

# Investment Services Information

Characteristics and risks of  
Financial Instruments



## Introduction

In the Investment Services Information, DEGIRO provides the details of the contractual relation that DEGIRO has entered into with you in the Client Agreement and a more detailed explanation of its services and contracts. In this reference work, you can also read about the general and specific risks associated with investing in Financial Instruments. We recommend that you read the Investment Services Information and prepare well for investing, so that you can do this in a responsible manner.

The Investment Services Information is part of the Client Agreement. In the Investment Service Information, capitalised terms have the meaning as defined in the Investment Services Conditions or as defined in the Investment Services Information.

If you have any questions, please consult our Frequently Asked Questions (FAQ) on the Website. If you do not find the answer or you have any comments and/or suggestions, please contact the DEGIRO Service Desk. You can find the contact details and availability of the Service Desk on the Website.

## Documents

The Investment Services Information consists of the following documents:

- Profiles
- Money Market Funds
- Investment Services
- Orders and Order Execution Policy
- Corporate actions
- Administrative tax actions
- Fees
- **Characteristics and risks of Financial Instruments (this document)**
- Security Value, Risk, Debit Money and Debit Securities
- Market Data

# Characteristics and risks of Financial Instruments

In this document, we provide an introduction per type of Financial Instrument of the main characteristics and risks of the Financial Instruments that you can trade in through the services of DEGIRO. We advise you to read this information with care, so that you are aware of your actions and the related risks related.

It is impossible to provide an exhaustive description of the characteristics and risks of all Financial Instruments. The number of different Financial Instruments is far too high. The information in this document does not include individual Financial Instruments, but sees to the main categories of Financial Instruments. It is important to note that within the different categories, large differences can exist. For instance, a share in a biotech start-up naturally has different characteristics and a different risk profile than a share in a bank, but both investments fall in the same category of 'shares'. Another example is that of a unit in a real estate investment fund that has different characteristics and risks than a unit in an investment fund that invests primarily in Derivatives, although both investments fall in the same category of 'investment funds'. It is therefore important that, in addition to the general knowledge that DEGIRO provides in this document, you also conduct your own research regarding the specific characteristics and risks prior to acquiring your investments.

## 1. Knowledge and experience

For an investor, obtaining prior knowledge and gaining experience are essential in order to be able to invest cautiously and sensibly, and are important factors that can prevent investors from running risks unnoticed.

### 1.1 Knowledge

In order to be able to invest responsibly, you should make sure to obtain the knowledge that enables you to make well-considered and informed investment decisions.

Firstly, you should understand exactly the risks involved with a particular type or category of a Financial Instrument (such as a bond, a share or a Derivative), and what the characteristics of Financial Instrument are. A (non-exhaustive) summary of the main characteristics and risks of different types of Financial Instruments is presented below.

Secondly, you should have obtained enough information about the specific investment you want to make, such as in shares or in listed fund X or Y. A prospectus is issued for most financial products, containing important information about the product and the issuing institution. Before you invest in a particular product, we advise you to read the accompanying prospectus.

A prospectus can usually be viewed on the website of the issuing institution, the exchange where the product is admitted to trading, or can be requested directly from the issuing institution. For many products, such as units of investment companies, turbos and derivatives, the provider of the product is required to make a key investor information document (KIID) or a key information document (KID) available in which important aspects of the product such as costs and risks are explained. In addition, information about the financial position of the issuing institution can be found in the annual report and similar publications.

Read these documents carefully before making any investment.

For all Financial Instruments for which a KIID or KID is available, you can find the KIID or KID if you go to that product in the Trading Platform and then choose the tab 'Documents'. Alternatively, you can request a free copy of the KIID or KID from DEGIRO. Please note that DEGIRO is not responsible for and is not involved with the content of the documents that are drawn up by the issuers and/or management companies.

### 1.2 Experience

Knowledge and experience are related. You obtain knowledge of investment not only through studying financial products and the markets, but also by gaining experience. You can gain experience by investing. Obviously, it is

wise to exercise caution here, and to invest small amounts in Financial Instruments in which you do not have enough experience.

## 2. General risks of investment

Every investment involves risk to some extent. In addition to the specific risks of a Financial Instrument, investing also involves general risks. Usually, the higher the expected return, the higher the risks will be. The main (general) risks for investors are described below. You can refer to the document Security Value, Risk, Debit Money and Debit Securities in the Investment Services Information for further information about the main elements of DEGIRO's risk model.

### 2.1 Currency risk

The currency risk is the (additional) risk of the value of investments denominated in Foreign Currencies due to the impact of changes in the exchange rate of those Foreign Currencies against the Local Currency. If you have a position in a Foreign Currency with DEGIRO, you run a currency risk on this position. Currency risk also arises with investments in Financial Instruments denominated in Foreign Currencies or in Financial Instruments that are sensitive to currency rate movements.

### 2.2 Interest risk

Changes in both short and long-term interest rates can affect the value of Financial Instruments. A change in the interest rate can affect all types of investments in your portfolio. Generally speaking, fixed-interest securities with a long maturity react strongly to interest rate fluctuations.

### 2.3 Liquidity risk

The liquidity risk depends on the volume of transactions in the Financial Instrument and the free float (the outstanding securities available for trade). If the market is not sufficiently liquid, the investor runs the risk of being unable to sell the Financial Instruments in the portfolio, or of being unable to do so directly at the market price.

### 2.4 Bankruptcy risk/counter-party risk

Financial Instruments are issued by companies or governments that may go bankrupt during the period in which you invest in these instruments. The risk of bankruptcy depends on the creditworthiness of the issuing institution. If a bankruptcy occurs, the situation may arise that you become a creditor of the estate of the bankrupt party. In order to make an estimate of the bankruptcy risk, you need to have insight into the creditworthiness of the issuing institution and your rights in the event of any bankruptcy.

### 2.5 Specific market risks

With DEGIRO it is possible to trade on different exchanges. Bear in mind that different exchanges may have different rules, for e.g. the permitted order types, order limits, opening hours and the trading system used.

It is wise to ensure that you are well-informed about these specific rules before you start trading on a new exchange or market. These rules may change from time to time. If you are trading in Securities that are not listed in the main indices, it is advisable to be extra cautious. On some markets lower requirements apply to such Securities. Securities outside the main indices may also be traded less frequently, as a result of which pricing may be more volatile and the risks higher. We advise you to obtain information from the different exchanges from time to time, which can often be found on the exchanges' websites.

### 2.6 Risks of interruptions of trade and malfunctions

There is a possibility that trading in a particular Financial Instrument may be temporarily impossible due to third parties (e.g. the exchange halts the trading of a certain product to prevent an irregular pricing) or that a certain communication channel of a third party is not available for trading. Certain information may also be unavailable

(such as price or Orders information provided by third parties), which can lead to substantial damages. The involved market parties will take measures to prevent this from happening, but the possibilities of failures or technical issues cannot be eliminated entirely (e.g. technical infrastructure is damaged by third parties in the course of construction work).

## 2.7 Other risks

The risk of negative price movements is not only determined by the results of the company in which you choose to invest, but is also influenced by the overall market sentiment. Various other factors can also influence the general price movements of Financial Instruments. Examples include:

- political risks (amendments of laws and regulations and other government measures that have adverse effects);
- fiscal risks (changes in the fiscal treatment of your investments through changes in the applicable fiscal laws or their interpretation);
- inflation risk (the risk that the spending power of your Local Currency will diminish);
- reinvestment risk (the risk that there is no equivalent reinvestment possibility at the time of repayment);
- et cetera.

## 3. Characteristics and risks of Financial Instruments

The purpose of this chapter is to provide you with an outline of the key characteristics of the different types of Financial Instruments in which you can invest via DEGIRO and the main risks associated with those investments. This chapter cannot describe all characteristics and risks. The information in this chapter does not refer to your personal situation, but provides general information on the Financial Instruments in question.

Risks are associated with all forms of investment and trading. These risks are dependent on the nature of the product in which you trade or invest. An investment can be speculative to a greater or lesser degree. Sometimes, you can only lose your initial investment and sometimes you can lose more than your investment, for example, if you invest in futures or written options, or if you use the service Debit Money or Debit Securities. Usually, an investment with a higher expected return carries higher risks.

If the characteristics of the category of Financial Instruments in which you wish to invest are not described in this chapter, you should inform yourself of the investment risks associated with these Financial Instruments.

The relevant issuing institutions provide information on many Financial Instruments, for example in the form of KIID, KID, prospectuses, financial statements and reports on corporate actions (dividends, coupon payments, rights etc.). You can use this information when taking your investment decisions. DEGIRO's investment service is limited to 'Execution Only'. This means that you decide for yourself, at your own initiative, which Orders you want to place. The service of DEGIRO is to execute those Orders or transmit them to a third-party broker for execution. DEGIRO provides no advice in that regard.

### 3.1 Investment funds

Investing in an investment fund (a contractual fund or an investment company created under corporate law) is a simple way to achieve a spread of your investment portfolio. With the aid of an investment fund, you also have the possibility of investing (indirectly) in assets that are not available to private investors in other ways. The way in which the fund manager compiles the investment portfolio is described in detail in the relevant prospectus. The fund manager of an investment fund compiles a portfolio within a predetermined spread over the various investment categories, such as money, shares, bonds, property and commodities.

Investment funds are offered via exchanges and outside the exchanges. This distinction is described as listed and unlisted investment funds. A distinction can also be made between open-ended and closed-ended investment funds. An open-ended investment fund has the possibility of issuing new units when new money flows into the investment fund and to withdraw units when the money flows out of the fund again. The value of the units in an open-ended investment fund trade around the net asset value (the total of all that fund's investments per unit). A closed-end investment fund does not have the possibility of issuing new units, as a result of which the price depends on the supply of and demand for units in that fund in the financial market. For all investments, but in particular for

closed-end investment funds, it is important to make use of Limit Orders. This avoids a transaction being realised at an unexpectedly high or low price.

### **Risks of investment funds**

Investment funds can invest in almost anything. As a result, little can be said about the risk of investment funds without information on the investment policy of the specific fund. An investment fund may or may not make use of leverage by investing with borrowed money or borrowed Securities or by trading in Derivatives to finance investments and/or to increase the exposure to certain asset categories. Such a construction usually increases the price fluctuations of the investment fund. With some investment funds it is only possible to sell your investment at certain moments. You can, for example, only sell once a month or even once every quarter.

This means that you cannot quickly sell your investment when the price is going down. Investments in investment funds that have their seat within the EU, should be protected against bankruptcy of the manager.

Information on matters such as the possible investments, the use of leverage and the possibilities to sell your investment and the risks in case of the bankruptcy of the manager, can be found in the prospectus and in the KIID or KID. If you wish to invest in an investment fund, it is therefore essential that you study these documents to see whether this would be a suitable investment for you.

Investment funds are offered by fund managers from all over the world. Some in more and some in less regulated jurisdictions. Although this does not say anything about the investments or investment risk of the fund in question, investment funds from less regulated countries may bear additional risks that you should take into account when making your decision.

Often, positions in unlisted investment funds can only be acquired through pre-subscription, in which you have to deposit money in advance, for example with the manager of that fund or the party that performs the client administration for that investment fund. Investors that pre-subscribe to an unlisted investment fund should bear in mind that an increased credit risk is associated with this because no direct delivery takes place for payment. There is a risk that the institution that has received your money will go bankrupt in the period between the pre-subscription and the payment of the amount to the investment fund. The amount that is reserved for the pre-subscription to pay for the delivery of the units that you wish to buy will then be included in the bankruptcy estate of that institution. In that case, no units in the investment fund can be delivered to the investor and the investor's payment obligation may still exist.

All regulated investment funds within the EU that offer units to non-professional investors must provide a KIID or KID. The KIID provides a brief description of the investment proposition that the investment institution offers, in non-technical terms. The KIID will be available on the website of the relevant investment fund (see also Products & Markets on the Website for this).

### **3.2 Bonds**

A bond is a debt instrument issued by a government agency or a company. The buyer of a bond lends the issuer an amount for a period agreed in advance, often at a fixed interest rate. The zero-coupon bond forms an exception to this. This bond does not pay interest during its term. The return on bonds of this kind is obtained from the difference between the purchase price and the later redemption price.

There is a wide range of different types of bonds, with very large differences in terms of risks and returns. You should therefore take care when investing in bonds and study the documents issued for the relevant bond. In addition to the more conventional bonds, there are special forms of bonds with a complex character (complex bonds). This character may relate to the interest payment method, the redemption method, the issuing method and special lending conditions. For example, the return on a bond may be made (partially) dependent on current interest rates (examples include surplus bonds and interest index bonds) or on the profit of the institution that issued the bond (such as profit-sharing bonds and income bonds). In view of the special risks of complex bonds, they cannot generally be regarded as fixed-interest securities.

## Risks of bonds

An investment in bonds entails risks. The risk of the bond is reflected partly in current market interest rates and the creditworthiness of the issuing institution. Rising market interest rates will usually lead to a fall in the price of the bond, and vice versa. With a reduction in the creditworthiness of the issuing institution, you run a greater risk that it will be unable to pay the interest and to redeem the bond. This also results in a fall in the bond's price. In the event of bankruptcy, bond-holders usually take precedence over shareholders for any payments to creditors. Nevertheless, also with an investment in bonds, there is a risk that you will lose your entire investment.

Special attention is required in relation to bonds of banks. Under many jurisdictions including in the EU countries, resolution authorities have far reaching rights in relation to the shares and bonds issued by banks. Such right may include the right to write bonds off, alter the maturity of the bonds, suspend payment on the bonds or convert the bonds into other instruments such as normal shares.

Complex bonds generally offer higher (coupon) yields than conventional bonds, but complex bonds also carry higher risks than conventional bonds.

A **perpetual bond** is a perpetual loan that (at the initiative of the issuer) can be redeemed. As such, the redemption of the loan is uncertain. There is a risk that the coupon interest of a perpetual bond will be temporarily or structurally lower than that of conventional bonds of the same or similar issuing institutions. If the price of existing bonds falls because new bonds offer a higher coupon interest, the price loss that this causes for a perpetual bond will be higher than the price loss for a conventional bond, because with the perpetual bond, there is no prospect that the loan will be redeemed, and the received amount reinvested for a better return. In addition, the perpetual nature of perpetual bonds means that the duration may be longer than for conventional bonds, resulting in a higher debtor risk.

**Subordinated bonds** carry a high debtor risk because if the issuing institution goes bankrupt, the holder of a subordinated bond is in a far worse position than the holder of a conventional bond, who will be a normal unsecured creditor. As a holder of a subordinated bond, you accept that your loan will not be repaid until after all other creditors of the issuing institution have been paid.

**Bonds with a variable interest rate** (immediately or commencing at a later date), such as 'floating rate notes' and 'steepeners', carry a risk that the coupon interest will be lower than expected at a certain point, which not only leads to a lower yield but also to a price loss.

## 3.3 Convertible bonds

A convertible bond is a bond that at the request of the investor or the issuer, or at a predefined trigger, can or will be converted into shares. An important distinction is the one between **convertibles** and **reverse convertibles**. A convertible affords the investor the right to exchange the bond for a predetermined number of shares during the conversion period. With a reverse convertible, the issuing institution has this right and the investor therefore has an obligation, if the issuing institution exercises that right, to accept a predetermined number of shares in exchange for the bonds.

A recent form of reverse convertible bond is the **CoCo**. CoCo's (Contingent Convertible bonds) are mainly issued by banks to bolster their regulatory required equity buffer. A CoCo will normally be converted to shares when the capital position of the issuing bank deteriorates. With some CoCo's, the bonds will not be converted into shares but the nominal amount of the bonds will be reduced when the capital position of the bank hits a predetermined trigger. Reducing the nominal amount of the CoCo will mean an irrecoverable loss for the investors. CoCo's may even be subordinated to shares. Because CoCo's can differ very much between each other, it is essential to read the prospectus carefully before investing in a CoCo.

## Risks of convertible bonds

Convertible bonds have characteristics of both bonds and shares. Reference is therefore made to the risks associated with both these Financial Instruments. A reverse convertible carries an increased risk because the

investor may be required to accept shares at a moment chosen by the issuer; not by the investor. The same applies to CoCo's. As CoCo's serve as capital buffer for the issuing banks, CoCo's will be converted at a moment that things do not go well with the issuer. Besides that, there is no obligation for the issuer of the CoCo to pay the coupon, nor to redeem the CoCo. Also the marketability of CoCo's often is limited.

### **3.4 Shares**

Shares are participating interests in the share capital of a company. A shareholder acquires voting rights in the company and possibly an entitlement to dividends.

#### **Risks of shares**

The value of a share is directly connected to the wellbeing of the company. If things go well with the company, things go well for the share - and vice versa. The price of the share will fluctuate sharply as the profit expectations of the company become more uncertain. The price depends mainly on macro-economic developments, news on the company and/or the sector and the dividend policy. The returns on shares will vary sharply from one (type of) company to another. With shares, too, you run the risk of losing your entire investment. As a rule, if a company goes bankrupt the shares will no longer have any value.

Special attention is required in relation to shares of banks. Under many jurisdictions including in the EU countries, resolution authorities have far reaching rights in relation to the shares and bonds issued by banks. Such right may include the right to expropriate or nationalise the shares.

### **3.5 Options**

An option is a contract in which the party granting the option (the 'writer') grants its counter-party (the 'buyer') the right to buy underlying assets, such as a package of shares, during or at the end of an agreed term (we refer to a 'call option'), or to sell the underlying assets (we refer to a 'put option') for a price determined in advance or of which the determination method is agreed in advance. The buyer usually pays the writer a price for this right. The price of the option is often a fraction of the value of the underlying assets. As a result, price fluctuations in the underlying assets lead to higher profits or losses for the holder of an option. This is known as the 'leverage effect'.

Options are suitable for investors who have enough knowledge of Derivatives and of trading in the underlying assets and who can afford high fluctuations in the price.

Option contracts are settled either on the basis of delivery of the underlying assets or on the basis of settlement in money.

#### **Bought options (a 'long' position)**

The buyer of an option contract has a right (not an obligation) to buy a certain number of the underlying assets during or at the end of a particular period (call option) or to sell these (put option) for a pre-agreed price. The buyer of an option pays a price (the premium) for the right that the buyer acquires.

#### **Risks of bought options**

The potential loss for the buyer of an option is limited to the price paid (the premium). Due to the leverage of the option, however, its value will fluctuate sharply. The risk of losing your investment is higher than with an investment in the same underlying assets. The risk of losing the entire investment increases as the price of the underlying value falls in the case of a call option, or rises in the case of a put option. Because options have a limited term, the chance that you will actually lose your investment is higher.

Bought options are held by the DEGIRO for the risk and account of its clients with a clearing member who in its turn holds the options with a central counterparty or CCP. Bankruptcy of the clearing member or CCP will mean that the options may become worthless.



### Written options (a 'short' position)

The writer of an option accepts an obligation (not a right) to 'at the request of the buyer' sell the underlying assets (call option) or buy the underlying assets (put option) for the agreed price. The writer has therefore accepted an obligation for which it receives a price (the premium). The writer of the option must provide security ('collateral' or 'margin') for the obligations that can arise from a written option position, in the Netherlands this will usually be in the form of a right of pledge on money and/or Securities. The required security fluctuates with the price of the underlying security and is calculated on a daily basis. If the security provided by the writer is no longer sufficient, the writer must provide additional security, for example by transferring money, or close positions.

### Risks of written options

By writing a call option, the writer of the option can be required to sell the underlying value for the agreed price. When the writer does not have the underlying value, the writer will have to buy the underlying value on the market against the market price of that moment. As the price of the underlying value can increase without limit, the theoretical loss of the writer of a call option is unlimited. It is possible to write hedged call options, for example by writing call options for shares that are present in the portfolio. The risk is then limited.

By writing a put option, the writer can be required to buy the underlying value for the agreed price. As the market price of the underlying value can be as little as zero (but not less), the risk of the writer of a put option is limited to the amount of the agreed price.

The security that the writer of an option must provide, provides cover for some price losses, but does not rule out the possibility of a loss that is higher than the value of the security.

The writer of an option may face (unlimited) losses which can be many times higher than the price that the writer has received.

### 3.6 Futures

A futures contract is a term contract in which the vendor sells the buyer a fixed amount of the underlying assets (shares, index, bonds, potatoes, etc.) 'in advance' for a fixed price. Attention: other than with options, a future creates obligations for both the seller (who must deliver in due course) and the buyer (who must pay in due course). Futures contracts are settled either on the basis of delivery of the underlying assets or on the basis of settlement in money. In the event of settlement on the basis of delivery, the parties are required to actually deliver or accept delivery of the underlying asset against payment of the fixed price (Securities through transfer, potatoes through physical delivery). In the case of settlement in money, settlement takes place on the basis of the price of the underlying security on the expiry date.

Security must also be provided for the obligations that arise from a futures position. Because with futures, both the buyer and the seller have obligations, both the buyer and the seller must provide security. Other than with options, price movements in the underlying security do not lead to changes in the amount of the security, but to daily payments between the buyer and the seller of the future. Unlike an option, therefore, a future does not build up any value.

This complex product is suitable for investors who actively monitor their positions on a daily basis and have enough knowledge of Derivatives and of trading in the underlying security and who can afford high fluctuations in the price.

### Risks of futures

When entering into a future, only a small amount of security must be provided in relation to the underlying assets to which the future relates. However, limited price fluctuations of the underlying assets, can lead to high losses (or profits), through the leverage effect. The security that an investor in futures must hold provides some cover for the

price losses but does not rule out the possibility of a loss that is higher than the amount of the security. The loss on a future can be substantial.

Futures are held by DEGIRO for the risk and account of its clients with a clearing member who in its turn holds the futures with a central counterparty or CCP. Bankruptcy of the clearing member or CCP will mean that the futures may become worthless.

As an investor in futures, you should carefully consider whether this complex product is suitable for you, partly in view of your knowledge and experience, your financial position and the purpose of your investments.

### **3.7 Warrants**

A warrant has similar characteristics to an option contract, the main difference being that a warrant is not - like is the case with a Derivative - created as a contract with an (unknown) counter-party, but is always issued by and contracted with, the company or (government) institution that created the conditions for the warrant.

#### **Risks of warrants**

The risks associated with a warrant are similar to the risks associated with buying call options. A risk of a warrant is that the value of the warrant depends on the prosperity of the issuing institution. If the issuer goes bankrupt, the warrant may lose all value.

### **3.8 Trackers**

A tracker is an - normally exchange traded - investment fund that 'passively', i.e. without making independent investment decisions, attempts to track a particular underlying value (e.g. an share index, but it may as well be commodities or bonds) as closely as possible. A tracker in which the underlying asset is actually present can be regarded as an investment fund in which the underlying assets, e.g. the shares of an index in the same proportion as in the index itself, are included. A tracker with a synthetic structure can be regarded as an investment fund that imitates a particular underlying value (e.g. a metal or a commodity index) with derivatives. The deposits of investors are invested, for example, in bonds, and derivatives (swaps) are entered into with one or more counter-parties, where, against payment of a fixed fee, these counter-parties pay a fee related to the movements in the underlying value. Trackers combine the benefits of securities with those of an investment fund, because they offer the spreading of an investment fund but unlike normal investment funds (and like shares) they can be traded throughout the day.

#### **Risks of trackers**

Through the possibility to achieve a broad market exposure with a limited investment, a tracker can be used to reduce the risk for the investor.

A risk that may exist with trackers is the lending of Financial Instruments. Fund managers can lend the Financial Instruments that they hold in the tracker to third parties. The (lending) proceeds are often shared between the fund manager and the investor, but the investor bears the associated risk in full. As a rule, this risk will be limited through a collateral requirement, but this does not eliminate the risk of a possible reduction in the value of the tracker.

With synthetic trackers, there is a counter-party risk. At the moment when a party that has undertaken, via the swap construction, to deliver the performance of the underlying asset or index to be tracked proves to be bankrupt, the value of the tracker could fall sharply. This risk could be limited by the collateral that may or may not be required as part of the swap construction. The disadvantage of a tracker with a synthetic structure is that in addition to the price risk of the underlying asset or index, there is also a counter-party risk on the counter-party/parties for the derivatives. The above risks also often apply for other investment funds, since in many cases they have the possibility of working with synthetic constructions and/or of lending Financial Instruments.

### **3.9 Structured products**

Structured products are Securities (often notes) with a fixed term. Repayment of the principal and payment of interim distributions, are dependent on external factors such as the price of an index, commodity or share to which the

Structured product is related. These products are often issued by banks and traded on an exchange. A prospectus will always be available.

Examples of Structured products are turbos, sprinters and speeders. Turbos, sprinters and speeders are Structured products with leverage. They differ from options in that no time premium (time and expected value) has to be paid. Furthermore, no unlimited losses can arise, as with futures and written options as these products come with a stop-loss.

### **Risks of Structured products**

Structured products are available in many types and each has its own conditions, risks and characteristics. The risk is for an important part determined by the contract specifications and the development of the index or other value to which the Structured product is related. In some cases, the issuer guarantees all or part of the principal amount. Some Structured products, such as sprinters, speeders and turbos make use of leverage (see below). Structured products normally will become worthless in case of the bankruptcy of the issuing institution. In all cases, it is advisable to read the prospectus.

### **3.10 Alternative investments**

'Alternative investments' is a collective name for investments in non-traditional investment categories. Examples of alternative investments include unlisted shares, investments in start-ups or high-risk companies, commodities, OTC derivatives, property, impaired receivables and public/private investments. It is possible to invest directly in alternative investments, for example through venture capital companies, hedge funds, property funds and funds and trackers with which investments can be made in e.g. commodities.

### **Risks of alternative investments**

The risks associated with alternative investments are as diverse as the category is rich in investment types. Before investing in an alternative investment, you should always study the characteristics of the relevant product with care. Often, a prospectus will be available. Risks and restrictions that can be associated with alternative investments are a high minimum investment, limited exit possibilities (e.g. only once a month or quarter and sometimes even only after a number of years), relatively high entry and management costs (including a performance fee), little or no marketability, little transparency and no supervision by supervisory authorities. With alternative investments, your return is usually uncertain and as a rule, you run the risk of losing your entire investment.

Alternative investments are often held because of the limited correlation with price movements on the exchange and in this way, help to achieve a better spread in the investment portfolio. As a result, including alternative investments in a portfolio that consist of shares and bonds can reduce the risk of the entire portfolio.

### **3.11 Instruments with leverage**

Options, futures, warrants and structured products with leverage are examples of Financial Instruments with leverage. A movement of the value of the underlying value will create a higher percentage change in the value of the instrument. In other words, the price of these products can rise quickly, but can fall just as fast. By purchasing these instruments, it is possible to speculate on both a rise and a fall in the price of the underlying value.

### **Risks of instruments with leverage**

The risks associated with buying leveraged products are high. Through the leverage, an investment in these Financial Instruments carries a higher risk than a direct investment in the underlying value. The prices of instruments of which the underlying value is not listed in the Local Currency may also be influenced by movements in the exchange rate. In most cases by far, the investor can lose the invested amount or - in case of Derivatives - more than the invested amount. For some leveraged instruments, the risk is limited with a build in stop-loss. Through the stop-loss, the instrument will automatically end if the price of the underlying value reaches the stop-loss level. You must be aware, that with some products the issuer may adjust the stop loss level to the current market price, during the term of the instrument. As such it is important to monitor the stop loss level of your investments.

### 3.12 Yield Certificates

Yield certificates are an alternative to a direct investment in shares. They offer investors the possibility of achieving attractive yields, even when the price of the underlying value stagnates or falls slightly. On the expiry date, payment depends on the closing price of the underlying value.

Yield certificates do not pay dividends. Yield certificates have three important characteristics:

1. a Yield certificate is a Structured product issued by an issuing institution, based on a particular underlying value (choice of different shares, indices etc.);
2. a Yield certificate has a fixed yield; this is also the maximum yield of the Yield certificate;
3. if the underlying value falls below the agreed yield limit, only the closing price is paid out.

#### Risks of yield certificates

Like shares, yield certificates are investment products with no capital protection. They subject the investor to a risk of full or partial loss of the invested capital. However, the upward potential is limited. The fixed return forms a repayment maximum on maturity, even if the underlying value achieves a higher closing price than the return (loss of earnings in comparison with a direct investment in the underlying value). On the maturity date, the investor receives the closing price of the underlying value, with the agreed fixed yield applying as the maximum. There may therefore be a loss of capital if the price of the underlying value closes lower, or has a lower price in the interim, than the purchase price of the certificate. Investors in yield certificates also run a credit risk on the issuing institution and on the guarantee of the issuing institution. For more information, see the prospectus. You can view the prospectus on the website of the issuing institution.