

YOUR INVESTMENTS IN LUXEMBOURG

# Investment guide







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All investments imply taking risk. The Bank advises investors to examine carefully the risk arising on each investment and to diversify their portfolio in order to limit the overall risk in line with their personal situation and investment objectives. Our Customer Advisers are at your disposal to examine your personal situation and guide your investment decisions.

# A. General risks

## I. Enterprise or intrinsic risk

The investor should bear in mind that investing in a security issued by a given entity bears the risk of loss for reasons relating to the entity's management.

## II. Economic risk

Changes in the activity of a market economy always have an impact on securities prices. Prices tend to fluctuate in line with phases of economic growth or recession. The length and scope of economic cycles vary over time, as does the repercussion on the different sectors of the economy. Moreover, economic cycles can vary from one country to another.

Failure to take this into account or a mistaken estimate of future economic trends when making an investment decision can result in losses. The investor must notably take into account the impact of economic conditions on the value of his investments.

## III. Inflation risk

An investor may suffer losses due to the erosion in the purchasing power of the currency in which he has invested. He should therefore take into account the real value of the existing assets and the real return that can be expected on these assets. Investors should base their decisions on the real interest rate, i.e. the difference between the interest rate and inflation.

## IV. Country risk

There is the possibility that a foreign debtor, although solvent, may be unable to service or repay his debt due to the impossibility of or restriction on transferring funds from his country of origin. This risk includes both economic and political instability.

Thus, in the event of a foreign currency crisis or restrictions on foreign transfers, an investor may not receive the payments to which he is entitled. With regard to securities denominated in foreign currencies, the investor could receive payment in a currency that is no longer convertible due to foreign exchange restrictions. The means of protecting against this risk are generally not accessible to retail investors.

## V. Currency risk

As foreign exchange rates fluctuate constantly, there is always a foreign exchange risk on securities denominated in a foreign currency.

The key factors influencing exchange rates are the inflation rates in the countries concerned, interest rate differences between each country, economic forecasts for the countries in question, the local and global political situation and the safety of the investment. In addition, psychological factors, such as lack of confidence in the government, can weaken the currency of a country.

## VI. Liquidity risk

In the event of a temporary liquidity crunch in a given market, the investor may be unable to sell his securities at market prices. In principle a distinction should be made between lack of liquidity due to supply and demand factors and lack of liquidity linked to the characteristics of the security or to market practices.

Inadequate liquidity due to supply/demand factors occurs when there is almost exclusively a supply (sell price) of, or almost exclusively a demand (buy price) for, a security at a given price. In these circumstances, a sell or buy contract cannot be executed immediately and/or only in part (part execution) and/or on unfavourable terms. Moreover, higher transaction costs may be applied.

Lack of liquidity due to the characteristics of the security or due to market practices can occur in the case, for instance, of lengthy transcription of transactions in registered shares, excessively long execution times due to market practices or other trade restrictions, or to a short-term cash need that cannot be covered by the sale of the securities.

## VII. Psychological factors

Irrational factors can influence price trends. Chart movements, analysts' reports and rumours can lead to significant falls in prices, even when the company's financial outlook and situation have recorded no negative changes. In these cases there is a general aversion to market risk.

Psychological factors, such as lack of confidence in the government, can also weaken the currency of a country.

## VIII. Borrowing risk

Borrowing to finance the purchase of financial assets engenders additional risks. To begin with, additional collateral may be required if the loan ceiling is exceeded due to negative trends in the value of the pledged securities. If the investor is unable to produce said collateral, the bank may be obliged to sell the deposited securities at an unpropitious moment. Also, the loss suffered in the event of a negative trend in prices may exceed the initial investment. Fluctuations in the prices of pledged securities may weigh on the investor's capacity to repay the debt.

Investors should be aware that the leverage effect of purchasing securities on credit generates a proportionally greater sensitivity to price fluctuations and thus presents significant opportunities for gains but also increased risk of losses. The risk is proportional to the degree of leverage.

# B. Brief description of certain investments and the related risks

## I. Shares - Trackers - Equity funds

### a. Shares

A share is a deed of title delivered to the shareholder to testify to his ownership entitlements and can be in registered or bearer form. A share represents a fraction of the capital of a joint stock company. Shares may be listed or not listed.

#### Characteristics

- Yield: dividends.
- Capital gain or loss: if a share is listed, its price varies according to supply and demand. If the share is not listed, its value will depend on the estimated value of the company's assets.
- Shareholder's rights: a share gives the holder pecuniary rights and rights of participation. These rights are determined by law and by the issuing company's by-laws.
- Sale of a share: barring legal provisions to the contrary, bearer shares can be sold without any specific formalities whereas there are often limitations or administrative constraints on sales of registered shares.

#### Risks

A distinction should, in principle, be made between general market risk and risk specific to the issuing company. Both types of risk influence the share price.

#### 1. Enterprise or intrinsic risk

The buyer of a share is not a creditor. He contributes capital and therefore becomes owner of a part of the company. The investor therefore takes part in the company's performance and in the related risks, which can mean the investment does not behave as expected. An extreme case is the company's bankruptcy, which could result in a loss of the total amount invested.

#### 2. Market risk

Share prices are subject to unforeseeable fluctuations resulting in a risk of loss. Short, medium and long-term fluctuations occur with no possibility of determining how long each cycle will last.

#### 3. Dividend risk

The dividend paid on a share is determined mainly by the profit generated by the issuing company. If earnings are low or the company posts losses, the company may decide to reduce the dividend or not to distribute any dividend.

#### 4. Liquidity risk

The investor should look carefully at the stock markets on which the shares are listed and the markets on which they are traded in order to avoid liquidity problems.

## **b. Trackers**

Trackers (or Exchange Traded Funds, ETF) are investment funds that mechanically reproduce the performance of a given stock market index. In other words they track the changes in an index. Trackers are listed on the stock market and are generally issued by banks and asset management companies.

Trackers cater for investors who wish to obtain exposure to the equity markets by investing in the main indices. These funds enable investors to invest in a group of securities representing a given geographic zone (domestic or international indices) or a specific sector of activity, such as banks or oil companies.

### Risks

#### 1. Market risk

The price of shares or units may be subject to unforeseeable fluctuations giving rise to a risk of loss. Short, medium and long-term fluctuations can occur without any possibility of determining how long each cycle will last.

#### 2. Dividend risk

Dividend income on tracker funds is mainly determined by the profit generated by the companies included in the index in which it is invested. If earnings are low or in the event of losses, the dividend may be reduced or not distributed at all.

#### 3. Enterprise or intrinsic risk

The investor should be aware that there is an intrinsic risk linked to each company included in the tracker fund.

## **c. Equity funds**

A mutual fund (UCI or UCITS) is an investment company or collective ownership structure that collects funds from a certain number of investors and invests these in a variety of assets according to the risk spreading principle to enable the shareholders or unit holders to benefit from

their management performance. An equity fund is managed by a specialist who invests principally in shares.

Equity funds (open-end investment company or mutual fund - SICAV or FCP, respectively) invest mainly in shares. They are more risky than bond and money market funds due to the higher risk of a fall in value of the shares, together with a foreign exchange risk in the case of international transactions. However, long-term performances (in excess of four/five years) are also generally higher. The funds are neither more nor less risky than the underlying assets in which they are invested but they offer the advantage of diversification and of access to narrow markets or markets that would be difficult for an individual investor to access.

There are several types of equity funds :

- Geographic funds,
- Ethical funds,
- Sector funds.

A sector fund is a fund that is invested exclusively in a given sector or group of sectors. In recent years, we have seen the development of technology, multimedia and Internet funds and funds specialising in biotechnology or the environment or agri-food. Other popular investment themes are luxury goods, sports and outsourcing.

A distinction can also be made between cyclical, non-cyclical and growth funds.

### Characteristics

- Open-ended funds: in an open-ended fund, there is a priori no limit to the number of shares or units that may be issued, and accordingly to the number of share or unit holders. The fund can issue new shares or repurchase shares already in issue. With regard to the investor, the fund is under the obligation, at all times, to repurchase the shares or units at the redemption price provided for in the fund's contractual

terms and conditions. Note that shares or units are bought and sold at an unknown price. When the client places an order, the fund manager has to buy or sell the securities that compose the fund on the market in order to adjust positions and a new net asset value is calculated for the fund. The client's order will be executed at this new net asset value.

- Closed-end funds : unlike an open-ended fund, there is no obligation on a closed-end fund to repurchase the shares or units. The shares or units can only be sold to third parties, on the stock market if appropriate. The price is therefore determined by supply and demand factors, as in the case of conventional shares. This type of fund often has a limited number of investors.

#### Risks

##### 1. Management risk

Given that the return on investment of a fund depends, among other things, on the fund managers' skill and the quality of their investment decisions, any misjudgement in the fund's management may lead to losses or a fall in value.

##### 2. Market risk

Mutual fund units or shares are subject to the risk of a price fall, reflecting a fall in the value of the securities or currencies held in the fund, all other things being equal. The more diversified the investments, the lower the risk of loss. Conversely, the risk is higher if the fund's investments are specialised and less diversified. The investor should therefore take into account the general and specific risks arising on the securities and currencies held by the fund.

Investors are advised to inform themselves of the specific risks of each fund, notably by consulting the fund prospectus.

## II. Diversified funds

#### General risks

##### 1. Management risk

Given that the return on investment of a fund depends, among other things, on the skill of the fund managers and the quality of their investment decisions, any misjudgement in the management of the funds may lead to losses or a loss of value.

##### 2. Market risk

Mutual fund units or shares are subject to the risk of a price fall, reflecting a fall in the value of the securities or currencies held in the fund, all other things being equal. The more diversified the investments, the lower the risk of loss. Conversely, the risk is higher if the fund's investments are specialised and less diversified. The investor should therefore take into account the general and specific risks arising on the securities and currencies held by the fund.

Investors are advised to inform themselves of the specific risks of each fund, notably by consulting the fund prospectus.

#### **a. Funds of funds**

Funds whose purpose is to invest in other funds (UCI). A fund of funds selects the open-ended investment companies (SICAV) and collective contractual funds (FCP) in which it invests based on a comparison of performances over a long period, on their investment zone and on the quality of the fund managers.

#### **b. Profiled funds**

These are ready-made funds put together for investors who do not wish to spend too long composing their portfolios or who consider they lack the necessary know how. They therefore delegate this task to a management company, which offers its own composition based on the investor profile determined by the investor.

### **c. Alternative investments**

Alternative investments cover a wide variety of methods and specialised asset management strategies and techniques, concentrated on a very precise niche market. Alternative investment funds aim to achieve an absolute performance, preferably steady and uncorrelated to general market trends, while minimising risk and protecting the capital invested.

#### **1. Hedge funds**

A hedge fund is a mutual fund that invests in an alternative investment strategy. Unlike “conventional” mutual funds, a hedge fund generally achieves performances that are disconnected from the general trends in the equity and bond markets.

Remark: “to hedge” is taken here to mean covering one position by a symmetrically opposite position. This does not, however, mean that all hedge funds implement risk free strategies as this would not enable them to achieve the higher returns they target.

Hedge fund management is very technical and specialised and is generally carried out by experienced, independent fund managers who have invested part of their personal wealth in the fund. The fund managers are generally remunerated based on the fund's performance.

Due to the lack of portfolio diversification – choice of a single strategy – and possibly wide use of derivatives, hedge funds are not included in any category of conventional mutual funds. It is therefore a relatively unregulated business, which has developed in the US and in the so-called “offshore” zones.

Hedge funds generally specialise in a given alternative investment strategy, which means there are as many types of hedge funds as there are strategies.

Hedge funds generally attract wealthy, experienced investors who are drawn to the prospect of returns uncorrelated to general market trends.

#### **2. Funds of hedge funds**

A hedge fund is expected to choose a strategy and to stick to it over time. This is a matter of transparency and one of the risks arising on hedge funds is precisely that of an unannounced change of investment style, known as a style drift, if the initial strategy does not produce the hoped-for results.

Hedge fund performances are frequently very variable. As they are also very volatile, investors may prefer to opt for a fund offering lower but more regular returns, and which enables them to redeem units rapidly.

This is why funds of hedge funds were created. The capital collected is invested by the fund manager in a selection of hedge funds, spread across a range of known strategies. Selecting the fund managers, evaluating the risk and choosing how to allocate the assets call for extensive research and financial engineering skills.

Relative to the market curve, a fund of hedge funds never captures the whole rise in the event of a market rally but neither does it capture the whole fall during periods of crisis.

### **d. Absolute Return Funds**

The objective of an absolute return fund is to offer a positive and stable long-term return exceeding the one on risk-free assets, not to outperform a benchmark index.

In the English-speaking world and at some of our peers, alternative investments are those that make it possible to diversify a portfolio consisting of equities and/or bonds. These include precious materials, commodities, property, hedge funds and absolute return funds. This practice is rarely, if ever, applied at our company, where the term “alternative” generally refers to hedge funds alone.

Hedge Funds are non-regulated funds that are authorised to operate with leverage and to practice short-selling. In addition, some hedge funds are available in the form of managed accounts on transactional platforms, ensuring transparent positions and greater liquidity.

This should not be confused with what we call “absolute return” products, defined as:

- a) open-ended funds,
- b) that are valued on a daily or weekly basis,
- c) regulated by OECD supervisory authorities (for example, UCITS 3 or Luxembourg funds part II),
- d) whose stated objective is a stable return over time (often defined relative to the money market), and
- e) whose announced and/or actual risk parameters do not exceed those of the average maturity fixed-income category (VAR not exceeding 6%).

It is therefore possible to catalogue Long Short equity funds using financial analysis in order to buy securities expected to outperform and to sell securities that are too expensive, all this while maintaining firm control of the process's volatility and liquidity (which is that of the underlying assets).

These funds can use equities or bonds but they neutralise the market impact. Moreover, UCITS rules set limits on the leverage available to these funds, distinguishing them from hedge funds.

#### **e. Sector funds**

A sector fund is invested exclusively in a given sector or group of sectors. The first sector funds to appear were funds specialising in the property, commodities, gold and precious metals sectors, followed by healthcare funds.

#### **f. Offshore funds**

Offshore funds are funds that are domiciled in an offshore jurisdiction such as the Bahamas, Bermuda, the Cayman Islands, Panama, Jersey or the Dutch West Indies.

##### Risks relating to offshore funds

###### 1. Leverage effect

Leveraged investment strategies can give rise to significant risks. If a leverage effect is used, even a small market movement can result in substantial gains or losses. This may, in some cases, lead to the loss of the entire investment.

###### 2. Lack of transparency

The investor should note that it is not always easy to obtain information relating to offshore investments. Moreover, the strategies of these funds are often extremely complex and may not be transparent for the investor. Lastly, strategy changes, which can result in considerably increased risk, are often little understood or totally misjudged by the investor.

###### 3. Potentially limited liquidity

The liquidity of offshore investments can vary greatly. In some cases it may be very limited. In the case of hedge funds, units or shares may only be redeemable on a monthly, quarterly or even an annual basis.

###### 4. Limited regulations

These funds are domiciled in offshore locations. They are therefore subject to few regulations. Problems or delays may occur in the execution of purchase or sale orders for fund units, for which the bank takes no liability. It cannot be systematically guaranteed that legal entitlements can be applied.

Any person interested in investing in hedge funds and notably in offshore funds should be aware of these risks. Investors are advised to read the prospectus carefully before making an investment.

### III. Bonds - Bond funds - Structured products with capital protection

#### a. Bonds

A bond is a negotiable debt security, in registered or bearer form, issued by a State, a public body or a private company in exchange for a loan. The bond's face value corresponds to a fraction of the total amount of the loan. Bonds can be fixed rate, variable rate or zero coupon instruments. The duration and repayment conditions are contractually defined on issue. The purchaser of a bond (the creditor) has a creditor's rights in respect of the issuer of the bond (the debtor).

##### 1. Ordinary bonds

- **Coupon:** the remuneration of the capital lent. The interest rate depends on the terms and conditions of the loan and can be fixed or variable, often based on an interbank rate such as LIBOR.
- **Repayment:** unless stipulated otherwise, bonds are repaid either at the maturity date, or by annual repayments or on dates determined in a lottery.
- **Duration:** bonds can be short term (up to three years), medium term (three to seven years) or long term (more than seven years). Note that there are also perpetual bonds with no set repayment date, on which only the coupon is paid.
- **Return:** interest and a possible increase in value. The expected return is different if the bond was subscribed on issue than if it was purchased during its lifetime. In the first case the return is equal to the coupon whereas in the second, the coupon is just one component of the return as the purchase price of the bond must also be taken into account.

##### 2. Convertible bonds

A convertible bond is a bond, generally a fixed-rate bond, that can be converted into shares at a price determined upon issue, thus enabling the bondholder to become a shareholder.

The advantage of this type of bond is that its price rises when the issuer's share price rises whereas it cannot fall below a certain threshold when the share price falls. The bond can be converted into shares when the value of the share reaches the conversion level set when the bond was issued.

The coupon on these bonds is generally lower than on ordinary bonds.

##### 3. Participating bonds

These bonds represent property rights as set out in the bond conditions. These are generally debt securities with a nominal value that entitle the holder to a share of the issuer's profit. A distinction should be made between fixed-rate and variable-rate participating bonds and those with option or conversion rights.

#### Risks

##### 1. Solvency risk

There is a risk that the issuer may become temporarily or definitively insolvent and consequently be unable to pay the interest or repay the loan. An issuer's solvency can change due to a downturn in general economic trends or events specific to the company and/or its sector of activity during the lifetime of the loan. This can notably result from economic conditions, changes in the company's management, in the sector of activity and/or country concerned or from political change with major economic impact.

Any deterioration in the issuer's solvency will have a negative impact on the price of the securities concerned.

##### 2. Interest rate risk

Uncertainty as to interest rate trends means that the holder of a fixed rate security incurs the risk of a fall in the price if interest rates rise. A bond's interest rate sensitivity depends mainly on the residual duration and nominal interest rate level.

If the bond is held to maturity there is no risk of loss linked to interest rate risk.

This risk does not exist for variable-rate bonds as the coupon is adjusted for changes in interest rates.

Zero coupon bonds have higher sensitivity to interest rate trends.

### 3. Call or early repayment risk

Bond issuers may provide for early repayment of a bond in the event of a fall in market interest rates. Early repayment can result in a deviation from the return expected on the investment over the initial duration, given that the replacement investment may be at less favourable conditions.

### 4. Risk on lottery bonds

The term of loans whose maturity is determined by lottery cannot be determined. This can result in unforeseeable changes in the expected return on the bonds.

### 5. Foreign exchange risk

If an investor purchases bonds in a foreign currency, he will bear the foreign exchange and interest risk of the currency in question.

### 6. Risks specific to certain types of bonds

Additional risk may arise on certain types of bonds, such as zero-coupon bonds, bonds denominated in foreign currencies, convertible bonds, indexed bonds, subordinated bonds, etc.

In respect of these bonds, we advise investors to examine the specific risks described in the issue prospectus and assess all the related risks before buying such instruments.

In the case of subordinated bonds, the investor should look at the rank of the bond relative to the other bonds

issued by that issuer since, in the event of the issuer's collapse, these bonds will only be repaid after all the higher ranking bonds.

## **b. Bond funds**

Bond funds invest mainly in bonds. Bonds can be issued at fixed or variable interest rates for a longer or shorter duration (more than one year). Bond funds are neither more nor less risky than the underlying assets in which they are invested but they offer the advantage of diversification and of access to narrow markets or markets that would be difficult for an individual investor to access.

### Risks

#### 1. Management risk

Given that the return on investment of a fund depends, among other things, on the skill of the fund managers and the quality of their investment decisions, any misjudgement in the management of the funds may lead to losses or a loss of value.

#### 2. Market risk

Mutual fund units or shares are subject to the risk of a price fall, reflecting a fall in the value of the securities or currencies held in the fund, all other things being equal. The more diversified the investments, the lower the risk of loss. Conversely, the risk is higher if the fund's investments are specialised and less diversified. The investor should therefore take into account the general and specific risks arising on the securities and currencies held by the fund.

Investors are advised to inform themselves of the specific risks of each fund, notably by consulting the fund prospectus.

## **c. Structured products with capital protection**

Structured products have the risk/return characteristics of their constituent financial instruments.

Structured products are sometimes known as “synthetic products”. Synthetic products combine a minimum of two financial instruments, known as the “underlyings”, to create an artificial product that behaves in the same way as another instrument.

The advantage of a structured product is that the risks linked to each financial instrument can offset each other.

Generally speaking, a structured product is composed of two main elements :

1. An element of capital protection at maturity, generally a fixed income product.
2. A risky element (the alpha generator) that could enable the investment to achieve high performances. This can be any type of financial instrument : a share, an index, currencies or commodities.

Basically, the bond element defines the time horizon and the level of capital protection offered by the product. The alpha generator offers the possibility of enhanced performance.

A “defensive” structured product will allocate the larger part of the capital to the bond element.

Generally speaking, the investor should look at the following issues when assessing a structured product :

- The time horizon.
- The level of capital protection.
- How this protection is achieved.
- The leverage effect.
- The risk linked to the derivative products used.

## Risks

### 1. Liquidity risk

In the case of products with capital protection, the investor is usually tied until the scheduled maturity date. If he wishes to cash in his investment before the maturity date, the conditions are often very unfavourable. In some cases, the security may be totally illiquid throughout the duration of the investment.

### 2. Call or early repayment risk

The issuer of a structured product can provide for early repayment in the event of a fall in market interest rates. Early repayment can result in a deviation in the returns expected by the investor over the duration initially provided for, given that the investor may not be able to reinvest the amount concerned at such favourable conditions.

### 3. Dividend risk

If earnings are low or in the event of losses, dividends may be reduced or not distributed at all.

## **IV. Money market funds**

These are funds invested in money market instruments, i.e. short-term securities issued by governments, banks or private companies. The return on this type of fund is very close to money market rates, which explains their name.

Money market funds can be divided into three types :

- Steady money market funds : steady and positive performance.
- Foreign currency money market funds : steady, positive performance but in the foreign currency in question.
- Sensitive or dynamic money market funds : outperforms the money market but requires a longer investment horizon (at least six months).

## V. Reverse convertibles - Warrants - Structured products without capital protection

### a. Reverse convertibles

A reverse convertible is a structured product issued by a highly rated issuer on an underlying share. The duration is generally one year and at term the security is redeemed at its face value and the coupon paid is significantly higher than bond market rates. In the reverse situation, the underlying asset will be delivered.

### b. Warrants

A warrant is a transferable security that gives the holder the right to buy (call warrant) or sell (put warrant) a given financial instrument (the underlying asset, such as a share, index, bond or currency) at a set price (the strike price) on a predetermined date, the maturity or expiry date. Unlike in the case of tradable options, the investor may not short sell call or put warrants. Warrants allow only buy transactions except in the case of the sale of a warrant already held in the portfolio.

### c. Structured products without capital protection

Structured products have the risk/return characteristics of their constituent financial instruments.

Structured products are sometimes known as “synthetic products”. Synthetic products combine a minimum of two financial instruments, known as the underlyings, to create an artificial product that behaves in the same way as another security.

The advantage of a structured product is that the risks linked to each financial instrument can offset each other.

A structured product generally contains a risky element known as the “alpha generator” that could enable it to achieve high performances. This can be any type of financial instrument, such as a share, an index, currencies or commodities.

An “aggressive”, higher-risk, structured product will use derivatives to increase the scope of the alpha generator.

Generally speaking, the investor should look at the following issues when assessing a structured product:

- The time horizon.
- The leverage effect.
- The risk arising on the derivative instruments used.

#### Risks

##### 1. Liquidity risk

In the case of products without capital protection, the investor is usually tied until the scheduled maturity date. If he wishes to cash in his investment before the maturity date, the conditions may often be very unfavourable. The security may even be totally illiquid throughout the duration of the investment.

##### 2. Call or early repayment risk

The issuer of a structured product can provide for early repayment in the event of a fall in market interest rates. Early repayment can result in a deviation in the returns expected by the investor over the duration initially provided for, given that the investor may not be able to reinvest the amount concerned at such favourable conditions.

##### 3. Dividend risk

If earnings are low or in the event of losses, dividends may be reduced or not distributed at all.

## VI. Options - Futures - Derivatives

A derivative product is a contract under which, in each case, a buyer and seller agree to carry out a transaction at a future date on predetermined terms and conditions. There are two main categories of derivatives: futures and options traded on the main financial markets.

These are complex, hybrid products based on shares, bonds, options or futures. Putting together these products requires specialised teams of financial engineers and efficient control of the positions taken on these markets.

At Crédit Agricole Luxembourg, investors must sign the “Derivative Products Disclaimer” before they can subscribe to a derivative product.

The main derivative products are futures, options, swaps and credit derivatives.

### a. Options

An option is a financial instrument – traded on a market – that gives the holder the right, in exchange for a premium, to buy (call option) or sell (put option) a given financial asset at a predetermined price and on a predetermined date or over a predetermined period.

### b. Futures

A future is a firm commitment to deliver (for the seller) a given quantity of financial securities, currencies, etc. (the underlying assets) or to take delivery (for the buyer) of a given quantity of financial securities, currencies, etc. at a set date at a predetermined price on the terms and conditions set by the market authorities. These contracts are traded on organised markets with clearing houses that calculate the margin call on a daily basis based on changes in futures prices. These contracts are used for speculative and arbitraging purposes and to hedge

against currency, interest rate and market risk. They are generally unwound by a contract in the opposite direction, i.e. the seller will repurchase his contracts and the buyer will resell his. These contracts, which are a commitment to buy or sell, differ from options in which the buyer has simply the right to exercise the option or not.

### Risks

#### 1. Market risk

The price of derivative products may be subject to unforeseeable fluctuations giving rise to a risk of loss. Short, medium and long-term fluctuations can occur without any possibility of determining how long each cycle will last.

#### 2. Issuer risk

The investor may lose his entire investment in the event of the issuer's bankruptcy.

## VII. Private equity

This corresponds to investing in the equity of unlisted companies at all stages of their development (start-up, development and transmission). The return depends on the company's growth and earnings capacity.

It also consists of taking minority shareholdings in unlisted companies at the start-up or development phase.

# Glossaire

## A

### **Accrued interest**

Interest accrued from the last payment date to a given date, but not yet due.

### **Alpha**

Alpha corresponds to the additional performance generated by an investment (a share, a fund, etc.) relative to its benchmark index. The higher the positive alpha, the more the investment has outperformed the market. Alpha is a random variable and as such has a specific risk. It is also the measure of the variation in the return on a security when the market variation is equal to 0.

### **Arbitrage**

A transaction consisting of selling one asset to buy another.

## B

### **Benchmark**

The benchmark is the reference index used to measure the performance of a fund. All conventional mutual funds have a benchmark which enables them to measure the fund's performance relative to its investment universe. For example, the benchmark for a French equity fund could be the CAC 40 index.

### **Bond**

A debt security issued by a State, a company or a public body seeking financing directly on the financial market. Bonds pay interest in the form of coupons. The interest

rate can be fixed or variable. Over the long term, the return on an investment in bonds is generally lower than that on an investment in shares as the risk is lower and the remuneration (interest on the loan) is contractually defined. The government bonds issued by certain countries (French OAT, Belgian OLO, German Bund, etc.) are considered to be practically risk free.

## C

### **Call**

A call is a contract that gives the holder the right to buy the underlying asset at a future date at a pre-determined price (the strike price) and on a pre-determined date (expiry date) or over a given period, in exchange for the payment of a premium. A call is a right and not an obligation.

### **Capital gain (on a security)**

This corresponds to the positive difference when the sale price of a security is higher than the purchase or subscription price (after addition of the subscription fees).

### **Capital loss (on a security)**

This corresponds to the negative difference when the sale price of a security is lower than the purchase or subscription price.

### **Coupon**

This refers to the periodic revenues received on a debt security (dividends in the case of shares). Before the

advent of electronic documents, holders of paper bonds and short term notes had to cut off a coupon in order to exercise their right. The expression continues to be used.

### **Custody fee**

A fee levied by financial intermediaries for maintaining a securities account.

## **D**

### **Derivative product**

These are financial instruments, such as futures, options and swaps, that are different from a security and which are traded on organised markets and whose performance depends in part on the performance of an underlying asset. They enable investors to play trends in financial instruments without being obliged to purchase them directly. Derivatives are highly liquid instruments that enable investors to react rapidly or hedge positions depending on the volatility of the underlying. They are listed at market value and have different characteristics depending on the clearinghouse responsible for supervising the security of these transactions.

### **Dividend**

A portion of a company's profit distributed to the shareholders pro rata to the number of shares held, as decided by the General Meeting of Shareholders. Each share gives entitlement to a dividend. A company generally only distributes dividends if it is making a profit. In some cases, however, it may decide to distribute a dividend even when it has posted a loss, by drawing on the reserves constituted by prior year earnings.

## **E**

### **Execution advice**

A document delivered by all financial intermediaries when a securities transaction has been carried out. This document summarises all the characteristics of the order that was executed.

### **Exit fee**

See **redemption fee**.

## **F**

### **Fonds Communs de Placement (FCP)**

This type of mutual fund is not a legal entity. When the investor buys units issued by an FCP he becomes a joint owner of the securities held in the fund but does not have voting rights. He is not a shareholder. An FCP or collective contractual fund is managed at administrative, financial and accounting levels by a single management company. There are several types of FCPs such as company funds, innovation funds, venture capital funds and local enterprise investment funds.

### **Fund manager**

The fund manager is the person or company that effectively manages a mutual fund.

### **Fund of funds**

A fund created to invest in other funds. Fund of funds managers select the funds in which they invest based on a comparison of performances over long period, their investment zones and the quality of the managers of the funds in question.

### **Future**

A future is a firm commitment to deliver (for the seller) a given quantity of financial securities, currencies, etc. (the underlying assets) or to take delivery (for the buyer) of a given quantity of financial securities, currencies, etc. at a set date at a predetermined price on the terms and conditions set by the market authorities. These contracts are traded on organised markets with clearing houses that calculate the margin call on a daily basis based on changes in futures prices. These contracts are used for speculative and arbitraging purposes and to hedge against currency, interest rate and market risk. They are generally unwound by a contract in the opposite direction, i.e. the

seller will repurchase his contracts and the buyer will resell his. These contracts, which are a commitment to buy or sell, differ from options in which the buyer has simply the right to exercise the option or not.

## **H**

### **Hedge Funds**

A fund that draws on hedging techniques, arbitrage and leverage effect to achieve a maximum return (absolute performance) on the invested capital. The fund manager takes long/short positions to reduce overall market exposure (market neutral) and may draw on a leverage effect to enhance performance. The objective is to achieve a maximum absolute performance while limiting reliance on general bond and equity market trends.

## **I**

### **Indexed funds**

These are mutual funds whose assets replicate one or more stock market indices. The replication can be more or less pronounced depending on whether the fund aims to reproduce the performance of the index exactly or whether it aims to outperform it (slightly) by taking a (slightly) higher risk.

### **Information memorandum, prospectus, general terms and conditions**

These are the names of the information documents provided to the investor, depending on the type of product.

## **L**

### **Leverage effect**

On a portfolio, the leverage effect is the increased performance achieved by increasing positions in one or more securities whose purchase was financed by a loan. Derivative products can be used to achieve a leverage effect.

### **L.I.B.O.R. (London InterBank Offer Rate)**

Interbank lending rate offered by prime financial institutions in London.

## **M**

### **Mutual funds**

This term covers undertakings for collective investment and undertakings for collective investment in transferable securities (UCI and UCITS). These comprise notably collective contractual funds (fonds communs de placement) and investment companies with variable capital (Société d'Investissement à Capital Variable – SICAV).

## **N**

### **Net asset value**

This corresponds to the price, increased or reduced by the subscription or redemption fee as appropriate, at which the units or shares of a mutual fund can be subscribed or redeemed by the investor. This value is obtained by dividing the fund's net assets by the number of shares or units in issue. It is calculated and published as frequently as defined in the fund prospectus or by the regulations. If the fund's net assets exceed EUR 80 million, the net asset value must be calculated daily. In exceptional circumstances redemption may be suspended. Some funds have a limit on subscriptions.

## **O**

### **Option**

An option is a financial instrument – traded on a market – that gives the holder the right, in exchange for a premium, to buy (call option) or sell (put option) a given financial asset at a predetermined price and on a predetermined date or over a predetermined period.

## **OTC (Over-The-Counter)**

This is an over the counter market. The shares listed on this market are often speculative. Most bonds are listed on this market.

## **P**

### **Placing an order**

Placing a buy or sell order requires the investor to have a securities account with a financial institution (bank, stock-broker, online broker, etc.). Orders may be placed by telephone, by Internet or by fax. The investor must supply a certain amount of information to ensure that the order is executed properly :

- direction : buy or sell,
- name of the company (or ISIN code),
- type of security (share, bond, etc.),
- market (e.g. : Premier Marché, Second Marché),
- quantity,
- validity period (e.g. day),
- type of order.

### **Performance**

Total gain or loss on a security or mutual fund over a given period. This is calculated as a percentage and takes into account both the change in capital and the revenues.

### **Portfolio**

All the securities owned by one person.

### **Premium (warrant – option)**

The premium is the price at which a warrant or option is bought. The amount of the premium is calculated based on a valuation model that takes several parameters into account (time, volatility, strike price, price of the underlying).

### **Put**

A tradable option to sell that can be bought and sold. The purchase of a put corresponds to an expectation

of a fall in the price of the underlying: the investor pays an upfront premium that gives him the right to sell the underlying at a price agreed in the contract (strike price). He thus protects himself against a fall in the price of the underlying. The sale of a put corresponds to a neutral or upside expectation. If the price of the underlying rises, the purchaser of the put will have no interest in exercising the option and the seller will be free of his obligation and will keep the premium.

## **R**

### **Redemption**

Transaction whereby the subscriber to a mutual fund sells his shares or units at a price based on the net asset value after deduction of fees and commissions.

### **Redemption fee (or exit fee)**

This is a fee applied to the resale of certain financial products such as units or shares in undertakings for collective investment in transferable securities (UCITS). It is deducted from the net asset value to obtain the redemption price.

## **S**

### **Share**

A share is a deed of title testifying to the shareholder's ownership of a part of the capital of a company. A share gives its owner an entitlement to be kept informed of the company's management, to vote at general meetings and, if the company's results permit it, the right to part of the company's profits. If the share is listed, the share price is determined by supply and demand. Shares pay a non-guaranteed return in the form of dividends.

### **Short term note**

A debt security, generally medium term, issued by a financial institution. These instruments are issued on tap according to subscribers' demand.

### **SICAV (Investment Company with Variable Capital)**

A SICAV (Société d'Investissements à Capital Variable) or investment company with variable capital is a legal entity. SICAVs are investment companies whose purpose is to manage collectively a securities portfolio on the behalf of its subscribers. Their assets are generally made up of cash and transferable securities. Some SICAVs can invest in derivatives markets. Their capital is divided into a number of shares, which varies according to subscriptions and redemptions. Each share has a net asset value (NAV) which is calculated on a regular basis (daily, weekly, monthly) enabling each investor to know the exact amount of his investment - number of shares multiplied by the NAV). The term "SICAV" is sometimes very loosely used to refer to two different legal forms of mutual funds: SICAV and FCP. The latter benefit from a special tax status for Luxembourg residents. Contact your advisor for more information.

### **Strike or exercise price**

The price at which the underlying asset can be bought (call) or sold (put) if the option is exercised.

### **Subscription fee (or entry fee)**

This corresponds to the expenses the investor must pay each time he purchases certain products such as mutual fund units or shares. These fees are generally expressed as a percentage of the subscription amount.

## **T**

### **Tracker**

Although very similar, tracker funds differ from index funds in several ways: trackers apply no subscription or redemption fees, the management fees are often lower and they can be traded in real time during the day. However, as its objective is to reproduce as exactly as

possible the performance of a given index, a tracker will not outperform its benchmark index, unlike an actively managed mutual fund.

### **Term deposit**

This is a deposit account in which the funds are blocked for a given length of time in return for a level of remuneration agreed upon sub-scription.

### **Transferable securities**

Securities issued by public or private legal entities (such as companies or SICAVs) that give access to a fraction of the capital of the legal entity (shares) or creditor's rights to its assets (bonds). Mutual fund shares and units are also transferable securities

## **U**

### **Undertaking for Collective Investment (UCI)**

An undertaking for collective investment can be in the form of a contractual fund (Fonds Commun de Placement - FCP) or in the form of an open-ended investment company (Société d'Investissement à Capital Variable - SICAV). These products enable investors to divide the risk by holding a portfolio of assets (shares, bonds or other assets) jointly with a number of other investors.

### **Undertaking for Collective Investment in Transferable Securities (UCITS)**

These are collective investment undertakings that comply with strict criteria in terms of risk spreading, investment rules and management. These criteria are defined in a European Union directive and translated into Luxembourg law in Part I of the Luxembourg UCITS law. The harmonisation of the rules governing UCITS means that they can be freely marketed throughout the European Union. These rules are designed to protect the investors

## W

### **Warrant**

A warrant is a transferable security that gives the holder the right to buy (call warrant) or sell (put warrant) a given financial instrument (the underlying asset, such as a share, index, bond or currency) at a set price (the strike price) on a predetermined date, the maturity date. Unlike in the case of options, the investor may not short sell call or put warrants. Warrants allow only buy transactions except in the case of the sale of a warrant already held in the portfolio.

*This document aims to provide our customers with a general overview of the main financial instruments available on the stock markets and present the related risks.*

*This document is not exhaustive and does not pretend to cover all financial instruments and their related risks.*

*When taking an investment decision, customers should take into account their knowledge of the risk incurred as well as their investment objectives and overall financial situation.*





