EXCHANGE TRADED FUNDS

Exchange traded funds (ETF) are fund shares that are traded like equities on the stock exchange. ETFs generally form a basket of securities (e.g. a basket of stocks) that reflects the composition of an index. The aim of the ETF is that the price of the fund certificate copies the development of the index value. Therefore, ETFs are often referred to as "index stock".

Return

The return depends on the price trend of the underlying securities in the securities basket.

Risk

The risk depends on the underlying securities in the securities basket.

REAL ESTATE FUNDS

General

Real property funds invest the funds received from the shareholders according to the principle of risk diversification, especially in land, buildings, shares in real property companies, and similar property holdings, as well as its own construction projects; they also hold liquid financial investments (investments in liquid assets), such as securities and bank deposits. The liquid investments serve to secure the real property fund's outstanding payment obligations (e.g., due to purchase of real estate) and repurchase of mutual funds certificates.

Return

The total return of real property funds from the shareholder's point of view consists of the annual dividends (to the extent that the funds distribute dividends instead of reinvesting them) and the price trend of the calculated share value of the fund. The amount of return cannot be determined in advance. The real property fund's performance depends on the investment policy defined in the fund regulations,, the market trend, the specific real properties held by the fund, and the other fund components (securities, deposits in banks). The historic performance of a real property fund is not indicative of its future performance.

Real property funds are exposed to the risk of a reduced return due to vacancies in the buildings, among other things. Particularly in the case of the fund's own construction projects, there may be problems with initial rental. Vacancies may have a negative impact on the value of the property fund and lead to reduced dividends. Investing in real property funds may also lead to a partial loss of the invested capital.

Real property funds also invest liquid funds and cash in banks in other forms of investments, especially interest-earning securities. That portion of the fund assets is therefore subject to specific risks applicable to the selected form of investment. When property funds invest in foreign projects, the shareholder is also exposed to currency risks, since the market value and return on such foreign real property are converted to the accounting currency of the fund when calculating the price of issue or redemption of the mutual fund certificates.

Price or valuation risk

Mutual fund certificates may be given back for the redemption price at any time. In the case of real property funds, the redemption of mutual fund certificates may be subject to restrictions. Under exceptional circumstances, redemption may be temporarily postponed until the underlying assets of the real property fund have been sold and the proceeds from the sale have been received. In particular, the fund regulations may stipulate that following the restitution of a large number of mutual fund certificates, redemption may be postponed. In such cases, the fund cannot disburse the redemption price until the redemption is restarted. Real property funds are typically classified as long-term investment projects.

WARRANTS

Definition

Warrants are securities without interest and dividends attached, granting the owner the right to buy (call warrants) or sell (put warrants) a certain underlying asset (e.g. shares) at a previously fixed price (exercise price) at a particular point in time or during a particular period of time. Since the warrant gives its holder the right, not the obligation, to buy or sell, it will be up to the warrant holder only whether or not he will exercise his right.

Return

The buyer of a call warrant has secured the purchase price of the underlying asset while the buyer of the put warrant has secured a selling price of the underlying assets. A call warrant holder will use his right to buy the underlying asset only if the market price of the underlying asset exceeds the exercise price. In such case the warrant holder may buy the underlying instrument at the strike price and sell it immediately on the market for the market (higher) price. A put warrant holder will use his right to sell the underlying asset only if the market price of the underlying asset is lower than the strike price. In such case the warrant holder may sell the underlying asset for the strike price and buy it immediately on the market for the market (lower) price.

An increase in the price of the underlying asset will usually lead to a proportionately higher percentage increase in the warrant price (leverage effect). A decrease in the price of the underlying asset will usually lead to a proportionately higher decrease of the warrant price. A decrease in the price of the underlying asset will usually lead, with a put warrant, to a proportionately higher percentage growth of the warrant price (leverage effect). An increase in the price of the underlying asset will lead to proportionately higher decrease in the warrant price.

The return on warrant transactions cannot be established in advance.

The maximum loss is limited to the amount of the capital invested.

Price risk

The risk inherent in warrant transactions is the possibility that within the period between the purchase and expiration of the warrant the underlying asset will develop differently than expected at the time of its purchase. In the worst case, the entire capital invested may be lost.

The price of a warrant also depends on other factors, the most important of which are:

– volatility of the underlying asset. In general, high volatility implies a higher price of a warrant.

- time remaining until maturity (the higher the warrant maturity, the higher its price.

A decrease of volatility or shortening of time to maturity may cause the price of a warrant to remain unchanged or fall - even though the expectations in respect of the price trend of the underlying asset are met.

We generally advise the clients not to buy warrants which are close to expire. Buying warrants with high volatility makes your investment more expensive and is therefore highly speculative.

Liquidity risk

Warrants are usually issued only in small quantities, which fact increases the liquidity risk for investors.

Because of this, individual warrants may be subject to particularly heavy price fluctuations.

Warrant trading

Warrants are largely traded over the counter (OTC). A gap generally exists between the purchase price and selling price. This difference is for your account.

With respect to stock exchange trading, it is important to remember that the market frequently has very low liquidity.

Warrant terms

Warrants do not have standardised terms. It is therefore very important to obtain full information on the exact terms and conditions of a warrant, in particular:

Style of exercise:

Is the warrant exercisable at any time during its life (American option) or only at expiry (European option)?

Subscription ratio:

How many warrants are needed to obtain the underlying asset?

Exercise:

Is it necessary to deliver the underlying asset or is cash settlement possible?

Expiry:

When does the option right expire? Please note that your bank will not exercise a warrant unless specifically instructed by you to do so!

Last trading day:

This date is often a bit earlier than the warrant's expiry date, so that it cannot be taken for granted that the option can be sold at any time up to the expiry date.

GUARANTY CERTIFICATES

When guaranty certificates reach maturity, they pay out the initial face value or a certain percentage thereof regardless of the performance of the underlying security ("minimum redemption").

Return

The maximum return obtainable from the performance of the underlying security may be limited by a maximum redemption price or other restrictions on participation in the performance of the underlying security established in the terms and conditions of the certificate. The investor is not entitled to dividends and similar distributions on the underlying security.

Risk

The value of the certificate before maturity may fall below the agreed minimum redemption price before maturity. At maturity, however, the value will generally be at the level of the minimal redemption price. The minimal redemption price depends on the issuer’s creditworthiness.

DISCOUNT CERTIFICATES

Buying discount certificates, the investor receives the underlying asset (e.g., the underlying share or index) at a discount off the current price (safety buffer) but, in exchange, his interest in the growth of the underlying asset is limited to a certain ceiling (cap or reference price). At maturity, the issuer has the option to either redeem the certificate at the maximum value (cap) or to deliver the underlying asset or, if an index is used as the underlying asset, the possibility of the cash settlement exist equal to the index value.

Return

The return is the difference between the discounted purchase price of the underlying asset and the price of this asset at the maturity of the certificate. If the price of the underlying asset at its maturity is higher than the reference price, or if the issuer should pay the price higher than the cap, the return is the difference between the discounted purchase price of the underlying asset and the reference price, or the cap.

Risk

If the price of the underlying asset falls sharply, its price at maturity may be lower than the discounted price at the purchase. Thus the investor suffers a loss. The risk attached to the investment into this type of certificate is comparable to that of the investment into the underlying asset.

BONUS CERTIFICATE

Bonus certificates are debt securities that, subject to certain requirements, pay out at maturity a bonus or appreciated price of an underlying security (individual shares or indexes) in addition to the nominal value. Bonus certificates have a fixed maturity. The terms and conditions of the certificate regularly set the amount of payment of cash or delivery of the underlying asset at maturity. The type and price of redemption at maturity depend on the price performance of the underlying asset.

Three levels are set for a bonus certificate: a starting level, a barrier underneath the starting level, and a bonus level above the starting level. If at any time the price of the underlying asset falls down to the barrier or below it, the bonus will not be paid and the certificate will be redeemed at the price of the underlying asset. If the price of the underlying asset does not fall to or below the barrier, the nominal value of the certificate and the bonus will be paid.

Return

With a bonus certificate, the investor acquires a money claim against the issuer for payment of an amount determined by the performance of the underlying security. The return depends on the performance of the underlying security.

Risk

The risk depends on the underlying security. If the issuer goes bankrupt, the investor has no secured creditor rights or claim for separation and recovery of assets not belonging to the bankrupt estate with respect to the underlying asset.

INDEX CERTIFCATES

Index certificates are debt instruments (usually publicly quoted) that offer investors the possibility of acquiring an interest in a certain index without having to own the securities contained in the index. The underlying index is generally represented on a 1:1 basis; changes in the relevant index are taken into account.

Return

With index certificates the investor acquires a money claim against the issuer for payment of an amount that depends on the level of the underlying index. The return depends on the performance of the underlying index.

Risk

The risk depends on the securities underlying the index. If the issuer goes bankrupt, the investor has no secured creditor rights or claim for separation and recovery of assets not belonging to the bankrupt estate with respect to the underlying security.

EXPRESS CERTIFICATES

An express certificate lets the investor share in the performance of the underlying instrument with the option of ITS early redemption. If on one of the determined dates the underlying instrument satisfies the trigger criterion defined by the issuer, the certificate expires earlier and will be automatically redeemed by the issuer at the redemption price applicable on the determined date. If the underlying instrument does not satisfy the specified trigger criterion even on the final determined date, the certificate will be redeemed at the closing price of the security underlying the certificate established at maturity or on the final determination date. In that case, if the issuer sets a barrier at the start of the issue of the certificate and the price of the underlying instrument neither reaches nor breaks through the barrier during the period under consideration, the certificate will be redeemed at a price at least equal to the minimum redemption price defined by the issuer.

Return

Express certificates offer the possibility of early realisation of the positive performance of the underlying instruments. Even if the specified trigger criterion is not satisfied, there may be a payout of the minimum redemption price, if the barrier has not been reached or broken through.

The certificate may react more or less strongly to the price fluctuations of the underlying instrument depending on various influencing factors (e.g., volatility of the underlying instrument, time to maturity, distance of the underlying instrument from the barrier).

Risk

Express certificates are risky investment instruments. If the price of the securities underlying the Express certificate changes unfavourably, all or much of the invested capital may be lost.

HEDGE FUNDS

(Hedge funds, Hedge funds of funds, index certificates of hedge funds and other products with the hedge strategy as the underlying investment).

General Information

Hedge funds are funds that are subject to few or no restrictions of a statutory or other nature with respect to the principles of investment. They endeavour to use all forms of investment to increase their capital through alternative, sometimes non-transparent investment strategies.

<u>Examples of investment strategies</u>

Long/short:

Undervalued securities are bought and overvalued securities are simultaneously sold.

Event-Driven

The objective is to take advantage of specific corporate events, such as mergers, acquisitions, reorganisation or bankruptcy.

Global macro

This style attempts to use macroeconomic analysis of major economic and political trends in order to identify and exploit market inefficiencies.

Hedge funds of funds are funds that invest in individual hedge funds. Hedge fund index certificates are debt securities whose price and performance trend depend on the average trend of several hedge funds. Hedge funds of funds and hedge fund index certificates offer the investors the advantage of improved risk diversification.

Return and risk components

Hedge funds offer an opportunity for very high returns, but the risk of a high loss of the invested capital high. The price trend of hedge fund products is especially influenced by the following factors, which generate opportunities and risks:

– The price of hedge funds tends to be independent from international stock and bond market trends. Depending on the hedge fund strategy, the general market trend may either be exaggerated or the price of the hedge fund my move in the opposite direction than the general market trend.

– Due to their components, hedge fund assets may be highly volatile, which means that the share prices may of the hedge fund may be subject to significant upward and downward fluctuations within short periods of time. In extreme cases, unsecured hedge fund products may lead to a total loss.

- Concentrating on just one strategy, or only a few, increases the risk– that risk may be reduced through diversification in the case of hedge funds of funds or hedge fund index certificates

- The manager of the fund of funds selects the individual funds and their composition with respect to the fund's desired risk/return profile or according to a system of distribution among various countries and sectors determined by an index committee

- It is impossible for the underlying hedge funds to be transparent at all times to the fund of fund management or the index committee.

Liquidity risk

Since hedge funds require complex strategies and are difficult to manage, it takes longer to determine the price of a hedge fund product than with traditional funds. Hedge fund shares are therefore less liquid than shares or mutual fund certificates of traditional funds. The prices are generally determined on a monthly rather than daily basis and thus the shares can be redeemed only once a month. To be able to return the shares at the time, the investor must give an irrevocable declaration of his intent to return his shares well in advance of the redemption date. The share price may change significantly in the time from the declaration of intent to return the shares and the time of redemption, but the investor does not have the right to such price changes since his declaration of intent is irrevocable. The specific terms of redemption depend on the individual product. The limited liquidity of the individual funds and instruments can therefore decrease the negotiability of hedge fund product.