

# Basic information about securities and further capital investments

Description of the essential characteristics, interrelationships and risks

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## Foreword

Investments in financial instruments such as securities are possible in many different forms. The various possible investments have different properties and characteristics, which are described in this document. The information is intended to help you make an informed and enlightened investment decision.

Investments in financial instruments entail both opportunities and risks. This information describes the economic relationships and explains the main risks of the respective investments.

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Unless otherwise described, the information contained herein is intended for both private investors<sup>1</sup> and professional clients.

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<sup>1</sup> For reasons of better readability, the simultaneous use of the savings forms male, female and diverse (m/f/d) is waived. All references to persons apply equally to all genders.

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## A Investment strategy and individual investment criteria

The fundamental expectations that an investor associates with the asset investment are dealt with in more detail in the following section. It should be noted that there are various general and therefore objective standards and criteria that can be used as a basis for the various potential forms of investment. Ultimately, however, it is the personal and therefore subjective perception, as well as the objectives of the respective investor that are decisive in determining whether an investment is suitable from the investor's point of view.

### Investment strategy

This brochure "Basic Information on Securities and Other Investments" is intended first of all to highlight the possible opportunities and also the risks of the various forms of investment.

The acceptance of the risks associated with an investment in financial instruments is individual and depends on the preferences, objectives and personal circumstances of the investor. Therefore, before investing, the personal risk-bearing capacity, the investment horizon and the investment objective must be determined. The essential criteria here are security, liquidity and profitability.

**Security** in this context means preservation of the respective invested assets. The preservation of assets can be endangered by short-term or permanent losses of the investment. The risk of losses can be reduced, for example, by diversifying investments. The **liquidity** of the investment, i.e. its tradability, determines how quickly a certain value can be realized in practice. Here, the principle applies that securities traded on the stock exchange can regularly be sold within a shorter period of time. The term **profitability** covers the return on any investment. In addition to interest and dividend payments, this also includes increases in value due to any change in the share price, as well as other distributions. When determining profitability, it is useful to refer to the yield. The yield expresses the total return of an investment and generally refers to a period of one year. The return is regularly expressed as a percentage.

It should be noted at this point that the objectives of an investor are not only significantly influenced by the respective personal circumstances, but can also change. The investment objectives should therefore be reviewed regularly.

The investment criteria described above may conflict with each other. For example, the goal of high security regularly conflicts with the pursuit of high profitability. A high level of investment security is often associated with a lower return. Conversely, the prospect of a high return often means a lower level of investment security. In addition, investments that are more liquid than others will be less profitable by comparison than those that are less liquid.

## **B Types of financial instruments**

### **1. Interest-bearing securities**

Interest-bearing securities, such as bonds, annuities, notes or debentures, are debt securities with a fixed or variable interest rate and an agreed term as well as a specified form of repayment, under which the purchaser has a monetary claim against the issuer. The bond is either in the name of the holder of the claim (bearer bond) or in the name of the creditor (registered bond).

#### **1.1 General**

Interest-bearing securities can be securitized in a collective certificate (by series of bonds), or an individual certificate with certain nominal values is printed over the claim (so-called effective pieces). As a rule, these certificates are deposited for collective safekeeping. Effective certificates may also be delivered to the issuer and held in custody by the issuer.

The issue price of the bonds does not always correspond to the nominal value (at par = 100%), but may have an issue discount (so-called disagio) or issue premium (so-called agio) if the bond is issued above or below par.

Income from a bond can result both from interest payments by the issuer and from the increase in value of the bond.

The term of the securities usually determines the interest rate granted. In principle, it can be said that the longer capital is invested, the higher the interest rate granted. This depends essentially on two factors: the market expectation and the yield spread. This is because the current interest rates reflect the market's expectation of future interest rate developments, and the yield equalization is intended to compensate long-term investors for not having access to their funds for a longer period of time. The interest rate structure runs like a curve that rises steeply at times of high unemployment, high excess capacity and high government deficits and flattens out when the economy recovers. The steeper the curve, the greater the difference between long-term and short-term interest rates (the so-called interest rate spread).

In the case of bearer and registered bonds, the investor receives the securitized right to fixed or variable interest payments and repayment. Due to their investor-specific nature, registered bonds can have more individual features, but unlike bearer bonds, they are more difficult to transfer. In addition, special provisions may apply to registered bonds with regard to their term and notice periods if they are subject to the German Investment Act (Vermögensanlagegesetz).

#### **1.2 Features**

The so-called bond terms and conditions contain all the essential details of the relationship between the investor and the issuer, and in particular the year of issue, the term, currency, repayment, ranking in the event of insolvency or liquidation of the debtor and the interest rate.

##### **1.1.1 Runtime**

The term is defined as the period between the start of interest payment specified in the bond terms and the maturity of the bond. A distinction is made between short-term, medium-term and long-term bonds.

### 1.1.2 Repayment

A distinction is made between two forms of redemption: scheduled and unscheduled redemption. In the case of scheduled redemption, the nominal value is paid in total at the end of the term, in the case of annuity bonds in equal annual installments, or in the case of drawable bonds at irregular dates that are not known in advance. On the other hand, the investment terms and conditions may grant the investor the right to call the bond early. In this case, there may also be an unscheduled repayment.

### 1.1.3 Interest

In principle, the investment conditions can provide for a fixed or a variable interest rate. In addition, a large number of mixed forms are possible:

- **Fixed-interest bonds** have a constant interest rate over the entire term. In Germany, the interest is usually paid annually.
- In the case of **bonds with variable interest rates**, also known as floating rate notes or "floaters" for short, the interest rate, based on a reference interest rate, is changed after each interest period and the interest is paid out by the issuer, possibly with a fixed discount or premium. The reference interest rate is usually a money market rate such as EURIBOR (European Interbank Offered Rate) or LIBOR (London Interbank Offered Rate).
  - In the case of a **floor floater**, i.e. bonds with a minimum interest rate, the investor is paid the minimum interest rate after an interest period, even if the reference interest rate falls below it, taking into account the premiums and discounts. In the case of the so-called **cap floater**, a maximum interest rate is set according to the same principle, but in reverse. These types can also be offered in combination.
  - In the case of a so-called **reverse floater**, the interest payment to the investor is determined on the basis of the difference between a fixed interest rate and a reference interest rate.
- If the investor does not receive regular interest payments because the interest rate is zero, these are known as **zero-coupon bonds** or zero bonds. Income can only be generated from the difference between the original purchase price and the redemption price. Zero-coupon bonds therefore often have a high discount on the nominal value when they are issued. There are also special forms:
  - In the case of **stripped bonds**, the interest claim is separated from the repayment claim. If the separate interest claim is sold separately, the bond is effectively a zero-coupon bond.
  - In the case of **step-up bonds** and **combined interest bonds**, the amount of interest income is already fixed in advance. In the case of combined interest bonds, no interest is paid initially, and in the case of step-up bonds, only low interest is paid, with above-average interest being paid later.

### 1.1.4 Currency

Bonds can initially be denominated in euros (euro bonds) or another currency (foreign currency bonds). In the case of the **dual-currency bonds** that also exist, the principal versus interest is denominated in a different currency. In the case of such dual-currency bonds, an option to pay in another currency is often also agreed as a hedge against currency fluctuations. Alternatively, such bonds may include the right to early redemption by the issuer (call option to buy) or the right of investors to demand early redemption from the issuer (at a lower price) (put option to sell).

### 1.1.5 Ranking in the event of insolvency or liquidation of the debtor

In the event of insolvency or liquidation of the issuer, bonds may contain provisions on the ranking of investors vis-à-vis other creditors. A distinction is made between senior, equal and subordinated bonds.

### 1.1.6 Hybrid bonds

A special type of bond is the so-called hybrid bond. **Hybrid bonds** are bonds that have both equity and debt elements. Hybrid bonds often have an indefinite term with no call right on the part of the investor and initially have a fixed interest rate and later a variable interest rate. Interest payments are dependent on the success of the issuer. Payments may therefore not be made in some years if the issuer is not commercially successful.

### 1.3 Factors influencing the bond price

Bonds can often also be purchased and sold on the secondary market between the issue date and the redemption date. The respective price for such trading in the secondary market depends on the price of the bond and thus on the current market interest rate level for the remaining term to maturity, the expected change in interest rates and the credit rating of the issuer.

Details are presented in chapter D 1.2.

### 1.4 Issue markets

Bonds are divided into domestic bonds and foreign bonds, depending on the country in which the respective bond was issued. If bonds are issued on an international capital market denominated in euros, they are referred to as euro foreign bonds. Eurobonds, on the other hand, are bonds issued in a member state of the European Union and denominated in an international currency. Eurobonds are therefore not necessarily denominated in euros. Eurobonds are traded in several countries and are usually placed via international banking syndicates.

### 1.5 Issuer types

Issuers of interest-bearing securities may be different institutions, which differ in terms of their financial strength and creditworthiness.

Typical groups of issuers are:

- **Public-sector debt securities** (such as in the form of federal bonds or federal treasury notes)
- **Bank bonds** issued by private commercial banks, savings banks, credit cooperatives and building societies, which may be both negotiable and non-negotiable (e.g. in the form of registered bonds).
- Credit institutions engaged in Pfandbrief business issue **Pfandbriefe, which are** covered bank bonds (e.g. mortgage Pfandbriefe and public-sector Pfandbriefe).
- **Corporate bonds** (also known as industrial bonds) are issued by companies in industry and commerce and have different features, but can also be issued in secured form.

In the case of foreign bonds, the breakdown is basically the same as above. Depending on the market, however, the features may differ from those commonly used in Germany.

### 1.6 Security of interest-bearing securities

Various criteria are relevant for assessing the security of a security, i.e. the probability of repayment of principal to the investor, such as the issuer's ability and willingness to pay. The security for covered bank

bonds is derived from capital and interest claims from the Pfandbriefe outstanding and, in the case of special forms of collateralization, additional security is provided by the registration of security mortgages and land charges, as well as guarantees, which increase but do not guarantee the security of the respective instrument. For a description of the main risks of the respective instruments, see sections C and D below.

### **1.7 Performance under different market conditions**

The market interest rate level of the respective investment and the credit rating of the issuer have different effects on the performance of the bonds under different market conditions. The following explanations show examples of factors with an influence on performance:

The longer the residual maturity of conventional fixed-rate bonds, the greater the change in the price of the bonds.

- Bonds with variable interest rates are less sensitive to changes in interest rates than the other bonds. Only changes in the reference interest rate are relevant for the interest days until the next adjustment date of the bond interest rate.
- Reverse floaters are highly volatile and react strongly to changes in the market interest rate, fixed rate to final maturity and reference interest rate.
- Zero-coupon bonds react more strongly overall to changes in interest rates than bonds with interest payments during the term.
- The longer the remaining term to maturity for combined and step-up bonds, the greater the price change.
- In the case of hybrid bonds, interest payments may be missed in whole or in part, which is why the value of the bond can fluctuate significantly even without a deterioration in the issuer's credit rating. The very long maturities further amplify volatility.

## **2. Shares**

Shares are securities that certify the investor's right to a stock corporation, i.e. the investor is not a creditor, but a shareholder in the respective company. Accordingly, the shareholder is entitled to a dividend, i.e. a share in the profits, and also benefits from the increase in value of the share. Conversely, as a co-owner of the company, the investor participates in the company's losses.

### **2.1 Basics**

As a shareholder, the investor has various rights and obligations, in particular the obligation to pay the contribution to the share capital. In addition to the entitlement to the dividend, the shareholder has a subscription right and an entitlement to additional or bonus shares (so-called asset rights). The shareholder's subscription right serves, on the one hand, to maintain the voting rights and participation ratios and, on the other hand, to compensate for asset disadvantages. In addition, the shareholder has administrative rights, such as the right to participate in the Annual General Meeting, a right to information on legal and business matters of the Company, and voting rights conferred by the shares. There are no management powers.

In the case of shares, issuers have structuring options with regard to transferability, the form of the shares and the granting of rights. The most important options are:



- **Ordinary shares carry** voting rights and are the normal type of share.
- **Preferred shares** can be issued both with and without voting rights and carry preferential rights. As a rule, they are issued without voting rights.
- **Bearer shares are** made out to the respective holder and not to the holder's name. They are therefore easily transferable.
- In the case of **registered shares**, the name of the shareholder must be entered in the Company's share register in order to exercise the voting rights attached to the share. If no entry is made, the respective shareholder only receives dividend payments, if any. In the case of the special form of **registered shares with restricted** transferability, the consent of the Company is required for the transfer to a new shareholder.
- Stock corporations may issue shares either in **par value**, i.e. expressed in terms of a monetary amount (€1 or multiples thereof), or as **no-par value shares**, the participation rate of which is determined by the total number of shares issued.

## 2.2 Performance

Performance under different market conditions depends on the effect of various factors. Some of these factors are described below:

The value of the share usually increases,

- if the economic situation of the issuer develops positively;
- when market expectations of the future development of the company, sector and/or overall economy increase;
- if the share price develops positively on the stock market;
- when political and psychological factors have a positive effect.

If these factors are negative, the value of the share usually falls as well.

### **3. Profit participation certificates and profit participation rights**

#### **3.1 Basics**

Profit participation certificates are legally undefined asset rights which, depending on the issuer's structure, may be similar to bonds or shares. These debt securities have a nominal value and are linked to a profit entitlement, but not to any rights of participation in society. As a rule, the holders of profit participation certificates are subordinated to other creditors (so-called subordination) and participate in the losses of the company by reducing the repayment amount. They can be issued as profit participation certificates with fixed distribution, profit participation certificates with variable distribution and profit participation certificates with conversion or option rights.

Profit participation rights, on the other hand, are non-securitized creditor rights of a debt nature. As with profit participation certificates, profit participation rights are denominated in a nominal amount and are linked to a profit entitlement. Holders of profit participation rights participate in the company's assets with their contributions. However, they are not obliged to make additional contributions, i.e. in the event of a loss exceeding the capital invested, the holder of profit participation rights does not have to pay in any further capital. The terms and conditions of profit participation rights determine the participation in profit and loss, as well as the liability of the investor. Otherwise, further provisions are contained in the sales prospectus of the individual companies.

In the case of profit participation rights offered to the public, investors are bound by their terms and special notice periods must be observed.

#### **3.2 Performance under different market conditions**

Performance under different market conditions depends on the effect of various factors, which will not be exhaustively described below:

The value of profit participation certificates or profit participation rights increases,

- if the economic situation of the issuer develops positively.
- when market expectations of the future development of the company, sector and/or overall economy increase.
- if the general price on the stock market develops positively.
- when political and psychological factors have a positive effect.

However, if these developments are negative or falling, the performance will also fall.

In the case of profit participation certificates or rights with a bond-like character, the factors of interest-bearing securities (cf. sec. B.1) shall be taken into account.

## **4. Certificates and other structured financial products**

Certificates are debt instruments based on an underlying asset, such as a share. Certificates are therefore classified as derivative financial instruments (derivatives). Certificates securitize the right to repayment or delivery of securities or other assets and, if applicable, payments during the term. Certificates are quoted either in units or as a percentage, whereby in the case of unit quotation only whole units can be acquired. Certificates are offered on the market in very different forms. For this reason, particular attention must be paid to the securities prospectus and the product terms and conditions.

### **4.1 Certificate basics**

The characteristics of the certificates are defined in the product conditions.

Depending on the structure of the certificate, it may have a term of several years or no term limit (so-called open-end certificates). At the end of the term, the issuer may have a right to terminate the certificate or - as is the case in some open-end certificates - a right to return it.

The issue price is determined according to several factors, of which the model price of the respective certificate, i.e. the price calculated by the issuer on the basis of a model, is material. Other factors, such as the underlying, can be found in the product terms and conditions. Unlike in exchange trading, the price is not determined directly by supply and demand, but by the bid and ask prices provided by the issuer. The prices provided by market makers in the secondary market may differ.

Certificates may be traded on and/or off-exchange. During the term of the certificate, the issuer or third parties may provide daily buying and selling prices for the certificates. Certificates regularly have a liquid secondary market, so that investors can often buy or sell regardless of the term. However, trading may at times be delayed or not possible at all.

The certificate is regularly redeemed in a cash payment, but a delivery of securities or other assets may also be agreed.

### **4.2 Types of certificates by underlying**

The performance of the underlying asset determines the performance of the respective certificate.

Some underlying assets for certificates are shown below.

#### **4.2.1 Certificates on shares**

In the case of certificates on shares, the price performance of a share forms the reference point for the performance. Certificates on shares are the most common class of certificates. The share price is fixed at a predetermined point in time or over a period of time. Dividends and unscheduled capital measures are not taken into account.

#### **4.2.2 Certificates on interest rates**

Interest rates or various yield curves (e.g. the difference between the interest rate after a term of two years and the interest rate after ten years) can also serve as the underlying for certificates.

#### **4.2.3 Certificates on the creditworthiness of reference debtors ("credit-linked bonds")**

A credit-linked bond does not refer to a price but to the creditworthiness of a reference debtor, i.e. the investor receives his interest and redemption payments depending on the creditworthiness of the

reference debtor. If a credit event occurs, such as insolvency, non-payment or restructuring, the investor receives an early redemption, which may be significantly below the nominal amount, and no interest payments. Whether a credit event has occurred is regularly determined by the issuer according to the decision of a committee of the private trade organization ISDA.

#### **4.2.4 Index certificates**

The underlying for an index certificate is an index, such as a share index (e.g. the German share index (DAX)) or bond indices (such as the REXP). Indices track the performance of the securities listed in them. Index certificates are based on the performance of the respective index.

If only the price changes triggered by the market are taken into account and dividends and subscription rights are automatically reinvested in the shares or interest payments, this is known as a performance index. In the case of a price index, on the other hand, only the pure price development is reflected. Indices can also be compiled individually by issuers. In this case, the underlying criteria and modalities are defined in the respective securities prospectus.

#### **4.2.5 Structured financial products on commodities (certificates and exchange-traded commodities - ETC)**

- **Commodity certificates**

Underlying for certificates can also be raw materials (commodities). Commodities are divided into four main categories: Precious metals, industrial metals, energy and agricultural commodities. In some cases, baskets of commodities are also designated as the underlying.

Commodities are traded both on specialized exchanges and worldwide over-the-counter by regularly entering into standardized futures contracts. The price of certificates on commodities is generally determined to a large extent by the respective forward contract prices of the underlying assets.

- **Exchange Traded Commodities (ETC)**

Exchange Traded Commodities (ETC) are a special form of structured financial products that have a very long or unlimited term and are issued by special purpose entities. They exactly replicate the performance of the underlying and thus enable participation in the performance of commodities or commodity indices.

ETCs may be physically collateralized, i.e. with a physical deposit of, for example, a gold bar in the vault of a credit institution, or otherwise collateralized, e.g. by depositing cash or other liquid assets with a bank. In swap-based ETCs, the issuer of the ETC exchanges the investor's money with a counterparty (bank) for the cash flows of the underlying. The counterparty deposits sufficient collateral due to its risk of default.

ETCs can generally be purchased or resold on the respective stock exchanges on which the securities are listed.

#### **4.2.6 Basket certificates**

In the case of basket certificates, a basket of shares or other investment products is represented, whereby the value of the basket is calculated from the individual components and their respective weighting. The basket can remain static until maturity or be adjusted after certain periods.

#### **4.2.7 Certificates on other underlyings**

- Currencies

Certificates can also be based on exchange rates of two specific currencies (e.g. euro/US dollar). Investors profit from the change in the exchange rate.

- Fund

Certificates can also relate to funds and are often grouped into baskets that combine funds of different investment styles or funds with similar themes.

### **4.3 Classification of certificates based on their structure**

Certificates can have a wide variety of structures. The respective structure is largely left to the autonomous decision of the issuer. The name of the certificate does not guarantee a specific structure. Thus, despite identical or similar designations, different certificates may differ significantly in their structure.

#### **4.3.1 Linear certificates**

In the case of linear certificates, a right to payment of a cash or settlement amount is securitized. As a rule, no periodic interest payments or distributions are made. The amount repayable depends on the value of the underlying on the maturity date, or on the termination date if there is no maturity date.

#### **4.3.2 Discount certificates**

Discount certificates have a fixed term and certify a right to payment of a fixed amount of money or to delivery of the underlying asset. The amount of the repayment is determined by the price of the underlying on a specific date. Their purchase price is below the current price of the respective underlying. The maximum achievable profit is usually limited by a predefined maximum amount (cap).

#### **4.3.3 Bonus certificates**

In the case of bonus certificates, a fixed bonus is paid in addition to the nominal value at maturity under predefined conditions. For this purpose, the issuer determines the value of the underlying at the time of issue (starting level), the barrier below the starting level, and the bonus level. The prerequisite for the bonus is that the specified threshold value may neither be reached nor fallen short of during the entire term. If the underlying is also above the bonus level on the last valuation date, repayment is made in the amount of the performance of the underlying compared with the starting level. As with other certificates, the price performance during the term is based on the performance of the underlying instrument. Further dividends or distributions are generally not paid due to the unlimited profit potential.

#### **4.3.4 Express Certificates**

In the case of express certificates, the investor has several options for early redemption. For this purpose, the issuer sets a starting level, several cut-off dates, a redemption threshold and a barrier below the starting level.

If the index reaches the specified redemption threshold or is above it on a reference date, redemption takes place, otherwise the term is extended to the next reference date. If the index is between the threshold and the barrier on the last record date, the investor receives delivery of the underlying or a corresponding redemption. However, if the index is neither above the redemption threshold nor between

the threshold and the barrier by the last record date, the redemption is made depending on the index value.

#### **4.3.5 Capital protection certificates**

In the case of capital protection certificates, repayment of at least the nominal amount or a certain percentage thereof is guaranteed at the end of a fixed term. The claim to repayment is directed solely against the issuer and not against third parties. Payment is therefore not guaranteed regardless of the issuer's existence. In the event of the issuer's insolvency, the claim to payment may therefore be reduced or may cease definitively.

#### **4.4 Other structured financial products**

Bonds with special rights or special ancillary agreements can also be structured financial products. Such bonds are also issued by companies outside the financial sector. The following overview describes some such products.

##### **4.4.1 Convertible bonds**

Convertible bonds (also known as convertible debentures or convertible bonds) are debt instruments that are usually issued by stock corporations. The agreed conversion right provides for the holder to convert the convertible bond within a certain period of time, for example into shares of the or company shares in the issuer of the convertible bond. However, if the investor does not exercise his right and no mandatory conversion is agreed, the claim to repayment of the capital invested and the interest payments remains under the law of obligations.

##### **4.4.2 Exchangeable bonds**

In the case of an exchangeable bond, a conversion is also agreed. However, in this case the investor acquires a right to subscribe to shares in **another company**.

##### **4.4.3 Option bonds**

Warrant bonds are similar to convertible bonds. Unlike convertible bonds, however, warrant-linked bonds grant the right to subscribe for shares in the issuer or a third financial instrument but in addition to the right to repayment. The subscription right is securitized in a detachable warrant that can be traded independently.

There may therefore be three different stock exchange quotations for a warrant bond, namely one price each for the bond with warrant ("cum"), for the bond without warrant ("ex") and for the warrant alone.

The option right may relate to different underlying objects, such as bonds in the case of interest rate option bonds or foreign currencies as in the case of currency option bonds.

##### **4.4.4 Structured bonds**

Combinations of bond and equity profiles give rise to different risk-return structures. Two groups of structured bonds have emerged: Reverse convertibles and bonds with index-linked or equity basket-linked interest rates.

- Reverse convertibles, also known as reverse convertibles, securitize the issuer's right to deliver a predefined number of shares instead of paying the nominal amount, which depends to a large extent on the performance of the share price. The shares are delivered if the share price or share

index falls below the predetermined strike price on the record date. In return for the risk taken by the investors, they receive a higher interest rate.

- Buyers of bonds with index-linked interest receive a payment at maturity, which may be less than the nominal amount, plus an interest payment. This interest payment is variable and depends on the performance of the specified index. Bonds with equity basket-oriented interest, on the other hand, are based on a basket of equities, but otherwise function in the same way.

Please note: More detailed information on equities can be found in this brochure in section [B. 2], and on the risks associated with them in sections [C] and [D. 2].

#### **4.5 Leverage certificates**

In the case of leverage certificates, investors invest less capital than in the underlying instrument, which results in a leverage effect in the event of changes in the underlying instrument. As a result, leverage certificates offer the prospect of disproportionate gains, but conversely also entail the risk of disproportionate losses for the investor. As a rule, these certificates have a fixed price barrier (knock-out threshold), which becomes payable immediately if the price reaches, exceeds or falls below the threshold. The occurrence of the knock-out event can have different consequences.

- Leverage certificates without a stop-loss barrier expire worthless when the knock-out event occurs. This investment may therefore result in a total loss of the capital invested.
- Leverage certificates with a stop-loss barrier do not expire worthless when the knock-out event occurs. Upon the occurrence of the knock-out event, the issuer shall reimburse the investor approximately the difference between another relevant value specified in the terms and conditions of issue and the knock-out threshold.
- Investors of factor certificates participate in the daily percentage change of the underlying with a constant leverage (factor). The underlying can be shares, indices, bonds, currencies or commodities.

## 5. Warrants

### 5.1 Basics

Warrants are a variant of securitized forward transactions. Warrants are bonds that certify the right to buy (call warrant) or sell (put warrant) a certain amount of an underlying asset at a predetermined price. Underlying assets are primarily shares, bonds, currencies, commodities and indices. The creditor of the issuer is the purchaser.

Warrants may provide both for a right of the investor that requires a declaration of intent by the investor or for an automatic mechanism that triggers the option upon the occurrence of a defined event (such as the expiration of a deadline or the reaching of a value threshold). When the option right expires, the term of the warrant also ends. In the case of call options, the terms and conditions of the warrant may also require payment of a cash amount instead of delivery of the underlying. The amount of this payment is determined by the difference between the previously fixed price and the current market value of the underlying. The terms and conditions of issue apply to the repayment period.

In the case of U.S. options, the option right can be exercised on any banking day; in the case of European options, it can only be exercised at the end of the term. If the investor fails to exercise the option during the term or on the record date, the option right expires and is worthless.

### 5.2 Functionality

The above-average profit and loss potential of warrants for investors lies in their **leverage effect**. The price of the warrants is regularly lower than that of the underlying. As a result, changes in the price of the underlying have an excessive effect. Call warrants are therefore purchased in the expectation that the price of the underlying asset will rise, while the purchaser of a put warrant expects the price to fall.

### 5.3 Valuation criteria and pricing factors

In order to forecast the price development of options, key figures are used which can also help in comparing options with largely the same features. In addition to the intrinsic value and the time value, these are also the premium, the break-even point, the leverage and the volatility.

#### 5.3.1 Intrinsic value

The intrinsic value is the difference between the strike price of the option and the price of the underlying multiplied by the option ratio. This indicates whether options are "in the money," "at the money," or "out of the money."

- **"In the money"**

If the current strike price is above the strike price for a call and below the strike price for a put, the option is "in the money" and has an intrinsic value.

- **"At the money"**

The option is "at the money" if the price and strike price are identical and the option has no intrinsic value.

- **"Out of the money"**

The option is "out of the money" if the price is below the strike price of the call or above the strike price of the put and also has no intrinsic value.



### **5.3.2 Current value**

The time value, which includes interest, dividend compensation and an "uncertainty premium", is derived from the difference between the intrinsic value and the price of the warrant. If there is no intrinsic value, the price is derived entirely from the time value.

The time value of an option depends to a large extent on the residual value and the volatility of the underlying, i.e. the frequency and intensity of price fluctuations during the term. The shorter the remaining term and thus the decreasing probability of a price change, the lower the time value, as the chances of profit decrease. On the expiration date, the time value is zero and the value of the warrant is determined only by its intrinsic value.

In rare cases, a warrant may also be traded below its intrinsic value, i.e. with a negative time value.

### **5.3.3 Premium**

In the case of call warrants, the premium, regularly related to one year to maturity, indicates how much more expensive it is to buy or sell the underlying by buying or selling and immediately exercising the right than to buy or sell the underlying directly.

### **5.3.4 Break-even point (profit threshold)**

The break-even point indicates the value that the underlying must reach in order for the exercise to be worthwhile, i.e. the price for the warrant, as well as acquisition and disposal costs are covered. However, the break-even point is only interesting for investors who wish to exercise their option right, as it otherwise says nothing about profits or losses.

### **5.3.5 Leverage and price sensitivity**

#### **▪ Lever**

As a key figure, the leverage reflects the ratio between the price of the underlying and the price of the warrant and thus shows the profit and loss participation of an investor.

#### **▪ Price sensitivity**

The price sensitivity provides information on how the price of the warrant changes in relation to the underlying asset and is expressed in values between 0 and 1 for the call and 0 and -1 for the put. The value approaches 0 if the option is "out of the money". However, if the warrant consists almost only of the intrinsic value, the value approaches 1 or -1. If the price as a whole reacts only disproportionately, this may nevertheless have an effect on the premium.

## **5.4 Types and applications**

Despite the variety of warrants on the market, a basic distinction can be made between warrant bonds as traditional warrants on the one hand and naked warrants on the other.

### **5.4.1 Traditional warrants**

Traditional warrants securitize the investor's independent right to delivery of the underlying. They are issued in conjunction with warrant bonds, but can be traded separately.

#### **5.4.2 Naked warrants**

Naked warrants, on the other hand, are issued without an option bond and, in addition to delivery of the underlying, also provide for a compensation payment. They are regularly issued by banks and securities trading houses.

- **Stock warrants**

Stock warrants represent the right to buy (call) or sell (put) shares or to receive a cash compensation payment if the share price exceeds (call) or falls below (put) a certain level. Dividend payments are not provided for.

- **Currency warrants**

Currency warrants grant the right to buy (call) or sell (put) a specified amount of a fixed currency or to receive a compensation payment if the exchange rate exceeds (call) or falls below (put) a specified rate.

- **Commodity warrants**

Commodity warrants usually certify the right to receive a compensation payment if the price of a commodity (e.g. precious metals, oil, electricity, wheat) exceeds (call) or falls below (put) a certain level.

- **Index warrants**

Index warrants grant the right to demand a settlement payment if a certain index level is exceeded (call) or undershot (put).

- **Basket warrants and turbo warrants**

Special forms of warrants are basket warrants, which entitle the holder to purchase a precisely defined basket of underlyings, and turbo warrants, which entitle the holder to purchase other warrants.

The designation as "turbo warrants" is based on the comparatively large leverage.

## **6. Open-ended investment funds**

### **6.1 Basics**

Investment funds pool investors' money and invest it in various assets in accordance with the principle of risk diversification. The investors hold shares in the fund assets. The investors' share is based on the number of their units in relation to all units issued, and the value of the individual units is based on the value of the entire fund, the so-called net asset value.

In Germany, investment funds are regulated by the provisions of the German Investment Code (Kapitalanlagegesetzbuch, KAGB). For investment funds subscribable by private investors, a sales prospectus must be prepared and published in which the investment objective, the investment strategy, the risks, the permissible assets that can be acquired and the costs must be stated. The above-mentioned elements are part of the so-called investment conditions, which regulate the legal relationship between the fund and the unit holder. As a rule, investment funds must prepare annual and semi-annual reports.

In Germany, the predominant model is that of the investment fund in corporate form, in which the investors' money is managed as special assets and considered separate from the company's assets. Foreign investment funds may be structured differently.

### **6.2 General characteristics of open-ended investment funds in Germany**

#### **6.2.1 Open-ended investment funds**

Open-ended investment funds are open to subscription by all retail and professional investors. The issue and redemption of units upon subscription or redemption of units is carried out by the capital management company. In most cases, an external capital management company is appointed to manage the fund.

Normally, the issue and redemption of units in open-ended investment funds can take place at any time. However, the competent supervisory authority may temporarily restrict or permanently suspend the issue or redemption. Investors may, on the one hand, return their units to the Company at an official redemption price, to which the Company is also obliged. In addition, shares may also be traded on a secondary market. However, the price may deviate upwards or downwards from the net asset value. In addition, transaction costs may be incurred.

Investment funds whose units are listed on a stock exchange are referred to as Exchange Traded Funds (ETF) (cf. chapter B. 6.6.2).

#### **6.2.2 Management of open-end investment funds**

Open-end mutual funds can be managed actively, i.e. by continuously adjusting the composite portfolio, or passively, i.e. linked to an index and without selecting individual securities. Mixed forms and smooth transitions are conceivable.

#### **6.2.3 Tasks of the capital management company**

The capital management company invests the collected capital of the investors for the account of the investment fund according to the principle of risk diversification in accordance with the investment conditions and in compliance with the previously defined investment strategy. In addition, the capital management company is responsible for publishing key investor information, the sales prospectus, and

the annual and semi-annual reports. Other tasks include the issue and redemption of units in the investment fund.

#### **6.2.4 Function of the depositary**

For the safekeeping of the assets acquired for the account of the investment fund, the capital management company must commission a depositary with the safekeeping of the assets, as well as the calculation of the unit prices and their control. The depositary's other duties include monitoring the investment limits. The depositary is a credit institution.

#### **6.3 Acquisition of shares, pricing**

The acquisition of shares in the investment fund takes place, for example, as part of a commission transaction. In this case, the trader acting for the investor acquires the units in the name of the trader for the account of the investor. The issue price results from the unit value, which is based on the net asset value price, and an issue premium.

For investment funds that invest in securities, the net asset value is calculated on each trading day by multiplying the determined value of the securities portfolio by the current prices. The exact valuation procedure is set out in the sales prospectus of the individual funds.

The redemption price of an investment unit is generally equal to the unit price less a discount, if applicable.

Unit purchases and sales have no effect on the net asset value and thus the unit value. It is true that the net asset value increases or decreases in the event of inflows or outflows. However, the resulting automatic adjustment of the units in circulation leads to a constant net asset value per unit.

In the case of exchange traded funds, the market price, as determined by supply and demand on the trading venues, is a further element in addition to the unit price, which is determined on a daily basis. No front-end load is owed when trading in units of exchange traded funds.

Often, credit institutions receive a sales follow-up commission from the companies for the distribution of the investment funds, which is paid from the income from the management fees.

#### **6.4 Design options for open-ended investment funds**

Investment funds can, for example, invest in conventional financial assets such as securities, money market instruments, bank deposits, investment units and derivatives. Despite the differences between the various investment assets, there are common features which are described in more detail below.

##### **6.4.1 Composition focus**

Investment funds can be distinguished according to the composition of the fund's assets.

For example, **bond funds** invest for the most part in interest-bearing securities with different features. Equity funds invest in equities. To minimize risk, they invest in a variety of securities. So-called **sector funds** invest exclusively in shares of certain sectors. If investments are made in different asset classes, they are referred to as **mixed funds**, strategy funds, multi-asset funds or portfolio funds. Index funds invest with the aim of replicating an index. **Specialty funds invest** in very specific markets and/or instruments and spread the risk only slightly. **Funds of funds**, on the other hand, invest primarily in units of other open-end mutual funds. **Money market funds** invest investors' money in overnight and term deposits, money market paper and securities with short residual maturities.

#### **6.4.2 Geographical investment horizon**

According to the delimitation of the geographical investment horizon, country funds, regional funds and international funds can be distinguished:

#### **6.4.3 Time investment horizon**

Investment funds can be established without and with a fixed term. In the case of funds with a fixed term, the assets acquired for the fund are sold at the end of the term and the proceeds are paid out to the fund's investors.

#### **6.4.4 Guarantee and capital preservation funds**

The investment conditions may provide for a guarantee by the capital management company or a third party. The object of the guarantee may be, for example, the (time-limited) assurance of distributions, the repayment of capital or a specific performance.

Capital preservation funds, on the other hand, aim to secure the value at the end of the fund's term or a specific period. To this end, hedging option transactions can be concluded for the account of the fund, for example. In this case, however, there is no guarantee that the capital preservation will actually be achieved.

#### **6.4.5 Appropriation of earnings**

The investment conditions of the funds determine the distribution behavior and the use of income. In the case of distribution funds, distributions are made annually, whereas income is reinvested in the case of reinvestment funds.

#### **6.4.6 Funds with or without issue surcharge**

Fund units can be offered both with and without a front-end load, although the latter may regularly incur a higher management fee during the year.

#### **6.4.7 Currency**

The prices of the investment units offered by German capital management companies in Germany are in most cases denominated in euros, but may also be denominated in a foreign currency.

### **6.5 Special types of investment funds**

#### **6.5.1 Open-ended real estate funds**

Open-ended real estate funds invest investors' money in land, buildings and construction projects in accordance with the principle of risk diversification. With regard to the return of fund units, a special feature of open-ended real estate funds is that investors must generally hold their units for at least 24 months. A return period of 12 months applies to the return of units. The value of an individual fund unit is calculated by dividing the value of the fund assets by the number of fund units issued. The value of the fund's assets is determined in accordance with a predefined valuation procedure. The value of the fund assets is determined primarily by the value of the real estate. These either correspond to the purchase price of the property or are determined by external appraisers. The independence of the external appraisers is to be ensured by special statutory regulations.

### **6.5.2 Rule-based funds**

Rule-based funds are similar to ETFs, but do not have to be traded on an exchange. Details of their features are set out in the investment conditions according to which the collected capital is to be invested. The respective sales prospectuses of rule-based funds specify in detail the rules according to which the assets are to be selected. Rule-based funds thus bind the manager of the fund to a greater extent than is the case with other investment funds, where the respective manager is granted extensive discretion to achieve the investment strategy.

### **6.5.3 Mixed investment funds and other investment funds**

Mixed investment funds invest the money deposited with them in traditional financial assets, shares in certain other domestic investment funds or shares in foreign investment funds comparable to these. Other investment funds may also invest the money deposited with them in precious metals and unsecuritized loan receivables. If these funds were imposed before July 22, 2013, they may also hold units in domestic hedge funds, open-end real estate funds or comparable foreign funds.

### **6.5.4 Hedge Fund Strategies and Hedge Funds**

Hedge funds are special forms of open-ended investment funds, which, as an alternative form of investment, cannot be assigned to traditional forms of investment and investing is open only to semi-professional and professional investors. The origin of these funds was to hedge the overall position against negative market developments. The basis of a hedge fund manager's activity is usually pre-determined specific fund strategies, which can differ greatly from one fund to another. The exact regulations, in particular regarding the redemption of units, can be found in the investment conditions of the funds.

Hedge fund strategies can be used by, among others:

- The use of price distortions and changing price relationships between related securities ("relative value").
- The purchase and short sale of securities of such companies that are subject to or involved in profound changes ("event driven").
- Analysis of the change in macro-economic trends with the aim of exploiting upward and downward movements in different markets and for different asset classes and financial instruments ("Global Macro").
- Gains from taking long and offsetting short positions in undervalued or overvalued equities, based on a fixed or floating net long or net short exposure ("equity hedge").
- Global trading of futures and derivatives on financial assets and commodities ("managed futures").

However, some mutual funds open to private investors also use investment strategies similar to hedge funds.

### **6.5.5 Open-end special investment funds**

Semi-professional and professional investors may acquire units of open-end special investment funds. The funds can be imposed both with a fixed investment strategy or without a fixed investment strategy in accordance with the principle of risk diversification, the exact conditions and designs of which can be found in the investment conditions.

## **6.6 Performance under different market conditions**

An overview of the effect of significant factors on the potential performance under different market conditions cannot be presented in general terms for open-ended investment funds due to the different composition of investment funds and the risk mix.

Only in the case of equity and bond funds can the performance of equities and bonds provide an indication of possible performance taking into account price-compensating changes in other financial instruments.

## **7. Closed-end funds**

If investors join together on a long-term basis to invest in specific assets on a project or property basis, they are referred to as closed-end funds. Their profitability is determined by the successful management and sale of the assets, without fixed interest being paid. The assets are acquired with the investors' capital (equity). In addition, debt capital can be used (to a limited extent), e.g. to achieve a leverage effect. In contrast to open-ended investment funds, the units cannot be redeemed during the term. Units can therefore only be sold on the secondary market, which is often only liquid to a limited extent. A sale is therefore often only possible under more difficult conditions and often with significant price discounts.

The following statements relate to domestic closed-end funds that are subject to the provisions of the KAGB.

### **7.1 Basics**

In Germany, the German Investment Code distinguishes between closed-end mutual funds and closed-end special funds offered by capital management companies. Closed-end investment funds are always so-called alternative investment funds (AIF).

### **7.2 General characteristics of closed-end funds in Germany**

#### **7.2.1 Closed-end mutual funds**

In the standard case of an investment limited partnership, the investors become direct or indirect limited partners and thus also economic and liability partners. In addition, it is also possible to set up the mutual fund as an investment stock corporation with fixed capital.

The participation of the investors amounts regularly between 10,000 € and 25,000 €, whereby the investors must pay frequently with the participation an expenditure impact (Agio) depending upon their participation. The participation of the investors can take place thereby indirectly over a trust limited partner, who holds the participation on calculation of the investor, after the regulation of a trust agreement.

The distribution of foreign closed-end mutual funds is permitted if they comply with the requirements of the KAGB. Due to harmonized regulation within the European Union, this is generally the case for closed-end mutual funds launched in another EU member state. Simplified requirements also apply here for semi-professional and professional investors.

#### **7.2.2 Use of the investment amounts by the limited partnership - costs**

In addition to the acquisition of the assets, the investment amounts are used to cover all costs, such as notary fees and other ongoing costs, which are set out in the sales prospectus and the key information. In addition, credit institutions receive a sales commission from the limited partnership or the capital management company for the brokerage of investments, which is paid from the investors' equity or the issue premiums.

#### **7.2.3 Phases of the closed fund**

A typical feature of closed-end funds is that they aim to make a project- or property-related investment and therefore have different phases. The so-called placement phase comprises the acquisition of equity from the investors until a previously determined sum is reached and the fund is closed. This is followed by



the long-term management phase, which often lasts more than 10 years. At the end of the term, the assets acquired during this phase are sold. After disposal, the proceeds are distributed to the investors.

#### **7.2.4 Investor rights and obligations**

The rights and obligations of the investor in an investment limited partnership arise from the investment conditions, the partnership agreement and, if applicable, the trust agreement of the company concerned. The obligation of the investor consists in the payment of the contribution. The rights include in particular asset, voting, control and information rights. The shareholders' meeting is held annually. However, there is no obligation to make additional contributions and no liability after leaving the company.

### **7.3 Investment opportunities of closed-end funds**

In the case of closed-end mutual funds, the permissible assets are defined by law. Possible assets include investments in real estate, investments in the field of renewable energies, ships, ship constructions, ship inventory, etc., aircraft, aircraft inventory, spare parts, shares in companies that are not admitted to trading on a stock exchange (private equity funds), containers, forest, forestry and agricultural land, investments in the field of infrastructure (e.g. roads, bridges, power grids), shares in other closed-end funds, and certain securities, money market instruments and bank deposits.

Closed-end mutual funds must in principle invest in accordance with the principle **of risk diversification**, i.e. the fund must in principle invest in at least three tangible assets, whereby an essentially even distribution in terms of value must be ensured. If, from an economic point of view, sufficient diversification is ensured, this also constitutes risk diversification. In the case of closed-end mutual funds without risk diversification, investments are made in only one asset, but semi-professional and professional investors are required to invest at least EUR 20,000.

Closed-end mutual funds can also be set up as **mixed funds** (so-called multi-asset funds). In this case, the fund invests not only in one, but in several of the above-mentioned asset classes, whereby the investments can also be made indirectly through the acquisition of shares in other funds (fund of funds construction).

Examples of closed-end real estate funds, renewable energy funds, ship funds, aircraft funds and private equity funds are described in more detail below.

#### **7.3.1 Closed-end real estate funds**

Closed-end real estate funds acquire one or more properties. In addition to open-ended real estate funds and REITs, closed-end real estate funds represent an option for indirect real estate investment. Closed-end real estate funds are characterized by a clearly defined investment plan. Disbursements are usually made annually. Whether and to what extent they are paid depends mainly on the rental income generated less the expenses incurred.

The sales prospectuses contain detailed information on the properties or project developments or, in the case of investment properties that have not yet been determined, information on types of use, regions and, where applicable, other criteria for properties yet to be acquired.

#### **7.3.2 Renewable Energy Fund**

Renewable energy funds invest in existing or yet-to-be-built plants for the generation of electricity or heat from renewable sources such as solar, wind, geothermal, biogas or water. The economic result of renewable energy funds depends, among other things, on the production costs of the individual plants,

the income at the respective location, the expenses for maintenance and repair, the development of the energy price or of a legally fixed feed-in tariff, if applicable, and the proceeds at the time of sale.

### **7.3.3 Closed-end ship funds**

Closed-end ship funds acquire one ship or several ships. As a rule, annual payouts are planned. If objects are sold, final payments are agreed, depending on the investment offer. The economic result of ship funds depends mainly on the achievable charter rates and the purchase price/production costs or the selling price of the ships. These factors are significantly influenced by world trade. Special tax conditions may play a role (tonnage taxation).

### **7.3.4 Closed-end aircraft funds**

Closed-end aircraft funds generally acquire one aircraft, or in individual cases several aircraft. As a rule, annual payouts are provided for. If objects of the fund are sold, final payments are provided for, depending on the investment offer and tax conditions. The economic result of aircraft funds essentially depends on the achievable leasing rates less the expenses incurred as well as the purchase price/production costs or the selling price of the aircraft.

### **7.3.5 Private equity fund**

Private equity funds acquire direct or indirect stakes in companies ("target companies"). The term "private equity" refers to the over-the-counter ("private") provision of equity capital for the purpose of acquiring an interest in a company. During the term of the investment, payments may already be made. These payouts reduce the repayments at the end of the term. If the investments of the private equity target funds were successful and a repayment of the equity contributed by the investor to the closed-end fund is made at the end of the term, possibly in connection with a profit payment, this may also be made in several installments. The amount of a possible profit depends in particular on the success and thus any increase in value of the target companies in which the private equity target funds have invested.

## **7.4 Closed-end special funds**

Closed-end special funds are free in their choice of investments as well as borrowing and are only open to semi-professional or professional investors as direct participants. Closed-end special funds are subject to only very limited regulation. Only the market value of the assets acquired must be ascertainable.

## **7.5 Performance under different market conditions**

Due to the diverse investment opportunities in a wide variety of assets and a mix of these, it is generally not possible to provide an account of the effect of significant factors on potential performance under different market conditions.

## **8. Fractions of financial instruments**

Transactions may give rise to fractions of financial instruments. This is the case, for example, when a stock corporation carries out a corporate action such as the exchange or combination of shares, or when an investor has acquired fractions of shares or ETFs as part of a savings plan. Fractions of financial instruments in such cases do not grant the same rights as the full instrument would convey, but only an economic claim against Trade Republic. For example, fractions of shares do not confer voting rights as they convey whole shares (see above under B.2.). Special features also exist in the case of (partial) trading in fractional shares. For example, in the case of placing an order to sell 1.75 pieces of a share,

one share is sold at an execution venue. 0.75 pieces of the share are purchased by Trade Republic as a proprietary transaction. In this case, the purchase price is calculated by dividing the trading price of the whole piece by the respective share of the investor. Trading on another trading venue is not possible when trading fractional shares.

## **C Basic risks in the investment of assets**

**The following section of this brochure is intended to educate and sensitize you in the position of an investor with regard to economic interrelationships that can sometimes cause a striking change in the value of your assets. First of all, the fundamental basic risks are presented, which apply consistently to the investment instruments dealt with in this brochure. Part D then describes the specific risks that arise for individual forms of investment.**

At this point, we expressly draw your attention to the fact that an accumulation of several risks can lead to them mutually reinforcing each other, which can result in a particularly strong change in the value of your asset position.

### **1. Economic risk**

By either not taking economic developments into account at all, not taking them into account sufficiently or taking them into account incorrectly in their investment decisions, and consequently either making an investment in securities at the wrong time or holding securities in an unfavorable economic phase, investors run the risk of price losses - hence the so-called business cycle risk. The economic cycle typically lasts between three and eight years and is divided into the phases of upswing, boom, downturn and depression (end of recession). Both the duration and the extent of the individual phases vary. Overall, there may also be regional differences, so that the business cycle does not develop in parallel in every country, but rather there may be shifts in time.

Possible effects on the price development of securities have the change and development of an economy. Securities prices (and also exchange rates) react in particular to intended and actual changes in government economic and fiscal policy. For example, domestic economic measures, but also strikes, exert a strong influence on the overall economic situation of a country. For this reason, setbacks can occur on capital and foreign exchange markets even where development prospects were originally considered favorable.

For investors, this means that investment forms that are recommended and expected to generate profits in certain economic phases may be less suitable in another phase and may generate losses.

### **2. Inflation risk (purchasing power risk)**

In addition, the investor may suffer a loss of assets caused by monetary devaluation, so-called inflation risk. Both the real value of the existing assets and the real return to be generated with the assets are subject to the inflation risk. The following example can be used to illustrate this: If the inflation rate is e.g. 4% - 5% per year, the monetary value decreases by a quarter over a period of eight years; after 16 years, the purchasing power of the monetary assets has already been halved. The real interest rate, which determines the difference between the yield and the inflation rate for fixed-interest securities, can be used as a guide.

### **3. Country risk and transfer risk**

Although a foreign debtor is actually solvent, it may in fact be prevented from making its interest and repayment obligations on time or even in general due to a lack of transfer capability and willingness on the part of its country of domicile. This so-called country risk includes both the risk of economic and political instability. While this may result in a complete failure to make cash payments due to a lack of

foreign currency or due to transfer restrictions, in the case of securities denominated in foreign currency, a distribution may be made in another currency that is not convertible due to precisely these foreign exchange restrictions. There is no possibility of hedging against this transfer risk.

#### **4. Currency risk**

A currency risk exists when securities are denominated in a foreign currency and the underlying exchange rate falls. The exchange rate is influenced by various factors, which can be long-term such as inflation trends, medium-term such as monetary and fiscal policy decisions, or short-term such as current market opinions.

As a result of the appreciation of the euro, and thus the depreciation of the foreign currency, foreign asset positions valued in euros lose value and can lead to a financial loss for the investor. The currency risk is thus added to the price change risk of foreign securities - even if the securities are traded in euros on a German stock exchange. Investors are also exposed to currency risk in the case of other foreign currency exposures, such as overnight or term deposits in foreign currencies.

If the overall global political situation is tense, this usually benefits currencies that are considered particularly safe.

Investors should also take the above factors into account when investing in the foreign exchange market (e.g. on a spot rate basis, as a forward exchange transaction or as a currency option).

#### **5. Volatility**

Over time, the prices of securities fluctuate; the measure of these fluctuations is referred to as volatility. This is calculated using historical data and certain statistical methods. The higher the volatility of a security, the greater the upward and downward price movements. Overall, a higher volatility is more risky and therefore entails a higher loss potential.

#### **6. Liquidity risk**

The liquidity risk of an investment lies in the fact that the investor does not have the possibility to sell his assets at any time at market prices. Basically, the breadth and depth of a market are crucial for fast and smooth securities transactions. A market has depth if there are many open sell orders at prices immediately above the prevailing price and, conversely, many open buy orders at prices immediately below the current price level in the market. A market can be described as broad if these orders are not only numerous but also relate to high trading volumes.

Tight and illiquid markets may be responsible for difficulties in buying or selling securities. If there is either only supply or only demand on a market, the execution of a buy or sell order is not possible immediately, only in part or only on unfavorable terms. In addition, further difficulties arise if the securities concerned are not traded on an organized market or stock exchange, so that a sale is not possible at all or is possible at a price discount.

Illiquidity can also occur in markets with market making. For many securities, the market maker (the issuer or a third party) usually provides buying and selling prices on a daily basis throughout the entire term, but there is no obligation to do so. Investors then run the risk of not being able to sell the security at the time they want.

Liquidity may also be restricted for other reasons, such as a time-consuming transfer of ownership, long unance-related fulfillment periods, or the inability to sell at short notice. If investors have short-term liquidity needs, they may have to take advantage of interim financing - with corresponding costs.

## **7. Risk of bank resolution and creditor participation (bail-in)**

Shares, bonds issued by credit institutions and other claims against credit institutions are subject to special regulations. These regulations may have an adverse effect on investors or contractual partners of the credit institution in the event of the credit institution's liquidation. The following description relates in particular to German banks. There may be comparable rules in other countries. In the EU, bank resolution has been harmonized in part by Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (*Bank Recovery and Resolution Directive - BRRD*).

The resolution authority may order certain resolution measures if the continued existence of a bank is at risk, no alternative private-sector measure is possible and the measure is necessary in the public interest. Provided that these points are met, the resolution authority can take a number of far-reaching resolution measures. It should be noted that these measures may sometimes have adverse effects on the bank's shareholders and creditors. As a result, the bank's ability to meet its payment and delivery obligations to creditors may be impaired and, in addition, the value of the shares in the bank itself may be reduced.

The following wind-down measures can be considered in this context:

- In the so-called bail-in, also known as creditor participation, the resolution authority can either partially or fully write down financial instruments from and claims against the bank or convert them into equity (shares or other company shares) in order to stabilize the bank in this way.
- Through the instrument of the sale of a company, shares, assets, rights or liabilities of the bank being wound up are transferred either in full or only in part to a specific purchaser.
- However, the resolution authority may also effect a transfer to a bridge institution; in this case, either shares in the bank or a portion of all of the bank's assets, including its liabilities, are transferred.
- Assets, rights or liabilities may be transferred to an asset management company. The aim here is to ensure that the assets are managed in such a way as to maximize their value until the time of their subsequent disposal or liquidation.

The terms and conditions of the financial instruments initially issued by the Bank, as well as the claims existing against this Bank, may be subject to adjustment by the resolution authority by means of an official order. As a result, both the maturity date and the interest rate may be changed to the detriment of the creditor. It is also possible that termination rights and other rights that the creditors of the financial instruments or claims would actually be entitled to may temporarily not be exercised.

Taking the liquidation measures described above may result in a total loss of the capital invested by the shareholders and creditors. In addition to the purchase price paid for the acquisition of the financial instruments and receivables, the total loss also includes any other costs associated with the purchase.

The creditor is not free to terminate the financial instruments and claims or to assert other contractual rights insofar as this is based solely on the basis that the resolution authority orders or takes a resolution measure. The mere possibility that resolution measures may be ordered may make it more difficult to sell

a financial instrument or a claim on the secondary market. This may mean that the shareholder and creditor can only sell the financial instrument or claim at a considerable discount. Even if the issuing bank has existing repurchase obligations, the sale of such financial instruments may be at a substantial discount.

In a bank resolution, shareholders and creditors shall not be placed in a worse position than in normal insolvency proceedings of the bank. To the extent that the resolution measure does result in a shareholder or creditor being worse off, this gives rise to a compensation claim by the shareholder or creditor against the fund set up for resolution purposes (restructuring fund or single resolution fund, "SRF"). If this results in a compensation claim against the SRF, this in turn gives rise to the risk of a later payment than would have been the case had the Bank properly fulfilled its contractual obligations.

Settlement measures do not cover securities which you, as a customer, merely have managed by your bank in the securities account and which, moreover, were not issued by the custodian bank itself. Insofar as settlement is carried out at the custodian bank, the ownership rights to these financial instruments in the securities account shall remain unaffected.

## **8. Psychological market risk**

Irrational factors can also have an influence on general price developments on the stock market. These include moods, opinions and also rumors, which cause a significant fall in the share price, although the earnings situation and future prospects of the companies are not subject to any negative changes per se. Psychological market risk is of particular relevance to equities and is therefore discussed in more detail in section D 2.4.1.

## **9. Risk associated with credit-financed securities purchases**

Lending on a securities account is one way in which investors can remain able to act on securities and remain liquid. Depending on the type of security, the securities account can be lent different amounts. This approach can create a significantly higher risk potential, resulting in a so-called leverage effect. In the case of fixed-income securities, the mortgage lending value is generally higher than for equities.

There is a risk that the market may develop contrary to the investor's expectations and that the investor may be forced to sell his securities during a stock market low because he needs the money. This risk can also materialize in the case of a loan on a pure bond portfolio, especially if the lending limit is exceeded due to a sharp rise in capital market interest rates with price losses and the lending bank requires further collateral.

There is a risk of a change in the interest rate on the loan and of a loss in the collateral value of the securities account due to a fall in the share price. In addition, there may be a need for additional funding from other liquidity resources in order to settle further costs incurred; this primarily relates to debit interest. Furthermore, there is a risk that, if such additional funding from other liquidity resources is not possible, some or all of the securities held in the portfolio may have to be sold at a loss, or that the entire portfolio may have to be liquidated in the event of a pledge becoming due. There is also a risk that the remaining debt will have to be repaid because insufficient proceeds have been generated and the securities account will have to be liquidated for this purpose.

## **10. Tax risks**

Tax risks may also affect a capital investment. In particular, it should be noted that capital gains are generally subject to income tax and that the investor may (also) incur a tax and/or duty burden abroad that may not be eligible for credit or refund.

## **11. Other basic risks**

The following section addresses some other risks that investors should generally be aware of when investing in securities, as it is not always just a matter of potential financial loss.

### **11.1 Information risk**

It is possible that wrong decisions are made on the basis of missing, incomplete or incorrect information. This is what is known as information risk. Investors may be confronted with incorrect information either through the use of unreliable sources of information, through misinterpretation in the evaluation of initially correct information, or through transmission errors. The information risk can also be realized by too little or too much information, or by outdated information.

### **11.2 Transmission risk**

In order to prevent misunderstandings when placing orders for securities, fixed rules must be in place to ensure that a clear entitlement to order execution is obtained. Every order placed by an investor with the bank must therefore contain certain information that is absolutely necessary. These include, in particular, the instruction to buy or sell, the number of units or the nominal amount, and the exact designation of the security. The investor can limit this risk by placing the order precisely.

### **11.3 Risk of delayed information by the custodian bank**

The credit institution shall forward certain information to investors to enable them to exercise their rights under the securities held in custody. This includes, among other things, information on corporate actions or takeover offers. If the information is provided late and the issuer sets a short deadline for participation, the investor may not receive the relevant information in time or may receive it so late that he has very little time left to make a decision (e.g., to participate in a capital increase) and to place a corresponding order with his bank. The time available to the investor is usually further reduced by postal delivery times and by the organizational process for executing the order. As a result, the investor runs the risk of making a hasty decision due to the time pressure, or of being de facto excluded from exercising his rights. If necessary, the investor has the option of obtaining information on the homepages of issuers independently of the information provided by the custodian bank.

### **11.4 Request for information**

Foreign securities are subject to the laws of the country in which they are acquired, sold or held, regardless of whether they are acquired in Germany or abroad. Thus, a stock corporation may have the right or even the obligation to obtain certain information about its shareholders, which is done by means of a request for information from the body authorized to supervise the capital market.

### **11.5 Risk of self-custody**

If the investor decides to hold securities in his own custody, he should be aware of the consequences of any loss of his documents. For example, if they are destroyed or stolen in a fire, the restoration of rights requires a judicial bidding procedure, which can incur considerable costs. In addition, the time factor must



also be taken into account: Obtaining the new deeds may take several years from the initiation of the first measures - notification of the loss - to the declaration of invalidity and their issuance as a substitute. Should a third party have acquired the pieces in good faith, the investor may have to expect a final loss.

In addition to the financial losses, there is also the risk of missing important dates and deadlines, so that certain rights can no longer be asserted or can only be asserted with delay. As a matter of principle, foreign registered securities should not be held in own custody.

#### **11.6 Corporate actions of the issuer of the securities**

Securities may be the subject of corporate actions by the issuer of the securities (such as the combination of several shares into one share or the exchange of securities). In the context of such corporate actions, the number of securities held by an investor may not be divisible accordingly due to the exchange ratio specified by the issuer and the fractions arithmetically created may be lost. If the investor holds fewer securities than are required for the subscription of a new security according to the exchange ratio specified by the issuer, this may even result in a total loss of the investment in extreme cases.

#### **11.7 Risks associated with the custody of securities abroad**

The Bank has securities acquired abroad held in safe custody abroad by a third party. The Bank's liability is limited to the careful selection and instruction of the custodian. With regard to safekeeping, the securities are subject to the legal system and customs of their respective place of safekeeping, so that the consequences of the insolvency of the foreign depository are also governed by its legal system.

Custody abroad may result in higher costs and longer delivery times. This risk exists especially if the securities have to be moved. For example, if a customer transfers his securities account to another bank, this may take a longer time. In addition, in the event of insolvency, access to the securities may be limited or even impossible. In addition, there is the risk of litigation when enforcing claims.

In addition, impairments may occur during safekeeping abroad due to force majeure, but also war and natural events, as well as access by third parties, for which the Bank accepts no liability.

### **12. Influence of costs on profit expectations**

When investing in financial products, investors should bear in mind that, as a rule, costs are incurred both at the level of the financial product and at the level of the financial service. The product costs and the service costs will each have a negative impact on the return of the financial product. In addition, there are ancillary costs, which include acquisition and disposal costs, as well as commissions. In addition to these costs, there are also any follow-up costs, such as a custody account fee, or other ongoing costs. For more information, please contact your bank.

## **D Special risks in the investment of assets**

### **1. Special risks associated with interest-bearing securities**

In addition to the basic risks described above, interest-bearing securities may also be subject to a number of special risks, which will be discussed in more detail below.

#### **1.1 Credit risk**

The credit risk includes the risk of insolvency or illiquidity of the debtor and there is a total risk of loss of the capital invested.

##### **1.1.1 Causes of changes in creditworthiness**

Changes in creditworthiness can be caused by developments in the overall economic or company-specific environment for which various factors are responsible, namely economic changes, changes in individual companies, sectors and countries, or political developments. A deterioration in the creditworthiness of the issuer itself also has an unfavorable impact on price performance. Particular attention should be paid to the creditworthiness of the bond debtor, especially in the case of zero-coupon bonds.

##### **1.1.2 Yield as a measure of creditworthiness**

The yield can generally provide information about the creditworthiness, because the lower the yield, the higher the debtor's credit rating. The higher the credit spread, i.e. the yield premium over risk-free investments, the higher the risk of the bond.

##### **1.1.3 Rating as a decision-making aid**

Credit ratings by rating agencies are used to assess the likelihood that a debtor will meet the interest and repayment obligations associated with the securities it issues on time and in full. Ratings are based on information provided by issuers, may contain errors, and may change over time. However, the rating is not to be understood as a recommendation to buy or sell and is merely an aid to decision-making.

Overall, investment grade bonds with a rating in the range AAA to BBB or comparable (e.g. government bonds) are considered safe and stable investments and non-investment grade bonds with a rating range BB+ to D or comparable are considered risky investments. Investors should note that different rating agencies exist with different rating systems, where ratings for the same financial instrument may differ.

#### **1.2 Interest rate risk/price change risk during the term**

Fluctuations in the market interest rate level during the term guarantee the central risk of interest rate change and can change the market value on a daily basis. The more the market interest rate level rises, the greater the risk of interest rate change, which is realized if the investor sells the bond before maturity.

##### **1.2.1 Relationship between interest rate and share price development**

The price of interest-bearing securities is determined by supply and demand. These two factors are primarily determined by the ratio of the nominal interest rate of the bond to the respective interest rate level on the money and capital markets (= market interest rate).

- The interest rate of a fixed-interest bond is the interest rate expressed as a percentage of the nominal value of a bond. It is generally set in line with the prevailing market interest rate at the time of issue for the duration of the term. During the term of the bond, however, the price may

deviate significantly from the cost price. The extent of the price deviation depends in particular on the respective changes in the market interest rate level.

- The level of market interest rates is largely influenced by government budgetary policy, central bank policy, the development of the economy, inflation as well as foreign interest rate levels and exchange rate expectations. However, the significance of the individual factors is not directly quantifiable and fluctuates over time. When the level of market interest rates increases, the price of the bond generally falls until its yield is roughly equal to the market interest rate.

The reason is that fixed-interest bonds become comparatively less attractive when interest rates rise. Therefore, the price of an existing bond may fall below its nominal value. When interest rates fall, the opposite usually occurs - the interest paid on a bond becomes comparatively more attractive, leading to an increase in the bond price.

### **1.2.2 Sensitivity to changes in interest rates: Dependence on remaining term to maturity and interest rate**

The (residual) maturity and the level of the nominal interest rate determined how violently a fixed-interest bond reacted to changes in market interest rates.

Modified duration, a measure of a bond's sensitivity, indicates the percentage by which the bond's price will change if interest rates change by one percentage point. Bonds with longer maturities have a higher duration than those with shorter maturities because the relative advantage/disadvantage of a high/low interest rate is more pronounced for long-term bonds than for short-term paper. However, this also applies to one and the same bond.

In addition, the interest rate level also plays an important role for the duration in comparison with the respective market interest rate level in the currency area concerned, because a bond with a high interest rate has a relatively low interest rate sensitivity in contrast to a bond with a lower interest rate.

### **1.3 Termination and reinvestment risk**

In the terms and conditions of the issue, the issuer may reserve a unilateral right of termination, which is regularly exercised during the high-interest phase. This allows the issuer to reduce its interest burden by reducing its liabilities. For the investor, there is the risk that in the event of premature repayment of the nominal value of the bond, a new investment can only be made under worse conditions for the investor and there is therefore a reinvestment risk for him.

### **1.4 Draw risk**

In the case of redemption bonds that are repaid according to a draw procedure, there is a risk of an incalculable shortening of the term and thus a change in yield. In addition to a deterioration in yield, this can also lead to losses.

### **1.5 Risks associated with individual bond forms**

In the case of individual forms of bonds, risks can be identified which differ in part and in part, and which are presented below.

### **1.5.1 Bonds with variable interest rates (floating rate notes)**

The risk associated with floating-rate bonds lies in the uncertain interest income, as the specific interest income fluctuates and is not fixed at the time of purchase. If the intervals between the respective interest payment dates are short, investors bear a corresponding reinvestment risk if market interest rates fall. In addition, price fluctuations during the term depend on the creditworthiness of the issuer.

### **1.5.2 Stronger price swings for reverse floaters**

In the case of reverse floaters, the interest income develops in the opposite direction to the reference interest rate. Although reverse floaters perform in the same direction as fixed-income bonds with a corresponding maturity, the development is much more pronounced. The risk increases with rising market interest rates. It should be noted in particular that, in addition to rising interest income, disproportionate price losses may occur.

### **1.5.3 Zero coupon bonds (zero bonds)**

Due to the leverage effect of zero bonds, they are exposed to an increased price fluctuation risk, especially if the market interest rate rises. In addition, there is the currency risk associated with zero-coupon bonds denominated in foreign currencies, as interest is only paid at final maturity.

### **1.5.4 Foreign currency bonds and dual currency bonds**

Foreign currency bonds are subject to the risk of fluctuating exchange rates. If the bond is a dual-currency bond and the terms and conditions of the bond include a currency adjustment clause, the currency risk does not apply. In the absence of such a clause, the higher the proportion of foreign currency, the greater the impact of exchange rate changes.

### **1.5.5 Bank bonds**

In the case of bank bonds, the investor is already exposed to a default risk from a liquidation or insolvency if there is a threat to the issuer's continued existence as a going concern, as the bank bonds may be converted into shares in the process or the nominal amount may be reduced to zero. In this context, the risk information on bank liquidation and creditor participation must also be taken into account (cf. chapter C. 7. ). In addition, there is an interest rate risk insofar as a variable interest rate has been agreed.

### **1.5.6 Registered bonds**

In the case of registered bonds, there is a risk of tradability, as transferability is more difficult and there are therefore no secondary markets. In addition, the issuer can decide at its own discretion whether or not to accept a repurchase offer. The issuer generally has no ordinary right of termination during the term; however, it may reserve an extraordinary right of termination or will generally have such a right by law.

## **2. Special risks associated with shares**

The special risk profile of shares as a form of investment is strongly influenced by their pricing. Pricing can depend on influencing factors that defy rational calculation. Investors should be aware of the various risk components, some of which are intertwined, before making an investment in equities.

### **2.1 Entrepreneurial risk (insolvency risk)**

Buyers of shares are not creditors or lenders, but equity investors. In the event of insolvency of the company, which represents the extreme case, the shareholders will only participate after all creditors have been satisfied, which can mean a total loss. There is therefore no certainty that the investor will get back the capital previously invested.

### **2.2 Price change risk**

The price of shares is subject to unpredictable fluctuations, with short-, medium- and long-term share prices alternating without it being possible to derive a fixed relationship for the respective phase duration. From the perspective of the stock buyer, a basic distinction can be made between general market risk, sector risk and company-specific risk. These risks influence the share price development individually or cumulatively.

#### **2.2.1 General market risk**

First of all, there is the risk that the price will change due to general developments on the stock market, without there being any direct connection here with the factual, economic situation of the company. This risk is called general market risk or systematic risk and exists in principle equally for all shares.

Even if the economic situation of the Company is consistent per se, the Company's share price may fall in the event of an overall negative market trend.

Investors should not expect that an unfavorable share price trend will necessarily or immediately reverse. A downward trend, i.e. a falling share price, can last for months or even years. Even a broad diversification of shares either within a market with regard to the company or the sectors cannot minimize the general market risk for the investor. The more widely spread, the more accurately the stock portfolio will track the market's performance.

#### **2.2.2 Company-specific risk**

There is also the so-called company-specific risk, which is also referred to as the unsystematic risk of a share. In contrast to the general market risk, factors that directly or indirectly affect the issuing company are the reason for a negative share price development. The causes of such a share-specific price development may lie in the company's business situation and may be due, for example, to incorrect management decisions or a breach of regulatory or statutory obligations. However, they may also result from external, general economic factors. However, many years of good performance to date do not guarantee investment success. Above all, price changes cannot be quantified in advance and depend in particular on the company, sector and country.

### 2.2.3 Penny Stocks

Shares whose price is usually less than, for example, US\$1 are known as penny stocks. They are often only offered for sale or purchase by a single brokerage house. Since there is no organized market, there is a risk that securities, once acquired, cannot be resold or can only be resold under more difficult conditions and possibly at a considerable price disadvantage. The background to this is that these are often illiquid securities that are not listed on the stock exchange and, in addition, there is no secure pricing mechanism. The narrow market for penny stocks also results in an increased risk of price manipulation by market participants.

### 2.3 Dividend risk

The dividend on a share is largely determined by the profit generated by the stock corporation and may rise, fall or not be paid in a given year. Investors bear the risk that the company will not pay a dividend or will pay a lower dividend than expected. An uninterrupted dividend payment for many years is no guarantee of future dividend income and can therefore not simply be assumed.

### 2.4 Psychology of market participants

Rising or falling prices on the stock market or for an individual share depend on the assessment of market participants and thus on their investment behavior. In addition to objective factors and rational considerations, the decision to buy or sell securities is also influenced by irrational opinions and mass psychological behavior. Thus, the share price also reflects hopes and fears, assumptions and moods of buyers and sellers. In this respect, the stock market is a market of expectations where the line between factually based and more emotional behavior cannot be clearly drawn.

Typical phenomena and factors that can become triggers of such stock price movements are:

- Investor confidence can lead to a market that continues to rise despite negative events that affect the share price (so-called bull market). However, this can also work the other way round, if positive events are ignored when the share price is otherwise falling (so-called bear market).
- Opinion leaders, such as analysts' recommendations, press releases and stock exchange letters, can reinforce respective stock market trends (multiplier and follower effects) and influence the investment behavior of a broad public. There is sometimes a risk of price changes which are not economically justified and which cause market participants to make incorrect assessments.
- Trend-enhancing speculation can lead to speculation in one direction due to "contagiousness" in broad investor circles, so that even marginal developments that previously had no influence cause a sudden price or trend change.
- Computerized trading activities could trigger automatic sales at high volumes (algo trading/high-frequency trading), resulting in a price drop.
- Due to the globalization of markets, price trends on foreign stock exchanges could also have an impact on the domestic market, although there may be time lags and effects of varying degrees.
- Official announcements, as well as the mere assumption of upcoming company-related measures, can have different effects depending on the stock market climate. For example, a capital increase can lead to an increase in the share price if the stock market climate is favorable and to a decline if the stock market climate is poor, as the capital increase could be interpreted as a weakness on the part of the company.

## **2.5 Risk of the price forecast**

The forecast risk is that investors will misjudge future performance and sell or buy the stock at an unfavorable time.

Analysis methods, such as fundamental analysis, which makes its assessments on the basis of company-specific data and the economic environment, or chart analysis, in which a forecast is made by deriving past developments with the aid of charts, attempt to combine the large number of different factors. However, these analysis methods are only a support for decision-making and chart analysis in particular may contain errors.

## **2.6 Risk of loss and change of shareholder rights**

The rights evidenced by the shares can be changed or replaced by other rights as a result of various company-related measures, up to and including the loss of shareholder status. Depending on the law applicable in each case with regard to the stock corporation, this occurs, for example, as a result of changes in legal form, mergers, demergers, incorporations of the Company or the conclusion of intercompany agreements. As a result of the measure taking effect, it is possible that individual membership rights, such as the dividend entitlement, may cease to exist. As a result of conversions, the investor may become a shareholder in another company which does not necessarily grant rights comparable to those of a shareholder. Based on the respective legal system, the majority shareholder may be able to demand the withdrawal of minority shareholders ("squeeze out"). In Germany, a major shareholder is entitled to this right on condition that he holds 95% or more of the shares. As a result of the squeeze out, the investor no longer holds any interest in a company at all.

Frequently, shareholders must be granted compensation for lost membership rights on the basis of statutory regulations, which may be granted in the form of a cash settlement, regular compensation payments through guaranteed dividends, for example, or through the issue of shares in another company, depending on the respective statutory requirements. It is not always ensured that the compensation corresponds to the value of the lost membership right. The lower limit for cash compensation is generally a value calculated from stock market prices or the higher actual enterprise value attributable to the share. For investors, the overall result may be that they are forced to give up their investment in the share at a point in time not determined by themselves, but by a third party, due to actual or economic considerations. The compensation process as a whole can be very time-consuming, as a result of which payment of a - possibly disputed - settlement only occurs at a late stage.

If the investor decides not to accept a settlement offered to him, he should take into account not only the changes in the content of the membership rights but also changes in the general conditions (e.g. shareholder structure and stock exchange listing of the share). It is explicitly pointed out at this point that the respective measures may lead to a change in the tax treatment of the capital investment.

## **2.7 Risk of delisting from the stock exchange**

A company may decide to have the admission of its shares revoked by the stock exchange (so-called "delisting") or to change the market segment in which the share is traded. This may not require the approval of the Annual General Meeting, nor do the shareholders have a right to compensation. This creates the risk that the shares can only be sold under more difficult conditions.

## **2.8 Special risks associated with real estate investment trusts (REITs)**

Although REITs are generally stock corporations, their investment strategy gives them a specific risk that is comparable to that of open-ended real estate funds. Just as is the case for open-ended real estate funds (cf. chapter D. 6. ), REITs are also exposed to an earnings risk due to possible vacancies of the properties, which may result in reduced distributions. Moreover, price fluctuations of the REITs share result from their stock exchange listing. Consequently, the price may deviate from the actual asset value of the real estate assets.



### **3. Special risks associated with profit participation certificates and profit participation rights**

Investors should examine the specific risks associated with profit participation certificates and profit participation rights, as the structure of profit participation certificates and profit participation rights varies considerably and any similarities are only of a basic nature.

The price of profit participation certificates may be affected by the share price of the issuing company and/or by market interest rates, depending on the respective features. In the event of a decline in the price of the relevant share and rising interest rates on the capital market, the profit participation certificate is exposed to a price change risk.

#### **3.1 Distribution risk**

Interest on the profit participation certificate is linked to the existence of a profit that meets the requirements for a possible distribution or to the existence of a dividend. In the event of a loss by the issuing company, holders of a profit participation certificate do not receive a distribution (unless a minimum interest rate has been specified).

#### **3.2 Repayment risk**

If the Company incurs a loss during the term of the profit participation certificate, not only is the distribution not made, but the repayment amount may also be reduced.

#### **3.3 Termination risk**

The inclusion of a right of termination in the terms and conditions of issue of a profit participation certificate may result in early redemption. Investors should pay particular attention to the terms and conditions of issue with regard to the issuer's call options and the redemption price in the event of redemption, as defensive investment options may be unfavorable if market interest rates have fallen.

#### **3.4 Liability risk**

If the issuer becomes insolvent or is liquidated, holders of profit participation certificates as investors are usually treated as subordinate to other creditors. As a result, they only receive their capital contribution back on condition that the claims of all other creditors have been satisfied beforehand.

#### **3.5 Liquidity risk**

Profit participation certificates have a particularly low liquidity. Irrespective of the fact that a profit participation certificate may be listed on the stock exchange, the lack of liquidity in the secondary market means that profit participation certificates can either not be sold at all or only at a discount.

In the case of profit participation rights, depending on their structure, transfer and thus sale may be excluded.

## **4. Special risks associated with certificates and other structured financial products**

In addition to the basic risks already described in chapter C, a number of special risks must be taken into account in the case of certificates. In this context, the risk profile of certificates is co-determined by all risks of the underlying assets. The section on the respective underlyings should be included at this point and also taken note of. The features of certificates vary, so that it is necessary for the investor to carefully examine the individual certificate for its specific risks.

Please also note: Many securities offered under the product name "certificates" have similar risks to warrants. Please refer in particular to chapter D 5.

### **4.1 Specific risks for all certificate types**

#### **4.1.1 Issuer risk**

Issuer risk is the risk that the issuer is unable to meet its obligations under the security during the term and/or at the end of the term of the security. From the investor's perspective, issuer risk exists if the investor suffers a partial or total loss of the capital invested and/or does not receive any income payment, e.g. in the form of interest, from the security for the reason that the debtor of the security is in a temporary or permanent state of insolvency.

#### **4.1.2 Price change risk**

The price of certificates depends primarily on the price of the underlying asset. However, the performance of the underlying during the term is usually not accurately reflected, as the payout profile of a certificate is usually not reached until the end of the term and during the term other influencing factors besides the performance of the underlying affect the price of a certificate. Another factor is the volatility of the underlying, because the higher it is, the greater the price fluctuations, especially in the case of leverage certificates. In the case of certificates with an underlying that relates to young stock markets or stock markets in emerging markets, the narrowness of the market and low liquidity can lead to large fluctuations and the price of the underlying can run counter to that of the certificate.

The price development of the Certificates may be influenced by further factors. These include changes in the level of interest rates, possible dividend payments, market expectations with regard to the factors influencing prices, and exchange rates if the exchange rate risk has not been hedged in the case of certificates on underlyings denominated in a foreign currency.

Please note: Often the only income opportunity is an increase in the price of the Certificates. Possible price losses of the certificates as a result of a declining underlying cannot then be compensated for, as the certificates generally do not grant any other income, such as interest or dividends.

#### **4.1.3 Liquidity risk**

When purchasing certificates, investors should sometimes also pay attention to whether there is a sufficiently liquid market for the specific certificate they are considering. Under normal circumstances, the issuer or a third party (e.g. market maker) will continuously provide indicative bid and ask prices for the certificate, but there is no legal obligation to do so. The bid and offer prices may also differ considerably from one another.

#### **4.1.4 Risk of value decline**

The redemption amount of certificates is only determined on the reporting date by calculating the underlying value, taking into account the respective certificate structure, so that the redemption amount may be considerably lower than the purchase price and there is therefore also a risk of total loss.

#### **4.1.5 Influence of hedging transactions of the issuer on the certificates**

If the Issuer wishes to hedge against financial risks and conducts hedging transactions in the Underlying for this purpose, the entering into or unwinding of these transactions may have an adverse effect on the value of the Certificate by affecting the Underlying price.

This applies in particular to the liquidation of hedging positions at the end of the term of the Certificates or - in the case of Leverage Certificates with a stop-loss barrier (cf. Chapters B 4.5., D 4.4.) - after the occurrence of the knock-out event.

#### **4.1.6 Currency risk**

With regard to currency risk, a distinction can be made between certificates with currency hedging (so-called quanto structure) and non-currency-hedged certificates. In the case of the latter, the currency risk exists both on disposal during the term and on redemption at maturity, irrespective of whether the certificate is quoted in euros or the foreign currency.

#### **4.1.7 Risk of delivery of the underlying**

As a rule, there is the possibility of delivery of the underlying at maturity if the underlying does not perform as favorably as expected when the certificate was purchased. In this case, there is a risk that the current market price of the delivered underlying may be considerably lower than the purchase price of the certificate, which may even lead to a total loss. If the investor does not sell the underlying, he is subject to the risks of loss associated with holding this underlying.

#### **4.1.8 Termination and reinvestment risk**

The issuer may reserve a right of termination in the terms and conditions in the event of obvious clerical or calculation errors or upon the occurrence of extraordinary events. Such events may be changes that materially relate to the objective ability and method of determining the level of the underlying and events affecting the hedging measures of the issuer. Instead of immediate termination, it may also be possible to adjust the terms and conditions. Upon termination, investors then receive an amount corresponding to the market price to be determined by the issuer at that time or the amount provided for in the terms and conditions. This may be considerably lower than the purchase price and initial issue price. The investor bears the risk of termination at a time that is unfavorable for him and that he will only be able to reinvest the amount received on less favorable terms (reinvestment risk).

#### **4.1.9 Influence of costs on performance**

In the case of certificates, the terms and conditions may provide for costs that may have a negative impact on performance.

### **4.2 Specific risks of certificates due to their structure**

#### **4.2.1 Special risks associated with bonus certificates**

Bonus certificates involve different risks due to their structure.

For the investor, there is then a **risk of capital loss** and even **total loss** at the end of the term if the bonus and capital protection mechanism lapses due to reaching or falling below the specified barrier.

In addition to the general price change risk, bonus certificates are subject to an **increased price change risk** if the underlying is quoted close to the defined barrier, especially at maturity.

If the underlying falls sharply below the barrier, only the issuer can be considered as the purchaser due to the generally limited tradability of certificates, and the issuer is not obliged to provide indicative prices. The investor is therefore exposed to a high **liquidity risk**.

#### **4.2.2 Special risks associated with express certificates**

There are different risks associated with express certificates due to their structure.

For the investor, there is then a **risk of capital loss** and even **total loss** at the end of the term if the price of the underlying is below the specified barrier and the investor receives a redemption amount that is lower than the purchase price paid.

The **increased price change risk in the case** of express certificates results from the fact that small movements in the underlying can decide on early redemption if the underlying is quoted close to this redemption threshold shortly before a reference date. In addition, price movements of the underlying cannot be tracked on a linear basis due to the limited price increase potential.

If the underlying falls sharply below the barrier, only the issuer can be considered as the purchaser due to the generally limited tradability of certificates, and the issuer is not obliged to provide indicative prices. The investor is therefore exposed to a high **liquidity risk**.

#### **4.2.3 Special risks associated with credit-linked bonds**

In the case of credit-linked notes, investors bear both the credit risk of the issuer and the reference debtor and the resulting risk of loss in value and, if applicable, total loss in the event that a credit event occurs at the reference debtor during the term and the investor only receives a repayment significantly below the nominal value. In addition, there may be delays in the payment of a residual amount that may extend beyond final maturity.

### **4.3 Special risks associated with other structured financial products**

#### **4.3.1 Special risks associated with convertible bonds**

The convertible bond occupies an intermediate position between the bond and the share, with its price being largely determined by the price of the underlying share. Due to the link to the share, the price change risk is higher than for bonds without conversion rights, despite the downward limitation, but lower than for a direct investment in the share. This is because the share price falls at most to the point at which the yield from the interest on the convertible bond corresponds to the market interest rate level for bond debtors with a comparable credit rating. However, as the share price is the decisive factor in the case of mandatory convertible bonds, the risk of price changes is higher.

Current interest income is comparatively low, as the interest rate on a convertible bond is regularly lower than on a bond without conversion rights.

If a conversion occurs, the investors as shareholders are subject to certain risks associated with the shareholder position (cf. Capital D 2.).

### **4.3.2 Special risks associated with warrant bonds**

A distinction must be made between the risks associated with bonds with and without warrants. In the case of the former, (warrant bonds cum), the price change risk of the warrant bond is limited to the downside, i.e. the price of a warrant bond falls at most to the point at which its yield corresponds to the current market interest rate for comparable bond borrowers. In the case of bonds without warrants (warrant bonds ex), the price is based on the capital market interest rate due to their nature as purely interest-bearing securities. The risks of the warrant itself are explained in section D 5.

Option bonds usually have low current interest income or, in the case of zero-coupon bonds, no current interest income at all.

### **4.3.3 Special risks associated with structured bonds**

While investors in standard bonds generally receive - depending on the credit rating of the issuer - a fixed interest rate based on the capital market interest rate level, the yield on index-linked bonds moves within a certain range, the lower limit of which is generally between 0% and a minimum interest rate below the market level. Depending on the level of the redemption rate, the yield can also be negative. Upwards, a yield that is generally limited but above the market level of standard bonds is possible.

#### **▪ Reverse Convertible Bonds**

Investors in reverse convertible bonds are exposed to a risk of loss. If the investor receives the price of the share at par value on the record date and this is lower than the purchase price plus the interest income received, he suffers a loss. This also applies in the event that the investor is delivered a share whose current market value is below the purchase price or the investor even receives a worthless share due to the insolvency of the issuer and thus suffers a total loss. In addition, investors are then subject to the risks for shares (cf. chapter D 2.).

During the term, the price of the reverse convertible is influenced by the change in the capital market interest rate for comparable maturities, the credit rating of the bond issuer, the performance of the underlying share and its volatility. If the share price falls, the reverse convertible prices fall and the risk of limited tradability of the bonds increases. The shorter the remaining term to maturity and the further the share price falls below the tender threshold, the greater the risk of a price decline during the term.

In the case of so-called multi-asset equity bonds, there is a likelihood of equity delivery due to several underlying equities, especially if the prices of several equities move in opposite directions.

#### **▪ Bonds with index-linked or basket-linked interest rates**

In the case of bonds with index-linked or share-basket-linked interest, the redemption amount is calculated on the basis of the nominal amount, possibly the fixed minimum interest rate, and the possibly limited participation in the increased index or share basket. Investors bear the risk that the amount of the interest cannot be determined in advance and depends on the performance, which is mainly influenced by the change in the capital market interest rate for comparable maturities, the credit rating of the bond issuer, the performance of the index/share basket and its volatility.

#### **▪ Other structured bonds**

Other structured bonds have a complex design and may lead to a total loss of the investor's capital due to their direct impact on the issuer's repayment and interest payment obligations. Statements on further specific risks can only be made on a case-by-case basis due to diverse structuring options.

#### **4.4 Special risks associated with leverage certificates**

The probability of losses or even a total loss of the capital invested can be **very high(!)** with leverage certificates. Investors should therefore consider in advance the specific design, the opportunities and risks of loss of the respective leverage certificate.

##### **4.4.1 Total risk of loss due to knock-out**

If it is agreed in the certificate terms and conditions that the certificate is to be paid out worthless or only a small residual amount in the event of a knock-out event, the investor is subject to a substantial risk of total loss.

##### **4.4.2 Leverage risk**

Due to their leverage effect, leverage certificates generally react disproportionately to price changes of the underlying and therefore entail higher risks of loss.

##### **4.4.3 Risk with factor certificates**

The value of a factor certificate is influenced by the daily changes in the underlying asset on which the certificate is based (e.g. the change in a share index). In this context, the daily changes have a multiple effect due to the leverage - corresponding to the factor - which is why losses of the factor certificate can amount to a multiple of the losses of the underlying.

If the price of the underlying asset on which the factor certificate is based fluctuates around the price of the underlying asset at the time of purchase (initial value) after the time of purchase of the factor certificate and then returns to the initial value, the value of the factor certificate at this time does not also correspond to its price at the time of purchase, but is - reinforced by the effect of the leverage - possibly considerably - below the purchase price. This means that a loss can also occur in the event of sideways movements of the underlying. An explanation of BaFin on factor certificates can be found [here](#).

##### **4.4.4 The influence of ancillary costs on the chance of winning**

Incidental costs, such as minimum commissions, fixed commissions per transaction and an order value, also combined, can also exceed the value of the leverage certificates many times over.

##### **4.4.5 Repayment only at maturity; sale of certificates**

Due to the limited tradability of certificates and a limited liquid market, there is a high risk of not being able to sell certificates at any time and in time before a knock-out event or already when the underlying approaches this threshold.

#### **4.5 Special risks associated with other financial products on commodities (commodity certificates and exchange-traded commodities - ETC)**

In contrast to other asset classes, commodity prices generally exhibit high volatility, which, due to the link to commodity prices, leads to sharply rising and falling prices of commodity certificates and ETCs. Commodity markets also react more drastically overall to changes in supply and demand than markets in

other asset classes and regularly exhibit lower liquidity. Price developments and the causes of price fluctuations are very complex and depend on various factors, some of which will be explained below.

In the case of commodity indices, the index and the individual risks cannot be reflected due to the different performance of the aggregated commodities.

#### **4.5.1 Cartels and regulatory changes**

In addition to regulatory provisions, the commodity price is also influenced by organizations or cartels of commodity producers that regulate supply. The risk of government intervention, for example if certain industries are nationalized, can also be decisive for price developments.

#### **4.5.2 Cyclical behavior of supply and demand**

The cyclical behavior of supply and demand, i.e. seasonal production on the one hand and year-round demand and vice versa, can trigger strong price fluctuations.

#### **4.5.3 Direct investment costs**

The total return on commodities is affected by the fact that direct investments may incur storage costs and taxes, for example, whereas no interest or dividends are paid.

#### **4.5.4 Liquidity**

Not all commodity markets are liquid and can react quickly and to a sufficient extent to changes in the supply and demand situation. When liquidity is low, speculative commitments by individual market participants can result in price distortions.

#### **4.5.5 Political risks, transition risks**

Since the production sites of raw materials are often located in emerging markets and these are subject to political risks such as embargoes or sanctions imposed by the countries requesting the raw materials, there may be an impact on price formation.

Furthermore, political efforts can lead to certain raw materials being needed less or not at all in the short, medium or at least long term due to their environmental damage or the like, and thus losing value (transition risks).

#### **4.5.6 Weather and natural disasters**

Weather conditions and natural disasters that could affect or prevent commodity production can lead to sharp and unpredictable price fluctuations.

#### **4.5.7 Mapping of commodities via futures contracts**

If value developments, in particular in the case of industrial metals or energy commodities, are replicated by means of futures contracts, and if the position is exchanged ("rollover"), there may be significant deviations between the performance of the commodity certificate or the ETC and the price development of the commodity.

#### **4.5.8 Special risks associated with exchange-traded commodities**

In addition to the specific risks described in sections 4.5.1 to 4.5.7, it should be noted in the case of ETCs that the issuer is a special purpose entity with no assets of its own, and the certificates could expire

worthless in the event of insolvency. If the commodity itself is not purchased, but is represented by a swap transaction, the investor bears the credit risk of the swap counterparty. In addition, there may be an early redemption if the issuer or the swap counterparty exercise their unilateral right of termination.



## 5. Special risks associated with warrants

**In the case of warrants, the probability of losses of the capital invested, which may extend to total loss, is very high. Please also note:** Many securities offered under the product name "certificates" have similar - possibly even identical - risks as warrants.

### 5.1 General risk of price changes

Warrants are traded as independent securities and as such are subject to the rules of supply and demand. When purchasing warrants, investors should check whether there is a sufficiently liquid market for the specific security or whether the issuer or a third party provides binding bid/ask prices at all times. It should be noted that the bid and ask prices quoted may differ considerably. This applies in particular to exotic warrants representing complex option structures which are not easy to price.

The increase in its market value regularly represents the only earnings opportunity of warrants for the investor. Due to the fact that a warrant does not certify a claim to either interest or dividend payments, it cannot generate any current income, which means that any price losses cannot be compensated by other income.

The price formation of warrants can be influenced in particular by factors such as the actual future price development of the underlying and that expected by market participants, as well as by the term of the securitized option and the expected frequency of the intensity of price fluctuations of the underlying (the so-called volatility).

### 5.2 Risk of loss due to price changes of the underlying asset

The value of the warrant may sometimes be reduced by a change in the price of the underlying asset on which the option right evidenced by the warrant is based. Any reduction in value is always disproportionate to the change in the price of the underlying (leverage effect) and may even render the warrant worthless. A reduction in value can be attributed either to a price loss as a result of a call option or to a price gain of the underlying as a result of a put option.

The special features of exotic warrants can reinforce these interrelationships. By comparison, the value of a digital warrant structured according to the "all-or-nothing principle" is more strongly influenced by price fluctuations of the underlying around the agreed strike price than is the case with a conventional warrant. To the extent that the current price of the underlying approaches a knock-out barrier below the strike price, this will drastically accelerate the decline in value of a knock-out call. This also applies accordingly if the price of the underlying approaches a knock-out barrier of a knock-out put that is above the agreed strike price.

Depending on the respective structure, the special features may in turn influence the price of the underlying. A call warrant generally increases in value if the price of the underlying increases. However, in the event that the call warrant in question, on the other hand, is also provided with a knock-out barrier above the agreed strike price, a further rise in the price of the underlying towards the knock-out level will adversely affect the value of the warrant. In this context, it is possible that there will be a drastic reduction in value if the barrier is approached and also a total loss of the stake if the knock-out level is reached.

Comparable to this are those situations in which a put warrant has a knock-in barrier above the strike price. In principle, the value of a put increases in these constellations if the price of the underlying falls,

but only on condition that the agreed knock-in barrier is touched beforehand, for which a price increase is first necessary.

There are also special features in the case of so-called range warrants, the value of which is largely determined by whether the price of the underlying is quoted within the agreed range. Based on the theoretical considerations that the value of a range warrant is highest when the price of the underlying is in the middle of the range, it follows that price movements of the underlying towards the "middle of the range" tend to result in an increase in the value of the warrant. Starting from the middle of the respective range, price movements towards a margin generally result in a reduction in the value of the option right.

Insofar as these edges are so-called knock-out barriers, this results in a significant reinforcement of the impairment that occurs when one of the barriers is approached, whereby the actual extent of the impairment depends on the specific design of the option right.

### **5.3 Risk of loss due to changes in the volatility of the underlying asset**

Despite a constant price of the underlying, the warrant may already be reduced due to changes in the expectations of market participants with regard to the frequency and intensity of price fluctuations of this underlying (implicit - "priced-in" - volatility). Consequently, even a positive performance of the underlying is no guarantee of a rising price of the warrant; on the contrary, the price may even fall if the performance of the underlying is overcompensated by falling volatility that has a negative effect on the value of the warrant.

Overall, changes in expected volatility have a particular impact on the value of conventional warrants and range warrants, and it plays an even greater role in the valuation of exotic warrants.

### **5.4 Risk of loss due to time value expiry**

The time value is also of particular importance in the case of warrants, especially since it changes on a daily basis. Time value is defined as the value that exceeds the intrinsic value of the warrant. In this context, the extent to which market participants are willing to pay an amount for a warrant that differs to a greater or lesser extent from the intrinsic value of the securitized option right depends on their expectations regarding the future development of the underlying. As the term expires, the time value decays until it finally amounts to zero. The closer the expiration date is, the faster the loss occurs.

A special feature of range warrants is that only if the price of the underlying does not change, or at least only changes within the agreed range, does this result in a positive - value-enhancing - effect. This is referred to as a "time value gain" associated with the decrease in the term.

### **5.5 Leverage risk**

Warrants regularly have a leverage effect on the earnings opportunities and risks of loss of the capital invested. While the leverage effect generally results in higher opportunities with the same risk of loss due to the disproportionate reaction to price changes of the underlying, it can also have a negative effect. In favorable price phases, this leverage effect can thus have a negative effect. Overall, the risk associated with the purchase of a warrant increases with the amount of leverage, with the leverage effect being particularly pronounced in the case of warrants with a short remaining term. These principles also apply to exotic warrants, although the leverage effect may be significantly greater than for conventional warrants, depending on the respective structure of the option right. Here, too, the "all-or-nothing

structure" of digital warrants and the "supplementation" of the option right by ancillary agreements (barrier warrants) have the effect of increasing the risk of loss.

Insofar as range warrants are not aimed at participating in a price movement but at generating a return in stagnating markets, certain special features arise with regard to the leverage effect. As a matter of principle, warrants react disproportionately to price changes in the underlying, and this applies in particular in constellations in which the price of the underlying approaches an edge of the agreed range. If the lower and upper limits of the range are also knock-out barriers, this in turn increases the leverage effect and the associated risk of loss.

## **5.6 Risk of impairment and total loss**

There is a risk that the rights arising from a warrant may expire or lose value, because these securities always provide only securitized rights for a limited period and, in some cases, rights additionally linked to the occurrence or non-occurrence of a condition. Consequently, the shorter the term (remaining term), the greater the risk of a loss in value.

### **5.6.1 Impairment**

If the price does not develop to the extent expected by the investor during the term, the investor may suffer a loss on the subsequent sale. In particular, the limited term means that the investor cannot be confident that the price of the warrant will recover before the term expires. In the case of exotic warrants, the closer a knock-out barrier is to the current price of the underlying or the further a knock-in barrier is from the current price of the underlying, the greater the risk of a loss in value.

### **5.6.2 Total loss**

The purchase of warrants generally entails the risk of a total loss of the amount initially invested. This risk exists, irrespective of the financial performance of the issuer, in view of unfavorable market developments, the occurrence of the conditions and the passage of time. There is a risk that the warrant will expire worthless. The risk materializes in particular if the expected price performance of the underlying does not occur or a knock-out barrier is reached or a knock-in barrier is not reached. There is also a risk of total loss if investors waive their rights under the warrant or fail to exercise them. An exception to this rule exists if the specific terms and conditions of the warrant provide for automatic exercise. If investors fail to exercise their rights, they lose their entire option stake, i.e. the purchase price plus the costs incurred.

In view of the possibility of worthless expiration and the often high fluctuations in value, it is strongly recommended that investors permanently monitor their positions in warrants.

## **5.7 Risk of lack of loss mitigation options**

Transactions intended to exclude or limit the risks arising from warrant transactions (in particular, sale of the warrant) may not be possible or may only be possible at a price that results in a loss for the investor.

## **5.8 Risk of loss due to the complexity of exotic option products**

The individual elements of exotic warrants, which in many cases securitize structured option strategies consisting of several option elements, open up an almost unlimited number of possible combinations. Both standard options and exotic options can be considered as "building blocks". In the case of these structured products, the price behavior can be difficult to understand in individual cases. On the contrary, there is an increased risk of loss if the effects of different option elements cancel each other out or reinforce each

other. Accordingly, for transactions in structured warrant products, it is advisable to pay close attention to the features and functioning of the securitized option right or the securitized warrant strategy.

### **5.9 Issuer risk**

It is not necessary for the issuer of a warrant to be the same person as the issuer of the underlying security. In addition to the insolvency risk of the security on which the warrant is based, there is also the risk that the issuer of the warrant may become insolvent.

### **5.10 Influence of ancillary costs on the chance of winning**

In all warrants transactions, costs may be charged which, in extreme cases, may exceed the actual value of the warrant many times over. These costs may be based on minimum commissions or fixed commissions per transaction (purchase and sale), combined with a low order value (price of the warrant times the number of units). In the event of exercise, further costs are usually incurred. The associated follow-up costs, in conjunction with the costs directly associated with the purchase of the warrants, can grow to a not insignificant size, especially when measured against the actual price of the warrant. In this context, a higher than actually realistic price swing is required in order to reach the profit zone. It is therefore strongly recommended that you inform yourself about all potential costs before placing an order. Only in this way will it be possible for you to calculate which conditions must be met for your position to reach the profit zone (e.g. the amount of the required price increase of the underlying, the "minimum dwell time" of the price of the underlying within the agreed range of a single-range option, etc.). It applies that in the case of higher costs, the break-even point is regularly not reached until later when the expected price development occurs, as these costs must first be covered before a profit can be made. If the expected price development does not occur, the additional costs increase the resulting loss.

### **5.11 Currency risk**

Insofar as the consideration for warrants is denominated in a foreign currency or the price of the underlying asset is determined accordingly, for example in the case of shares denominated in a foreign currency or gold, there is also a currency risk (see Section C 4.). The possible risk of making a loss is not only dependent on the exchange rate and price developments of the underlying asset, but also on other developments on the foreign exchange market, the consequences of which can be additional and above all incalculable losses. Exchange rate fluctuations may reduce the value of the acquired rights, increase the strike price which investors must pay in the case of a put warrant when exercising it, insofar as the strike price is to be effected in a foreign currency, and also reduce the value or the sales proceeds of the item delivered to the investor or the value of the payment received.

### **5.12 Influence of hedging transactions of the issuer on the warrants**

It is common practice for the issuer to hedge all or part of the financial risks associated with the warrants by means of hedging transactions in the underlying, e.g. a share underlying the warrant. The price development of the underlying can be influenced by these hedging transactions. In addition, the hedging transaction, both in terms of its establishment and its termination, may also have a negative impact on the value of the warrant itself or on the amount of the redemption amount to be claimed by the warrant holder. This applies in particular to the liquidation of hedging positions at the end of the term of the Warrants or - in the case of Barrier Warrants - after the occurrence of the knock-out event.

### 5.13 Special risks associated with warrants investing in commodities

In particular, because the performance of commodity certificates and ETCs is linked to the price of a commodity, the corresponding price for these very two may be subject to strong fluctuations, so that commodity prices are generally subject to a wider range of fluctuation (volatility) than is the case with other asset classes (compare chapter D 4.5.). The (eventual) secondary market price for the products may be significantly lower than the purchase price paid by the investor.

The causes of price fluctuations in commodities are overall very complex and also diverse. For example, the commodity market is regularly more illiquid than stock, bond or foreign exchange markets, so that changes in supply and demand cause a stronger reaction. The price movements and also the risks of individual commodities can also not be adequately represented by commodity indices. On the contrary, the prices of commodities that are grouped together in these indices can sometimes develop in very different ways. To begin with, the price of commodities can be influenced by cartels and regulatory changes. In the past, various commodity producers have formed organizations or cartels, which give them the opportunity to regulate the supply on the market as a whole and thus also influence the price. One example is OPEC, the Organization of Petroleum Producing Countries.

Trading in commodities is subject to certain rules imposed by supervisory authorities or the stock exchange, and any changes in these rules therefore also have a direct impact on price developments. There is also a risk that governments may intervene in commodity trading and that certain industries may be nationalized.

Unlike agricultural products, which are only produced during a certain period of the year but are in demand all year round, demand for energy, which is produced all year round, is dependent on the time of year. This cyclical behavior on supply and demand can result in strong price fluctuations.

#### 5.13.1 Direct investment costs

The total return is sometimes affected by the fact that **direct investments** in commodities also incur costs for storage, insurance and taxes, and also do not pay interest or dividends.

In addition, the development of consumer prices, i.e. **inflation and deflation**, can have an enormous impact on the development of commodity prices. If liquidity is low, even the speculative involvement of individual market participants can result in a price distortion. In principle, not all commodity markets have liquidity, so that it is often not possible to react sufficiently and, above all, quickly to changes in the supply and demand situation. Although raw materials are generally demanded in the industrialized countries, they are produced in the emerging countries, which entails **political risks that** can sometimes have a significant impact on the prices of raw materials. These political risks can take the form of economic and social tensions, embargoes/sanctions or armed conflicts, for example.

#### 5.13.2 Weather and natural disasters

**Weather and natural disasters** can also play a decisive factor with regard to supply and, if the extent is still unknown, can lead to sometimes sharp and unpredictable price fluctuations. Adverse weather conditions, for example, can affect the supply of certain raw materials for the year as a whole, such as when frost destroys the entire crop during the flowering season. Natural disasters can cause lasting damage to production or extraction facilities, e.g. of oil.

## **6. Special risks associated with open-ended investment funds**

Units in an open-ended investment fund are subject to the full risk of the investments represented by the unit certificate despite the risk mix, even if they are not directly exposed to the special risks of other forms of investment. Investments in investment funds may also be subject to special risks that may affect and impair the value of the asset investment.

### **6.1 Fund Management**

Once investors have decided to purchase an investment unit, they have no influence on the composition of the fund assets, but must rely on the decisions of the fund management. It should be noted that good investment results do not provide any information about the future suitability of the fund management, as the personnel composition of the management may change.

### **6.2 Costs**

An investment in investment funds is associated with costs that are not uniform and whose composition may vary, so investors must always bear in mind the total cost of their investment. At the time of purchase, an issue discount plus and at the time of redemption a redemption discount less the unit value may be incurred, especially when purchasing or selling through third parties. Particular attention must be paid to whether swing pricing is used, which can lead to higher issue prices and lower redemption amounts than for funds without swing pricing; since 2020, the use of swing pricing has also been possible for German investment funds. In addition, ongoing costs may be incurred, for example for the management of the fund, a fee for the depositary, applicable taxes or other expenses.

In addition, depending on the agreement, performance-related costs may also be charged in the form of a variable performance fee for the fund management and/or performance-related remuneration for certain persons (in particular fund initiators) - so-called carried interest - as well as transaction costs incurred on the acquisition or disposal of assets and payable to third parties.

### **6.3 Risk of declining share prices**

Investment funds are subject to the risk of falling unit prices, as price declines in the securities contained in the fund are reflected in the unit price. The general market risk is realized when the overall performance of one or more stock exchanges declines and is thus also reflected in the decline in unit prices, whereby the risk potential is greater for equity funds than for bond funds. Index funds are equally affected if the underlying index declines. Due to the investment focus of equity and bond funds, they are subject to greater fluctuation in the price of their units and are exposed to a high degree of risk. The investment risk increases as the fund becomes more specialized. For regional funds and country funds, this means an increased risk of loss due to dependence on the development of certain markets. The same applies to sector funds due to a lack of diversification and to investment funds denominated in a foreign currency due to additional currency and country risk. In the case of bank securities, the risk of loss in the event of a threat to the company's continued existence must also be taken into account (see section C. 7. on creditor participation and bail-in).

### **6.4 Risk of suspension and liquidation**

Investors may be subject to the risk of suspension under certain circumstances if certain circumstances exist that make it temporarily impossible to return the units to the investment fund in principle. Such

exceptional circumstances may exist, for example, in the event of economic or political crises or the closure of stock exchanges or markets, or if the fund is unable to satisfy a redemption request from liquid assets of the fund. In addition, the unit value may be reduced during the period of suspension, for example through the sale of individual assets.

If the suspension is declared permanent and the investment fund is dissolved (liquidation), this may result in losses for investors.

#### **6.5 Risk from the use of derivatives and securities lending transactions**

The use of derivatives to hedge the fund or as part of the investment policy entails risks that in certain cases may be greater than the risks associated with traditional, non-derivative forms of investment. Unforeseeable losses may occur, for example due to changes in the price of the underlying asset, which may reduce the value of the derivative or render it worthless. In addition, the risk of loss is increased by the leverage effect of derivative transactions.

If investment funds conduct securities lending transactions and provide corresponding collateral, there is a risk that the borrower may not be able to make the return and that the resulting loss in value may not compensate for the lost securities.

Both can result in losses for the fund assets and thus asset losses for the investor.

#### **6.6 Risk of misinterpretation of performance statistics**

Performance concepts are generally used to measure investment success, whereby it is determined how much return has been generated from a capital amount of 100 within a certain period of time. It is assumed that the returns are reinvested. So-called performance statistics can be derived from this to help compare the management performance of comparable funds.

It should be noted, however, that performance rankings do not take into account possible front-end loads or risks relating to fund management. This can lead to a situation where performance that is statistically worse is better on balance. If the Sharpe ratio is shown for a pure performance, both the return and the risk are taken into account in the presentation of the performance. The higher the value of the Sharpe ratio, the better the performance was compared to a risk-free investment.

Investors must also bear in mind the interpretation risk of such statistics and rankings, as their results require an investor's own interpretation. In particular, it should be noted that the statistics refer to past developments and can in principle not make any reliable statement about future performance. An investment decision should therefore always take into account the current market situation, the volatility of the individual funds and the investor's own risk tolerance.

#### **6.7 Risk of transfer or termination of the investment fund**

The management of an investment fund may be transferred to another capital management company subject to compliance with certain provisions. If the capital management company terminates the management of the investment fund without a transfer to a new capital management company taking place, the investment fund is wound up, with the depositary taking over management for the winding-up phase.

## **6.8 Special risks associated with exchange-traded investment funds**

Since pricing on the stock exchange depends on supply and demand, the price in stock exchange trading may differ from the share value at the time of purchase on the stock exchange.

Depending on the rules and regulations of the individual exchanges, the brokers working there provide binding offers or give non-binding indications on prices. If these are non-binding indications, it may happen that an order is not executed.

## **6.9 Special risks associated with open-ended real estate funds**

### **6.9.1 General market risk**

Investors in open-ended real estate funds are subject on the one hand to the risk of loss of value in the event of price fluctuations and on the other hand to an income risk in the event of vacant properties, for example. In the event of a new lease, there may also be the additional risk of lower rents.

### **6.9.2 Risks of certain types of investment in the fund assets and currency risk**

Real estate funds often invest liquid assets temporarily in other forms of investment, which means that these assets are subject to the specific risks that apply to the chosen investment. If an investment is made in a foreign product outside the euro currency area, this is compounded by the currency risk.

### **6.9.3 Risk of limited return**

Investors in units of open-ended investment funds are exposed to various circumstances that increase the risk of not being able to redeem their units at the desired time and thus at the value they had hoped for.

Legal and/or contractual minimum holding and notice periods may have to be observed when redeeming fund units.

### **6.9.4 Special risks associated with exchange traded funds (ETFs)**

Particular risks with ETFs arise on the one hand from their construction and on the other hand from the market in which they invest. In addition to the market or price change risk, ETFs are subject to a risk of loss in value and the risk of total loss due to their passive management and rigid adherence to an index. Investors should inform themselves precisely about the ETF's design in each individual case, as certain risks may arise precisely from the replication method selected.

#### **a. Special risks associated with exchange traded funds with physical replication**

In the case of physical replication, returns can be negatively impacted due to acquisition and disposal costs incurred, on the one hand, and the timing of payment and taxation of dividends, on the other, which also means that the index of the ETF does not always accurately reflect the underlying index.

#### **b. Special risks associated with exchange traded funds with synthetic replication**

In the case of ETFs using synthetic replication, the ETF bears the credit risk of the swap counterparty, which can lead to a significant price decline in the event of insolvency. Counterparty risk is realized for swap-based ETFs with portfolio positions when the counterparty no longer meets its payment obligations to the ETF. In the case of swap-based ETFs without portfolio positions, on the other hand, the risk results on the one hand from the ETF's claim against the counterparty in the amount of the proceeds of the swap transactions and on the other hand from the unrealizable appreciation or depreciation of the swaps. In



addition, there are further risks regarding the recoverability, liquidity and valuation of the collateral of the collateral basket deposited by the counterparty. In the event of default by the swap counterparty, the collateral deposited may, in the worst case, not fully compensate for the default on the payment obligation arising from the swap transaction.

#### **6.9.5 Special risks with rule-based funds**

There are risks associated with investing in rule-based funds, which can be found in the respective sales prospectuses. Only a few risk factors are described below.

Risks associated with rules-based funds may include, or be associated with, equity and bond market risks, foreign exchange rate risks, interest rate risks, credit risks, volatility risks and political risks. Any of these risks may occur simultaneously with and/or amplify other risks, which may affect the value of the Shares in an unpredictable manner. Investors should therefore note that the Shares may fall in value and that they may lose all of their invested capital.

In addition, losses may occur due to passive management if the market falls or is judged to be overvalued.

The value and performance of fund shares may differ from those of the underlying. Possible factors for this are, for example, transaction costs incurred as a result of rebalancing of the underlying and other fees and expenses borne by the funds, legal, regulatory, tax and investment restrictions and the non-utilization of cash or near-cash positions that exceed the requirements needed to replicate the underlying.

If rules-based funds with an indirect investment policy use techniques such as swap transactions as part of their investment strategy, they expose themselves to the credit risk of the counterparty, which can lead to substantial losses if the counterparty defaults. In the case of rule-based funds with a direct investment policy, deviations in the mapping accuracy may occur if the composition of the fund leads to time lags.

#### **6.10 Special risks associated with investment funds that invest in commodities**

The investment of investment funds investing in commodities is associated with similar risks as a direct investment in commodities, so that the risk information in chapter D. 4.5. applies equally.

#### **6.11 Special risks associated with hedge fund strategies and hedge funds**

Both semi-professional and professional investors can make investments in hedge funds by way of direct investment. By contrast, private investors only have the option of investing in hedge funds indirectly, for example by investing in a fund of hedge funds or via other investment funds or certificates that reflect hedge fund strategies. For private investors, this means that in addition to the specific risks of the underlying hedge fund, all the risks of the indirect form of investment are also added.

At this point, the respective chapter on the risks of the chosen indirect investment form and the following chapter, which presents the specific risks of hedge funds, should be taken into account on the part of investors.

#### **6.9.1 High-risk investment strategies, techniques and instruments**

As a rule, hedge funds are not subject to any restrictive legal requirements with regard to risky investments. Accordingly, such investments regularly have a high risk of loss, which can extend to total loss. For the investor, this risk exists above all if the fund invests a substantial part or all of its investment resources in a single risk transaction (cluster risk). Overall, there will always be an increased risk of loss if

the investments are concentrated by the fund on typically high-risk financial instruments, sectors or countries.

### **6.9.2 Acquisition of particularly risky securities**

For some hedge funds, the purchase of particularly risky securities whose issuers are in economic difficulties is part of the investment strategy. Investments in such companies, which are often characterized by a low credit rating, are risky and involve a high risk of total loss. In this context, performance assessments are made difficult above all by the fact that reliable information on the specific economic condition of the companies can only rarely be obtained, or only with certain restrictions. The prices of these securities are also particularly susceptible to fluctuation, with the result that the difference between the purchase and sale price is sometimes greater than for marketable securities.

### **6.9.3 Short sales**

The core idea behind short sales is that the seller assumes that prices will fall at a later date, so that it will then be possible to purchase the securities at a lower price. In order to fulfill his obligation from the original (short) sale, the seller makes use of securities lending. However, if the desired price development does not occur, there is an unlimited risk of loss, as the seller must buy back the borrowed securities at high prices in order to be able to service his return obligations from the securities lending.

#### **6.9.4 Derivatives**

Some hedge funds use all types of exchange-traded and over-the-counter (OTC) derivatives on a large scale and for a wide variety of purposes. These constellations give rise to all the risks of loss that exist for derivatives. In the case of certain transactions, the fund is exposed to a risk of loss that it was unable to determine in advance, which is significantly greater than the collateral originally provided (margins) and can therefore be unlimited. These (market) loss risks can be multiplied when structured exotic derivative products are used. It is common practice for funds to enter into positions in derivatives traded over the counter and thus to be additionally exposed to the credit risk of their counterparties, irrespective of any market developments.

#### **6.9.5 Commodity futures**

Hedge funds sometimes also engage in commodity futures transactions. Commodity futures show comparatively increased and sometimes divergent risks of loss; moreover, commodity markets are highly volatile and are influenced by a number of factors. In the absence of the necessary specific knowledge and, above all, experience on the part of the persons acting on behalf of the fund, it can generally be expected that the exposure will ultimately be loss-making. However, the existence of this specialized knowledge is no guarantee for a positive performance and therefore cannot protect against losses on these particularly volatile markets.

#### **6.9.6 Leverage effect**

In order to finance the investments made, hedge funds sometimes take out loans to a not inconsiderable extent or use other forms of financing that result in leverage. Insofar as the market now develops in a negative direction contrary to actual expectations, this results in an increased risk of loss. In this context, any interest and loan repayments are serviced from the fund assets. The level of leverage therefore has a disproportionately risk-increasing effect, so that the probability of a total loss of the initially invested capital increases depending on the level of leverage used.

#### **6.9.7 Liquidity risk**

Hedge funds as well as investment products based thereon partly invest in illiquid investment instruments and participations for which no or only a very narrow secondary market exists. The market prices determined for the investments made are regularly susceptible to fluctuations, as a result of which the liquidation of individual investments and risk positions is therefore not possible for the fund at all in individual cases, or only at the cost of high losses. In addition, any illiquidity of the fund assets impairs the tradability of the fund units acquired by the investor. The liquidity risk exists both at the time of redemption and at the time of transfer.

- Return deadlines

The contractual terms and conditions regularly specify certain deadlines for the redemption of the fund units, which must be observed. In the period between the redemption decision and the actual date on which the redemption value is determined - which can be a considerable period of time - investors are exposed to market risk.

- Off-market transfer

Insofar as the possibility of off-market transfer has not been waived by a contractual agreement, it is the responsibility of the investor to find a corresponding prospective buyer.

#### **6.9.8 Dependence on fund management**

It is solely in the hands of the responsible fund manager to make decisions about the investments, so that not only the portfolio, but also the development of the assets is dependent on the managers and their teams to a considerable extent. The reason for this is sometimes that when there is a change in personnel, the suitability of the management team also changes, and with it the suitability to make good investment decisions. Managers of hedge funds are generally subject to only a few contractual and legal restrictions, so that they have a particularly large scope for decision-making, which allows them to make extensive use of speculative business instruments such as options, additional borrowing or short selling.

#### **6.9.9 Risks arising from the compensation system**

The fund manager's investment behavior could be more aggressive as a result of his performance-based bonus than if the compensation were fixed and this incentive did not exist.

#### **6.9.10 Trading and risk management systems**

The use of trading and risk management systems entails the risk that these may fail, for example due to design-related inaccurate assumptions, and that this may ultimately lead to losses for the fund.

#### **6.9.11 Prime Broker**

If the prime broker has a conflict of interest due to the commissions it receives, it may demand repayment of the securities bonds or loans, contrary to the hedge fund's strategy.

#### **6.9.12 Acquisition and disposal costs**

If, as a result of investments with short-term market prospects, there is an increased volume of business and thus increased related costs (commissions, fees, etc.), this may have a negative impact on the eventual profit and thus on the increase in value of the share certificates.

#### **6.9.13 Risk of limited return**

Investors in hedge funds are often subject to the risk of limited redemption options. In the case of hedge funds under the KAGB, this results on the one hand from a notice period that can be up to 100 days long and on the other hand from the fact that the units can only be redeemed quarterly. In addition, there is an increased liquidity risk, as there can be up to 50 days between the redemption date and the actual payment. For investment products that are not subject to the KAGB, such restrictions can also be contractually agreed.

#### **6.9.14 Risk of lack of current valuation**

Investors in hedge funds are subject to the risk of inaccurate current valuations, as valuations of investment assets are generally only performed on certain reporting dates and thus a current valuation is not available at all times. Fund manager estimates of illiquid investment assets are also subject to uncertainty. In addition, the information provided by the funds is generally so limited that it is very difficult to make one's own assessment and investors are thus also subject to the risk of accepting a purchase or sale price that does not correspond to its actual value.

#### **6.9.15      Publicity and accountability**

German hedge funds are only required to publish their share values on a quarterly basis, which means that they are subject to comparatively low publicity and accountability requirements. In addition, the fund assets are often not valued on a daily basis.

## **7. Special risks associated with closed-end funds**

Which risks are relevant in each case and, above all, to what extent they have an impact depends on the respective investment object and the contractual arrangement. The respective risks of closed-end mutual funds are described in a separate chapter in the respective sales prospectus. The key investor information contains a non-exhaustive presentation of significant risks that may have an influence on the risk profile of the closed-end fund. In the case of closed-end special funds, information on the risks is provided in an information document.

### **7.1 Entrepreneurial risk**

Closed-end funds can sometimes be affected by entrepreneurial risk. It depends on the type of asset acquired to what extent macroeconomic developments as well as property-related and industry-specific risks have an influence here. As entrepreneurial investments, investments in closed-end funds are subject to a specific risk of loss. Insofar as the assumptions previously made with regard to the economic development of the investment are not realized, there is a risk of loss of the capital invested, which can extend to total loss. The **risk of total loss** is increased by the partially low diversification (spreading of the investment capital) and can reach its climax in the fact that the investor becomes personally insolvent. One reason for this insolvency can be, for example, that the investor, contrary to the explicit recommendations, did not finance the investment externally. In the case of **blind pool concepts**, additional risks arise from the fact that the acquisition of suitable investment properties at the prices assumed by the capital management company is not yet assured when the closed-end fund is launched. For this reason, it may not be possible to make the planned acquisition, resulting in a reversal of the transaction. If costs have already been incurred by the investor in the run-up to the original acquisition, e.g. for structuring or for operation, this will also have a negative impact on the investor, as he will not receive the full amount of the investment sum back.

### **7.2 Forecast risk**

The sales prospectus generally contains forecasts, estimates and assumptions regarding the future economic development of the closed-end fund and the expected payments to investors. The risk that the expected developments named therein may either not materialize at all or at least not to the extent assumed may also have a negative impact on the returns that the investor can achieve.

### **7.3 Conflicts of interest**

The fact that the capital management company and the trustee, as well as other persons or companies, if any, are regularly active for several funds in the same or similar functions entails the risk of a conflict of interests. This may mean that the interests of the fund are not taken into account or represented to the extent required. Moreover, such a conflict of interest may arise if the trustee belongs to the same group of companies as the capital management company.

### **7.4 Severely limited availability of capital**

Investors who wish to be able to dispose of the capital invested during the actual term of their participation in the closed-end funds are advised at this point that this is not possible. There is neither the possibility of an early redemption of shares nor of an ordinary termination of the investment; there is also either only limited or no tradability and transferability of the investment. Moreover, to the extent that a sale of the investment is possible, the search for a buyer may require a considerable amount of time. If the investment is sold, this may be associated with high discounts on the original capital invested or the current net asset

value and may also require the conclusion of a written transfer agreement and, if applicable, the consent of the fund or the capital management company.

### **7.5 Risk of debt financing**

In addition to equity capital, it is common for closed-end funds to also take out a loan. This is done either directly or via an investment company in which the closed-end fund holds a direct or indirect stake. As a result of this borrowed capital, fluctuations in the value of the investment can have a greater impact on the invested equity in relative terms (so-called leverage effect). If there is a higher use of borrowed capital in relation to equity, deviations from the original forecast have a greater impact.

Overall, the level of leverage has a disproportionately risk-increasing effect on the investment. However, there are also other risks associated with debt financing. First of all, there is the risk that follow-up financing may not be available at all, may not be available in sufficient amounts, or may only be available at higher interest rates than expected. Furthermore, financing in a foreign currency also entails a certain risk (not only in relation to the investment currency, but also in relation to payment flows such as rent payments, which serve to repay the loan).

Insofar as the agreements from the loan contract are not adhered to, the lender will regularly prevent the disbursements, demand additional securities or even terminate the loan contract, which can lead to a short-term realization of the investment object and consequently to a high loss for the investor.

If the debt ratio for closed-end mutual funds under the KAGB permanently exceeds 150% of the capital available for investment purposes, the German Federal Financial Supervisory Authority (BaFin) has the option of initiating suitable measures to limit the debt ratio, which in extreme cases may result in the liquidation of the fund, causing high losses for the investor. In the case of closed-end special funds under the KAGB, the leverage ratio can exceed 150% of the capital available for investment purposes.

### **7.6 Tax treatment**

With regard to tax treatment and the associated tax consequences, it should always be noted that the sales documents are always based only on the legal situation applicable at the time of the fund issue. There is therefore a risk of subsequent changes in the law, retroactive changes in tax regulations or differing assessments by the tax authorities. This may have a negative impact not only on the tax situation of the fund, but also on the investors, and may also result in a reduced payout for the investors.

### **7.7 Risk due to misconduct or default of contractual partners**

Due to the large number of persons involved in both the launch and the distribution of a closed-end fund as well as in the operation of the fund property/properties, there is always a risk that contractual partners will not or only inadequately fulfill their duties and obligations, for example in the event of poor performance or default in the event of insolvency. As a consequence, there may not only be operating delays and higher expenses, but also loss of income and loss of value of the investment property. One result of this could therefore be a lower payout to the investor.

### **7.8 Insolvency of the fund company or individual fund participants**

The insolvency of the fund is another risk that investors face, as they bear this very risk. Investors' claims against a closed-end fund in the form of a limited partnership ("KG") are not secured and, in the event of insolvency, are treated as subordinate to the claims of other creditors of the KG. This means that investors

may see a reduction in the payout, or it may not be paid out at all; in extreme cases, investors may even lose their entire investment.

The extensive or complete loss of capital may also result from the dissolution of the fund or due to the withdrawal of the general partner or the capital management company and the unsuccessful replacement.

### **7.9 Revival of liability for limited partnerships**

In the case of a KG, the investor is liable for the liabilities of the KG up to the amount of the liability sum (usually up to the amount of the participation subscribed by him or a percentage thereof). However, this liability of the investor expires when he makes a payment on the liability sum attributable to him. Nevertheless, this liability is revived at a later point in time to the extent that payments are made by the limited partnership to the investor without these payments being offset by profits, provided that the investor's capital share is reduced below the amount of the liability sum attributable to him. Ultimately, this results in at least a partial repayment of the liability sum, although this may only take place with the consent of the respective investor. This results in the risk that investors may have to make payments to creditors of the limited partnership up to the amount of the registered liability even after they have paid in their subscription amount.

### **7.10 Majorization**

The individual investor's rights of co-determination and influence in the case of closed-end funds in the legal form of a KG are limited. Management decisions and shareholder resolutions that go beyond day-to-day business can turn out differently than expected or desired by the individual investor. As a result, investors must assume that they will only hold a minority position in shareholder resolutions due to the size of their individual shareholdings and that they will not be able to significantly influence the resolutions passed. Company resolutions passed by the required majority may ultimately change the structure of the limited partnership and thus subject both the investment strategy, the risk profile or other features to fundamental changes.

In the case of closed-end funds in the legal form of a special fund, the investor has no shareholder position from the outset and thus no shareholder rights.

### **7.11 Disclosure of investor data**

Due to contractual or legal provisions, fund participants (e.g. the general partner of a limited partnership, the capital management company or the trustee) may disclose investor-related information such as name, address and investment amount, e.g. to authorities and/or co-investors. This entails the risk of unauthorized use of data.

### **7.12 Specific risks associated with certain types of closed-end funds**

#### **7.12.1 Special risks associated with closed-end real estate funds**

The economic result of a real estate investment is largely determined by the acquisition and production costs, the terms and duration of the leases, the payment of rents, any follow-up leases that may be required and/or the amount of any sale proceeds that may be generated. The economic result may be negatively affected by other risk factors specific to the property, such as the building structure and the need for maintenance and renovation measures or operating and ancillary costs that cannot be allocated. The assumptions made by the capital management company and the limited partnership in the forecast are subject to uncertainty. With regard to rent levels, there is in particular the risk that tenants may



default, rent payments may not be made and/or no replacement tenant can be found at short notice. Furthermore, neither the development of inflation nor the actual proceeds to be generated from the sale of real estate can be forecast without error. Rather, there is a close link with macroeconomic developments, location developments, and real estate price developments. Due to the limited ability to forecast, the risk of a comparatively negative development of the profitability of the investment deviating from the forecast is substantial. To the extent that properties are still unfinished or even still in the planning stage, risks relating to the project and completion must also be taken into account.

### **7.12.2 Specific risks associated with renewable energy funds**

The economic result of renewable energy funds essentially depends on the calculated costs for construction and maintenance of the plants not being exceeded and the assumptions of the plant manufacturers regarding performance duration and wear and tear being correct. However, these assumptions can be counteracted and consequently negatively affected by changes in climate and weather, as well as by weather or connection problems. Plant failures or even shutdowns may occur. Overall, negative effects on the yield of the plants are possible due to changes in climate and weather, insofar as there is a fall below the long-term average values documented by expert opinions. The level of feed-in tariffs at the location of the plant during the term is also significant for the earnings of the renewable energy funds. In this context, there is a risk that the statutory provisions on feed-in tariffs may be amended or repealed, as a result of which either the level of tariffs from the sale of electricity will be reduced or the obligation to purchase/remunerate the respective distribution network operator will no longer apply. There is therefore a risk that lower revenues will be generated than previously assumed, resulting in lower payouts to investors. Overall, the assumptions made by the capital management company or the limited partnership in their forecast calculations are always associated with a number of uncertainties, so that a forecast can generally only be made to a limited extent.

### **7.12.3 Special risks with ship funds**

The economic result of ship funds essentially depends on the purchase price/production costs, the achievable charter rates less the costs incurred (e.g. operating costs, maintenance, fund management, investor support), the ongoing ship operating costs and the selling price of the ships. These factors are always influenced by developments in world trade. Consequently, even a downturn in maritime trade can reduce demand for ships, as a result of which forecast charter income and planned sales proceeds cannot be achieved, with the result that the investor also incurs losses.

Moreover, the cyclical nature of world trade also influences charter rates, so that long-term charter agreements can generally provide continuous income from the ship investment over a fixed period of time. However, there is still the risk of a lower subsequent charter. It should also be noted that it takes several years to build a ship, which means that it is not possible to react immediately to an increase in transport demand, but rather that there is a certain delay, which in turn can result in highly fluctuating charter rates. Furthermore, the return on closed-end ship funds can be affected by a lack of creditworthiness on the part of the charterer.

Here, too, the assumptions made by the capital management company or the limited partnership as part of its forecast calculation are subject to a number of uncertainties and depend on various factors - as shown by way of example above - so that a forecast can only be made to a limited extent.

#### **7.12.4 Special risks with aircraft funds**

In the case of closed-end aircraft funds, the economic result is also largely determined by the acquisition or production costs, the terms and duration of the lease, and the creditworthiness of the airline or air freight company as lessee. Here, too, the conditions of any follow-up leasing agreement, the costs incurred, such as operating costs, the costs of maintenance, fund management and investor support, as well as the amount of any realizable proceeds from the sale are also factors.

In the case of aircraft funds, there are also specific risks for this investment. For example, in the case of an operating lease, the lessor, i.e. the fund, bears the performance risk (in contrast to a finance lease), so that in the case of an operating lease, particular importance is attached to the quality of asset management, i.e. the management of the investment object. The management is responsible, among other things, for the maintenance of the aircraft and is therefore decisive for its performance. The assumptions made by the investment management company or the limited partnership in the forecast calculation are subject to a number of uncertainties and depend on various factors (e.g., overall economic development and, in particular, the aircraft markets), which means that a forecast can only be made to a limited extent. This is another factor that may adversely affect the profitability of the investment.

#### **7.12.5 Special risks associated with private equity funds**

Due to their investments in entrepreneurial target companies, private equity funds are regularly characterized by a higher and specific risk of loss. At the time of the fund's launch, these are sometimes not yet invested, or not yet invested in their entirety, which means that there is a risk that, in addition to no investment at all on the market, there will at least be insufficient investment to meet the initial criteria for the investments. By this circumstance the actually expected yield can be minimized and besides a smaller risk diversification (spreading of the investment capital) follow.

Even the negative performance of one or more target companies can, under certain circumstances, result in a complete write-down of the respective investment in the target company and, in extreme cases, even lead to a total loss of the entire fund assets, which would entail the loss of the capital invested in the fund by the investor. Indirect investment entails the risk for the investor that the decision-making process of the target company is only transparent to a limited extent for the fund management and that no influence can be exerted on this decision-making process.

The special characteristics of companies or target companies in which private equity funds invest mean that a forecast of the future performance of private equity investments is subject to even greater uncertainty than is the case with other investments. In this context, it is generally not possible to make a reliable forecast regarding any return of funds from sales of investments to investors. In addition, problematic economic or capital market conditions may make it difficult or impossible to sell the investments.

#### **7.12.6 Special risks for funds without risk diversification**

The risks described and presented above (cf. sections 7.12.1 to 7.12.5) can have a greater impact the fewer assets there are in a fund. For default risks, for example in the form of reductions in value, declining or missing income from the investment property, there is regularly no compensation.

## **E What you should bear in mind when placing an order**

The following chapter will take a closer look at the most important circumstances for the investor in terms of order execution, in particular the execution venues, pricing mechanisms and the validity period of securities orders.

Order execution is governed by the terms and conditions for securities transactions on the one hand and the execution policy of the respective bank on the other, which sets out the organizational arrangements for the best possible execution of orders.

In the case of order execution at execution venues other than German stock exchanges or at foreign stock exchanges, the legal provisions, conditions and customs applicable there must be observed.

### **1. Fixed-price transactions**

In a fixed-price transaction, the investor purchases or sells his securities from or to a bank at a previously agreed fixed or determinable price. Costs and expenses are usually already included in the fixed price, although in the case of the purchase of interest-bearing securities, so-called "accrued interest" must be paid to the bank in addition to the fixed price. This interest for the period between the last interest date and the date of sale is then paid out to the investor by the issuer of the security at the next interest date.

### **2. Commission business**

If the bank forwards the investor's orders to an execution venue, acting in its own name but for the account of the investor, this is referred to as commission business. In this case, all advantages and disadvantages arising from the transaction affect the investor and the following provisions apply (directly).

#### **2.1 Stock exchange and over-the-counter execution venues**

Investors' orders are routed by the Bank either to the stock exchange, a *multilateral trading facility* (MTF), an *organized trading facility* (OTF) or an *over-the-counter* (OTC) execution venue.

The markets on which your bank acts as a commission agent are determined by the execution principles it has agreed with you.

#### **2.2 Stock exchange trading**

##### **2.2.1 Stock exchanges**

Securities exchanges are markets for the trading of securities that are regulated and supervised by state-recognized bodies and bring together a large number of market participants. Typical features of stock exchange trading are that it takes place on a regular basis, the securities admitted to trading there are subject to fixed trading and price regulations, there are a large number of sellers and buyers, and the number of participants is limited. Exchange-traded securities - both German and foreign - can be traded on several German stock exchanges.

##### **2.2.2 Trade forms**

Stock exchange trading can take place both locally at fixed exchange hours ("floor trading") and automatically by computer at electronic exchanges and trading centers. The stock exchange operator of the individual stock exchange is responsible for the trading hours, trading interruptions, the fixed rules

and their observance. The rules may specify, among other things, when which types of securities may be traded and whether, for example, a certain minimum size is required for trading.

### **2.2.3 Pricing and Market Making**

Prices for securities are generally based on supply and demand, with prices being set according to the highest possible turnover from all orders (so-called most-executed principle).

Stock exchanges enable so-called market makers to improve the tradability of less liquid securities by concluding contracts with banks, among others, which undertake to submit buy and sell offers (quotes) on an ongoing basis. Certain criteria must be met, such as adherence to a maximum spread (margin between the buy and sell offer) or a minimum quote volume. The quote shows the lower bid price (selling price) and the higher ask price (buying price). Due to the regularly low spread, the profit for the investor only occurs when the selling price is higher than the purchase price originally paid. The price determined for the on-exchange or off-exchange execution of the order corresponds to the respective current market price, the "price".

Alternatively, investors can purchase and sell the securities directly from the issuer via their custodian bank outside stock exchange hours.

## **2.3 Dispositions when placing orders**

The investor may issue instructions that take precedence over the Bank's Execution Policy.

### **2.3.1 Limitations (price limits)**

Investors can set a price limit for the purchase and sale of a fluctuating price so that no trading takes place when it is reached. In addition, limit additions can also be determined, which are shown here as examples:

- With the **stop-loss order**, a sell order is transmitted to the bank as soon as a specified price mark is reached or undershot. However, a sale at this price is not guaranteed, as only an order is placed in trading as a "best order".
- With the **stop-buy order**, on the other hand, an order to buy securities is placed when a certain price mark is reached and executed at the next stock market price.
- In the case of a daily **fill-or-kill order**, the sale/purchase must be executed immediately and in full or it will be deleted. In the case of an **immediate-or-cancel order**, on the other hand, the order is executed as far as possible and the rest of the order is deleted.

Further limit rates result from the execution policies of the respective banks.

### **2.3.2 Validity period of your orders**

In principle, the bank tries to forward the order to the execution venue without delay, as long as the order is valid. The validity of the orders can be specified by the investor. Otherwise, orders without a price limit are valid for one exchange day, if execution is no longer possible for the next exchange day, and for orders with a price limit until the last exchange day of the current month. If this is no longer possible, the order will be earmarked for the next month.

Price-limited orders to buy or sell shares also expire upon dividend payment and other adjustments to rights. Price-unlimited orders are valid for the duration of rights trading, while price-limited orders expire at the end of the penultimate day of rights trading.

If the course is suspended, all orders expire.

### **2.3.3 Settlement of commission business**

When concluding a commission transaction, the seller undertakes to deliver securities and the buyer undertakes to pay the purchase price, with delivery of the securities usually taking two exchange days. In the case of transactions at foreign execution venues, this settlement period may be significantly longer.

### **3. Payments by third parties to the Bank**

If payments by third parties occur in connection with the execution of a securities transaction for an investor, details may be requested from the custodian bank.

### **4. Settlement of securities transactions**

The securities statement of the executing or forwarding bank must contain all execution data, in particular the name of the intermediary credit institution, the customer's name, the trading day and time, the type and, if applicable, the nature of the order, the execution venue, information on the instrument, the buy/sell indicator, the quantity, the unit price and the total fee. In addition, the total of all commissions, expenses and other costs charged must be listed, as well as the exchange rate achieved, if applicable, the client's tasks and, if applicable, a reference to the client's counterparty. Taxes incurred by the investor may not be included in the invoice.

### **5. Risks in the settlement of your securities orders**

In addition to the risks listed above, there may be further risks when awarding contracts, which are outlined below. The list is not exhaustive and only a few significant risks are outlined below.

#### **5.1 Transmission risk**

There is a transmission risk with orders that are not clearly issued, so the more precise your order, the lower the risk of error.

#### **5.2 Lack of market liquidity**

There is a risk of a lack of market liquidity, i.e. there is no or only very low demand for a security and a sale cannot be executed or cannot be executed immediately.

#### **5.3 Price risk**

Between placing the order and the conclusion of the transaction, the price may change significantly. However, this risk can be reduced by price limits.

#### **5.4 Course suspension and similar measures**

To prevent strong price fluctuations, price suspensions and, in electronic stock exchange trading, so-called volatility interruptions may occur. During this time, no orders are executed by the German stock exchanges and they expire.

A stock exchange may permanently cease to fix the stock exchange price for a particular security, for example in the event of the issuer's insolvency, and thus not offer any trading for it on the stock exchange. In this case, the marketability of the security is considerably restricted or even completely excluded.

## **5.5 Blockorder**

Individual securities orders from several customers can be combined into one order ("block order") by an authorized representative, whereby individual price limits are observed. This combination can have both advantages and disadvantages for investors.

## **6. Risks associated with same-day transactions ("day trading")**

If securities, financial instruments or derivatives are bought and sold on the same day in order to take advantage of small and short-term price fluctuations, this is referred to as "day trading". Special risks must be taken into account here.

### **6.1 Immediate loss, professional competition and required knowledge**

In day trading, there is a risk of total loss if the price continues to fall in the course of the trading day and a sale is only possible below the purchase price. Here, the investor competes with professional and financially strong market participants and should therefore have sound knowledge. If the investor has also used borrowed capital in the process, there is therefore also a potential loss of the loan amount.

### **6.2 Costs**

The daily costs incurred in day trading can be disproportionate and exceed the capital invested and profit.

### **6.3 Incalculable losses on forward transactions**

In the case of forward transactions, there is also the risk that the investor or day trader will have to procure additional capital or collateral. This is the case if losses are incurred on the same day that exceed the capital invested or the collateral deposited.

### **6.4 Risk of influencing behavior**

If special premises are provided for the settlement of day trading transactions, the physical proximity to other investors in these trading rooms may influence the behavior of the investor or day trader.

## **7. The new issue of shares in initial public offerings (IPO)**

If a share is newly listed and issued, it must first be placed with interested investors. This is mainly done by bookbuilding or, in some cases, by the fixed-price procedure, in which a consortium of banks underwrites the shares for placement.

### **7.1 Bookbuilding**

In bookbuilding, the issue price is determined according to what investors would bid to buy within a given subscription period in a predefined price range. All subscriptions are then collected in an electronic book, analyzed and the price developed from them.

The exact allocation to the investors is made in coordination between the lead manager and the issuer to ensure that the desired investor structure of the issuer is given. During the allocation process, oversubscription may result in there being fewer shares than have been subscribed. In this case, both the underwriting bank and the issuer can make the allocation themselves or decide by lot.

## **7.2 Fixed price procedure**

In the fixed-price procedure, on the other hand, the placement takes place without the involvement of investors and the syndicate of banks guarantees the issuing company a specific placement price prior to publication of the offer for sale. The shares are allocated to the investors by the individual syndicate banks that have expressed a wish to subscribe.

The allocation method finally selected will be determined only after the end of the subscription period. After completion of the subscription procedure, the subscribing person may obtain information on the allocation made from his or her bank.

## F Glossary

<b>Agio</b>	Refers to the premium that may be charged for some securities and closed-end funds. Also: The amount by which the issue price exceeds the nominal amount when securities/closed-end funds are first issued. Opposite: Discount, discount.
<b>AIF</b>	Abbreviation for alternative investment fund. AIF can invest in various assets, such as securities, real estate or various assets (mixed funds). In Germany, mainly regulated by the German Investment Code (Kapitalanlagegesetzbuch, KAGB).
<b>Bond</b>	Promise by an issuer to pay interest for the temporary provision of capital and repayment at maturity. Usually issued by companies, corporations and governments.
<b>Basis point</b>	One hundredth of one percent. For example, if the yield on an investment increases from 7.52% to 7.57%, the increase is five basis points.
<b>Bear Market</b>	Describes a prolonged phase of price losses in the overall market. Opposite: Bull Market.
<b>Benchmark</b>	denotes a reference value, i.e. a point of reference for measuring the performance of an investment. Such reference values are often bond or stock indices (such as DAX and EURO STOXX 50).
<b>Credit rating</b>	describes the solvency of a debtor, for example the issuer of a bond.
<b>Bull Market</b>	means a prolonged period of price gains in a market. Opposite: Bear Market.
<b>Cap</b>	means the agreement of a value limit above which an investor no longer participates in the price developments of the underlying.
<b>Derivatives</b>	Derivatives or derivative transactions are "derived" (lat. derivare = to derive) from spot transactions (cf. spot market) in shares, bonds or foreign exchange. These are forward transactions (cf. futures market).
<b>German Stock indices</b>	The most common German stock indices are the DAX®, the MDAX® and the SDAX®. The DAX® consists of the 30 blue chips with the highest stock market turnover and market capitalization. The MDAX® represents The SDAX® comprises the next 60 smallest stocks (midcaps) and the SDAX® the next 70 smallest stocks (smallcaps). The indices are calculated continuously on each trading day. The composition is adjusted at certain intervals by Deutsche Börse as required.
<b>Discount</b>	denotes a discount on the nominal value. A discount on a security reduces the issuer's income. Contrast: premium, surcharge.
<b>Emission</b>	means the first issue of a security.
<b>Issue price</b>	Means the price at which issued securities are offered for sale to the investing public. Also: issue price.
<b>Issuer</b>	means the company, credit institution, public corporation, state or other institution issuing a security for the first time.



<b>EUR bonds</b>	Bonds where the nominal amount is denominated in euros (€).
<b>Eurobonds</b>	Bonds placed through internationally active syndicates of banks. Eurobonds are denominated in an internationally common currency (not the euro) and are traded in several countries outside the issuer's country of domicile. Issuers are primarily sovereigns, international institutions and large corporations.
<b>Counterparty</b>	means the contracting party of a securities transaction, for example.
<b>Index</b>	Instrument for the clear presentation of price and quantity movements of goods and securities (e.g. share index) over time. Calculated by issuers or third parties such as stock exchanges. See also: Reference value
<b>Insolvency risk</b>	describes the risk of a debtor's inability to pay.
<b>Capital management company</b>	regulated entity that manages an investment fund.
<b>Correlation</b>	Quantity that shows the statistical correlation (synchronism) between two series of numbers or securities.
<b>Liquidity</b>	describes the degree to which a financial instrument can be traded on the capital markets. Accordingly, a liquid financial instrument is one that can be sold easily, quickly and possibly with lower losses.
<b>Market Maker</b>	is a market participant who provides prices for buying and selling on each trading day and is available as a trading partner. Market makers thereby increase the liquidity of a security.
<b>Market capitalization</b>	describes the total value of a listed stock corporation. The market capitalization follows from the respective price of a share multiplied by the total number of shares issued.
<b>Market Opportunities</b>	Established trading customs for the settlement of orders on the capital markets that are accepted and applied by market participants without being legal requirements.
<b>Midcaps</b>	Designation for shares with a medium market capitalization.
<b>UCITS</b>	stands for "Undertakings for Collective Investment in Transferable Securities". UCITS are open-ended investment funds that invest money in securities and bank deposits, for example. The English designation UCITS is also common.
<b>Order</b>	Buy or sell order.
<b>Rating</b>	Assessment of the creditworthiness of a company.
<b>Reference interest rate</b>	refers to an interest rate commonly used in the markets as a reference point or as a guide to the price development of a security. Common reference interest rates are, for example, EURIBOR and LIBOR.
<b>Profitability</b>	indicates the ratio of capital employed to the return generated over a given period.
<b>Emerging markets</b>	Refers to countries that have recently been developing countries and whose economic output has risen sharply and is rising. Also: emerging markets.
<b>Spot business</b>	means transactions on a commodity exchange where either immediate or short-term (up to three days) settlement is agreed.
<b>Spread</b>	means the difference between the highest buy price (bid) and the lowest sell price (ask) for a security on a given date. If the spread

	is low, there is a high degree of market liquidity. Also: bid-ask spread.
<b>Swap</b>	A swap is an over-the-counter derivative that results in the exchange of cash flows between the two swap counterparties.
<b>Volatility</b>	describes the fluctuation in the price of a security within a defined period.
<b>Central Counterparty</b>	means a central market participant that serves as a central buyer and seller for securities, for example. The aim is greater transparency in trading and easier order processing.