INVESTOR GUIDE

Raiffeisen

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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 financial and ESG characteristics, advantages and drawbacks and the related financial and ESG risks.

Any investment decision presupposes that the investor has a good knowledge of the characteristics of the investment product, its advantages and disadvantages and the associated risks. All investments involve 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.
The information in this guide is provided for information purposes only and may not be regarded as exhaustive or as an offer by Banque Raiffeisen; information and contractual data on profit units are published exclusively in the official documentation of Banque Raiffeisen.

INVESTOR PROFILE

Before determining an investment policy or an investment guideline tailored to your needs and expectations, it is important to know your investor profile. To do this, it is necessary to ask yourself the right questions:

YOUR PERSONAL SITUATION

Your investor profile should match your personality, financial and family situation, investment experience and knowledge, and your investment objectives.

YOUR FINANCIAL SITUATION

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

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 SUSTAINABILITY PREFERENCES

Your sustainability preferences can influence your investment decisions. You should therefore ask yourself the following questions:

- To what extent do you want to invest in ESG products and services?
- What proportion of your portfolio do you want to invest in ESG products and services?

YOUR PROFILE

After a thorough assessment of your situation, your objectives and your needs, we will define the investment policy / investment guidelines that correspond to your investor profile together.

Thus, depending on the services offered by the Bank, your portfolio will be constituted according to :

- The duration of your investment
- Your return expectations
- Your risk appetite
- Your sustainability preferences.

Generally speaking, the level of risk and expected return 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

	Level of preference in sustainability		
Sustainability preferences	**Low**	**Medium/ High**	**Very high**
ESG only			●
ESG preferred		●	
ESG neutral	●		

In the case of a joint account, the Bank takes into account the highest sustainability preferences of the joint account holders to determine the investor profile.

PRACTICAL APPLICATION

RISK LEVEL				
VERY LOW RISK **Conservative** Investment profile **(5)**	**LOW RISK** **Defensive** Investment profile **(4)**	**MEDIUM RISK** **Balanced** Investment profile **(3)**	**HIGH RISK** **Dynamic** Investment profile **(2)**	**VERY HIGH RISK** **Agressive** Investment profile **(1)**
Typical investor's objective ▪ Looks for a return established in advance or close to the money market return ▪ 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 ▪ Stills 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 ▪ Accept 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 market trends ▪ Accept 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**
INVESTMENT HORIZON				
1-3 years	3-5 years	5-7 years	7-10 years	> 10 years
KNOWLEDGE REQUIRED				
Basic	←		→	**Very significant**
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, shares	Mainly share-based instruments, bond instruments and equivalents, SICAV, precious metals, shares

R-CONSEIL & R-INVEST: MAXIMUM THRESHOLDS PER ASSET CLASS					
	Investment policy **Conservative**	Investment policy **Defensive**	Investment policy **Balanced**	Investment policy **Dynamic**	Investment policy **Agressive**
Cash*	100%	100%	100%	100%	100%
Bonds*	80%	100%	100%	100%	100%
Shares*	0%	30%	50%	70%	100%
Structured products	20%	30%	50%	70%	100%
Alternatives*	20%	30%	50%	70%	100%
Other**	20%	30%	50%	70%	100%
R-GESTION: ELIGIBLE DIRECTIVES (more information on the R-GESTION flyer available on the internet)					
Defensive		●	●	●	●
Balanced			●	●	●
Flexible			●	●	●
Sustainable			●	●	●
Dynamic				●	●
Agressive					●
R-PLANINVEST & R-PENSION: ELIGIBLE PRODUCTS					
SRI***	1	1-2	1-3	1-4	1-7

*Also in the form of investment funds
**E.g. precious metals
*** Summary Risk Indicator: A risk indicator ranging from 1 to 7, reflecting market risk and, where applicable, credit risk. This indicator is mentioned in the Key Information Document (KID).

PRACTICAL APPLICATION - SUSTAINABILITY PREFERENCES

In the context of investment advice, your advisor is limited to selecting products from a list established by our specialists and validated by the Comité de Produits d'Investissement (« CPI »). However, a distinction is made between ESG and non-ESG products. Today, the Bank considers a product to be ESG when it is recognised as such by a recognised entity and/or on the basis of its SFDR classification.

- ESG investment funds and ETFs (Exchange Traded Funds):
  - Funds classified as «Article 9» (with a defined sustainability objective) under the SFDR regulation.

    or
  - Funds classified as «article 8» (promoting ESG characteristics) in the sense of the SFDR regulation and having a label issued by LuxFlag (ESG, Environment) or Febelfin (Towards Sustainability).
- Bonds: ICMA Green Bond & Social Bond Principles and ICMA Sustainability Bond Guidelines
- Structured products: Structured products are currently not considered as ESG.
- Equities: N/A (the Bank does not provide investment advice on equities)

Thus, we have a transparent process for classifying a product as ESG. These products are clearly highlighted on our selection lists, which your advisor uses as part of an investment advice, where you are informed about the ESG nature of the product.

	LEVEL OF SUSTAINABILITY PREFERENCES		
	Low sustainability preference **ESG neutral**	Medium / high preference for sustainability **ESG preferred**	Very high sustainability preference **ESG only**
	Objective of the investor type ▪ Sustainability is not a main concern, financial return is the primary objective	**Objective of the investor type** ▪ Sustainability plays a certain role when investing, but financial performance remains an important element	**Objective of the investor type** ▪ Sustainability plays a key role in investment, extra-financial performance is paramount
	R-CONSEIL & R-INVEST : ELIGIBLE PRODUCTS*		
	No restrictions on products	The percentage of products considered ESG must increase or be maintained after each advice as long as the minimum proportion of ESG products sought by the client is not reached. Once the minimum proportion of ESG products has been reached, there are no further restrictions on the products.	Only products considered ESG
	R-GESTION: ELIGIBLE DIRECTIVES (more information on the R-Gestion flyer available on the internet)		
Defensive	●	●	
Balanced	●	●	
Flexible	●		
Sustainable	●	●	●
Dynamic	●	●	
Agressive	●	●	
	R-PLANINVEST : ELIGIBLE PRODUCTS		
	No restrictions on products	At least one ESG product per investment plan	Only products considered ESG
	R-VIE PENSION		
	Customers' sustainability preferences will be taken into account as soon as the Bank has ESG products eligible for R-Vie Pension		

SUSTAINABILITY BASICS

SUSTAINABILITY-RELATED CONCEPTS

Climate change and environmental degradation are only a few examples of the main areas covered by sustainability and pose an existential threat to Europe and the whole world. Other related issues are clean air and nontoxic atmospheric conditions, growth of resources that can be relied upon, and water quality and cleanliness.

Sustainability-related initiatives and conferences already date back to before the year 2000. The first COP (Conference of the Parties) meeting was held in Berlin, Germany in March 1995. Then in 1997, the UNFCC (United Nations Framework Convention on Climate Change) put forward the first treaty for countries to limit their greenhouse gases – the Kyoto protocol. Unfortunately, yet unsurprisingly, it didn't meet its goals and greenhouse gas outputs increased instead of decreased. In 2015, nearly every country signed the Paris Agreement, a legally binding successor to the Kyoto protocol, to try and limit global warming to 1.5°C.

In the same year, the 17 Sustainable Development Goals (SDGs) were adopted by the 193 member countries of the United Nations. They are a global call to action to end poverty, protect the planet and ensure that all people live in peace and prosperity by 2030. The 17 SDGs are integrated—they recognize that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.

Each circle in the diagram below captures the SDGs across 3 Environmental, Social and Governance (ESG) perimeters.

In order to overcome the challenges related to sustainability, the European Green Deal got first presented in 2019 in front of the European Commission and aims to transform the EU into a modern, resource-efficient and competitive economy, ensuring:

- no net emissions of greenhouse gases by 2050
- economic growth decoupled from resource use
- no person and no place left behind

Consequently, the European Commission has adopted a set of proposals to make the EU's climate, energy, transport and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels. Sustainable finance plays an essential role in this set of proposals.

WHAT IS SUSTAINABILITY?

Sustainability has been defined in 1987 by the UN Brundtland Commission as "meeting the needs of the present without compromising the ability of future generations to meet their own needs". Sustainability often refers to the so-called "Triple bottom line" or the 3 P's: People, Planet and Profit.

WHAT IS ESG?

ESG stands for Environmental, Social and governance and is a quantifiable assessment of sustainability and business practices that considers the needs of all stakeholders (e.g., employees, customers, suppliers, ...)

WHAT IS SUSTAINABLE FINANCE?

In the EU's policy context, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects. Sustainable finance also encompasses transparency when it comes to risks related to ESG factors that may have an impact on the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.

WHY IS SUSTAINABLE FINANCE IMPORTANT?

Sustainable finance has a key role to play in delivering on the policy objectives under the European green deal as well as the EU's international commitments on climate and sustainability objectives. It does this by channelling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and fair economy, as a complement to public money.

The European Union strongly supports the transition to a low-carbon, more resource-efficient and sustainable economy and has been at the forefront of efforts to build a financial system that supports sustainable growth.

WHAT IS A SUSTAINABLE INVESTMENT?

A sustainable investment is an investment:

- in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy,
- or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations,
- or an investment in human capital or economically or socially disadvantaged communities,
- and provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

WHAT IS A SUSTAINABILITY RISK?

A sustainability risk means an environmental, social or governance event or condition that, if occurs, could cause a negative material impact on the value of the investment.

WHAT IS A PRINCIPAL ADVERSE IMPACT?

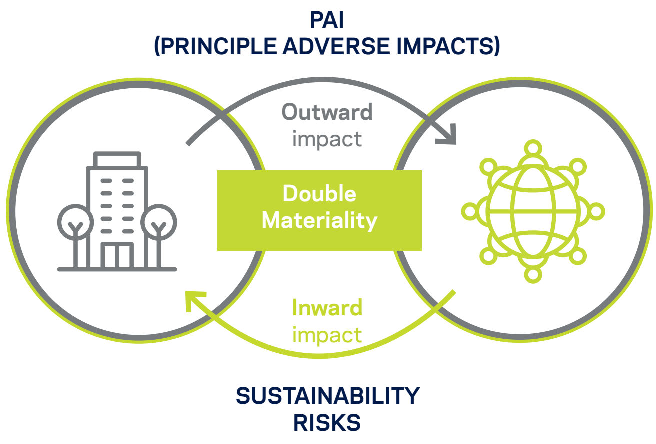
A Principal Adverse Impact (PAI) is any impact of investment decisions or investment and insurance advice that results in a negative effect on sustainability factors, such as environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters.

WHAT ARE SUSTAINABILITY FACTORS?

Sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. The inclusion of sustainability factors in the investment decision-making and advisory process can bring benefits beyond the financial markets. It can enhance the resilience of the real economy and the stability of the financial system.

WHAT IS DOUBLE MATERIALITY?

This means that companies are affected not only by how sustainability issues might create financial risks for the company (financial materiality=sustainability risks), but also on the company's own impacts on people and the environment (impact materiality=principle adverse impacts).



WHAT ARE PHYSICAL AND TRANSITION RISKS?

A **physical risk** refers to the financial impact of climate change, including more frequent extreme weather events and gradual changes in climate, as well as environmental degradation, such as air, water and soil pollution, water stress, biodiversity loss and deforestation. Physical risk is categorized as «**acute**» when it results from extreme events, such as droughts, floods and storms, or «**chronic**» when they result from progressive changes, such as increasing temperatures, sea level rise, water stress, loss of biodiversity and resource scarcity. This can lead directly to property damage or reduced productivity, or indirectly to subsequent events, such as disruption of supply chains.

A **transition risk** refers to the potential costs to society of evolving to a low carbon economy to mitigate climate change. It can be triggered, for example, by a relatively abrupt adoption of more stringent climate and environmental policies, technological progress, or changes in market sentiment and preferences.

WHAT IS CLIMATE CHANGE MITIGATION AND ADAPTATION?

Mitigation means making the impacts of climate change less severe by preventing or reducing the emission of greenhouse gases (GHG) into the atmosphere. Mitigation is achieved either by reducing the sources of these gases — e.g., by increasing the share of renewable energies, or establishing a cleaner mobility system — or by enhancing the storage of these gases — e.g., by increasing the size of forests. In short, mitigation is a human intervention that reduces the sources of GHG emissions and/or enhances the sinks.

Adaptation means anticipating the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause, or taking advantage of opportunities that may arise. Examples of adaptation measures include large-scale infrastructure changes, such as building defences to protect against sea-level rise, as well behavioural shifts, such as individuals reducing their food waste. In essence, adaptation can be understood as the process of adjusting to the current and future effects of climate change.

WHAT ARE THE KEY MEASURES TAKEN TO FOSTER SUSTAINABLE FINANCE?

- **Corporate Sustainability Reporting Directive (CSRD)** = requires large companies and listed companies to disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment. This helps investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies.
- **EU Taxonomy** = To achieve the EU's climate and energy targets, a common language and a clear definition of what is 'sustainable' is needed. The "EU taxonomy" is a common classification system for sustainable economic activities.
- **Sustainable Finance Disclosures Regulation (SFDR)** = To enhance transparency and inform end investors, the SFDR requires financial market participants (banks, insurers, investment firms, pension institutions, fund managers…) and financial advisors
  - on one hand, to integrate relevant sustainability risks in their investment decision making process (Article 6 SFDR)
  - on the other hand, to consider and to report a set of mandatory and additional opt-in principal adverse impacts indicators (PAI indicators) and metrics at the entity level (Article 4 SFDR) and at product level (Article 7 SFDR).
- **Markets in Financial Instruments Directive (MiFID) amendments** = European legislation that requires investment firms and banks operating across the European Union's financial markets to provide investment services transparently to facilitate fair competition. MiFID suitability requirements which aim to ensure that clients' objectives, risk, time horizons and other individual requirements are taken into account by firms prior to investment advice/decisions, will be amended to require that firms also take into account clients' ESG preferences.

WHAT ARE SFDR ARTICLE 6, 8 OR 9 PRODUCTS?

Every product under SFDR should integrate sustainability risks or provide an explanation if they do not, in accordance with the "comply or explain" philosophy.

- An article 6 product means a financial product that does not promote Environmental/Social (E/S) characteristics, that does not have as its objective sustainable investment and consequently that does not meet the definition of Articles 8 and 9 SFDR.
- Article 8 product means, as per the SFDR, a financial product that promotes E/S characteristics. Those products integrate ESG into their strategy and process and promote environmental and/or social characteristics. If those products invest in companies, they must follow good governance practices. Such promotion may for example include screening out certain investments based on ESG criteria or considering ESG ratings when making investment decisions. While those products do not have a sustainable investment objective, they may have a pocket of sustainable investments.
- Article 9 product means, as per the SFDR, a financial product that has a sustainable investment objective. ESG considerations are a key element of the investment strategy and process. Furthermore, only sustainable investments are made (cf. definition of "sustainable investment"). An example of a sustainable strategy is impact investing, with the aim to have a measurable positive impact on society.

WHAT IS A TAXONOMY-ALIGNED INVESTMENT?

Taxonomy alignment refers to an eligible economic activity that is making a substantial contribution to at least one of the climate and environmental objectives, while also doing no significant harm to the remaining objectives and meeting minimum standards on human rights and labour standards.

INFORMATION REQUIRED UNDER ARTICLE 6 SFDR FOR THE INVESTMENT ADVICE (R-INVEST & R-CONSEIL) OF BANQUE RAIFFEISEN

HOW ARE SUSTAINABILITY RISKS INTEGRATED AND WHAT ARE THE RESULTS OF THE ASSESSMENT OF THE LIKELY IMPACTS OF SUSTAINABILITY RISKS ON THE RETURNS OF THE FINANCIAL PRODUCTS?

The integration of sustainability risks is independent of the ESG ambition of the advised financial products. No advice is provided on products not mentioned below.

For the funds (UCITS – Undertakings for Collective Investment in Transferable Securities), the Bank's Investment Desk verifies that sustainability risks are integrated based on the information which manufacturers of financial products are required to disclose according to Article 6 SFDR in their prospectus. In case of missing information, the Bank's Investment Desk may engage with manufacturers of financial products to understand how they currently undertake the integration of sustainability risks. If sustainability risks are currently not integrated and not planned to be integrated in a reasonable period of time (12 months), those products cannot be advised.

At the level of ETFs, the Bank considers that sustainability risks are only relevant when the ETF replicates a benchmark that includes ESG characteristics. In this case, the approach adopted for funds is applied.

We deem sustainability risks to be relevant for structured products and bonds as well, but we are currently not considering them. The Bank is looking for a solution to integrate those risks.

Additional information and disclosures related to SFDR are available on our dedicated webpage:
https://www.raiffeisen.lu/en/private/sustainability/information-about-sustainability

BONDS

DEFINITIONS 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 BOND:

- **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.

- **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 on 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

DEFINITIONS 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' expecta-tions, 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 gener-ally 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 curren-cies may reduce this risk.

UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCI)

DEFINITIONS 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 differs 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)**

DEFINITIONS 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

DEFINITIONS 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 perfor-mance.
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

DEFINITIONS 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 under-ly-ing 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.

PROFIT UNITS

DEFINITION AND CHARACTERISTICS

Profit Units issued by Banque Raiffeisen are securities which do not form part of its share capital. While they are similar to equity securities due to the rights they confer (e.g. voting rights on certain subjects at shareholder meetings), they also have similar characteristics to debt securities. The Profit Units are perpetual and generally non-redeemable. If the Bank becomes insolvent or is wound up, the redemption of the Profit Units is subject to the prior repayment of the Bank's other debts, which shows their similarities with subordinated debt.

VARIABLE REMUNERATION

The rate of distribution cannot exceed the arithmetic average of the key interest rate for deposit facilities published by the European Central Bank over the last three calendar years preceding the date of the relevant decision of the board of directors, increased by an amount of 4 % (the "**Distribution Rate**"). This payment may only be distributed if (i) there are distributable profits and (ii) the Bank's Board of Directors decides to make such a distribution.

ISSUE PRICE AND PRICE FLUCTUATIONS

The issue price and nominal value of a Profit Unit is €25. This value is set by the Bank's articles of association. The minimum amount that may be subscribed for is €1,000, equivalent to 40 Profit Units. The amount subscribed for must be paid in full at the time of subscription. The Profit Units are not listed and are not therefore subject to the uncertainties of the financial markets.
If a trigger event occurs (i.e. the Bank's equity falls below a certain threshold, namely 5.125% of Common Equity Tier 1 - CET1), the Bank shall be required to irrevocably reduce the nominal value of the Profit Units.

TRANSFER AND REDEMPTION

The Profit Units are non-transferable except where inherited, are also perpetual and are generally non-redeemable. Unlike the Bank's shares, the Profit Units may be redeemed early only at the Bank's discretion five years after their issue, subject, inter alia, to the CSSF's prior approval. The CSSF's prior approval is not guaranteed. The Bank reserves the right to redeem all the Profit Units under certain conditions, including in the event of a change in tax legislation.

VOTING RIGHTS

Holders of the Profit Units have the right to attend the bank's shareholder meetings. However, they are only authorised to vote when the rights attached to the Profit Units they hold are affected by the resolution of the shareholder meeting. In such circumstances, each Profit Unit represents one vote.

BENEFITS

- Holders can contribute to the growth of the Bank and to the development of the regional economy;
- The value of the Profit Units is fixed and independent of the financial markets. However, their value may be reduced if a trigger event occurs;
- The profit Units can contribute to diversification of the investor's portfolio in a way that is specific to cooperative banks;
- Potentially interesting remuneration. This is calculated based on the ECB's average reference rate applicable to deposit facilities during the last three calendar years, increased by a maximum margin of 4%;
- Minimum outlay of 1,000 euros;
- No transaction fees or custody charges.

DRAWBACKS

- There is no maturity date and the Profit Units are in principle perpetual; no redemption is possible for the first 5 years. Redemption is subject to strict conditions, without guarantee and at the Bank's discretion;
- The investor must meet certain criteria defined by the Bank;
- The Profit Units are non-transferable except in the event of death;
- No guaranteed returns.

RISKS LINKED TO INVESTING IN PROFIT UNITS

- **Risk of partial or total capital loss (insolvency risk) and subordination ranking**
  - A trigger event may cause the nominal value to fall to zero. This reduced value will be the "redeemable" value if the Bank becomes insolvent or is wound up;
  - Holders of the Profit Units will receive repayment before holders of the Bank's shares but after the Bank's other creditors. Holders of the Profit Units rank below the Bank's other creditors.

- **Risk that returns are not guaranteed**
  - The return on the Profit Units is subject to the existence of distributable profits, a decision by the Bank's Board of Directors to make such a distribution, compliance with applicable regulatory requirements and the non-cancellation of that distribution as a result of a discretionary decision by the Bank's Board of Directors to this effect, or the absence of mandatory cancellation of the distribution for regulatory reasons.

- **Liquidity risk**
  - The Profit Units are non-transferable except where inherited and are not redeemable at the request of holders.

- **Early redemption risk**
  - Early redemption is possible at the Bank's discretion, five years after the issue, subject, inter alia, to the CSSF's prior approval.

For more information, go to www.raiffeisen.lu.

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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