INVESTOR GUIDE

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Banque Raiffeisen has published this guide to provide you with clear, understandable information on the main forms of investment.

When making an investment decision, investors need to be fully aware of the investment product's characteristics, advantages and drawbacks and the related risks.

All investments come more or less with a risk. Whenever they commit themselves, investors must therefore check that the investment being considered is compatible with their objectives and overall wealth, that it fits with the level of risk they are ready to take on and that their investments are diversified enough to reduce the overall risk.

Our advisors are on-hand to study your personal situation with you, to provide more detailed information on any product and **to help you find the solution that suits you best.**

This guide should not be considered a form of investment advice in itself. We have deliberately left the fiscal and legal aspects out of this publication.

INVESTOR PROFILE

Before deciding on an investment strategy that meets your needs and expectations, you first need to define your investor profile. To do that, you have to ask yourself the right questions:

YOUR PERSONAL SITUATION

Firstly, your investor profile must match your personality, your wealth situation, your knowledge, and experience in investing.

- What is your personal wealth?
- What proportion of that wealth do you want to invest?
- How much cash do you need to cover your day-to-day comfort?

You also need to take your family situation into account to plan for the future.

YOUR NEEDS AND OBJECTIVES

Ask yourself about your **short, medium and long term projects**. The longer you invest, the greater the number and variety of investment possibilities.

You should also be aware that many investment instruments can **alleviate your tax burden**.

- What is your investment time frame?
- What return do you expect from your investment?
- When and how do you want to benefit from your assets?
- And, above all, what level of risk are you willing to take?

YOUR PROFILE

After weighing up your situation, your goals and your needs, we work together to define the **investment strategy that best matches your investment profile**.

Your portfolio will be built up according to:

- the **duration** of your investment,
- the **return** you expect,
- and your **appetite for risk**.

Generally speaking, the level of risk and expected returns both vary depending on the selected investor profile.

	Risk level / Expected return				
Profile	**Very low**	**Low**	**Average**	**High**	**Very high**
Aggressive					●
Dynamic				●	
Balanced			●		
Defensive		●			
Conservative	●				

short-term → long term

Investment horizon

INVESTMENT GUIDELINES IN CASE OF AN ADVICE - YOUR QUICK GUIDE

RISK LEVEL				
VERY LOW RISK **Conservative** investment guidelines **(5)**	**LOW RISK** **Defensive** investment guidelines **(4)**	**MEDIUM RISK** **Balanced** investment guidelines **(3)**	**HIGH RISK** **Dynamic** investment guidelines **(2)**	**VERY HIGH RISK** **Agressive** investment guidelines **(1)**
Typical investor's objective ▪ Looks for a return established in advance or close to the money market ▪ Prefers products with guaranteed capital on maturity ▪ Avoids highly sophisticated products ▪ Prefers regular income	**Typical investor's objective** ▪ Looks for a return that is basically safe and stable with low-level participation in financial market trends ▪ Accepts limited capital losses only when market trends are negative	**Typical investor's objective** ▪ Accepts a non-stable income and knows that a significant part of their income will depend on financial market trends ▪ Still looks to place a share of their assets in stable investment instruments to limit capital losses when market trends are negative	**Typical investor's objective** ▪ Accepts very fluctuating income in order to participate in financial market trends ▪ Accepts significant capital losses when there is a downturn in the market ▪ A well-informed investor, aware of the risks	**Typical investor's objective** ▪ Accepts very fluctuating income in order to participate in financial market trends ▪ Accepts considerable capital losses when there is a downturn in the market ▪ A well-informed investor, aware of the risks
LEVEL OF PERFORMANCE (RETURN) SOUGHT				
Limited performance	←		→	**Maximum performance**
PRODUCT TYPES				
Current accounts, monetary instruments, bond instruments and equivalents, SICAV, precious metals	Current accounts, monetary instruments, bond instruments and equivalents, SICAV, precious metals, shares	Current accounts, monetary instruments, bond instruments and equivalents, SICAV, precious metals, shares	Mainly share-based instruments, bond instruments and equivalent, SICAV, precious metals	Mainly share-based instruments, bond instruments and equivalents, SICAV, precious metals
MAXIMUM THRESHOLDS PER RISK CATEGORY				
Cash: 100 % Bonds: 80 % Shares: 0 % Structured products: 20 % Alternatives:* 20 % Other**: 20 %	Cash: 100 % Bonds: 100 % Shares: 30 % Structured products: 30 % Alternatives:* 30 % Other**: 30 %	Cash: 100 % Bonds: 100 % Shares: 50 % Structured products: 50 % Alternatives*: 50 % Other**: 50 %	Cash: 100 % Bonds: 100 % Shares: 70 % Structured products: 70 % Alternatives*: 70 % Other:** 70 %	Cash: 100 % Bonds: 100 % Shares: 100 % Structured products: 100 % Alternatives*: 100 % Other**: 100 %

*Alternative SICAV
**Precious metals

INVESTMENT HORIZON				
1-3 years	3-5 years	5-7 years	7-10 years	> 10 years

KNOWLEDGE REQUIRED				
Basic	←		→	**Very significant**

BONDS

DEFINITION AND CHARACTERISTICS

A bond is a transferable security that takes the form of a loan to the issuer – a company (corporate bond) or a public body (government bond) – and therefore represents a medium- or long-term financial debt, and sometimes even a perpetual debt. A bond is a negotiable security and can be issued in two forms: registered or bearer. The principal is usually repaid on maturity.

COUPON

In return for the loan, the lender receives an interest payment from the borrower: this is the coupon. Coupons are paid periodically, on set dates. A bond may come with a fixed-rate coupon or a variable coupon.

YIELD TO MATURITY

Yield to maturity is the total return anticipated on a bond if the bond is held until the end of its lifetime. It is the return that the investor can expect to receive. Its calculation takes into account coupon interest rates, the bond's market price and the term to maturity.

ISSUE PRICE

The bond issue price may differ from its face value and can include an issue premium.

REDEMPTION PRICE

The redemption price is the value of the bond at the end of its lifetime (and may be equal, superior or inferior to the issue price). There may be a redemption premium, which is the difference between the redemption price and the issue price.

THE MAIN FORMS OF BONDS:

- **Fixed-rate bonds**
  Most loans are issued at a fixed rate, i.e. the bond comes with a fixed interest rate that remains the same throughout its lifetime. It gives rise to identical interest payments on predefined dates.

- **Floating rate notes**
  Bonds that do not have a fixed-rate coupon; the coupon varies according to a short-term market reference rate, like **LIBOR** or **EURIBOR**.

- **Zero-coupon bonds**
  Zero-coupon bonds do not generate interest payments throughout their lifetime. The issue price is lower than the redemption price, which is equal to 100%. The return on these bonds is the difference between the issue price and the redemption price.

- **Subordinated bonds**
  In the event of liquidation or bankruptcy of the issuer, subordinated bonds will only be repaid to holders as a last resort, after repayment of the preferential and unsecured creditors.

- **Convertible bonds**
  The holder of convertible bonds can, at certain times in the bonds' life, choose to convert the bonds into shares (which may allow the holder to benefit from an increase in share price) or to redeem the bond in cash (in the event of unfavourable performance of the underlying asset). In exchange for this conversion right, convertible bonds generally offer a lower coupon than conventional bonds.

- **Bonds redeemable in shares**
  The interest rate of a bond redeemable in shares at maturity is generally lower than that of a traditional bond when the growth prospects of the issuing company are favourable at the time of issue. A capital loss may arise if redemption occurs at a time when the share price has fallen sharply.

- **Reverse convertible bonds**
  Reverse convertible bonds are redeemable at the issuer's option, subject to the terms and conditions of the issue. The bondholder receives either 100% of the face value of the bond, or a defined number of shares on the issue date, based on the face value of the bond and the reference price of the underlying share. In both cases, the holder receives a guaranteed coupon. At maturity, if the price of the underlying share has fallen below its reference price, the bondholder risks being repaid in shares at a value potentially lower than the face value and thus losing part or all of their capital. This product does not therefore come with a capital guarantee. As a result, coupon payments are higher than the return on an ordinary bond.

ADVANTAGES

- With bonds, the income is known in advance and can be planned.
- As a general rule, bonds offer an attractive return for the level of risk.
- Bonds are accessible to a large number of investors due to low entry thresholds.

DISADVANTAGES

- Repayment of the principal is only guaranteed if the issuer remains solvent.
- The price of a bond fluctuates during its lifetime.
- The return on bonds is usually lower than that on other financial instruments, especially during periods of low interest rates.
- The lack of demand for a security on the secondary market can cause a liquidity problem, i. e. it can be difficult to sell the securities under optimal conditions.

RATINGS

The ratings assigned by specialist agencies (e.g. Standard & Poor's or Moody's) are used to assess an issuer's ability to repay the principal in full and pay interest on maturity (= an assessment of the issuer's creditworthiness with regard to a particular issue). The quality of a bond varies from AAA (good) to D (payment default). Please refer to the explanations from the different rating agencies for more details.

	S&P	Explanation
Investment Grade	AAA	A bond rated AAA has the highest possible credit rating. The issuer's capacity to meet its financial commitments is extremely strong.
	AA	A bond rated AA differs only slightly from a bond rated AAA; the quality of the bond is still very good. The issuer's capacity to meet its financial commitments is very strong.
	A	An A-rated bond is more susceptible to adverse economic circumstances than AA and AAA rated bonds. The issuer's capacity to meet its financial commitments remains strong.
	BBB	A BBB-rated bond has adequate protection parameters. Nevertheless, the issuer's ability to meet its financial commitments is more subject to the impact of adverse economic changes.
Speculative Grade	BB	A BB-rated bond is considered a speculative investment and is relatively susceptible to cyclical fluctuations, making the issuer's capacity to meet its financial commitments more vulnerable.
	B	A B-rated bond is more sensitive to cyclical changes than bonds rated BB and BBB. The issuer's ability to meet its financial commitments is lower. There is less security than with bonds rated BB.
	CCC	A CCC-rated bond is susceptible to economic fluctuations and is dependent on favourable conditions to ensure the issuer's capacity to meet its financial obligations. In the event of adverse conditions, the issuer will probably not be in a position to honour its commitments
	CC	The holder of a CC-rated bond runs a high risk of non-payment by the issuer. A CC rating is assigned if default is quite likely.
	C	The holder of a C-rated bond runs a high risk of non-payment by the issuer. The probability of recovering the funds invested is lower than for bonds with a higher credit rating.
	D	The issuer of a D-rated bond is in default. It is no longer able to honour its financial commitments.

Note : *Ratings from AA to CCC may be supplemented by a plus or minus sign indicating a nuance within the rating class.*

Source : Standard & Poor's

RISKS OF INVESTING IN BONDS

- **Interest rate risk**
  If interest rates rise, the price of a fixed-rate bond decreases, which can result in a capital loss in the event of sale before maturity. Similarly, a decrease in interest rates increases the price of fixed-rate bonds. The impact of a change in interest rates on the price of the bond is mainly determined by the term to maturity: the longer the remaining term, the greater the price variation.

- **Temporary or permanent insolvency risk**
  The temporary or permanent insolvency (of the issuer) may result in the non-payment of coupons. The issuer's bankruptcy may lead to a failure to repay the loan. Guarantees (e.g. from a State) reduce this risk.

- **Exchange rate risk**
  Fluctuations in currency exchange rates increase the risk associated with foreign currency investments and may reduce returns when converted to local currencies. This risk can be mitigated by allocating investments in local currency bonds and foreign currency bonds.

- **Early repayment risk**
  When the issuer of a bond includes an early repayment clause, the yield to maturity may differ from the expected yield if the bond issuer exercises its right to early repayment.

- **Inflation risk**
  Currency depreciation reduces the investor's purchasing power with regard to the coupons received. In terms of purchasing power, the redemption amount at maturity does not match the amount invested at the time of issue.

SHARES

DEFINITION AND CHARACTERISTICS

A share is a title deed issued by a limited company that gives the holder a share in its capital. Shareholders are therefore involved in the company's development. They can vote at general meetings of shareholders, which means that, within the limits of their share of the capital, they are involved in decision-making. They are also entitled to a share of the profits distributed in the form of dividends. The shares of a listed company may be freely sold on the stock exchange.
Share prices are influenced by many factors: the company's performance, the future potential of the market in which it operates, the economic and political environment, the appreciation of financial market participants, etc. The vast majority of the shares are issued in bearer form, i. e. the owner is not registered in the company register and the shares are freely transferable. Registered shares are recorded in the registers of the issuing company, which has custody of them. As a result, they are more difficult to trade than bearer shares.

ADVANTAGES

- A shareholder receives remuneration in the form of a dividend paid annually, half-yearly or quarterly. The latter is not guaranteed and represents a portion of the profit distributed to shareholders.
- The investor may realise a capital gain in the event of positive company performance and a rise in the share price.
- A shareholder with voting rights may actively participate in the decisions taken at general meetings.
- In principle, the total return potential of a share, consisting of a dividend and a capital gain, is higher than that of a bond.

DISADVANTAGES

- A shareholder is exposed to the risk of share price fluctuations.
- Investment in shares does not provide a stable and/or guaranteed income; income varies according to company performance and its dividend policy.

RISKS OF INVESTING IN SHARES

- **Share price fluctuation risk (Volatility)**
  We need to differentiate between systematic (non-diversifiable) and non-systematic (diversifiable) risk. Systematic risk is linked to the economic and political environment, such as interest rates and inflation. Non-systematic risk comes from the forces of supply and demand, psychological factors, investors' expectations, and the company's results and financial health. When a share is sold at a price lower than the purchase price, there is a capital loss.

- **Risk of losing all invested amounts in the event of bankruptcy**
  In the event of a company's bankruptcy, shares can lose up to 100% of their value. Shareholders are always reimbursed last, after the issuer's creditors.

- **Risk of non-payment of dividend**
  In the event of low profits or losses made by the issuing company, the dividend may be reduced or non-existent.

- **Market liquidity risk**
  When demand for a share at the set price is low, the seller of a share may have to wait for a buyer to come forward. As a result, there is a risk that sales orders may either be executed at lower prices or not be executed immediately or entirely. The liquidity of a share varies according to the size of the company, the volume of shares traded freely on the markets (the 'free float'), and the markets on which the share is traded. Liquidity risk is generally limited for companies listed on the main indices of industrialised countries, but is higher for companies in emerging markets.

- **Currency risk**
  The return on investments in foreign currency equities and the payment of their dividends may be influenced by the exchange rate at the time of conversion to local currency. Diversification of investments in different currencies may reduce this risk.

UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCI)

DEFINITION AND CHARACTERISTICS

A UCI is an organisation that collects capital from the public in order to invest it in assets (equities, bonds, etc.) in accordance with the investment strategy defined when the fund was set up and the legal framework imposed by its country of domicile.

There are different legal forms of UCI in Luxembourg:

- **Mutual funds**
  The mutual fund has a different legal status to the SICAV. A mutual fund is the joint ownership of transferable securities; it issues units. It has no legal personality. Each unit holder has co-ownership rights in the fund's assets, proportional to the number of units held.

- **SICAV (Société d'Investissement à Capital Variable) / SICAF (Société d'Investissement à Capital Fixe)**
  A SICAV is an open-ended collective investment scheme. It is a company whose objective is to pool the risks and benefits of an investment in transferable securities(shares, bonds, etc.), negotiable debt securities and other financial instruments authorised by the regulations and the SICAV's articles of association. SICAVs have their own legal personality. The Company has a Board of Directors and shareholders of the SICAV have voting rights at the annual general meeting.

  A SICAV is often split into sub-funds that pursue well-defined investment policies or objectives. The sub-funds may differ in terms of the currencies, geographical areas or business sectors in which they invest. Investors may switch sub-funds (usually for little cost).

NET ASSET VALUE (NAV)

The Net Asset Value (NAV) is the issue or redemption price of a fund unit on a specific date. NAV is calculated by dividing the total net asset value of the fund by the number of units outstanding. The investor is entitled to subscribe to units or request redemption at the NAV. Fees and commissions paid by the fund are included in the NAV (indirect investor charge). NAV is calculated periodically (see the SICAV/SICAF sales prospectus and mutual fund management regulations).

DISTRIBUTION SICAV / CAPITALISATION SICAV

A distribution SICAV pays a dividend to the unit holder while a capitalisation SICAV reinvests all the income and capital gains earned, and the investor shares in the profits made thanks to an increase in NAV.

THE DIFFERENT TYPES OF FUNDS

- **Money-market funds**
  A money-market fund mainly holds cash (currency) and short-term financial instruments such as term deposits, treasury certificates and short-term bonds.

- **Bond funds**
  Bond funds invest in corporate bonds, government bonds and convertible bonds. A bond fund is sensitive to changes in interest rates. An increase in interest rates implies a decrease in the price of bonds and therefore a decrease in the value of the fund's units. However, the yield varies according to the quality of the bonds and their respective duration.

- **Equity funds**
  An equity fund invests primarily in equities.

  (i) Value Equity Funds
  This type of fund invests in company securities when the current market price is lower than their intrinsic value, estimated on the basis of company fundamentals. These securities are therefore considered to be undervalued and a price increase is expected.

  (ii) Growth Equity Funds
  This type of fund invests in companies with above-average earnings growth potential.

- **Mixed funds**
  A mixed fund divides its assets into different asset classes. Mixed funds can have different risk profiles:

- Funds that invest mainly in bonds and cash,
- Funds that seek a mix of different asset classes to limit exposure to market fluctuations,
- Funds that invest primarily in equities.

- **Flexible funds**
  The composition of flexible funds can be adapted to the market situation.

- **Alternative investment funds**
  An alternative investment fund raises capital from a number of investors to invest in alternative financial products (e. g. real estate, commodities, unlisted companies).

- **Fund of Funds**
  A fund of funds does not invest directly in stocks or bonds but in a selection of funds.

ADVANTAGES

- UCIs reduce their risks by diversifying their investments across asset classes, regions and sectors.
- Thanks to the great diversity of mutual funds available on the market, each investor can find a solution that meets the desired investment strategy.
- Fund managers are experienced specialists who use their expertise to ensure the fund achieves the best possible performance.
- A fund invests in markets that are difficult for private investors to access.

DISADVANTAGES

- UCI units may only be traded at certain times. The investor is forced to respect those times and is thus limited in his scope of action.
- The investor does not have direct control over portfolio management, which may lead to differences with the investor’s expectations.
- The management of a UCI is remunerated by a management fee, which is usually supplemented by an entry and exit fee.

RISKS OF INVESTING IN A UCI

- **Market risk**
  UCIs are exposed to all the risks inherent to the financial assets (shares, bonds and other transferable securities) used in portfolio management.

- **Management risk**
  The income generated by fund units depends, among other things, on the quality of fund managers' decisions. The client has no influence on the investment decisions and investment policy applied by the manager. Poor management decisions can lead to a drop in NAV.

- **Currency risk**
  Some of the UCI's investment positions may be denominated in currencies other than the currency in which the units of the fund are issued. Fluctuations in exchange rates can therefore lead to a loss in value.

- **Liquidity risk**
  Units may only be redeemed on the dates set out in each fund's prospectus. A fund may be quoted on a daily, weekly, monthly or other basis.

- **Risk related to the country of domicile**
  The quality of prudential supervision and the legal framework may vary from one country to another.

EXCHANGE-TRADED FUNDS (ETFs)

DEFINITION AND CHARACTERISTICS

An ETF is an exchange-traded fund that replicates the performance of an underlying asset, such as a bond, index, commodity or basket of assets (e.g. an index fund). An ETF is not intended to outperform the market.

- **Physical ETFs**
  Physical ETFs replicate the target indices by purchasing the underlying securities that make up the index. There are two forms of replication:

  (i) Firstly, holding 90% or more of the index.

  (ii) Secondly, holding a representative sample of the index.

- **Synthetic ETFs**
  Synthetic ETFs track the performance of an index through derivatives. In this case, the intrinsic value of the ETF is not deducted from direct lines as in the case of physical ETFs but instead derives from a swap contract between the management company and a counterparty (often an investment bank). The counterparty is expected to provide the exact performance of the index that the ETF tracks.

ADVANTAGES

- ETFs replicate the performance of illiquid markets, for which direct investment is not possible or would generate high costs.
- ETFs allow for very broad diversification by allowing the investor to hedge an entire market instead of selecting individual securities.
- ETFs generally have lower fees than UCIs.

DISADVANTAGES

- No possibility of outperforming the reference index.
- ETFs do not provide a stable and/or guaranteed income; income varies according to the performance of the reference index.

RISKS OF INVESTING IN ETFS

- **Risk related to the index**
  You should be familiar with the characteristics of the index in which you invest, i.e. its composition, the context of the country or countries involved, its liquidity, etc.

- **Counterparty risk**
  Synthetic ETFs are subject to counterparty risk, i.e. the risk that the investment bank will no longer be able to honour the commitments set out in the swap agreement.

- **Tracking Error risk**
  ETF performance may differ slightly from the performance of the reference assets.

- **Systematic risk**
  An ETF is fully exposed to systematic risks (e.g. sector, country, geographic region, etc.).

STRUCTURED PRODUCTS

DEFINITION AND CHARACTERISTICS

Structured products generally combine derivatives such as options with more traditional assets such as stocks or bonds, either to reduce or eliminate the risk associated with certain financial instruments or to improve investment returns. A structured product often consists of a 'low-risk and return' component, e.g. a bond product, and a 'higher-risk and return' component (a derivative, a share, an index, currencies or commodities) to improve performance. The price of a structured product is defined by the value of its underlying assets.

ADVANTAGES

- Structured products can be tailored to the needs of individual investors (e.g. income structure, product mix, etc.).
- Structured products can provide access to generally less accessible asset classes (e. g. gold or oil).
- Portfolio diversification is facilitated without the investor having to buy all components of the reference index.
- A structured product can achieve a positive performance even if markets do not move or are on a downward trend.

DISADVANTAGES

- The disadvantages associated with structured products are product-specific and are generally detailed in the Key Information Document (KID) of the product in question. You should therefore consult this document before investing in the structured product or seek relevant advice from an advisor
- The complexity of structured products makes it more difficult to understand them.

RISKS OF INVESTING IN STRUCTURED PRODUCTS

A structured product is subject to the same risks as the various financial instruments that make up the product.

- **Issuer risk**
  The entire investment may be lost in the event of default by the issuer. The issuer generally guarantees a fair value price and the liquidity of the product.

- **Market risk**
  Investors in structured products are subject to the market risk of the underlying assets that make up the product.

- **Currency risk**
  Any transaction in a foreign currency is subject to exchange rate risk when converted to local currency.

- **Liquidity risk**
  High volatility of the underlying asset may mean that the price obtained in the event of a sale differs from the real value of the product.

- **Early repayment risk**
  When the product is created, the issuer can define the possibility of an early redemption, i.e. a 'call'. The issuer therefore reserves the right to redeem the product in question early.

DERIVATIVES

DEFINITION AND CHARACTERISTICS

Broadly speaking, in return for the payment of a premium, a financial derivative makes it possible to position oneself to buy or sell an asset at a certain price, within a certain period of time or at a predetermined term. It is a contract between two parties, the buyer and seller. The value of a derivative thus depends on changes in the price of its underlying asset. This may be a share, an exchange rate, a commodity, a bond or an index.

Derivatives were originally designed to protect companies against price fluctuations, e.g. the prices of raw materials used in their production, but can also be used for speculative or arbitrage purposes. Derivatives are reserved for knowledgeable investors with experience and knowledge of the subject.

- **Options**
  A distinction is made between call and put options. In both cases, there is a firm commitment between two parties whereby the purchaser of the option has the right – but not the obligation – to buy (call) or sell (put) a financial asset within a certain period of time or on a date known in advance at a predetermined price (strike).

There are 2 types of option:

(i) American-style options are exercisable at any time until their expiry.

(ii) European-style options are exercisable only on the expiry date.

The holder of a call option buys the underlying asset and the holder of a put option sells the underlying asset.

- **Warrants**
  A warrant is a negotiable stock exchange security which confers the right to buy (call) or sell (put) a fixed quantity of securities (known as underlying products) at a price fixed in advance (strike price = price at which the right attached to the warrant may be exercised) and for a fixed period of time, and this in return for the payment of a premium (= call/put warrant price) calculated on the basis of the purchase price and the trading quantity.

  Once the expiry date has passed, the right attached to the warrant loses all its value. A warrant is subject to a leverage effect that increases as the remaining life period decreases. In other words, if the price of the underlying interest falls, the value of the warrant decreases disproportionately.

- **Subscription warrants**
  A subscription warrant is an instrument (standalone or attached to a share or bond) entitling its holder to subscribe for a share or bond at a predetermined price and until a specified date. The issuance of warrants is linked to the creation of new securities. The price generally fluctuates with a high leverage effect depending on the price of the underlying asset.

- **Futures**
  A futures contract is an exchange-traded futures contract that unconditionally commits both parties to buy or sell the financial product to which it relates, at a price and on a date fixed in advance.

ADVANTAGES

- A derivative is used to hedge against the risk of price fluctuations in the underlying product. This underlying product may be an interest rate, an exchange rate, commodity, etc.
- Because of the leverage effect inherent in derivatives, these instruments can generate very high returns.
- A derivative allows arbitrage, which consists of buying and selling a similar or identical product simultaneously in different markets or in different forms. An investor can thus make a capital gain through price differences due to market inefficiency.

DISADVANTAGES

- Derivatives are closely linked to an underlying product and are therefore subject to the same risks as the underlying product. The volatility related to the underlying product affects the performance of the derivative.
- Due to the leverage effect inherent to derivatives, even minor variations in the price of the underlying product can lead to significant losses.
- When the market moves in the wrong direction, the investor's losses can far exceed the initial investment.
- The complexity of derivatives can lead to uncertainty when quantifying risks.

MAIN RISKS OF INVESTING IN DERIVATIVES

The following explanations about derivatives and their inherent risks are not exhaustive.

- **Counterparty default risk**
  The holder is exposed to counterparty default risk if the counterparty is no longer able to meet its obligations to the investor. Depending on changes in the price of the underlying product, the counterparty may be obliged to make available the difference between the market price of the underlying asset and the strike price set in the contract (margin calls).

- **Partial or total loss risk**
  Due to the leverage effect inherent to derivatives, even minor variations in the price of the underlying product can lead to significant losses.

- **Liquidity risk**
  This occurs when the derivative is settled before maturity. The difference between the selling price and the purchase price can increase significantly, which impacts the liquidity of the product.

- **Market risk**
  The investor may suffer capital losses as a result of adverse market developments. A large number of variables such as the risk-free interest rate, volatility, economic situation, etc. can influence the value of the investment.

- **Tax risk**
  Derivatives may be subject to higher taxation than other financial products. Tax legislation varies according to the country of residence.

- **Exchange rate risk**
  Any transaction in a foreign currency is subject to exchange rate risk when converted to local currency. This mainly concerns foreign exchange forwards and transactions involving foreign currencies. The prices of these forward contracts are influenced by exchange rates and interest rates in the various currencies at a certain point in the future.

PRECIOUS METALS

These are physical or banked products (e.g. gold or silver) that can be traded on the secondary market. Return on investment is based on the evolution of their price.

ADVANTAGES

- Precious metals can provide more diversification for an investor's portfolio.
- Precious metals can be used as a hedge against inflation or market uncertainty.
- Precious metals are tangible.

DISADVANTAGES

- The physical holding of precious metals can be risky (theft, fire, storage, etc.).
- Precious metals are subject to price fluctuations, so the value of the investment can vary significantly.
- Precious metals do not provide a steady return.

RISKS OF INVESTING IN STRUCTURED PRECIOUS METALS

- **Price fluctuation risk**
  Precious metals are subject to market fluctuations. The decisions of producers, consumers, precious metals traders and investors as well as geopolitical uncertainties strongly influence supply and demand.

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Dudelange 24 50-71 00
Echternach 24 50-49 30
Esch/Alzette 24 50-14 00
Ettelbruck 24 50-31 00
Grevenmacher 24 50-38 00
Junglinster 24 50-49 00
Kayl 24 50-71 40
Leudelange 24 50-67 00
Luxembourg-Gare 24 50-66 00
Luxembourg-Kirchberg 24 50-18 00
Luxembourg-Limpertsberg 24 50-12 00
Luxembourg-Merl 24 50-68 00
Luxembourg-Ville 24 50-21 00
Mamer 24 50-63 00
Marnach 24 50-52 50
Mersch 24 50-13 80
Mondorf-les-Bains 24 50-53 00
Niederanven 24 50-51 00
Pétange 24 50-17 00
Redange/Attert 24 50-60 40
Remich 24 50-70 00
Saeul 24 50-60 70
Sandweiler 24 50-51 50
Soleuvre 24 50-41 20
Steinfort 24 50-63 70
Strassen 24 50-16 00
Walferdange 24 50-15 00
Wasserbillig 24 50-38 50
Weiswampach 24 50-52 70
Wiltz 24 50-44 00
Wincrange 24 50-52 00

For more information, visit **www.raiffeisen.lu**

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