes the companies (typically characterized by poor credit standing) go through far-reaching restructuring programmes, the success of which is uncertain. Such investments by hedge funds are inevitably risky and expose investors to a high risk of total loss. Assessing the chances of success of such investments is made more difficult by the fact that it is frequently not possible, or only possible on a limited basis, to obtain reliable information about the true financial state of such companies. Furthermore, the prices of these securities are often subject to high fluctuations. The spread between the purchase price and the selling price is also correspondingly greater for these securities than for other, more marketable securities.

Short selling

The term “short sale” refers to the sale o a security that the seller does not own at the time the transaction is affected. The seller, for whatever reasons, anticipates falling prices an accordingly expects to acquire the security at a later time at a lower price. In this way, he hopes to realize a profit. The seller must therefore borrow the security in order to fulfil his obligation from the original (short) sale. If the price of the respective security does not fall as anticipated by the “short seller” but rather rises, there is theoretically an unlimited risk of loss. This is because in order to return the borrowed securities within the agreed period of time, the short seller must purchase the securities in the market at the current (higher) price.

Derivatives

Hedge funds may employ all types of exchange-traded and off-exchange (over-the-counter, or “OTC”) derivatives, often on a large scale and with the most varied purposes. These transactions are subject to all the risks of loss which are particular to those derivatives. For certain kinds of transactions, the fund is exposed to an uncertain risk of loss in the case of adverse market developments. This risk may far exceed any margins or security posted originally and is theoretically unlimited. This risk of (market) losses may be further magnified through the use of structured exotic derivative products. To the extent that the fund, as is often customary, is engaged in OTC derivative transactions, the fund is moreover exposed to the credit risk of its counterparties (independent of market developments).

Commodities futures

The activities of some hedge funds also extend to commodities and derivatives of commodities (in particular, commodities futures contracts). Compared to conventional financial instruments, these entail a great risk of loss. Commodities markets are generally highly volatile. They are influenced by a number of factors, such as the interplay of production and demand, but also by political events, macroeconomic effects, and weather conditions. If the persons trading on behalf of the fund do not have the corresponding specific expertise and experience, these activities will very likely lead to losses. Even the appropriate specialized expertise is no protection against losses in these highly volatile markets.

Dependency on hedge fund manager

The manager of a hedge fund has particularly broad discretion over investment decisions, with very few contractual or statutory limitations, and with the ability to engage extensively in speculative transactions involving options, leverage and short selling. The opportunities and risks of an investment in the fund depend on the abilities of the hedge fund manager to a much greater degree than in the case of conventional funds.

Transaction costs

If, as is the case for some hedge funds, investments are made with a short-term view of market developments, this typically results in an increased number of transactions. This generates considerable commission expenses, fees and other transaction costs. A profit accruing to the investor is only achieved after accounting for such expenses.

Trading and risk management systems

The investment and trading strategies used by hedge funds require the use of standardised trading and risk management systems, which are based on certain assumptions and correlations. Should these systems fail, this may result in losses for the fund. There are many potential causes for such a failure – for example, as a result of poor system design, due to incorrect assumptions or unusual market situations, or as a result of a change in correlations between markets and individual financial instruments.

Prime brokers

If a hedge fund uses the services of a prime broker to implement its investment strategy, conflicts of interest may arise with the prime broker because of the trading commissions and other income from executing a large part of the hedge fund´s transaction flow. Furthermore, there is the risk that

unfavourable market conditions may lead the prime broker to demand the return of borrowed securities or repayment of loans contrary to the strategy of the hedge fund.

Redemption of fund units

Fund units may only be redeemed by providing an irrevocable redemption order (*unwiderrufliche Rückgabeerklärung*) to the investment company. The terms and conditions of the hedge fund may also stipulate that fund units may only be redeemed on certain dates. Furthermore, some funds may require advance notice of redemption (*Kündigungsfrist*). For hedge funds subject to German law, the time until the next possible redemption may b up to a quarter year. For funds of hedge funds (*Dach-Hedge-Fonds*), this advance notice of redemption may be extended by an additional 100 calendar days. In the case of individual hedge funds (*Single-Hedge-Fonds*), the advance notice period may be up to realize gains from favourable market performance, or from reacting quickly to drops in value.

Investment products not subject to the Investment Act (*Investmentgesetz*), e.g. certificates on hedge funds or hedge fund portfolios, are governed by the respective terms and conditions set by the issuer.

Disclosure and reporting

Compared to conventional funds, hedge funds are subject to much less stringent requirements in terms of disclosure and reporting. Furthermore, valuations of fund assets frequently are not performed on a daily basis. German hedge funds, for example, are only legally required to determine the value of units at the end of each quarter.

7.3. Risks particular to private equity

Risks of total loss

Private equity funds are, as entrepreneurial equity investments, subject to particular risks of loss. Compared to investments in public equities (exchange-listed companies), private equity investments differ in a number of substantial ways. The investment may be made in companies which have only existed for a short time, which may possibly have very limited experience within their field of business, for which there is no established market for their products, etc.

In addition, investments may be made in companies facing great business or financial difficulties (“distressed” companies), or facing restructurings or changes whose outcome is uncertain. Poor performance by the companies in which the fund has invested may lead to a total write-off of the invested capital. In the worst case, the entire assets of the fund may be wiped out, leading to a total loss of the investor´s capital. This elevated risk of total loss results from the very limited degree of diversification within private equity funds. Investment strategies of individual funds may involve highly speculative investment techniques, including an extremely high use of leveraged (borrowed funds), high portfolio concentrations, investing in problem situations and newly established companies, controlling interests, and illiquid investments.

Potential obligation to make further contributions

A substantive feature of some private equity funds is that the investor may, under certain circumstances, have an obligation to make further investment contributions above and beyond the subscribed amount.

Length of investment term and lack of liquidity

While investment holdings entered into by the fund may often be for just three to five years, the capital invested in the fund by the investor is tied up for the entire investment term of the fund (generally up to ten years, with extension of two or three years under certain circumstances). Prior to maturity, the fund units are illiquid, and their saleability or eligibility as collateral may be excluded by the terms and conditions of the fund. A positive return on investment may typically be expected after two to three years at the earliest, but this may occur much later – or not at all.

Inability to make forecasts

Because of the particular characteristics of the companies in which private equity funds invest, forecasts of the future performance of private equity investments are subject to much greater uncertainty than is the case with many other forms of investment. The amount of cash flows which the investor will receive from the sale of investment holdings cannot be forecast, in particular, because poor economic or capital market conditions may preclude exit scenarios for private equity companies.

Non-cash distributions

Distributions may not necessarily occur in cash but instead in securities or material assets (sometimes called “payment in kind”), e.g. individual holdings of the fund which may not necessarily be liquid or fungible.

Complex investment relationship associated with indirect investments

Participation in alternative investments usually is undertaken indirectly, by way of closed-end funds or certificates. Issuers of closed-end (third-party) companies or funds. The issuer of the closed-end fund or certificate often has no control over these companies, nor are they subject to any regulatory oversight. The issuer of the closed-end fund or certificate may not have any influence on the investment strategy pursued by such companies, and will generally lack detailed information about the investment decisions of these companies and their consistency with a defined investment strategy, or the ability to examine the risks which they involve.

Conflicts of interest
Situations may arise in which conflicts of interest arise between or within the individual companies concerned. The resolution of these may have a detrimental effect on the value of the investment holding.

7.4. Risks particular to commodities

Commodities refers to a range of raw materials and physical goods. Commodities are divided into four main categories:

- precious metals (e.g. gold, palladium and platinum)
- non-precious metals (e.g. aluminium and copper)
- energy (e.g. electricity, oil and gas)
- agricultural commodities (e.g. wheat and corn).

Commodities are traded around the world on specialised exchanges or directly between market participants in off-exchange trading. This largely occurs by way of highly standardised futures contracts. These contracts provide for a delivery at the end of a defined period for a predetermined price.

It is likewise possible to invest indirectly in commodities, for example through certificates and funds. In these cases, the commodities represent the underlying assets of the securities, with their prices being definitively determined by the prices of the respective futures contracts.

The causes of price risk associated with commodities are highly complex. The prices are often much more volatile than in the case of other investment classes. Commodity markets may also be less liquid than bond, currency and equity markets and, as a result, changes in production and demand may have a more dramatic effect.

Commodity-based indices may not fully reflect the price movements and risks of the individual underlying commodities. The prices of the individual commodities in an index may move in extremely different directions.

Where substitutes for commodities are available, price changes in one commodity may have a direct effect on the price of another commodity.

The factors affecting commodity prices are numerous and complex, making commodity prices difficult to forecast. Following is a brief discussion of some of the factors which ma particularly impact commodity prices:

Cartels and regulatory changes

A number of commodity producers have formed associations or cartels to order to regulate production and thus to influence prices. An example of this is OPEC, the Organisation of the Petroleum Exporting Countries. Trading in commodities is also subject to regulatory supervision and the rules of commodities exchanges. Changes in these rules and regulations may have an effect on prices.

Furthermore, trading in commodities may be subject to the risk of government intervention, for example through the nationalism of certain industries.

Cyclical nature of production and demand

Agricultural commodities are produced during certain times of the year, while demand spans over the entire year. Conversely, energy is produced the whole year round, while demand is the highest in very hot or cold seasons. This cyclical nature of production and demand can lead to sharp prices swings.

Direct investment costs

Direct investment in physical commodities is likely to incur costs associated with holding, storage, insurance and taxes. Furthermore, commodities do not provide any interest or dividend income. The total return from commodities is influenced by these factors.

Inflation and deflation

Changes in consumer prices (inflation or deflation) may have a significant effect on the price of commodities, in particular mineral commodities.

Liquidity

Not all commodity markets are liquid, and they may react quickly and sharply to changes in supply and demand. In the case of less liquid markets, speculative positions by individual market participants may lead to price distortions.

Political risks

Commodities are often produced in emerging-market countries and used by industrialised nations. This constellation entails political risks (e.g. economic and social unrest, embargoes, armed conflicts) which may have a (sometimes considerable) effect on the prices of commodities.

Weather and natural disasters

Adverse weather conditions may affect the supply of certain commodities over the entire year. For example, frost during the pollination season can lead to total loss of crop. Natural disasters can affect production and distribution for an extended period of time, an example being crude oil. Such supply shocks can lead to high and erratic price movements until the full effect is known.

III. What you should take into account when placing an order

The following part outlines circumstances you should know and take into account when placing orders for the purchase and sale of securities. Circumstances such as

- the trading venues on which your securities orders are executed
- the ways in which prices are determined, and
- the period of validity of your securities orders

may influence the success of your investment arrangements quite considerably.

In the following section, the two services that are customary in securities trading, commission-based (broker) transactions and fixed-price (dealer) transactions, are first described. This is followed by a brief description of the execution of securities orders on a German stock exchange, your trading possibilities, and the potential risks associated with the execution of your orders. Finally, the customary issuing procedures for shares in Germany are explained.

Please note that this part focuses on the handling of orders that are to be executed on a German stock exchange. Orders for execution using other trading venues or on foreign stock exchanges are subject to the legal provisions, terms and conditions, and market practices applicable there.

1. Fixed-price (dealer) transactions

Many securities can be directly bought from or sold to your bank. This applies particularly to interesting-bearing securities, but also to investment funds, certificates, warrants, and standard shares. This results in a contract of sale which obliges the seller to deliver the securities sold and the buyer to pay the purchase price. A typical feature of this type of transaction is agreement on a price which is fixed or can be determined; such transactions are called “fixed-price transactions”. In the statement you receive from your bank, costs and charges are not billed separately but included in calculation of the fixed price.

When buying interest-bearing securities, the buyer is, as in rule, required to pay accrued interest to the seller, on top of the fixed price. Accrued interest is computed interest that has accumulated from the last coupon date up to the day before the settlement of the transaction. You pay the bank the computed interest that has accumulated since the last coupon date, but you get it back from the issuer of the security concerned on the next coupon date.

2. Commission-based (broker) transactions

In the case of commission transactions, the bank does not act as buyer or seller when dealing with you, but forwards your order to a securities market to conclude the transaction desired by you with a third party. The bank operates in this market in its own name (the identity of the client is generally not disclosed), bur for your account. This means that all consequences, i.e. all profits and losses, resulting from this transaction are credited or debited to you. The legal provisions and business conditions applicable on the relevant trading venue to the conclusion and settlement of the transaction, referred to collectively as “market practices”, are therefore of direct importance to you.
In certain cases, it can happen that your bank combines your order with those of other customers or with its own trades. The allocation of orders which necessarily results from this is based on the order allocation policy (*Grundsätze der Auftragszuteilung*) which you bank must provide for these cases. The bank must take due care that any disadvantage to the involved customers is avoided to the greatest extent possible. Please note, however, that combining orders can also be disadvantageous for some individual orders.

2.1. Exchanges and off-exchange trading venues

The bank routes your order either to an exchange or to an off-exchange trading venue. These off-exchange markets include trading among banks (so-called"phone trading") but also other forms of markets, such as multilateral trading facilities ("MTFs"). The market on which your bank executes the

trade acting as your agent (broker) is determined by the best execution policy which it has agreed with you.

2.2. Exchange trading

Securities exchanges

Exchanges are markets for trading in securities that are regulated and supervised by state-recognised bodies. These exchanges are generally a convergence point for supply and demand involving many market participants.

Typical features of exchange trading are:

- It takes place regularly.
- The trading involves specific securities which have been approved for trading on the respective exchange.
- Trading and price fixing are subject to specific rules.
- There is a large number of buyers and sellers.
- Participation is restricted to merchants admitted to trading.
-

Stock exchanges and other kinds of securities exchanges exist in many countries. As a result of the on-going globalisation of stock markets, many securities (shares and fixed-interest securities) are now no longer just traded on the stock exchange of the issuer´s home country but also – or even exclusively – on the stock exchange of another country.

In Germany, securities trading takes place on the following stock exchanges: Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich and Stuttgart.

Market segments

The securities admitted to stock exchange trading a re allotted to a “market segment” specified by law.

A distinction is made on the German stock exchanges between

- the regulated market (*regulierter Markt*) and
- the regulated unofficial or “open” market (*Freiverkehr*)

These market segments differ particularly in the requirements that must be met for a specific security to be admitted to trading. In addition, the regulated market imposes higher standards of accounting and stricter disclosure rules on the issuers of the securities.

The prices determined in both the regulated and open markets are exchange prices. They must be made public. Exchange prices are overseen by the state exchange supervisory authority and the trade monitoring units operated by the stock exchange.

Forms of trading and price determination

A distinction is made between trading floor systems in which the exchange participants meet at the securities exchange during fixed trading hours (“floor trading”) and electronic trading systems which securities transactions are conducted on an automated basis by computer. These trading hours are determined by the exchange operator, and these many thus differ from one exchange to another.

<u>Trading and price determination in floor trading</u>

Purchase or sell orders of securities are processed for trading according to computed exchange prices (opening price, standard price, closing price) or for trading with continuous pricing (variable-price trading). The standard price (*Einheitspreis*), also called the spot price (*Kassakurs*), is determined once each day. In the case of variable-price trading, the orders book broker continuously provides prices according to the respective levels of supply and demand; the prices thus generally change throughout the day. The exchange rules may provide that variable-price trading requires a specific minimum

quantity, your order may be split up, so that it will be executed partly by way of continuous trading and partly at the computed exchange price. You may, however, also stipulate that the order is only to be executed completely at the standard rate.

2.3. Instructions when placing an order

Your orders will generally be executed in accordance with your bank's special conditions for deals in securities (*Sonderbedingungen für Wertpapiergeschäfte*) in conjunction with its best execution policy (*Ausführungsgrundsätze*). To the extent that you provide special instructions, these have priority over the best execution policy. You can, for example, set price limits for your order, or limit the period of validity.

Price limits

The price prevailing at the moment you place an order may have changed considerably by the time your order is executed. If, for example, the price of the security you have ordered has risen in the meantime, you must pay a higher buying price than anticipated (Price risk, see Part E Section 5.3). You can, however, specify a maximum price for buying a security and a minimum price for selling it.

Please note: Price limits are advisable particularly if experience shows that the price of a security fluctuates considerably or the market as a whole displays appreciable price movements at the moment the order is placed.

Orders with price limits, however, carry the risk that they may not be executed or not executed immediately at any rate as long as the price is outside the limits.

2.4. Price determination

Price determination in floor trading

The price determined on the exchange for the execution of your order corresponds to the respective current market price, the „rate“. For interest-bearing securities and profit participation certificates this is generally expressed as a percentage of the nominal, while for shares, certificates, fund units and warrants it is provided as an amount per unit. In floor trading, trades of shares and in particular exchange prices are transacted through so-called “order book brokers” (*Skontroführer*), also referred to as lead brokers or specialist brokers. In determining the standard price, the order book broker must attempt to execute all purchase and sale orders provided to him (principle of maximum execution [*Meistausführungsprinzip*]); in doing so, he must observe the instructions of the exchange participants, particularly with regard to price limit. The principle of maximum execution is supposed to ensure that the determined market price best reflects the market levels of supply and demand.

<u>Price notations</u>

Price notations provide an indication of the supply and demand conditions associated with a security. From then, you can infer whether supply or demand predominates for a security, and whether trades were transacted at all. You can use this as a factor in making a decision whether to buy a security: For example, when it is apparent from the price notations that, for a certain security, there is always only supply or demand over a longer period of time, then the market is called “narrow”, and the subsequent purchase or sale or securities which you may be difficult.

Price notations provide additional information on the published price. For example, they may indicate the first quotation of a share after payment of the dividend, which involves deduction of an amount corresponding to the size of the dividend.

Important price notations and their meaning

b (or price without notation)	„*bezahlt*“ = „paid“	all orders were executed
bG	„*bezahlt Geld*“ = „paid bid“	not all purchase orders could be executed within the price limit, i.e. there was excess demand
bB	„*bezahlt Brief*“ = „paid offer“	not all selling orders could be executed within the price limit, i.e. there was excess supply
G	„*Geld*“ = „bid“	there was only demand at this price
B	„*Brief*“ = „offer“	there was only supply at this demand
exD	„ex dividend“	first quotation exclusive of the dividend payment
exBR	„*ex Bezugsrecht*“ = „ex rights“	first quotation after detachment of subscription right
ex BA	„*ex Berichtigungsaktien*“ = „ex scripshares“	first quotation after capital increase from company funds

2.5. Period of validity of your orders

Your bank will promptly route your order to the appropriate trading venue an attempt to execute it there. Insofar as it is not possible on the same day (e.g. because the price limit specified by you was not reached), the bank will continue to attempt to execute it so long as your order remains valid.

You can determine the period of validity (*Gültigkeitsdauer*) of your securities orders. If you have not provided any special instructions, it will be determined according to whether or not you have provided price limits.

Period of validity of orders in floor trading

Orders without price limits

An order without price limits for the purchase or sale of securities is valid for one trading day only. If the order for same-day execution is not received by your bank in time to allow it to be dealt with in the normal course of business, it will be valid for the next trading day.

Orders with price limits

An order with price limits (*Preisgrenze*) for the purchase or sale of securities is generally valid until the last trading day of the current month (month-end). An order received for trading on the last trading day of a particular month will, unless it is executed on the same day, be valid for the next month.

Voidance of outstanding orders

In the event of dividend payments and other distributions, orders with price limits on domestic exchanges become void on the first trading day following the general meeting.

If the quotation is suspended, all orders become void (see Section 5.4 for further details).

Orders for the purchase or sale of subscription rights

Because of the limited trading period, a different arrangement applies to trading in subscription rights on German stock exchanges. Orders without price limits are valid for the duration of trading in subscription rights, whereas orders with price limits become void on expiry of the penultimate (next to last) day of trading in subscription rights.

2.6. Contract notes and settlements (trade confirmations)

Contract notes

If your bank executes a securities transaction for your account on an exchange or other trading venue, you will receive a contract note (*Wertpapierabrechnung*) from your bank, which is a confirmation of the securities transaction (trade confirmation). This contract note contains full details of the execution of the securities transaction, in particular

- which securities were purchased or sold,
- number of securities and shares or nominal value,
- the transaction value,
- the place and date of execution,
- the execution price,
- the settlement date (value date),
- in the case of interest-bearing securities, the accrued interest to be paid by the buyer to the seller,
- the remuneration (the bank´s commission for executing the order) and
- the expenses and third-party costs of securities transactions depends on your individual circumstances and is not included in these contract notes.

In connection with the execution of your securities transactions, it may routinely arise that third parties grant cash payments or other valuable benefits to your bank. Examples of cash payments are compensation paid by fund company in conjunction with the sale of investment funds as well as compensation by issuers in conjunctions with the sale of certificates or bonds. In addition, compensation payments by brokers for foreign orders directed to them, or by exchanges or clearing organisations, are not unusual at the international level.

Conclusion of a commission-based securities transaction only establishes the obligation on the part of the seller to deliver the securities against payment of the purchase price by the buyer; this transaction still has to be subsequently settled through the exchange of securities and money. Settlement systems which allow quick, uncomplicated handling of transactions are available for performance of the obligations to exchange securities and money. Different settlement periods are customary internationally. In Germany, transactions that have been concluded are usually settled two trading days after their conclusion through delivery of the securities and payment of the purchase price.

Please note: In the case of transactions on foreign venues, the settlement periods may differ considerably from the settlement period customary in Germany – and in some cases they may be much longer.

These settlement periods must, for example, be taken into account if securities that haven just been purchased are to be resold immediately. The bank may refuse to execute a sell order as long as the securities purchased have not been entered in the client´s securities account.

3. Risks associated with the execution of your securities orders

Some of the risks associated with the placing of a securities order have already been described. Other important risks are outlined in the following section.

3.1. Transmission risk

Failure to give clear instructions when placing orders may lead to misunderstandings. Your order to the bank must therefore contain certain absolutely essential details. These include the instruction to buy or sell, the number of securities or the nominal amount, and the exact designation of the security.

Please note: The more precise your instructions are, the lower is the risk of an error.

3.2. Lack of market liquidity

Your buy or sell order can only be executed of a counter-offer exists. From time to time, this is not the case. If, for example, there is no demand whatsoever for a particular security, your holding cannot be sold or cannot be sold immediately; if there is a very weak demand, there is the danger of a very low price.

3.3. Price risk

The relevant exchange price may change considerably to your detriment between the time you place your order and the conclusion of the transaction on the exchange.

In general, orders on the exchange are executed quickly and reliably, even at high order volumes. However, even when there is very heavy trading, delay in execution cannot be completely ruled out. In such cases, there is an additional risk of the price temporarily moving unfavourably for you.

Please note: To minimize price risk, you may give your bank price limits.

3.4. Suspension of quotation and similar measures

In certain cases, a stock exchange may temporarily suspend quotation for a security. The quotation is suspended, for example, if the company which issued the security concerned is about to make important announcements which may influence the quotation. Suspension of the quotation is designed to prevent prices fluctuating too wildly. It therefore serves to protect the investing public.

Please note: If the quotation is suspended on a German stock exchange, your order to buy or sell the security concerned will not be executed and becomes void. On foreign exchanges, the practices of relevant exchange apply in this respect.

The quotation for a particular security is discontinued permanently if orderly exchange trading no longer appears to be ensured. This extreme measure is possible if, for example, liquidation proceedings are instituted against the issuer´s assets. In such a case, orders can no longer be executed via the stock exchange; this greatly restricts or completely removes the tradability of the securities concerned.

4. Risks associated with same-day transactions (“day trading”)

The developments on the international capital markets have not only led to a range of new products. Modern technologies have in some cases also altered the way securities are traded. It is now possible to buy and sell the same security, money market instrument or derivative on the same day. This is called day trading. The intention is to take advantage of small and short-term fluctuations in the price of an individual asset so as to sell it at a profit or to limit price risks. If you conduct day trading, you should be aware of the particular risks involved.

4.1. Immediate losses, competition with professionals, and requisite knowledge

If you conduct day trading, you should note that such trading may lead to immediate losses if unexpected developments cause the value of the financial instruments you have bought to drop an the same day and you are forced, in order to avoid any further risks (overnight risks), to sell these instruments before the close of trading on that day at a price below the price at which you bought them. This risk increases if you invest in securities that are expected to fluctuate sharply in price in the course of a trading day. Under certain circumstances, you may lose all the capital you have used for day trading.

Please also note that in attempting to make profits by means of day trading you will be competing with professional and financially strong market participants. Your should therefore make sure that you have an in-depth knowledge of securities markets, securities trading techniques, securities trading strategies and financial derivatives.

4.2. Greater loss potential from trading on margin

If you cover your day trades not only with capital of your own but also with borrowed funds (trading on margin), you should remember that you will be required to pay back these funds whether or not you make a profit on your day trades.

4.3. Costs

Regular day trading leads to a disproportionately high number of trades in your portfolio. The costs incurred (e.g. commissions and expenses) may be unreasonably high in relation to the capital you invest and the profit you make.

4.4. Unlimited losses associated with forward trades

Where forward trades are involved, there is also the risk that you may have to provide additional capital or security. This is the case if you incur losses in day trading that exceed the capital you have invested or the security you have deposited.

4.5. Risk of proximity to other investors influencing your behavior

If special rooms are placed at your disposal for conducting day trading, the proximity to other investors in these trading rooms may influence the way you behave.

5. Issuance of shares

Shares of a company listed in a stock exchange are generally traded on one or more exchanges. Before the shares are admitted to exchange trading, they must be issued according to a particular procedure and placed with investors who are interested in buying the company's shares. In the great majority of cases, the book-building procedure is selected for this, and thus the so-called "fixed-price" procedure is of little significance any more. In the both cases, a group of several banks (syndicate) underwrites the company's shares for the purpose of placing them with investors. There are, however, several differences between the book-building procedure and the fixed-price procedure which are worth nothing. The typical features of both procedures are looked at more closely in the following. There are also new issues which combine elements of both procedures.

5.1. Fixed-price procedure

Under the fixed-price procedure, the banking syndicate guarantees the issuing company a certain placement price prior to publication of the offer for sale. The price is determined without directly involving the investors and is based in a detailed analysis of the company, taking into account the stock market valuation of similar companies and the general state of the market. The price is fixed by the issuer in agreement with the bank operating as syndicate leader, the so-called "leader-manager".

Under the fixed-price procedure, the shares are allotted to the investors by each individual syndicate bank, including the lead manager. These have all committed themselves to underwriting a certain quota of shares and allot shares to the investors according to their requested subscription amounts.

5.2. Book building

Book building goes a step further, as under this issuing procedure the investors' price expectation are additionally included directly in determination of the price. Prior to the start of the placement period, the investors are given a range of the issue price. This range is based on the analysis and valuation of the company by the lead manager. All investors may – as in stock exchange trading – indicate desired subscription amounts depending on the final price within the given price range. The leader manager records these requested subscription amounts from the investors centrally in an electronic "book", uses this to analyse the quantity and quality of the subscriptions and then agree, in consultation with the issuer and taking into account the current market situation, a single market-oriented placement price applicable for all subscribers.

Under the book building procedure, the shares are also allotted to the investors by the banks forming the syndicate. The syndicate banks do not, however, receive any fixed allotment in term a quota. Their allotment depends on the number and quality of the subscriptions received by them. The form of allotment differs from investors group to investors group.

- In the cases of institutional (large-scale) investors, the lead manager, in agreement issuer, specifies to the syndicate banks exactly how many shares are to be allotted to any of the individual institutional investors identified by name.
  The reasons for this are that the issuer generally wants a certain mixture of institutional investors, prefers to place its shares with investors from certain regions or countries, or wishes to allot shares directly to certain institutional investors.
- In the cases of subscriptions by private investors, the syndicate banks are generally free as to how they allot the shares. The issuer may, however, also fix details of the allotment of shares to private investors.
-

Please note: Under both issuing procedure, there may well be over-subscription of the share issue concerned, i.e. the number of shares applied by the company. In such a case, the syndicate banks cannot satisfy all subscription requirements in full or may even be unable to satisfy some subscription requests at all. Investors therefore receive a smaller number of shares than they subscribed to or possibly even no shares at all.

The issuer is basically entitled to decide on the form of allotment itself and consequently on the extent to which it accepts or rejects subscription offers for shares at the fixed issue price. Numerous modes of allotment are possible if an issue is over-subscribed. It is, for example, possible that:

- the subscription period will be shortened,
- all subscriptions will be fulfilled, but only as a certain percentage of the requested amount, or with a certain defined amount,
- all subscriptions of a certain magnitude, e.g. orders up to a certain quantity, will be accepted in full and subscriptions of other magnitudes will be accepted only on a percentage basis or, in absolute terms, for a lower quantity, or not accepted at all.

Such cases of allotment are also referred to as so-called "scaling-down". As an alternative to this, drawing lots is possible. In this case, lots, and thus chance, decide which investors receive shares and which do not. A combination of scaling down and drawing lots is also possible in practice.

Please note: The mode of allotment that is selected will only be specified after expiry of the subscription period. On completion of the subscription procedure, you can obtain details of the mode of allotment from your bank.

IV. Services in connect with investments in security

Your bank will generally offer various services in connection with investing in securities. Your bank will inform you about its range of available services.
The extent of the bank's legally required duties, in particular regarding the scope of customer information which must be obtained as well as the extent of the bank's obligation to check the suitability and appropriateness of securities or services for the customer are determined by the type of service being provided. These services related to securities transactions can be broadly divided into the following categories: asset management, investment advice, self-directed trading, and execution-only trading.

1. Asset management

Asset management means the management of the customer's assets invested in securities (portfolio) by a bank using discretionary powers which have been granted by the customer.

Asset management entails the broadest obligations on the part of the bank to look after the interests of the customer, since the bank itself manages and monitors the customer asses which are within the scope of this service. It is fundamentally empowered to undertake all measures at its own discretion which appear to it to be suitable to it to be suitable for managing the portfolio, so long as they fall within the investment guidelines agree with you. The bank may accordingly invest the portfolio holdings in any permitted way without obtaining prior instructions from the customer, e.g. by buying or selling securities on exchanges or through off-exchange trading venues, by way of either fixed-price (dealer) or commission-based (broker) transactions.

Correspondingly, the bank must obtain comprehensive information about your personal circumstances at the time the asset management arrangement is agreed, and furthermore it must undertake an extensive examination of the appropriateness of the service within the context of asset management. In therefore obtains information about your knowledge and experience regarding securities as well as the particular service under consideration, about your financial circumstances, and about your investment objectives, so that it is able to recommend services which are appropriate for you. On the basis of the information provided, your bank will check to determine whether a particular service within the context of asset management is appropriate for you.

2. Investment advice

Investment advice involved the bank recommending particular securities as appropriate for you and basing this recommendation on a review of your personal circumstances.

Compared to asset management, investment advice entails more limited legally required duties on the part of the bank to look after your interests. In contrast to asset management, investment advice means that you make the actual investment decision of whether to buy or sell the securities. Furthermore, it is you and not your bank which monitors the performance of your overall portfolio as well as the specific portfolio holdings. The bank does not have any obligation to continuously monitor your portfolio.

The legally required duties of the bank providing investment advice are comparable with asset management insofar as it must collect and check the same information regarding your personal circumstances before providing a recommendation. Your bank will thus collect the information about your knowledge and experience regarding securities, about your financial circumstances, and your investment objectives, so that it is able to recommend securities which are appropriate for you. On the basis of the information you provide, the bank will check whether the specific security is appropriate for you. If the result of this appropriateness check is negative, the bank will not recommend this specific security.

3. Self-directed trading

If the bank provides you with a service which does not constitute asset management or investment advice, then the legally required duties on the part of the bank are further reduced depending upon the character of the service not involving financial advice which is being provided.

In this case, your bank will obtain the required information from you regarding your knowledge and experience level, but not regarding your investment objectives and financial circumstances.

When you place an order, the bank will check solely to determine whether you have the requisite knowledge and experience to be able to adequately evaluate the risks connected with the securities type. In contrast to investment advice and asset management, your investment objectives and financial circumstances will not be considered.

If this appropriateness check leads the bank to believe that the security under consideration is not appropriate for you in the sense just described, then it will generally inform you of this using a standardized form. If you nevertheless wish to proceed with the execution of your order, your bank may execute it according to your instruction.

4. Execution-only trading

Execution-only trading services in so-called “non-complex instruments” must be distinguished from self-directed trading as described above. Examples of non-complex financial instruments are exchange-traded shares, money market instruments, debt obligations which do not include derivative elements, and shares investment funds.

If your bank offers a service which falls outside the scope of investment advice or asset management and which consists solely of the execution of your order, or the acceptance and transmission of your order in non-complex financial instruments, then this service entails minimal or no obligation on the part of the bank to look after your interests.

You bank can thus execute an order in non-complex financial instruments which you have placed without having previously obtained and evaluated information regarding your personal circumstances. In contrast to self-directed trading, in this case it will not check whether the relevant security is appropriate for you. Consequently, you will not be informed about any lack of appropriateness.

CM-Equity AG

General Information and Risk Disclosure for Futures Transactions

(„Futures General Information and Risk Disclosure“)

Content

I. General Information regarding Futures

1. Definition and basic principles

Financial futures are a type of derivates. Derivates are essentially financial instruments which are derived from other financial assets or instruments, known as the “underlying”.

Financial futures are standardised forward contracts which are traded on futures and options exchanges (*Terminbörsen*). A wide range of financial instruments may be used as the underlying asset. There are, for example, financial futures contracts on interest rates (interest-rate futures), on equity indices (equity index futures), on foreign currencies (currency futures), and on commodities (commodity future).

Futures have a symmetrical risk profile as it represents an unconditional contractual obligation for both parties, i.e. for the buyer as well as the seller. Both parties agree to the delivery of an underlying asset at an exact fixed price on a predetermined future date. The profit potential and risks of loss for each of the contracting parties created by the transaction are a mirror image of each other. (Asymmetric risk profiles are characteristic for options and option-like instruments as they are conditional forward transactions. The buyer’s risk of loss is limited to the amount of the option premium. The seller or “writer” of the option, on the other hand, assumes a theoretically unlimited risk of floss, while at the same time having only a limited profit potential.)

<u>Purchase of a futures contract (future long position)</u>
By purchasing a futures contract, the buyer obligates himself to take delivery of a certain quantity of a certain underlying asset at a pre-agreed price on a certain date in the future (alternately referred to as the “delivery date”, “settlement date”, or “maturity date”). A future long position is established by purchasing a futures contract. The buyer anticipates that the price of the underlying asset or instrument will rise during the term of the contract.

<u>Sale of a futures contract (future short position)</u>
If selling a futures contract, the seller obligates himself to deliver a certain quantity of an underlying asset at a pre-agreed price on a certain date in the future (the delivery, settlement, or maturity date). A future short position is established by selling a futures contract. The seller anticipates that the price of the underlying asset or instrument will fall during the term of the contract.

<u>Closing out of a futures position</u>
Futures transactions are usually not entered into with the aim of contract fulfilment. That is to say, their purpose is generally not to actually make or receive physical delivery of the underlying asset on the future date as per the terms specified in the contract. Rather, far more often, the market participants intend to reverse their obligations prior to maturity of the contract by concluding an offsetting counter-trade with some other market participant; this is called “closing out” of the position. Because the contract is centrally traded on a futures and options exchange, there is assurance that the position may be closed out on an exchange trading day until the end of the contract. Once the position has been closed out, the market participant no longer has any obligations under the contract.

The buyer of a futures contract closes out a long position by entering into the opposite short position in that he sells a future contract with the exact same contract specifications. The seller of a futures contract closes out a short position by buying a futures contract with the exact same contract specifications. The closing out of a futures position should be marked as a “closing” transaction when the order is placed.

Profits and losses from futures transactions

The closing out of positions generally results in a net profit or net loss due to the fact that the market price of the futures contract changes over the course of its term. The difference between the purchase and sale price of the futures contract determines the profit or loss realised on the position. Other costs (such as transaction costs) must also be considered.

The amount of profit resulting from a future long position depends on how far the price quoted for the futures contract has risen above the originally agreed price (purchase price) on the maturity date or the date the position is closed out. The theoretically unlimited profit potential that a future long position offers is, however, offset by a high risk of loss. The farther the price of the future falls below the originally agreed price, the greater is the loss. In extreme cases, the futures contract can become worthless, while the buyer must nevertheless pay the full agreed price.

The amount of profit resulting from a future short position depends on how far the price quoted for the futures contract has fallen below the purchase price on the maturity date or the date the position is closed out. In the case of a short futures position, the high profit potential is likewise offset by an unlimited risk of loss. The amount of loss on a short position depends on how far the price quoted for the futures contract has risen above the purchase price on the maturity date or the date the position is closed out. The higher the price rises above the purchase price, the greater is the loss.

Future contracts are exchange-traded instruments

Future contracts are exchange-traded instruments and are traded on futures and options exchanges.

Exchange Trading, in contrast to Over-the-counter (OTC) trading, is characterised by the following:

- trading takes place on special futures and options exchanges
- the contracts are standardised
- the futures and options exchanges or their clearing organisations require security deposits ("margin") to ensure smooth trading.

A defining characteristic of all exchange-traded derivatives is that they are strictly standardised. This standardisation includes the following contractual elements:

- the underlying asset or instrument
- the notional amount of the contract, i.e. the amount of the underlying asset per contract and thus the discrete amounts which can be traded
- the date on which the contract is to be fulfilled or settled in the future
- the location, meaning both the venue where the contract is traded (whether floor trading or computerised exchange trading) as well as the place where the contract is to be fulfilled or settled
- the counterparty (which is invariably the clearinghouse affiliated with the exchange)

The only variable elements of an exchange-traded derivative instrument are the price of the futures or options contract on the exchange and the number of contracts which the investor wishes to buy or sell.

Trading of these standardised contracts on futures and options exchanges occurs in two different ways: Through "open outcry" on trading floors - for example, on the Chicago Board of Trade (CBoT) and the Chicago Mercantile Exchange (CME) - or as purely electronic trading - for example, on Eurex Deutschland. The central functional feature of organised futures and options exchanges is that transactions are settled in their entirety through a clearinghouse. The clearinghouse may be a part of the exchange or an entirely independent organisation. The functions of the clearinghouse include the settlement of trades, the collection and administration of collateral or "margin" deposits, as well as the fulfilment of the maturing contracts, whether in cash or in kind.

The clearinghouse acts as the contractual counterparty toward all market participants, i.e. it acts as the seller toward all buyers and as the buyer toward all sellers, thus guaranteeing that all contracts are fulfilled. In order to ensure, in turn, that the contracts they enter into are properly fulfilled, all buyers and sellers must participate in the margin system of the relevant futures and options exchange. The amount of margin to be deposited is determined by the rules of the respective exchange, and these are binding for both buyers and sellers.

The margin system of a futures and options exchange is usually arranged as follows: Before trading in any futures contract as buyer or seller, or selling any options contract, the market participant must first deposit an amount of collateral in the form of cash or securities (the "initial margin") for credit to a margin account. This margin account is then debited or credited on each exchange trading day with the profits and losses accrued or incurred on all open positions, which is called "marking to market". If the amount of margin on deposit by a market participant falls below a certain required amount (the "maintenance margin"), the market participant must generally, in order to comply with the margin requirements, deposit additional margin in the amount of the difference (the "variation margin").

Margin System for futures transactions

In order to cover the price risk associated with futures contracts, the clearinghouse requires the posting of collateral, called "margin". The individual exchange participants (generally banks) are, in turn, obliged to demand that their customers provide margin of at least the same amount. Therefore, the investor, who must immediately meet demands for margin (margin calls), must have sufficient liquid assets available to be able to cover these. In order to avoid the costs of having to arrange additional margin every day, banks usually require a higher level of collateral from their customers than the exchange requires from them. This practice, which is standard international procedure, is important for the security and reliability of exchange trading. Some futures and options exchanges distinguish between daily settlement of each day's profits and losses on accounts (variation margin) and risk-based margin.

The purpose of variation margin is to balance out profits and losses on open futures and options contracts by settling the profits and losses on accounts each trading day. To do this, the individual positions are revalued or "marked to market" each day at their daily settlement price (mark-to-market method). The difference between the new value of the position and its value on the previous trading day is debited or credited to the participant.

The risk-based margin system involves the calculation of collateral required to cover the price risk on all futures and options positions held by an exchange participant. Because the risk-based margin system takes the aggregate position of a participant into account, it can compare the risks of the individual positions and offset these as appropriate.

Risk-based margin is calculated by aggregating all options and futures positions relating to an underlying asset instrument or a group of comparable (correlated) underlying assets into a margin class. The risk-based margin calculated daily for each margin class is the sum of the following components:

- Futures spread margin
  This margin takes into account the fact that spreads created through similar futures positions - i.e. long and short positions in the same underlying asset but with different maturities - require less collateral than individual positions. Those net positions which can be offset against opposite net positions with a different contract maturity are instead subject to futures spread margin. The required margin is calculated by multiplying the resulting spreads by a factor which is specifically determined for this purpose. Net positions which cannot be offset against opposite net positions are subject to the same margin requirements as non-spread positions.

- Additional margin
  This corresponds to the additional margin amount that would be payable, assuming the worst-case possible price change on the following day, for closing out all non-spread futures and option positions held by a participant. First, the highest and lowest price which could foreseeable be attained by the underlying asset on a given exchange day is calculated on the basis of historical volatility. The theoretical option prices are then calculated for all options with strike prices lying between these two extremes. The theoretical costs of closing these out, minus the current value of the position (premium margin), determines the additional margin which is then required. The maximum daily fluctuations in the price of a future are calculated in "ticks", and the resulting worst-case costs of closing out the position determine the amount of the additional margin.

Possible applications
A number of differing objectives may be pursued using futures.

Futures may be used for hedging purposes, which means protecting against risks. Price risks related to existing or planned positions in the underlying asset (spot positions) can be largely neutralised by entering into offsetting positions in the relevant futures contract. If a loss incurred on the spot position, a previously sold futures contract (i.e. future short position) may produce a profit of approximately the same magnitude. On the other hand, if the price moves upward, the spot position makes a profit, while the related futures position makes an offsetting loss.

Besides hedging strategies, arbitrage strategies and speculative strategies are also possible. In this case, uncovered futures positions (i.e. futures positions that are not covered by a corresponding position in the underlying asset) are deliberately entered into on the basis of subjective expectations and assessments of market or price trends for the underlying asset.

Settlement of futures contracts
In the relatively rare cases where a futures position is not closed out by means of an offsetting countertrade prior to maturity, the transaction is settled either by physical delivery of the underlying asset by the seller against payment by the buyer, or by settling the net difference between the official settlement price on the final day of trading and the purchase price as a single cash payment (cash settlement).

2. Types of Futures

Following there is a description of futures contracts on the most common underlying assets. These are intended only as examples. The futures and options exchanges are constantly developing new products, and thus there is an extremely wide range of possibilities for trading and hedging.

Futures on interest rates
Interest-rate futures contracts are available on a broad range of financial instruments. The underlying asset is always an instrument which is based on the payment of interest. Contracts on money market instruments and time deposits as well as contracts on short- and long-term government securities are traded on futures and options exchanges across the globe. Examples of interest-rate futures contracts which are traded on Eurex Deutschland are those on German long-term treasury bonds (*Bundesanleihe* or “Bund”), medium-term treasury notes (*Bundesobligation* or “Bobl”), and short-term treasury notes (*Finanzierungsschatz* or “Schatz”). There are likewise standardised interest-rate futures contracts on US treasury securities, British long gilts and French OATs (Obligation Assimilable du Trésor), among many others.

Equity futures
The underlying assets of an equity futures contract are the shares of some specific company. On the Eurex, for example, futures contracts are traded on the shares of a number of different companies. These are generally the most important German, European, Russian and American corporations which belong to the key equity indices.

Index futures
Index futures contracts are for the most part based on equity indices. However, exchange traded index funds, volatility indices, inflation indices or credit indices may also serve as underlying instruments for index futures. Indices are generally fictive, non-deliverable assets which are computed according to precisely defined rules. Some well-known examples of equity indices are the German DAX, the US S&P 500, the Japanese Nikkei 225, the British FTSE 100 and the French CAC 40. An equity index is based on a defined basket of shares in different companies (hypothetical portfolio) and expresses the weighted market value of a large number of different shares in a single composite figure – for example, in the case of the DAX, the composite value of 30 shares. Futures contracts on such equity-market indices are traded on international futures and options exchanges. Futures on equity indices are generally settled in cash.

Currency futures
The subject of a currency futures contract is the receipt of delivery of a defined amount of foreign currency on a fixed date at a pre-agreed rate of exchange. Currency futures contracts are tradable in the major currencies, with the largest market being the US dollar. While exchange-traded currency futures are relative unimportant in the European market, they enjoy a very active and liquid market elsewhere, particularly in the US.

Commodity futures
The underlying asset for a commodity futures contract is some particular commodity, such as an agricultural commodity, a precious metal, an industrial metal or an energy commodity.

3. Price determination

The question of valuation is crucial for the efficient use of futures. Futures prices are continuously determined during exchange trading hours. The price of a futures contract depends upon:

- the price of the underlying asset (spot price)
- the cost of carry
- other influencing factors (e.g. market liquidity)

Influence of the spot price
Upon maturity of a futures contract, either the underlying asset is physically delivered against payment, or a net cash settlement is made. The futures price, therefore, depends largely on the price of the underlying asset or instrument. This means that the futures price generally increases if the spot price rises and falls if the spot price falls.

The futures price and the spot price are identical on the date of maturity. Before maturity, on the other hand, the two prices will normally differ, but basically fluctuate in the same direction. Differences between futures prices and the spot prices may be attributed to cost of carry as well as other influencing factors.

Cost of carry
A key reason for differences between the price of the futures contract and the underlying asset is the cost related to outright ownership of the underlying asset, called “cost of carry”.

Apart from margin deposits, the buyer of a futures contract is not required to provide any funds until the final settlement date. If, on the other hand, he had purchased the underlying asset and held it for the relevant period, he would have had to pay and finance the full amount of the position up front. As a result, he would either incur financing costs by borrowing funds or opportunity costs by losing the income, which would have otherwise been earned through alternative investments of his funds. However, if his position involves shares, he might also earn offsetting income from the underlying asset in the form of dividends and rights issues, and likewise if his position involves bonds, he may receive offsetting interest payments. The net financing costs (the cost of financing the underlying asset less any income received from it) of an equivalent spot position is referred to as the cost of carry. A change in cost of carry, for example resulting from a change in market interest rates or in the income from the asset, will result in a change in the futures price, assuming all other things being equal (ceteris paribus).

Other influencing factors

Cost of carry generally does not fully explain differences between the spot prices and the futures prices. In addition to cost of carry, other influencing factors which in many cases cannot be directly measured play an important role. Some examples of these are market liquidity and subjective expectations. Assessments of market participants may likewise lead to movement in the futures market which anticipate the spot market or conversely the futures market may have a delayed reaction to a change in the spot market. Differences in financing costs among market participants also lead to differing individual calculations of cost of carry and thus of fair futures prices.

4. Quotation of Futures

Futures on indices and other instruments quoted in points

Futures contracts based on equity indices and other index-based instruments are quoted in index points. The value of a futures contract is obtained by multiplying the index level by the value of an index point.

The DAX futures contract on Eurex Deutschland is quoted in tenths of an index point, i.e. with one added decimal place (e.g. 7,800.5). Each index point is equivalent to EUR 25.00. If the DAX rises in value to 7.900.5, the buyer of a DAX futures contract earns a profit of EUR 2,500.00 (EUR 25.00 x 100 points).

Futures on long-term interest-rate instruments (bonds)

Futures contracts on long-term interest rates generally follow the quotation method of the underlying bond. The price of a bond is normally quoted either by means of the decimal method (e.g. market value of EUR 82.60 per EUR 100.00 nominal value of the bond) or – common in international markets – in full percentage points and 1/32nds thereof. A quotation of 82 - 19 for a US treasury bond approximately equals a decimal quotation of 82.60 (82 + 19 / 32 = 82.59375).

As an exception to the above, futures contracts may alternatively be quoted according to the index method, whereby the prices of the underlying bonds are converted into an index. For certain bond contracts, a third method may be used in which the interest rate is quoted using the method for short-term interest-rate instruments.

Futures on short-term interest-rate instruments

With short-term interest instruments, such as treasury bills, the interest is usually paid in the form of a discount at issuance instead of an interest coupon. A 12-month German treasury note may, for example, be sold at 92.5 % of its nominal value and repaid one year later at 100 %. In this case, the yield resulting from this price difference is approximately 8.1 % (100 % / 92.5 %).

5. Costs of Futures

The costs that an investor pays a broker for a futures transaction is normally quoted as a fixed amount per contract. The types and rates of the charges are defined in the Asset Management Agreement or in the documents provided by the Institute Servicing the Account. The total costs payable by an investor varies depending on different factors such as market, contract size, broker, and exchange. These costs shall be paid to the Institute Servicing the Account by the Client. Up to 100 % of the amount can be reimbursed to CM-Equity AG. The charges are due for any opening and closing of a position, separately and independently from whether the transaction is executed by the Company or directly by the Client.

The Company may also receive a share of the spread, which the Institute Servicing the Account may claim from the Client. This remuneration may amount to a maximum of 100 % of the spread, which may be claimed by the Institute Servicing the Account and is calculated at the mean rate between bid and ask price. In such case, the remuneration can be disregarded as costs from the Company since it is included in the costs of the Institute Servicing the Account. Should an agreement on a management fee or a performance fee be in place, please refer to the Asset Management Agreement for details.

Example: Costs

It is important to note that the charge rates and types in the following calculations are only exemplary and for descriptive purposes. The actual charge rates and types are defined in the Asset Management Agreement. Potential management fees and performance fees as well as exchange fees are not taken into account in the following calculations. Personal taxes, such as income tax and flat rate withholding tax, are also not included in the calculations. Potential securities transaction taxes are also omitted. For completeness, the spread of the Institute Servicing the Account is displayed, even though it is not charged separately. Transaction fees are computed based on the billing rate and not on the mean rate.

Futures on the DAX

A trade signal to buy a futures contract on the DAX (long position) is assumed. The available speculation capital is EUR 50,000. The execution price is 9,200 points (mean rate) and the billing price is 9,201 points. 1 contract (value of one FDAX futures contract is EUR 25 per index point) is bought and the stop level is fixed at 20 points below the execution price. Once the stop level is reached, the sell order is triggered and the position is closed. Assuming that the execution price is at 9,180 points, the billing price is 9,179 points. The following costs accrue:

1. Costs of the Institute Servicing the Account:

Spread (2 index points): EUR 25 x 2 x 1 contract = EUR 50

Commission: EUR 0.90 x 1 contract upon buying = EUR 0.90

EUR 0.90 x 1 contract upon selling = EUR 0.90

2. Total costs:

EUR 50 + EUR 0.90 + EUR 0.90 = EUR 51.80

3. Margin and total loss:

An initial margin (also referred as additional margin on the Eurex) has to be provided. Currently, a future on the DAX requires an initial margin of EUR 10,000 for each futures contract. As such, the total initial margin amounts to EUR 10,000 (EUR 10,000 x 1 contract). To keep a position overnight, overnight margin rates may apply. It is important to note that margin rates may vary due to market conditions.

As long as the position is not closed, the position balance must be at least as high as the maintenance margin. Currently, the future on the DAX requires a maintenance margin of EUR 5,000 for each contract. If the margin balance falls below the maintenance margin, the investor has to deposit the difference to keep his position. Assuming the margin balance if EUR 4,700, the investor has to deposit an additional EUR 300 to increase the margin balance to the maintenance margin level.

By closing the position at the stop level, a loss of EUR 550 (EUR 230,025 - EUR 229,475) is realized. The total loss of this transaction for the client is EUR 601.80

comprising a EUR 550 loss and total costs of EUR 51.80. Given the original speculation capital of EUR 50,000, the total loss is approximately 1.20 %.
Note: The lower the original speculation capital, the higher the loss percentage.

Futures on the S&P 500
A trade signal to buy a futures contract on the S&P 500 (long position) is assumed. The available speculation capital is EUR 50,000. The execution price is 1,751.75 points (mean rate). 1 contract (value of one S&P 500 contract is USD 50 per index point) is bought and the stop level is fixed at 5 points below the execution price. The position is closed at a billing price of 1,746.25 points. The following costs accrue:
1. Costs of the Institute Servicing the Account:
Spread (1 index point): USD 50 x 1 x 1 contract = USD 50
Commission: USD 3 x 1 contract upon buying = USD 3
USD 3 x 1 contract upon selling = USD 3
2. Total costs:
USD 50 + USD 3 + USD 3 = USD 56
4. Margin and total loss:
An initial margin to the amount of USD 2,703 (USD 2,703 x 1 contract) has to be provided. As long as the position is not closed, the position balance must be at least as high as the maintenance margin. Currently, the future on the S&P 500 requires a maintenance margin of USD 24,750 for each contract. If the position balance falls below the maintenance margin, the investor has to deposit the difference to keep his position. Assuming the position balance if USD 21,750, the investor has to deposit an additional USD 3,000 (EUR 2,199 = 3,000 / 1.3639; assuming the exchange rate is 1.3639 USD/EUR) to increase the position balance to the maintenance margin level.
By closing the position at 1,746.25 points, a loss of USD 250 (USD 87,562.50 - USD 87,312.50) is realized. The total loss of this transaction for the investor is USD 306 comprising a USD 250 loss and total costs of USD 56. Given the original speculation capital of EUR 50,000, the loss percentage depends on the exchange rate. Assuming an exchange rate of 1.3639 USD/EUR, the total loss is EUR 224.36 equal to approximately 0.45 %.
Note: The lower the original speculation capital, the higher the loss percentage.

Futures on the Bund
A trade signal to buy a futures contract on EURO Bund (10-year bond) is assumed. The available speculation capital is EUR 50,000. The execution price is 141.05 points (mean rate). 1 contract (value of one futures contract on EURO Bund is EUR 10 per basis point) is bought and the stop level is fixed at 50 basis points below the execution price. The position is closed at a billing price of 136.05 points. The following costs accrue:
1. Costs of the Institute Servicing the Account:
Spread (1 index point): EUR 10 x 1 x 1 contract = EUR 10
Commission: EUR 0.90 x 1 contract upon buying = EUR 0.90
EUR 0.90 x 1 contract upon selling = EUR 0.90
2. Total costs:
EUR 10 + EUR 0.90 + EUR 0.90 = EUR 11.80
3. Margin and total loss:
An initial margin to the amount of EUR 1,350 (EUR 1,350 x 1 contract) has to be provided. As long as the position is not closed, the margin balance must be at least as high as the maintenance margin. Currently, the future on the EURO Bund requires a maintenance margin of EUR 1,080 for each contract. If the margin balance falls below the maintenance margin, the investor has to deposit the difference to keep his position. Assuming the margin balance is EUR 700, the investor has to deposit an additional EUR 380 to increase the margin balance to the maintenance margin level.

By closing the position at 136.05 points, a loss of EUR 50 (EUR 1,410.5 - EUR 1,360.5) is realized. The total loss of this transaction for the investor is EUR 61.80 comprising a EUR 50 loss and total costs of EUR 11.80. Given the original speculation capital of EUR 50,000, the total loss is approximately 0.12 %.
Note: The lower the original speculation capital, the higher the loss percentage.

Futures on EUR/USD
A trade signal to buy futures on EUR/USD (long position) is assumed. The available speculation capital is EUR 50,000. The execution price is 1.3892. 1 contract is bought and a stop level is fixed at 30 pips below the execution price. Each pip equals 0.0001 and is worth USD 12.50. The position is closed at the stop price of 1.3862. The contract value is USD 173,650 (10,000 x 12.50 x 1.3892). The following costs accrue:
1. Costs of the Institute Servicing the Account:
Spread (1 pip): 12.50 x 1 x 1 contract = USD 12.50
Commission: EUR 0.65 x 1 contract upon buying = EUR 0.65
EUR 0.65 x 1 contract upon selling = EUR 0.65
2. Total costs:
Assuming an exemplary exchange rate of 1.3892, the total costs amount to
EUR (12.50 / 1.3892) + EUR 0.65 + EUR 0.65 = EUR 10.30
4. Margin and total loss:
A margin in the amount of USD 2,813 (EUR 2,024 = 2,813 / 1.3892) per contract has to be provided. As long as the position is not closed, the margin balance must be at least as high as the maintenance margin. Currently, the future on EUR/USD requires a maintenance margin of USD 1,237 for each contract. If the margin balance falls below the maintenance margin, the investor has to deposit the difference to keep his position. Assuming the margin balance is USD 1,037, the investor has to deposit an additional USD 200 (EUR 144 = 200 / 1.3862; assuming closing interest rate is 1.3862) to increase the margin balance to the maintenance margin level.
By closing the position at the stop level, a loss of 30 pips is realized equal to USD 375 (30 x 12.50 x 1) or EUR 270.52 (USD 375 / 1.3862). The total loss of this transaction for the client is EUR 280.82 comprising a EUR 270.52 loss and total costs of EUR 10.30. Given the original speculation capital of EUR 50,000, the loss percentage is approximately 0.56 %.
Note: The lower the former speculation capital, the higher the loss percentage.

Precedence of the Broker's Policies and Contract Conditions
Please note that the details for futures transactions are regulated in the Broker's respective contract conditions. They shall take precedence. The documents on hand shall serve as general information and shall clarify the structure and execution of a futures trade.

Should there be any questions, or should anything be unclear in these documents, please contact the Company.

II. Risk Disclosure for Futures

Futures trading is not suitable to all investors. Because futures trading is highly leveraged, the maximum risk from this kind of trading is potentially unlimited and can be substantial. This amount can certainly exceed the investor's initial deposit with a broker. Therefore, futures trading is not recommended for very risk-adverse investors. The investor should carefully deliberate the account agreement with the broker before entering into any contracts. Following are the inherent risks associated with futures trading which Clients should consider with care.

1. Market price risk

Market price risk is the risk associated with the price performance of futures contracts. The consequential risk is a loss incurred by either the buyer or seller of futures contracts. It may result from a range of factors including the change in the price of the underlying assets.

Futures contracts fundamentally entail similar price risks as their respective underlying assets which, in turn, depend on various factors including, but not limited to; the following ones:

- *Interest risks:* adverse interest movements resulting from changes in the yield curve, changes in interest rate volatility, government intervention, and the passage of time.
- *Currency risks:* adverse currency movements resulting from changes in foreign exchange rates and influenced by the interest rates and yield curves of the respective currencies; and
- *Psychological factors:* changes in sentiments and behaviors of market participants under the influence of news and events.
- *Illiquid market:* especially when the primary market for the underlying asset is closed or the reporting of transactions in the underlying asset is delayed.

The risks of potential underlying assets (e.g. stocks, bonds) are explained in detail in section "Risks specific to particular underlyings" in this document.
The inherent relationship between price movements of the underlying assets and the price performance of futures contracts are highly complex. The impact of underlying assets' prices onto futures contracts' price performance may be in different directions and at various levels. The resultant loss is hence impossible to be estimated precisely. The maximum amount may exceed the full amount of the investment.

2. Risks of leverage

The risks of leverage in futures trading are related to the leverage effect as one enters into futures transactions. At the inception of a futures transaction, the initial margin, a minimal level of fund (equity), is required. This is a good-faith deposit which enables investors to borrow additional funds and trade on margin. The position therefore may encompass an asset of much greater value than the initial deposit. Depending on the leverage ratio, the leverage effects can result in changes in value of a futures position which are a multiple of the initial margin. This means any small movement in the price the underlying asset is magnified by the leverage effect. Therefore, such event may result in substantial gains or losses for the trading account.

The magnifying impact of leverage
To open a position at a futures exchange and start trading futures contracts, an investor is not required to pay the entire contract value upfront. Instead, he must pay an initial margin which is a fraction of the actual contract price. The following example quotes show hypothetical initial margins and maintenance margins for DAX futures contract traded on the Eurex and SPX futures contract traded on the Chicago Mercantile Exchange. The DAX stands for Dax 30 Index and SPX for S&P 500 Stock Index.

Exchange	Underlying	Intraday Initial	Intraday Maintenance	Overnight Initial	Overnight maintenance	Currency
Eurex (DTB)	DAX	10,000	5,000	20,000	12,500	EUR
Chicago Mercantile Exchange (CME)	SPX	12,500	10,000	25,000	20,000	USD

For example, the value of a futures contract on the S&P 500 is USD 250 times the level of the S&P 500 Stock Index. If the S&P 500 level is currently of 1,000, the value of the futures contract is USD 250,000 (USD 250 X 1,000.) An investor is not required to pay USD 250,000 upfront to initiate a trade, but must post an initial margin of only USD 12,500 to enter the trade and 25,000 to hold the trade overnight. The leverage effect for the intraday trading is 20 times and overnight holding is 10 times. This high level of leverage magnifies both profits and loss on the account.

If the S&P 500 Stock Index increases to 1,100, which is an augment of 10 %, the contract would be worth USD 275,000 (250 x 1,100). The profit from the position is USD 25,000. In the case the investor posts an initial margin for intraday trading of USD 12,500, the investor enjoys a profit of 200 % with a 10 % movement of the underlying index. This is thanks to the leverage in futures trading – 200 % equals 10 % increase in underlying index value multiplied with 20 times leverage effect for intraday trading.

Vice versa, if the S&P 500 falls to 900 equaling a decrease of 10 %, the contract would be worth USD 225,000 (250 x 900). The loss from the position is USD 25,000. In the case the investor posts an initial margin for intraday trading of USD 12,500, the investor bears a loss of 200 % with a 10 % movement of the underlying index. This is also because of the leverage in futures trading that the investor loses more than the initial investment he made. To continue intraday trading, the investor has to pay for the loss in excess of the initial margin which is USD 12,500, and receive a margin call for an additional fund of USD 10,000 to reach the intraday maintenance requirement. As a result, the investor must deposit another USD 22,500 to maintain his position.

This is just an example illustrating the magnifying impact of leverage in futures trading on profit and loss of the investor. In reality, such large movement of the underlying index is uncommon for intraday trading.

3. Risk of margin calls

Positions in exchange-traded futures are subject to daily margin calls for additional liquidity. When the margin account balance goes below a certain level namely the “maintenance margin”, a margin call is triggered. Such additional liquidity (variation margin) aims to ensure sufficient premium margin on a deposit. The amount of margin calls is determined by changes in the prices of the futures contracts and cannot be precisely determined in advance.

Profits and losses on futures positions are marked to market and settled out on a daily basis (variation margin). Thus, even when the investor intends to hedge an underlying spot position or transaction with this position, there can be a deviation in cash flows between the hedged position and the futures position. This means even when the futures-based transaction has a maturity date that coincides the spot transaction which is being hedged, and the respective profits or losses at maturity offset each other closely, there may still be considerable fluctuations in liquidity requirements during the term. This effect magnifies as the term and the amount of the futures position increase.

If the futures position is not intended to hedge any underlying spot position, the possible divergence between the price in the futures contract and the spot price of the underlying asset still implies the risk of margin calls.

If margin requirements or payment obligations are not fulfilled in a timely manner, the position may be prematurely closed out (liquidated) and, thus, that the investor will be forced to realize a loss.

Depending on the agreement with the broker (Institute Servicing the Account), the broker may waive a margin call and directly close the position without prior consultation with the investor. Any occurring losses are beared by the investor. Further obligations for margin deposits do not occur.

4. Liquidity risk

Liquidity risk is the risk where the investor may not be able to liquidate or close out positions, or may not be able to do so at a fair market price. This risk therefore encompasses both the price risk and the order transmission risk. Any delay in order processing or an illiquid market may result in difficulties for the investor to manage his positions against changes in market properly. The investor may, therefore, not be able to exit a position by entering into an offsetting one at the interim “fair price”.

Although this risk is not prominent for exchange-traded instruments like futures contracts, there is still the probability that it happens. A possible scenario for this risk to arise is when there are extraordinarily high transaction volumes which have a significant impact on the market for either exchange-traded futures or the underlying security, for example on contract fulfillment dates. There exists the possibility that delays in execution happen during very heavy trading. The relevant exchange price may change considerably during the time order is placed and settled.
Furthermore, the limited official trading hours on futures exchanges expose investors to restrictions in terms of time. During closing time of the exchange, it is impossible to alternate one’s existing positions. The investor therefore faces the risk that he may not be able to react to changes in the market environment in a timely manner and may, thus, have to accept losses.

Last but not least, technical problems with order forwarding or order execution may also lead to a delay in reacting to changes in the market and expose investor to the liquidity risk.

5. Correlation risk

Correlation risk is the risk where a perfect 100 % hedge against market price risks (pure hedge) may not be possible if there’s a mismatch between the position to be hedged and the available derivatives, or if for particular reason, the suitable derivative cannot be chosen.

The mismatch between the hedged and hedging positions may arise from, but is not limited to, the following problems:

- Whole contract problem: The amount of the underlying position cannot be matched with the standard futures contract size or a multiple thereof.
- Maturity mismatch: The expiry dates of the futures position and the underlying position do not match.
- Availability problem: None of the available futures contract exactly matches the underlying asset and/or currency to be hedged.

6. Risks associated with trading on foreign markets

There is a range of additional risks that are associated with transactions executed on foreign exchanges and in foreign currencies. The most common ones are currency risk, country risk, and transferability risk. Other various individual risks are also difficult to evaluate because of limitation of information. Such risks are generally more alarm in emerging economies.

Currency risk involves the risk that movements of exchange rates may have adverse impacts on the domestic-currency-nominated profit of the portfolio. As the income from investment is to be translated back to the domestic currency of the investor, a depreciation of the foreign currency lowers the post-translation profit. While currency risk may be hedged through different financial instruments, additional costs burden may incur.

Country risk and transferability risk incorporate the risks of both economic instability and political instability. Turmoil in the foreign economy may result in unfavorable economic conditions which deflate

the value of the portfolio. The transferability of proceeds may be halted by foreign country government when there's a shortage of foreign currency and/ or massive capital flight. Country risk and transferability risk are very difficult to hedge. The maximum loss may, in the worst case, be the total amount of both the investment and its profit.

7. Effect of ancillary costs on expected profit

Ancillary costs are those that are incurred in addition to the current price of the derivative, such as transaction costs, commissions. Such costs arise from futures contract transactions.

Many ancillary costs are charged by intermediaries such as banks and brokers. Banks usually charge their customers a commission which is either an absolute amount of money or a percentage of the value of the order. If a domestic or foreign third party is involved in executing an order, such as a broker on a foreign market, further ancillary costs are charged on the investor. These are inclusive of, but not limited to, brokerage fees, commissions, and costs (third-party costs).
The investor is highly recommended to understand the cost structure of futures transaction before placing any order. If the price does not perform as favorably as expected, the burden of ancillary costs may add-up to a loss.

8. Tax risks

Tax risks can also have an effect on futures transactions. The legislature as well as the tax courts and tax authorities have developed principles for the taxation of futures transactions. Accordingly, the tax consequences of a futures transaction depend on many factors such as the status of the taxpayer and the type of position.

Risk of double taxation on foreign investments
This is the risk where the income from a futures transaction in a foreign country is taxed twice. The investor is exposed to this risk particularly when he is subject to tax in Germany while the income is taxable abroad. It is also possible when under a double taxation agreement, tax withheld at source cannot be offset in Germany, or just partly offset, or only under special conditions. Tax withheld at source is normally the tax charge on interest and dividends which is directly collected by the country of source based on the limited tax liability of the investor and without the necessity for a tax assessment.

Uncertainty about tax treatments
In the case of a new form of futures investment, the currently imposed tax treatment may not be adequate to cover the innovative aspect of the transaction. An unfavorable change in tax treatment determined by the legislature, the courts, or the tax authorities may hinder the investor from achieving the anticipated yields.

Other adverse changes in law and tax treatments also increase the tax burden for the investor and undermine the profitability of the investment.

9. Delivery risk

Delivery risks, also known as settlement risk, is the risk that a counterparty in a transaction may be unable to fulfill its side of the agreement by failing to transfer the agreed purchase price or deliver the underlying asset of the contract. In the context of futures transaction, this risk arises when the investor does not close his position prior to final settlement and a cash settlement is not in place.

On settlement date, as a contract buyer, the investor would have to transfer the agreed purchase price and receive the underlying asset stated in the contract. The underlying contract value is normally much

greater than the margin provided by the investor. Therefore, he may fail to transfer the fund in a timely manner.

A similar situation happens to the sell-side of the futures contract if he does not close his position prior settlement of contract. On settlement date, the underlying asset is to be delivered to the buy-side. If the sell-side investor does not possess the underlying asset, he is exposed to another risk that he has to acquire the underlying asset on the market at an unfavorable price. The value of the underlying asset is as well a multiple of the investor's margin. Therefore the investor may fail to deliver the asset in a timely manner.

10. Suspension of quotation and similar measures

In some cases, a quotation for a security may be suspended by the stock exchange. A possible reason may be an upcoming announcement by the company which may influence the quotation. Regarding electronic exchange, high volatility may trigger trading breaks. In this case, the quotation is suspended to prevent excessive price fluctuation when prices fall below a defined threshold. When a quotation is suspended on a German stock exchange, all orders on the respective security are not executed and become void.

In some extreme cases, the exchange may discontinue the quotation for a particular security perpetually. This decision may be triggered by, for example, liquidation proceedings instituted against the issuer's assets. This imposition restricts and, to some extent, removes the tradability of the respective securities. Therefore, orders on such securities cannot be executed via the stock exchange anymore.

11. Risks associated with same-day transactions ("day trading")

Day trading involves short-term market participation which takes place in the form of day trades. The opened position is closed on the same day. It may be the case, if triggered by trading signals, that the exact same position is opened and closed multiple times in a single day (intraday trading).

During day trading, unexpectedly small, short-term price changes may cause a total loss. In addition to market risks, transaction costs must be taken into account for risk calculation. These transaction costs are mainly remunerations for the Broker, commissions of other financial services companies, including the Company's commissions, and execution costs.

Immediate loss, competition with professionals, and requisite knowledge
Day trading may lead to immediate losses if unexpected price developments cause the value of the invested futures to drop on the same day. In this case, to avoid further risks overnight, the investor is compelled to sell the futures contract on the same day before the closing of the exchange. The higher the volatility of the futures price, the greater this risk is. In the worst case, the investor may lose the total amount of the investment.
Another source of intraday trading is from the fierce competition from professional and financially strong market participants. To stack up against these players, the investor needs to have an in-depth knowledge of the instruments, the markets, the trading techniques, and derivative trading strategies.

Greater loss potential from trading on margin
Trading on margin brings about the leverage effect which magnifies profits and losses on investor's position. Together, the higher frequency in day trading and leverage increase the risk of substantial loss on investor's trading account.

Costs

The short-term nature of this business may result in a total portfolio turnover within a day leading to a high number of trades in the investor’s account. The total costs incurred may be extraordinarily high. As a result, this cost burden may entail the consumption of the investor's capital on the costs incurred, especially ancillary costs. This is especially the case if the market has a low volatility, so that the gains cannot compensate the losses when offsetting the positions.

Additional risks exist due to the short-term nature of the trading activities.

12. Other risks

Apart from the main risks above, there are also a number of further risks that the investors should take into account when deliberating an investment in futures. Besides the financial loss, there are also different disadvantages to investors inherent in such risks, for instance loss of time and efforts.

Information risk
Missing, incomplete, or incorrect information may lead the investor to make bad decisions. Incorrect information may arise from the quality of the original sources of information. However, even when the information provided is correct, fallacy in information transmission and interpretation may also result in misleading investment decision. Lack of enough material information, distraction by too much nonmaterial information, or focusing on irrelevant and obsolete information may also impair the investment decision.

Order transmission risk
The order transmission risk incurs where the investor gives an unclear, ambiguous or misunderstanding order to the bank. The consequence may be erroneous and unintended transactions or delays in execution. It is important for investors to make sure of the accuracy and completeness of the order instruction he places with the bank or broker. Key sections of the instruction include the type of order (e.g. purchase, sale or closing transaction), the volume of the transaction in unit or monetary amount, and the precise name of the futures instrument.

Risk of moratorium of investor’s bank
In the case a moratorium is imposed on investor’s bank, the bank becomes technically insolvent. Consequentially, all of the bank’s open contracts on behalf of the investors may be liquidated prematurely. This involves the probability that the investor is forced to realize a loss too early.

13. Special Risks Involved in Automated Trading Systems

Automated trading systems can execute a high amount of trades in a short time period. As such, a high number of open, leveraged positions can be created that may only be closed in the medium-term. In the case of anticyclic systems, these open positions may lead to a high drawdown, which can lead to a substantial loss, or, in the worst case, even to a total loss of the Assets. The trading systems may use market orders to some extent and no stop or limit orders. The systems are continuously monitored by the portfolio manager and backup systems are in place, however, the risk of trading losses through technical problems (e.g. internet service failure, hard- and software problems, errors in the trading system, breakdown of the broker connection to the order and price systems) remains. Positive past results of trading strategies do not indicate future profits.

14. Inevitability of Risks

All risks mentioned exist in any case when using the Company's Asset Management Services. The aforementioned risks cannot be fully eliminated by using the services of an Asset Manager, nor through any technical equipment or computer programs. Any other statements regarding the Risk Disclosure

made by anybody else (e.g. advisors, experts, etc.), or even firm promises of profits, are invalid. They are acting without authority. Please notify the Company if any unauthorized incidents occur. Please also read the Risk Disclosure of the Broker with due diligence.

III. Risks specific to particular underlyings

8. Risks specific to interest-bearing securities

Interest-bearing securities, also involve a number of risks which are particular to them. These include credit risk, the risk of changes in interest rates, the risk of early redemption, the risk of the bond being drawn for redemption and other specific risks associated with individual types of bond. Even though interest-bearing securities are regarded as being a relatively safe form of capital investment in comparison with other forms of investment in securities, you should familiarise yourself with the different sources and kinds of risk in order to be able to reliably assess your chances of making a profit and to judge as accurately as possible the alternative possibilities of investing in interest-bearing securities.

8.1. Credit risk

Credit risk refers to the risk of insolvency or illiquidity on the part of the debtor, i.e. a possible - temporary or permanent - inability to fulfill its interest and/ or redemption obligations on time. Alternative names for credit risk are the debtor or issuer risk.

Causes of changes in credit quality

The credit quality of an issuer may change during the life of a bond as a result of developments in the overall economic environment or the specific environment of the company in question. This can be caused by three factors:

- Changes in the economic climate which can seriously impair the profit situation and solvency of issuers. The pressure increases the longer economic recovery is delayed.
- Changes the causes of which are to be found in individual companies, sectors or countries. Examples of these include high national deficits and economic crises.
- Political developments with serious economic consequences which affect a country's ability to pay.

A deterioration in the credit quality of an issuer has a corresponding negative effect on the price of the securities in question (risk markdown). Credit risk tends to be higher, the longer the remaining life of the bond. In the case of zero bonds, particular attention should be paid to the credit quality of the issuer of the bond, in order to increase the certainty of redemption, since with this type of bond the interest payments are deferred and are only paid out together with the capital upon final maturity (for other specific risks associated with this form of investment see Section II 1.5).

With bonds, the credit quality of the issuer is - along with the stability in value of any security which may have been provided for the bond - one of the most important factors influencing the decision-making process of an investor. Ongoing high credit quality ensures the fulfillment of the debtor's contractual obligations - i.e. the payment of interest and the repayment of capital upon redemption. However, the credit quality of an issuer can deteriorate to such a degree during the life of the bond that the interest and redemption payments are not merely endangered, but rather are defaulted on completely.

Yield as measure of credit quality

First-rate credit quality on the part of the debtor is generally associated with a lower yield, since a bond of this sort will from the outset carry a lower nominal rate of interest than a bond issued at the same time by a debtor with a lower credit rating. Thus, government bonds, for example, usually produce a lower yield than bonds from corporate issuers.

As an investor, you must consider whether you are prepared to accept a lower yield in return for a higher degree of security or whether you wish to achieve a higher yield, albeit at a higher risk. As a rule of thumb: The higher the yield of a particular security in comparison with usual market yields, the greater the risk for the investor.

Issuers with low credit ratings and thus comparatively high yields are only suitable for investors who are aware of the risk. In the case of high-yield bonds or so-called ”junk bonds”, the credit quality of the issuer is usually very low and there is a risk of a total loss, particularly in times of economic recession.

Rating as an aid to decision-making
Ratings are used to assess the probability that the interest and redemption amounts payable in connection with the bonds issued by a debtor will be paid on time and in full.

Independent rating agencies publish their ratings in the form of a credit rating or classification of the debtor or its issues. Each rating agency uses its own rating symbols.

The rating systems take account of both quantitative and qualitative criteria. The analysis includes the overall economic situation in the country in which the issuer is domiciled and involves not only an analysis of the tendencies in the relevant sector and of the individual situation of the issuer, but also an economic and legal assessment of the terms of the issue.

The rating which is given to an issuer or its bonds has an effect on the formulation of the terms of bonds which have yet to be issued, in particular the amount of the yield. A bond with a first-class rating therefore generally offers you as an investor a lower yield than bonds with a lower rating.

Please note: Changes in the rating during the term of a bond may result in changes in the price of the bond.

Important note on the use of ratings: The rating is not a substitute for your judgement as an investor and should not be understood as a recommendation to buy or sell particular securities. The rating is simply intended to assist you in making an investment decision and is only one factor which must be considered and weighed along with others in the valuation process. Since the rating is often not altered until after an issuer’s credit quality has changed, you must form your own judgement despite the availability of existing ratings. You should also note that not all issuers are given a rating and that the quality of a bond issue without a rating may well be better that that of an issue with a rating.

8.2. Risk of changes in interest rates during the term (price risk)

The risk of changes in interest rates is one of the central risks associated with interest-bearing securities. Fluctuations in interest-rate levels are always to be expected on the money market (short to medium term) and capital markets (long term), and these can change the price of your securities on a daily basis.

The risk of changes in interest rates results from the uncertainty concerning future changes in the market interest rate. The buyer of a fixed-interest security is exposed to the risk of a change in interest rates in the form of a price loss if the market interest rate rises. Fundamentally, the effects of this risk become more pronounced as the market interest rate rises, the remaining term of the bond is longer, and the nominal interest paid on the bond is lower.

Relationship between changes in interest rates and prices
The price of interest-bearing securities depends on supply and demand. These two factors are based first and foremost on the relationship between the nominal interest rate of the bond and the current level of interest rates on the money market and capital markets (= market interest rate).

- The nominal interest rate of a fixed-interest bond is generally fixed for the life of the bond on the basis of the market interest rate effective at the time of issue. During the life of the bond, however, the price may deviate considerably from the initial price. The extent of this deviation depends in particular on changes in the level of the market interest rate.
- The market interest rate is largely influenced by government budgetary policy, the policy of the central bank, the development of the economy, the inflation rate, foreign interest rates and anticipated exchange rate levels. However, the importance of individual factors is not directly quantifiable and varies over the course of time.

A change in the market interest rate following the issue of a fixed-interest security has an inverse effect on the price of the security: In the event of an increase in the market interest rate, the price of the bond generally falls until its yield is approximately equal to the market interest rate. Conversely, in the event of a fall in the market interest rate, the price of the bond rises until its yield is approximately equal to the market interest rate.

The reason for this is that fixed-interest bonds are provided with interest “coupons” corresponding to a fixed percentage of the original nominal value. When interest rates rise, this fixed rate of interest for an existing bond becomes comparatively less attractive, which leads to selling in the market. For this reason, the market price of an existing bond may fall below its nominal value. Falling rates generally lead to the opposite effect, i.e. that the fixed interest being paid on the bond becomes more attractive, leading to an increase in the market price of the bond.

The yield of a fixed-interest security is its effective interest return, which depends on the nominal interest rate (the “coupon”), the issue or, as the case may be, purchase price, the redemption price and the (remaining) life of the fixed-interest security.

Sensitivity to changes in interest rates depends on the remaining life and coupon
The extent to which a bond reacts to changes in the market interest rate depends substantially on two factors: the (remaining) life of the bond and the level of the nominal interest rate (coupon) of the bond.

The degree to which the price of a bond reacts to changes in interest rates is measurable. A frequently used measure to characterise the sensitivity of a particular bond to changes in rates is the modified duration. The modified duration is the percentage amount by which the price of the bond will change when the market interest rate changes by one per cent. This means that the higher the duration, the more strongly the price of the bond reacts to changes in interest rates.

Different bonds display different sensitivities to interest rates. Bonds with long lives (terms) have a higher duration than similar bonds with short lives because the relative advantage or disadvantage of a higher or lower coupon is more pronounced for long-term bonds than for short-term securities. Furthermore, the same is true if we are talking about just one bond: In the course of time, a bond with a long term becomes a bond with a short (remaining) term. This means that the interest-rate sensitivity of the bond gradually diminishes.

An additional factor which has effects on the duration of a bond is the amount of the coupon of the bond compared to the prevailing relevant market interest rate for the relevant currency. A bond which from the start has a relatively high coupon is less sensitive to changes in interest rates than a bond with a relatively low coupon. The reason for this is that, in the case of the bond with the comparatively high coupon, investors receive an amount corresponding to the nominal value of the bond more quickly which they can then reinvest.
Fixed-interest securities are subject to considerable risks associated with changes in interest rates in times of steeply rising capital market interest rates. Of course, the price changes which occur are only

relevant to you if you do not hold the bond until the end of its term. Otherwise, at the end of the bond's term, at the latest, the bond will be redeemed at its nominal value – assuming that the issuer is solvent.

8.3. Risk of early redemption

In the terms and conditions of the issue, which are contained in the issuer prospectus, the debtor under a bond may reserve a right of early redemption *(Kündigungsrecht).* Bonds are often issued with such a one-sided right of early redemption during periods of high interest rates. If the market interest rate falls, the risk for you, as an investor, that the issuer will exercise its right of early redemption increases. In this way, the issuer can reduce its liabilities or refinance itself more cheaply through the issuer of a new bond, thus reducing its interest burden.

Longer-term fixed-income securities on the Eurobond market are frequently issued with this one-sided right of early redemption on the part of the issuer, also known as a "call right". For you as an investor, early redemption may lead to deviation from the anticipated yield. This is compensated for by the fact that such bonds generally feature a higher yield from the outset compared to similar bonds without a right of early redemption. On the other hand, the risk exists that, in case of an early redemption due to exercise of the issuer's call right because of changed market conditions, a new investment may be less favorable than the previous investment (reinvestment risk).

8.4. Drawing risk

Redeemable bonds which are repaid according to a drawing of lots *(Auslosung)* entail particular risks for you, because the fact that the life of such bonds cannot be calculated with arithmetic certainty can lead to changes in yields. If you purchase a bond at a price of over 100 % and the bond is then repaid at par at an unexpectedly early date, as a result of a drawing of lots, this shortening of the life of the bond leads to a deterioration in the yield to you.

8.5. Risks associated with individual types of bond

Certain individual types of bond entail different and in some cases additional risks:

<u>Floating-rate notes</u>
The difference between these and fixed-interest bonds is in the uncertain interest income: Because of the fluctuating levels of interest income, you cannot determine the final yield of floating-rate notes at the time of purchase. This also makes it impossible to compare the profitability of such notes with that of investments featuring longer-term fixed-interest periods. If the terms and conditions of the bond provide for frequent interest payment dates at short intervals, you bear a corresponding reinvestment risk if the market interest rates fall. This means you can only reinvest the interest payments which you receive at the lower interest rate prevailing at that time. During their term, floaters may be subject to price fluctuations, the size of which depends particularly on the credit rating of the issuer.

More pronounced price fluctuations with reverse floaters: In the case of reverse floaters, the interest income changes in the opposite direction to the reference interest rate: If the reference interest rate rises, your interest income as an investor falls, whereas it rises if the reference interest rate falls.

Unlike ordinary floaters, the price of a reverse floater is heavily dependent on the level of yields from fixed-interest bonds with a comparable life. The price fluctuations of reverse floaters move in the same direction, but are much more pronounced than in the case of fixed-interest bonds with a comparable life. The risk for the investor is high if there are prospects of a rise in long-term market interest rates, even if the short-term interest rates are falling. In this case, the rising interest income does not adequately compensate for the price losses of the reverse floater, as these are overproportionally high.

Zero bonds

In the case of zero-coupon bonds (“zero bonds”), because the issuer prices are well below par as a result of discounting, changes in the market interest rate have a much greater effect on the price than is the case with ordinary bonds. If market interest rates rise, zero bonds suffer greater price losses than other bonds with the same life and credit quality. Therefore, it should be noted that zero bonds involve a particularly high risk of price fluctuation because of the leverage effect on the price. In the case of zero bonds in a foreign currency, there is also an increased currency risk because the interest payments are not distributed throughout the life of the bond, but rather are made on a single date, namely together with the repayment of the capital on final maturity.

Foreign-currency bonds and dual-currency bonds

As a buyer of foreign-currency bonds, you are exposed to the risk of fluctuating exchange rates. In the case of a dual-currency bond, the fluctuations in the exchange rate can also affect the price of the bond unless the terms and conditions of the bond include a currency-adjustment clause for the investor. In the latter case, which is called a "quanto structure", currency risk does not apply because the amount of the coupon in the nominal currency of the bond is independent of changes in the currency of the reference interest rate. Without such a clause, changes in the exchange rate have a greater effect on the price of the bond, the greater the foreign currency component of the bond.

Convertible bonds

The price of a convertible bond is largely determined by the price of the underlying share. If the share price rises, the price of the bond rises, too. If the share price falls, the price of the convertible bond will also fall.

Intermediate position between bond and share: Due to the linking to a particular share, the price risk of convertible bonds is generally higher than in the case of bonds without a right of conversion, but lower than in the case of a direct investment in the share concerned. This is because, due to the fixed interest rate of the bond, the price risk of the convertible bond has a bottom limit: The price will fall no further than the point at which the yield from the convertible bond corresponds to the market interest rate for issuers of comparable credit quality. The position is different with bonds providing for mandatory conversion: In their case, the price of the share is what matters most, so that the price risk is much higher.

The nominal interest rate of a convertible bond is usually lower than that of a bond without a right of conversion, so that the periodic interest payments are relatively low.

Please note: If, as an investor, you exercise your right of conversion and acquire the relevant share, you become subject to the usual risks of a shareholder. This applies also if the terms and conditions of the convertible bond provide for mandatory conversion (see part II. 2).

Bonds with warrants attached

As with convertible bonds, capital investment in bonds issued with warrants is generally associated with lower periodic interest payments (coupons). The interest rate is usually below the rates for bonds without such an option right.

The price of a bond with warrants attached (a "cum-warrant bond") will follow rises in the price of the share (or underlying asset). Because of the bond's fixed interest rate, there is a bottom limit to the price risk of the warrant-linked bond: The price of a warrant-linked bond will fall no further than the point at which its yield corresponds to the market interest rate for issuers of comparable credit quality.

The bond without warrants attached ("bond ex warrant") is a straight interest-bearing security; its price is based primarily on the capital market interest rate. The risks associated with the warrant on its own - i.e. without the bond - are described in part II. 6 "risks specific to warrants (option certificates").

Structured bonds

A comparison of index-linked bonds and plain-vanilla bonds makes the following clear: While, as an investor holding plain-vanilla bonds, you generally receive - depending on the credit quality of the issuer - a fixed rate of interest based on the capital market interest rate, the yield on index-linked bonds moves within a specific range. The floor generally lies between zero per cent and a minimum rate of interest that is lower than the market rate. Depending on the repayment rate, the yield may also be negative. There is generally an upper limit to the yield, but it is possible that this may be higher than the market yield on plain-vanilla bonds.

While index-linked bonds offer the chance of a yield that is higher than the market yield, equity bonds specify this from the outset. However, because principal is not guaranteed, equity bonds may also produce losses if share prices drop. This is true even if you purchased the bond at its nominal value and you have received interest payments. Let us take a closer look at the risks associated with equity bonds and index-linked bonds in the following:

- Equity bonds: As the buyer of an equity bond, you receive high regular interest payments. The interest rate is normally much higher than the rates for plain-vanilla bonds.
  You should, however, have a positive opinion regarding the share that is to be delivered, as you may have to take delivery of it on the due date on the pre-arranged terms and conditions. On the due date, the price of the share is compared with the delivery threshold of the equity bond:
  - If on the due date the price of the share is higher than the delivery threshold or if both prices are identical, the nominal value of the bond will be repaid to you. You will incur a loss if you purchased the equity bond during its term at a higher price than the repayment price and you are also unable to cover the difference by means of the interest obtained during the term of the bond.
  - If on the due date the price of the share is lower than the delivery threshold, the bond issuer will deliver the shares. In this case, the current market value of the shares delivered will generally be less than the capital originally invested. If the stock corporation fails, you could in an extreme case even receive worthless shares. The size of a potential loss is the difference between the price originally paid for the bond and the lower price of the shares delivered, minus the interest payments obtained. If you hold the shares delivered, you carry the risks of an equity investment from the delivery date onwards.

  During the term of the equity bond, its price is influenced by the following factors:
  - Changes in the capital market interest rate for similar terms,
  - Performance of the underlying share,
  - Volatility (intensity of fluctuation) of the underlying share.

  The price may therefore fluctuate more sharply than is the case with a plain-vanilla bond. Falling share prices lead to falling equity bond prices. The risk of a drop in price during the term of the bond increases the more the share price falls below the delivery threshold and the shorter the remaining term of the bond is. The more the share price falls below the delivery threshold, the more the tradability of the bond may be restricted because of the lack of market demand.

  In the case of so-called "two-asset equity bonds", the share prices and the equity bond delivery thresholds are also compared on the fixed date. If either of the two share prices is lower than the corresponding delivery threshold, the issuer will deliver the shares. As there are several underlying shares, the probability of a delivery of shares increases. It increases even further if

a two-asset reverse convertible is based on shares that display a negative correlation, i.e. their prices move in opposite directions.

- Index-linked and equity-basket bonds: Where these types of bonds are concerned, the total payout amount at maturity of the bond is made up of the following components:
  - a guaranteed repayment amount (percentage of the nominal amount),
  - a fixed minimum rate of interest (if provided for),
  - participation in the rise in the index or basket of equities, possibly limited to a certain percentage and/or capped.

  The amount cannot be determined in advance. It ultimately depends on whether and to what extent the expected performance of the underlying index or basket of equities materialises; sometimes it may not exceed a certain maximum amount.

  During their term, the movement in the price of these bonds depends on different parameters that may change over the course of time. Essentially, the following factors influence the price:
  - the performance of the index or equity basket,
  - the volatility (intensity of fluctuation) of the index or equity basket,
  - changes in the market interest rate for a comparable term.

  Please note: It may well happen that the price falls below the promised repayment amount during the term of the bond.

  Index-linked bonds which, thanks to a positive index performance during their term, promise a relatively high repayment amount, will react more strongly to index movements. On the other hand, bonds which, because of the index performance so far, offer no yield or only a very small yield, generally react more strongly to interest rate changes.
  The shorter the remaining term of the bond is, the closer the price of the bond will move towards the nominal amount or the fixed repayment rate.

- Other structured bonds: The biggest risk attaching to synthetic bonds lies in the lack of transparency of the structure behind the bond. This directly affects the issuer's repayment and/or interest payment commitment and may ultimately lead to the total loss of the capital you invest. Synthetic bonds are often highly complex in structure. Specific advice on product features and the way these instruments work is only possible in each case on the strength of a detailed description of the transaction. Before buying such a synthetic bond, you should thus not fail to closely study the relevant securities prospectus and the terms and conditions of the issue, as the probability of loss may be very high.

9. Risks specific to shares (equities)

It is characteristic of the risks specifically associated with shares that their pricing depends to a large extent on factors which cannot be calculated rationally. In addition to the risk factors described in Section 2.1 to 2.3, the "psychology of market participants", which is dealt with in Section 2.4, also plays an important role. The methods which have been developed for dealing with the flood of information to be considered in making an objective investment decision (Section 2.5) also involve interpretation risks. Do make sure you are aware of the various risk factors, some of which are interrelated, before you invest in shares.

9.1. Business risk (insolvency risk)

As a buyer of a share, you are not a creditor, but a contributor of equity capital and thus a co-owner of the stock corporation. With the acquisition of the share, you participate in the economic development of

the company; you become, in effect, an entrepreneur and thus stand to benefit from the associated opportunities, while at the same time bearing the risks.

The business risk involves the danger that the investment will perform differently from what was originally expected. Nor can you be certain that you will recover the invested capital. In extreme cases, i.e. if the company becomes insolvent, an investment in shares can mean the complete loss of the amount invested, since shareholders only receive a share of the proceeds of liquidation after all creditors' claims have been satisfied.

9.2. Price risk

Share prices are subject to unpredictable fluctuations. Short-, medium- and long-term upward and downward movements succeed one another without any discernible fixed relationship for the lengths of the different phases being identifiable.

In the long term, price movements are determined by the company's profits, which in turn are influenced by developments in the economy as a whole and the general political situation. The influences of economic, currency and monetary policy overlap in the medium term. In the short term, current events of limited duration, such as industrial disputes or international crises, may influence the mood of the market and thus the price of the shares.

Distinction between two sources of risk
From the point of view of a purchaser of shares, a basic distinction can be made between the general market risk and the risk specific to a particular company (and thus to the shares in question). Both affect share prices, either on their own or cumulatively.

General market risk
The general market risk of a share (also known as the systematic risk) is the risk of a change in price which is attributable to the general trend on the stock market and is not directly related to the economic situation of the individual company. In theory, therefore, all shares are subject to the same market risk. Accordingly, the share price of a company can fall on the stock exchange in line with the overall market trend, even though nothing has, in fact, changed in the company's current economic situation. Thus, a change in market interest rate levels may have an indirect affect on the stock market. As a rule, the stock market reacts - usually with a certain time lag - to rising interest rates with falling share prices and, conversely, to falling interest rates with rising share prices. However, a direct and automatic correlation - as in the case of bonds - does not exist here.
The factors which can trigger this sort of general fall in prices are extremely varied and can scarcely be calculated since they may overlap with one another. Even first-class shares may suffer severe price losses as a result of a negative basic trend on the stock market. As an investor, you cannot expect that an unfavourable price change will necessarily, or immediately, be reversed: It is quite possible that a slump will last for months or even years.

Nor can you reduce the general market risk by a wide distribution of shares among different companies and sectors within a market. The wider the shares are distributed, the more precisely will the portfolio reflect the development of the market.
Risk specific to a particular company
The risk specific to a particular company (also known as the unsystematic risk of a share) means the risk of a downturn in the price of a share as a result of factors directly or indirectly affecting the issuing company. The causes of such a change in the price of a specific share may lie in the company's operational situation - e.g. in incorrect management decisions, or failure to comply with legal or regulatory obligations. They may also result from general external economic factors.

As a result of risks specific to the company in question, share prices may follow a quite individual trend which is contrary to the general trend. It should be noted that even the fact that the shares have gone up in price for many years is no guarantee that they will be equally successful in the future. The extent of price changes cannot be estimated accurately in advance and may vary from company to company, from sector to sector and from country to country. However, it is this very fact that allows you to reduce the specific company risk by diversifying your share investments.

Penny stocks
Exchange-listed shares are often termed "penny stocks" when their price over a long period remains below a level such as EUR 1. These shares cannot be identified with any particular branch of industry. Penny stocks are often extremely volatile because of their speculative character, so that very sharp price fluctuations are also possible in the course of a day.

"Penny stocks", however, may also refer to stocks which are not traded on a stock exchange and whose price is usually less than an mount such as USD 1. These types of penny stocks are often offered for sale or purchase by just a single brokerage house. This is the case, for example, for certain exotic shares or participation certificates for which a market regulated and supervised by officially recognised bodies (an organised market) along the lines of a stock exchange does not exist. You should exercise particular care before effecting trades in such non-exchange listed and frequently illiquid securities. Because there is no organised market, the danger exists that securities purchase may not be sold, or may only be sold under unfavourable conditions or at a depressed price. It should also be noted that there is generally a lack of a transparent price determination mechanism, such that it cannot always be determined whether the prevailing bid or offer price actually corresponds to market supply and demand. There may be a wide gap (spread) between the bid and offer prices, particularly when the security is only offered for sale or purchase by a single entity.

Moreover, because of the narrow market, penny stocks are subject to a great risk of market manipulation by market participants.

9.3. Dividend risk

The dividend on a share is principally based on the profits achieved by the stock corporation. In profitable years, the dividend can rise. However, if the company shows low profits or suffers a loss, the dividend may be reduced or even may not be paid at all. Please note: Years of uninterrupted dividend payments are no guarantee of future dividend payments, and these cannot simply be taken for granted.

9.4. Psychology of market participants

Rising or falling prices on the stock market as a whole, or of a single share, depend on the judgements of market participants and thus on their investment behaviour. Not only objective factors and rational considerations, but also irrational opinions and mass-psychological behaviour influence the decision to buy or sell securities. Share prices thus reflect the hopes, fears, suspicions and moods of buyers and sellers. In this respect, the stock market is a market of expectations where the boundary between objectively-based and more emotional behaviour cannot be drawn clearly.

Examples of psychological factors influencing share prices
In the following paragraphs, a number of typical phenomena and factors are described which can trigger share price movements which often cannot be justified on economic grounds.

Mood of the market
In a rising market, the investing public tends to gain in confidence, to accept new risks and, for emotional reasons, no longer to stand by their original, rational decisions. Negative price-relevant events which go

against the general trend are simply ignored or are deemed to have already been taken into account in the current prices. In such phases, price levels on the share market rise continuously, at times resulting in a boom or "bull market".

This same emotional way of looking at matters can also be seen - but in reverse - if share prices fall persistently. Positive price-relevant events which go against the general trend are simply ignored or are deemed to have already been taken into account in the prices. Sometimes this results in a slump (or "bear market").

Depending on the mood of the market, a circumstance which would be regarded positively in a friendly market environment may be regarded as negative on another occasion. In such cases, the market trend diverges from reality as a result of the mood of the market.

Opinion leader

Usually, each investor endeavours to base his investment decisions on as many sources of information as possible in order to reduce uncertainty regarding future developments affecting the capital market. Analysts' recommendations, press publications and stock exchange circulars are of particular significance in this context. These "opinion leaders" provide guidance for a wide range of investors and can reinforce the current market trend (multiplier effect and bandwagon effect). This can trigger price changes which are often not justifiable on economic grounds and which can lead the individual investor to come to erroneous valuations.

Speculation-reinforcing trends

Because of the uncertainty concerning future developments, any investment decision involves speculative elements. As soon as wide circles of investors are led to speculate in a particular direction as a result of having been psychologically "infected", there is a risk that the development of the market will tend to detach itself form economic reality. During such phases of exaggeration, even comparatively insignificant economic or political events which either fail to confirm (or indeed which call into question) the previous market trend can lead to a sudden turnaround in prices and trends.

Market technology

Drastic price movements can also be triggered within seconds by computer-assisted trading activities. This leads to the risk of self-accelerating processes, whereby falls in prices as a result of sales automatically cause a flood of further selling.

Globalisation of markets

Price trends on important foreign stock exchanges often point the way for the domestic stock exchange. Because of this interlinking of market psychologies, developments on foreign stock exchanges can - with varying time lags and to varying degrees - be reflected on the domestic exchange.

Company-related measures

The market may respond differently to official announcements, or even widespread rumours, of impending company-related measures, such as increases in share capital, inter-company agreements, offers to purchase securities, take-over bids or delisting.

In a favourable market climate, a capital increase, for instance, will tend to push up the share price, assuming that the market believes that the "ex-rights reduction" (*Bezugrsrechtsabschlag*) will be rapidly recovered and that the dividends will remain constant despite the wider capital base. In contrast, in a less favourable market climate the company's need for capital may be interpreted as a sign of weakness and thus may lead to a fall in share prices.

9.5. Risk involved in price forecasting

When trading in shares, buying and selling at the right time ("timing") is the most decisive factor for the success of the investment. Numerous methods of analysis, such as fundamental analysis and chart analysis, attempt to collect together and interpret the wide variety of market-relevant, price-relevant and technical factors so as to provide a basis for making a promising investment decision. Fundamental analysis focuses on making the right selection from the shares on offer, whereas chart analysis is used principally to assist in the decision on the timing of the transaction.

Fundamental analysis: Fundamental share analysis is a method of evaluating companies on the basis of company-specific data and the economic environment. The aim of fundamental analysis is to determine the "fair" or "appropriate" price of a share. The process is based on the classic method of analysing balance sheets and profit and loss accounts, as well as a series of share-price-related factors such as the dividend yield or the price-earnings ratio. Fundamental analysis provides indications of undervalued or overvalued shares or companies and thus a basis for developing a corresponding trading strategy on the stock market.
Chart analysis: Chart analysis (also known as "technical analysis") is a technique for interpreting charts (generally, charts of past price performance). The aim is to derive share price forecasts and identify share price potential in order to identify appropriate times for buying and selling. The chart is a graphic representation of price developments and turnover trends, usually for a share or an equity index, but also for sectors and currencies, over a selected period of time.

A chart analyst works on the hypothesis that share prices follow certain patterns which are repeated in a similar way over the course of time and which therefore - once recognised - can be used to predict price developments. Many market participants take chart factors into account in making their investment decisions, and this in turn affects prices in the form of a "self-fulfilling prophecy", meaning that the more often the price development predicted by a particular technical configuration takes place, the more investors act on this in order to take account of the anticipated price effect in their strategies.

In principle, fundamental analysis is based on the information currently available and uses this to develop forecasts of future developments. These conclusions will not necessarily prove to be correct if, for example, current economic and political situations and their possible effects on the companies have been assessed incorrectly.

With regard to chart analysis, it should be remembered that charts can be interpreted subjectively and that conclusions derived from them only have a certain degree of probability and can never be regarded as certain. Forecasts based on technical chart patterns may therefore prove incorrect in retrospect. Decisions to buy or sell shares thus always remain decisions which have to be made without any certainty about future developments.

9.6. Risk of loss and alteration of individual shareholder rights

The individual participation rights (*Mitgliedschaftsrechte*) embodied in shares may be altered by various company-related measures, culminating in the loss of shareholder status, or may be replaced by other rights. Depending on the legal system in force at the seat of the stock corporation, this may take place following a change in legal form, amalgamation, division or absorption of the company or on conclusion of inter-company agreements. Once such measures take effect, individual rights, such as entitlement to payment of a dividend, may cease to exist. Where a change in legal form takes place, investors may become shareholders of a different company which does not necessarily grant participation rights similar to shareholder rights. The major shareholder is often also entitled under the respective legal system to squeeze out minority shareholders. In the event of a squeeze-out, investors no longer participate in a company at all once the relevant measure has been carried out.

Often shareholders are legally entitled to compensation (*Abfindung*) for the loss of participation rights. In the case of German stock corporations, compensation usually has to be provided in cash. In addition, regular payments (e.g. in the form of so-called "guaranteed" dividends) or shares in other companies may be offered as compensation, provided that this is stipulated under the law for the relevant measure. The right to compensation may at the same time depend on other conditions, e.g. the shareholder's objection to the planned measure.

It is not always ensured that compensation matches the value of lost participation rights. In the case of German stock corporations, the adequacy of statutory compensation and conversion ratios can be reviewed in special court proceedings (*Spruchverfahren*). The floor for cash compensation is usually an amount calculated on the basis of market prices or the higher actual company valuation attributed to shares.

The measures outlined above or related financial considerations may force you to abandon your investment in the company concerned on a date specified by third parties. Thereafter, you no longer share in the company's profits. It may also be years in some cases before disputed compensation is paid out in full. If you refuse to accept compensation that is offered to you, you should make allowance not only for any changes in your participation rights but also for the different framework for your investment (e.g. shareholder structure, share price). Different measures may, in particular, also result in different tax treatments of your investment.

9.7. Risk of delisting

The listing of shares on a stock exchange considerably increases their free tradability at any time (fungibility). However, stock corporations are usually free under the respective provisions of stock exchange law to have their shares delisting from the stock exchange. While this does not directly affect a shareholder's participation rights, it may prove extremely difficult to sell shares that are no longer listed on a stock exchange.

Under the respective provisions of stock exchange law or the company law in force at the seat of the company, offering compensation in cash is often a condition for delisting. With regard to the adequacy and enforceability of entitlement to compensation in cash, please refer to the previous Section 2.6.

10. Risks specific to commodities

Commodities refer to a range of raw materials and physical goods. Commodities are divided into four main categories:

- precious metals (e.g. gold, palladium and platinum)
- non-precious metals (e.g. aluminum and copper)
- energy (e.g. electricity, oil and gas)
- agricultural commodities (e.g. wheat and corn).

Commodities are traded around the world on specialised exchanges or directly between market participants in off-exchange trading. This largely occurs by way of highly standardised futures contracts. These contracts provide for a delivery at the end of a defined period for a predetermined price.

It is likewise possible to invest indirectly in commodities, for example through certificates and funds. In these cases, the commodities represent the underlying assets of the securities, with their prices being definitively determined by the prices of the respective futures contracts.

The causes of price risk associated with commodities are highly complex. The prices are often much more volatile than in the case of other investment classes. Commodity markets may also be less liquid than bond, currency and equity markets and, as a result, changes in production and demand may have a more dramatic effect.

Commodity-based indices may not fully reflect the price movements and risks of the individual underlying commodities. The prices of the individual commodities in an index may move in extremely different directions.

Where substitutes for commodities are available, price changes in one commodity may have a direct effect on the price of another commodity.

The factors affecting commodity prices are numerous and complex, making commodity prices difficult to forecast. Following is a brief discussion of some of the factors which ma particularly impact commodity prices:

Cartels and regulatory changes
A number of commodity producers have formed associations or cartels to order to regulate production and thus to influence prices. An example of this is OPEC, the Organisation of the Petroleum Exporting Countries. Trading in commodities is also subject to regulatory supervision and the rules of commodities exchanges. Changes in these rules and regulations may have an effect on prices.

Furthermore, trading in commodities may be subject to the risk of government intervention, for example through the nationalism of certain industries.

Cyclical nature of production and demand
Agricultural commodities are produced during certain times of the year, while demand spans over the entire year. Conversely, energy is produced the whole year round, while demand is the highest in very hot or cold seasons. This cyclical nature of production and demand can lead to sharp prices swings.

Direct investment costs
Direct investment in physical commodities is likely to incur costs associated with holding, storage, insurance and taxes. Furthermore, commodities do not provide any interest or dividend income. The total return from commodities is influenced by these factors.

Inflation and deflation
Changes in consumer prices (inflation or deflation) may have a significant effect on the price of commodities, in particular mineral commodities.

Liquidity
Not all commodity markets are liquid, and they may react quickly and sharply to changes in supply and demand. In the case of less liquid markets, speculative positions by individual market participants may lead to price distortions.

Political risks
Commodities are often produced in emerging-market countries and used by industrialized nations. This constellation entails political risks (e.g. economic and social unrest, embargoes, armed conflicts) which may have a (sometimes considerable) effect on the prices of commodities.

Weather and natural disasters
Adverse weather conditions may affect the supply of certain commodities over the entire year. For example, frost during the pollination season can lead to total loss of crop. Natural disasters can affect production and distribution for an extended period of time, an example being crude oil. Such supply shocks can lead to high and erratic price movements until the full effect is known.

11. Risks specific to currencies

There are many factors that can cause changes and fluctuations in foreign exchange rates. Following we describe some major factors.

Interest Rates
"Benchmark" interest rates from central banks influence the retail rates financial institutions charge customers to borrow money. For instance, if the economy is under-performing, central banks may lower interest rates to make it cheaper to borrow; this often boosts consumer spending, which may help expand the economy. To slow the rate of inflation in an overheated economy, central banks raise the benchmark so borrowing is more expensive.

Interest rates are of particular concern to investors seeking a balance between yield returns and safety of funds. When interest rates go up, so do yields for assets denominated in that currency; this leads to increased demand by investors and causes an increase in the value of the currency in question. If interest rates go down, this may lead to a flight from that currency to another.

Employment Outlook
Employment levels have an immediate impact on economic growth. As unemployment increases, consumer spending falls because jobless workers have less money to spend on non-essentials. Those still employed worry for the future and also tend to reduce spending and save more of their income.

An increase in unemployment signals a slowdown in the economy and possible devaluation of a country's currency because of declining confidence and lower demand. If demand continues to decline, the currency supply builds and further exchange rate depreciation is likely. One of the most anticipated employment reports is the U.S. Non-Farm Payroll (NFP), a reliable indicator of U.S. employment issued the first Friday of every month.

Economic Growth Expectations
To meet the needs of a growing population, an economy must expand. However, if growth occurs too rapidly, price increases will outpace wage advances so that even if workers earn more on average, their actual buying power decreases. Most countries target economic growth at a rate of about 2 % per year.

With higher growth comes higher inflation, and in this situation central banks typically raise interest rates to increase the cost of borrowing in an attempt to slow spending within the economy. A change in interest rates may signal a change in currency rates.
Deflation is the opposite of inflation; it occurs during times of recession and is a sign of economic stagnation. Central banks often lower interest rates to boost consumer spending in hopes of reversing this trend.

Trade Balance
A country's trade balance is the total value of its exports, minus the total value of its imports. If this number is positive, the country is said to have a favorable balance of trade. If the difference is negative, the country has a trade gap, or trade deficit.

Trade balance impacts supply and demand for a currency. When a country has a trade surplus, demand for its currency increases because foreign buyers must exchange more of their home currency in order to buy its goods. A trade deficit, on the other hand, increases the supply of a country's currency and could lead to devaluation if supply greatly exceeds demand.

Central Bank Actions
With interest rates in several major economies already very low (and set to stay that way for the time being), central bank and government officials are now resorting to other, less commonly used measures to directly intervene in the market and influence economic growth.

For example, quantitative easing is being used to increase the money supply within an economy. It involves the purchase of government bonds and other assets from financial institutions to provide the banking system with additional liquidity. Quantitative easing is considered a last resort when the more typical response — lowering interest rates — fails to boost the economy. It comes with some risk: increasing the supply of a currency could result in a devaluation of the currency.