S-Bank

INFORMATION ON FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

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1. INFORMATION ON FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

There are always financial risks related to investment operations. There may not be any yield at all, and the client may even loose the invested capital. Before making an investment decision, the client should get well acquainted with the investment market and different investment alternatives. The client is responsible for the financial results of his investment decisions.

2. WHEN INVESTING, YOU, AS A CUSTOMER, HAVE TO COMPREHEND THE FOLLOWING:

– You should not deal in products unless you understand the nature of the contract you are entering into and the extent of your exposure to risk. Investing or dealing with financial instruments is done at your own risk.
– You should understand the importance of following up on the correct proportional split of investments types and within an investment type in order to maintain a suitable mix that fits your risk profile.
– You, as a customer, have to initiate the actions to be taken in order to minimise your risks, i.e. the risk of losing money/your investments.
– You, as a customer of FIM, agree to follow terms and conditions given in connection of the service.

3. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

Risk is the chance you take of making or losing money on your investment. All financial products carry a certain degree of risk and even low-risk investment strategies contain an element of uncertainty. The types of risk that might be of concern will vary from country to country and from investment to investment. These investment risks will depend upon, amongst other things, how the instrument is structured, created or drafted. The specific risks of a particular product or transaction will depend upon the terms of the product, transaction and the particular circumstances of, and relationships between, the relevant parties involved in the product or transaction. The needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the issuer, the diversification or concentration in a portfolio (e.g. the amount invested in any currency, security, country or issuer), the complexity of the transaction and the use of leverage also affect the risk level of a product.

Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments or become involved in any financial products, you should be aware of the different risks affecting your investment outcomes. The major risks associated with financial instruments are described in the section below.

4. TYPES OF RISK

Market Risk
Market risk refers to exposure arising as a consequence of movements in market prices. The value of an investment can increase or decrease depending on market supply and demand, investor perception and the prices of any underlying or allied investments or, indeed, sector, political and economic factors. Market risk can affect the value of your investment whether the market moves as a whole or just in terms of your investment.

Foreign Markets
Any overseas investment or investment with an overseas element can be subject to the risks of overseas markets which may involve different risks from those of your home market. In some cases the risks will be greater. The potential for profit or loss from transactions on foreign markets or in overseas denominated contracts will be affected by fluctuations in the instrument itself, the market, as well as overseas exchange rates.

Price volatility in emerging markets, in particular, can be large. Price discrepancies, low trading volumes and wide pricing spreads can be common and unpredictable movements in the market are not uncommon. Emerging markets generally lack the level of transparency, efficiency, liquidity, market infrastructure, legal certainty and regu-lation found as in the case of more developed markets.

Credit Risk
A fundamental risk in all financial activities is credit risk. Credit risk is the risk of loss caused by borrowers, bond obligors, guarantors, or counterparties not performing on an obligation or the risk of such parties' credit quality deteriorating. Credit risk is normally measured by the absolute amount of loss which can be experienced.

Settlement Risk
Settlement risk is a type of credit risk which arises when a counterparty does not deliver the security (or its value) in accordance with the agreed terms after the other counterparty has already fulfilled its part of the agreement to so deliver. Settlement risk increases with foreign exchange transactions and currency swap transactions as the two cash payments may be made at different times due to cash being settled in different time zones. Settlement risk may specially be included in trading with instruments on emerging markets where the payment and delivery of the instrument are settled separately.

Price Volatility Risk
Volatility refers to sudden swings in value; the swings can go both ways, up as well as down. The more volatile an investment is, the more you can lose or win, since there can be a big spread between what you paid and what you sell the invested object for.

Insolvency
The insolvency or default of a firm with whom you are dealing, or of any brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent or investments not being returned to you.

Currency Risk
Currency risk is a form of risk that arises from the change in price of one currency against another. A movement in exchange rates may have a favourable or an unfavourable effect on the gain or loss achieved on any foreign exchange transactions and transactions in derivatives and securities that are denominated in a currency other than that in which your account is denominated. Hedging can increase or decrease the exposure to any one currency, but may not completely eliminate exposure to changing currency values.

Interest Rate Risk
Interest rate risk is the risk posed by changes in interest rates. Interest rates can rise as well as fall. Interest rate risk affects the value of bonds more directly than stocks, and it is a major risk for all bondholders. One interest rate risk is that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could negatively impact other products. As interest rates rise, bond prices fall and vice versa. The rationale is that as interest rates increase, the opportunity cost of holding a bond decreases since investors are able to realise greater yields by switching to other investments that reflect the higher interest rate.

There are additional interest rate-related risks for floating rate instruments and fixed rate instruments; interest income on floating rate instruments cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield on floating rate instruments at the time of purchase, and so their return on investment cannot be compared with that of investments with longer fixed interest periods.

Commodity Risk
Commodity risk refers to the uncertainties of future market values and of the size of the future income caused by the fluctuation in the prices of commodities. The prices of commodities may be volatile, and, for example, may fluctuate substantially if natural disasters or catastrophies such as fires or earthquakes affect the supply or production of these commodities. The prices of commodities may also fluctuate substantially if conflict or war affects the supply or production of such commodities. If any interest and/or the redemption amount payable in respect to any product are linked to the price of a commodity, any change in the price of such commodity may result in the reduction of the amount of interest and/or the redemption amount payable. The reduction in the amount payable on the redemption of an investment may result, in some cases, in the investor receiving a smaller sum on the redemption of a product than the amount originally invested in the product.

Legal Risk
Legal risk reflects the risks arising from failure to meet legal requirements, inadequate documentation, contracts or other agreements within counterparties, including the legal and taxation risks associated with offshore jurisdictions or other territories in which the invests are made.

Regulatory Risk
All investments could be exposed to regulatory or structural risk. Such risk is unpredictable and can depend on numerous political, economic and other factors. For this reason, this risk is greater in emerging markets but does apply everywhere. In emerging markets, there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

Taxation Risk
Tax rules or their implementation may change over time. Investments may involve complex tax considerations which may differ for each investor.

Correlation between Positions
Correlation between positions occurs when two or more transactions with a counterparty naturally offset each other, so that an increase in the credit exposure of one or more results in an equal decrease of the exposure of the others, subject to netting. Imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position.

Operational Risk
Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact all financial products. Business risk, especially the risk of the business being run incompetently or poorly, could also impact the shareholders of, or investors in, such a business. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.

Branch-Specific Risk
The risk that a specific industry is faced with an unexpected event that affects the outcome of the whole industry and affects the financial instrument associated with the industry.

Liquidity Risk
The liquidity of an instrument is directly affected by the supply and demand of that instrument and also indirectly by other factors, including market disruptions (for example a disruption in the relevant exchange) or infra-structure issues, such as a lack of sophistication or disruption in the securities settlement process. Liquidity risk results in problems in buying or selling a specific instrument at a specific date in time.

5. SHARES AND RELATED INSTRUMENTS

Limited Liability Company Shares
Shares in a limited liability company usually give the owner the right to a portion of the company's share capital. Shares are issued by limited liability companies as the primary means of raising risk capital. In most cases, the issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders that could take the form of cash or additional shares.

Shares usually carry voting privileges with respect to the management of the business, usually the larger the amount of shares, the bigger the portion of share capital, dividends and voting rights. The type (series) of shares can also affect the voting rights. There are two types of shares, public and private. Only the public shares are traded on a market place. Shares are exposed to all the major risk types referred to in the section on risk above. In addition, there is a risk of volatility or problems in the sector that the company is in. If the company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be a liquidity risk, whereby shares could become very difficult to dispose of.

Share Price
The share price is based on the demand for the share, which in turn is based on, at least in the long run, the company's future earnings and future prospects. Prices often move based on how analysts value the company's possibilities to generate future earnings. The overall development of the market, the economic cycle, technical developments, legal frameworks, competition and so forth affect the demand for the company's products or services and are therefore of elementary importance in the development of the company's share price. The liquidity of the share also affects the share price. With high liquidity, there is a solid group of investors on both the bid and ask side. In low liquidity shares there is an extra risk of losing money when shares are bought in some smaller companies, including penny shares. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position.

The bid price is the price a buyer is willing to pay for a security. This is one aspect of the bid with the other being the bid size which details the amount of shares the investor is willing to purchase at the bid price. The ask price is the price which the seller is looking to get for the shares. The use of bid and ask is a fundamental part of the market system as it details the exact amount that you can buy or sell at any point in time. In actual trading, the parties involved might use a limit order to specify which bid or ask price they wish to trade at. The trader specifies the number of shares and a bid/ask price (depending on whether the trader is buying or selling). Such orders can have execution limits, such as "by end of day" or "all or nothing".

Share Splits
Share splits increase the number of shares in issue such that the proportionate equity of each shareholder remains the same, which may require an amendment to the memorandum, articles of association or an equivalent basic documentation of the company. The amendment approves an increase (or a decrease, or reverse share split) in the number of shares. There is no increase in equity capital, as the par value of shares is reduced in proportion.

Buybacks
A buyback is an offer from a company to buy back its own shares, and is usually used to raise the share price or to fend off a hostile takeover bid.

Directed Issues
A directed issue is a derogation from the existing shareholders' right to be offered shares in proportion to their existing holdings (pre-emptive right). Companies may use directed issues to e.g. finance the acquisition of new businesses.

Initial Public Offering (IPO)
An IPO is the first sale of stock by a company to the public. In most jurisdictions, there are strict rules designed to protect investors governing the sale of shares to the public. A company will usually have to satisfy stock exchange requirements to obtain a listing on the stock exchange or to be quoted on unlisted markets designed for smaller companies.

Depositary Receipts
Depositary receipts are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, traded on a stock exchange which is local or overseas to the issuer of the receipt. They may facilitate investment in the companies due to the widespread availability of price information, lower transaction costs and timely dividend distributions. The risks involved relate both to the underlying share and to the bank issuing the receipt. Depositary receipts representing underlying shares in a foreign jurisdiction (in particular an emerging market jurisdiction) also involve risks associated with the securities markets in such jurisdictions. Overseas depositary receipts also involve currency risks.

Warrants
Warrants are typically issued by financial institutions and are then listed on stock exchanges. Warrants, like options, give the holder the right, but not the obligation, to buy or sell the underlying asset at a specific price on or before a predetermined date. Warrants are very similar to options but they typically have longer maturities than options. They are also issued over a wider range of assets. Warrants are often more flexible in their terms and can be issued with terms structured to meet market demand. With warrants you cannot lose more than the initial investment. The maximum loss is known in advance and hence no margin calls. Due to similarities with options and other derivative products, warrants provide a possibility for high leverage. However, a relatively small movement in the price of the underlying security could result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

A warrant is potentially subject to all of the major risk types referred to in the section on risk above. You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

Private Equity
Private equity is a broad term which commonly refers to any type of non-public ownership equity securities that are not listed on a public exchange. Since they are not listed on a public exchange, any investor wishing to sell private equity securities must find a buyer in the absence of a public market place. There can be transfer restrictions on private securities. Private equity firms generally receive a return on their investment through one of three ways: an IPO, a sale or merger of the company they control, or a recapitalisation. Unlisted securities may be sold directly to investors by the company (called a private offering) or to a private equity fund which pools contributions from smaller investors to create a capital pool.

Given the risks associated with private equity investments, you can lose all your money if you happen to invest in a failing company. If you compare a limited liability share with a private equity share, the private equity share is generally the riskier one. Private equity is affected by all the major risk factors described under the risk section of this document.

6. MONEY MARKET INSTRUMENTS

A money market instrument is when you borrow cash for a period, generally no longer than six months but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower. Unlike in an overdraft, the borrower must specify the exact amount and the period for which he wishes to borrow. Like other debt instruments, money market instruments may be exposed to all major risk types described in the section on risk, but in particular credit and interest rate risk.

7. DERIVATIVES

Derivatives include options, futures, swaps, forward rate agreements, derivative instruments for the transfer of credit risk and financial contracts for differences. Derivatives can be listed instruments, OTC instruments, or a securitised product, such as a note or a certificate. The risks described in the section on risk may occur with all types of derivative contracts.

Derivatives
A derivative is a financial instrument, contract, to trade money, assets or some other value at a future date based on the underlying asset, where the asset itself is not traded. The most common types of derivatives are options, futures and swaps. When an investor enters into a derivatives contract, a high level of risk is assumed, and less experienced investors or investors with a limited amount of capital to invest should exercise caution.

At times the derivatives market is illiquid because of large transactions and due to the fact that many off-exchange derivatives contracts are privately negotiated. In these cases it may not be possible to liquidate a position or initiate a transaction at a beneficial price.

On-exchange derivatives are subject to the same risks as exchange trading in general, and usually there is a margin requirement when entering into a derivatives contract. Off-exchange derivatives may be unlisted transferable securities or bi-lateral "over the counter" contracts (OTC). On- and off-exchange derivatives may be traded differently, but both arrangements are subject to credit risk related to the issuer (if transferable securities) or the counterparty (if OTCs). Whether a one-off transferable security, OTC, or a master agreement, these contracts are subject to the terms of the contract besides the risks identified above. Other risks include difficulty to get out of a loss-making contract (with an OTC contract) because the counterparty may not be bound to "close out" or liquidate their position. Off-exchange derivatives agreements are negotiated separately. Terms for off-exchange derivative transactions are not standardised and no centralised pricing source exists for off-exchange traded instruments. Derivatives transactions are difficult to value. Different financial institutions, pricing formulas and financial assumptions may quote differing values for the same transaction. The value of an off-exchange derivative is affected by the remaining time until maturity, the market price, price volatility, and prevailing interest rates. Therefore, the price of an off-exchange will fluctuate over time.

Derivatives are most commonly used as hedges to manage other investments, economic risks and for speculative purposes. The suitability of a derivatives investment should be carefully considered by each investor independently. Investors are advised to ask about the terms and conditions of a specific derivatives contract and its associated obligations. All derivatives can be subject to the risk types described in the section on risk above, particularly market risk, credit risk and any specific sector risks connected with the underlying asset.

Futures/Forwards/Forward Rate Agreements
Transactions in futures or forwards involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. The main difference between futures and forwards lies in the fact that futures contracts are marked to market via daily settlement and the futures positions can be set-off (closed) during the contract term. Futures also use a simplified margin calculation and settlement on T+1. Futures and forwards carry a high degree of risk.

The 'gearing' or 'leverage' often obtainable in futures and forwards trading means that a small deposit or down payment can lead to large losses as well as large gains. It also means that a relatively small movement can lead to a disproportionately much larger movement in the value of your investment, and this can make money as well as lose money. Futures and forwards transactions have a contingent liability and you should be aware of the implications of this, in particular margining requirements: these are that, on a daily basis, with all exchange-traded and most OTC off-exchange, futures and forwards, you will have to pay over in cash losses incurred on a daily basis and if you fail to, the contract may be terminated.

Options
An option is the right, but not the obligation, to buy or sell a given security at a fixed price (called the strike price) on or before a designated expiration date. The option to buy a security is a 'call' option. The option to sell a security is a 'put' option.

Buying call and put options; A call option gives its holder the right, but not the obligation, to purchase an asset for a specific price in the future. A put option gives the holder the right to sell an asset for a specific price in the future. The purchase price of an option is called the premium. This represents the price for the right to exercise the option if it comes profitable. Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you must acquire the future.

Selling call and put options; If you sell, or write, a call or put option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price.

If you already own the underlying asset which you have contracted to sell (known as 'covered call options'), the risk is reduced. If you do not own the underlying asset (known as 'uncovered call options'), the risk can be unlimited. Only experienced persons should contemplate selling, or writing, uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure. Depending on the type of option entered into, there may be increased exposure to market risk when compared to other financial products. Overall options are affected by all the major risks described in the section on risk in this document.

Contracts for Differences
Certain derivatives are referred to as contracts for differences. These can be options and futures on an exchange, as well as equity, currency and interest rate swaps, amongst others. However, unlike other futures, the differences in settlement are made through cash payments, rather than the delivery of physical goods or securities. Investing in a contract for differences carries the same risks as investing in a future or an option as described above. Transactions in contracts for differences may also have a contingent liability.

Swaps
A swap is a privately negotiated agreement between two parties to exchange cash flows at specified intervals (payment dates) during the agreed-upon life of the contract (maturity).

An interest rate swap is an agreement to exchange interest rate cash flows, calculated on a notional principal amount, at specified intervals (payment dates) during the life of the agreement. Each party's payment obligation is computed using a different interest rate. In an interest rate swap the notional principal is never exchanged. Although there are no standardised swaps, a plain vanilla swap typically refers to a generic interest rate swap in which one party pays a fixed rate and one party pays a floating rate. Interest rate swaps expose users to interest rate risk and credit risk as well as settlement risk.

8. BONDS

A bond is a security that is issued in connection with a borrowing arrangement. The borrower, i.e. issuer, sells the bond to the lender in exchange for cash. The bond is in essence a loan obligation for the issuer. The arrangement of the bond obligates the issuer to make payments to the bond holder at a specific date. A typical coupon bond obligates the issuer to pay a coupon payment to the lender. The coupon rate serves as the interest paid to the lender. When the bond matures, the borrower repays the face value, or par, of the bond to the lender. Bonds can come with many variations; the most common bonds come with a coupon but also zero coupon bonds are common. Zero coupon bonds do not pay any coupon, but the lender receives the face, or par, value at maturity. Since no coupon payments are made before maturity, zero coupon bonds are usually sold considerably below the par value to compensate for risk. Like the government, corporations borrow money by issuing bonds.

Because the coupon and principal of the bond is paid in the future, the value of a bond is determined by how the investor considers the value of money in the future compared to the value of money today. This present value of money further depends on market interest rates. The nominal interest rate is the sum of the real risk-free rate plus the premium over real risk-free rate to compensate for inflation. Since bond issuers, regardless if they are governments or corporations, are not risk-free, the required rate of return for the investor includes also other bond-characteristic risk factors such as default risk, tax risk, liquidity risk, etc.

Bonds are thus affected by market interest rate risk. The value of a bond fluctuates on a daily basis in the opposite direction to interest rates. When market interest rates go up, typically the value of a bond will go down. When interest rates go down, typically the value of a bond will go up. Other risks that affect bonds are credit risk, market risk, liquidity risk, foreign market risk, exchange risk and leverage risk

The quality of a bond is much determined by the ability of the issuer to pay the bond off on time. Government bonds, some municipal bonds and bonds offered by large, financially solvent corporations are generally considered to be higher in quality, lower in risk. Bonds that are issued by e.g. small corporations, agencies or local governments in emerging markets units that are not as financially solvent are considered low quality, "high-yield" bonds. Their yield potential is higher because there is more risk connected with these instruments. Investing in higher yielding, lower rated bonds has an increased risk of price fluctuations and loss of principal.

The amount that bonds fluctuate also depends on the term of the bond. Generally, the shorter the maturity, the more stable the value of the bond. While the value of a bond fluctuates, you will only notice the price changes if you need to sell your bond prior to maturity at which point you will receive the current market value of the bond. This sensitivity of the bond to changes in interest rates is measured commonly by the duration.

Combined Instruments/Baskets
Any combined instruments, such as a bond with a warrant attached, are exposed to the risk of both those products and so combined products may contain a risk which is greater than those of its components generally, although certain combined instruments may contain risk mitigation features, such as principal protected instruments.

The value of a basket of products (such as shares, indices etc.) may be affected by the number and quality of reference assets included in such basket. Generally, the value of a basket that includes reference assets from a number of reference asset issuers or indices will be less affected by changes in the value of any particular reference asset included therein than a basket that includes fewer reference assets, or one that gives greater weight to some reference assets included therein. In addition, if the reference assets included in the basket are concentrated in a particular industry, the value of such a basket will be more affected by the economic, financial and other factors affecting that industry than if the reference assets included in the basket were in various industries that were affected by different economic, financial or other factors or were affected by such factors in different ways.

9. MUTUAL FUND

A mutual fund is simply a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. Mutual funds are managed by fund management companies that are regulated and supervised entities. The fund management company is responsible for investing the pooled money into specific securities (usually stocks or bonds). When you invest in a mutual fund, you are buying shares (or units) of the mutual fund and become a unitholder of the fund. In most mutual funds, investors can redeem their units at any time. The redemption rules are described in the fund prospectus.

Benefits of mutual funds include diversification and professional money management. Mutual funds offer choice, liquidity, and convenience, but charge fees and often require a minimum investment. A closed-end fund is often incorrectly referred to as a mutual fund, but is actually an investment trust and not usually supervised by any authority.

There are many types of mutual funds depending on the investment objectives of the fund. Mutual fund types include fixed-income funds,equity funds, balanced funds, funds of funds, regional funds, global funds, sector funds, hedge funds, index funds. Units of the funds may be growth of yield units. The yield of the fund is allocated and paid for yield unit holders. If the unit holder has growth units no yield is paid to the unitholder. Instead, the yield accruing to the growth units is added to the value of the growth unit and is reinvested to increase the value of the growth unit.

Funds can also be divided according to whether they are UCITS or non-UCITS funds. UCITS funds follow the UCITS directive which puts requirements on investments and risk diversification. Finnish as well as foreign UCITS funds can be freely marketed within the (EEA) European Economic Area. Some funds, for example hedge funds and emerging market funds, are funds that alternate from the UCITS standards and are usually non-UCITS funds and can therefore be riskier; this needs to be kept in mind when you, as a customer, decide on what fund to invest in. The information concerning UCITS/non-UCITS investment is available from the prospectus of each fund.

Investments in mutual funds involve risk. Some investment products involve more risk than others; funds like shares and money market instruments are affected by market price movements, regulatory changes and economic conditions as well as adverse political and financial factors. Also interest rate moves, economic cycles, tax and regulatory requirements can affect the outcome of the investment. Furthermore, there are additional risks associated with investing in foreign companies, high-yield bonds, emerging markets, aggressive growth stocks, non-diversified/concentrated funds and small, mid and micro-cap stocks, which are more fully explained in the prospectuses. Bond investments are subject to interest rate risk, such that when interest rates rise, the prices of the bonds, and thus the value of the bond fund, can decline which could the investor to lose principal value.

Bond Funds
Bond funds have no fixed maturity or set interest payment schedule because the underlying bonds are bought and sold constantly on the secondary market. This makes bond funds especially sensitive to the impact of interest rate changes on bond prices.

Bond fund returns are highly dependent on the changes in general interest rates; that is, when interest rates rise, the value of bonds decrease, which in turn affects bond fund returns. To understand interest rate risk, you must understand duration. Duration in the simplest terms is a measure of a bond fund's sensitivity to interest rate changes. The higher the duration, the more sensitive the fund.

Although most bond funds diversify credit risk, you should still understand that the weighted average credit rating of a bond fund will influence its volatility. While lower credit quality bonds bring higher yields, they also bring higher volatility. Bonds that have no or a very low investment grade are also known as "junk bonds". These are often associated with additional volatility.

Some bond funds may offer less volatility than stock funds or combination funds, but their potential for growth tends to be lower as a result. They face other risks, including potential loss when a bond issuer defaults or when prices fluctuate as a result of changing interest rates.

Balanced Fund
A balanced fund is a mutual fund that invests in stocks, bonds and money market investments (cash) to meet specific fund objectives. The purpose of balanced funds (also sometimes called hybrid funds) is to provide investors with a single mutual fund that combines both growth and income objectives, by investing in both stocks (for growth) and bonds (for income). Such diversified holdings ensure that these funds will manage downturns in the stock market without too much of a loss; the flip side, of course, is that balanced funds will usually increase less than an all-stock fund during a bull market.

A balanced fund has a fairly low risk level due to the varying risk levels of its stocks, bonds, and cash. The balanced fund is often the mutual fund of choice among the risk-averse. The risk associated with balance funds is still dependent of the proportion of assets in the portfolio and their interaction with each other.

Equity fund
Equity funds are mutual funds that invest primarily in stocks, usually common stocks. Historically, equities have been long-term outperformers, but they also have a history of greater price volatility than bonds and cash equivalents. Equity funds may offer some degree of diversification because they hold many different stocks. But, they can be volatile and their share prices can often move substantially, both up and down on a daily basis.

There are risks that all equity funds are generally prone to, such as a company's fiscal health and the overall economic and market environment. There are also risks that are more specific to the type of equity stocks a fund might invest in. For example, funds that generally invest mainly in small or mid-size companies (small or mid-cap funds) carry additional risks because their earnings tend to be less predictable, while some companies may experience significant losses resulting in more volatile stock prices. Sector funds also can be riskier due to their concentration in one part of the market. Also risks including news about a company, economic developments and changes in interest rates affect the value of the equity fund as well as risks from fluctuations in the price and market mechanisms and risk from external factors which may cause fluctuations in stock prices.

Hedge Funds
Hedge funds are funds that use high-risk techniques, such as borrowing money, selling short, leverage, program trading, swaps, arbitrage, and derivatives, in an effort to make extraordinary large capital gains. Hedge funds are often less regulated than other mutual funds, which allow them to accomplish aggressive investing goals. Hedge funds therefore employ all different types of strategies, and they can also be unregistered, privately-offered, managed pools of capital for wealthy, financially sophisticated investors, implying a high risk profile.

Money Market Fund
A money market fund's purpose is to provide investors with a safe place to invest easily accessible cash-equivalent assets characterised as low-risk, low-return investments. Though, unlike a bank account, returns from money market funds are not guaranteed even though they are of lower risk.

Fund of Funds
Fund of funds are funds that invest in other funds, i.e. any fund that pools capital together while utilising two or more sub-managers to invest money in equity, commodities, or currencies, is considered a fund of funds. Investors are allocating assets to fund of funds products mainly for diversification amongst the different managers' styles, while keeping an eye on risk exposure. Fund of funds may also combat risk by achieving manager diversity because of the different strategies employed by the underlying managers. On the other hand, one has to keep in mind the double layer of fees. There are different types of funds of funds and depending on what kinds of funds are used and their combination all affects the risk and also the return.

ETFs
Exchange-traded funds (ETFs) are funds quoted on the stock exchange which can be traded like stocks. Unlike traditional funds, ETFs have a buy and sell quotations, which are constantly updated during stock exchange opening hours based on bids in force.

In general, the risks related to fund investments also relate to ETF investments. Investors should also consider the following risk factors related to ETF investments.

– **Market risk** arises from price fluctuations in the investment targets of the ETF. The value of an ETF may decline or, in theory, be lost in full if the ETF underlyings lose their value in full. Price fluctuations for ETF products may be bigger than the changes in the price of an individual ETF underlying, as the ETF's invesments may not exactly correspond the composition of the ETF's target market.
– **Liquidity risk** is topical especially for ETFs that invest in markets with poor liquidity or markets where the daily liquidity of investment targets fluctuates heavily depending on the market situation.
– **Currency risk** is related to ETF investments because of the difference between the currency of the fund's underlying markets and the currency of quotation of the ETF.
– **Counterparty risk** in ETFs relates to the company acting as the issuer of the ETF. Before making an investment decision, investors should familiarise themselves with the ETF pros-

pectus to become properly aware of the product in question as well as risks related to the product's issuer. An ETF does not necessarily directly own the underlying securities. Instead, the issuer may have set a collateral or own an underlying indirectly via derivative contracts. Due to their structure, the return and loss potential of ETF products may be manifold compared to the underlyings of direct investments.

10. ALTERNATIVE INVESTMENT PRODUCTS

There are a multitude of tailor-made investment products available on the market, often being a combination of financial instruments put together as a product for the investor. The products are often defined as a security derived from or based on another security (including a bond), basket of securities, index, commodity or foreign currency. These products typically come in two forms: growth products, where any income is derived from the performance of the underlyings, and products that provide fixed income. Both of these types may provide an element of capital protection or may involve a risk to the capital invested. Examples of alternative investment products are equity-, index- or commodity-linked bonds, collateralised debt obligations, reverse convertibles and credit-default swaps, etc. These products can have characteristics and risks similar to those of equities, bonds or derivatives, depending on the nature of the product. More information concerning the risks inherent in a particular product can be found in the prospectuses, normally available at the time of the issuance of said product. Such prospectuses might not be available when a product is traded in the secondary market or in a private placement.

11. STOCK LENDING

The effect of lending securities to a third party is to transfer, lend, the stock to the borrower for a specific period of time. At the end of the period, subject to default of the borrower, the lender receives back securities of the same issuer and type. The borrower's obligation to transfer equivalent securities is secured against collateral (which is usually transferred by a title transfer mechanism pursuant to market standard agreements). This is an advanced trading strategy with many unique risks and pitfalls. Stock lending is subject to credit risk.

12. SHORT SELLING

Short selling means that the party that has borrowed financial instruments, and simultaneously undertaken to return the same type of instruments to the lender at a later date, sells the borrowed instruments. In making the sale, the lender counts on being able, on the date for return of the instruments, to acquire instruments on the market at a lower price than the price at which the borrowed instruments were sold. If, instead, the price has increased, a loss is incurred, which can be substantial if the price has increased significantly.

13. USING LOAN CAPITAL

In many cases, financial instruments can be acquired using, to an extent, loan capital. Since both the investor's own as well as the loan capital affect the size of the returns, it is possible the investor will receive a bigger return by utilising loan capital, should the investment perform favourably. However, if the price of the financial instrument acquired develops negatively, the investor is still liable to pay back the loan, even though the downtrend will also cut the value of the investor's own capital. If instrument prices go down, the investor may thus lose his/her own capital partly or in full as well as having to pay back the loan partly or in full using the assets obtained by selling the instrument. The investor must always pay back the loan even if the sales returns do not cover the entire debt. Therefore, when planning to use loan capital for investments, investors must always assess their ability to pay back the loan regardless of how the investment will perform.

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