INFORMATION BROCHURE – FINANCIAL INSTRUMENTS

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BNP PARIBAS FORTIS

The bank for a changing world

Content

INTRODUCTION

Making a good investment requires being well-informed. Having information on the types and the pros and cons of the various forms of investment. And, of course, the related risks.

For many years BNP Paribas Fortis has given considerable importance to optimum communication regarding investments. This concern for suitable investor information has been strengthened at the European level. The European directive on markets for financial instruments (MiFID), in effect since 1 November 2007, and subject to a change taking effect on 3 January 2018, requires the provision of documentation to investors containing a general description of the type and risks of financial instruments.

This brochure fulfils the above requirement. Herein you can find a description of the characteristics of the various types of financial products (including forms of investment BNP Paribas Fortis does not offer, or sales of which by the bank are subject to specific conditions), as well as a description of their related advantages, disadvantages and risks, so that you can make your investment decisions in full knowledge of all the relevant factors.

Prior to investing, it is recommended to study the specific characteristics and risks of each financial product closely using additional information such as the issue documents (the prospectus, key information documents for the investor, etc.), information on the costs, and also to seek tax advice on the matter.

The fiscal treatment of financial instruments and the corresponding tax advantages that may apply, may be subject to changes in the future. This may impact the return of the investments.

This brochure is targeted at non-professional investors under MiFID, unless mentioned otherwise.

1. BONDS

1.1 Traditional bonds

A bond represents an acknowledgement of a debt of an issuer, which for the bondholder represents his participation in a long-term loan – of more than a year – for which he generally receives periodic interest, or a "coupon".

It is an investment instrument on the capital markets. These are the markets on which loans and borrowings maturing in more than one year are traded (whereas those with a term equal to or less than one year are traded on the money market).

Bonds are offered to the public during a subscription period. During this period, investors can obtain the bonds at the issue price. Depending on the issued bond, there might be a placement commission that is part of the issue price, or entry charges that are due on top of the issue price.

After the issue period, the bonds can be bought or sold on the secondary market. Transactions are performed at a price that varies depending on the evolution of – among others – interest rates (the price shall in principle be less than the issue price, if interest rates have increased since issuance and vice versa), and on any changes relating to the issuer's solvency since moment of issuance.

On maturity, the bond is redeemed at a fixed price and generally at par (100% of the face value).

Main characteristics of traditional bonds

The main characteristics of traditional bonds are the following:

- Issuer;
- currency;
- coupon;
- maturity and term;
- price and yield;
- issuance amount;
- where listed;
- with or without subordination.

Issuer

Issuers can be differentiated using two criteria:

- Issuer type;
- issuer rating.

A. Issuer types

The main borrower or bond issuer types are:

- public authorities (government bonds);
- supranational institutions (supranational bonds); and
- corporations (corporate bonds), among which the banks play an active role (for example in the area of bank savings certificates or notes).

1. Public authorities

Government bonds are issued by public authorities and have different maturities. Government authorities often turn to the capital market to fund their debts or investment projects.

State bonds are generally more liquid than corporate bonds, since the issuance amount is often considerable and in most cases there is a well organised secondary market. However, situations vary considerably depending on the issuing government.

In Belgium, the best known government bonds are linear bonds (OLO) and state bonds.

State bonds are fixed-income securities issued by the Belgian state with annual coupons. This kind of securities are intended for non-professional investors. The primary market for state bonds is only accessible to individuals and certain specific associations such as non-profit organisations, foundations, church councils and so on.

Linear bonds are dematerialised fixed-income securities, with a medium to long term, that are issued via auction by the Belgian Treasury.

In principle, there is a monthly auction. Banks and stockbrokers established in Belgium, as well as banks established in the Grand Duchy of Luxembourg and approved by the Luxembourg Monetary Institute may participate in the auctions (primary subscribers). However, all residents and non-residents, regardless of their legal status, can buy linear bonds on the secondary market.

In Europe, the Bund (Germany) and the OAT (France, "Treasury bonds") are some of the best known bonds issued by the public authorities. In the US they are known by treasury bills

2. Supranational Bodies

Supranational bonds are issued by international institutions such as the European Investment Bank (EIB) or the World Bank.

From a risk perspective, they are comparable to the safest government bonds.

3. Corporate bonds

Corporate bonds are securities representing a participation in a long term loan issued by a private corporation.

Financial institutions and banks in particular are generally very active issuers. They use this as a means to finance, amongst others, their lending activities.

4. Bank savings certificates

Bank savings certificates represent an acknowledgement of a debt by the borrower (the credit institution issuing the bank savings certificate) to the lender (the investor who buys the bank savings certificate). Their term is generally one to five years but can also be ten years or more.

B. Issuer rating

Bonds can also be classified by issuer quality. This can be seen from the rating allocated to the issuer. The rating gives an indication of the issuer's solvency or the quality of the emission at the time when allocated. It is established by specialised, independent firms (the main rating agencies are Moody's, Standard & Poor's and Fitch).

S&P	Moody's	Meaning of the rating
AAA	Aaa	The highest level of quality. This is the best quality rating. It corresponds to a very high level of security regarding the interest payments and principal redemption.
AA+, AA, AA-	Aa1, Aa2, Aa3	Very high level of security for interest payments and principal redemption. This rating differs only slightly from the highest rating.
A+, A, A-	A1, A2, A3	Very high level of security for interest payments and principal redemption. Changes of circumstances and unfavorable economic developments, however, may have a larger impact than for the higher ratings.
BBB+, BBB, Baa2, BBB-	Baa1, Baa3	Satisfactory level of security for interest payments and principal redemption. Despite the
BB+, BB, BB-	Ba1, Ba2, Ba3	presence of sufficient protection factors, changes in circumstances and unfavorable
B+, B, B-	B1, B2, B3	economic developments can affect the level of certainty regarding interest payments and
CCC+, CCC, CCC-	Caa	principal redemption.
CC	Ca	Ratings reflecting the speculative nature of the investment with regard to interest payments and principal redemption. Although these issues are not of bad quality and they do offer certain protection mechanisms, the uncertainty factors predominate for them. These issues have a large exposure to unfavorable developments.
C	C	Very speculative
D		Increased risk of non-payment
+ ou -	1, 2, 3	Payment defaults have already been noted
NR	NR	The investor should fear the risk on payment default in the short-term
		Upon Default
		Indicates the trend within the category.
		(1 or + = classification at upper limit of category, etc.)
		No rating: no rating available.

The rating of an emission is only given at request of the issuer and against payment. As a result, not all bonds have a rating. The lack of a rating does not necessarily mean that the loan is of lesser quality (although top-quality issuers almost always request a rating). Sometimes a rating can be 'derived' from the rating of other loans of the same issuer with similar characteristics.

Bonds issued by a same issuer can have different ratings. Thus, for example, a subordinated loan

(redeemed only after paying off debts to all ordinary creditors and just before any shareholders) shall in principle have a lower rating than an unsubordinated loan (which is reimbursed at the same time as are the other non-secured creditors). The rating can also be influenced by the term of the issue.

Furthermore, one should be aware that a same issuer or issue can have different ratings from different rating agencies. This difference in rating reflects a different assessment by the various rating agencies of the risk presented by the issuer. The policy adopted by rating agencies aims to regularly review the rating assigned to issuers, as the rating may be subject to significant and fast change, and is therefore not a reliable indicator over the longer term.

Lastly, we should note that the rating agencies are not infallible; hence errors may occur.

When using the term investment-grade bonds, we refer to those that have been given a rating of BBB or higher by Standard & Poor's and a rating of Baa or higher by Moody's. When financial instruments are issued, the general principle is: the worse the rating, the higher the returns. Indeed, the return is a remuneration of the credit risk taken by the bondholder.

High-yield bonds are those with a rating below investment grade for which the risk of issuer bankruptcy is therefore higher. This type of bonds is also called junk bonds.

Emerging market bonds are issued by emerging countries, or corporations in such countries, and are often given a lower rating by the specialised rating agencies than investment grade.

Link between issuer type and rating

Government bonds of the main industrialised countries like the USA and Germany generally have an AAA rating and offer every guarantee to the investor. As they present the lowest risk, they also offer the least attractive yields. However, not all government bonds have such a rating.

For example, emerging economy government bonds have a much larger risk and even the risk of payment default. Debt restructuring measures have already been noted.

Loans of supranational bodies like the European Investment Bank and World Bank generally have a very high rating (often AAA).

Corporate bond loans have very diverse ratings depending on the financial health of the company concerned and the quality of its management. Their reliability is generally less than that of prime states.

Issue currency

The bond currency is another essential characteristic.

We can make a distinction between loans in euros (offering no currency risk for the European Eurozone investor), and foreign-currency loans.

Some currencies like the dollar can experience significant fluctuations against the euro (both on the upside or downside). Other currencies are rather stable against the euro (such as the Danish krone). Countries wanting their currency to be part of the euro have longer term objectives around economic and financial convergence, which should allow to mitigate currency fluctuations against the euro.

The choice of currency also influences the coupon of the bond. The interest rate depends on the economic (and political) climate of the related country. For instance, there is typically a higher interest rate in countries with higher debt or higher inflation rates.

Maturity and duration

The term of the issue also affects the bond yield. In general, the longer the bond's term, the higher the coupon.

The duration of a fixed rate financial instrument, such as a bond, is the average term of its discounted financial flows. Using the duration, one can compare several fixed rate instruments or bonds, regardless of the issuing conditions. The duration allows to determine the sensitivity of bonds to fluctuations in market yields.

Coupon

The coupon determines the remuneration the investor shall receive.

As mentioned above, the coupon interest rate is set in accordance with several parameters, such as:

- The fixed-income context and bond currency;
- issuer type and quality;
- the bond's term.

Issuance amount

The issuance amount plays an important role in the liquidity of the bond, and thus the ability of the investor to buy or sell the bond during its term. The larger the issuance amount, the more liquid the investment, which enables a more efficient secondary market.

Government bonds or at least those with a better rating, generally have a good liquidity. The same principle generally applies to loans of supranational institutions. For corporate bonds, the liquidity can vary considerably; for some bonds it might be nearly impossible to perform trades during their term, or the transaction might only take place at a large discount to the intrinsic value of the investment.

With or without subordination

A subordinated bond is a loan that will, in the event of bankruptcy, only be repaid after reimbursement of all other creditors and just before the shareholders. It therefore carries more risk than an unsubordinated loan. The additional risk for the investor can be estimated using the bond rating, which takes into account the subordination. In the Guidelines issued on 27/07/2015, the FSMA regulated more strictly the offer of subordinated bonds part of financial institutions' own funds to non-professional clients ('retail clients'). The FSMA estimates that those products pose particular risks, are more subject to conflict of interest, and are not very liquid.

Possible restrictions

Not all types of bonds are accessible to any type of investor; specific bonds are restricted to institutional investors. For bonds, certain constraints (restrictions or conditions) as specified in the prospectus may apply.

1.2 Advantages, disadvantages and risks of bonds

Advantages

- Depending on the quality of the issuer, this type of investment offers, in principle, little uncertainty (the amounts and dates of intermediate income streams and principal redemption are determined at the time of issue).
- Bonds typically offer a higher remuneration compared to short-term instruments. This remuneration is generally more attractive the lower the issuer is rated (although this also goes hand in hand with a higher risk).
- Next to a regular income, bonds can also generate capital gains when market yields drop.
- Bonds are generally tradeable on the secondary market at any moment.

Disadvantages

- During the term of the loan, the value of the bond fluctuates. This depends on various factors, out of which the interest rate and the financial reliability of the issuer are the most relevant ones.
- Due to inflation, the real value of the principal at redemption on maturity may be less than upon issuance. This effect is called monetary erosion and is increased when the higher the inflation rate and the longer the bond term. It is compensated when the nominal coupon exceeds the average inflation rate over the term of the bond.
- A bond can only be purchased in accordance with the initial conditions during the subscription period. Afterwards, the bond may be purchased at a variable rate, whereby the purchase price is increased with broker fees and transaction costs.

Risks

- Capital risk: The total or partial loss of the investment is possible. Also for issuings by governments (or other public institutions), the risk of total loss of the investment exists.
- The capital risk is higher than for subordinated bonds. If the issuer has financial difficulties, subordinated bonds are only reimbursed after 'normal' debt and just before shareholders.
- Insolvency risk: The risk of issuer insolvency varies substantially from one bond to another. The corporation can underperform (financially), go bankrupt, or be in the context of a bail-in. A bail-in is rescuing an issuer (corporation or public authorities) by making the creditors of the issuer incur the inconvenience of its imminent failure. This means that the financial products are converted by the regulator, without the consent of the investor, resulting in a considerable loss of value.
- The insolvency risk is relatively low for bonds of governments in countries such as Belgium, Germany,..., for those issued by supranational bodies and generally also for issuings in which the issuer has a high-quality rating (investment grade). In these cases, it is almost certain that the interests will be paid and the principal shall be redeemed on maturity.
- For non-investment grade bonds however, the insolvency risk of the issuer and thus the risk of default increases significantly. The lower the rating, the higher the risk. Rating agencies are not infallible and mistakes may occur.
- Interest rate risk: The interest-rate risk can result in a loss in value during the term of the bond. It is higher when the residual maturity is longer. The value of a bond decreases when market interest rates increase.
- Liquidity risk: Bond liquidity and thus the possibility of buying or selling during its term is very variable. It depends primarily on the amount of the issue (the larger the issue, the more efficient the secondary market), and on the transaction volumes and issuer type. Government bonds are more easily tradeable during their term than corporate bonds. Secondary market liquidity may be very limited for securities denominated in less common currencies.
- The tradability can be limited (depending on the type of obligation and its rating).
- Foreign-exchange risk: The foreign-exchange risk depends on the currency in which the bond is issued. It exists also for each coupon payment and redemption of the principal. For a European investor in the euro zone, this risk is non-existent for loans issued in euro. It is limited for currencies linked to the euro. However, it is significant for the other currencies. In principle there is an inverse relationship (primarily over the longer term) between the level of the interest rate and the stability of the foreign currency (a currency with a higher interest rate than another tends to depreciate against that other currency).
- Volatility risk: The exposure to volatility also depends on the bond's residual maturity (the further the maturity, the more sensitive the bond is to interest-rate fluctuations). It also depends on the developments in the issuer's financial position (the bond price reacts negatively to a deterioration in the rating of the issuer, or to a risk thereof).
- Other risks: Certain bonds may have a call option. This allows the issuer to repay the loan prematurely at a price and date determined upon issuance. The issuer generally exercises such an option when the interest rate falls significantly below that of the bond coupon. This also constitutes a risk for the bondholder, as he may be deprived of attractive conditions on the bond held and is obliged to reinvest at less attractive market conditions.

1.3 Other bond types

Certain bonds have different characteristics to those mentioned above, for what are considered 'traditional' bonds. These characteristics can sometimes significantly affect the advantages and disadvantages of the bonds concerned.

Below we present a certain number of bond types with varying characteristics. It is always possible that new bond types are being created.

1.3.1 Zero-coupon bonds

A. Description

Zero-coupon bonds do not distribute annual interest, but reserve the interest until maturity. The issue price is (considerably) below that of redemption, since it represents the nominal value discounted on the basis of the issuance date and a fixed interest rate.

B. Advantages, disadvantages and risks of zero-coupon bonds

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Since zero-coupon bonds do not distribute interest, they have a longer duration than a traditional bond with an identical residual maturity. This means that, when interest rates are falling, the price increase will be higher than for traditional bonds.
- The absence of intermediate capital flows avoids reinvestment risks (where the return could be lower than the initial yield).

Disadvantages

- For a zero-coupon bond, there are no intermediate payments. These bonds do not pay annual interest.

Risks

- Volatility risk: since zero-coupon bonds do not distribute income, they have a longer duration when compared to a traditional bond. This results in an increased volatility and a stronger price decrease, in periods of rising interest rates.

1.3.2 Stripped Bonds

A. Description

Certain bonds issued on the market can be stripped. This means that the body of a bond and its coupons are separated and listed separately. The body of the bond has its own listing, as does each coupon. These assets do not generate intermediate financial flows before the maturity date.

This system is often used by insurers to manage the rate of their capital flows, and is used almost exclusively for government bonds.

B. Advantages, disadvantages and risks of stripped bonds

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- By stripping bonds, one can separate the different capital flows related to these bonds. It allows for more flexibility in meeting the needs of the financial operators.
- Since the different components of the bonds do not distribute intermediate income, they have a longer duration than a traditional bond. This means that, when interest rates are falling, the price increase will be higher than for traditional bonds.
- The duration of the different components is (very) easy to calculate since there are no intermediate capital flows.
- The absence of intermediate capital flows avoids reinvestment risks (where the return could be lower than the initial yield).

Disadvantages

- The stripped assets do not pay interest before maturity.

Risks

- Liquidity risk: a restricted market applies.
- Volatility risk: since the stripped assets do not distribute income, they have a longer duration when compared to a traditional bond. This results in an increased volatility and a stronger price decrease, in periods of rising interest rates.

1.3.3 Inflation-linked bonds

A. Description

Inflation-linked bonds are a specific form of indexed bonds. They pay a periodic coupon as well as the principal on maturity (just like traditional bonds), but the coupon is paid on a nominal amount that is adjusted for inflation.

B. Advantages, disadvantages and risks of inflation-linked bonds

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- They allow to anticipate the evolution of inflation and so provide effective capital protection when inflation increases.
- Indexed bonds protect the investor from inflation for the entire investment.

Disadvantages

- Since the level of inflation is unknown upfront, the investor does not know in advance the level of income, nor the principal amount he will receive at maturity.

Risks

- Liquidity risk: a restricted market applies.
- Inflation risk: inflation-linked bonds can be disadvantageous in periods of weaker inflation or of deflation.
- Other risks: inflation-linked bonds often have a longer duration than traditional bonds, due to the lower coupon.

1.3.4 Indexed bonds

A. Description

Indexed bonds are bonds for which the performance is linked to the evolution of a specific index (e.g. the gold price, a market or stock exchange index, or a specific exchange rate). Different indexation mechanisms may apply: for instance only the reimbursement price is indexed, no payment of coupon, etc..

B. Advantages, disadvantages and risks of indexed bonds

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- These bonds generally offer a more attractive return than traditional bonds, because the initial capital is not often guaranteed. The additional return is supposed to compensate for this extra risk.

Disadvantages

- Investments in indexed bonds do not have specific disadvantages.

Risks

- Capital risk: there is a considerable risk of capital losses both over the term of the investment and on maturity.
- Liquidity risk: the liquidity of these bonds is generally less than that of traditional bonds. The investor is thus less able to dispose of his investment at a price corresponding to its intrinsic value.
- Volatility risk: as there are certain terms and conditions specified for this type of bond, the redemption price may fluctuate significantly (as it depends on a reference index).

1.3.5 Floating rate notes (FRN's)

A. Description

Floating rate notes are bonds for which the interest rate is fixed at regular intervals for the period that follows (for example every six months for the following half-year). The interest-rate setting method is fixed upon bond issuance.

B. Advantages, disadvantages and risks of floating-rate notes

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Floating rate notes are regularly adjusted to market conditions. In a low interest rate climate, they save the investor from having to remain locked into some relatively unattractive interest rate conditions until maturity. These will allow the investor to adapt to market conditions and benefit from any interest rate increase.
- As the coupon on a floating rate note is regularly adjusted to market conditions, its secondary market value is in principle more stable than that of a traditional bond.

Disadvantages

- For floating rate notes, additional conditions are sometimes applicable, by which the interest rate is capped.
- These bonds often have a long term; some are even perpetual bonds. This means that to dispose of the bond one has to resell it on the secondary market, which generates transaction costs.
- Floating rate notes may have a call option. This allows the issuer to repay the bond early and on dates and at a price determined upon issuance. The issuer generally uses this possibility when the market rate has significantly decreased when compared to the bond rate. This represents a risk for the bondholder, who then loses the more attractive conditions on his first bond and is obliged to reinvest his capital at less attractive market conditions.

Risks

- Liquidity risk: Floating rate notes do not always have a broad liquidity, which at times prevents a transaction from being conducted at a price close to the bond's intrinsic value. A restricted market may apply.

1.3.6 Perpetual bonds

A. Description

These are bonds without a maturity date. Perpetual bonds are mostly issued as subordinated loans.

However, they often have a call. A call means that the issuer reserves the right, on certain dates (or in given periods determined at issuance) to terminate the loan and reimburse its holder at a predefined price.

Some convertible bonds (see below) may be perpetual bonds.

B. Advantages, disadvantages and risks of perpetual bonds

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- From a historic perspective, the yield of a perpetual bond is generally more attractive than the return of traditional bonds (but this is no guarantee for the future).

Disadvantages

- As there is no predetermined maturity date, the only possibility for the investor to dispose of the bond is to resell it on the secondary market, which generates costs.

Risks

- Insolvency risk:
  - Due to the long term, the investor is exposed longer to the credit risk of the issuer. This risk can be increased compared to the moment of issuance or later purchase.
  - Perpetual bonds are often very subordinated. This means that in case of bankruptcy of the issuer, the bondholders will only be reimbursed after all the creditors, including holders of traditional bonds. The probability you (partially) recover your capital in case of bankruptcy of the issuer is minimal.
- Liquidity risk: a restricted market may apply.
- Volatility risk: perpetual bonds have a long term, which makes pricing very sensitive to bond market developments. There is thus greater price volatility and an increased risk of capital loss compared to a traditional bond.
- Other risks:
  - In some cases, the issuer reserves the right to suspend payment of the coupon.
  - The existence of a call could also be considered a risk for the investor to the extent that this call is generally exercised when the issuer can refinance at better conditions. This is often the case when market interest rates are low. The bondholder would then have to reinvest in a less profitable asset.
  - Subordinated perpetual bonds issued by financial institutions have an additional risk. These bonds can, at the request of the regulator, be wholly or partially written off or converted in share, when the issuer is no longer financially viable (to prevent bankruptcy), or when it is involved in bankruptcy. This means that whoever purchases such a bond may risk to eventually receive shares.

1.3.7 Convertible bonds

A. Description

Like traditional bonds, convertible bonds have a fixed interest rate and a fixed term. The difference is that the bondholder has the right (and not the obligation) to convert the bond into shares or new shares of the issuer, or exceptionally another company, during one or more given periods and under predetermined conditions.

It is also possible to issue 'subordinated' convertible bonds. This means that in case of liquidation of the issuer, these bonds would be reimbursed after all present and future creditors.

The conversion period is the period during which conversion is possible.

The conversion price is set by the issuer upon emission of the convertible bonds. This is the price in convertible bonds (at nominal value) against which the issuing company will deliver shares during the conversion period.

In this way, the conversion ratio is established. This is the number of shares obtained for the conversion of a bond (based on the nominal value). The conversion ratio from which the bondholder benefits, is sometimes less favorable when postponing the conversion.

Given that prices of the convertible bond and the related share are subject to market fluctuations, a conversion price needs to be calculated regularly. This conversion price is obtained by dividing the current market price of the convertible bond by the conversion ratio defined at issuance.

The (percentage) difference between the conversion price and the price of the share gives the conversion premium. A positive conversion premium indicates the share can be bought at a certain price percentage lower when buying directly on the stock market instead of acquiring it using the convertible bond (that is, by converting it), under the assumption of immediate conversion. A conversion discount indicates the share can be bought at a price percentage lower when using the convertible bond than by buying it directly on the stock market.

The price of a convertible bond generally follows that of the share (given the fact that it represents a potential share, when not considering the fixed interest rate and redemption at par). Upon conversion, one does not take into consideration the accrued interest; the shares obtained by the conversion are entitled to the full-year dividend.

B. Advantages, disadvantages and risks of convertible bonds

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Until conversion, the bondholder receives a fixed return, even though this is generally lower than that of traditional bonds.
- If the bondholder does not convert his bond, it entitles to redemption of the nominal principal upon maturity. Thus the risk of a convertible bond is lower than that of the underlying share.
- The bondholder can realize benefits during the conversion period, by converting his bonds into shares (when the issuing company is performing well).
- The bond can be traded on the secondary market.

Disadvantages

- The return the bondholder receives until conversion, is generally lower than the return on traditional bonds.
- The risk of capital loss at maturity due to monetary erosion is often higher than for a traditional bond, as the interest rate of a convertible bond is generally lower.
- The intrinsic value of a convertible bond is more difficult to determine (as it depends on both the bond market and the valuation of the underlying share).

Risks

- Liquidity risk: the liquidity risk can be high, as there is often a very restricted secondary market.
- Interest-rate risk: the interest-rate risk (leading to a price decrease) is in principle rather limited, as the interest rate is generally much lower than that of a traditional bond. When the share price is much lower than the strike price (discount), the convertible bond is as a traditional bond with the associated interest rate risk.
- Volatility risk: the risk of price volatility leading to depreciation is rather high, as the price of the convertible bond follows quite closely the price of the share. After conversion, the risks are those of the share.

1.3.8 Bonds cum warrant

A. Description

A bond cum warrant is a bond combined with a separately tradable instrument, that subsequently allows its holder to subscribe for cash to another financial instrument issued in a predetermined period. The subscription right represented by a coupon is called a warrant. The bond cum warrant is therefore a composed investment product that assembles two types of financial instruments upon issuance: the actual bond and the warrant.

A bond with a share subscription warrant allows subscription to a share, to be issued by the company at a price determined upon issuance of the bond. As long as the bond and the warrant are not separated, the bond is called "cum warrant". In general, a warrant can be traded separately and be listed. In this case the bond is called "ex warrant". During the term of the bond, the bondholder can, at his discretion, exercise the subscription right or sell the warrant. He will exercise his right if he considers the new share price to be attractive.

Separated from its warrant, the bond becomes a traditional bond with a fixed interest rate and coupon (often relatively low). The bond has a fixed maturity date on which the principal is redeemed.

B. Advantages, disadvantages and risks of bonds with warrants

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- The warrant is a right and not an obligation. If the conditions for exercising this right are unfavourable, the holder is not required to exercise the right and keeps the security of the bond. However, if the exercise conditions of the warrant are favourable, the holder can expect capital gains.
- The bonds cum warrant and ex-warrant as well as the warrant are listed and can be traded.

Disadvantages

- The interest rate of a bond cum warrant is generally lower than that of a traditional bond.
- The liquidity of a bond cum warrant or ex-warrant is generally limited. There is increased difficulty in selling it prior to maturity, at a price close to intrinsic value.

Risks

- Interest rate risk: in principle, the interest rate risk with price decrease as a result is rather limited, since the interest rate is generally lower than that of a traditional bond. When however, the attached warrant giving the right to a new share loses its value, the bond becomes an traditional bond with the related interest rate risk.
- Liquidity risk: the liquidity risk depends on the size of the secondary market, which can be limited.
- Volatility risk: the risk of price volatility (resulting in depreciation) can be rather high for a bond cum warrant that entitles to acquire a new share, because since its price partly follows that of the share.
- Inflation risk: the risk of capital losses on maturity due to monetary erosion is often higher than for a traditional bond, because the interest on a bond cum warrant is generally lower.

1.3.9 Covered Bonds

A. Description

Covered bonds are bonds issued by credit institutions that entitle the bondholders to a dual recourse: one recourse on the credit institution itself (i.e. the general assets of the credit institution), and one priority recourse on the underlying claims that serve as collateral for the issue of the covered bonds and certain other assets, which together constitute the specific assets.

The credit institution has the continued obligation to ensure that the collateral value of the specific assets is maintained, and that it is sufficient to meet obligations towards bondholders at all times.

B. Advantages, disadvantages and risks of covered bonds

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- The specific assets offer a better protection for ordinary bondholders against issuer insolvency. The specific assets and their associated rights and obligations will always remain completely separate, and will not fall due as a consequence of issuer insolvency.

Disadvantages

- The issue of covered bonds is subject to significant administrative burdens, such as specific prudential supervision, the appointment of a portfolio supervisor with an auditor role and, in special cases, the appointment of a portfolio manager of the specific assets.

Risks

- Other risks: in this context, there is a specific risk of commingling, i.e. mingling of the insolvent estate with the credit institution's general assets. In the event of insolvency of a credit institution, investors (natural persons and SMEs) are entitled to a privilege to their claims, without prejudice to the application of any deposit protection rules.

1.3.10 Reverse Convertible Bonds

A. Description

Reverse convertible bonds are bonds with a generally short term, a relatively large coupon and without capital protection on maturity. The terms of redemption are linked to the price of one or more specified shares (the underlying).

On maturity of the reverse convertible bond, the issuer redeems it either at the face value or in shares based on conversion ratios set upon subscription.

If on maturity, the value of the underlying shares exceeds the face value of the bond, the bond loan will be repaid in cash at 100% of face value.

However, if on maturity the value of the underlying shares is less than that of the bond's face value, it will be redeemed in shares.

The main difference between a ordinary convertible bond and a reverse convertible bond is that with an ordinary convertible bond the holder and not the issuer has the choice to convert the bond into shares or choose redemption at 100% on maturity. In case of reverse convertible bonds, it is the issuer who has the choice.

The large return (coupon) of a reverse convertible bond loan is partially explained by the market rate, but primarily by the remuneration for the risk of redemption in shares on maturity. This remuneration (additional interest) reflects the right (option) granted to the issuer to choose the redemption scheme that suits best.

Reverse convertibles are in fact structured products and are no longer authorised to be marketed on a large scale, in accordance with the moratorium on particularly complex products of 1 August 2011.

B. Advantages, disadvantages and risks of reverse convertible bonds

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- The bondholder enjoys a significantly higher coupon than for traditional bonds.
- If the bond is not converted into shares on maturity, this results in the right to be redeemed at the principal face value. In that case, the investor has realized a higher return on the bond.

Disadvantages

- The high coupon is paid for only a relatively short period.
- Reverse convertible bonds have limited secondary market tradability. The price to be obtained when selling before maturity will usually be less than the theoretical value of the structure at the time of sale.
- The holder is exposed to the risk of redemption in shares on maturity without any choice in the matter. This is generally the case when the underlying share price has declined over the term of the bond.

Risks

- Insolvency risk: the risk of debtor insolvency depends on the issuer quality, which is assessed by rating agencies. The better the rating (for example AAA), the smaller the risk. The companies active on this market generally enjoy a good standing but rating agencies are not infallible.
- Interest-rate risk: there is a limited interest rate risk that can lead to depreciation.
- Liquidity risk: there can be a considerable liquidity risk, as the secondary market for this type of investment is generally limited.
- Volatility risk: there is a considerable risk of price volatility generating a capital loss, as the reverse convertible bond price follows the share price.

- Other risks: if on maturity the price of the underlying share or shares is less than the reference price at the time of the bond issue, the holder shall be reimbursed in shares in accordance with the terms and conditions originally determined. The value of this reimbursement in shares will then be less than the amount initially invested in the bond.

1.3.11 Contingent convertibles (CoCos)

A. Description

Contingent convertibles are bonds which are automatically converted into shares as soon as the level of the capital of the issuer (financial institution) falls below a predefined threshold. The number of shares potentially delivered in the future as a consequence of this conversion is determined by a predefined conversion mechanism.

Contingent convertibles are issued by financial institutions to enhance solvency and automatically increase the capital when necessary.

Contingent convertibles may have a fixed maturity date, or be perpetual.

B. Advantages, disadvantages and risks of CoCos

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- CoCos often have an attractive coupon compared to traditional bonds.

Disadvantages

- The intrinsic value of a contingent convertible bond is more difficult to determine (it involves evaluating the probability of the issuer's capital falling below the predefined threshold).
- The investor is exposed to a decrease in value due to the conversion into shares when the issuer (financial institution) is facing difficulties, without benefiting from upward potential when the issuer (financial institution) is performing well.

Risks

- Capital risk: the bond holder is facing the risk that upon conversion the nominal value decreases, or of receiving shares of a company in difficulty. In case of conversion, the bond is generally subordinated, which means that its holder will be repaid only after the other creditors and bondholders.
- Risk on absence of income: CoCos may not pay periodic coupons.
- Liquidity risk: the liquidity risk is high, as the secondary market is generally very restricted.

1.3.12 Asset Backed Securities

A. Description

Asset Backed Securities ('ABS') play a more important role in Europe since the introduction of the euro.

ABS are the result of a securitization process. Simply put, securitization can be considered as a financial technique that turns illiquid assets into liquid securities (like bonds or other types).

Various types of loans or receivables, from mortgage lending to credit card borrowings for example, are transferred by a financial institution to a company especially established for this purpose, called a Special Purpose Vehicle (or 'SPV'), which acts as issuer. The sale of these assets allows the financial institution to finance new activities and transfer the (credit) risk relating to this assets to another entity.

The securitization process involves various legal and structural aspects, but its main goal is to separate the credit risk for the underlying assets from the credit risk for the financial institution that holds the underlying assets. This is necessary if one wants to obtain a better credit quality for the bonds that the SPV will issue later and that will be tradable on a financial market.

The credit quality of the ABS to be issued will thus depend in particular on the quality of the underlying portfolio and no longer on that of the institution holding the portfolio's underlying assets. The newly issued securities will be divided into various tranches with different ratings, from AAA to NR. The lowest tranche is generally called the 'equity tranche', which would experience the first portfolio losses and carry the highest credit risk, so that higher tranches can receive an 'investment grade rating'.

The cash flows generated by the SPV's underlying portfolio serve to pay the coupons and reimburse the notional amount of the various tranches issued by the SPV's. This is done using a cascade process. After the reinvestment period, the cash flows will first be allocated to paying the interest on the highest-rated tranches and then on the lower-rated tranches. After all the interest has been paid, the remaining cash flows will be allocated to reimbursing the principal for the first tranche ('senior tranche') and then that for the so-called ('mezzanine') tranches. The remaining cash flows after payments for the structure's rated tranches, will be allocated to partial or entire payment of the so-called 'equity tranche'. The structure's highest tranche therefore has the lowest risk exposure. It enjoys the highest rating, but is given the smallest coupon.

Many forms of securitized lending exist on the market under different names:

- Mortgage Backed Securities (MBS), consisting of securitised mortgage credits;
- Residential Mortgage Backed Securities (RMBS), involving the securitisation of residential mortgage loans;

- Collateralized Mortgage Obligations (CMO). These have a portfolio of mortgage loans of which the principal and interest flows are transferred to the security holders through debts with the same term and interest rate being grouped together (tranches);
- Commercial Mortgage Backed Securities (CMBS), which consist of securitised commercial real estate;
- Collateralised Debt Obligations (CDO), these being various types of securitised receivable;
- Collateralised Bond Obligations (CBO), which are securitised bonds; and
- Collateralised Loan Obligations (CLO), these being securitised loans.

ABS investments can also be made via undertakings for collective investment.

B. Advantages, disadvantages and risks of asset backed securities

We refer to the advantages, disadvantages and risks of traditional bonds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- These securities generally offer a higher yield than comparably rated government and even corporate bonds, since they include a premium to cover the risk of non-repayment for the underlying receivables.
- They have a lower default rate than corporate bonds thanks to a better risk diversification and/or security structure.
- They are also relatively safe due to the diversification of the risks (many debts of different debtors) and certain mechanisms aiming to limit possible losses via the granting of guarantees, in particular by a credit institution or insurance firm (credit enhancement mechanism).
- Their rating is less volatile.
- Their pricing is less volatile.
- They present less correlation with other more traditional government or corporate bonds.
- They offer investors the possibility of investing in market segments not otherwise accessible.

Disadvantages

- Securities representing the securitised debt are quite sophisticated investment instruments, essentially used by institutional investors. It is indeed of essence to be aware of the terms and conditions of the product and to have a proper assessment of the risk of non-repayment of the underlying debt.
- These investments are generally less transparent.
- The costs of buying and selling foreign securities can be fairly considerable.

Risks

- Investment risks:
  - The main risk is associated with the quality of the underlying portfolio and the reimbursement capacity.
  - The risks incurred with this type of bonds range from low to medium depending on the tranche. The coupon payments and notional repayment are subject to a cascade process (see above). The highest tranche within the structure is exposed to the lowest risk; it therefore enjoys the best rating, but is allocated the smallest coupon. All the subsequent tranches are exposed to higher risks. This is reflected by a lower rating and higher coupon. The lowest tranche of the operation bears the highest risk and also offers the highest return, as it will absorb the first losses suffered in the underlying portfolio. In general, the equity tranche is not allocated a rating nor a fixed coupon. It needs to suffice with the remaining cash flows.
  - Depending on the nature of the underlying instruments and the market conditions at issuance, the risk (and consequently the return) may be increased by the application of a lever.
- Liquidity risk: the liquidity risk is important, given that the secondary markets are generally limited.

2. SHARES

2.1 Description

A share is an ownership title which gives the right to a certain part of a company capital. Through an issue of shares, the company capital is distributed between various owners (the shareholders). The shareholders may be numerous if the company is listed on the stock exchange.

There are different types of equity: Ordinary shares or shares represent a given fraction of the share capital (such as 1/10,000 or 1/100,000).

In addition, there are also preferred shares that have a series of specific characteristics. These may be entitled to a profit share, that is deducted from the annual results, prior to the other shares. Furthermore, if the company is liquidated, these equities are repaid before all others.

A share can be bearer, registered or dematerialized depending on the local legislation. Bearer shares may in principle be transferred to third parties through a simple transfer (the bank can, however, not deliver/return shares once they have been accepted in a book-entry form or dematerialized form). Registered shares are recorded in the holder's name in the company register. The transfer to third parties is by sale, donation, succession, and so on, and is only opposable to the company as from the recording of the new owner in the register (regularization). The dematerialized shares are represented by registration in a securities account in the owner's name, with no possibility of material delivery. Movement of shares to third parties is done via transfers. In Belgian law, bearer shares have been abolished and dematerialized shares may be converted at any time into registered shares at the holder's expense.

2.2 Advantages, disadvantages and risks of equities

Advantages

- From a financial perspective, it appears that over the long term, the return of a share (taking into account stock price evolution and dividend payments) outperforms that of a bond.
- Due to higher volatility, shares may also offer rapid capital gains.

Disadvantages

- Investments in shares are risk-based investments, which may generate a substantial capital loss, and even the complete loss of the capital invested.
- Depending on the profitability of the company, the dividend is a variable income (opposed to the fixed interest accruing on a bond).
- For each transaction (purchase or sale), costs are debited. These costs depend on the stock exchange and financial intermediary.

Risks

- Capital risk: shares have an important capital risk, as there are no capital protection mechanisms.
- Insolvency risk: the insolvency risk is not relevant for shares, as they constitute venture capital and not debt securities. The issuing company is thus not required to reimburse them. However, it goes without saying that in the event of bankruptcy or bail-in, the shares can (practically) lose all their value. A bail-in is rescuing an issuer (corporation or public authorities) by making the creditors of the issuer incur the inconvenience of its imminent failure. This means that the financial products are converted by the regulator, without the consent of the investor, resulting in a considerable loss of value.
- Risk on absence of income: obviously the risk of lack of income exists since the dividend constitutes a variable income. Moreover, a company may, for various reasons (disappointing results, internal financing of investments, etc.), decide not to distribute a dividend in certain years.
- Interest-rate risk: there is an indirect interest-rate risk. The interest-rate evolutions influence stock markets. For example, an interest rate hike will increase the cost of the company financing via its borrowings, resulting in an increase of its expenses. When fixed-income investments however offer attractive returns, venture capital becomes less attractive for investors, which may negatively affect share prices.
- Liquidity risk: the liquidity risk depends on the transaction volumes for the security and free float (outstanding shares on the markets). The greater the stock market capitalisation of the company, the larger and so more liquid the market for its shares. Shares can have an illiquid market.
- Foreign exchange risk: the currency risk may be considerable for shares of which the listing is in other currencies, such as the USD. The company activities nevertheless play a role in this respect, depending on whether its profits are more or less dependent on activity on markets outside the eurozone.
- Volatility risk: there is a significant risk of price volatility. This strongly depends on the quality of the company, its results and general stock market evolutions. An equity labelled as speculative has greater exposure to price volatility than an equity of a company with a more stable business. There is thus a significant risk of reselling at a loss (at a lower price than the purchase price), even when it has been purchased years ago.

2.3 Possible classifications

2.3.1 Growth/Value Stocks

A. Growth stocks

Growth stocks are shares of companies that recently have shown a strong, rapid growth in revenues and earnings, and for which a continuation of such growth is expected over a longer period. They generally have a high price/earnings ratio and low dividend yield (or no dividend at all). The profits are kept within the company to be invested in new technologies, facilities and equipment, or in acquisitions in order to extend the customer base and ensure ongoing expansion. Investors are prepared to pay relatively high prices for these shares, based on the assumption the company will continue to grow, which will result in an increase in share price. Accordingly, the performance of growth stock prices is very sensitive to bad news and in particular to disappointing results. Alternatively, these stocks are also more sensitive than other shares to good news.

B. Value stocks

These are shares of companies with a low valuation. This low valuation is generally the result of lower growth perspectives of the company.

These shares are generally characterised by low price/earnings ratios, and also other lower ratios such as the price/book value ratio, combined with a high dividend yield. This is why they are often purchased to ensure income in a portfolio.

2.3.2 Sustainable Equity (investments in sustainable development shares)

In sustainable investment, the selection of shares is based not only on financial criteria but also on social and environmental considerations.

More and more investors give increased importance to ethical criteria when choosing their investments. They attach more importance to investing their money in firms that are not only evaluated on their earnings performance, products and management: they want to invest in firms that effectively succeed in reconciling environmental and social responsibility with competitiveness and profitability.

Apart from ethical considerations, the financial element continues to play an important role, since these investors assume that the financial performance of such companies will be superior (at least in the long-term), thanks to faster growth rates and a better risk profile. A company that shows little consideration to its personnel wellbeing or to the environment in which it conducts its business, will probably sooner or later pay a price for this. It is however still important to analyse these companies in the same way as any other, in order to assess their perspectives.

In short, companies with businesses that do not primarily have significant negative societal effects could be considered as companies that care about sustainable development. We can therefore rule out those active in the weapon industry, genetic engineering, forced labour, child labour, the tobacco industry, alcoholic beverages and pornography.

Investments in sustainable equity are generally done via UCIs (see further).

2.3.3 Regulated real-estate companies

A. Description

Regulated real-estate companies (so-called GVV/SIR[1]) are operational companies which must act in line with their corporate purpose concerning constitution, acquisition, management, redevelopment, sale or rental of real-estate property for own account, or the holding of shares in companies which have a similar purpose.

Such GVV/SIR is a listed company comparable to the Dutch FBIs (Fiscale Beleggingsinstelling), the French SIICs (Sociétés d'Investissements Immobiliers Cotées) and the REITs (Real Estate Investment Trust) in several countries such as the USA. A free float of minimum 30% of the shares is required for a GVV/SIR; specific regulations are applicable and these companies are subject to regulatory control.

A GVV/SIR invests the capital raised according to the needs of its strategy.

GVVs/SIRs are not subjected to the regulations applicable to UCIs. They are subjected to similar obligations regarding for instance permits, statutory provisions, remuneration, conflict of interest, accounting, leasing, participations, and debt ratio.

B. Advantages, disadvantages and risks

We refer to the advantages, disadvantages and risks of real estate investments (and more specifically the alternative investments, including closed-ended real-estate investment companies).

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- GVVs/SIRs are subject to an obligation to diversify (such as geographically and per user or lessee). An appropriate obligation to diversify also applies to investments in securities.
- The contents of the articles of association, the annual and bi-annual financial statements of the GVVs/SIRs are regulated and contribute to transparency.
- Obligations exist to have the properties estimated at least on a quarterly basis by an expert, as well as on the level of indebtedness, and on minimum dividend payments.

1 Gereglementeerde VastgoedVennootschap/Société Immobilière Réglementée

Disadvantages

- A GVV/SIR is in general less diversified than a real estate fund.

Risks

- Market risk: stock market prices of GVVs/SIRs are sensitive to the general market environment and interest rates.
- Other risks: the tax benefits that may be applicable to the dividend payments may be subject to changes.

3. UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCI)

3.1 Description

A UCI (Undertaking for Collective Investment), also called a "fund" in everyday language, is the general name given to the various categories of investment vehicles:

- open-ended investment company (Société d'Investissement à Capital Variable, hereinafter "Sicav" or "bevek"),
- closed-ended investment company (Société d'Investissement à Capital Fixe, hereinafter "SICAF" or "bevak"),
- contractual-type investment funds (fonds communs de placement, hereinafter "FCP").

A UCI is an undertaking that places money of various investors and collectively invests the capital in a set of diversified financial instruments, following risk spreading principles. UCIs are a form of collective portfolio management.

Funds are managed by fund management companies. These have a specific structure and are regulated. This regulation imposes a number of obligations, such as the obligation to provide the client with clear information on the objectives, the risks and costs related to a fund.

Such management companies of UCIs are subject to supervision in Belgium by the FSMA (Financial Services and Markets Authority), and need to obtain a license from the FSMA to be able to operate.

Compliance with the investment rules is verified by the FSMA; this also applies to the prospectus and key investor information, which allow the potential buyer of fund units or shares to evaluate in advance the risks of the proposed investments.

The FSMA ensures that each fund publishes a 'Key Investor Information Document' (KIID). This is a document that contains a summary of the various characteristics, risks and investment strategy of the fund.

In general, the supervising authority also controls the corresponding actors related to the UCI, such as the management company (and its bylaws), the financial institution acting as custodian, and the possible financial institution or broker in charge of the financial service.

In line with European directives (the "UCITS directives"), a UCI that is allowed in its home-country may offer its units in other Member States of the European Union (if it complies with the notification requirements).

UCIs may foresee in a financial mechanism of capital protection. The notion of capital protection is regulated by law. In this way, the capital protection is pursued (only) on maturity, allowing to entirely reimburse the protected capital on the maturity date. A mechanism of capital protection differs from a capital guarantee, whereby a third party guarantees the reimbursement of the capital. Other mechanisms also exist to offer intermediate protection to the investor (via e.g. clicks).

Next, funds can be classified using various criteria, such as the legal status.

3.2 Legal status

The Belgian legislation distinguishes two types of undertakings for collective investment: a UCI with an

open-ended number of shares (open-ended type) and a UCI with a fixed number of shares (closed-ended type).

3.2.1 UCI with an open-ended number of shares

These UCIs are often called 'open funds', as it is possible to enter or exit within certain limits. The reimbursement is handled by the sale of the assets at the date of valuation (using the net asset value or NAV).

These funds regularly have to accept subscription or redemption requests from their investors. This is done at the request of the participants and on the basis of the net asset value (total fund value divided by the number of shares or units). The NAV is calculated and published regularly (in general there is a daily listing).

These UCIs can take two different legal forms:

- **FCP with a variable number of shares**

  This is a form of undivided contractual co-ownership managed by a separate company. The rights of the co-owners are expressed in shares.

  Due to the absence of legal capacity, there is a different tax treatment. When no withholding tax is applied, the payments need to be declared on the tax declaration.

  An FCP with variable number of shares has increased information obligations (e.g. periodic obligation to publish all positions present in the portfolio).

- **Open-ended investment company (sicav/bevek)**

  This is an independent legal structure with articles of association. It can be subdivided into various share classes, each representing a compartment. In economic terms, each compartment is comparable to a separate fund.

  In funds with different compartments, the investor can easily and at low cost convert shares from one compartment into shares of another compartment.

3.2.2 UCI with a fixed number of shares (or closed-ended type)

Undertakings for collective investment are called "closed" when it is impossible to redeem or repay, directly or indirectly, the investor's units at the investor's request.

In principle, they do not redeem their own shares and must be listed on a stock market.

The participation in the sicaf/bevak may, however, fluctuate as a result of an increase (or decrease) in capital.

3.2.3 OPC de distribution et de capitalisation

Depending on the allocation of the income received, the shares and investor units of UCIs, regardless whether they are of the open or closed type, can be subdivided in two groups:

- **Distribution UCIs ("distribution shares")**

  These UCIs regularly distribute a dividend. They are however, not obliged to distribute in the form of dividends the entire income received nor capital gains.

- **Capitalization UCIs ("capitalization shares")**

  Any income received and capital gains are automatically reinvested in this fund. The investor only receives the return on his investment upon selling his units or shares.

3.3 Advantages, disadvantages and risks of UCIs

Advantages

- Investments in UCIs offer a higher asset diversification and thus a better spreading of the risk.
- It is possible to invest with relatively low amounts in a diversified portfolio.
- The investor benefits from an active and ongoing management (which is less the case for index UCIs).
- A UCI is a liquid and transparent investment. The investor can at all times sell its investor units on the stock market, or have them redeemed by the UCI. Furthermore, the investor can at all times request information on the UCI (such as performance).
- For UCIs with compartments, the investor typically has the possibility to switch compartments.
- There is a large variety in UCIs. This allows a diversification of the strategy.
- UCIs can allow to invest in less developed markets, more complex financial products, alternative assets, etc..
- Investments in UCIs require less administrative formalities than investments in individual securities (e.g. in case of capital increase, share splits, ...).
- A UCI typically has less abrupt fluctuations in returns than the individual underlying securities.
- Most UCIs have no maturity date, which makes them suitable for long term investments. Structures with capital protection at maturity however have a maturity date.

Disadvantages

- The profitability of an investment in UCIs is best to be considered from a long term perspective.
- The extensive diversification of UCIs is no guaranty for a positive return.
- The costs (entry fees, management fees, redemption fees, etc.) can vary considerably depending on the fund's characteristics (such as UCIs investing in shares, bonds or cash) and on the financial institution selling them. The costs can be considerable.
- Capitalization UCIs do not distribute dividends and are not suitable for investors seeking income.
- When markets rise (fall), the UCI prices usually rise (fall) slower than the prices of some of the individual securities.
- Open-ended UCIs typically can be traded periodically. As a result, one can anticipate less quickly on an abrupt change in the underlying markets.
- The investor does not always have an entire/clear view on the composition nor contents of the portfolio.
- The fund manager (in agreement with his analysts) will make the appropriate investment choices by himself. The investor cannot participate in the management and in the investment choices.

Risks

- Investment risks: in general, the risks of the UCI (including the performance risk) are dependent on the risks of the assets the fund is investing in. We therefor refer to the risks described for each of the asset classes in this brochure, when applicable. The investor needs to carefully read the prospectus before investing in a UCI.
- Capital risk: the investor incurs the risk to loose (part of) the initial investment. This risk is higher when there is no capital protection.
- For UCIs, the risk of total loss of the investment is limited, but not non-existing. The insolvency risk exists.
- Liquidity risk:
  - The liquidity risk of open-ended UCIs (sicav/bevek) is (in principle) low, as they redeem their units and shares at their net asset value. The prospectus regulations however allow the institutions to limit redemptions in case of general request of repayment of investor units or shares. Some UCIs are not traded on a daily basis. Exceptionally, a UCI is only traded twice per month, which means that, upon sale, the proceeds are only received after (more than) two weeks.

- The liquidity risk of closed-ended UCIs (sicafi/bevak) is high, as there is no possibility of redemption by the fund. The investor needs to turn to the secondary market, where the liquidity varies. The market is possibly restricted. There may be restrictions on exit possibilities.

- Foreign exchange risk: the foreign exchange risk is the risk that the value of an investment is influenced by the fluctuations of exchange rates and is primarily depending on the assets the funds is investing in. It is inexistent for UCIs investing in euro. It can be considerable for UCIs investing in other currencies.

- Risk on absence of income: this risk is dependent on the distribution characteristics of the UCI.

- Interest-rate risk: the interest-rate risk depends on the assets the UCI is investing in. It is for instance higher for funds investing in fixed-income assets but is also present for funds investing in other assets like equities.

- Volatility risk: the volatility risk depends on the assets in which the funds is investing in and on the strategies it applies. The presence of capital protection mechanisms (if any) may reduce the volatility risk.

- Insolvency risk: the insolvency risk of the debtor is (in principle) limited.

- Other risks:
  - The price of a UCI can be (significantly) higher or lower than the intrinsic value of the underlying equities.
  - Upon exit out of the UCI before maturity date, exit fees may be charged, and the risk exists that the investor may not benefit from the capital protection.
  - The risk resulting from the combination of two or more financial instruments within a fund can be higher than the risk related to each of these financial instruments individually.
  - UCIs can invest in assets with a lever.
  - The net asset value for UCIs is not necessarily determined on a continuous basis. As a consequence, the value is not known at the moment of instruction.

3.4 Specific types of UCIs

3.4.1 Index sicav/bevek

A. Description

Index funds invest with the aim of replicating (as accurately as possible) the performance of a benchmark (e.g. a national market index or sector index).

In order to follow the index, they buy the assets (shares, bonds, commodities, …) that are present in the index, or trackers on the index.

The index contains either all or part of the listed assets. The evolution of the value of the sicav/bevek thus follows, as accurately as possible, the average performance of the index concerned.

B. Advantages, disadvantages and risks of Index sicav/bevek

We refer to the advantages, disadvantages and risks of traditional UCIs.

In addition, the following specific advantages and disadvantages apply.

Advantages

- Index sicav/bevek generally offer an attractive performance over the long term.
- As the portfolio of an index sicav/bevek is relatively easy to follow up, the management fees are often less than for most other shares sicav/bevek.

Disadvantages

- Since the UCI invests in an index, there is no flexibility in the composition of the fund. One can thus not invest for instance in defensive securities when the market falls.
- In many indexes, a limited number of large shares have a considerable weighting, so that a decline in these can have a more negative impact on the fund. This disadvantage can be mitigated by changing the weighting of the individual shares (and threshold values).

3.4.2 Funds of funds

A. Description

A fund of fund invests in other investment funds. The managers of a fund of funds select other fund managers for a certain theme, region, sector, etc..

B. Advantages, disadvantages and risks of Funds of Funds

We refer to the advantages, disadvantages and risks of UCIs.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- The diversification is even higher than for a traditional investment fund. The spreading of risk is also higher.

Disadvantages

- The management fees can sometimes be considerable as they depend, among other aspects, on the costs of the various underlying funds. There are management fees related to the fund of fund, as well as related to the underlying funds.

Risks

- Investment risks: the risks related to a fund of fund are in essence the risks related to the assets the underlying funds invest in, including the possible underlying risk related to a lever.

3.5 UCIs with capital protection at maturity

3.5.1 Description

An investment in a UCI with capital protection offers the investors a complete protection at maturity date of the capital initially invested (minus costs). The capital protection applies however only at maturity date: whoever wants to sell its UCI before the maturity date cannot benefit from the protection of the initial amount.

The underlying assets of these funds can be very diverse. In most cases, these are shares or bonds.

There are many variants of funds with capital protection at maturity. Some, for example, foresee the activation of clicks at specific moments, or when given thresholds are passed. When the clicks have been activated, the capital gain then recorded (or part thereof) is protected on maturity, regardless of the further performance of the fund.

Others provide a "leverage effect", by which the price increase of the underlying assets can be multiplied using a predetermined ratio. Others yet offer the interim distribution of income. The possibilities are however numerous, so it is therefore essential for investors to very carefully read the operating conditions of the funds. These conditions are described in the prospectus of the fund.

3.5.2 Advantages, disadvantages and risks of UCIs with capital protection on maturity

We refer to the advantages, disadvantages and risks of UCIs.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- The investor can realize capital gains or even fix interim gains when the underlying assets perform favourably, while the risk of capital losses in the event of negative performance of the underlying assets can be fully or partly limited.
- Using this type of instruments, one can invest in very volatile assets while managing the risk.
- At maturity, the capital is protected, regardless of any further losses for the underlying assets.

Disadvantages

- The investment is composed of different assets that do not all evolve identically. During the lifetime of the product, its listed price does not necessarily accurately reflect the price evolution of the underlying asset, that generally determines the performance on maturity.
- This type of investment is also less liquid than traditional UCIs, as generally there is no daily quotation (typically there is one every 14 days, once a month,…).
- The costs of UCIs with capital protection on maturity are typically higher than those for traditional UCIs. In the event of early exit, a fee may be charged to guarantee the fund's commitments to the other unit holders or shareholders.
- The capital protection only applies on the maturity date. During the period of the investment, the net asset value may be less than the minimum protected amount.
- The presence of a structure protecting reimbursement of the capital at maturity often results in the investor not benefiting to the same extent from the gains of the underlying asset compared to when the protection would not have been present.

Risks

- Capital risk: in case of failure of the structure protecting the capital, the risk exists the capital is not reimbursed.

3.6 Exchange Traded Funds or Trackers

3.6.1 Description

Trackers, also known as Exchange Traded Funds (ETF), are open-ended investment funds that follow the evolutions of an index or basket of shares. Trackers are traded on the stock market.

The best known examples are the SPDRs ("Spiders", the first trackers to appear on the market in 1993) and the QQQs, which respectively follow the performance of the S&P 500 and the Nasdaq-100. The difference with individual shares is that you do not invest in one asset but in a group of assets (namely all assets included in the benchmark). The most important difference between index funds and trackers is that trackers can be traded at any time during opening hours of the stock market. Index funds can typically only be subscribed or redeemed once per day, which makes them follow their benchmarks less accurately than trackers. Investors can follow the performance of their trackers closely. The value of a tracker generally corresponds to a percentage of the underlying index. (e.g. 1/10 or 1/100). The price however does not correspond exactly to this percentage, given deviating bid and offer prices on the stock market, and the inclusion of the dividend and management fees in market prices.

Trackers can be used for different purposes: for short and long-term investments, to follow a benchmark, for strategies on derivatives[2] using indexes, to convert cash temporarily into securities, to cover risks, for arbitrage purposes and so on.

One can distinguish trackers based on their replication method:

Physical replication

Trackers using physical replication possess most (or all) components of their reference index, in order to replicate the performance of the index.

[2] See further under Chapter 4, for more information on derivatives.

Synthetic replication

Most ETF-providers use synthetic replication methods in order to realize their investment objectives. One hereby concludes swap[3] agreements with one or more counterparties in order to realize the performance of the reference index of the fund.

3.6.2 Advantages, disadvantages and risks of trackers

We refer to the advantages, disadvantages and risks of UCIs.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Common trackers are typically easily tradeable on the stock market, and have the risk spreading characteristics of an investment fund.
- There is no need to select individual shares; only the index is being followed.
- Due to the non-active management, the management fees are typically lower.

Disadvantages

- Fluctuations in the index can have an influence on the price of the tracker.
- A tracker cannot choose the securities in which to invest, as it has to reproduce the underlying index. This does not allow for corrections when the market is e.g. heading downwards.
- In certain indexes, a limited number of large stocks have a considerable weighting. As a consequence, a decline of their stock price has a direct impact on the tracker, that cannot change its composition when compared to an actively managed fund.
- Trackers that replicate (or reproduce) an index do not necessarily grant any additional rights to the investor, such as the right to receive periodical income, even when the issuer of the underlying securities does grant such rights. The investor therefore must consult the offer documentation on the subject.

Risks

- Capital risk: there is, in principle, no protection against capital loss (except the diversification present in the index).
- Liquidity risk: some trackers have a limited liquidity, which reduces the possibilities for conducting transactions under satisfactory conditions.
- Counterparty risk: when a ETF providers enter into swap agreements, there is a risk of default of the counterparty. This can cause losses.

3.7 Bond investment funds

3.7.1 Description

Bond investment funds invest primarily in bonds, either directly by the purchase of individual securities, or indirectly via the purchase of derivatives on bonds as underlying.

An important difference needs to be made between bond investment funds without maturity date and those with maturity date (usually implemented with fix funds).

Fix funds differ from other funds, as every compartment has a specific maturity date that is fixed at issuing. The investor can expect at maturity date at least the reimbursement of the capital invested during the initial subscription period (minus costs).

Inside the fix funds, one can recognize fix funds that are linked to: bonds, a basket of shares, an interest rate instrument, a stock market index, commodities, foreign exchange rates, etc..

3.7.2 Advantages, disadvantages and risks of bond funds

We refer to the advantages, disadvantages and risks of UCIs. The main risks are those of the assets in which the UCI invests (bonds).

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- There is a wide variety of bond funds. This allows the investor to choose an investment in specific bond types such as government bonds, corporate bonds, convertible bonds, index linked bonds, or to choose in which currency (GBP, USD, emerging market currencies,...) or for what period to invest (bonds for the medium term to very long term ...).
- Due to the diversification via a (large) number of bonds, the risk of capital losses is more limited in case of bankruptcy of the issuing company or of insolvency of the issuing government.

Disadvantages

- In general, bond funds without capital protection have no maturity date. In case of a negative market evolution (interest rate rise), the investor risks a decrease of the net asset value of the UCI.

Risks

- Capital risk: in the context of bond funds with capital protection, the risk of non-reimbursement of the capital exists when the structure aiming to protect the capital would fail.

[3] A swap is a financial derivative product whereby third parties agree to exchange specific cash-flows or risks (related to financial instruments). These two components are also referred to as 'legs' of the transaction.

3.8 Equity Investment Funds

3.8.1 Description

These UCIs are, as per their articles of association, allowed to invest in shares both directly by purchasing individual shares, or indirectly via derivatives on shares.

3.8.2 Advantages, disadvantages and risks of equity investment funds

We refer to the advantages, disadvantages and risks of UCIs. The main risks are those of the assets in which the UCI invests (shares).

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- There is a wide variety of equity investment UCIs. They allow the investor to invest for instance in equities of a specific region or country, in one or more particular economic sectors (finance, pharmaceuticals, etc.), in a given style (growth stocks, "value" stocks, or a combination thereof), in a thematic approach (e.g. Socially Responsible Investments), etc..

Disadvantages

- Fluctuations in price of the underlying values can have an influence on the stock price of the UCI.

Risks

- Investment risks: the risks are those of the underlying assets the UCI invested in.
- Capital risk: in the context of equity investment funds with capital protection, the risk of non-reimbursement of the capital exists when the structure aiming to protect the capital would fail.

3.9 Real estate UCIs

3.9.1 Description

These UCIs are, as per their articles of association, allowed to invest in public real estate shares both directly by purchasing individual shares, or indirectly via derivatives on shares.

3.9.2 Advantages, disadvantages and risks of real estate UCIs

We refer to the advantages, disadvantages and risks of shares, real estate investments and UCIs.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Real estate UCIs offer a diversification and are liquid.

Disadvantages

- There are no specific disadvantages related to real estate UCIs.

Risks

- Market risk: these are the risks of the underlying financial instruments referred to above.
- Concentration risk: this risk exist, but is lower than the risk for regulated real estate companies.

3.10 Closed-ended real estate investment companies (sicafi/bevak)

3.10.1 Description

The real estate sicafi/bevak is an undertaking for collective investment (UCI) with closed capital that invests directly or indirectly in real estate assets. It is incorporated as a limited company or as limited partnership with share capital, of which at least 30% of the share capital is traded on a regulated financial market (securities exchange). The real estate projects in which the Sicafi invests can be of different types: office buildings, warehouses, housing or commercial property. The risk and return of a real estate Sicafi depend on several factors and mainly on the evolution in general economic outlook.

3.10.2 Advantages, disadvantages and risks of a real estate sicafi/bevak

We refer to the advantages, disadvantages and risks of real estate investments and UCIs.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Due to the stock market listing, the investor receives frequent and transparent information.
- The real estate sicafi/bevak is under prudential supervision by the FSMA.
- There is frequent valuation of the property assets.
- The real estate sicafi/bevak has a beneficial tax status.
- The real estate sicafi/bevak has a requirement to distribute at least 80% of its result.

Disadvantages

- The rental income of the real estate properties can be uncertain.
- The stock price of the real estate sicafi/bevak can deviate significantly from the intrinsic value of its assets.

Risks

- Liquidity risk: the liquidity risk exists. The listing on the stock exchange allows for a certain liquidity of the shares, but the trading volumes are not always large.
- Concentration risk: this risk is present and depends on the diversification of the assets the fund has invested in.

3.11 UCIs investing in commodities

3.11.1 Description
Certain UCIs invest directly in commodities.

3.11.2 Advantages, disadvantages and risks of UCIs investing in commodities
We refer to the advantages, disadvantages and risks of UCIs. The main risks are those of the assets in which the UCI invests (commodities).

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- UCIs investing in commodities allow to invest in various commodities. This can result in a (significant) reduction in both the volatility and risk of such an investment.

Disadvantages

- Fluctuations in the underlying assets can have an influence on the stock price of the UCI.

Risks

- Investment risks: the risks are those of the underlying assets the UCI invested in.
- Capital risk: in the context of UCIs investing in commodities with capital protection, the risk of non-reimbursement of the capital exists when the structure aiming to protect the capital would fail.
- Counterparty risk: when a UCI investing in commodities enters into swap agreements, the risk of default of a counterparty exists. This can cause losses.
- Other risks: due to the use of hedging instruments (derivatives), it is possible that the value of the UCI decreases while the price of the commodities the UCI invested in rises, and vice versa.

3.12 UCIs investing in liquidities - Money Market Funds

3.12.1 Description
Money Market Funds mainly invest in money market instruments for the short-term (generally less than 12 months) and for the very short term (from a few days to three months). Examples of these are term deposits in euro and foreign currencies, Belgian government treasury bills, treasury bills and commercial paper.

3.12.2 Advantages, disadvantages and risks of Money Market Funds
We refer to the advantages, disadvantages and risks of UCIs. The main risks are those of the assets in which the UCI invests (liquidities).

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Due to the size of the amounts collected by these funds, the investor can obtain better interest rates and acquire indirectly some instruments that normally are not directly accessible (such as treasury bills).
- These UCIs typically have a higher liquidity compared to some other investment instruments such as term deposits.
- In periods of uncertainty, it is possible that short-term interest rates are higher than long-term rates (inverted yield curve). In this context, the UCI is a favourable temporary investment, as it offers a higher return than long-term bonds.
- Price volatility is limited of the currency the UCIs are listed in.

Disadvantages

- The purchase and resale of money market funds is generally subject to entry and exit fees.
- These UCIs have no capital protection.

Risks

- Investment risks: the risks are these related to the assets invested in.
- Performance risk: UCIs investing in money market instruments often have a low return, which can be lower than inflation. In this case, the investor incurs a loss in real terms.

3.13 Mixed funds

3.13.1 Description
Mixed funds are funds investing simultaneously in different asset classes. Not necessarily all asset classes must therefore be present in a fund. The investments can also be limited to certain regions.

In general, an overall risk/return profile is determined for the fund, depending on the authorized weightings in one, in some or all of the various asset classes. These can be relatively constant, or instead fluctuate between a minimum and maximum weighting.

Such risk/return profiles are based on a so-called 'neutral stance'. This neutral stance forms the basis of the Strategic Asset Allocation (or "SAA") principles. It is the asset spreading that is pursued in order to realize the customer's long-term investment objectives (horizon, risk, return, etc.). This SAA serves as benchmark.

In certain cases, the portfolio manager will try to outperform these objectives by diverging, within certain limits, from this neutral stance. For this purpose, the Tactical Asset Allocation (or "TAA") is first established. This investment policy will be applied on the short term with a goal of (trying to) outperforming the benchmark.

Through this TAA, the manager can opt to over- or under weigh certain asset classes (or sub-classes) based on the expected evolution over the short term. For each of the asset (sub) classes, specific minimum and maximum deviations are often set, in order to respect the initial risk level corresponding to the SAA chosen.

Certain mixed funds can have additional specific characteristics. For certain funds, the buy and sell decisions are relying on a quantitative model. Other funds have protection mechanisms aiming to limit the risks of capital losses for the investor.

3.13.2 Advantages, disadvantages and risks of mixed funds
We refer to the advantages, disadvantages and risks of UCIs. The main risks are those of the assets in which the UCI invests (various asset classes).

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Through a single investment, the investor holds a diversified portfolio that corresponds to the chosen level of risk.
- The (significant) diversification inherent to this type of funds reduces the risk for the investor.
- The fund manager continuously adapts the portfolio to market conditions and perspectives.

Disadvantages

- The investor cannot modify the structure of his portfolio.
- Due to the broad diversification of this type of fund, the potential capital gains are less than those for an investment in a single product.
- Management fees can be higher than for other fund types.

Risks

- Investment risks: the risks are these related to the assets invested in (mixed assets).
- Capital risk: mixed funds with capital protection present a risk of non-reimbursement of the initial capital, when the when the structure aiming to protect the capital would fail.
- Other risks: the manager is tied to respect the boundaries of the Strategic Asset Allocation ('SAA': these are the limits of the asset diversification that is pursued in order to realize long term investment goals). This can limit the manager to enter or exit an asset class in certain market situations, with losses as a consequence.

3.14 Pension saving funds

3.14.1 Description
Pension saving funds are specific investment funds in the context of the constitution of individual pension reserves, and are part of the so-called third pillar. They are a regulated vehicle to perform tax optimized savings (allowing to benefit from a tax deduction). Pension saving funds are per definition investment products for the long term, whereby the investment horizon typically is 10 year or more.

3.14.2 Advantages, disadvantages and risks of pension saving funds
We refer to the advantages, disadvantages and risks of UCIs. The main risks are those of the assets in which the UCI invests (various asset classes).

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Pension saving funds offer a wide diversification by investing in various asset classes (for example bonds, shares, money market instruments and cash).
- The composition of the portfolio is subject to strict regulations encouraging a careful management of the assets.
- On a yearly basis, the tax authorities determine the maximum amount that can be declared on the tax return. On that amount, the tax reduction is granted.
- There is no tax impact when switching from one compartment to another.

Disadvantages

- There is a very high taxation in case of premature exit. In practice, this means that one should be able to spare the invested amount until the age of retirement, and that the sum cannot be used for instance for another investment.
- The favourable tax regime can change in the future.

Risks

- Investment risks: the risks are these related to the assets the UCI invested in.

4. DERIVATIVES

4.1 Description

Derivatives are financial instruments of which the characteristics and value depend on those of the underlying asset, generally being a commodity, bond, share, currency or index. The main types of derivatives are options, futures and warrants.

Leverage effect

When buying a derivative product such as a call option on shares, the investor can make the same high profits as when investing directly in shares, but with much a smaller buy-in, as the value of the derivative product only costs a fraction of the share price. In relation to the amounts invested, derivative products therefore allow to make larger profits.

To illustrate this concept simply: assume an investor has a right to buy an underlying asset for a price of 100. If the underlying asset is listed at 120, such right has a value of at least 20. If the price of the underlying asset rises to 130, the value of the right will be at least 30. When the price of the underlying asset increases from 120 to 130, this represents an increase of 8.3%. But the value of the option rises from 20 to 30 on maturity date: this represents an increase of 50%. There is thus a leverage effect. This mechanism obviously functions in both ways, and can cause also important losses.

Even in the context of a (more) defensive strategy, one can use derivatives. Instead of investing 100 in the underlying asset, the investor can allocate 10 to the purchase of, for example, an option to benefit from an increase in the underlying, and invest the remaining 90 in a time deposit or any other defensive product (or product with capital protection). If the market declines, his maximum loss is equal the option price, namely 10. However, if he invested 100 in the underlying, the investor can lose more than 10.

Fixed term

Another essential characteristic of derivatives is that they have an expiry date. This means that, if the expected evolution of the underlying asset does not take place by the expiry date of the derivative product, it can lose its entire value.

Futures and options, which expire after a given period, are generally used for the short term. If an investor would like to maintain its position after this expiry or maturity date, he must roll it over. This means that periodically a new short term derivatives transaction is concluded.

Derivatives can either be listed on a financial market or not. When not listed, they are traded on the over-the-counter (OTC) market.

Derivatives can either be used for hedging purposes, or for speculative purposes:

- to protect one or more securities in the portfolio against a decrease or even against any (positive or negative) fluctuation;
- to speculate on a swift and significant increase or decrease of one or more assets.

The mechanisms associated with derivatives can be complicated and dangerous.

The commercialization of certain financial derivatives with Belgian non-professional clients is limited by the FSMA as from 18 August 2016. Certain non-listed (OTC) derivatives (binary options, derivative contracts whose maturity is less than one hour, derivative contracts with leverage) can no longer be distributed and certain commercial practices are forbidden. This prohibition was confirmed by the Royal Decree of 21 July 2016.

4.2 Advantages, disadvantages and risks of derivatives

Advantages

- Derivatives offer investors the possibility to cover (fully or partially) for any unfavourable evolution of asset classes in the portfolio.
- When the derivative product is used speculative purposes, it can create a leverage effect with significant short term profits as a result.
- Derivatives allow for a very dynamic management of the portfolio.

Disadvantages

- Derivatives are intended for the experienced and knowledgeable investors, who follow the markets closely.
- When the derivative product is used speculative purposes, it can create a leverage effect with significant short term losses as a result.
- As listed derivatives are standard products, which do not always fully correspond with the hedged assets, there might be a speculative over-hedging. The underlying assets do not always fully correspond to the assets the investor would like to hedge. A hedge can be tailor made, but this comes at the expense of the product liquidity.
- Following a Moratorium of the FSMA, the offering to non-professional investors of structured products containing a derivative component and that are considered particularly complex, is regulated and restricted.

Risks

- Volatility risk: there is a substantial volatility risk. This risk is multiplied by the leverage effect of derivative products.
- Liquidity risk: the liquidity risk is limited for standardised derivatives as they can be traded on the organised secondary markets. This risk is much higher for products traded on the OTC market, where the market is restricted.
- Currency risk: the currency risk essentially depends on the composition of the underlying assets. It is inexistent for derivatives for which all underlying assets are expressed in euro. For derivatives with other currencies, such as the US dollar, the currency risk can be considerable.
- Counterparty risk: for derivatives the counterparty risk exists. It contains the risk of insolvency of the counterparty.
- Interest-rate risk: the interest-rate risk depends on the underlying assets.
- Risk on absence of income: generally this type of product does not foresee any income.
- Other risks:
  - For derivatives used for speculative purposes, a high leverage effect is applicable. Derivative products are typically (very) complex and can cause (more than) the total loss of the investment.
  - For derivatives the exit possibilities can be restricted and not free of charge. Furthermore, the investor can be required to grant additional guarantees, including the calling of margins as guarantee.
  - The risk resulting from the combination of two or more financial instruments can be higher than the risk attached to each of the financial instruments individually.
  - Derivatives may experience the risk of additional financial obligations when the transaction is unilaterally ended by the investor before maturity date.

4.3 Common forms of derivatives

4.3.1 Options

A. Description

Options are investment instruments that can be used for various purposes, such as to insure a risk, to realize extra profits or to speculate on price increases or decreases for a wide range of assets, such as commodities (crude oil, grain, metals, gold, ...), interest rates, foreign exchange rates, and shares indexes. The option is an agreement between a buyer (also called the holder) and a seller (or the issuer).

We can distinguish:

- the **call option**: gives the holder the right to **purchase** until a specific date or at a precise moment (expiry date), a certain quantity (the size of the contract) of an asset (the underlying), at a set price (exercise or strike price). The counterparty, the seller of the call, commits to deliver the agreed quantity of the asset at the strike price, when the holder wishes to exercise his right;
- the **put option**: gives the holder the right to **sell** until a specific date or at a precise moment (expiry date), a certain quantity (the size of the contract) of an asset (the underlying), at a set price (exercise or strike price). The counterparty, the seller of the put, commits to buy the agreed quantity of the asset at the strike price, when the holder wishes to exercise his right;

The option grants a right to the buyer, in exchange for paying a premium. However, it involves a commitment for the seller, who in exchange receives a premium. This commitment ceases to exist when the buyer has not exercised his right on the expiry date, or obviously after having exercised his right.

Options have a value. They can be traded on a secondary market. To facilitate their tradability, the contract terms have been standardized on the markets. For shares for instance, the option term is often three, six or nine months (although much longer terms are possible), the contract quantity is often 100 shares and the exercise price is expressed per share.

The so-called European-style options can only be exercised at maturity date. The so-called American-style options can be exercised at any moment during the term of the product. The exercise (strike) price is the price at which the underlying can be bought or sold. It is fixed by the issuer upon issuance. Depending on the level of the strike price when compared to the underlying product, the option can have various forms:

- **At the money**: when the strike price is close to that of the underlying;
- **Out of the money**: when the strike price is higher than the price of the underlying product in the case of a call (or lower than the price of the underlying product in case of a put). In this case, the option has no intrinsic value, and can cause losses when exercised.
- **In the money**: lwhen the strike price is lower than the price of the underlying product in the case of a call (or higher than the price of the underlying product in case of a put). In this case, the option has a positive market value.

A category options are: stock options (shares), index options, bond options.

A particular category of options are the options on futures. The main particularity of options on futures is that they multiply the lever effect that is specific to both the investment vehicle and the underlying asset. These investment instruments are subject to extremely high fluctuations. Even more than common derivatives, they are intended to investors that are (very well) aware of the market evolutions.

B. Advantages, disadvantages and risks of options

We refer to the advantages, disadvantages and risks of derivatives.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Thanks to the leverage effect, options allow to speculate with a relatively small amount on the:
  - price increase of an underlying asset (purchase of a call);
  - price decrease of an underlying asset (purchase of a put).
- The buyer of a call can realize an exponential profit.
- The maximum potential profit for the buyer of a put is limited to the difference between the exercise price and zero.
- The potential loss is both for the buyer of a call as well as the buyer of the put limited to the amount of the premium paid.
- The seller of an option (call and put) receives a premium in exchange for a possible obligation (to sell if the call is exercised, or to buy if the put is exercised).
- An option has an expiry date. If the holder of the option ultimately at that date did not exercise his right, the option becomes worthless and the seller is freed from his obligation.

Disadvantages

- The administrative follow-up for option transactions generally is burdensome.
- The tariff structure for option transactions is remarkably higher compared to transactions for the underlying assets.
- The holder of an option (call or put) is not entitled to dividends or interests paid by the underlying asset (if any).

Risks

- Capital risk: The buyer of an option (call and put) can lose his entire investment (the premium paid) when the market price of the underlying assets does not evolve as expected (price decrease for the assets when purchasing a call, or a price increase when purchasing a put).
- Other risks:
  - The seller of an option will have to execute his obligation when the holder of the option exercises his right, and when the markets evolve differently than expected:
    - The seller of a call then must sell the underlying asset below market price.
    - The seller of a put then must buy the underlying asset above market price.
- When this happens, the loss of the investor can be higher than (or even a multitude of) of the premium paid.
- An option has an expiry date. If the holder of the option does not take action before that date (exercise or sell his right), the option becomes worthless.
- Trading options involves guarantee obligations applicable to the investor.

4.3.2 Futures & Forwards

A. Description

Futures

A future is a standardized, transferable, and listed contract that requires the delivery on a future date and against a fixed price of a commodity, a bond, a currency, a share index, ... Futures entail the obligation to buy or to sell.

Futures are **forward contracts**; they represent the obligation to execute a specific transaction at a future date. The exchange of assets is done at the date specified in the contract. Futures are different from general forward contracts, as they contain standardized periods, they are guaranteed by clearing houses, they are regulated by supervising authorities and they are traded on a stock market.

The future is a forward contract that has many similarities with the option. It is a contract between two parties aiming to trade (buy and sell) a specific asset (underlying) on a later date, at a price determined upon concluding the contract. Payment is only done upon physical delivery of the asset at the date agreed upon.

In contrast to an option which constitutes a right for the buyer, a future is an **obligation** (to sell or buy in the future). A futures contract is not related to the right to buy or sell a given quantity of an asset, but relates to the obligation to buy or sell the asset itself. Upon settlement of the contract, the physical delivery is in practice generally replaced by a cash settlement.

These contracts initially only concerned commodities (commodity futures) such as wheat, coffee, cotton, crude oil, etc.. They were used by traders to cover for possible negative price fluctuations. Due to international monetary instability, the so-called financial futures appeared, namely the futures on interest rates, currencies, and stock market indexes. Today, different categories of futures exist: single stock futures, stock index futures, bond futures, interest rate futures, and currency futures.

The tradability of a future is improved by the standardization of the contracts (size, period, and settlement procedure).

A margin system is imposed to buyers and sellers, in order to serve as a guarantee against any loss on contracts (bought or sold), due to price fluctuations in the underlying assets. For each transaction (buy or sell), the parties have to make an initial deposit (in cash or securities), representing a percentage of the value of the contracts bought or sold. At the end of each trade day, the contracts are reevaluated and the cash account of the investor is debited or credited (for the variation in margin).

Positions can be closed in three different ways:

- by taking a same (amount and maturity date) but opposite position (buying if you have sold, or selling when you have bought). Most future positions are closed in this way;
- via a cash settlement on the maturity date;
- by rolling over the position before the maturity date: this means, for example, that the buyer of a certain index future sells before its maturity date. At the same time he takes a new position by buying a new index future with a new maturity date, at a previously agreed upon price (calendar spread).

Forwards

Forwards are similar structures but are not listed on a financial market.

A forward (or outright) is a contract between two parties whereby they agree to buy or sell a financial instrument (such as a share, a commodity, a currency, ...) at a future date, and against a fixed price or at a certain threshold level. Forwards can be tailor-made in order to respond to specific needs of a client. In this case, we refer to the over-the-counter or "OTC" market[4].

B. Advantages, disadvantages and risks of futures and forwards

We refer to the advantages, disadvantages and risks of derivatives.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- A future or forward can be a simple and flexible instrument for protecting value of the portfolio. An investor wanting to protect the value of his portfolio against foreseeable negative effects, will sell futures. The profit made on this sale will compensate largely for the loss resulting from the price decline of the underlying.
- The purchase and sale of futures (or forwards) can be used in a speculative manner by any investor wishing to speculate on his expectations of increases or decreases in the prices of underlying assets.
- They are cost efficient. Opposed to options, there is no premium involved in the conclusion of a futures (or forward) contract.

Disadvantages

- When using futures (or forwards), a margin system applies, whereby the investor needs to deposit a guarantee. It is subject to daily adjustments, in order to manage the transaction risk. This causes an administrative burden.
- it involves standard contracts, that are less flexible than OTC instruments to cover for a specific need.
- When its market value is negative, it is not possible to end the contract before its term without costs.

4 The over-the-counter (OTC) market involves trading and settlement that is done directly between two parties.

Risks

- Investment risks: all risks inherent to the underlying assets are also fully applicable (to the future or forward). This includes for instance the interest rate risk, foreign exchange risk, etc..
- Counterparty risk: the risk of insolvency of the counterparty is limited due to the margin system in place.
- Liquidity risk:
  - The liquidity risk is low given the high tradability of futures (and forwards) on the organised markets.
  - In case of OTC forwards, a restricted market applies.
- Volatility risk: this risk is unlimited both for the buyer and seller.
- Other risk: for speculators with erroneous forecasts, losses can be unlimited.

4.3.3 Warrants

A. Description

A warrant on an asset gives an investor the right, but not the obligation, to buy (call) or sell (put) a certain quantity of an **asset** (the underlying) determined upon issuance, at an exercise (strike) price agreed on issuance, until a predetermined (maturity) date. The investor thus has a **right** but not an obligation. He will exercise this right when it is to his advantage. The value of that right corresponds to the price of the warrant (premium).

Warrants are very similar to options (call and put).

- For a call warrant, one buys the underlying at a better price by exercising the warrant (when the price of the underlying is higher), instead of buying the underlying on the market.
- For a put warrant, one sells the underlying at a better price by exercising the warrant (when the price of the underlying is lower), instead of selling the underlying on the market.

European-style warrants (see above) can only be exercised on maturity date. American-style warrants however can be exercised at any time. The exercise (strike) price is the price for which one can buy or sell the underlying. It is determined by the issuer upon issuance. The warrant can take various forms, depending on the exercise price in comparison to the underlying product:

- **At the money**: when the strike price is close to that of the underlying.
- **Out of the money**: when the strike price is higher than the price of the underlying asset in the case of a call (or lower than the price of the underlying asset in the case of a put). In this case, the warrant has no intrinsic value and it can cause losses when exercised.

- **In the money**: when the strike price is lower than the price of the underlying asset in the case of a call (or higher than the price of the underlying asset in the case of a put). In this case, the warrant has a positive market value.

In most cases, the settlement of an 'in the money' warrant at maturity date is done by paying an amount in cash (cash settlement). This amount represents the difference between the market price of the underlying and the exercise price (in case of a call). In case of physical settlement, the warrant is exercised via the actual purchase (call) or sale (put) of the underlying.

The parity of a warrant represents the number of warrants that have to be exercised to be able to buy or to sell one unit of the underlying. In case the parity of a call warrant on a share is for instance five, you have to hold five warrants to buy one share. Warrants are traded on the stock markets. The investor can thus buy or sell them at any time.

A category of warrants are stock warrants, index warrants, and currency warrants.

B. Advantages, disadvantages and risks of warrants

We refer to the advantages, disadvantages and risks of derivatives.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Thanks to the leverage effect, warrants allow to speculate with a relatively small amount on the:
  - price increase of an underlying asset (call);
  - price decrease of an underlying asset (put).
- With a call warrant, one can realize an exponential profit.
- The maximum potential profit of a put is limited to the difference between the exercise price and zero.
- The potential loss is both for the buyer of a call as well as the buyer of the put limited to the amount of the premium paid.

Disadvantages

- The holder of a warrant (call or put) is not entitled to dividends or interests paid by the underlying asset (if any).

Risks

- Capital risk: The holder of an warrant (call and put) can lose his entire investment when the market price of the underlying assets does not evolve as expected (price decrease for the assets when purchasing a call, or a price increase when purchasing a put).
- Other risks:
  - The seller of a warrant will have to execute his obligation when the holder of the warrant exercises his right, and when the markets evolve differently than expected.
  - The seller of a call warrant then must sell the underlying asset below market price. The seller of a put warrant then must buy the underlying asset above market price.
  - When this happens, the loss of the investor can be higher than (or even a multitude of) the premium paid.
  - A warrant has an expiry date. If its holder does not take any steps before that date to exercise or sell the warrant, it loses its value.

4.3.4 Turbos

A. Description

A turbo (also known as speeder or sprinter) is a derivative product issued by a bank and is listed. If offers the possibility to invest with leverage effect in various underlying assets.

The investor buys a turbo if he wants to realize an exponential return on the price evolution of the underlying asset. He buys a turbo long when expecting a price increase, and a turbo short when speculating on a price decrease.

The emitting bank finances a part of the turbo, a sum on which the investor pays interest. The remaining part is financed by the investor himself. There is a strong leverage effect caused by the financing, combined with the requested lever: the multiplier indicates to what extent the turbo performs when compared to the underlying asset.

For example, a turbo long on a share with a multiplier of 5 means that the turbo will move 5 times faster than the share. The higher the multiplier, the more sensitive the turbo is for price fluctuations of the underlying asset. The lever works both upwards as downwards.

Due to the strong leverage effect, a turbo is much more risky than an investment in the underlying asset. A stop-loss mechanism is built-in to avoid having the investor loose more than his initial buy-in. The turbo ceases to exist when the price reaches the stop-loss level. The buy-in is then lost.

B. Advantages, disadvantages and risks of turbos

We refer to the advantages, disadvantages and risks of derivatives.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- The investor receives the full increase of the underlying asset (or multiplicator thereof, in accordance with the agreement), against a limited buy-in (due to the financing).

Disadvantages

- Due to the leverage effect, the turbo is more risky than an investment in the underlying asset.

Risks

- Investment risks: in general, the risks linked to a turbo are a multiple of the risks related to the underlying asset. Due to the leverage effect, a small price change of the underlying asset can quickly cause important losses.
- Capital risk: the risk of total loss is applicable (when reaching the stop-loss).
- Risk of insolvency: the risk of insolvency is limited but cannot be excluded.
- Interest-rate risk: the interest-rate risk is partially dependent on the characteristics of the underlying asset.
- Currency risk: there is no currency risk for contracts denominated in euro. The currency risk can be high for other (fluctuating) currencies.
- Volatility risk: the volatility risk is limited by a stop-loss. The stop-loss level will ensure that the turbo is settled when the price of the underlying asset decreases too quickly ('turbo long'), or increases too quickly ('turbo short').

4.3.5 Currency derivatives

A. Currency forward contract

1. Description

A currency forward contract is an irrevocable agreement whereby the parties agree to buy/sell a given amount (of their own or a foreign currency) at a fixed rate and on a predetermined future date. The terms and condition are fixed at the time of concluding the agreement. The most typical maturities are one, two, three, six and 12 months. The contracts are tailor-made and concluded by mutual agreement between the Bank and another party. They are generally not traded on a stock market.

2. Advantages, disadvantages and risks of currency forward contracts

We refer to the advantages, disadvantages and risks of derivatives, forwards and cash.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Currency forward contracts offer the possibility of guaranteeing a given price for a foreign-exchange transaction at a later known date, protecting the investor against any price fluctuation in the currency concerned.
- it is a simple and user-friendly structure with low costs.

Disadvantages

- The most significant disadvantage is that the price is fixed from the start and thus impossible to change. This makes it impossible to benefit from a favourable exchange-rate evolution.
- The transaction is settled on a date and for an amount determined upon conclusion of the contract. This has an adverse effect on the possibility to modify the product terms.

Risks

- Liquidity risk: as the conditions of the transaction are fixed upfront, the liquidity of the investment is low.
- Other risks:
  - Settling a currency forward contract always involves a cash settlement of profit and loss, for an amount that can be - in principle - unlimited.
  - There are no possibilities of early termination, excepted against payment of the eventual negative market value of the contract.
  - When using currency forward contracts, one can be obliged to deposit margin, or provide other guarantees.

B. Currency option

1. Description

A currency option offers protection against unfavorable exchange-rate fluctuations while maintaining the possibility to benefit from a positive evolution in exchange rates. It is the right to buy (call option) or sell (put option) a given currency at an exchange rate (exercise price) fixed in the option contract. The buyer has such right for a certain period (American option) or after a certain period (European option).

The option has a price: the premium.

2. Avantages, inconvénients et risques spécifiques des options sur devises

We refer to the advantages, disadvantages and risks of derivatives, options and cash.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Currency options offer the protection of the portfolio against depreciation of one or more currencies it contains.
- A currency option is more flexible than a currency forward contract as it involves the acquisition of a right. It is thus the investor who decides to exercise this right or not, and when the price evolves positively he can benefit without limits from this evolution.
- In addition, when the covered currency evolves favourably, the investor can benefit from the resulting gains (after deduction of the premium).
- A currency option can be used for speculative purposes.

Disadvantages

- A premium must be paid. Its amount will always be (much) higher than the price of a currency forward contract.
- In all cases, the investor loses the premium, even if one does not exercise the right to buy or sell the currency at the agreed upon date, or if one decides to end the contract before the agreed upon date.

- Due to the standardization of option contracts, a full hedge of positions held in an identical amount is rarely possible.

Risks

- Exchange-rate risk: if the exchange rate evolves favourably, it may appear that one did not need the option. The investor loses the premium paid.

C. Currency Swaps

1. Description

The currency swap is an agreement whereby two parties agree to exchange, for a fixed term, two equivalent principle amounts and interest denominated in different currencies, against a predetermined ratio between the two currencies. The transaction is composed of two legs: the **near leg** (**spot** transaction) that is executed on transaction date, and the **far leg** (**forward** transaction) that is executed at a later date, against the price agreed upon on transaction date. These two transactions are traded simultaneously and against the same spot reference exchange rate. It is a typical OTC product and thus not tradable on the stock market.

Example:

- The bank sells (swaps with) you for example on January 1 (transaction date) 1 million EUR against 1,25 million USD. You pay 1,25 million USD, and 1 million EUR is made available to you during the period of the swap.

- You commit to an exchange with (sell to) the bank, on March 1, of a sum of 1 million EUR against 1,25 million USD that you receive. If the value of the USD at that moment is higher than that of the EUR, then the transaction is profitable, as the USD received are worth more than 1 million EUR. If the value of the USD at that moment is lower than that of the EUR, then the transaction is loss-making, as the USD received are worth less than 1 million EUR.

- It is possible that for a currency swap there is no actual exchange of amounts, as for example in the context of currency swaps used for speculative purposes. The currency swap is then settled at expiry date by 'netting'.

2. Advantages, disadvantages and risks of currency swaps

We refer to the advantages, disadvantages and risks of derivatives, forwards and cash.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- A wide variety of currencies is possible. Swaps can be set up for any exchangeable currency.

- No premium is to be paid. There is no minimum nor maximum amount.

- The conditions of the transaction are fixed upfront and do not leave room for uncertainty.

- A currency swap allows to restore the balance between various treasury forms in different currencies: a temporary surplus in one currency can be exchanged in another currency for which there is a shortage. This avoids a loan in the currency for which there is a temporary shortage.

- Currency swaps can also be used to alter the economic lifetime of previously concluded forward contracts. One then needs to consider the modified interest and exchange rate circumstances, and the influence thereof on the cash flows.

Disadvantages

- It is a firm and irrevocable commitment between two parties. The investor is obliged to buy or sell the currency at expiry date, regardless of the price evolution since the conclusion of the swap. In case of early termination of the contract, a compensation is due when the market value of the currency swap is negative. This compensation can be considerable.

- It is an OTC product that cannot be traded on a stock market.

- When concluding a currency swap, one can be obliged to deposit margin or provide other guarantees.

Risks

- Foreign exchange risk: the foreign exchange rate risk is dependent on the volatility of the currency pair; moreover one needs to consider the interest-rate risk.

- Liquidity risk: A restricted market applies. The liquidity risk of a currency swap with positive market value is less limited for the major currencies such as EUR, USD, JPY, GBP, etc. but can be greater for currencies of emerging markets.

- Counterparty risk: the counterparty risk exists for a currency swap. This is the risk of default of the counterparty at maturity.

4.3.6 Commodity derivatives

1. Description

Investments in commodities can also be done via derivatives such as options, futures, forwards and swaps.

2. Advantages, disadvantages and risks of commodity derivatives

We refer to the advantages, disadvantages and risks of investments in: options, futures, forwards, swaps and commodities.

5. STRUCTURED PRODUCTS

5.1 Description

A structured product is combination of various financial instruments, and aims to create a specific risk return pattern. Structured products can be composed in different manners:

- Either by using conventional financial assets such as shares, bonds and/or currencies. Such structured product is referred to as a simple and symmetrical return profile.

- Either by composing the product with conventional financial assets and derivatives (e.g. options). In that case, the return profile is asymmetrical.

A structured product usually has a fixed term. In most cases, the capital is protected at maturity, although there is no legal guarantee that the capital is preserved. With such products, one can anticipate on the price increase on financial markets, combined with a capital protection at maturity. Structured products with no or partial capital protection also exist.

One typically uses derivatives (such as options) to generate the return, and bonds to protect the minimum capital at maturity. The return is determined by the underlying assets and is calculated with a predetermined formula. The underlying assets can be diverse: shares, share indexes, commodities, interest rates, exchange rates, funds, or a combination thereof.

Another common characteristic of structured products is that they are issued on the financial markets and are traded as a security. Structured products in the form of branch 23 insurance products are an exception: they are not traded as a security on the market.

Structured products can take various legal forms. Usually they take the form of structured notes. But they also can take the form of branch 23 insurance products, funds with or without capital protection, with or without capital guarantee, etc..

Some products also have click mechanisms. This means that when the underlying index reaches a certain (number of) predetermined threshold(s), the resulting capital gain is permanently locked in. In some cases, the capital gains may be capped.

5.2 Advantages, disadvantages and risks of structured products

Advantages

- Structured products allow to invest in certain high-risk markets, while combining this with a capital protection limiting the risk.

- Structured products can be conceived to reach a specific objective on e.g. risk management.

- As a structured product may contain a wide variety of assets, the investor can have potentially very diversified structures aiming at realizing a predetermined return pattern.

Disadvantages

- Next to the costs of the underlying products, the costs of the structuring are also passed on. This results in a higher total cost structure when compared to the costs of the underlying assets. An additional disadvantage is that the spreads (difference between bid and offer price) are generally higher than for a common investment.

- Due to their specific structure (combination of different financial instruments), the price of the structured product does not necessarily follow the same evolution as that of the underlying assets.

- For products with capital protection, this protection only applies at expiry date of the product.

- After the initial offer period, the subscription fees may be substantial or dissuasive.

Risks

- Investment risks: as a structured product is composed of different financial instruments, such as for example shares, bonds and derivatives, all the risks related to these assets composing the structure are applicable.

- Insolvency risk: the risk of insolvency of the issuer exists, as well as the risk of a total loss. These structures are usually issued by creditworthy financial institutions. The investor can get informed on this aspect by verifying the credit rating of the issuer. The bankruptcy of the issuer or a bail-in can cause the loss of the investment. A bail-in is rescuing an issuer (corporation or public authorities) by making the creditors of the issuer incur the inconvenience of its imminent failure. This means that the financial products are converted by the regulator, without the consent of the investor, resulting in a considerable loss of value.

- Risk on absence of income: the risk on absence of income is dependent on the distribution characteristics of the structure. When income is expected, the actual pay-out may be depending on the evolution of certain assets, as well as on the solvency of the debtor.

- Interest-rate risk: the interest rate risk depends on the composition of the structure.

- Liquidity risk: as frequently no secondary market is organized to trade these products, there can be a lack of liquidity under certain market circumstances. Due to the poor liquidity of these products, they cannot always be sold easily at a fair price during their term. It is possible that the price obtained does not fully reflect the structure's intrinsic value.

- Foreign exchange risk: the currency risk essentially depends on the currency of the underlying assets. It is inexistent for structures investing in euro. It can be considerable for products investing in other currencies, such as the USD.

- Volatility risk: the volatility risk is also depending on the assets composing the structure. As the structure is composed of different types of assets, the price evolution is more difficult to predict.

- Other risks:

  - The risk resulting from the combination of two or more financial instruments can be higher than the risk related to each of the individual instruments. A leverage effect may be applicable.

  - The exit possibilities may be limited. The exit period and the possibility to recover the initial costs can vary depending on the structure.

  - It is recommended to consult the prospectus regarding the specific risks related to each structure.

6. PUBLIC AND PRIVATE OFFERINGS

The Belgian law creates a framework for public offerings of financial instruments, allowing the competent authorities to ascertain the quality of the information provided to the public.

Essentially, for each public offering of investment instruments on the Belgian territory, or when investment instruments are authorized to be traded on a Belgian regulated market, a prospectus approved by the FSMA needs to be published. A 'public offering' means any communication that informs on the conditions of the offering and on the proposed investment instruments, that is sufficient to allow the investor to make an investment decision.

There are exceptions based on defined criteria, both to the public offering, as well as to the obligation to publish a prospectus. These criteria primarily relate to the minimum buy-in per investor and to the maximum number of investors addressed, in the context of e.g. private offerings and crowdfunding investments (governed by the crowdfunding law).

A private placement is a form of issuance of shares or bonds to a select number of potential investors. The investors selected for a private placement are often professional or institutional investors, such as banks, pension funds and insurance companies. The private placement is done outside the stock market. Hence, these are not accessible to the public.

In case of crowdfunding, one typically raises funds from the public via the internet, for the financing of an enterprise or a project (by means of many small amounts).

A first form of crowdfunding consists in performing a donation without expecting a compensation (charity). In a second form of crowdfunding, one receives a compensation in kind (typically the result of the initiative supported). In a third form, one either invests in shares or bonds of an enterprise, or one lends money, whereby the investors can share in the eventual profits of this enterprise. Crowdfunding and eventual crowd funding platforms are also subject to various regulations on licences and on the obligation to publish a prospectus.

We refer to the advantages, disadvantages and risks of either bonds or shares, as described in the prospectus of the offering, or in the offering documentation in case of private placement.

7. ALTERNATIVE INVESTMENTS

7.1 Description

Alternative investments, in the broad sense, are forms of investment that fall outside the standard asset classes. It relates to a broad denominator that covers all non-standard investments (unlike listed shares, investment funds, bonds, cash or liquidities). Such investments are for instance private equity, art, antiques, commodities, classic cars/old-timers, precious metals, alcoholic beverages, teak wood plantations or other tropical woods, real estate in exotic countries, solar parks, etc.. One typically considers physical real estate also as an alternative investment.

Considering this diversity, no common denominator can be defined between these types of investments. The return does not follow the general price evolutions on traditional bond and stock markets. Generally, a return above average is pursued. In such case, often an above average risk also applies.

There is no standard classification that exists in alternative investments. We distinguish the following main categories:

- real estate
- hedge funds
- alternative UCITS
- private equity
- precious metals and commodities
- other alternative products.

7.2 Advantages, disadvantages and risks of alternative investments

Advantages

- Alternative investment products offer the advantage to be rather weakly correlated with traditional investments.
- They can allow for a more significant portfolio diversification and can increase the return over the long term.

Disadvantages

- They offer unique characteristics in terms of risk/return ratios, and are in many cases very sophisticated. This requires a specific expertise in the matter involved. These products are only suited for experienced investors, who closely follow the evolutions of these niche markets.
- Depending on the product, the market is difficult to access and its information is often scarce.
- Alternative investments products are often less transparent than traditional investments, and are also less liquid. These investments are intended for wealthy investors, who can spare a (larger) amount for a longer time.

Risks

- Investment risks: the category of alternative investments includes investment types with very different characteristics. The associated risks are often specific to the investment type concerned. They are discussed below by section.

7.3 Alternative investment types

7.3.1 Real Estate investments

A. Description

Real estate investments cover many forms (and are present in various asset classes).

These contain for instance real estate companies, public equity, private equity, public debt and private debt.

Next to the alternative investments, one can also find real estate investments in e.g. shares and UCIs.

B. Advantages, disadvantages and risks of real estate investments

We refer to the advantages, disadvantages and risks of alternative investments.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Real estate investments generally offer larger recurrent revenues than shares or bonds.
- Real estate investments via securities are usually also possible with lower amounts, unlike the direct purchase of a property.
- Performing transactions (buy or sell) is much less complicated for "securitised" real estate than for the direct purchase of a real estate property.
- Investments in real estate relate to immovable properties that can be subject to a valuation.
- Buying property assets via securities involves less costs and administrative burden than when buying a property directly.

Disadvantages

- The evolution of the interest rate has a major impact on the evolution of the real estate market.
- A diversification in real estate involves the realization of spreading in terms of market segment, location, etc.. This also depends on the number of investments made.
- Indirect real estate investments are not always very transparent, for instance on the characteristics of the properties, the maintenance or renovation strategies, or on the valuation.

Risks

- Investment risks: the main risks are related to the loss of value of the underlying property, or level of rental of the property. This varies by investment. The higher the diversification of the investment, the lower the risk.
- Capital risk and risk of insolvency: the risk of total loss of the investment, and the risk of insolvency of the issuer are limited.
- Interest-rate risk: in principle, there is a relation between the value of a property and the level of interest rates. A decrease of interest rates will in principle lead to an increase of the value of the property, whilst an increase of interest rates can have the opposite effect.
- Liquidity risk: liquidity varies significantly depending on the investment. The market can be restricted.
- Foreign exchange risk: the foreign exchange risk depends on the currency of the investment instrument and on the currency used for the valuation of the underlying properties. For a European investor of the Eurozone, this risk is inexistent, as both the investment instrument and the valuation of the underlying properties are expressed in euro. In other cases, the foreign exchange risk can be high.
- Volatility risk: there is a high volatility risk. It depends on the evolution of the real estate market in general, the quality of the assets of the investment instrument, the quality of the management, the level of rental of the property, the evolution of interest rates, etc..
- Performance risk: the attractive yield of real estate investments is often an important criterion that encourages the investor to do his investment. A decrease of this (historical) yield is thus an important risk for the investor.

C. Public Equity Real Estate

1. Description

This category contains indirect property investments. They can be of several types:

- Real estate certificates
- REITs (Bevak/Sicafi) (See UCIs)
- regulated real-estate companies (See Shares).

These securities are listed.

2. Advantages, disadvantages and risks of public equity real estate

We refer to the advantages, disadvantages and risks of real estate investments.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- These types of investment are more liquid than a direct investment in real estate.
- They can be realized with smaller amounts and allow more diversified investments.
- This type of investment generally has an attractive (historical) yield.
- Securitised real estate allows access to markets where a direct purchase cannot (or barely) be considered, due to lack of knowledge of the market characteristics.
- The value of the participation in real estate is frequently assessed.

Disadvantages

- Securitised real estate is often strongly correlated to the stock market, which reduces its role of diversification instrument.
- Indirect real estate investments frequently have a limited market capitalization. This does not contribute to liquidity of the securities, although liquidity is still higher than for a direct purchase of real estate.

Risks

- Liquidity risk: liquidity of certain assets is limited, which could make it more difficult to perform transactions at a price that reflects the real value of the security.

D. Real estate certificates

1. Description

Real estate certificates are securities that are issued for the financing of the acquisition of an existing property or for a construction project, whereby the issuing company calls upon the public for financing. In exchange for their buy-in, they receive a real estate certificate. After a given period (generally 15 or 20 years), the building is sold (at a profit or loss) and the sale proceeds are distributed between the certificate holders. A real estate certificate is therefore a security that entitles the holder to the right to payments of revenues generated by this property investment (offices, commercial space, ...).

From an economic but not from a legal perspective, the certificate holder is co-owner of the property. He receives the various revenue streams his investment generates: yearly coupons, that generally include rental income (minus management fees) and a partial repayment of the capital invested and, on maturity, the balance of the reimbursement and any capital gain from the sale of the asset (land and building).

Many real estate certificates relate to one building. The FSMA has authorized that certificates related to more than one immovable properties are issued.

Real estate certificates can be divided in two major categories:

- Leasing certificates for immovable properties, that are let based on a non-cancellable long term rental agreement (minimum 27 years), and that includes a purchase option for the tenant.
- Rental certificates for immovable properties, that are let based on a commercial lease agreement. In this case, it cannot be excluded that there are certain vacancy periods without rental income.

2. Advantages, disadvantages and risks of real estate certificates
We refer to the advantages, disadvantages and risks of real estate investments.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Due to the indexing mechanism of (rental) income, real estate certificates can offer a higher yield than shares.

Disadvantages

- The dividend yield is strongly dependent on the degree the building is let, as well as on the indexation of rental incomes.
- Some certificates can be traded on the stock market, others only during monthly public auctions.
- The stock exchange only offers a limited liquidity.

Risks

- Investment risks: the diversification of the underlying assets is usually less than what is achievable in case of a REIT or real estate sicafi/bevak. This significantly increases the investment risk.
- Insolvency risk: in case of bankruptcy (financial difficulties) of the issuing company, you can lose (a part of) your invested capital.
- Liquidity risk: the liquidity of real estate certificates is usually limited (small market capitalisation).
- Other risks: the value of the certificate at maturity date is unknown, as it depends on the eventual capital gains or losses booked upon sale of the building.

7.3.2 "Private privak"/"Pricaf privée"
The private privak is an unlisted company (public limited company, a limited partnership, or limited partnership on shares) for private investors who want to invest in unlisted companies.

The private privak is managed by a specialized management company.

We refer to the advantages, disadvantages and risks of alternative investments, real estate investments, and private equity.

7.3.3 Alternative funds

A. Description
Alternative funds are hedge funds, alternative UCITS and funds of hedge funds. These types of investment usually have the following characteristics:

- The general objective of the fund manager is to achieve an absolute return and to set the fund apart from general market tendencies.
- To achieve this, the fund can make use of a very broad range of investment instruments (including derivatives, like options, futures,...).
- The fund also foresees the possibility of short selling securities, which allows value to be created when the manager expects that the price of a security will decrease in the near term (he then sells the security and purchases it back at a lower price). The market risk of the portfolio can be reduced by balancing (entirely or partly) the amounts of the assets bought and uncovered assets sold.
- The leverage effect is frequently used.
- For this purpose, the fund can use borrowings to finance investments considered worthwhile.

Their objective is to realize a maximum return over a given time horizon, regardless the evolution of the market.

The fund aims to achieve an absolute performance, opposed to a relative performance (that is against a market index such as the Bel20, the Dow Jones or the MSCI). Furthermore, it generally shows a low correlation with traditional equity and bond markets, and so it is an means for diversifying. When market prices decline, the return on alternative strategies usually tends to decline less than the rest of the market. They can therefore offer protection in a declining market. This does not, however, exclude eventual negative performance.

Hedge funds and alternative UCITS may use many alternative strategies, which can be regrouped in five major families:

1. Long/short strategies
This strategy combines buying positions (long positions) for shares the fund manager considers as undervalued, and selling positions (short positions) for shares that he considers overvalued. The manager takes positions according to his forecasts. The manager generally focuses on a sector, a geographic region or on companies of a certain size. These managers frequently use a leverage effect to strengthen their positions.

2. Event-driven strategies
Event-driven strategies take advantage of specific events during the lifetime of companies, such as: restructurings, mergers/acquisitions, splits, spin-offs, etc.. These strategies are usually relatively unaffected by market trends.

3. Relative value arbitrage
Via arbitrage, one tries to take advantage of market imperfections in order to make profits. Managers identify differences in price or return that are not in line with the economic situation of the issuer, and try to benefit from such deviations via the stock market.

4. Global Macro-Strategies
Global Macro managers base their investment strategy on an analysis of global macroeconomic trends. They execute targeted transactions (the evolution of which is positively or negatively influenced by the market trend) via a broad range of instruments: such as shares, bonds, currencies, commodities, indexes and/or derivatives. The investments are frequently reinforced by using a leverage effect.

5. Multi-Strategy
The managers of alternative funds can also combine the strategies described above. Next to these alternative strategies, there can be subcategories, each with its proper risk management. Every manager needs thus to be thoroughly and individually analyzed.

These major families of strategies can be implemented regardless the type of investment vehicle.

B. Advantages, disadvantages and risks of alternative funds
Nous vous renvoyons aux avantages, inconvénients et risques des placements alternatifs en général.

We refer to the advantages, disadvantages and risks of alternative investments.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Given the characteristics of alternative strategies, they are investment instruments that are not correlated with traditional investment categories. The addition of these strategies to a portfolio can contribute to stabilizing price volatility and to a higher long term potential.
- The fund managers enjoy a considerable liberty in performing investments, which allows them to anticipate various market circumstances in both rising or declining markets, and even in markets without any clear trend.
- This flexibility allows the managers to pursue an absolute return.
- The ability to use borrowings allows to create a leverage effect.

Disadvantages

- Alternative strategies may offer less liquidity than investments in traditional equity and bonds.
- The fees charged by the fund are usually higher than those of a traditional fund.
- Funds that have reached a certain capital size may become more difficult to manage. For this reason, these funds can be closed and refuse new subscriptions.
- These products often fall under the Moratorium of the FSMA due to their complexity, and are for this reason often not suitable for non-professional investors.

Risks

- Liquidity risk: these investments may have a low liquidity. The period between the sale of the units and the crediting of proceeds to an account can range from a few weeks to several months, depending on the product. In this respect, a distinction should be made between funds with variable capital (open-ended) and funds with fixed capital. Funds with variable capital redeem units at net asset value. For funds with fixed capital, there is no redemption by the issuer. The investor needs to sell his units on a secondary market.
- Volatility risk: the price volatility can be high and depends on the strategy of the fund.
- Counterparty risk: the counterparty risk exists. The counterparties with whom the funds contract for their alternative strategies (in private agreements or for the implementation of their financing in order to create a leverage effect) may default. This can lead to significant losses, and even to the total loss of the investment.
- Other risks:
  - Alternative funds usually offer a great freedom to the managers, allowing them to change strategy autonomously. A change of strategy can considerably increase the risks.
  - Country risk: hedge funds can be established in countries with a completely different legal environment and less legal security. This can cause significant risks. Remark: hedge funds that are the object of a public offering, are subject to Belgian law and regulations. In order to be able to distribute these funds, specific obligations for the managers apply.
  - Due to the instruments used, such as derivatives, and the possibility to create a leverage effect using borrowings, alternative funds are (much) riskier than traditional investments. An erroneous estimation by the fund manager can cause considerable losses, and even the total loss of the investment.

C. Types of alternative funds

1. Hedge funds

Hedge funds are alternative funds that are mostly incompatible with the UCITS regulatory framework.

The articles of association of these funds generally allow a maximum usage of the characteristics of alternative strategies.

The funds are generally domiciled in countries with a very flexible regulatory environment, which leaves them a considerable freedom. It frequently happens that the manager himself invests a considerable part of his private net worth in the fund he manages. His remuneration, next to the fixed costs and management fees, is generally a fee based on fund performance.

As hedge funds have limited obligations of transparency towards the investors, there can be differences in the quality and accuracy of the information received.

The minimum subscription threshold is generally very high.

We refer to the advantages, disadvantages and risks of alternative funds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Hedge funds offer the widest choice in managers applying alternative strategies.
- Due to their choice of domicile, hedge funds are generally subject to less stringent legislation compared to 'ordinary' funds and thus have a considerable freedom to invest.

Disadvantages

- These funds are only intended for qualified and specialized investors who are able to understand their technicalities and use them in a well-considered way.
- Hedge funds are often less transparent and usually offer little information on their strategy and financial structure.
- They usually offer little liquidity (monthly, quarterly or even annually) and may be subject to lock-up periods.
- The minimum buy-in can be high.
- The cost structure can be high.

Risks

- Other risks:
  - An important risk factor is the lack of transparency on the investment strategy.
  - Hedge funds can be established in countries where the regulatory supervision is limited to none. This significantly increases risks such as potential fraud, non-compliance with investment strategy, endangering the financial structure, etc..
- Measures have nevertheless been taken to exercise a greater control over these funds. Thus, the European Directive (AIFM) entered into force in order to issue stricter common requirements regarding licenses, transparency, risk control and supervision of managers established in the European Union and those established in a third country but wishing to manage or distribute funds in the EU. This should contribute to a better protection of the investor in this type of fund. However, caution is needed.
  - Certain offering documents (prospectus, ...) of hedge funds include specific requirements such as:
    - a minimum investment horizon, preventing the transfer of positions ("hard lock-up"),
    - penalties for transfers, by imposing high transfer fees ("soft lock-up"),
    - specific conditions related to subscription (for instance a specific or postponed frequency in calculating the net asset value compared to the subscription date),
    - specific repurchase conditions (gates that limit the maximum percentage of possible repurchases per calculation date of the net asset value).
- Such conditions can make disinvestments or adjustments to portfolios invested in hedge funds more difficult.

2. Alternative UCITS (Undertakings for Collective Investments in Transferable Securities)

Alternative UCITS - also known as NEWCITS, use strategies for alternative management within the context of the European UCITS regulatory framework, complying with Directive 2009/65/CE. As a result, they almost automatically obtain the European passport.

We refer to the advantages, disadvantages and risks of alternative funds, and of UCIs.

In addition, the following specific advantages and disadvantages apply.

Advantages

- This fund category is subject to a strict regulatory framework and protects the investor in various domains, regarding amongst others the composition of assets, diversification, exposure to risks, overweight, limitation of the leverage effect, valuation and liquidity, risk management, responsibilities of the custodian (custody and supervision on assets, sale, issuance, redemption, repayment and cancellation of units, compliance of transactions on fund assets, revenue allocation, constitutional documents), investor information, organisational requirements, regulatory supervision, IT, accounting, minimum capital, equity, conflict of interest, rules of conduct, and competences of supervising authorities (control, inquiries, sanctions),etc..
- These funds are more transparent (communication of information) than hedge funds not governed by the AIFM directive.
- Liquidity is at least every two weeks, and in most cases daily or weekly.
- The minimum buy-in is generally less than that of hedge funds.

Disadvantages

- Management fees are usually higher than those of hedge funds.
- The UCITS framework restricts the allowed alternative strategies (e.g. in terms of liquidity, concentration or authorised financial instruments).

3. Funds of hedge funds

Such a fund consists of a portfolio of hedge funds (usually around twenty) allowing the investor to spread his risk over different strategies and/or managers. By this spreading, the risk level can be lower than for instance for an equity fund or an individual hedge fund. For the investor, this spreading is thus an opportunity for diversification.

We refer to the advantages, disadvantages and risks of alternative funds, and of UCIs.

In addition, the following specific advantages and disadvantages apply.

Advantages

- Using funds of hedge funds significantly reduces the risk of the investment. By investing with several managers, the risk is more limited than that related to the management capacity of one person (with the associated concentration of risks).
- Funds of hedge funds offer investors the possibility to largely diversify their positions in hedge funds without requiring a large initial investment.
- The investor benefits from the know-how of the manager of the fund of hedge funds and possibly of his team. These can contribute to improved hedge fund strategies, and an improved selection of hedge fund managers, so as to reduce the risk.

Disadvantages

- Management fees are paid twice: once to the hedge fund selected and again to the fund of hedge funds.

7.3.4 Private equity

A. Description

This name generally refers to capital provided to unlisted companies. It can be used to develop new products and technologies, increase working capital, perform acquisitions or to improve a company's balance sheet structure. Private equity can also be a solution to ownership or management issues, for instance in case of succession of a family business, or of a management buy-in or buy-out.

As part of private equity, one can distinguish several types of investments, such as the various forms of venture capital (start up, growth, mezzanine, etc.).

Strictly speaking is venture capital a sub-group of the private equity family, that is focused on capital investments for the start-up, expansion or takeover of (young) enterprises. Depending on the intended investment(s), private equity can be characterized by a required investment horizon over the long term, a requirement to diversify investments, an initial period of losses, and a restricted liquidity. The return of private equity is highly dependent on the quality of the management, the entrepreneurial mind-set of the investor, and the screening qualities of the private equity managers.

B. Advantages, disadvantages and risks of private equity

We refer to the advantages, disadvantages and risks of alternative investments.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Private equity investments are significantly uncorrelated with traditional asset classes. This can contribute to an improved diversification in and stability of the overall portfolio; one seeks to realize an improved long term return.
- Private equity offers access to investments with possible long term returns that are typically unmatched on the stock market.

Disadvantages

- Instruments for investment in private equity are little liquid. In other words, they are more difficult to sell than traditional assets. For private equity, the investor either has to respect the investment period, or has to sell his participation.
- For private equity portfolios there is a less restricted secondary market. This does not apply for smaller participations of individual investors.
- The use of benchmarks to measure performance is of little use. This is due to market inefficiencies in this specific domain.
- It is often difficult to obtain an accurate asset valuation.
- The information on the companies can be incomplete.
- The internal control environment and the supervision over the management are often less strict and less effective when compared to listed companies.
- As it is often a minority participation, the involvement in the management of the company can be limited.

Risks

- Capital risk: Although private equity investments offer a high return, they also carry high risks of capital loss or even the total loss of the investment, due to the various risks and uncertainties inherent to the business. This often comprises for instance an uncertain financial situation, an uncertain business outlook, etc..

- Foreign exchange risk: the foreign exchange risk depends on the currency of the share and on the currency used of the underlying assets. For a European investor of the Eurozone, this risk is inexistent, when both the share and the underlying assets are expressed in euro. In other cases, the foreign exchange risk can be high.
- Liquidity risk:
  - Due to the difficulty in valuing the company correctly, the investor has the risk to (have to) buy or sell for a price that does not reflect the intrinsic value of his participation.
  - Due to the lack of liquidity (that is inherent to these type of investments), it is not always possible to sell the participation at a fair price. There is a restricted market.
- Volatility risk: there is a high price volatility

7.3.5 Investments equivalent to private equity: private equity funds

A. Description
Next to a direct participation, investments in private equity are also accessible via a fund or a fund of funds. These funds invest in their turn in private equity.

Private equity funds are governed by the regulations applicable to alternative investments in the form of funds. Consequently, their managers are subject to particular obligations, that harmonized at the European level, and pertaining to management, the communication of information (transparency) and the distribution to professional investors and, where applicable, to non-professional investors.

The European venture capital funds are an example thereof. They allow private investors to invest in venture capital (start-up or growth companies).

B. Advantages, disadvantages and risks of private equity funds
We refer to the advantages, disadvantages and risks of alternative investments, private equity and alternative funds.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Using private equity funds reduces the investment risk. By investing in several companies, the risk related to an individual private equity investment is spread.
- Private equity funds offer investors the possibility to diversify their positions without requiring a too large buy-in.
- Private equity funds are generally more liquid than individual investments in private equity.
- The know-how of the fund manager and eventually his team can contribute to better choices of projects and companies.

Disadvantages

- The private equity and/or venture capital funds are often only accessible to professional or institutional investors. Typically, there are conditions to participate directly or indirectly (via a fund of fund) in a private equity fund.
- Private equity funds generally apply standard conditions regarding the subscription and impose heavy penalties in the event of an early exit, and apply short-term delays to pay up the committed capital.

Risks

- Capital risk: this concerns the risk of non-repayment of the capital invested.
- Performance risk: there is no certainty the companies will generate profits. The selection of one bad investment by the fund manager can undermine the return of the fund. A high volatility in return is thus possible, due to the lower spreading of the investments compared to a traditional UCI.
- Liquidity risk: there are often penalties upon early exit, or a lock-up period applies (period without trading on the market). In addition, trading of securities is typically subject to conditions (applicable to the shareholder), which can lead to a restricted market for shares in these funds.

7.3.6 Commodities and precious metals

A. Gold and gold mine stocks

1. Description
Gold is the most widely used precious metal for investment purposes. Gold is traditionally considered as a possible safe haven in exceptional circumstances (such as war and political instability) and as a protection against monetary depreciation. Central banks still build up substantial gold reserves as a guarantee.

Gold is indeed considered as a possible safe haven for investors as they, in uncertain times on stock markets, often seek refuge in gold. It can thus be interesting to include this asset class in the portfolio, as an instrument for improved diversification and risk spreading. Gold is typically inversely correlated to the dollar.

One can invest in gold in several ways:

- By the acquisition of a gold bar or of gold coins (Krugerrand, American Eagle, Napoleon,...). The buyer can request the physical delivery of the gold or choose for a deposit on his securities account.
- Indirectly by purchasing gold mine shares.
- Indirectly through derivative products.

2. Advantages, disadvantages and risks of investments in gold
We refer to the advantages, disadvantages and risks of alternative investments. For an indirect investment in gold through gold mine stocks, we refer in addition to the chapter on shares, and for the indirect acquisition through derivatives, to the chapters on derivatives and trackers on commodities.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Gold constitutes a possible protection against inflation.
- The gold metal market is usually quite liquid.
- Shares in gold mines constitute a speculative investment. In general, their prices increase more rapidly than the price per ounce of gold.

Disadvantages

- The role of gold as refuge is gradually diminishing. The price of gold is increasingly determined by supply and demand, as well as by its role as raw material.
- Holding gold (either physically or on a securities account) generates no revenues.
- The investor runs the risk of value depreciation of his position, due to the massive gold sales by central banks.
- Gold mine shares are highly speculative (the level of the gold reserves and the production costs for mining of new gold play an important role).
- As the price of gold is typically expressed in USD, the European investor also needs to consider the foreign-exchange risk. A weak dollar will lead to higher gold prices, but converted in euro, the increase is a lot less significant.
- Investment gold (or precious metals) is not a financial instrument subject to deposit protection. The payment in cash on a bank account following a transaction in gold, does fall in principle under the deposit protection of 100 000 EUR.

Risks

- Foreign-exchange risk: the foreign-exchange risk is related to the fact that the gold price on global market is expressed in USD. For a European investor, fluctuations of this currency influence the value of investments in gold. Also for gold mines, the currency of the shares, or the reporting currency of the company form a non-negligible risk factor.
- Volatility risk: the price of gold mine shares is very volatile. There is thus a significant risk of resale at a loss (for a price lower than purchased), especially on the short term.
- Interest rate risk: also the interest rate evolutions can have an impact on the price of gold. In general, an increase of interest rates has a negative impact on the gold price, and as a consequence on the price of gold mine shares.
- Liquidity risk: the liquidity of gold mine shares can sometimes be limited.
- Counterparty risk: when one invests in gold via derivatives or trackers on commodities (see further), the risk of default of a counterparty exists. This can cause losses

B. Commodities

1. Description
Investments in commodities (such as grain, precious metals, oil, gas, cotton, coffee, etc.) are mainly realized via commodity futures and forward contracts.

They are used by commodity traders primarily to cover for possible unfavorable price evolutions. Investors also use these instruments for speculative purposes, namely to speculate on price fluctuations.

Restrictions may apply at the level of the type of product and /or the country, for instance to prevent speculation on food commodities.

2. Advantages, disadvantages and risks of commodities
We refer to the advantages, disadvantages and risks of alternative investments.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- From a historical perspective, the return on commodities is less correlated with the return on shares and bonds.
- Commodities have an attractive risk/return ratio over the long term.
- investments in commodities contribute as hedge against high inflation.

Disadvantages

- The price evolution of commodities is very volatile and varies considerably depending on the commodity.
- It is sometimes difficult to obtain accurate information on commodities.

Risks

- Volatility risk: the prices of commodities are very volatile.
- Foreign-exchange risk: investing in commodities involves a foreign-exchange risk, as the price on the global markets usually is expressed in USD.
- Interest-rate risk: the evolution of the interest rates on the global markets affects the prices of commodities.

C. Trackers on commodities

1. Description
Who wants to invest in commodities (grain, oil, ...) or precious metals (gold, silver, ...) can also do this via an ETF or an ETC.

Exchange Traded Funds (ETFs) are structured as listed investment funds. They aim to replicate, as accurately as possible, the evolution of an underlying value, general an index, and typically focus on a specific sector, geography or asset class (such as commodities).

Exchange Traded Commodities (ETC) are usually structured as structured notes. They aim to replicate the evolution of an underlying value (for instance one or more commodities). These investment instrument are also tradable on the stock market.

The ETF usually realizes this via derivative products (futures). In practice, the manager will buy futures on commodities. He then enters into an agreement with a counterparty to receive, on a fixed future date, the commodities for an agreed price.

Before the expiry date of the future contract, the contract is rolled-over in order to avoid any physical delivery of the commodities. Rolling-over means that the manager sells a future contract with delivery in the near future and buys a contract with a delivery a bit further in the future, so that he never actually receives the commodities. This rolling-over however has an important impact on the return you may realize. This is named the roll yield in financial jargon:

- If the contract with delivery further in the future is more expensive, this represents a cost for the manager. After all, you sell a contract at a certain price and buy another contract for a higher price. In such context, that is also named 'contango', the return you realize on an ETC will be lower than only the price evolution of the underlying commodity(ies). 'Contango' leads thus to (rolling over) losses.
- Inversely, if the contracts with delivery in a further future are cheaper than contracts with delivery in a more near future, a situation called 'backwardation', then you buy at a lower price and sell at a higher price. This then represents a profit for the manager. In this case, the return of the ETC (before costs) will be higher than only the price evolution of the underlying commodity(ies). 'Backwardation' thus leads to (rolling over) profit.

Depending on the situation on the financial markets (futures are listed on stock markets), the return can thus be lower or higher than the return on the underlying commodities. In certain cases, the return can deviate considerably from the evolution of the underlying commodities. In a contango market, the return can be very disappointing, and the investor can suffer losses.

By using ETFs, one can add commodity investments in a simple way to a portfolio: ETFs can indeed be traded as ordinary shares.

2. Advantages, disadvantages and risks of trackers on commodities

We refer to the advantages, disadvantages and risks of futures, alternative investments and commodities.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- ETCs and ETFs are listed and can thus also be traded on financial markets.
- It is possible to spread an investment with a limited buy-in.
- ETCs and ETFs typically have lower management fees compared to traditional funds.
- When buying and selling, no entry/exit fees are due, but only lower transaction costs on the stock market apply.

Disadvantages

- ETFs invest in underlying commodity futures (and not directly in commodities). The underlying asset is rather complex and the impact on the eventual return is not always that clear nor transparent.
- Transaction costs usually apply.

Risks

- Volatility risk: The price of ETCs and ETFs is very volatile. The price of commodities (and the value of ETFs) is determined amongst others by climate conditions (drought, crop failure, ...), the general economic climate and geopolitical turbulence. Prices can decrease significantly on the short term, but also increase significantly.
- Foreign-exchange risk: As prices of commodities on the global market are expressed in USD, there is a foreign-exchange risk.
- Counterparty risk: ETFs make use of derivative products in order to realize their goal (following the evolution of the commodity or the index). If the counterparty is in default, you can lose (a part of) your buy-in.
- Other risks:
  - Roll-over: as an ETF invests in futures that are systematically rolled-over, the value of an ETF can decrease even when the price of the underlying commodities rises. Inversely, the price of an ETF can be higher than the price of the underlying commodities.

8. CASH

8.1 Description

Cash refers to financial means that are directly (or on the short term) available, denominated in euro or foreign currencies.

Investments in cash can take different forms:

- current accounts
- term deposits
- savings accounts
- securities traded on money markets.

The first three forms of cash (current accounts, term deposits, and savings accounts) benefit from the protective measures of bank deposits, as defined in the Directive 2014/49/EU dated 16/04/2014.

Other protective measures exist; for this we refer to https://piloteasybanking.bnpparibasfortis.be/nl/Openbaar/Depositogarantie?axes4=priv.

It is important as investor to make the difference between bank deposits (subject to this protection) and the other financial instruments.

Bank deposits are a part of the liquidities asset class (see further). Only these bank deposits within the liquidities asset class enjoy the protection following the directive. Other financial instruments described in this information brochure do not enjoy a protection according to this directive.

The return on bank deposits is generally low, when compared to the return on other financial instruments.

When compared to other financial instruments, the investment risks related to bank deposits are low, because of primarily the Deposit Guarantee Schemes.

A number of risks remains nevertheless fully applicable, amongst others the performance risk, the foreign exchange risk, and the inflation risk.

The liquidity risk of a bank deposit is typically much lower than for other financial instruments. In case of a term deposit, a term is nevertheless applicable.

8.2 Advantages, disadvantages and risks of cash

Advantages

- As the name indicates, cash investments are in principle very liquid, except for investments in term deposits. The capital invested can be freed up quickly for other use, and at no or little costs.
- Investments in cash can serve as temporary investment, for example if interest rates are expected to rise.
- Cash investments allow for the remuneration of funds that are awaiting another use (investment in another asset class, an important purchase, a donation, ...).
- Certain forms of cash can have addition legal protection.

Disadvantages

- The return of these investments is usually low when compared to the return of other asset classes. Often the return is lower than the inflation.

Risks

- Interest rate risk: the interest rate risk depends on the term of the investments in cash. The longer the term, the higher the risk.
- Insolvency risk: the risk of insolvency of the debtor is minimal for most industrial countries. Money market instruments are usually issued by institutions offering a maximum protection, while other cash investments with financial institutions are subject to prudential supervision. In addition, legal capital and solvency requirements are applicable to financial institutions.
- Foreign-exchange risk: the foreign-exchange risk depends on the currency of the investment. For a European investor in the Eurozone, this risk is non-existent for investments in euros. This risk can be high for investments in other currencies.

8.3 Forms of investments in cash

8.3.1 Current accounts in euro and currencies

A. Description

Via a current account (or checking account), the daily financial transactions occur.

B. Advantages, disadvantages and risks of current accounts

We refer to the advantages, disadvantages and risks of cash.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Current accounts have a maximum liquidity.
- There is no interest-rate risk.
- Under certain conditions, a limited and temporary credit is authorised.

Disadvantages

- Current accounts can have administration fees and possibly variable costs.
- The return on a current account is low, often lower than inflation. The interests related to a temporary credit in a current account can be high.

Risks

- Liquidity risk: in principle, there is no liquidity risk. Depending on the contractual terms, this risk can be present.

8.3.2 Term deposits

A. Description

A term deposit is a type of investment whereby the client lends funds to the bank for a given term, in exchange for a remuneration (interest). The conditions are fixed on transaction date.

A term deposit can be in euro or in foreign currencies.

They are usually short-term investments (typically up to 12 months). Longer terms are possible.

The interest rate is fixed based on market conditions and can vary depending on the currency, the term (the longer the term the higher the interest), and for short term deposits depending on the capital invested (the higher the capital, the higher the interest).

The interests on term deposits are in principle only available on maturity date. They can then be made available to the client on an account of his choice, or be added to the capital on the term deposit when the investment is extended (capitalization).

B. Advantages, disadvantages and risks of term deposits

We refer to the advantages, disadvantages and risks of cash.

In addition, the following specific advantages and disadvantages apply.

Advantages

- The return on term deposits is fixed until maturity.
- There is a wide choice in durations.
- For higher amounts, the return of a term deposit is in principle higher than that of a savings account.

Disadvantages

- Term deposits are less liquid than a savings account, as the funds are in principle not available before maturity date of the investment. It is nevertheless often possible to dispose of the invested funds before maturity date, whilst paying costs or by a reduction of the agreed upon return.
- The investor cannot benefit from possible interest-rate hikes during the term of this deposit.
- There is no exemption of withholding tax, opposed to a savings account where a Belgian individual tax payer can benefit from an exemption on a first tranche.

8.3.3 Savings accounts

A. Description

A savings account is a savings instrument denominated in euro and without expiry date. The capital is therefore retrievable on a daily basis. We need to make a distinction between regulated savings accounts and non-regulated savings accounts.

Regulated savings accounts

On a regulated savings account, the customer benefits from a base rate and a loyalty bonus. The base rate and loyalty bonus are calculated at an interest rate that is expressed on an annual basis. The maximum base rate is regulated by Royal Decree. The loyalty bonus cannot be less than 25% of the offered base rate and cannot be higher than 50% of the maximum base rate.

The base rate interest is earned on a daily basis. It is not guaranteed and can be adapted daily, based on eventual tariff changes. Any increase in the base interest is however applicable for a period of at least three months, except in the case of a reduction of the European Central Bank rate for main refinancing transactions.

The loyalty bonus on the other hand is acquired if the amount remains in the savings account for 12 consecutive months.

The base interest and loyalty bonus earned by natural persons are exempt from withholding tax up to a specific maximum threshold. This threshold is adjusted each year.

Non-regulated savings accounts

The conditions (such as remuneration and date of reimbursement of the capital) of the non-regulated savings account can vary considerably and are determined by contract.

The interests are not exempted of withholding tax.

B. Avantages, inconvénients et risques des comptes épargne

We refer to the advantages, disadvantages and risks of cash.

In addition, the following specific advantages and disadvantages apply.

Advantages

- The liquidity of this investment is very high, as the client can at all times dispose of his funds.
- The savings account allows for flexible savings.
- For a savings account, there are in principle no costs.
- For a regulated savings account, there is a tax advantage.

Disadvantages

- In the case of regulated savings accounts, the level of interest is capped by law. It is only adjusted periodically.
- The interest rate applied can be lowered at any time.
- The savings account can never have a negative balance.
- The regulated savings account cannot be used as a current account.
- In exchange for the high liquidity, the interest rate is often lower than for fixed-rate products with a longer term.

8.3.4 Money market instruments

The money market is the market where cash and short term borrowings are traded. A money market exists in each country.

A. Treasury bills

1. Description

A treasury bill is a short-term debt certificate (maximum one year), issued by the Treasury for financing the public debt. The tendering is done on a bi-weekly basis and relates in principle to certificates with a term of three, six or 12 months.

The treasury bills are placed with institutional investors (primary dealers and recognized dealers); individual investors can purchase these treasury bills on the secondary market.

B. Advantages, disadvantages and risks of treasury bills

We refer to the advantages, disadvantages and risks of cash.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- Treasury bills are very liquid investment instruments.
- Considering the quality of the issuer, treasury bills are low-risk investments.

Disadvantages

- Belgian private individuals do not have the possibility to invest directly in all treasury bills (depending on the type and their listing).

Risks

- Insolvency risk: the risk of debtor insolvency is low. Indeed, in OECD countries the government is considered as the safest debtor (political risk);
- Foreign exchange risk: the foreign exchange risk is limited.
- Interest-rate risk: the interest-rate risk is limited, considering the short term of the certificates (maximum one year).

C. Commercial paper

Commercial paper (or discount instruments) are tradeable debentures issued by a company (or other non-financial institutions) without guarantees. The term of commercial paper is usually less than two years, and generally between one and six months. This is a short term debenture on an issuer.

Advantages, disadvantages and risks of commercial paper

We refer to the advantages, disadvantages and risks of cash, bonds, and treasury bills. In addition, there is a specific insolvency risk of the issuing company.

9. FINANCIAL INSURANCE

9.1 Life insurance

The aim of a life insurance is to insure a person's life and/or death. It is a contract whereby an insurer commits to the policyholder, in exchange for the payment of a premium (one-off, regular or discretional), to pay out capital (or an annuity) to one or more beneficiaries, in case of the survival and/or death of a designated person (the insured person). It is thus an instrument to transfer capital, but also a means to perform savings or investments. It allows to build up a capital or realize returns.

Depending on the main guarantee, life insurance may be divided in two main categories, namely insurance of death (a payment of capital if the insured person dies during the term of the contract) and insurance of life (payment of capital if the insured person is still alive at the end of the contract, or payment of an annuity for as long as the insured person remains alive). A mixed insurance combines both the advantages of death insurance with those of life insurance. Life insurance provides access to a wide range of investment and savings products.

9.2 Investment forms of life insurance (branch 21, branch 23 and branch 26)

There are two main categories: branch 21 and branch 23 contracts. Combinations exist that partially contain the characteristics of these contracts[5].

A. Branch 21 insurance

1. Description
Branch 21 contracts are life insurance policies that guarantee the invested capital (except for potential costs and taxes). The return consists of a guaranteed interest rate, plus an optional and yearly variable profit share, that is permanently acquired once granted. The interest rate is guaranteed for the entire contract period (for contracts with a fixed term), or until the end of the validity period of the guaranteed interest rate (for contracts without fixed term). The awarding of the profit sharing can be subject to conditions.

A number of branch 21 insurance policies may give entitlement to tax advantages. Provided that a number of criteria are fulfilled, the premiums are tax deductible in the context of savings pension plans, long-term savings plans, an additional voluntary pension for the self-employed or an individual or collective pension commitment.

5 In this information brochure, the saving products of the so-called second and third pension pillar are not discussed, except for the pension saving funds.

2. Advantages, disadvantages and risks of branch 21 insurance
As branch 21 insurance can invest in various asset classes, we refer to the advantages, disadvantages and risks of the different asset classes concerned.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- The returns and the profit sharing realized in the course of the contract benefit from a capital protection at maturity.
- In case of insolvency of the issuer, branch 21 insurance offers a capital guarantee at maturity (excluding costs and taxes) by means of the Guarantee Fund that can intervene for a maximum of 100 000 euro per policy holder and insurance company.
- The return of a branch 21 insurance consists of a guaranteed interest rate and a possible profit share. The return can be calculated actuarially at maturity date or eventually at the end date of each guaranteed period.
- Thanks to the profit sharing mechanism, a better result than the guaranteed return can usually be obtained.
- The policy holder has the possibility to designate one or more beneficiaries of the contract. At expiry date of the contract, the capital is paid to the beneficiary in case of life (who can be different from the policy holder). In case of death before the expiry date of the contract, the capital is paid to the beneficiary(ies) in case of death (who can be different from the legal heirs). Branch 21 is therefore a good instrument for estate planning.
- A particular advantage exists for contracts without tax deduction: for life insurance (without tax deductible premiums) with a term of at least 8 years and 1 day, concluded by an individual person, no more withholding tax is due after that term. The same applies when the contract foresees a death coverage of 130% of the premium, and the policy holder, the insured person, and the beneficiary are one and the same individual person. In case of death, no withholding tax is due. The tax regime depends on the individual circumstances and can be subject to future changes.
- A particular advantage exists for contracts with tax deduction: subject to conditions, premiums can be tax-deductible in the context of i.a. savings pension plans, long-term savings plans.

Disadvantages

- Except for pension savings contracts, a tax of 2% is due on premiums paid in the context of individual life insurance policy subscribed by natural persons resident in Belgium. If the subscriber is a Belgian legal entity, the tax on the premiums represents 4.4%.
- Given the defensive character of the branch 21 insurance, reserves must be managed carefully. It is therefore not possible for an insurer to realize a potentially very high return.
- The duration of a life insurance is often long. It is also mostly possible to buy off the contract before its term, but fees and taxes are often due, therefore reducing the product return. It is therefore not an instrument for short-term investment.
- The investor has no involvement in the management of the investment (the premium paid). Sometimes there is little transparency in the investments done by the insurer.
- Upon early termination of the contract, a part of the tax advantages are no longer valid.
- Inheritance taxes can be due.

Risks

- Liquidity risk: The insurance cannot be traded. The right of early termination, that is governed by the insurance contract, determines the conditions for the availability of the invested capital.
- Capital risk: upon early exit, a possible correction can be applied on the reserves, whereby the entry capital cannot be entirely reimbursed.
- Performance risk: only the guaranteed return is fixed. It is possible that no additional profit sharing is paid during the contract.
- Insolvency risk: this is low, as the insurers are legally obliged to constitute a solvency margin as a safety buffer, and therefore they are subject to regulatory supervision. Life insurance contracts subject to Belgian law and part of branch 21, are also guaranteed by the Guarantee Fund for a maximum amount of 100,000 EUR per policy holder and per insurance company (see above).
- Foreign-exchange risk: an insurance denominated in a foreign currency contains a currency risk towards the euro. Due to the foreign exchange risk, the amount in euro that you receive upon sale or upon expiry date can be lower or higher than the amount initially invested.

B. Branch 23 insurance

1. Description
Branch 23 contracts are insurance contracts, whereby the premium paid is invested by the insurer in asset classes, based on which the return is depending. The investor cedes the premium and has no involvement in the investment strategy. The funds in which the premiums are invested can be specialized in an asset class (shares, bonds, currencies…), a geographical zone (global, Europe, emerging countries), specific sectors, ethic funds, … or in various of these categories combined. Via branch 23 insurance, one can for instance invest indirectly on the stock market. The return depends on the evolution of the asset classes in the fund.

There are branch 23 products with capital protection on maturity, whereby the premium typically is invested in closed funds or in structured products (e.g. an underlying index). The subscription period of such products is typically limited.

2. Advantages, disadvantages and risks of branch 23 insurance
Considering the fact that the branch 23 insurances can invest in various asset classes, we refer to the advantages, disadvantages and risks of the asset classes concerned.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

- There is a wide range in branch 23 investments, allowing for a broad diversification.
- Some branch 23 insurances offer the possibility to protect interim profits when the underlying assets perform favourably, and/or to limit, fully or partially, the risk of capital losses in the event the underlying performs unfavourably.
- For branch 23 insurances that invest in structured products (or closed funds) it is possible to benefit from a mechanism of capital protection.
- Certain contracts foresee an additional death cover.
- The policyholder has the possibility to designate the beneficiary(ies) of the contract. At maturity date, the capital is paid to the beneficiary in case of life (who can be different from the policyholder). In case of death before the expiry date of the contract, the capital is paid to the beneficiary(ies) in case of death (who can be different from the legal heirs). Branch 23 is therefore a good instrument for estate planning.
- There is no stock exchange tax and the yearly management fees are generally limited.
- There is no withholding tax on income if there is no mechanism of guaranteed returns.

Disadvantages

- A tax of 2% is due on premiums paid in the context of individual life insurance policy subscribed by natural persons resident in Belgium. If the subscriber is a Belgian legal entity, the tax on the premiums represents 4.4%. The tax treatment depends on individual circumstances and may change in the future.
- A branch 23 insurance needs to be considered as a long term investment.
- For the branch 23 insurances investing in structured products, the investment consists of different asset classes that do not evolve in the same way.

Risks

■ Capital risk: the capital is generally not guaranteed (except sometimes at expiry date, and/or in case of death). It is thus possible to lose (a part of) the buy-in.

■ Performance risk: there is no guarantee of returns.

■ Insolvency risk: this is low, as the insurers are legally obliged to constitute a solvency margin as a safety buffer, and therefore they are subject to regulatory supervision.

■ Liquidity risk: The insurance cannot be traded. The right of early termination, that is governed by the insurance contract, determines the conditions for the availability of the invested capital.

■ Foreign-exchange risk: an insurance denominated in a foreign currency contains a currency risk towards the euro. Due to the foreign exchange risk, the amount in euro that you receive upon sale or upon expiry date can be lower or higher than the amount initially invested.

■ Volatility risk: the exposure to price volatility (and to other risks) related to the investments of the premium mainly depend on the assets invested in.

C. Capitalization operations (Branch 26)

1. Description

A branch 26 capitalization operation is an investment instrument with a fixed medium or long term, offering guaranteed returns. This return may be further increased by an eventual annual profit sharing.

Branch 26 capitalization operations are regulated with regard to information obligations of the insurer, the maximum interest rate, the maximum exit costs, and the awarding of a profit share in addition to a guaranteed return.

They are offered to both legal entities as well as individual persons. In case of a branch 26 insurance, there is no insured person, so there is no beneficiary in case of life or death. The capitalized amount is paid at maturity to the subscriber..

2. Advantages, disadvantages and risks of capitalisation operations (Branch 26)

Considering the fact that the branch 26 insurances can invest in various asset classes, we refer to the advantages, disadvantages and risks of the asset classes concerned.

In addition, the following specific advantages, disadvantages and risks apply.

Advantages

■ The return of a branch 26 insurance is guaranteed. The product is suitable for investors seeking a risk-free investment for the long term.

■ The return consists of a guaranteed fixed interest rate, that depends on the chosen term, and an eventual profit share. The technical interest rate that is applied at the moment of payment, is known upfront and guaranteed for the entire term of the contract.

■ The returns and profit shares during the term of the contract are permanently acquired and are capitalized.

■ There is no tax on the premiums, nor a stock exchange tax.

■ A branch 26 capitalisation transaction can benefit from the deduction of notional interest. This can be a tax advantage for the company.

Disadvantages

■ It is a medium or long-term investment. A redemption is possible before the expiry date, but often redemption costs and financial compensations are due. This lowers the return of the product.

■ At expiry date of the contract and redemption, the insurance company will deduct withholding tax on the guaranteed interests and the profit shares awarded. For companies, this withholding tax can be set off, and eventually reimbursed. The eventual tax follows the percentage of corporate tax. For legal entities that are subject to company tax, it is a liberating withholding tax.

■ For companies, the annual financial income (guaranteed returns and eventual profit shares after deduction of the withholding tax) are subject to corporate tax.

■ For non-profit organizations ("vzw", "asbl"), branch 26 capitalisation operations are subject to a yearly patrimony tax of 0.17%.

Risks

■ Liquidity risk: The insurance cannot be traded. The right of early termination, that is governed by the insurance contract, determines the conditions for the availability of the invested capital.

■ Foreign-exchange risk: an insurance denominated in a foreign currency contains a currency risk towards the euro. Due to the foreign exchange risk, the amount in euro that you receive upon sale or upon expiry date can be lower or higher than the amount initially invested.

■ Insolvency risk: this risk is very low, as the branch 26 capitalisation operations are managed by Belgian insurance companies, that are under supervision of the Belgian National Bank and the FSMA, amongst others related to the constitution of reserves and solvency margin. In case of bankruptcy of the insurance company, the subscribers are preferred creditors.

10. UNCONVENTIONAL ASSETS

The distribution of certain financial products to non-professional clients in Belgium is prohibited since 1 July 2014 (by Royal Decree of 24 April 2014, published in the Belgian Official Gazette on 20 May 2014).

Under application of this legislation, the following financial products whereby the return is linked to unconventional assets are not offered to non-professional investors:

1° a traded life insurance or financial product whereby the return, directly or indirectly, depends on one or more traded life insurances (life settlements);

2° a financial product (including derivatives) whereby the return, directly or indirectly, depends on virtual currency (such as bitcoin);

3° an investment instrument that is not a stake in an undertaking for collective investment, whereby the return, directly or indirectly, depends on an alternative undertaking for collective investment that invests in one or more unconventional assets.

4° a branch 23 insurance that is linked to an internal fund investing directly or indirectly in one or more unconventional assets, or whereby the return, directly or indirectly, depends on an alternative undertaking for collective investment that invests in one or more unconventional assets (e.g. investments in artworks or wine).

11. ANNEX – DEFINITION OF THE MAIN INVESTMENT RISKS

Investment risks:
Investments are subject to the evolutions of the financial markets, as well as to the risks related to the financial instruments, their underlying assets and/or their issuers.

The investment risks are in essence the combination of a series of risks related to the investment.

Financial instruments are typically classified by risk class, based on criteria established by the bank. The bank distinguishes 7 risk classes (based on a scale from 1 to 7, whereby 1 represents the lowest risk and 7 represents the highest risk). These give an indication of the investment risk, and correspond to a specific risk profile.

Market risk:
The market risk is the risk that the entire market or an entire asset category decreases in value. This may influence the price and value of the assets in the portfolio. Investments become less valuable due to a general economic decline.

This risk materialises in price fluctuations that may be due to volatility, currency fluctuations, interest rate fluctuations, etc.. The market risk generally also includes the liquidity risk, the interest rate risk and the foreign exchange risk.

Capital risk:
The capital risk is the risk that the capital invested will not be reimbursed fully or partially at the end of the investment period. This can correspond to the contractual maturity date, or to the moment when the investor wishes to exit from the investment.

Potential mechanisms of capital protection or capital guarantee exist, in order to limit this risk.

In case of shares for example, there is an important capital risk, as there are no such protection mechanisms. The share price fluctuates based on the financial performance of the company.

Credit risk (risk of insolvency):
The credit risk is the risk that the issuer of a financial instrument is in default and can no longer meet his obligations. This risk is especially relevant when buying debt instruments such as bonds.

The quality of the issuer is very relevant, because this party is responsible for the reimbursement of the invested capital.

The worse the financial situation of the issuer, the higher the risk of (partial) default.

Issuers often get a rating assigned by specialized firms to allow the evaluation of the quality of the emission.

Counterparty risk:
The counterparty risk is the risk that a counterparty is (partially or entirely) in default in executing his obligations at a transaction, such as delivery, payment or reimbursement.

The counterparty risk is different from the credit risk, when the counterparty is not the issuer of the financial instrument.

Performance risk:

The performance risk includes the various risks that negatively impact the return. It relates to the degree of possible variation of the yearly return.

Several risks can negatively impact the return, depending on the type of financial instrument.

The return of a UCI for example, can vary depending on the investment strategy and the type of management of the fund, as well as the eventual presence or absence of protection mechanisms.

Risk on absence of income:
The risk on absence of income is the risk that an investment does not generate interim income for the investor.

In most cases, the issuer (in case of good results) wants to consequently distribute income to the investor.

The non-distribution of income can have an impact on the total return of your investment. This can be a deliberate choice, whereby the non-distribution of income should result in a higher price.

Interest-rate risk:
The interest-rate risk is the risk of value depreciation of an investment caused by a variation of the market interest rate.

In case of fixed rate securities such as bonds, a modification of the market rate has an influence on the price of the bond. When the market rate is higher than nominal rate of the bond, the price is below par (<100%). When the market rate increases, the price decreases. When the market rate decreases, the price increases

Foreign exchange risk (or currency risk):
The foreign exchange risk is the risk that the value of an investment is influenced by fluctuations in exchange rates, when the investment is expressed in another currency than the reference currency.

When the currency is evolving negatively towards the euro, the return (and value) of the investment will decrease when converting to euro.

In the opposite case, next to the return of the investment, one can realize an additional financial gain due to the favourable foreign exchange rate.

Inflation risk:

The inflation risk is the risk that is linked to the inflation. The return of an investment always needs to be considered in combination with the inflation.

When the inflation rises, the purchasing power decreases. As a consequence, the real value of the investment decreases.

Bonds for example guarantee a given nominal interest. By deducting the inflation from this nominal interest, one obtains the "real interest". As a consequence, the higher the inflation, the lower the real interest (and this is reflected in a decrease of the real value of the bond).

Liquidity risk (restricted market):
The liquidity risk is related to the possibility to buy or sell financial instruments, at any moment, and at a satisfactory price.

It is possible that an investor wants to recover his money before the maturity date of the investment. This is not always easy, nor possible at interesting conditions.

The fewer the transactions on the market, the greater the price fluctuations. There may be costs upon exit. It is possible that the investor needs to wait to be able to exit from the investment.

For example: if for a bond there is little liquidity, this means that there are few transactions performed at the time of the eventual sale. Because of this, it is possible that the price of the bond drastically decreases and that you suffer from a loss on the sale.

Volatility risk:
The volatility reflects the degree of fluctuation of the price of the financial instrument (price fluctuation) without indication of direction. It is the degree of the price fluctuation (standard deviation) compared to its average value over the longer term. A high volatility means that the value can fluctuate significantly, both in the positive and negative sense.

The related risk is the volatility risk. The greater the deviations, the higher the risk. The higher the volatility, the greater the potential loss.

This risk is typically also translated to a risk class of the financial instrument. When the investor takes a higher risk (with a higher volatility), he will have higher expectations regarding the return.

Concentration risk:

The concentration risk is the risk that results from the lack of spreading of the investments in a sufficient number of assets, asset classes, markets, or with a sufficient number of counterparties. The higher the spreading, the lower the concentration risk.

Other risks:
This list of risks is not exhaustive. Other risks exist, as well as other denominations and subdivisions or groupings of risks.

For example: flexibility risk, geographical risk, country risk, reinvestment risk, etc..

IMPORTANT MESSAGE

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BNP PARIBAS FORTIS SA/NV

Montagne du Parc 3, B-1000 Brussels
RPM/RPR Brussels - VAT BE 0403.199.702
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Boulevard de Berlaimont 14, 1000 Brussels, Belgium.

R.E.: Emilie Jaqueroux
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