

Information brochure

Information on risks related to transactions on standardised and non-standardised structured products and derivatives and on investment vehicles involving special risks (“Special Risks Associated with Derivatives Transactions”)

Made available by the Bank Bordier & Cie (hereinafter referred to as **Bordier & Cie** or the "**Bank**").

This document provides further non-exhaustive information on the Guidelines on the Risks Involved in Trading Financial Instruments published by the Swiss Bankers Association. The Bank encourages the Client to also check the documentation on the special risks surrounding the financial instruments mentioned, available online.

In addition, the Bank draws the Client's attention to the fact that each financial instrument involves its own special risks, which must be analysed in-depth prior to buying or selling.

1. Standardised and non-standardised derivatives

1.1 Description of transactions

- a) Standardised and non-standardised derivatives are financial contracts with prices that fluctuate based on underlying assets such as equities, bonds, commodities and precious metals; reference values such as exchange rates, interest rates and stock market indexes; or the occurrence of a credit event. Options, forward transactions and structured products also fall within the derivatives category. These financial instruments may be exchange-traded or OTC-traded (over-the-counter), and come with their own particular characteristics in terms of volatility and liquidity.
- b) Transactions on standardised derivatives are transactions on the purchase and sale of options (futures and traded options) for standardised forward contracts (futures, forwards, swaps) and standardised structured products, the particularities of which are set by organised markets (hereinafter referred to as "Exchange-traded Transactions").
- c) Transactions on non-standardised derivatives are transactions on derivatives that are not exchange-traded or traded on any other organised market, in which specific characteristics are:
 - Agreed on, on a case-by-case basis, between the contracting parties: Options, forwards, swaps (hereinafter referred to as "OTC Transactions"), or
 - Determined by the product issuer: a range of different forms exist, such as certificates, notes, warrants, structured bond

1.2 Risks

Risks related to derivatives, both standardised and non-standardised, can not only impact the value fluctuations of a derivative instrument, but also result in significant losses for the Client.

These risks differ from those linked to traditional investments in equities, bonds, or collective investment vehicle shares, as well as risks resulting from direct investment in the underlying in question.

The Client acknowledges that he/she understands and accepts the high-risk potential, and/or complex risk profile, related to derivatives.

The risks related to Exchange-traded Transactions and OTC Transactions include the following :

- When buying an option: full loss of the premium paid.
- When selling an option:
 - o The leverage effect inherent to these transactions, which allows for taking significant investments with limited starting capital;
 - o The obligation to buy or sell assets at the price determined in the option, which can substantially differ from the market value or to make balancing payments corresponding to the difference;
 - o Responding to margin calls that may be substantial and required within a very limited time-frame, or running the risk that the position may be closed and that all or some assets held on account may be sold at an inopportune moment;
 - o The fact that margin call requests or that the sale of all or some assets held on account take place without the Client's interests being taken into account;
 - o The full loss of the account balance, and potentially the requirement that an additional payment to the bank shall be made if the positions that are liquidated result in loss that cannot be covered by the realisation of the assets held on account; and
 - o The risk of delivery (i.e. being required to make or take delivery) of the underlying of the transaction.
- In cases of forward transactions (forwards, futures and swaps in particular): the aforementioned risks may occur outside of the obligation to buy or sell assets at the predetermined price, where the transaction is closed by an offsetting transaction before the end date, with significant loss, as the case may be;
- The volatility of derivatives prices, which can sometimes be significant, and their liquidity, which can be restricted;
- When derivatives are recorded with a central clearing system, the risks – particularly operational and solvency-related risks – related to the involvement of third parties (particularly brokers, central systems, clearing agents and markets).

OTC Transactions are subject to the following risks:

- I. **Lack of transferability and tradeability:** in principle, they can only be liquidated via an offsetting transaction made with the same counterparty, or by transferring transactions to third parties with the agreement of all parties;
- II. **Lack of market and price transparency:** contractual specifications are set on a case-by-case basis between Bordier and the counterparty, and there is no organised market via which to trade transactions and set prices;
- III. **Credit risk and counterparty-related risk:** transactions are made directly between Bordier and the counterparty, with no central clearing system intervening. Consequently, when Bordier acts on the Client's behalf, the latter runs the risk of the OTC Transaction counterparty defaulting;

- IV. **Adjustment risk:** the value of the Client's positions may be negatively impacted by calculations made by the markets or by Bordier's or the Client's counterparties in the context of hedging transactions, and;
- V. **Clearing risk:** in order to mitigate credit risk, Bordier may be required to sign framework contracts with counterparties that use netting mechanisms which may lead to full liquidation of all existing transactions at a given time. These mechanisms may also lead to some transactions undergoing advance liquidation at an inopportune moment for the Client. Furthermore, Bordier can make transactions with multiple different counterparties. In this case, the profit generated by netting for Bordier, and consequently for the Client, may be significantly restricted in the event that only transactions made with a given counterparty are liquidated. The Client will only enjoy limited benefits related to netting mechanisms, or may not benefit from them at all if one or several transactions liquidated with a given counterparty only account for a percentage of all OTC Transactions made under the terms of this document.

The Client acknowledges and accepts that for all transactions that include options, and in particular OTC Structured Products:

- Offers in terms of price, risk structure and payment may differ from one establishment to the next, and these instruments' price and the Client's profit opportunities are notably impacted by the payment that Bordier may receive from the issuer. The Bank wishes to draw the Client's attention to Article XXX of the General Terms and Conditions;
- Appreciation of a product's intrinsic value is dependent on mathematical models, and the product's price may differ from its intrinsic value;
- Reselling a structured product can be difficult, or may only be possible when given a different value from that specified by Bordier on the Client's statements;
- There is an insolvency risk for structured product issuers.

Derivatives may also carry a legal risk when contracts are concluded/entered into in jurisdictions where authorities only conduct limited monitoring, or where no regulatory monitoring of either the derivative instrument or the issuer is carried out, thereby resulting in less effective protection for investors, and higher risks, particularly with regard to counterparty risk.

2. Investments in higher risk collective investment vehicles such as hedge funds, funds of hedge funds, private equity funds, offshore funds and real estate funds

2.1 Description of Funds

Hedge funds are collective investment vehicles, irrespective of their legal form, country of incorporation and investment strategy, that rely on non-traditional investment techniques such as the use of derivatives, short sales and/or borrowing. As a general rule, these funds have a high degree of leverage.

Funds of hedge funds are collective investment vehicles, irrespective of their legal form or country of incorporation, that invest in hedge funds.

Private equity funds are collective investment vehicles, irrespective of their legal form or country of incorporation, that invest in companies that are not listed on the stock exchange nor traded on another organised market, and which are not liquid.

Offshore funds are collective investment vehicles, irrespective of their legal form or investment strategy, that are registered in countries that do not offer the same level of collective investment monitoring as Switzerland.

Real estate funds are collective investment vehicles, irrespective of their legal form or country of incorporation, that directly or indirectly invest in real estate.

2.2 Risks

These risks are detailed in the Swiss Bankers Association's "Special Risks in Securities Trading" brochure. They include the following:

- I. **Financial risk:** these Funds generally require high minimum investment and involve significant financial risk, including the full loss of invested assets. Fund fee structures are generally more complex and result in higher fees than for traditional investments. Past performance is no guarantee of current or future results.
- II. **Furthermore, Funds may still be in the development stage, and may not yet yield profits.** They can be highly vulnerable to technological developments, commodity prices and the environment within which they operate. For these reasons, it is possible that some Funds may never yield any profit at all, and may indeed lose all funds available to them.
- III. **Legal risk/Lack of monitoring:** Funds can be set up in jurisdictions where authorities only conduct limited monitoring, or where no regulatory monitoring is carried out, and where there are no or poor requirements in terms of accounting and transparency, thus offering less effective protection of investors' interests. In addition, some Funds require the investor to put forward significant guarantees prior to subscription.
- IV. **Operational risk:** for some Funds, the operational systems and control procedures in place may be weak or unsuitable for their purpose, potentially resulting in losses. Risks may also emerge as a result of a lack of transparency in the investments made. When investments are made indirectly, counterparty risks (administrators, investment vehicle depositories, prime brokers) must also be taken into account.
- V. **Lack of liquidity:** the investments made by some Funds can be illiquid and may not allow for repayments to be made in the required time-frame (delay in executing repayment orders) or may only allow for them to be partially made (use of side pockets). In addition, Funds generally provide for long subscription and repayment time-frames, as well as periods in which shares cannot be repaid (lock-up periods). In some cases, particularly in the case of private equity funds, the lock-up period can span several years.
- VI. **Risk related to evaluation:** evaluating some Funds is a delicate business, and is subject to appreciations that are necessarily subjective in nature in the absence of any real market for these Funds' securities. Consequently, evaluations of securities can be inaccurate, even if carried out with due care.
- VII. **Risk related to limited diversification:** investing in a Fund is based on a one-off investment opportunity and increases the likelihood of risks inherent to investment by further exposing the portfolio to unfavourable developments in some economic sectors and/or geographic regions.

- VIII. **Capital calls:** in Funds that use capital calls, the Client may be exposed to further additional capital calls. Commitments to additional investment can stretch over years. This means that the Client's commitment extends beyond his/her initial starting capital. If the Client defaults in the context of a capital call, he/she generally loses all or some of their rights.
- IX. Furthermore, some Funds include “**claw-back**” clauses in their legal documents, through which investors may be required to repay the Fund capital distributions or interest they may have previously received in order to fulfil some of the Fund's requirements, in proportion to their contribution to the Fund. Such claw-back clauses may also be triggered by legislation in force.
- X. The Client acknowledges that in the event that a **Fund files for bankruptcy or in the event that proceedings impact a Fund**, Bordier accepts no liability in terms of production and follow-up. The Client is solely responsible for taking all measures necessary to safeguarding and exercising his/her rights.
- XI. The fact that the Fund or some of the parties involved in these structures are monitored does not mean that one of the aforementioned risks cannot occur.

The Client confirms that he/she is aware of the risks related to executing the aforementioned transactions and accepts said risks.

Bordier cannot be held liable for any of the transactions executed following general or special instructions related to these investments.