

FINANCIAL INSTRUMENTS RISK DISCLOSURE

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1. PURPOSE, SCOPE AND GENERAL WARNINGS

This Financial Instruments Risk Disclosure is provided by **Wise Wolves Finance Ltd** (the “Company”) to inform clients and prospective clients of the general nature and principal risks associated with financial instruments and investment services offered by or through the Company.

This document does not describe every risk associated with a financial instrument, transaction or investment strategy. The risks applicable to a particular investment will depend on its specific terms, the issuer, the relevant market, current market conditions and the client’s individual circumstances.

Investing in financial instruments involves risk. The value of an investment and any income derived from it may rise or fall, and a client may receive back less than the amount invested or may lose the entire investment. Some financial instruments, including leveraged products and derivatives, may expose a client to losses exceeding the amount initially invested.

Past performance is not a reliable indicator of future performance. Clients should not enter into a transaction unless they understand the nature of the financial instrument, the associated risks and the extent of their potential exposure to loss.

Unless expressly agreed otherwise in writing, this document does not constitute investment, legal, tax or accounting advice, nor does it constitute a personal recommendation to enter into any transaction. Clients should obtain independent professional advice where necessary.

Before entering into a transaction, clients should review the relevant product and contractual documentation, including, where applicable, the Client Agreement, Order Execution Policy, costs and charges information, prospectus, terms and conditions, Key Information Document and any product-specific risk warnings.

Depending on the investment service provided, the financial instrument and the client’s regulatory classification, the Company may be required to assess the suitability or appropriateness of the relevant service or instrument. If a transaction is permitted on an execution-only basis, the Company may not be required to assess whether the instrument is appropriate for the client.

2. GENERAL RISKS OF FINANCIAL INSTRUMENTS

2.1 Currency Risk

If a financial instrument is denominated in a currency different from the client’s base or reference currency, its value and performance may be affected by changes in the relevant exchange rate. A client may incur a loss as a result of adverse currency movements even where the value of the financial instrument has increased in its denomination currency.

Exchange-rate movements may affect the purchase price, market value, interest, dividends, distributions, sale proceeds and redemption value of an investment. Currency conversion may also involve spreads, commissions and other costs, and the exchange rate applied may differ from rates quoted publicly or available in the interbank market.

Exchange rates may be volatile and may be affected by economic conditions, changes in interest rates, monetary or fiscal policy, political developments, market intervention and changes in market liquidity.

Currency-hedging arrangements may reduce, but do not necessarily eliminate, currency risk. A hedge may be incomplete, may not perform as expected and may involve additional costs or losses.

2.2 Transfer and Convertibility Risk

Investments involving foreign jurisdictions or currencies may be subject to restrictions on the transfer of money, financial instruments or investment proceeds between countries. Such restrictions may arise from capital or exchange controls, sanctions, governmental or regulatory measures, banking restrictions, political events or disruption to payment and settlement systems.

A currency that is freely convertible when an investment is made may subsequently become subject to restrictions or cease to be freely convertible. Conversion may also be delayed, permitted only at an unfavourable exchange rate or subject to additional costs.

These circumstances may delay or prevent the client from purchasing or selling an investment, receiving income or redemption proceeds, converting the proceeds into another currency or transferring funds or financial instruments to another jurisdiction. They may also result in delayed or failed settlement, reduced liquidity and partial or total loss.

The Company may be required to delay, reject, suspend or restrict a transaction where necessary to comply with applicable laws, sanctions, regulatory requirements or restrictions imposed by competent authorities, financial institutions, custodians or market infrastructures.

2.3 Country and Political Risk

The value, liquidity and enforceability of an investment may be affected by political, economic, legal, regulatory or social developments in a country to which the investment is exposed. Such exposure may exist where an issuer is incorporated, operates, holds assets, generates revenue or has financial instruments traded, held or settled in the relevant country.

Country and political risk may arise from political instability, armed conflict, civil unrest, economic recession, high inflation, sovereign debt difficulties, changes in laws or taxation, sanctions, nationalisation or expropriation, restrictions on foreign ownership, market closures or actions taken by governments, central banks and regulatory authorities.

Such events may result in significant price volatility, reduced liquidity, delayed or failed settlement, restrictions on trading or custody, impairment of contractual or ownership rights, or partial or total loss of the investment.

Investments in emerging or less-developed markets may involve greater country and political risk due to less-established legal, regulatory, accounting, custody and settlement frameworks, lower liquidity and more limited availability or reliability of information.

2.4 Liquidity Risk

Liquidity risk is the risk that a financial instrument cannot be purchased, sold, redeemed or closed within the desired period or at a price reasonably reflecting its current market value.

Limited liquidity may arise from low trading volumes, a limited number of market participants, the size of the transaction, the absence of an active secondary market, the withdrawal of a market maker, market disruption, trading suspension, delisting or restrictions contained in the terms of the financial instrument.

As a result, a client may be unable to execute a transaction, may receive only partial execution, may experience delays or may have to accept a materially unfavourable price or increased transaction costs. It may also be difficult to obtain a reliable or current valuation for an illiquid financial instrument.

Liquidity may deteriorate rapidly, especially when markets are stressed or very volatile. A financial instrument that is normally liquid may become difficult or impossible to sell. The submission of an order does not guarantee that the order will be executed.

2.5 Credit, Issuer and Counterparty Risk

Credit risk is the risk that an issuer, counterparty, guarantor or other person responsible for a financial obligation may be unable or unwilling to meet its obligations in full or when due.

A deterioration in the financial condition or perceived creditworthiness of an issuer or counterparty may reduce the value and liquidity of the relevant financial instrument, even if no actual default has occurred. In the event of default, insolvency or resolution, payments may be delayed, reduced or not made, and the client may lose some or all of the investment.

If an investment depends on a guarantee or other credit support, the value of that protection depends on the ability of the guarantor or protection provider to meet its obligations. A guarantee does not eliminate credit risk.

Credit ratings may assist in assessing creditworthiness but are not guarantees of repayment or investment performance. Ratings may be revised, suspended or withdrawn at any time and may not reflect all material risks. Clients should not rely only on credit ratings when making investment decisions.

2.6 Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may adversely affect the value or return of a financial instrument. As a general rule, an increase in market interest rates may reduce the market value of existing fixed-rate instruments, while a decrease in market interest rates may increase their value.

The extent of the price movement depends on factors including the instrument's maturity, interest rate, payment structure and sensitivity to changes in market rates. Instruments with longer maturities or lower interest payments may generally be more sensitive to interest-rate movements.

Floating-rate instruments may be less sensitive to changes in market value but may produce lower income when reference rates decline. Interest-rate movements may also affect the rate at which income or redemption proceeds can be reinvested.

A client who intends to hold an instrument until maturity may still be exposed to interest-rate risk if the instrument must be sold before maturity or if income must be reinvested at lower rates.

2.7 Market and Price Risk

Market and price risk is the risk that the value of a financial instrument may decrease because of changes in market conditions or factors affecting the particular instrument, issuer, sector or asset class.

Prices may be affected by economic conditions, inflation, interest rates, exchange rates, political and regulatory developments, market sentiment, supply and demand, issuer-specific events and changes in the perceived creditworthiness or prospects of an issuer. Prices may fluctuate rapidly and unpredictably, especially when markets are stressed or very volatile.

A client may suffer a loss when selling or closing an investment at a price below the purchase price. In some circumstances, including market disruption, price gaps or limited liquidity, an order may be

executed at a materially different price from the price expected by the client. Stop-loss, limit or similar orders cannot guarantee that a transaction will be executed at the specified price or that losses will be limited.

If a financial instrument is leveraged, a relatively small market movement may result in a disproportionately large gain or loss.

2.8 Risk of Total Loss and Additional Liability

A client may lose the entire amount invested where a financial instrument becomes worthless, expires without value or can no longer be realised. This may occur because of adverse market movements, the failure or insolvency of the issuer or counterparty, the expiry or termination of the instrument, or the occurrence of another event affecting the instrument or the client's rights.

If an issuer or financial institution becomes subject to insolvency or resolution proceedings, the client's rights may be reduced, cancelled, converted into another instrument or otherwise adversely affected. The application of bail-in or other resolution measures may result in the partial or total loss of shares, bonds or other eligible liabilities.

For some leveraged instruments, derivatives and transactions involving contingent liabilities, the client's loss may exceed the amount initially invested. The client may be required to provide additional funds or collateral at short notice and may remain liable for any resulting shortfall.

2.9 Trading Venue and Market Disruption Risk

Transactions in financial instruments may be affected by the rules, trading hours, liquidity, technical arrangements and settlement procedures of the relevant regulated market, trading venue or other execution venue. These arrangements may differ between jurisdictions and venues.

Trading may be delayed, suspended or discontinued because of exceptional volatility, market-wide circuit breakers, technical failures, regulatory intervention, corporate events, insufficient liquidity or other exceptional circumstances. A financial instrument may also be suspended or removed from trading, in which case the client may be unable to sell or obtain a reliable valuation for the instrument.

When markets are disrupted or prices move rapidly, orders may be delayed, rejected, partially executed or executed at a price materially different from the price expected by the client.

Differences in trading hours, time zones or public holidays may also prevent the client or the Company from responding immediately to events affecting the value of an investment.

2.10 Operational, Systems and Communications Risk

Investment services and transactions depend on the proper functioning of communication systems, trading platforms, information technology, payment and settlement systems, and systems operated by execution venues, custodians and other third parties.

Technical failures, system interruptions, communication delays, cyber incidents, power outages, data errors or other operational events may delay or prevent the transmission, execution, confirmation or settlement of an order. Such events may also result in instructions being duplicated, rejected or executed later than expected.

Electronic communications and trading platforms may not always be available or secure. The submission of an instruction electronically does not guarantee that the instruction has been received,

accepted or executed. Clients should promptly review order confirmations, transaction statements and other communications and notify the Company of any suspected error or unauthorised activity.

If an instruction is unclear, incomplete or cannot be authenticated, the Company may delay or refuse to act on it under its contractual terms and applicable procedures.

2.11 Custody and Safekeeping Risk

Financial instruments may be held on the client's behalf through custodians, sub-custodians, central securities depositories, settlement systems, registrars or other third parties. Although the Company applies the safeguarding arrangements required by applicable law, the use of such third parties involves risks that may be outside the Company's direct control.

Client financial instruments may be held in an omnibus account together with financial instruments belonging to other clients. Although the Company maintains records intended to identify each client's holdings, omnibus arrangements may result in operational delays, reconciliation differences or difficulties in identifying and returning individual client assets, especially in the event of the insolvency or failure of a custodian or other intermediary.

If financial instruments are held in a jurisdiction outside Cyprus, they may be subject to different laws, market practices, settlement arrangements and investor-protection standards. The client's ownership rights and ability to recover the financial instruments may differ from those applicable in Cyprus.

The insolvency, default, operational failure or misconduct of a custodian, sub-custodian, settlement system or other intermediary may delay or prevent access to financial instruments and may result in costs, restrictions or losses. Corporate actions, income payments, voting rights and the transfer or delivery of financial instruments may also be delayed or adversely affected by custody arrangements or by the actions of third parties.

Safeguarding and segregation arrangements are intended to protect client assets but do not eliminate all custody, insolvency, operational or legal risks.

2.12 Settlement Risk

Settlement risk is the risk that a transaction may not be completed on the intended settlement date or may not be completed at all. This may occur where a counterparty fails to deliver the financial instruments or funds, or because of insufficient securities or cash, incorrect settlement instructions, operational or technical failures, market disruption, legal or regulatory restrictions, or a failure by a custodian, settlement system or other intermediary.

A settlement failure may result in delays, additional costs, penalties, financing charges or losses arising from changes in the market price. The client may also be unable to use, sell or transfer the relevant financial instruments or funds until settlement has been completed.

If a transaction fails to settle, the Company or another relevant party may be required or permitted to cancel the transaction, initiate a buy-in or other remedial process, arrange a replacement transaction or take other action under applicable law, market rules and contractual terms. Any resulting costs or losses may be charged to the client where permitted by the Client Agreement and applicable law.

Settlement practices and settlement periods may differ between financial instruments, markets and jurisdictions. Transactions involving different currencies, markets or settlement cycles may also create additional funding, foreign-exchange and operational risks.

2.13 Concentration Risk

Concentration risk arises where a significant proportion of a client's portfolio is invested in a single financial instrument, issuer, corporate group, sector, country, region, currency, asset class, counterparty or other related exposure.

A concentrated portfolio may be especially affected by adverse developments relating to that exposure. As a result, the value of the portfolio may fluctuate more significantly, and losses may be greater, than in a portfolio containing a wider range of unrelated investments.

Investments that appear different may nevertheless be exposed to the same underlying economic or market factors and may decline in value at the same time. Diversification may reduce some concentration risks but does not eliminate market risk or guarantee against loss.

2.14 Legal, Regulatory and Tax Risk

Financial instruments, investment services and transactions are subject to applicable laws, regulations, regulatory practices and tax rules. Changes to these requirements, or to their interpretation or application, may occur during the life of an investment and may adversely affect its value, return, liquidity, availability or tax treatment.

Legal or regulatory changes may restrict or prohibit the purchase, holding, sale, transfer or settlement of a financial instrument. They may also result in trading suspensions, additional reporting or disclosure obligations, increased costs, changes to contractual rights, or the compulsory disposal, conversion or termination of an investment.

The tax treatment of an investment depends on the client's individual circumstances, tax residence, the nature of the financial instrument and the jurisdictions involved. Taxes, duties, withholding taxes and reporting obligations may reduce the income or proceeds received by the client. Tax treatment may change and may apply retrospectively where permitted by law.

Unless expressly agreed otherwise in writing, the Company does not accept responsibility for the client's tax obligations. Clients should obtain independent professional advice regarding the legal and tax consequences of a proposed transaction.

3. BONDS AND OTHER DEBT SECURITIES

3.1 Nature and Key Features

A bond is a debt instrument under which the issuer generally undertakes to pay interest and/or repay the principal amount under the terms and conditions of the bond. Bonds may be issued by governments, public authorities, financial institutions, companies or other entities.

The rights of a bondholder depend on the specific terms of the bond. Bonds may differ considerably in their maturity, interest or coupon arrangements, redemption provisions, currency, ranking, security, guarantees and other features. Some bonds may have variable or contingent payments, may be redeemed early, converted into another financial instrument, written down or have no fixed maturity.

The designation of an instrument as a "bond," "note" or "debt security" does not by itself determine its risk. Before investing, clients should review the relevant prospectus, offering memorandum, final terms, term sheet, Key Information Document and any other product-specific documentation.

3.2 Returns and Pricing

The return on a bond may consist of interest or coupon payments and any difference between its purchase price and the price received on sale or redemption. The overall return may be reduced by transaction costs, custody charges, taxes, currency-conversion costs and other applicable fees.

The return can generally be estimated with greater certainty where a fixed-rate bond is held until maturity and the issuer meets all its obligations. However, repayment is not guaranteed, and the actual return may differ where:

- the bond has a variable, contingent or zero coupon;
- the issuer fails to make a payment;
- the bond is sold before maturity;
- the issuer redeems the bond early;
- the bond is converted, written down or subject to resolution measures;
- the bond is denominated in a foreign currency; or
- fees, taxes and other costs apply.

If a bond is sold before maturity, the client will receive the current market price, which may be lower than the purchase price or the amount expected to be repaid at maturity. Bond prices may be affected by changes in market interest rates, the issuer's creditworthiness, market liquidity, inflation, currency movements and general economic or political conditions.

A yield that is materially higher than the yield available on comparable bonds may indicate a higher level of credit, liquidity, subordination or other risk. A high yield should not be interpreted as a guarantee of a higher return.

3.3 Principal Risks

Investing in bonds involves the general investment risks described in Section 2, including credit, interest-rate, market-price, liquidity, currency, settlement and country risk. The main risks for bonds are:

Credit and Default Risk

The issuer, guarantor or other person responsible for payment may be unable or unwilling to pay interest or repay principal in full or when due. A deterioration in the issuer's actual or perceived creditworthiness may reduce the bond's value and liquidity even where no payment default has occurred.

In the event of default, insolvency or restructuring, payments may be delayed, reduced or cancelled, and the client may lose some or all of the amount invested.

Interest-Rate and Market-Price Risk

Changes in market interest rates may adversely affect the price of a bond. This risk is especially relevant where a client sells a fixed-rate bond before maturity.

Floating-rate bonds may be less sensitive to changes in market value than fixed-rate bonds, but their income may decrease when the applicable reference rate falls. Zero-coupon and long-dated bonds may be especially sensitive to interest-rate movements.

The market price may also be affected by inflation, changes in the issuer's financial condition, market sentiment, supply and demand, political or regulatory developments and other market factors.

Liquidity Risk

There may be no active or continuous secondary market for a bond. Liquidity may depend on the amount issued, the number of market participants, the remaining maturity, the issuer's creditworthiness and current market conditions.

A client may be unable to sell a bond when desired or may have to accept a price materially below its estimated value. If no suitable buyer is available, the client may be required to hold the bond until maturity, subject to the issuer meeting its obligations.

An indication by an issuer, dealer or other person that secondary-market trading may be provided does not guarantee that liquidity will remain available throughout the life of the bond.

Currency Risk

If a bond is denominated in a currency different from the client's base or reference currency, exchange-rate movements may affect interest payments, the market value of the bond and the value of the redemption proceeds. A client may incur a loss due to adverse currency movements even where the issuer makes all payments in full.

Early Redemption, Callable Bonds and Reinvestment Risk

The terms of a bond may allow the issuer to redeem the bond before its scheduled maturity (a callable bond). The timing of redemption is generally determined by the issuer and may not be favourable to the client. Early redemption may occur when current market interest rates are lower than the bond's coupon rate or in other circumstances specified in the bond's terms, and may limit potential price gains.

If a bond is redeemed early, the client may be unable to reinvest the proceeds in an investment offering a comparable return. The amount received on early redemption may also differ from the amount the client expected to receive at maturity.

3.4 Specific Bond Features and Bail-in Risk

Some bonds contain features that create additional or different risks. Clients should understand the specific terms and ranking of a bond before investing.

Subordinated Bonds

Subordinated bonds rank below senior debt in the event of the issuer's insolvency or resolution. Holders of subordinated bonds may receive payment only after claims with a higher ranking have been satisfied. The likelihood of a partial or total loss may be greater than for senior bonds issued by the same issuer.

Interest or principal payments on some subordinated bonds may be deferred, reduced or cancelled under their terms or applicable regulatory requirements.

Convertible and Exchangeable Bonds

Convertible or exchangeable bonds may be converted or exchanged into shares or other financial instruments under specified circumstances. Their value may be affected by both bond-market factors and movements in the price of the relevant shares or other underlying instruments.

Conversion may occur at an unfavourable time or price and may result in the client holding an instrument with materially different risks. Mandatory conversion features may apply without the client's consent where the relevant conditions are met.

Perpetual Bonds

Perpetual bonds have no fixed maturity date. The issuer may have no obligation to repay the principal amount on a predetermined date. Repayment may depend on the issuer exercising a redemption option, which may never occur.

Interest payments may also be discretionary, deferrable or cancellable depending on the bond's terms. Perpetual bonds may be highly sensitive to changes in interest rates, the issuer's creditworthiness and market liquidity.

Zero-Coupon Bonds

Zero-coupon bonds generally do not make periodic interest payments and are issued or traded at a discount to the amount payable at maturity. Their return depends principally on the issuer repaying the bond at maturity.

Zero-coupon bonds may be especially sensitive to interest-rate movements, and the client may receive no income during the life of the investment. If the issuer defaults, the client may lose some or all of the anticipated return and principal.

Bail-in and Resolution Risk

Bonds and other eligible liabilities issued by banks or some financial institutions may be subject to statutory resolution powers. If the relevant authority considers that an institution is failing or likely to fail, the authority may take action without the consent of bondholders.

Such action may include:

- reducing or cancelling interest or principal;
- writing down the value of the bond;
- converting the bond into shares or another instrument;
- changing the bond's terms or maturity;
- suspending payments or enforcement rights; or
- transferring the bond or the issuer's business to another entity.

The exercise of resolution or bail-in powers may result in a significant reduction in the value of the bond or the partial or total loss of the client's investment. Subordinated instruments will generally absorb losses before liabilities ranking above them, although the outcome depends on the applicable resolution framework and the specific ranking of the instrument.

4. SHARES**4.1 Nature and Key Features**

A share represents an ownership interest in a company. Shareholders may have rights to participate in the company's profits, vote at general meetings and receive a distribution of any remaining assets if the company is wound up. These rights depend on the class of shares, the company's constitutional documents and applicable law.

Before investing, clients should review the relevant prospectus, financial statements, corporate announcements and the terms and rights applicable to the relevant class of shares.

4.2 Returns and Pricing

The return from an investment in shares may consist of dividends and any increase in the market price. Neither dividends nor capital gains are guaranteed, and the client may suffer a loss if the share price falls.

Dividends generally depend on the company's profitability, financial position, dividend policy and the necessary corporate approvals.

Share prices are determined by supply and demand and may be affected by the company's financial performance and prospects, corporate actions, economic and political conditions, interest rates, inflation, regulatory developments, market sentiment and other factors. Prices may fluctuate substantially and may not recover to the client's original purchase price.

The overall return may also be reduced by transaction costs, custody charges, taxes, currency-conversion costs and other applicable fees.

4.3 Principal Risks

Shares are subject to the general risks described in Section 2. The main risks are:

- **Company and insolvency risk:** Adverse developments affecting the company may reduce the value of its shares. If the company becomes insolvent, shareholders generally rank after creditors and may lose the entire amount invested.
- **Market and price risk:** Share prices may fluctuate rapidly because of company-specific events or wider market conditions.
- **Liquidity risk:** Shares with low trading volumes or a limited number of market participants may be difficult to sell. Trading may also be suspended, or the shares may be delisted, leaving the client unable to sell or obtain a reliable valuation.
- **Dividend risk:** Dividends are not guaranteed and may be reduced, deferred or cancelled. Historical dividend payments are not a reliable indicator of future payments.
- **Currency risk:** Where shares are traded in a currency different from the client's base or reference currency, exchange-rate movements may affect their value, dividends and sale proceeds. Currency exposure may also arise where the company has substantial foreign-currency revenue, costs or assets.
- **Concentration risk:** Shares issued by smaller companies or companies operating in a particular sector or geographical market may be more volatile and less liquid and may be especially affected by adverse developments in that area.
- **Corporate-action and dilution risk:** Rights issues, mergers, acquisitions, share conversions, capital reorganisations and other corporate actions may change the value, number or characteristics of the shares held. If the client does not participate in a new share issue, the client's ownership and voting rights may be diluted.
- **Share-class risk:** Preference shares, redeemable shares and other special classes may have different voting, dividend, conversion and repayment rights. Priority over ordinary shares does not guarantee payment or protection against loss.
- **Unlisted-share risk:** Shares that are not admitted to trading on an established venue may be difficult to value, transfer or sell. There may be limited publicly available information and no active secondary market.

4.4 Trading, Corporate Actions and Shareholder Rights

Shares may be traded on regulated markets, other trading venues or, where permitted, outside a trading venue. Trading rules, operating hours, liquidity and settlement arrangements may differ between venues and jurisdictions.

Corporate actions may require the client to provide instructions or additional funds within a specified period. If the client does not provide a valid instruction by the applicable deadline, a default option may apply or the relevant rights may expire without value. The Company may establish an earlier instruction deadline to allow sufficient time for processing through custodians and other intermediaries.

The ability to exercise voting rights, participate in corporate actions or receive distributions may depend on applicable law, market practice and the relevant custody arrangements.

5. EXCHANGE-TRADED FUNDS (ETFs)

5.1 Nature and Key Features

An exchange-traded fund (ETF) is a collective investment undertaking whose units or shares are traded on a regulated market or other trading venue, like shares.

An ETF generally invests in a portfolio of assets or uses derivatives to provide exposure to an index, market, sector, country, region, asset class or investment strategy. Although many ETFs seek to track an index, ETFs may also be actively managed.

An investment in an ETF represents an interest in the fund and does not generally give the client direct ownership of the ETF's underlying assets. Before investing, clients should review the ETF's prospectus, Key Information Document and other product documentation, including its investment objective, underlying exposure, replication method, fees, currency and distribution policy.

5.2 Returns and Pricing

The return on an ETF depends principally on the performance of its underlying assets, index or investment strategy, less management fees, transaction costs, taxes and other expenses. The ETF may distribute income received from its investments or reinvest that income within the fund.

ETF units or shares are traded at market prices determined by supply and demand. The market price may be higher or lower than the ETF's net asset value, especially during periods of market stress, exceptional volatility or reduced liquidity.

An ETF seeking to track an index may not reproduce the index's performance exactly. Differences may arise from fees and expenses, transaction and rebalancing costs, taxes, cash holdings, sampling of index constituents, derivative costs and the timing or treatment of income.

The client's overall return may also be reduced by bid-offer spreads, brokerage commissions, custody charges and currency-conversion costs.

5.3 Principal Risks

ETFs are subject to the general risks described in Section 2. The main risks are:

- **Underlying investment risk:** The value of an ETF may decrease because of adverse movements in its underlying assets, index or investment strategy. An ETF focused on a particular sector,

country, region, currency or investment theme may be more concentrated and volatile than a broadly diversified ETF.

- **Tracking risk:** An index-tracking ETF may not reproduce the performance of its benchmark accurately. Tracking differences may increase during periods of market disruption, reduced liquidity or exceptional volatility. There is no guarantee that the ETF will achieve its stated investment objective.
- **Market-price risk:** The ETF's trading price may differ from its net asset value. A client may purchase the ETF at a premium or sell it at a discount to the value of its underlying assets.
- **Liquidity risk:** Liquidity depends on both the market for the ETF and the liquidity of its underlying assets. During market stress, market makers may reduce or withdraw their activity, bid-offer spreads may widen and orders may remain unexecuted or be executed at an unfavourable price.
- **Replication and counterparty risk:** A physically replicating ETF may hold all or a sample of the relevant underlying assets. A synthetically replicating ETF may use swaps or other derivatives and is therefore exposed to the creditworthiness of its counterparties. Collateral arrangements may reduce but do not eliminate counterparty risk.
- **Securities-lending risk:** An ETF may lend securities from its portfolio. If a borrower fails to return them, the ETF may suffer a loss where the collateral is insufficient, declines in value or cannot be realised promptly.
- **Currency risk:** The trading currency of an ETF does not necessarily reflect the currencies of its underlying investments. An ETF traded in euro may still have exposure to assets denominated in US dollars or other currencies. Currency hedging may reduce but does not eliminate this risk.
- **Leveraged and inverse ETF risk:** Leveraged or inverse ETFs may magnify losses and commonly reset their exposure daily or at another specified interval. Their performance over longer periods may differ significantly from the stated multiple or inverse of the benchmark's overall performance and may be unsuitable for long-term holding.
- **Closure, merger and delisting risk:** An ETF may be merged, terminated, liquidated or delisted from a trading venue. This may require the client to sell or redeem the investment at an unfavourable time and may result in costs, tax consequences or losses.

6. EXCHANGE-TRADED COMMODITIES (ETCs)

6.1 Nature and Key Features

An exchange-traded commodity (ETC) is a financial instrument designed to provide exposure to the performance of a commodity, a basket of commodities or a commodity index. ETCs may provide exposure to precious metals, energy products, agricultural products or industrial metals.

Unlike an ETF, an ETC is generally structured as a debt instrument issued by a company or special-purpose vehicle and is not normally a collective investment undertaking. The client therefore holds a security issued by the ETC issuer rather than directly owning the underlying commodity.

An ETC may obtain its exposure through physical ownership of a commodity, commodity futures or other derivatives. Clients should review the ETC's product documentation to understand its legal structure, underlying exposure, replication method, collateral arrangements, fees and redemption provisions.

6.2 Returns and Pricing

The return on an ETC generally depends on the performance of the underlying commodity, basket or index after fees, transaction costs and other expenses.

If an ETC uses futures contracts, its performance may differ materially from movements in the commodity's spot price. Futures contracts must generally be replaced before expiry, and the cost or benefit of this process may reduce or increase returns. In particular, repeated replacement of contracts in a market where later-dated futures are more expensive than near-term futures may reduce the ETC's value over time.

The market price of an ETC is determined by supply and demand and may differ from the value of its underlying exposure, especially when markets are stressed or less liquid.

6.3 Principal Risks

ETCs are subject to the general risks described in Section 2. The main risks are:

- **Commodity price risk:** Commodity prices may be highly volatile and may be affected by supply and demand, geopolitical events, weather conditions, production levels, storage and transportation costs, regulation and market sentiment.
- **Issuer and counterparty risk:** Because an ETC is generally a debt instrument, the client is exposed to the creditworthiness of the issuer and, where derivatives are used, the relevant counterparties. Collateral arrangements may reduce but do not eliminate these risks.
- **Liquidity risk:** Market makers or other liquidity providers may reduce or withdraw their activity, especially during market stress. The client may be unable to sell the ETC or may have to accept an unfavourable price.
- **Currency risk:** The commodity, ETC and client's account may be denominated in different currencies. Exchange-rate movements may affect the client's return.
- **Physical custody risk:** A physically backed ETC may be exposed to risks relating to the storage, insurance and custody of the underlying commodity. Physical backing does not necessarily give the client the right to take delivery.
- **Futures and roll risk:** A futures-based ETC may perform differently from the commodity's spot price because of the replacement of expiring futures contracts, financing costs and the structure of the relevant futures market.
- **Leveraged and inverse ETC risk:** Leveraged or inverse ETCs may magnify losses and may produce results over longer periods that differ significantly from the stated multiple or inverse of the underlying commodity's overall performance.
- **Termination and delisting risk:** The ETC may be redeemed early, terminated or delisted under its terms. This may occur at an unfavourable time and the client may receive less than the amount invested.