

## **FINANCIAL INSTRUMENTS INFORMATION SHEET**

Dear Client,

The entry into force of the new European directive (Directive 2014/65/EU – MiFID II) on January<sup>1</sup>, 2018, establishes a framework that strengthens and harmonizes the requirements governing investment services. This directive represents a further step forward in investor protection, as it enhances the transparency of information regarding financial instruments and the securities transactions clients may undertake.

At Banque Transatlantique Luxembourg, we prioritize the clarity of the information we provide to our clients. To help you navigate the complex world of financial markets, we have prepared this document for you. Here you will find the key investment principles to follow when managing your assets with confidence and achieving your long-term financial goals. You will also find an overview of the main financial instruments and the risks associated with each type of investment.

Please do not hesitate to contact the Bank for any further information

Please accept the assurance of our highest consideration.

Banque Transatlantique Luxembourg

## **1 THE STOCK MARKET AND FINANCIAL MARKETS**

Financial markets are one of the sources of funding for the economy. They enable private and public companies, local authorities, and the government to raise funds to finance their investments by appealing directly or indirectly to investors.

It is on the primary market that “new” securities are made available to investors. These may be newly created securities (referred to as an “issuance”) or the listing of new companies (referred to as an “initial public offering” or “IPO”).

The securities are subsequently traded on stock exchanges, which constitute the secondary market.

Financial market activity in Luxembourg is regulated by the Commission de Surveillance du Secteur Financier (CSSF), an independent body located at 110, route d’Arlon, L-2991 Luxembourg.

This authority is responsible for ensuring:

- the protection of savings invested in financial instruments and any other investment involving a public offering;
- providing information to investors;
- the proper functioning of financial instrument markets.

## **2 BASIC RULES FOR INVESTING IN THE STOCK MARKET**

### **How to Build and Manage a Portfolio**

There are several options available.

- *Self-management*: You manage your securities account yourself and place buy and sell orders.
- *Collective investment*: You invest your assets in investment funds, particularly UCITS (Undertakings for Collective Investment in Transferable Securities, such as SICAVs and FCPs).
- *Advisory management*: You manage your securities account yourself but receive advice from your banker.
- *Discretionary management*: You define the objectives and acceptable risks, and your banker handles the management.

### **Defining Your Objectives**

Taking short-term and long-term goals into account is a prerequisite for any investment decision.

The choice of a financial product must always take into account two essential and inseparable factors:

- the investment horizon and
- the level of risk you are willing to accept.

Return is always linked to risk; exceptional investment performance can only be achieved by taking on a corresponding level of risk.

Therefore, cash investments should only be made in risk-free instruments.

### **Be available**

If you manage your own investments, you need at least a basic understanding of how the stock market works. You should monitor your investment portfolio regularly.

### **Know your limits**

It is not advisable to invest money in the stock market that you may need in the short term. If you find yourself in need of funds, you may be forced to sell against your will and at the worst possible time.

### **Stay informed**

Avoid reacting emotionally. Buy securities only after taking the time to do your research.

### **Diversify your risks**

Diversify your investments across different industries, companies, and geographic regions.

### **Focus your efforts**

Avoid holding too many securities in your portfolio so you can monitor them more effectively. Do not open positions with amounts that are too small to avoid incurring fixed fees.

### **Buy and sell wisely**

Set reasonable order prices and know when to take profits.

### **Take a long-term view**

Over a long-term investment horizon (more than 5 years), the stock market is an investment that offers good prospects for profitability, provided your portfolio is diversified.

### **3 STOCK MARKET ORDERS**

#### **Trading Mechanisms**

The most liquid securities are quoted continuously and are subject to an opening and closing auction. Less liquid securities are quoted only at the auction.

*Continuous-quotation markets* record transactions in real time as soon as an agreement between buyers and sellers is reached. This results in an unlimited number of quotes during a trading session.

A *fixing* is a method of periodic pricing, as opposed to continuous trading. Initially, bids and offers accumulate without any price being set. At the time of the fixing, bids and offers are matched, and the price at which the largest volume of securities can be traded is selected as the official price. Depending on the market, these fixing sessions may or may not be computerized and may occur once or several times a day.

#### **Stock Market Orders**

A stock market order includes required fields:

- the type of transaction = buy or sell;
- the type of securities = ISIN code of the security;
- the number of securities = quantity;
- the settlement method = cash (or SRD available for certain securities);
- validity = daily, monthly, on a specific date, or until;
- price conditions = limit order or other terms.

Since order transmission on the French stock exchange is instantaneous, execution can be immediate. An order can only be canceled if it has not yet been executed.

#### **Notes:**

From the time an order is placed until its execution, the client must have the necessary collateral, i.e., cash or securities deposited with their financial intermediary. This collateral ensures the successful completion of the intended transaction.

#### **Order Validity**

Orders on the French stock exchange have an expiration date: the validity date. Various options are available.

- One-day validity: the order is valid only for the current trading session. If not executed by the end of the session, it expires and, if necessary, requires the entry of a new order;
- Monthly validity: an order designated as such will expire on the last trading day of the current month;
  - For spot trading, this is the last trading day of the month;
  - for SRD trades, this is the settlement date, i.e., 5 trading days before the last trading day of a calendar month.
- Valid until: A specific date may be selected. The validity of orders for cash-settled securities may extend through the current calendar month as well as the following month.

### **Price conditions**

- Limit order

This type of order is both the simplest and the most commonly used. It represents the maximum price a buyer is willing to pay or the minimum price a seller is willing to accept.

During the trading session, these orders remain in the order book until a counterparty accepts these terms.

It allows you to control the execution price and thus protect yourself against price fluctuations. Its execution may be partial.

- Market order

This is an order with no specified price limit.

At the opening, this type of order takes priority over all other order types and is executed for the maximum available quantity against opposing orders. It replaces the former “At any price” order, but unlike the latter, it may be partially executed.

This order does not allow you to control the execution price. There is a risk of significant slippage on illiquid securities or on securities traded at the fixing price.

- Best Limit Order

This is an order with no specified price limit.

Upon entering the market:

- at the opening, it is converted into a limit order at the opening price. It is executed based on the available balances in the order book after market orders and limit orders have been taken into account;

- during the trading session, the order is placed at the price of the best pending bid (for a buy) or the best pending ask (for a sell).

In the event of partial execution, the remaining quantity is converted into a limit order at the execution price. This type of order does not protect the order placer from being executed in multiple lots.

- Stop Order

It allows an investor to act as a buyer or seller starting at a price determined by the trigger price. It includes a limit beyond which it converts into a “market” order.

This type of order does not allow control over the execution price and carries the risk of slippage in the case of illiquid securities.

- Trigger Range Order

This type of order allows you to buy or sell at a price determined by the trigger threshold, while setting a maximum limit for a buy order or a minimum limit for a sell order.

It allows you to control the execution price and protects you against potential trend reversals.

- Market Order

An order reserved for the most liquid securities, providing access to a specific trading session between 5:30 p.m. and 5:40 p.m., which can only be valid for “one day.” It allows you to know the execution price in advance, subject to the security being quoted and sufficient quantity being available.

## 4 FINANCIAL INSTRUMENTS

Market products can take the form of various types of financial instruments.

**IMPORTANT: The non-exhaustive list of financial instruments presented below is provided for informational purposes only and should not serve as the sole reference for an investor wishing to trade in these types of instruments.**

A financial instrument may take the form of:

- shares and other securities that confer or may confer voting rights (investment certificates, stock subscription warrants, etc.);
- debt securities (bonds, perpetual subordinated securities, etc.);
- units or shares of collective investment schemes (SICAV shares, FCP units, etc.);
- forward financial instruments (call or put options, forward contracts, swaps, etc.).

### **Grouping of Financial Products by “Type”**

Based on the characteristics of financial products and their inherent risk levels, the Bank has grouped financial products into categories of financial instruments in its investment services approach as follows:

- Regulated money market instruments and funds
- Investment-grade or high-yield bonds
- Complex bonds (CoCos, ABS, MBS, perpetual bonds, etc.)
- Regulated bond funds
- Structured products with guaranteed principal at maturity
- Equities
- Equity funds, diversified funds, regulated ETFs
- Regulated alternative funds
- Venture Capital, Real Estate, ETFs, Alternatives, and Other Unregulated Specialized Funds
- Derivatives and warrants
- Forward exchange

- Non-principal-protected structured products
- Precious metals

### **The concept of complex financial instruments:**

Before engaging in transactions on financial markets, and particularly with complex financial instruments, all investors should be aware that such transactions involve risks that may, in certain cases, result in financial losses. A financial instrument's past performance is no guarantee of future results.

For each financial instrument, the risk assumed by the investor can generally be broken down into four components: (i) **issuer risk**, related to the quality and prospects of the issuer of the instrument, (ii) **market risk**, related to general fluctuations in the economy and markets, (iii) **liquidity risk**, which is the risk of being unable to easily resell the instrument due to a lack of buyers in the market at a given time, and finally (iv) **interest rate risk** associated with the financial commitment. The relative weight of these various risks varies depending on the nature of the instrument, but they never disappear entirely. Currency risk applies to securities denominated in a currency other than the client account's reference currency.

The true value of an investor's portfolio is not its immediate value, but its future value, after the financial instruments comprising it have been sold, net of fees, commissions, and taxes levied on transactions, and adjusted for foreign exchange transactions for financial instruments traded outside the eurozone.

A complex financial instrument is one whose value does not result directly from the interplay of supply and demand in the market at a given moment, but also from a set of other factors that the investor must take into account when deciding to buy or sell that instrument.

These factors, which may be cumulative, are primarily the following:

- a lack of rules governing the matching of orders or trading venues that are not subject to oversight by market authorities (e.g., unregulated markets...);
- the value of the financial instrument results from an offer made by its issuer that has not been validated by an independent valuation system (e.g., "offshore" investment funds...);
- the value of the financial instrument is linked to that of one or more other instruments or an index, also known as underlying instruments (e.g., warrants...);
- the financial instrument includes a right or obligation to buy or sell another instrument at a specified maturity date (e.g., subscription warrant...);
- the financial instrument entails a financial commitment for the investor that exceeds its acquisition cost (e.g., a futures contract...);

- Liquidity is insufficient and does not allow an investor to sell, redeem, or realize the financial instrument with reasonable frequency.

Complex financial instruments may entail high risks for investors and require them to have a thorough understanding of their nature and the mechanisms of financial markets so that they can make informed decisions regarding whether to enter into a transaction.

### **Shares admitted to trading on an unregulated market -**

Companies whose shares are admitted to a non-regulated market are not subject to disclosure requirements, and their securities are not subject to admission procedures. Transactions involving the exchange, withdrawal, or redemption of securities are also carried out without the intervention or oversight of market authorities. The “Marché Libre” is a non-regulated market of the Paris Stock Exchange.

This type of market does not offer the same level of liquidity, information, and security as a regulated market such as Eurolist. For these reasons, individual investors must exercise extreme caution.

## **The Money Market**

The money market refers to the aggregate supply and demand for short-term credit (loans with terms ranging from 1 day to a maximum of 2 years). Pricing in the money market is reflected in short-term interest rates.

The money market serves three main functions:

- It provides a means of balancing surpluses and deficits. In short, it facilitates the transfer of funds from one party to another;
- It provides the government with a means of obtaining temporary financing;
- It provides the Central Bank with a tool through which it can attempt to stabilize the value of its own currency.

The main financial products in the money market are:

- **Treasury bills:** A Treasury bill is a short-term bond (with a maximum maturity of one year) issued by the Treasury to finance public debt. Auctions are held every two weeks and generally involve bills with maturities of 3, 6, or 12 months.
- **Repo:** Repo is the abbreviation for “Repurchase Agreement” and is also known in French as a securities repurchase agreement. A securities repurchase agreement is a contract under which the parties agree to sell securities to one another at a specified time and to exchange those securities back later in the opposite direction.

*Note: A repurchase agreement should not be confused with a securities loan. A securities loan involves one party, the lender, lending securities to another party, the borrower, for a specified period. Upon expiration of this period, the borrower must return securities with the same characteristics.*

- **Commercial Papers** (such as: **certificates of deposit, treasury bills, and promissory notes**): A Commercial Paper is a financial instrument representing a short-term debt (from 7 days to 1 year) that is often issued by a company or institution other than a credit institution (such as a municipality). The short-term debt is entered into with a bank or another financial institution and does not require collateral! However, the fact that no collateral is required means that banks only allow highly creditworthy institutions to issue such instruments. The debt is often issued “at par” and redeemed “above par.”
- **Floating Rate Notes (FRN)**: A Floating Rate Note is a bond with a variable coupon that is often adjusted quarterly. The variable coupon consists of a money market benchmark index (such as "EURIBOR") plus a fixed percentage
- **Negotiable Certificates of Deposit (CDs) issued by banks.**

## **Bonds (Investment Grade / High Yield)**

**Bonds** are debt securities issued by a company, a public entity, or the government, characterized by an interest rate and repayment terms determined at the time of issuance. These securities are generally issued with long maturities.

### Notes:

*A bondholder who holds the securities until maturity will be repaid under the terms specified at issuance (generally at par value). If the holder sells them on the market before maturity, they face a risk of capital loss if market interest rates have moved unfavorably.*

*The return and security offered by these securities depend on various factors, including: capital market interest rates, the issuer's credit quality, and the security's maturity. The risk of default on these securities depends on the issuer's credit quality.*

There are several types of bonds, including:

- fixed-rate bonds;
- floating-rate bonds, where the coupon value fluctuates based on a market index specified in the issuance contract;
- OATs (Obligations assimilables du Trésor) issued by the government;
- Zero-coupon bonds

- Inflation-indexed bonds

To assess the risks associated with the creditworthiness of bond issuers, various rating agencies assign a rating to certain issuers (those who expressly request one). This practice is intended to inform investors about the relative safety of a bond.

Category	Definition	Moody's	S&P	Fitch
Invest Grade	Highest Quality	Aaa	AAA	AAA
	Upper-intermediate quality	Aa1	AA+	AA+
		Aa2	AA	AA
		Aa3	AA-	AA-
	Average quality	A1	A+	A+
		A2	A	A
		A3	A-	A-
	Below-average quality	Baa1	BBB+	BBB+
		Baa2	BBB	BBB
		Baa3	BBB-	BBB-
High Yield	Speculative	Ba1	BB+	BB+
		Ba2	BB	BB
		Ba3	BB-	BB-
	Highly speculative	B1	B+	B+
		B2	B	B
		B3	B-	B-
	Significant risk	Caa1	CCC+	CCC+
	Low probability of meeting its objectives	Caa2	CCC	CCC
		Caa3	CCC-	CCC-
	Highly speculative and high-risk bond	Ca	CC	CC
Near bankruptcy	C	C	C	

Note: When "NR" is listed as the "rating" for S&P, it means that the bond is "Not Rated." In other words, the bond is not currently monitored by the rating agency.

## Complex Bonds

The “Complex Bonds” category includes bonds whose structure is more difficult to understand. Under Complex Bonds, the Bank has primarily classified:

- **convertible bonds**, which offer the same characteristics as a traditional bond but also give the holder the option to exchange the security for a share under predetermined conditions. The price of a convertible bond therefore reacts not only, like any bond, to changes in interest rates but also, where applicable, to changes in the price of the underlying share.
- **Reverse-convertible bonds** that guarantee the holder an annual fixed coupon and, at maturity, 100% of the face value if the underlying asset closes above the product’s barrier level. In the event of a slight rise or moderate decline in the underlying asset, they provide the holder with a higher return than a direct investment in the underlying asset. If the underlying asset closes below the product’s barrier level, the investor will be repaid in shares of the underlying asset.
- **Warrant-linked bonds**, which are traditional bonds attached to warrants that can often be detached and traded separately. By selling this bond, the issuer lowers its real cost of capital. The bond may be denominated in one of several currencies. Its value depends on the intrinsic value and time value of the warrants
- **OBSA - Bonds with Stock Subscription Warrants\_** : These are traditional bonds accompanied by stock subscription warrants. They entitle the holder to subscribe for new shares of the company issuing the OBSA at a price, under conditions, and within timeframes specified in the OBSA issuance contract.
- **ORA - Bonds Redeemable in Shares ( \_ )**: Unlike a traditional bond, this category of bonds is not redeemed in cash but in shares of the issuer according to a parity ratio defined at issuance.

The price of these types of bonds varies not only based on interest rate movements but also on the price of the issuer’s underlying stock. Upon conversion, these financial instruments are also subject to subscription risks similar to those of stock options and warrants.

- **EMTN**: Certain EMTNs (Euro Medium-Term Notes), which are considered negotiable debt securities and thus bonds under regulatory classification, are based on combinations of other financial instruments, securities (stocks, bonds), and derivatives (options, swaps, etc.) in order to offer a predetermined level of return, sometimes including protection of all or part of the investor’s principal at maturity.

EMTNs representing these types of investment strategies—sometimes referred to as alternative investments—involve significant risks related to their valuation methods, which can be difficult to understand. Investors should also be aware of the limited secondary market, which is typically maintained by the instrument’s issuer. The issuer’s creditworthiness is therefore critical to

benefiting from a market with the necessary liquidity. Finally, the capital guarantee is usually only granted at the product's maturity; the investor is exposed to market risk during the relevant period.

## **Stocks**

**A share** is a security representing a fraction of the capital of the company that issued it. This type of security grants its holder the right to participate in shareholder meetings, to be informed of the company's performance, and to receive dividends. A share is not redeemable and therefore has no maturity date.

The value of shares fluctuates based on various factors, the most commonly recognized of which are: the company's future financial results, interest rate levels, economic conditions, market conditions, etc.

### Notes:

*Shareholders are partners in the company's growth but also share in its risks. The risk is limited to their investment. Income from shares consists of dividends and any capital gains upon the resale of the securities. However, an investment in shares always carries the risk of not receiving dividends, as well as the risk of incurring capital losses. Seeking quick returns through short-term purchases or speculative trading increases this risk.*

Note: On the Paris Stock Exchange, transactions are settled on a cash basis, meaning they are settled immediately. However, in the stock market, the most liquid securities are eligible for the SRD (Deferred Settlement Service). *The SRD* allows you to buy or sell securities on "credit" by deferring settlement and delivery until the end of the month, with the option to extend (roll over) a transaction from one month to the next. The rules for covering orders are specific, as the purchase of securities can be made using both cash and securities holdings, to which valuation coefficients are applied. The SRD is a settlement method available on an optional basis and is subject to a specific fee known as the CRD (deferred settlement commission).

## **Derivatives**

### Warrants

This is a contract between a buyer and a seller whose value is "derived" from the future cash flows of an underlying asset, such as stocks, bonds, stock indices, or monetary instruments.

The commitment made by the parties may be binding or optional.

- Among binding contracts, we must distinguish between **futures** contracts, **swaps** (exchange contracts that involve exchanging only the difference in value), and **credit derivatives**.
- Among optional contracts, we distinguish between **options** and **warrants**.

### **Tradable Option Contracts:**

A tradable option is a right that grants its purchaser:

- the option (or) the obligation to buy (call) or sell (put)
- a specified quantity of a financial asset (stock, bond, stock index, other derivative), known as the underlying asset
- at a price set in advance (strike price)
- over a specified period,
- on an expiration date (European option) or at any time (American option).

The “premium” represents the price paid by the option buyer to the seller.

Option sellers, bound by the buyers’ decisions, must fulfill the obligations associated with their contract. The buyer and seller of a tradable option may, independently of one another, resell or repurchase the option before its expiration (closing the position). If held without being exercised, the option has no value at expiration.

There are four basic strategies in the options market:

- Buying a call option: The buyer of a call option anticipates an increase in the underlying asset’s price. They profit when the price rises above the strike price plus the premium amount. In this case, potential gains are unlimited. Conversely, if the underlying asset’s price falls, losses are limited to the premium amount.
- Selling a call option: The seller of a call option anticipates a decline or even stagnation in the underlying asset. They profit as long as the underlying asset’s price remains below the strike price plus the premium. Their profit is limited to the premium paid by the buyer; however, if the underlying asset rises, they face the risk of unlimited losses. Daily margin calls are required to cover this risk.
- Purchase of a put option: The buyer of a put option anticipates a decline in the underlying asset. Their profit increases in proportion to the decline in the underlying asset’s price below the strike price minus the premium. Conversely, if the underlying asset rises, losses are limited to the amount of the premium.
- Selling a put option: The seller of a put option expects the underlying asset to rise. The seller profits as long as the price of the underlying asset remains above the strike price minus the premium. The seller’s profit is limited to the amount of the premium paid by the buyer; however, if the underlying asset’s price falls, the seller faces a risk of loss proportional to that decline. As with the sale of a call option, daily margin requirements adjusted for this risk are required.

When buying or selling stock options, the investor must also take into account the contract size, i.e., the number of options contained in a contract traded on the market. This contract size also represents the number of underlying securities covered by the contract. In general, for European options, the contract size is 10, while for U.S. stocks, the contract size is 100.

Due to their characteristics, options greatly amplify both upward and downward movements in the underlying asset; this is known as the leverage effect.

Options therefore carry a high level of risk that can lead to significant capital losses, which, in certain cases, may theoretically be unlimited. The investor's loss may thus exceed their initial investment.

In the event of unfavorable price movements, the investor's losses are recorded daily through margin calls. The investor must be able to meet these calls immediately; otherwise, the broker managing the account is required to liquidate the positions without delay, at the investor's expense.

Note the asymmetry of risk between buying and selling options: for a buyer, the risk is known and limited to the amount of the premium paid, with the potential for unlimited future gains; for a seller, the risk is unlimited, with limited and immediately realized profits.

### **Stock Options and Warrants**

Stock options and warrants amplify price fluctuations in the underlying shares (leverage effect). They are therefore highly volatile financial instruments that carry a high level of risk. Converting these options into the underlying securities requires the investor to contribute additional funds, proportional to the exercise price, which may be substantial. The subscribed shares may also be subject to a period during which they are unavailable to the investor. Before exercising their rights or subscribing, investors must carefully review the prospectuses to assess the characteristics of the transaction

- **Stock subscription warrants:** These are negotiable securities that entitle the holder to subscribe for new shares of the issuer up to a specified date (expiration date) and at a predetermined price (exercise price). Upon expiration, their value is zero.
- **ABSA - Share with stock subscription warrants:** This is a share to which one or more stock subscription warrants are attached, allowing the holder to subsequently acquire new shares to be issued at a predetermined price up to a specified date.
- **Stock Subscription Rights:** These are negotiable rights attached to an issuer's existing shares that allow the holder to subscribe to new shares of the company, particularly during a cash capital increase.

### **Stock options:**

These are call options issued by an issuer on its own securities and reserved for the employees of said company. They allow employees to purchase shares of their own company at a predetermined price (exercise price) and by a specified date (mandatory holding period defined in advance).

## **Warrants**

These are securities traded on the stock exchange that give the holder the right (but not the obligation) to buy (call warrant) or sell (put warrant) an underlying security, such as a stock or a foreign exchange rate, under predetermined conditions.

A warrant is a product similar in principle to an option, but legally it is a security listed on a regulated market. It cannot be sold short. Warrants are generally issued by banks.

Issued by entities independent of the underlying issuer, warrants have characteristics that, in addition to fluctuations in the underlying security, directly influence their price: parity, exercise price, and maturity. The price at which the warrant trades on the exchange is called the "premium." Warrants are traded in lots (100, 1,000, etc.) and have a "parity," i.e., the number of warrants that must be purchased to exercise one's right on an underlying security. Market liquidity is often provided by the warrant issuer. Warrants do not entitle the holder to dividend payments. The warrant market can be extremely volatile, making it a high-risk financial instrument that may result in the total loss of the amount invested.

There are two main types:

- "call warrants," which grant the right to buy the underlying asset (anticipating a rise), and
- "Put warrants," which grant the right to sell the underlying asset (in anticipation of a decline).

The underlying asset of a warrant can be a stock, an index, a basket of stocks, an exchange rate, an interest rate, etc.

### **Notes:**

*The leverage provided by SRDs and certain equity derivatives can result in a high risk of capital loss. These products require close monitoring.*

## **Indexed Certificates:**

Issued by a financial institution, an index-linked certificate is a security that allows its holder to participate in the performance of the underlying asset to which it refers over a specified period. At maturity, the index-linked certificate is redeemed according to terms defined contractually at the time of issuance and dependent on the performance of the underlying asset.

The underlying asset of a certificate may be a stock, an index, a basket of stocks, a commodity, a currency, etc.

During their term, index-linked certificates can be traded at any time on the stock exchange, where the issuing institutions also commit to ensuring regular market liquidity. Like warrants, index-linked certificates have a "parity," meaning the number of certificates required to entitle the holder to one unit of the underlying asset.

When an investor purchases a certificate, they have two options:

- Exercise the certificate at maturity.
- Sell the certificate on the stock exchange.

Depending on the redemption terms (various combinations) and whether or not the investor's expectations are met, the risk of capital loss may be limited to that of a direct investment in the underlying asset, or it may amount to the total amount invested (zero redemption). Given the specific nature of each certificate, it is recommended that you carefully review the certificate's prospectus before making any investment decision.

### **Swaps:**

A SWAP (or exchange contract) is a contract in which the parties agree to exchange, at a specified maturity date, interest payments or currencies based on their expectations regarding the underlying asset's performance. Examples include interest rate swaps, which allow variable rates to be exchanged for fixed rates in order to stabilize a financial position, and performance swaps, which allow the uncertain outcome of a transaction to be exchanged for a benchmark return such as a monetary rate in order to control that outcome.

Swaps are financial instruments designed for specific needs that require the utmost caution as well as appropriate advice. Swaps are over-the-counter financial instruments whose valuation, like the secondary market, depends solely on the issuer.

### **Futures**

A standardized contract traded on an organized market that allows one to lock in or commit to a price for a specified quantity of a given product (the underlying asset) at a future date. There is a wide range of contracts whose characteristics are predetermined based on the needs expressed by market participants:

- The underlying asset can be a commodity: wheat, oil, metals... or a financial instrument: interest rates, exchange rates, stock indices...
- The quantity (in the case of commodities) or the notional amount (financial products)
- The quotation method (as a percentage or as a value)
- The minimum price change (the "tick")
- Expiration dates
- The settlement method: by delivery of the underlying asset (less common) or in cash

## **Forward exchange**

A forward foreign exchange contract is an exchange of two currencies at a negotiated date (the value date) and rate (forward rate). This type of contract allows you to fix a rate between two currencies in advance, thereby hedging against foreign exchange risk

The characteristics of a forward foreign exchange transaction are defined relative to a reference "spot" rate (the rate used for spot exchange) for same-day transactions. The difference between the spot rate and the forward rate is called the "forward points."

When the forward rate is higher than the spot rate, it is called a "premium." When the forward rate is lower than the spot rate, it is called a "discount."

A forward exchange transaction is equivalent to combining three transactions:

- A "spot" exchange in the same direction as the forward transaction
- A loan of the purchased currency for the same duration as the forward transaction (the loan repayment flow, an inflow of funds, coincides with the forward purchase)
- A loan in the currency being sold (with the repayment flow coinciding with the forward sale).

Forward rates are not quoted as such on the market. However, for each currency, the lending/borrowing rates for various maturities are known. These rates are used to calculate the forward rates.

## **Structured products with capital guaranteed or protected (>90%) or unprotected.**

Structured products are financial instruments built on the basis of financial assets and their derivatives. They aim to precisely replicate the return profile desired by the client.

Some structured products guarantee principal, while others may result in the total loss of that principal. Multiple combinations are possible.

The associated risks are also greater (low liquidity – high sensitivity), making alternative investment products, by their very nature, suitable only for an informed investor.

## **Investment Funds (Equity, Bond, Money Market, ETF, Commodity)**

An investment fund is a vehicle that allows a number of separate, unrelated investors or a group of individuals or companies to make investments together. Pooling their capital allows them to share costs and benefit from the advantages of investing larger sums, particularly the possibility of greater diversification across different assets and thus risk spreading. There are many ways

to establish and manage an investment fund, which generally depend on the needs of the fund's investors.

There is no set number of investors in a fund. Investment funds can take various forms, such as an investment company with investors as shareholders and a board of directors, or a contractual agreement between investors and a management company. They may have an indefinite lifespan or be established for a fixed term. They invest in traditional assets such as stocks and bonds and may also include investments as exotic as wines, paintings, or copyrights. They may generate income for investors or seek to maximize the capital value of their investments. They may be open for sale to any individual investor or limited to sophisticated investors such as financial institutions and ultra-high-net-worth families.

Investment fund legislation in Luxembourg and other countries covers a wide range of different fund types, but the most significant category is that of UCITS, which are established in accordance with strict rules defined by the European Union and authorized to invest only in certain asset classes. UCITS may be purchased by investors in all European countries where they are authorized for sale, as well as in certain countries in other regions or continents where they are authorized, such as in certain Asian countries.

Notes:

*Investing in collective investment products in the form of mutual fund units or SICAV shares allows investors to:*

- to hold a more diversified portfolio collectively than would be possible through direct, individual ownership;
- better manage risks through portfolio diversification;
- access financial markets with a small initial investment;
- to be free from the worries of management, which is handled by professionals;
- to benefit from good liquidity in their investment.

The risks involved depend on the type of UCITS (money market, bonds, equities, diversified, etc.), its investment strategy, and the client's adherence to the recommended minimum holding period.

### **The Undertaking for Collective Investment in Transferable Securities**

*Its purpose is to collect savings from its investors and invest them in financial instruments according to defined criteria. Their marketing requires compliance with regulations and prior approval from the Financial Sector Supervisory Commission.*

There are many types of UCITS. These include:

- **Money market UCITS**, which are primarily composed of fixed-income products and carry little risk;
- **Bond UCITS**, whose portfolios consist primarily of bonds;
- **Equity UCITS**, whose portfolios consist mainly of stocks;
- **index-tracking UCITS**, whose investment objective is to track the performance of a financial instrument index;
- **capital-guaranteed UCITS or those with protection** (formula funds);
- **Tailored UCITS**, managed according to the level of risk accepted by the investor.

The simplified prospectus (formerly known as the information memorandum) made available to investors outlines the main characteristics of each UCITS. This document specifies, in particular, the investment strategy and thus the associated risk, the recommended minimum investment period, the method for calculating the net asset value, the management company to which management is delegated, the custodian of securities and cash, and the annual management fees.

There are two categories of collective investment undertakings.

- A **SICAV (Société d'Investissement à Capital Variable)** is a corporation divided into "shares." The acronym SICAV stands for "Société d'investissement à capital variable," meaning an investment company with variable capital, whose ownership is structured as shares. The fund itself has the legal status of a corporation and is therefore a legal entity. The amount of the company's capital depends on investor contributions. Like FCPs, shares in a SICAV are bought and sold based on the value of the fund's assets, or net asset value. A SICAV may either entrust management to another company in accordance with applicable regulations and laws or manage the fund itself.
- The **FCP (Fonds commun de placement)** is a co-ownership divided into "FCP units." The acronym FCP stands for "Fonds commun de placement." Like "unit trusts" in the United Kingdom, they take the form of a contract between the fund manager and the investors, analogous to a partnership, and do not have a separate legal identity. The management company that launches the fund has legal personality. Investors hold units in an FCP.

#### **Investment funds may be accumulating and/or distributing:**

Some investors want to generate a regular income from their investments in a fund. Others, however, want to increase the value of their initial investments by reinvesting their profits back into the investment fund. That is why funds offer a choice between distribution shares or units, which regularly distribute income such as bond interest or dividends, and accumulation shares or units, which automatically reinvest the income generated by the assets back into the fund.

An investment fund with distribution shares or units is the right choice if you need to generate additional income from your investment that you can access regularly. On the other hand, accumulation shares or units would be more appropriate if you are investing for the long term, such as for your retirement. The value of distribution units or shares may increase over time, but your initial investment is unlikely to grow as quickly as it would with an equivalent investment in accumulation units or shares, since distributions reduce the fund's assets and thus the price of the units or shares.

Reinvestment of income through accumulation units or shares is generally free and automatic. However, if you request to receive the fund's income in the form of a cash distribution—which you then use to purchase new units or shares—you may have to pay an entry fee of several percentage points. Since the tax treatment of distribution and accumulation units or shares may vary depending on the rules in effect in your country of residence, this is an issue you should carefully review with your investment advisor.

**The price of a unit (FCP) or share (SICAV) in an open-end investment fund** is determined by the value of its assets, which is measured by the net asset value (NAV). The NAV is equivalent to the market value of the fund's assets minus liabilities such as expenses or other debts. This figure is then divided by the number of shares or units in the fund that have been issued to investors. For example, if a fund's assets are worth €100 million and its liabilities are €5 million, its net assets amount to €95 million. If investors hold 10 million shares or units, the NAV per share or unit is €9.50. This is the price at which shares or units can be purchased from the fund or sold back to it, minus (in the case of a sale) or plus (in the case of a purchase) applicable fees and commissions.

Notes:

*Subscribing to collective investment products in the form of mutual fund shares or SICAV shares allows:*

- to collectively hold a more diversified portfolio than would be possible through direct, individual ownership;
- better manage risks through portfolio diversification;
- access financial markets with a small initial investment;
- to avoid the hassle of management, which is handled by professionals;
- enjoy good liquidity on your investment.

The risks involved depend on the type of UCITS (money market, bonds, equities, diversified, etc.), its investment strategy, and the client's adherence to the recommended minimum holding period.

## **ETFs (Exchange-Traded Funds, or “trackers”)**

Trackers are index funds that trade freely on the stock exchange like stocks and replicate the performance of an index or a basket of stocks. A tracker has no maturity date. It involves no entry or exit fees. It is a product designed to diversify an equity portfolio but offers no protection against market risks. There are also bond trackers that track a bond benchmark.

The risk associated with an ETF is primarily market risk. Potential capital losses are similar to those of a direct investment in all the stocks that make up the ETF’s benchmark index.

## **The Funds            Complex        :    Alternative                            Alternative,        Equity Investment, Real Estate, and Specialized Management**

These are all collective investment funds that do not comply with the UCITS Directive. They are collective investment undertakings that raise capital from at least two investors with the aim of investing it according to a defined policy.

### **Alternative investment products**

These funds are not subject to UCITS regulations. Non-UCITS hedge funds are not considered “traditional” investment funds, as they are not subject to the highly restrictive regulations governing UCITS.

Non-UCITS hedge funds, in fact, benefit from investment rules that are much less strict than those applicable to UCITS-status alternative investment funds, whether in terms of diversification, the types of assets in which they may invest, or liquidity requirements

This typically lower liquidity requirement for non-UCITS hedge funds means that they tend to include the potentially least liquid strategies within the alternative investment sphere. This is particularly true for managers of arbitrage strategies, who, by nature, invest in combinations of positions that they are not expected to liquidate overnight, at the risk of undermining the entire strategy they have meticulously developed. This is why these funds generally offer liquidity only on a monthly basis for subscriptions and quarterly for redemptions, usually accompanied by a one-month notice period. By comparison, UCITS are required to offer liquidity at least twice a month.

Furthermore, “alternative” management is characterized as a strategy disconnected from any index, relying on strategies and tools that are both diversified and complex. This approach diversifies the portfolio’s composition (fixed income, commodities, derivatives, etc.).

The objective of this type of management is to provide products with consistent performance, independent of movements in the equity or bond markets:

- an absolute return that is independent of an index’s performance;
- positive regardless of market conditions;

- and exhibiting low volatility, i.e., low variability in performance.

Their “decorrelation” returns are the key reason for including them in a diversified portfolio, as this further enhances the portfolio’s diversification.

Finally, alternative UCITS are managed using strategies and tools that are both diversified and complex, particularly futures markets and other financial instruments that allow for alternating or combining long and short positions. Hedge funds and FCIMTs (mutual funds trading on futures markets that operate in financial instrument and commodity futures markets as well as in tradable options markets; FCIMT shares are not listed) are examples of this. The use of leverage can significantly expose alternative funds, sometimes beyond the amount of their assets.

The fewer restrictions faced by non-UCITS hedge funds allow them to target risk-adjusted returns higher than those of UCITS hedge funds. However, as we have just seen, this comes at the cost of lower liquidity. This is why investing in non-UCITS hedge funds should only be considered as a long-term strategy, with the expectation that the invested capital will be tied up for an extended period.

Alternative investment funds (AIFs) have a specific risk profile and should be reserved for investors who are particularly well-informed about the nature of the risks they entail.

### **Capital Investment (or Venture Capital) Products**

A private equity fund invests directly or indirectly in companies not listed on the stock exchange. It supports them in their development and finances their expansion over several years. At the end of this support period, which lasts an average of 5 to 7 years, these companies are sold with the aim of generating a significant capital gain. This is why a private equity fund is a closed-end fund that, at the end of its typically 10-year lifespan, is intended to be fully liquidated.

Investing through a private equity fund provides access to an asset class that is usually difficult to access and offers higher return potential than listed stocks. However, in return, this type of investment involves high capital risk, with the investment fully locked up until the fund’s scheduled maturity.

Furthermore, it is difficult to assess the value of the investment over its lifetime, given that the fund is not listed on a stock exchange. Since the initial years are devoted to building the portfolio of companies, they typically result in negative returns. Value creation, on the other hand, occurs only in the final years, generating increasing returns of capital for investors in the form of distributions.

This type of investment also carries significant risk, particularly in terms of liquidity, as these funds are primarily invested in securities not admitted to trading on a regulated market (unlisted companies).

Some examples of venture capital investments:

- **FCPR**

Venture Capital Mutual Funds (FCPR), whose assets consist of at least 50% securities of unlisted companies. They may hold up to a maximum of 20% in securities of companies listed on a regulated market with a market capitalization not exceeding 150 million euros.

- **FCPI**

Innovation Mutual Funds (FCPI) are a specific type of FCPR. At least 60% of their assets must consist of securities of unlisted companies or companies listed on a regulated market with a market capitalization not exceeding €150 million, which are considered innovative due to the significance of their research expenditures or their involvement in the creation of innovative products, processes, or technologies.

- **FIP**

Local Investment Funds are a specific type of FCPR. At least 60% of their assets must consist of securities of unlisted companies, of which at least 10% must be securities of new companies that have been in operation or incorporated for less than 5 years.

## **Physical Gold**

Gold has always been a safe-haven asset, sought after during every major crisis. As a currency, gold is generally considered a hedge against inflation and the depreciation of fiat currency. However, it is not a productive asset, as it does not generate any interest or dividends. Furthermore, in the short term, its price can fluctuate significantly.

Physical gold includes gold bars and coins (Napoleon, Krugerrand, etc.). Its transport, handling, and storage therefore entail additional costs on top of its purchase price. It should also be noted that collectible coins generally sell for more than their gold value.

Gold is primarily exposed to three risks:

- **Market risk:** The value of an investment in physical gold is directly linked to changes in its price, which depends on several factors: global demand for jewelry, industrial demand, gold production volumes, changes in central bank reserves, and speculation (interest in or disinterest in gold as a safe-haven asset). These multiple factors that can influence the price of gold can sometimes be difficult for the uninformed investor to grasp.
- **Currency risk:** Gold is priced in U.S. dollars on international markets. Purchasing and holding it therefore entails currency risk for an investor using euros. You may therefore incur a capital loss if the dollar depreciates against the euro, even though the price of gold remains constant.

- Liquidity risk: Gold is a relatively liquid asset, but when held physically, it is a less liquid investment than, for example, gold-backed ETFs, which are traded daily on the stock exchange.