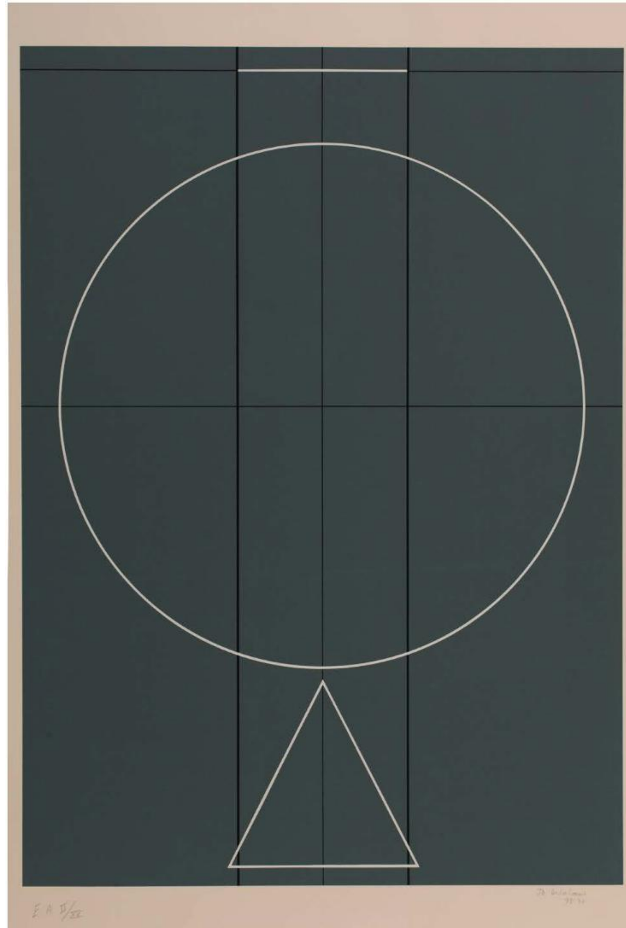

Risk Brochure

on the risks of financial instruments

DELEN

PRIVATE BANK

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3 Information on the risks of financial instruments

4 Overview of the essential characteristics and risks of financial instruments

4 Basic risks
5 Specific risks for different types of investments
- 5 Time deposits
- 5 Bonds
- 7 Shares
- 8 Investment funds
- 8 Derivatives
- 13 Structured products
- 13 Synthetic products
- 13 Alternative investments and off-shore funds
- 14 Real estate investments

15 Sustainability risks

17 Information on the investment strategies of Delen Private Bank Luxembourg

18 Information on the policy related to the execution of orders and conflicts of interest

Information on the risks of financial instruments

This document provides an overview of the essential characteristics and risks of the financial instruments in which the client of Delen Private Bank Luxembourg S.A. (hereinafter the "Client") may invest or in which the Bank may invest on behalf of the Client.

This document shall be read in conjunction with the General Terms and Conditions of the Bank, which the Client has accepted and signed.

It provides information on financial investments in which the Client may invest. The purpose of this document is to provide the Client with basic information and to raise customer awareness of the risks inherent in all investments in financial instruments.

We ask the Client not to make any investments without making sure that they are aware of all the risks involved and to adjust investments to their wealth, needs and experience.

Shall the Client have any specific queries or is interested in particular financial instruments, the Bank recommends the Client to contact his Relationship Manager, in case the Client needs further information.

This document does not deal with the tax or legal consequences pertaining to transactions in financial instruments. Therefore the Bank recommends the Client to request tailor-made advice on these matters to specialists before any investment.

Overview of the essential characteristics and risks of financial instruments

1. Basic risks

These risks apply to all forms of investment. Depending on the financial instrument chosen, one or more of the risks set out below may be cumulative, entailing an overall increase in the level of risk for the investor.

1.1. Cyclical risk

Changes in the activity of a market economy always influence prices of financial instruments and in exchange rates.

Prices fluctuate more or less according to the downward or growth trends of the economic cycle. The duration and scope of economic downward or growth trends are variable, as are the repercussions of those variations on the various sectors of the economy. Moreover, the economic cycles may vary depending on the different countries.

Failure to take the factors into account and an incorrect analysis of the development of the economic cycle when taking an investment decision may result in losses..

1.2. Inflation risk

When the inflation rate exceeds the yield generated by the financial instruments (gains in capital and interests), the value of the capital actually invested may result in losses.

1.3. Country and transfer risk

A foreign debtor, although solvent, might be unable to pay interest and capital due at maturity or even completely defaults on his debts due to the unavailability of the foreign currency or to currency exchange controls triggered, for instance, by economic, political or social instability in the relevant country.

Payments to which the investor is entitled may therefore not be made. This may be due to a lack of foreign currency or restrictions on transfers abroad. If financial instruments are issued in a foreign currency, the investor risks to receive the payments in a currency that turns out to be no longer convertible due to exchange restrictions.

Even in the absence of any crisis, state intervention in certain economic sectors (e.g. nationalization) may affect the value of investors' assets. In certain extreme cases, the assets of investors may even be seized or frozen by local authorities, or their rights may be restricted.

In principle, it is not possible to protect oneself against such risks. The ratings of the various countries published in the financial press may nonetheless be a useful indication for investors.

Finally, the unstable political, economic or social situation in general in certain countries may also lead to rapid price fluctuations.

1.4. Exchange rate risk

The rates of different currencies fluctuate in relation to each other, thereby creating an exchange rate risk when an investor holds financial instruments in a foreign currency. The same investment may result in a profit or a loss depending on the exchange rates. When the activities of companies are linked to exchange rates to a greater or lesser extent, the change in these rates may affect the value of the financial instruments they issue.

1.5. Liquidity risk

For investors, liquidity means the possibility to buy or sell financial instruments held in their portfolio at any time at their market value.

In the event of insufficient market liquidity, investors face the risk not being able to sell their financial instruments at market price. In principle, a distinction has to be made between a lack of liquidity caused by market offer and demand and a lack of liquidity due to the characteristics of the financial instrument or market practices.

A lack of liquidity due to market offer and demand arises when the offer or the demand for one financial instrument at a certain price is non-existent or extremely low.
Under those circumstances, purchase or sell orders may either not be carried out immediately, and/or only partly (partial execution) and/or at unfavorable conditions. Furthermore, higher transaction costs might apply.

A lack of liquidity due to the inherent characteristics of a financial instrument or the occurrence of market practices may be due to, for example, a lengthy transcription procedure for a transaction on registered shares, long performance delays because of market practices or other limitations of trade, short-term liquidity needs that cannot be covered quickly enough by the sale of the financial instruments or long lock-in periods before being entitled to execute a transaction, in particular for alternative investment funds.

1.6. Credit risk

Credit risk or default risk is an investment risk of loss due to a borrower's defaulting on a debt that does not or cannot meet his contracted financial obligations.

1.7. Interest rate risk

In general, a fluctuation of interest rates, whether short or long term rates, may have a substantial negative consequences on the prices of financial instruments.

1.8. Other basic risks

Information-related risk

This shall refer to the risk associated with unfavorable investment decisions arising from a lack of information, incomplete or incorrect information.

This might occur when investors turn to unreliable sources, misunderstand the information that was provided to them or communication errors.

Transmission risk

When placing an order, investors must provide the Bank with certain information necessary for the execution of that order (instrument, type of order, volume, execution date, etc.). The more precise the order is, the lower the risk of transmission error is.

2. Specific risks for different types of investments

2.1. Term deposits

These are cash deposits that earn interest on a fixed maturity date and at a predetermined rate.

2.1.1. Characteristics

- **Return:** payment of interests
- **Maturity:** short-term (< 4 years), medium-term (4-8 years or long-term (> 8 years)
- **Interests:** interests depend on the specific terms and conditions of each deposit; e.g. a fixed interest rate for the entire term or a variable interest rate that is often aligned with interest rates on the financial markets (e.g. LIBOR or EURIBOR).

2.1.2. Advantages

Depending on market conditions, these products may offer more attractive returns than other fixed-rate products.

2.1.3. Risks

These products are subject mainly to inflation, exchange, interest rate and counterparty risks as described under point I. supra.

2.2. Bonds

A bond is a tradable registered debt instrument for a loan taken out by a company, an institution or an undertaking. As an investor, you lend them money, and receive interest in return. There are fixed rate bonds and variable-rate bonds. The term and method of repayment are determined in advance. Some structured products take the legal form of a bond and are therefore discussed under 'structured products'.

The purchaser of a bond (the creditor) has a right of claim against the issuer (the debtor).

2.2.1. Characteristics

- **Return:** interest payments, possible increases in value (difference between the purchase/issue price and the sale/settlement price)
- **Maturity:** short-term (< 4 years), medium-term (4-8 years or long-term (> 8 years)
- **Currency:** investor's national currency or foreign currency. The repayment of the principal and the payment of interest may be made in different currencies. In such a case, the bond may include an exchange option in order to limit the exchange risk.
- **Form:** individual securities with a fixed nominal value (which can be delivered to investors) or collectively represented by a general certificate deposited with a custodian bank.
- **Issue price:** at par (100% of the nominal value), below par (issue price below the nominal value) or above par (issue price above the nominal value).
- **Place of issue:** this can be the domestic market of the investor or a foreign market.
- **Repayment**
  - On predetermined dates: unless otherwise provided for or unless the issuer becomes insolvent, loans are repaid either on the maturity date of the bond, through annual instalments (generally after a lock-in period), or at different dates by drawing lots (generally after a blocking period).
  - On non-predetermined dates: the issuer has the right to repay on a date of his choice.
- **Interests:** interest depends on the specific terms and conditions of the loan. The client can, for example, choose between a fixed rate for the entire duration or a variable rate that is often geared to the interest rates on the financial markets (e.g. LIBOR or EURIBOR). In the latter case, a minimum or maximum interest rate may be provided for.
- **Specific characteristics** (e.g. issuer-investor relations): set out in the terms and conditions of issue of the relevant bond.

2.2.2. Advantages

Depending on market conditions, these products may offer more attractive returns than other fixed income products.

2.2.3. Risks

Insolvency risk

The issuer risks to become temporarily or permanently insolvent, entailing his incapacity to repay interests and/or the principal amount of the loan. The solvency of an issuer may change due to the development of certain factors during the term of the loan. This may be due to changes in the economic cycle or in the company, in the issuer's sector of activity or in its country But political developments can also have important economic consequences.

This risk varies depending on whether the bonds are issued by a governmental body or a private institution. It also depends on the nationality of the issuing public authority or on the type or sector of activity of the private institution that issued the bonds (bank, industrial company, etc.), as well as the financial dependability of the latter.

The risk is more limited when bonds are collateralized. In such a case, the additional protection enjoyed by the investor shall be assessed on the basis of the status and solvency of the guarantor.

In general, bonds issued by entities considered as trustworthy tend to have the lowest yield. The risk of total loss of the invested amounts entirely is proportionally much lower. A deterioration in the issuer's solvency also has an adverse effect on the price of the relevant financial instruments.

Interest rate risk

The relative uncertainty about the development of interest rates means that the buyer of a fixed-interest financial instrument is subject to the risk of the price dropping when interest rates rise. The sensitivity of a bond to interest rate movements depends on its residual maturity and the nominal level of interest rates.

Early redemption risk

The issuer of a bond is allowed to repay the loan (or part of it) at an earlier date than the contractually required (final) date. It may exercise this option if market interest rates fall and are lower than the coupon rate. Such early redemption may affect the investor's expected return.

Risk of bonds redeemable by drawing lots

Bonds that can be cancelled by lot and have a maturity that is difficult to predict may entail unpredictable changes to the expected return of the corresponding bond.

Risks associated with the country of issue

A bond issued on a foreign market is, in principle, governed by the laws of the country of issue. Investors must therefore inform themselves about the possible impact of the applicability of this foreign legislation on their rights.

Specific risks for certain bonds

Some types of bonds may carry additional risks, such as Floating Rate Notes, Reverse Floating Rate Notes, Zero Bonds, foreign currency bonds, convertible bonds, index-linked bonds or option bonds, "subordinated" bonds, etc.

For these types of bonds, investors are requested to consult the issuer's prospectus, to inform themselves about the risks listed therein, and not to purchase these financial instruments before having weighed up all the risks.

The following commentary is intended to provide only an overview of the additional risks to which investors are exposed by investing in these specific bonds.

Floating rate bonds

There are various types of floating-rate bonds. One example is the Floor Floater bond with a guaranteed minimum interest rate. If the sum of the reference interest rate and the margin is below a certain amount, the investor receives interest that is at least equal to the minimum interest rate set. Cap floaters, on the other hand, are bonds for which the interest investors can receive is limited to a predetermined maximum rate. For these bonds, it is impossible to predict the effective yield of the investment upon issue, as this depends on market interest rates.

Zero bonds

No coupon interest is paid for zero bonds. Instead of receiving periodic interests, the investor receives the difference between the redemption price and the issue price (in addition to the capital repayment). Such bonds are generally issued and redeemed at par. The difference thus granted to the investor depends on the term of the bond, the creditworthiness of the borrower and the interest rates in the markets.

Such bonds therefore entitle investors to the payment of a lump sum on a specific date, if the bond is held to maturity (the tax consequences may vary from one country to another). If they are sold before maturity, investors receive only the selling price of the bonds.

If market interest rates rise, therefore, the value of these bonds decreases more than that of identical bonds with the same maturity. If they are also issued in a foreign currency, the exchange rate risk also increases. This is because there

are no periodic interest payments, but only one payment on a predetermined date.

Phased interest rate bonds

These bonds are a combination of fixed rate and variable-rate bonds. They generally have a term of 10 years and entitle investors to interest payments at a fixed rate during the first years.

In the subsequent years, investors receive interest payments based on a variable interest rate that depends on market interest rates. During the final years of the bond's maturity, investors again receive interest payments based on a fixed interest rate.

Index-linked bonds

The redemption price and/or interest rate for these bonds are determined on the basis of the level of an index or of a managed account determined in advance - at redemption or on the interest payment date - and thus are not fixed. These bonds are often zero bonds.
Such bonds are generally issued in two tranches: bull bonds (bonds whose value increases when the index rises) and bear bonds (bonds whose value increases when the index falls). Investors thus runs the risk that the value of their bond decreases sharply when the index falls (bull bonds) or increases when the index rises (bear bonds).

Subordinated bonds

For these bonds, Investors shall be aware of the seniority of their bonds in relation to the issuer's other bonds. This is because, in the event of the issuer's bankruptcy, these bonds may be redeemed only once all creditors with higher ranking (senior bonds and pari passu bonds - bonds with the same rights as ordinary bonds) have been repaid.

In general, the more favorable the position (ranking) of the investor in case of bankruptcy, the lower the return on the bonds.

Convertible bonds / warrant bonds

Investors are granted the right to exchange their bonds at a certain date or within a certain period for shares in the issuer at a predetermined price. In general, there is a minimum lock-in period during which investors are not authorized exercise their right of conversion. In case the right of conversion is not exercised, bonds then remain fixed-interest notes and redeemed at par at maturity.

Due to the conversion right, this type of bond entitles the holder to interest payments at a lower rate than ordinary bonds. The value of these bonds depends mainly on the value of the underlying shares. The value of the bond therefore also falls when the price of the shares falls. The risk that the value of the bond decreases is thus higher than for bonds without conversion right (but generally lower than the risk of loss with a direct investment in the shares concerned).

There are also bonds that entitle investors to subscribe to shares of the issuer in addition - and not alternatively - to the bonds. The investor's subscription right is recorded in a certificate (warrant) that can be detached from the bond. The certificate can be traded separately. An investor can subscribe to shares of the bond issuer in return for the presentation of this certificate and subject to predetermined conditions The investor also keeps the bond until maturity. As in the case of bonds with conversion rights, the periodic interest payments are generally low. The value of such bonds - if they are accompanied by the certificate - also depends on the value of the underlying shares.

Without the certificate, these are conventional bonds and the value depends mainly on market interest rates.

There are also some variants of the bonds described in the previous section. These entitle the holder of the certificate to buy or sell another predefined bond at a fixed price.

2.3. Shares

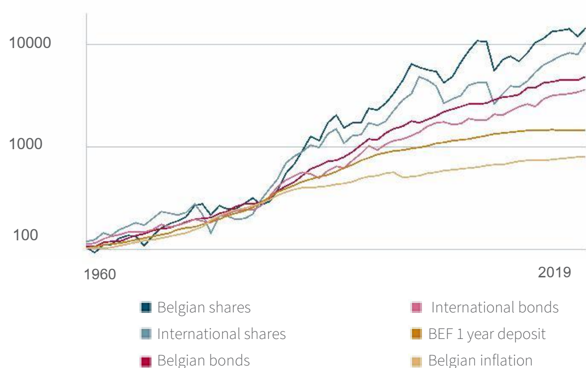
A share is a certificate of equity interest in the capital of a company. It is a registered or bearer security. The shareholder is the owner of a share, and thus has acquired rights in a company.

2.3.1. Characteristics

- **Return:** dividends and price increases are possible.
- **Shareholders' rights :** money and shareholding rights are determined by the law and the issuing company's articles of association.
- **Transfer of shares:** Bearer shares are in principle transferred without any special formalities, unless other legal provisions have been laid down. Restrictions usually apply for registered shares, however.

2.3.2. Advantages

In principle, investors have voting rights and shares in the profits of the company. They can also attain a higher return than when investing in term deposits or bonds.



Past returns are no guarantee for the future.

2.3.3. Risks

Company risk

Buyers of shares are not a creditor but a capital contributor and therefore become co-owners of the company. Consequently, they participate in the development of the company and also in the associated opportunities and risks, which may entail unexpected fluctuations in the value of such investment. In extreme cases, the issuing company may go bankrupt, which would result in the complete loss of their invested capital.

Price fluctuation risk

The price of shares can be subject to unforeseen fluctuations, causing a risk of loss. Price increases or decreases in the short, medium or long term alternate, without it being possible to determine the duration of these cycles.

In principle, a distinction must be drawn between the general market risk and the risk specific to the company. Both risks influence the evolution of the share price.

Dividend risk

The dividend of a share depends mainly on the profit made by the issuing company. Thus, in case of low profits or even losses, it is possible that dividend payments are reduced or that no payments are made.

2.4. Investment funds

An investment fund is a company or an organized undivided entity that brings together the money of a certain number of investors to invest it in various assets according to the risk-spreading principle. It enables its shareholders or participants to share in the earnings from the management of the assets.

2.4.1. Characteristics

- **Open-ended funds:** in an open-ended fund, the number of shares and therefore the number of participants cannot be determined at first sight. The fund may issue new shares or buy back shares already issued. The fund is required to buy back the shares charged to it at the agreed calculated inventory value and according to the contractual provisions.

- **Closed funds:** in a closed fund, the issue is limited to a certain number of shares. Unlike open funds, there is no obligation for the fund to buy back the shares. The shares can be sold only to third parties or on a market. The price obtained is determined by supply and demand.

2.4.2. Advantages

The holders of units/shares receive part of the fund's income . As a result of the fund's diversification of the underlying investments, the chances of profits increase or, at least, the risks of losses are limited.
In principle, the fund may benefit from more favorable market conditions (e.g. fees) than the conditions which would have applied to the investor shall he had invested directly in the same products.

2.3.3. Risks

Management risk

The return on investment of an investment fund depends in particular on the competence of the managers and their correct decisions. Incorrect judgements in the management of a fund may result in loss or reduction in value.

Risk of drop in unit/share prices

Investment fund units/shares are exposed to the risk of a drop in their prices, reflecting the decrease in the value of the financial instruments or currencies composing the portfolio of the fund. The higher the diversification of the investments made by the fund is, the lower - at least theoretically - the risks of losses are. Conversely, the risks increase with more specialized and less diversified investments. It is therefore necessary to pay attention to the general and specific risks associated with the fund's financial instruments and currencies.

Investors should obtain information on the specific risks of each fund. They are strongly advised to consult in particular the prospectus of the fund concerned.

2.5. Derivatives

Derivatives are financial instruments whose value depends according to the value of an "underlying" asset. This

underlying asset can be the price of a share, a market index, an interest rate, a currency, the price of a commodity or even another derivative.

Derivative products can be divided into:

a. **Options**, which give the right (but not the obligation) to one of the parties to conclude a transaction. One party (seller of the option) enters into a firm commitment, while the other (the buyer of the option) can freely exercise his right to complete the transaction in the product (the purchase or sale of the underlying security) or not in the end.

b. **Futures contracts** , where the parties enter into a transaction that will have to be carried out at a specified date in the future. In the case of futures, the parties undertake to carry out a transaction after the agreed time limit.

Transactions involving such products may entail substantial risks of loss and even result in the loss of the entire invested capital. Investors should also make sure they have sufficient liquidity before entering into such transactions because margin calls may be made during the lifetime of the product.

a. Options

Options are derivative instruments whose value depends on the evolution of the underlying asset. The party who buys an option acquires the right to buy (call) or to sell (put) the underlying asset at a certain base price on a certain expiry date or during a certain period, against payment of a premium to the counterparty, i.e. the seller of the option.

The specific features of an option may be standardized or determined on a case-by-case basis by and between the buyer and the seller.

2.5.1. Characteristics

- **Term:** the term of an option is the period from the subscription date to the expiry date of the option right.

- **Link between the option and the underlying asset:** this indicates how many units of the underlying asset the option holders can buy (call) or sell (put) by exercising their option right.

- **Exercise price:** the exercise price is the price agreed in advance at which the option holder can buy or sell the underlying asset.

- **Exercise date:** options that can be exercised at any time until their expiry date are known as 'American' options. Options that are only exercisable on their expiry date are known as 'European' options. The latter can be freely traded on the secondary market however until their expiry date if the market is liquid.

- **Exercise terms:** there are two types of exercise terms. First, there are options with physical delivery. In this case, the buyer of a purchase option (call) is entitled to the delivery of the underlying asset in exchange against payment of the exercise price. In a put option, the buyer is entitled to deliver the underlying asset to the seller against payment of the exercise price. There are also options with cash settlement. In such a case, the difference between the exercise price and the market value of the underlying asset is payable if the option is in-the-money. (See below)

- **Options in-the-money, out-of-the-money, at-the-money:** A call option is in the money if the market value of the underlying asset is higher than the exercise price. A call option is out-of-the-money if the current market value of the underlying asset is lower than the exercise price. A put option is in-the-money when the market value of the underlying asset is lower than the exercise price. A put option is out-of-the-money if the current market value of the underlying asset is higher than the exercise price. If the market value and the strike price are identical, the option is at-the-money.

- **Option value:** the price of an option depends on its intrinsic value and a series of other factors (time value), in particular the residual life and volatility of the underlying asset. The time value indicates the probability that an option is in-the-money. The latter value is therefore more important in the case of long-term option contracts relating to a highly volatile underlying asset.

- **Margin:** during the term of an option, the seller must either pledge an appropriate amount of the underlying asset or provide other guarantees. The margin is determined by the Bank. The markets require a minimum margin for listed options. If the margin formed by the investor proves insufficient, the Bank has the right to request additional guarantees, sometimes at very short notice.

- Form:
  - Option certificates (warrants, listed options): the rights and obligations attached to the relevant option are guaranteed by the issuer. Sometimes they are quoted on a market.
  - Traded options: these are standardized options whose rights and obligations are not guaranteed and are traded on certain private markets;
  - OTC (over-the-counter) options: these options are traded off-market or privately.

  Their degree of standardization depends on market practices. They can also be tailor-made according to investors' needs. These options are not listed and are rarely materialized in the form of certificates.
- **Leverage effect:** any change in the price of the underlying asset entails a proportionally higher change in the price of the option.
- **Purchase of a call or put option:** the buyer of a call option hopes that the price of the underlying asset will rise during the lifetime of the option, thereby increasing the value of the option. The buyer of a put option, on the other hand, makes a profit when the price of an underlying asset falls.
- **Sale of a call or a put option:** the seller of a call option expects the price of the underlying asset to fall, whereas the seller of a put makes a profit when the price of the underlying asset rises.

2.5.2. Advantages

During the term of an option, the beneficiary of the option gains the right to buy or sell certain assets. The potential for profit is significant due to the leverage effect associated with the use of an underlying asset. For the counterparty, such a transaction is mainly interesting for improving the return of an existing position.

2.5.3. Risks

Price risk

Options are traded on or off-exchange and are subject to supply and demand. When setting the option price, it is important to know whether there is a sufficiently liquid market for the option in question and how the real or expected price of the underlying asset will develop.

A call option loses value when the price of the underlying asset decreases, whereas the opposite is true for a put option. The price of an option is determined not only by the price fluctuations of the underlying asset, but by a series of other factors also. The term of the option, for example, or the frequency and intensity of price variations of the underlying asset (volatility). There is therefore a risk that the value of the option will decline even if the price of the underlying asset remains unchanged.

Risks associated with the leverage effect

Owing to the leverage effect, an option responds proportionally more strongly to changes in the price of the underlying asset, thereby entailing higher chances of profit during the term of the option, but also higher risks of loss. The risk associated with buying an option increases with the size of its leverage effect.

Purchase of an option

Buying an option is a highly volatile investment and the probability of the option expiring without any value is very high. In such a case, the investor will lose the entire amount paid for the initial premium plus the commission. American options may be exercised on or before the expiry date. European options can only be exercised on the expiry date.

The exercise of an option may involve payment in cash for the difference or the purchase or delivery of the underlying asset. In the case of futures contracts, exercise means taking a position in futures and accepting the obligations associated on the replenishment of deposit margins.

Sale of an option

The (uncovered) sale of an option involves a different type of risk than the purchase. This risk may be higher or lower depending on the maturity, strike price and volatility of the underlying asset. Even when a fixed price has been obtained for the option, the loss that can arise for the seller is potentially unlimited. When the market price of the underlying asset fluctuates unfavorably, the seller of the option is obliged to supplement the guarantee margins in order to preserve his position. Is the sold option an American option? The seller can then be required at any time to pay cash for the transaction or in order to buy or deliver the underlying asset. Is the option sold a futures contract? If so, the exercise of the option consists in taking a position in futures and accepting the obligations associated with the replenishment of the guarantee margins.

Purchase of the underlying asset when selling from an uncovered position

A person who sells a purchase option from an uncovered position does not possess the underlying asset at the time the contract is concluded (sale from an uncovered position).

Are options with physical delivery concerned? Then the risk of loss for the investor is equal to the difference between the exercise price at which the underlying asset will be delivered upon exercise of the option right, and the price that he will have to pay to purchase this underlying asset. In the case of options with netting, the investor's risk of loss is the difference between the exercise price and the market value of the underlying asset.

The market value of the underlying asset may be considerably higher than the strike price at the time the option is exercised. Consequently, the risk of loss for the investor-seller of the option cannot be determined in advance and is unlimited -- at least in theory.

This risk is higher in the case of "American" options which can be exercised at any time, and thus also at an unfavorable moment for the seller of the option. There is also an additional risk for the investor-seller of the option. He may not be able to purchase the required underlying asset when the option is exercised, or he may be able to purchase it only under very unfavorable conditions (e.g. high cost), taking into account the situation on the markets.

Bear in mind that, in such a context, the loss may also exceed the amount of the margin (a kind of advance payment made by the investor).

Particular risks associated with over the counter (OTC) options

A position arising out of the purchase or sale of an OTC option may be settled only with the consent of the counterparty.

Particular risks associated with combined transactions

A combined transaction entails concluding two or more option contracts relating to the same underlying asset, which differ in terms of the type of option right or the characteristics of the option.

Many combinations are possible. Consequently, he risks associated with each combination cannot be described in this document. Investors should inform themselves about them.

Furthermore, in any combined transaction, the removal of one or more options at a particular stage may lead to significant changes in the investor's risk position.

Particular risks associated with ‘exotic’ options

These options are subject to additional terms or conditions. Their payment structures cannot be attained by any combination of transactions.

They may be ‘tailor-made’ OTC options or option certificates.
The range of possible exotic options is unlimited. It is therefore impossible to describe all the risks associated with each option in this document.

b. Forward contracts

Forward contracts or futures are contracts between two parties that are traded on the markets. Both parties undertake to trade a specified quantity of an asset at a specified time (contract expiry date) and at a pre-determined price. Over-the-counter (OTC) forward contracts are contracts that are not traded on a market. Their specifications are standardized or agreed upon by and between the buyer and the seller.

2.5.4. Characteristics

- **Initial margin requirement:** irrespective of whether it is a forward purchase or forward sale of the underlying asset, an initial margin is always set at the time the contract is concluded, whether for forward purchase or forward sale. This margin is in principle expressed as a percentage of the counterparty value of the contract.

- **Additional margin:** an additional margin (variation margin) is determined periodically and requested from the investor throughout the term of the contract. This additional margin represents the accounting profit or loss resulting from the change in the contractual value or in the underlying asset. It may be a multiple of the initial margin. The way in which the additional margin is calculated over the term of the contract or at settlement depends on the stock exchange rules and the stipulations of each contract. The investor must respond immediately to the requests to constitute an additional margin received from the bank.

- **Settlement:** in principle, the investor may terminate or settle the contract before its expiry at any time during the term. This can be done by selling the contract or by entering into a contract with opposite delivery and receipt conditions In the latter case, the terms of the opposite contract must be drawn up in such a way that the delivery and receipt obligations arising out the two contracts cancel each other. The termination or settlement shall put an end to the risk positions taken: the accumulated profits and losses up to the time of settlement materialize. Execution: the contracts that have not been settled by their due date must be honored by the parties involved.

  Contracts with assets as the underlying value can in principle be honored either by the actual delivery of the underlying asset or by cash settlement. Contracts with reference indices (excluding foreign exchange) as underlying assets cannot be honored by delivery of the underlying asset. In the case of effective delivery of the underlying asset, the contractual performance must be delivered in full. While in the case of a cash settlement only the difference between the price agreed at the conclusion of the contract and the market value at the time of execution of the contract has to be paid. The investor consequently needs more liquidity for a contract that provides for actual delivery of the underlying asset than a contract with cash settlement.

2.5.5. Advantages

Significant gains can be made depending on the market value of the underlying asset over time, especially as the initial capital invested is limited. It is also possible to protect (temporarily) existing positions from volatility in the markets.

2.5.6. Risks

Change in value of the contract or of the underlying asset

The investor faces a risk when the change in the effective value of the contract or of the underlying asset does not correspond to the investor's expectations at the time the contract is concluded. Does the value of the contract or the underlying asset increase? The seller must then still deliver the underlying asset over time at the price initially agreed. This price may be considerably lower than the current price. The risk for the seller therefore corresponds to the difference between the agreed price when concluding the contract and the market value at maturity. As market value can theoretically increase without limitation, the potential loss for the seller is also unlimited and may significantly exceed the required margins.

Does the value of the contract or the underlying asset decrease? Then the buyer must eventually accept to receive the underlying asset at the initially agreed price. This may be considerably higher than the current market value. The risk for the buyer therefore corresponds to the difference between the agreed price when concluding the contract and the market value at maturity. The buyer can therefore lose at most the amount of the price initially agreed upon. This loss may significantly exceed the required margins.

The transactions are regularly valued (mark-to-market) and the investor must have an adequate cover margin at all times. If the margin proves to be insufficient in the course of the transaction, the investor must provide an additional margin within a very short period of time. If he fails to do so, his transaction will be settled early and in principle at a loss.

Difficult or impossible settlement

In order to limit excessive price fluctuations, a market may set price limits for certain contracts. In such a case, it may become very difficult - or even temporarily impossible - to liquidate a contract once that price limit is reached. Every investor should also inform himself about such price limits before entering into a futures contract.

Stop loss orders are executed, if at all possible, only during the Bank's business hours. They do not allow the investor to limit the loss to the specified amount. But they are executed as soon as this limit amount is reached in the market and then become 'best orders'.

Purchase of the underlying asset when selling from an uncovered position

Selling an underlying asset forward without owning it at the time of concluding the contract (uncovered sale) involves a risk. The buyer may have to buy the underlying asset at a very disadvantageous market price so as to be able to meet his obligation to deliver the underlying asset at maturity.

Particular risks associated with OTC transactions

For standardized OTC forward transactions, the market is in principle transparent and liquid. Settlement of contracts is also generally possible. There is no market for OTC forward transactions with privately negotiated contract specifications Settlement is therefore possible only with the consent of the counterparty.

Specific risks of foreign exchange forwards

A so-called foreign exchange contract is intended for the purchase or sale of a currency at a future date for a price determined at the time the contract is concluded. This form of investment is used to eliminate the exchange risk. Moreover, no premium has to be paid when concluding the contract. The main risk for the investor is to lose profit if the evolution of exchange rates is more favorable than foreseen when concluding the contract.

Particular risks associated with combined transactions

Many combinations are possible. Consequently, he risks associated with each combination cannot be described in this document. The investor should inform himself of the risks inherent in each combination.

Please note that the risks associated with such transactions may change as the various transactions forming part of that combination are completed.

2.6. Structured products

Structured products are combinations of two or more financial instruments that together form a new product. At least one of these instruments should be a derivative. The most common structured products are those with capital protection.

Such products can be traded on a market or over the counter. Numerous combinations are possible, and each structured product carries its own risks. For the different risks inherent in each of the instruments are reduced, eliminated or amplified by the combination.

Investors should therefore inform themselves about the risks that are specific to the structured product of their choice. Such information can be found, for example, in the brochures or commercial form sheets describing the product.

2.7. Synthetic products

Synthetic products - mainly passive investments and certificates - are characterized by the fact that their profit and loss structures are identical (or at least comparable) to those of certain traditional financial instruments (shares or bonds). Synthetic products are created by combining one or more financial instruments into one product. A typical example of this consists of basket certificates that pertain to a well-defined stock selection and quantity.

Synthetic products are traded on or off the market. There are numerous combination possibilities and there are specific risks associated with each synthetic product. The risks associated with synthetic products do not necessarily correspond to the risks of the financial instruments that are combined in these products. It is therefore very important for investors to inform themselves well about these risks before purchasing such a product

2.8. Alternative investments and off-shore funds

2.8.1. Characteristics

- **‘Alternative investment:** refers to an investment in a domestic or foreign investment and equity fund. It is distinguished from traditional investments in shares and bonds by the type of investments the fund chooses to make. The best known 'alternative' investments are hedge funds, for instance. As part of their investment strategy, they include selling leverage and financial derivatives from an uncovered position. Investments in private equity funds (venture capital, financing of buy-backs) also belong to this category. As part of alternative management, assets may also be invested directly in financial instruments (equities, fixed or floating-rate bonds, zero coupon bonds or convertible bonds and money market instruments). The choice of financial instruments is unlimited, in terms of industry, sector and geographical region, as well as in terms of the values and instruments used, the currency in which they are denominated and the type of investment.

- **Hedge funds:** Hedge funds are free to choose the products and markets (including emerging markets) in which to invest and the trading methods to be used. Such funds generally require high minimum investment amounts. The remuneration of the managers of these funds is often linked to the performance of the fund. Their basic strategy is to limit the risk of a long position in a portfolio of securities by selling other securities from an uncovered position. By limiting their exposure to market risk in this way, they create leverage to increase returns. The funds often take long positions on securities they consider to be undervalued and short positions on securities they consider to be of lower quality. The short leg may also include positions on 'indices'. The term “off shore” funds refers to investment funds located in offshore centers, for example the Bahamas, the Bermudas, the Cayman Islands, Panama or the Dutch West Indies.

There are specific risks associated with each fund. It is not possible to provide a comprehensive overview of all risks associated with investing in such products in this document We therefore limit ourselves to a few general indications We ask investors to inform themselves at all times before investing in such products, for instance by consulting the fund's prospectus.

2.8.2. Risks

Leverage risk

Investment strategies may involve high risks. Due to the use of leverage effects, a slight movement in the market may result in significant gains, but also in substantial losses. In some cases, the entire amount invested can be lost.

Lack of transparency

The net asset value of such investment instruments is generally not known at the time the investor decides to opt for a particular investment or to liquidate it. This is due to the fact that, in principle, a period of notice is required before each transaction of this type. The net asset value can consequently be calculated only at the time the investment is made or liquidated.

Those who choose "alternative" investments often have little information. The very complex strategies of the investment funds are usually not transparent to the investor. Changes in strategy that may increase risk are often poorly understood by investors or even completely escape them.

Potential limited liquidity

The liquidity of "alternative" investments varies widely. Their liquidity may be very limited.

Most of these investments are subject to lock-up periods or exit fees if they are settled before the end of a specified period. This is explained by the relatively low liquidity of the investments included in these types of instruments, which are rather long term in nature.

Many of the techniques used in these alternative investments involve financial instruments that are not liquid or are subject to legal restrictions and transfer restrictions or other.

Selling from an uncovered position

The UCIs in which the Bank invests on behalf of the Client may sell securities from an uncovered position. The portion of the UCI's assets used for this purpose may be exposed to unlimited risk. This is because there is no maximum limit to the price that these securities can reach. Losses are limited to the amount invested in the UCI concerned.

Valuation of the UCIs

The net asset value per share of the funds invested in is not revised (with the exception of that which is calculated at the end of the financial year). The Bank relies mainly on the unaudited financial information in valuing said funds This is provided by the named funds, administrative agents or the market holders. Does the financial information used by the funds to determine their own net asset value per share turn out to be incomplete or incorrect? Or does the stated net asset value not reflect the value of the investments held by the fund? Then the valuation of these assets is incorrect.

Absence of custodian banks

For certain UCIs in which assets are invested, the task of the Custodian is performed by a broker instead of a bank. These brokers may not have the same credit rating as a bank. In contrast to custodian banks, which operate in a regulated environment, brokers only carry out the asset safekeeping tasks without being subject to any supervisory obligation.

Performance fees

Due to their specialized nature, some - or even most – of these funds may charge performance fees.

Additional risks associated with private equity funds

Investments in private equity generally involve the following additional risks:

No guarantee of return for the investor:

The investor runs the risk of not being able to recover the entire invested capital, or even of losing it completely. The past performance of these investments offers no guarantee for the future. One of the reasons is that the investment environment is constantly changing (new geographical sectors, new areas of specialization, etc.). A cyclical upturn in particular often causes fierce competition in the acquisition of companies, while it is difficult to withdraw from such investments during downturns.

Weak liquidity:

These funds generally have a maturity of 7 to 15 years. There is no recognized secondary market for this type of investment. The penalty for withdrawing from a private equity fund (whereby payments may be required over several years) can therefore be very severe even to the point of forfeiting all rights to the amounts already invested in this type of investment.

As regards the provision of the promised funds: investors must pay particular attention to the generally very short periods of notice (sometimes limited to 7 days), and must also be sure that they have sufficient liquidity. They must be able to use that liquidity if they have to pay up additional capital.

2.9. Real estate investments

These are investments in real assets (houses, offices, commercial premises, etc.).

2.9.1. Characteristics and advantages

General features and advantages of real estate investments

These investments are generally made by investing in funds or listed investment companies to ensure a certain diversification. These investments should also reduce the volatility of the portfolio and enable investors to hedge against inflation.

Certain real estate investments may have the same characteristics as investments in private equity funds.

2.9.2. Risks

Potential limited liquidity

Liquidity and tradability of investments linked to real estate can vary significantly.
Such investments are usually illiquid and do not necessarily allow investors to realize profits in the short term.

Listed investment companies and open-ended investment funds investing in real estate generally have a daily market. On the other hand, real estate investments through closed ended funds may provide liquidity only monthly, quarterly, or annually with a mandatory holding period of at least several years.

Leverage risk

In case of leverage effect, movements in the market may generate major gains, but also high losses.

3. Sustainability risks

Sustainability risk refers to environmental, social or governance ("ESG") events or situations that, if they occur, may have an actual or potential material adverse impact on the value of a sub-fund's investments. Sustainability risks may constitute a risk in themselves, or may contribute significantly to risks such as market risk, operational risk, liquidity risk or counterparty risk.

Sustainability risks can be identified, managed and controlled. All information related to Environmental/Social characteristics and/or sustainable investment objective promoted by products defined by Article 8 of 9 of the Regulation (EU) 2019/2088 (SFDR) as well as the methodology used by the Bank are set out in its sustainability policy published on www.delen.bank.

A distinction shall be made between short, medium and long-term risks.
Each of these risks can cause negative impact on the value of the investment.

In the short term, the sustainability risk usually depends on a particular event. For example, an incident resulting in a lawsuit to compensate environmental damages or lawsuit and fines for non-compliance with the legislation.
Such short-term risks can be mitigated through the Bank's exclusion policy applied on some business areas.

Sustainability risks in the medium- to long-term may relate, for example, to internal governance risks or sustainability-related controversies.
Such medium and long-term risks can be mitigated, for instance, through an active and continuous involvement of board members to which the company's management complies with the principles of good governance and sustainability. A lack of good governance can lead to a competitive disadvantage due to the company's non-sustainable policy. Such risks can be mitigated in the medium to long term by monitoring developments in good governance properly.

The way in which Delen Private Bank manages these risks in its asset management can be found in the sustainability policy, the exclusion policy and the engagement policy posted on www.delen.bank.

Information on the investment strategies of Delen Private Bank Luxembourg

	Strategic equity risk	Fluctuations	Investment horizon
Fixed Income **The portfolio consists solely of fixed-income products, such as bonds.** The emphasis is on defensive bonds of governments and companies. Liquidities, other bonds (such as perpetuals) and other investment products (such as precious metals and derivatives) may also be included to a limited extent. Risk reduction takes precedence over returns Large price fluctuations are avoided.	0%	Very low	1-3 years
Very Defensive **The portfolio consists primarily of fixed income products (such as bonds) and a very limited investment in equities.** The equity risk amounts to a maximum of 15% of the portfolio. The fixed income part consists mainly of classical bonds of governments and companies. Other bonds (such as perpetuals),liquidities and a limited number of other investment products such as real estate investments, precious metals and derivatives are also possible. The portfolio can also consist of an investment in one or more investment funds with these characteristics. **The emphasis is on asset protection and limiting price fluctuations.1**	12.5%	Very low	1-3 years
Defensive **The portfolio consists mainly of fixed-income products(such as bonds). There is also limited investment in equities to increase the potential return.** The equity risk amounts to a maximum of 30% of the portfolio. The fixed income part consists mainly of classical bonds of governments And companies. Other bonds(such as perpetuals), liquidities and a limited number of other investment products such as real estate investments, precious metals and derivatives are also possible. The portfolio can also consist of an investment in one or more investment funds with these characteristics. **We aim for limited price fluctuations.**	25%	Low	3-5 years
Moderate **The portfolio consists primarily of fixed income products (such as bonds) but also a limited exposure to equities.** The equity risk amounts to a maximum of 45% of the portfolio. Other bonds (such as perpetuals), liquidities and a limited number of other investment products such as real estate investments, precious metals and derivatives are also possible. The portfolio can also consist of an investment in one or more investment funds with these characteristics. The position in equities **may lead to price fluctuations . The bond component provides protection nonetheless.**	37.5%	Average	5-7 years

	Strategic equity risk	Fluctuations	Investment horizon
Balanced **The portfolio is balanced between fixed-income products (such as bonds) and equities. whereby we strive for a balance between protection and growth of assets.** The equity risk amounts to a maximum of 60% of the portfolio. Other bonds(such as perpetuals), liquidities and a limited number of other investment products such as real estate investments, precious metals and derivatives are also possible. The portfolio can also consist of an investment in one or more investment funds with these characteristics. The equity component provides for a higher potential return, but on the other hand there is a higher risk of greater price fluctuations. The bond component provides protection nonetheless.	50%	Average	5-7 years
Dynamic **The portfolio invests in equities and in riskier bonds to pursue a higher Potential return. This is balanced by a higher risk of greater price volatility.** The equity risk amounts to a maximum of 75% of the portfolio. Other bonds (such as perpetuals), liquidities and a limited number of other investment products such as real estate investments, precious metals and derivatives are also possible. The portfolio can also consist of an investment in one or more investment funds with these characteristics.	65%	High	7-10 years
Very Dynamic **The portfolio invests primarily in equities.** The equity risk amounts to a maximum of 90% of the portfolio. **The explicit aim is to achieve a return. The risk of large price fluctuations is therefore considerably higher.** Other bonds(such as perpetuals),liquidities and a limited number of other investment products such as real estate investments, precious metals and derivatives are also possible. The portfolio canals consist of an investment in one or more investment funds with these characteristics.	80%	Very high	>10 years
Full Equity **The portfolio invests almost exclusively in equities. The explicit aim is to Achieve a return. The risk of large price fluctuations is therefore very high.**	100%	Very High	>10 years

Information note on the policy related to the execution of orders and conflicts of interest

For further information on the policy related to the execution of order and conflicts of interest, the Bank recommends the Client to refer to the Best Execution Policy and the Conflicts of Interest Policy published on the Bank's website www.delen.bank under the section "legal notice".

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