ING

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Financial instruments

Simplified brochure issued in connection with MiFID regulations

Directive relating to markets in financial instruments

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This is an information brochure issued by ING for its retail (private) customers and compiled in connection with the “MiFID” legislation (directive relating to markets in financial instruments).

By definition this brochure is **simplified**.

In this brochure ING has opted for conciseness with a view to providing basic information about the various types of financial instruments concerned by the MiFID directive.

The financial instruments concerned by the MiFID and outlined here are bonds, equities, undertakings for collective investment, alternative investments and the main derivatives (namely options, futures, etc.), as well as savings insurance and investment insurance products.

We take a brief look at their main features, the various types, their pros and cons (see Part I) and the risks which characterise them as investment instruments (see Part II).

For any questions relating to the instruments described in this brochure, ING customers can contact their ING liaison officer[1].

Part I.
Financial Instruments concerned by the MiFID

We refer to the table in part II for the "Risk" aspects linked to this type of financial instrument.

1. Bonds

1.1. Description

A bond is an acknowledgement of debt by the issuer; it represents a fraction of a loan issued by an issuer for which the bondholder receives interest (coupons).
The issuer can be:
- Belgian or foreign public body
- a Belgian or foreign private enterprise
- an international organisation
- a credit institution (in this case we refer to savings certificates rather than bonds).

Their principle is straightforward: an interest rate which gives right to the payment of a periodic coupon, a loan term, a purchase price and a redemption price at maturity.
Some bonds do however have specific features which we will examine in Point 1.3 (main bond types).

1.2. General features

Primary / secondary market
Bonds are issued on the primary market and it is possible to subscribe to them during a subscription period. After such period, bonds may be traded (bought/sold) on the secondary market where prices vary daily (when interest rates rise, prices fall and vice versa).

Issue price and redemption value
A bond may be issued at par (issue price = 100% of nominal value), above par (e.g. nominal value 100, price displayed 102) or below par (e.g. nominal value 100, price displayed 98). The redemption value at maturity is often 100% of the nominal value but a redemption premium may be planned.

Term
The term is determined when the bond is issued but early redemption ("call") can be planned. Early redemption or a call means that the issuer reserves the right, on certain dates or at certain periods determined at issue, to end the loan and repay the bondholder at a previously determined price. The term also influences the bond's yield. Generally, the longer the loan term, the higher the interest rate.

Issuer quality
Most issuers receive a rating which is a standardised code allocated by independent rating agencies (Moody's, Standard & Poors, Fitch, etc.). This rating assesses the debtor's solvency. The higher the rating (e.g. AAA), the lower the debtor risk. Nonetheless during the lifetime of the bond, such rating may be reviewed.

1.3. Main bond types

Bonds can be distinguished according to two different points of view: their type or their issuer.

1.3.1. Bonds by type

- **Ordinary bonds**
  Ordinary bonds have a fixed term coupled with a fixed rate throughout this term. Holders of ordinary bonds are not eligible for any special rights; if the issuer goes into liquidation, they are reimbursed after all preferential creditors.

- **Preferential bonds**
  The holders of preferential bonds are refunded by priority, if the issuer goes into liquidation. The repayment of capital and interest is guaranteed by some of the debtor's assets.

- **Subordinated bonds**
  If the issuer goes into liquidation, holders of subordinated bonds are only reimbursed after all other bondholders (preferential and ordinary creditors).

- **Zero-coupon bonds**
  Zero-coupon bonds are characterised by the absence of a coupon (interest is not paid annually, but capitalised until maturity); and a below-par issue, i.e. investors pay less than the nominal value at the time of issue (the issue price is far below the redemption price as it is equal to the current nominal value on the issue date and at the fixed interest rate).

- **Indexed bonds**
  These are bonds whose yield is linked to the trend in one or more indices (e.g. inflation, gold price, stock exchange index or share price, specific exchange rate); various indexation clauses may be stipulated: for instance, only the redemption price is indexed and no coupon is paid.

- **Floating rate notes (FRNs)**
  With this type of note, the coupon amount is not fixed but revised periodically.

- **Convertible bonds**
  Like ordinary bonds, convertible bonds have a fixed rate and term. What differentiates them is the right (not the obligation) of the bondholder to request, for one or more given periods, and at conditions set in advance, their conversion into equities.

- **Bonds cum warrants**
  A bond cum warrant is linked to a share; a warrant confers the right to buy the underlying share at a price set in advance. Separated from its warrant, the bond becomes an ordinary bond. Separated from the bond, the warrant has the same features as all warrants (see Point 5.3.3).

- **Reverse Convertible Bonds (RCBs)**
  An RCB is a standard short-dated debt security which offers a relatively high coupon. Such coupon should be considered as remunerating the option reserved by the issuer (usually a bank) of redeeming RCBs upon maturity, whether in cash at the nominal value of the securities in question, in shares, or at the equivalent of their value in cash. Such securities are always redeemed, at the bond issuer's discretion. Given the inherent risks, the FSMA (Financial Services and Markets Authority) has asked credit institutions to no longer use the term "bond" for this type of instrument.

- **Perpetual bonds**
  No maturity date is set for such bonds. They are however accompanied by a call (early redemption).

- **Structured bonds**
  Also called "Structured Notes", these are bonds which run for a set period with, in most cases, a guarantee for the subscribed capital, and they may offer a coupon linked to the performance of an underlying asset.
  The underlying asset of a structured bond may be undertakings for collective investment, equities, indices, a basket of equities, commodities (indices), etc.
  This product is aimed at well-informed investors owing to its degree of complexity.

1.3.2. Bonds by issuer

- **Savings certificates**
  This is an acknowledgement of a debt from a borrower (the financial institution) towards a lender (the investor). In return for the capital paid to the financial institution, the investor receives interest on the amount entrusted for the agreed term (often from 1 to 5 years, sometimes 10 years or more).
  Upon maturity, the capital is repaid. Different types of savings certificates, such as ordinary savings certificates, step-up savings certificates, capitalisation savings certificates (annual interest is not distributed but added progressively to the initial amount), savings certificates with optional capitalisation (= growth bonds) or with periodic payment of interest (quarterly, monthly, half-yearly).

- **Linear bonds (OLOs)**
  Linear bonds are denominated in euros, are dematerialised and are issued mainly by the Belgian treasury for short, medium and long-term periods (up to 30 years). Their interest rate, term and redemption price are fixed. They are issued in stages and the issue price is fixed by auction. These instruments are mainly for professionals. Individuals may be able to invest in them on the secondary market via their financial institution.

- **Government bonds**
  Government bonds are fixed-yield securities with an annual coupon, issued by the Belgian government in euros for non-professional investors. These bonds are issued four times a year (March, June, September and December) and quoted on the Brussels Stock Exchange.

- **Corporate bonds**
  A bond issued by a company is a debt security which represents participation in a long-term loan issued by a private sector company.
  As a rule the interest rate is normally higher than for savings certificates or government bonds to offset a higher credit risk.

- **Euro bonds**
  Euro bonds are bonds issued internationally (in several countries at the same time) by private companies, public institutions, sovereign governments and international organisations, outside the country of the currency in which they are issued. They are usually denominated in different currencies. The currency of the issue (exchange risk), the quality of the company issuing the loan (the issuer), the yield and the possibility of early redemption are factors which investors should consider carefully when choosing euro bonds.

1.4. Pros and cons of bonds

1.4.1. Pros

- In principle, and with regard to most bonds, this type of investment does not offer any uncertainty (amount, date of interim income and capital repayment determined at the time of issue).

- Bonds yield a higher return than short-term investments, with a lower risk than equity investments. Generally the lower the issuer's rating (which implies a higher risk) the more attractive the return.

- Bonds allow investors who are looking for income to yield an attractive return.

- Investment in bonds, essentially in OECD government bonds, is possible for very low amounts and is thus accessible to all.

- In addition to a regular income, bonds can generate capital gains when market rates fall below the rate of the bond held.

- Unlike "private" investments, bonds can generally be traded at any time on a secondary market, depending on available liquidity.

1.4.2. Cons

- Capital is only guaranteed at maturity.

- During the lifetime of the loan, the value of the bond will fluctuate depending on various factors, where interest rate trends and the financial soundness of the issuing company are the main ones.

- The real value of the principal on redemption at final maturity is generally lower than the principal at the time of issue due to inflation. This phenomenon, called "monetary erosion", is even greater when inflation is high and the bond is long-dated. It will be offset if the nominal interest rate is greater than the average inflation rate during the lifetime of the bond.

- A loan can only be acquired at the initial conditions during the subscription period. Outside this period, the loan will be obtained at a variable price and the purchase price will be higher as it will include brokerage fees.

2. Shares

We refer to the table in part II for the "Risk" aspects linked to this type of financial instrument.

2.1. Description

A share is a certificate of ownership of part of a company's capital. Shareholders therefore own the company in proportion to the number of shares they possess.
Individuals who subscribe to them generally opt for instruments without a maturity (they may only exit by selling the security, no redemption is scheduled contractually), no fixed yield and no nominal or fixed value.
The price of a share is a compromise between income (dividends and capital gains) and risks. Such risks can be ascribed to many factors which are both inherent in the company (such as its financial, technical and commercial position, investment policy, its prospects and those of its economic sector, etc.) and external as the stock market is impacted by political events as well as the economic and monetary situation (at both an international and a national level). Furthermore emotional or irrational factors can intensify market price fluctuations upward or downward. All these complex factors influence the share price and can make it relatively volatile in the short term. Thus, shares should be regarded as a long-term investment. In most cases, shares are grouped together in an "index" which pools shares with common features, whether from a geographic perspective (national indices such as the BEL-20, CAC 40, DAX, FTSE, Dow Jones, Nikkei) or from a sectoral or stock market capitalisation perspective (small cap indices, etc.).

2.2. General features

Return
The "return" on a share consists of both the dividend and price fluctuation (capital gain).

Risk
Investors bear the entire company's risk (they will not receive any income if the company does not perform well, and in the event of bankruptcy, shareholders come after creditors in the distribution of the proceeds from the sale of assets (in other words, most of the time, they may not recover anything in the event of bankruptcy). Conversely, as they are joint owners, shareholders have the following rights:

Rights attached to shares
- **dividend right:** if the company has made a profit and the general meeting resolves to allocate such profit, either wholly or in part (and not to reinvest it or to appropriate it to reserves), shareholders are entitled to a portion of this profit, called the dividend.
  Dividends can vary from one year to the next, depending not only on the profit made but also on the profit appropriation policy. If the financial year closed with a loss, it may mean that no dividend will be distributed. Therefore dividends are never guaranteed.
  Dividends are generally paid out in cash. Sometimes shareholders also have the option of receiving their dividends in the form of new shares (stock dividend) according to a predetermined allocation.
- **voting right** at annual general meetings and extraordinary general meetings to approve the annual financial statements, the appointment and resignation of directors and approval of the dividend amount distributed to shareholders; shareholders therefore **have a right of control over management**.
- **right to information:** before a general meeting, shareholders may peruse the company's balance sheet, the content of its securities portfolio, the auditors' reports and other regular or occasional information communicated by the company; shareholders may request explanations of the company's position.
- **right of apportionment:** in the event of liquidation, shareholders are entitled to a share of the registered capital.
- **subscription right** (priority for new shares) in the event of a capital increase decided with the shareholders' agreement. Shareholders

not wishing to participate in a capital increase can sell their subscription right on the stock exchange if the shares are listed. Some companies sometimes allot free or “bonus” shares.
- **transfer right:** in the case of listed companies, shareholders can sell their shares on a stock market.

2.3. Main types of shares

Shares representing a company’s capital:
Shares can have the following features:
- **Shares with or without voting rights**
  Voting shares allow shareholders, as joint owners, to participate in general meetings, voting and management of the company. Non-voting shares give right to a dividend which cannot be less than that granted to voting shares.
- **Preference shares**
  Such shares may give right to a share in the annual profits before all other shares. If the company goes into liquidation, they are redeemed before all other shares.

Shares not representing a company’s capital:
To be differentiated from shares: founders’ shares do not represent the share capital or a material contribution and cannot have a nominal value. They are issued in return for a non-financial contribution to the company, in other words a contribution which cannot be evaluated.
They give right to a portion of the profit during the lifetime of the company and/or if the company goes into liquidation. Holders can only exercise their voting rights in limited cases.
- **Listed shares**
  Certain conditions laid down by the regulatory authorities must be fulfilled before a share can be admitted for listing. The flotation of a share on a stock exchange is also called IPO (Initial Public Offering).
- **Initial Public Offerings (IPOs)**
  IPO is the term used when a company issues shares for the first time on a stock exchange. The main aim of a company which floats shares on a stock exchange is to gather funds for investment and its growth. To float a company on a stock exchange, certain conditions must be met (minimum size, regular and detailed publication of information, "Corporate Government" rules, etc.). Private investors can also have access to stock exchange flotations.
- **Sectoral shares**
  From the point of view of market investment, a distinction can be made between four sectors:
  - cyclical shares (construction, commodities, chemicals)
  - growth shares (telecoms, pharmaceuticals, IT)
  - financial shares (banks and insurance companies)
  - defensive shares focused on consumables and retail services (production and distribution).

2.4. Pros and cons of shares

2.4.1. Pros

- In financial terms, it has been demonstrated that, over a long period, the return on shares is higher than that on bonds. This is explained by the risk premium demanded by investors. Unlike bonds, the return on shares mainly consists of the capital gain acquired over time rather than just the income (dividend) distributed.

- Liquidity: shareholders can sell listed shares through a stock market on a daily basis. The “liquidity” of a share indicates the ease with which it can be bought or sold.

2.4.2. Cons

Shares represent a risky investment (see table in Part II):
- unlike the fixed interest earned by bonds, dividends are variable income which depends on the company’s performance
- the share value in the market fluctuates in line with the company’s prospects and the general market trend.

3. Undertakings for collective investment (UCIs)

We refer to the table in part II for the “Risk” aspects linked to this type of financial instrument.

3.1. Description

Undertakings for collective investment (UCI) is a general term designating an entity, with or without legal personality, which receives funds from the public and invests them collectively in a group of transferable securities, in accordance with the risk-spreading principle.
UCIs are a form of collective portfolio management. The most popular UCIs are “SICAVs” (open-ended investment companies). However the term UCI covers a range of products which have a specific legal character.
- SICAVs (société d’investissement à capital variable/unit trusts)
- Investment funds (including Belgian pension savings funds)
- SICAFs (sociétés d’investissement à capital fixe) (closed-end investment companies), including SICAFIs (sicaf immobilières) (closed-end real estate investment companies)
- PRICAFs (closed-end investment funds for venture capital and growth companies); and
- SICs (sociétés d’investissement en créances) (debt securitisation funds).

We will only talk here about Sicavs and investment funds.

3.2. General features

- Both Sicavs and investment funds provide the opportunity to increase or decrease their capital daily. The major difference between the two forms is that a Sicav has a legal personality, whereas an investment fund does not: the fund is the indivisible property of its shareholders. Specifically, this has tax implications which will not be outlined here.
- UCIs are subject to specific legislation and prudential supervision by the FSMA (Financial Services and Markets Authority).
- Asset management is entrusted to specialists who invest the amounts collected in various transferable securities (equities, bonds, money market instruments, real estate certificates, currency, forward investments, etc.), while respecting the fund’s investment policy outlined in the prospectus. Investors do not have the right to examine the investment policy adopted by the UCI. To find out whether a UCI meets investors’ needs, they should refer to the fund’s issue prospectus.
- UCIs reinvest the funds entrusted to them by the public according to the risk-spreading principle.
- The net asset value corresponds to the market value per share of the portfolio’s net assets. Such net asset value is calculated periodically, more often than not daily, and is published in the financial press.
- UCIs are managed in the exclusive interests of participants.
  Investing in a UCI makes it possible to spread the investment risk and facilitates access to stock exchanges and foreign markets more easily.
- UCIs are obliged to respect the provisions relating to investor information (compiling of an issue prospectus, annual report, half-yearly report relating to performance, publication of net asset value, etc.).

3.3. Main types of UCIs

As well as being distinguished by their legal form, UCIs can also be distinguished according to their distribution policy and investment strategy.
Here we will briefly see how they differ.

3.3.1. Distinction by distribution policy

A distinction is made between income shares on the one hand, and capitalisation shares on the other. Some companies let investors choose between the two types.

- **Income shares:**
  These allow investors to receive a regular dividend (most often annually). All or part of the income earned is then paid to their holder.

- **Capitalisation shares:**
  The income received is not distributed to shareholders but automatically added to the invested capital and reinvested.
  No income or dividends is distributed. Investors only see a return on their investment when their units are sold: this is why the income is in the form of a capital gain.

3.3.2. Distinction by investment strategy

Today there is a vast number of UCIs, primarily SICAVs. UCIs can be grouped together depending on the type of securities held in the portfolio (liquid assets, bonds, equities, precious metals, real estate certificates or a combination of any two or more).

- **Money market funds:** invest mainly in liquid assets and short-term securities such as fixed-term deposits, Treasury bonds, short-dated bonds, commercial paper, and certificates of deposit.

- **Bond market funds:** invest primarily in fixed-yield securities.

- **Equity funds:** invest primarily in corporate shares and secondarily in derivatives (see point 5.3) such as warrants, options, etc.

- **Funds with capital protection:** with a maturity date on which a minimum redemption amount is scheduled for investors. This amount represents total (100%) or partial protection of the initial investment (minus costs and taxes). The underlying securities in these funds can be very varied in type. Most of the time, such underlying securities are equities or bonds. However, a fund with capital protection is more targeted towards fixed-yield securities. The manager must in fact ensure that the initial outlay will be recouped.
  Here, UCIs operate at two levels, firstly, repayment of the initial outlay upon maturity and, secondly, linking of the fund's performance to the trend of a related underlying.
  A distinction is made between two categories of funds with capital protection: "ratchet funds" and "other funds".
  - "Ratchet funds" minimise the risk of the index falling at end maturity. The ratchet system allows gains to be definitively blocked, either at a specific level or at a specific time, regardless of the fund's subsequent performance.
  - "Other funds" do not ratchet gains at interim periods, but at maturity, a certain percentage of the increase in the underlying index is taken into account (less than 100%, 100%, or more than 100%, many variants).

- **Hybrid funds:** invest in both equities and bonds. A distinction is made between several types of hybrid funds, according to their risk profile:
  - "defensive" (low) hybrid funds devote most of their assets to risk-free investments (e.g. 75% is invested in bonds, mostly denominated in stable currencies),
  - "neutral" hybrid funds distribute their assets more or less evenly between risky investments (equities) and non-risky investments (bonds),
  - "dynamic" and "aggressive" hybrid funds devote most of their assets to risky investments (e.g. 75% is invested in equities).

- **Pension savings funds:** Certain investment vehicles have been favoured by the authorities to promote individual pension savings (Royal Decree of 22 December 1986 establishing a pension savings
  system). The new investment conditions governing pension savings funds are indicated in the law of 17 May 2004, amending the 1992 Belgian Income Tax Code with respect to pension savings. Anyone aged between 18 and 64 who is subject to personal
  income tax may invest a specified maximum amount in a pension savings plan and deduct such amount from his/her income on his/her tax return. On reaching the age of 60, a one-off, final tax payment is levied and investors may exit the plan. Anyone wishing to leave the fund earlier (before retirement) must pay more tax.
  Pension savings funds enjoy a preferential status and have proved popular among many Belgians. They are hybrid funds as they invest in both equities and bonds. The investment policy of this type of fund is also subject to certain legal restrictions.

- **Real estate funds:** invest mainly in real estate. This category includes funds which invest solely in other real estate funds or in land certificates (SICAFIs).

- **Pricafs:** are fixed-capital investment companies which invest in unlisted companies and growth enterprises.

- **Funds of funds:** are UCIs that invest in other UCIs. Funds of funds managers select other fund managers for a given region, sector, theme, etc.

- **Hedge Funds:** (see point 4.2.2) are deregulated funds using so-called "alternative" or unconventional portfolio strategies with the aim of hedging market or speculative fluctuations or aimed at generating positive returns regardless of market trends (absolute return strategy (also called absolute return funds)).
  Some of these funds also seek to implement "leverage" as part of these strategies which considerably increases the risks. However, low-risk hedge funds also exist.

- **Index funds:** the investment policy followed by these funds is to track as accurately as possible a reference index trend (e.g. a national stock index (Bel 20 in Belgium) or a sectoral index). This fund's trend thus follows the average performance of the index in question.

- **ETFs/Trackers:** A tracker is an index fund quoted on the stock exchange. Investors are thus able to benefit from the performance of an index, basket of shares, basket of bonds or commodities in a single transaction. A tracker combines the benefits of shares (simplicity, continuous quotation, etc.) with those of traditional funds (access to a broad range of securities, diversification).

3.4. Pros and cons of UCIs in general

3.4.1. Pros

- **Diversification:** UCIs allow investors to build up a diversified portfolio and spread risks.

- **Managed by professional fund managers:** greater returns and more efficient; professionals can respond faster to market trends. UCIs are a suitable solution for investors who do not have the time, inclination or requisite know-how to manage their own portfolio, including buying and selling shares at the right time, choice and arbitrage of bonds, etc.

- **Economies of scale:** in view of the amount of the resources involved, it is possible to benefit from reduced charges (e.g. on stock market transactions) and to obtain better returns.

- **Investments tailored to investors' requirements:** the broad range of UCIs available and the specificity of each one effectively meet the diverse and particular requirements of investors.

- **Possibility of investing small amounts:** investors can participate in several markets, or several currencies, even with a modest outlay; diversified portfolio with a modest amount.

- **Access to specific markets** which are difficult to access or are not at all accessible to private individuals (e.g. Asian markets) or to sophisticated financial products such as futures and options.

- **Liquidity and transparency:** the net asset value (in the case of SICAVs), or the market price (in the case of SICAFs), is calculated at least twice a month and often even daily. In addition to the mandatory information provided to investors (prospectus and annual and half-yearly reports which must be submitted beforehand to the regulatory authority), many websites of financial institutions publish comprehensive information in the form of technical fund sheets and brochures. This freely accessible information enables investors to easily track their investments and the overall economic and financial situation.

- Depending on the type of fund and the underlying in which the UCI will be invested, account should be taken of some of the pros which are specific to the financial instrument in question (see "pros" list for each of the financial instruments outlined in this brochure (for instance, the advantage of a ratchet fund which allows an intermediate increase to be definitively locked in and obtained at maturity whatever happens, etc.)).

3.4.2. Cons

- **Charges:** units and shares in a UCI generally give rise to the levying of management charges (the main component of the fee), initial and exit charges (which can vary considerably depending on the UCI's specific features and on the financial institutions which market them), and stock exchange taxes (TOB).

- Depending on the type of fund and the underlying in which the UCI will be invested, account should be taken of some of the cons which are specific to the financial instrument in question (see "cons" list for each of the financial instruments outlined in this brochure (for instance, the higher risk run by an equity fund than by a bond fund, etc.)).

4. Alternative investments

We refer to the table in part II for the "Risk" aspects linked to this type of financial instrument.

4.1. Description

Alternative investments are those which cannot be made via standard asset categories (bonds, equities or money markets). They have unique characteristics in terms of the risk/return ratio. In many cases, they are highly sophisticated.

4.2. Main types of alternative investments

Alternative investments come in four types:
- real estate investments
- hedge funds
- private equity
- gold, gold mines, precious metals and commodities.

4.2.1. Real-estate investments

- **Real-estate certificates**
  A property investment certificate is a security which entitles the holder to part of the rent and sale price of the building (or group of buildings) to which it relates. The issuer is officially the owner of the building; the holder of the certificate is only a creditor.

- **Real-estate SICAFs (SICAFI)**
  A SICAFI is a Belgian REIT (real estate investment trust, or closed-end investment company that invests in real estate). This concerns securitised real estate, i.e. investors acquire real estate indirectly rather than directly, by buying a security representing the underlying SICAFI's real estate. SICAFIs are obliged to invest in a several properties (no more than 20% of its assets can be invested in a single property). These are mainly offices, commercial or semi-industrial premises and sometimes housing. A SICAFI can also hold real estate certificates and securities from real estate companies.

4.2.2. Hedge funds

A hedge fund is an investment product which seeks to maximise performance using alternative investment strategies and to generate positive returns regardless of financial market trends (absolute return strategy). The investment practices used by hedge funds are leverage, short selling, derivatives, swaps and arbitrage.
Hedge funds are complex products reserved for well-informed investors (see point 3.3.2).

4.2.3. Private equity

This term refers to funds supplied to companies which are not quoted on the stock exchange. Several reasons may lead to this type of investment (development of new products and technologies, structural strengthening of the balance sheet, increase in working capital requirements, etc.).

An investment in private equity can also be achieved via funds and thus means the risk linked to an individual company can be limited.

4.2.4. Gold, gold mines, precious metals and commodities

Precious metals have been regarded as means of investment from time immemorial.
Gold is the most popular precious metal for investment purposes. It has for a long been regarded as a safe-haven investment in the event of exceptional circumstances (such as war and political instability). Compared with other forms of investment, it has the advantage of being easily tradable worldwide at a known price when expressed in accordance with international standards. The benchmark price of gold is stated in US dollars (USD) per ounce. This relates to gold in account, i.e. not physically deliverable. Gold is mainly traded in the form of futures and options (see point 5.3). Similarly, there is also a large physical market expressed in local currency (euro, etc.) and, where applicable, in units of local weight (kilogram, ounce, tael).

Nowadays it is the physical market which follows the trend set by the futures and options market. Fluctuations can be significant, and euro-based investors should not underestimate the currency risk.

Other precious metals, whose markets are highly speculative and not recommended for small investors, they mainly include silver, platinum, palladium, iridium, rhodium, etc. These metals are mainly traded in US dollars on US markets. Under normal market conditions, they are not generally available in physical form.

Commodities: it is mainly via commodity futures and futures that investments are made in commodities (where one unit is exchangeable against another unit of the same commodity) such as wheat, precious metals, oil, gas, cotton, coffee, etc. Traders carry out such transactions to hedge against any adverse price trends and investors/speculators do so to take advantage of price fluctuations on markets where such commodities are traded.

4.3. Pros and cons of alternative investments

4.3.1. Pros

Alternative investments are investment instruments which, in principle, offer the benefit of a low correlation with conventional investments.

They thus allow a marked improvement in portfolio diversification and improved long-term returns while reducing the risk.

4.3.2. Cons

- Product transparency is generally less than that for conventional investments.

- Liquidity of alternative investments is generally less than that for conventional investments.

- Such products are for well-informed investors who are well aware of the rules of the game and closely track market trends.

5. Derivative financial instruments

We refer to the table in part II for the “Risk” aspects linked to this type of financial instrument.

5.1. Description

What is a derivative financial instrument?
Financial derivatives have been developed to hedge the risks associated with exchange and interest rates and, primarily, volatility.
They are called derivatives insofar as they are “derived” from the underlying financial instruments they are intended to hedge.
They can be used for hedging or speculative purposes. A financial derivative gives its holder the right, or the obligation, to buy or sell an underlying asset (e.g. a share, currency or stock market index) at a fixed price prior to and during a specific period. A derivative should not be confused with an investment in the underlying asset. A the end of its exercise period, it becomes valueless.

5.2. General features

Leverage
Financial derivatives allow considerable returns to be made in relation to the outlay. This is known as leverage. For example, paying the premium is all that is required to invest in options. The potential returns can be substantial.
However, the associated risk is also significant: the entire outlay can be lost. Leverage operates, therefore, in both ways. Investors should never forget that the hope of high returns is coupled with a high risk.
Investors selling an option will receive a premium but, in return, may expose themselves to unlimited risk (selling a call option without having the underlying at their disposal).

For investors daring to take risks
Financial derivatives are very high-risk investments: the return on investment varies considerably and recouping the amount invested is far from certain. Derivatives should, therefore, represent only a limited part of a total portfolio.
The specialist financial markets offer standardised contracts and coordinate the market-making which means that anyone can buy or sell contracts by systematically locating a counterpart.
Euronext.liffe is a unique derivatives trading platform which offers equity, index and interest rate derivatives.

5.3. Main types of derivative financial instruments

The main types of derivative financial instruments are: options, warrants and futures

5.3.1. Options

An option is a financial contract which simply gives the holder of the option the right, but not the obligation, to buy (call option) or sell (put option) an underlying asset at a predetermined price (exercise price) on a specific date (European-style option) or during an agreed period (US-style option).

Many options are not linked to one specific share but to a basket of shares whose performance is measured by a stock market index.
The option confers a right on its buyer/holder, but an obligation on its seller/writer: if the holder of the option wishes to carry out a transaction, the seller is obliged to do so. In exchange for such an obligation, the seller receives a premium.
The premium received by the seller remunerates him/her for the obligation, and therefore for the risk that he/she agrees to take on.
The premium is the option price and reflects what the market is prepared to pay for the exercise right it represents. Options can be traded in a secondary market.

Example of a call option

Let us consider the case of a call option which, for the next three months, allows the purchase of share “x” at a price of 50 euros, and let us assume that the current share price is 45 euros and that the option costs 1.50 euros. The buyer, who has paid 1.50 euros for this option, hopes that share“x” will have risen sufficiently in three months, so that it is more worthwhile exercising the option (i.e. paying 50 euros to obtain one share) than buying the share on the stock exchange. In this case, the total cost will be 51.50 euros (strike price of 50 euros plus the option price of 1.50 euros).

If the share is worth 55 euros three months later, the investor will make a gain of 3.50 euros (55 euros –51.50 euros) by exercising his option and reselling the share directly on the stock exchange.

Prices above cost (51.50 euros) will make an increasingly higher gain for the option. The value of a call option increases, therefore, with the probability that the market price will exceed the strike price; this is all the more likely as the option has a long term and the share is considerably volatile.

However, if share “x” is worth less than 50 euros, the investor will not exercise the option; he will incur a loss (representing a gain for the seller of the option), but it will be limited to not more than the initial investment, namely the price of the option, i.e. 1.50 euros. Considering the purpose for which it is bought, a call option is therefore a bull contract.

Example of a put option

A put option allows share “x” to be sold at 50 euros in three months’ time and let us assume that the price of the option is 1 euro.

If on expiry the share loses ground and falls to 45 euros, the holder of the option will exercise his right and make a gain of 4 euros (50 euros – 45 euros (price of the share) minus 1 euro (price of the option)), by selling an option at 50 euros which he can buy for 45 euros on the stock exchange. If, however, the share price exceeds 50 euros at expiry, the holder of the option will let his option lapse without exercising it and the transaction will show a loss limited to the amount of the premium paid, i.e. 1 euro.

In practice, an option is rarely exercised as it results in the purchase or sale of shares at the strike price, on which standard stock exchange fees are charged. This is because market positions can be settled by closing trades which is considerably less expensive. The holder of the option therefore waives his right by a closing sale and the seller can terminate his obligation to deliver by a closing purchase.

5.3.2. Futures & Forwards

A “future” is a forward contract whereby two parties undertake to buy or sell a specific quantity of an underlying asset (currency, bonds, stock market indices etc.) at a fixed price and on a specific future date.
In contrast to options, futures contracts imply an obligation on both parties: the buyer of the future undertakes, when the contract expires, to receive the underlying in return for payment

to the seller of a sum called the “amount due”. For its part, the seller of the future undertakes to deliver the underlying when the contract expires in exchange for the amount due. “Forwards” are similar structures which are not listed on the stock exchange. They can be tailored to suit customers’ specific requirements.

5.3.3. Instruments similar to options

Warrants are very similar to options (call/put).
A warrant is a financial instrument which gives its owner the right, but not the obligation, to buy (call warrant) or sell (put warrant) an asset during a defined period at a predetermined price.
The investor can exercise his/her right if it is profitable. The value of such right corresponds to the price of the warrant (= premium).
In fact, the warrant can be compared to an option with a longer lifespan.
The asset may be a share, a basket of securities, a bond, a currency, a commodity or an index and is also referred to as a warrant underlying.

5.4. Pros and cons of derivative financial instruments

5.4.1. Pros

- Derivative financial instruments give investors the opportunity to cover in full or in part, all or some of the asset categories in their portfolio when the assets which make it up are liable to experience a substantial adverse trend.

- They offer the opportunity to speculate on a significant gain in the short term thanks to leverage.

- Derivative financial instruments energise portfolio management.

5.4.2. Cons

- Derivative financial instruments quoted on the markets are generally standardised to allow an efficient market. Thus the underlying asset does not always correspond exactly to the asset which the investor wishes to cover. Customised coverage can be arranged, but will be to the detriment of the product’s liquidity.

- They are for well-informed investors who are well aware of the rules of the game and closely track market trends.

6. Savings insurance and investment insurance products

6.1. Savings insurance products

6.1.1. Description

The notion of savings insurance as defined by the Royal Decree of 21/02/2014 covers every life insurance contract which comes under Branches 21, 22 or 26.
This brochure is limited to Branch 21 products. Branch 21 covers guaranteed rate life insurance products. Subscription to such products is in the form of a contract whereby the contracting parties are the insurer (= the insurance company) and the policyholder.
The purpose of the contract is payment by the insurer of capital (or income) in exchange for the payment of a premium (or several premiums) by the policyholder.
The insurer guarantees a fixed-rate return to the insured on each premium paid by the policyholder throughout the time it is invested in the contract. According to the case, such contract can consist of a single premium (just one payment) or successive premiums (funded by several payments). The guaranteed interest rate can possibly be supplemented each year by a share in profits granted by the insurance company, which is variable depending on the insurer's results and not guaranteed.
The moment the reserve (made up of the capital and any accrued interest, possibly plus a share in profits) is paid by the insurer depends on the life of the insured: in the case of life, the payment is made at term or during the lifetime of the contract or asset, in the case of death of the insured where the latter dies before the end of the contract. The payment is made either to the beneficiary in the case of life or to the beneficiary in the case of death. Generally the policyholder is also the insured and the beneficiary in the case of life. Consequently the premium that the policyholder paid reverts to him/her as a payment from the insurance company at the end of the contract, provided he/she is still alive. The policyholder designates another beneficiary in the event of their death before the end of the contract.

6.1.2. General features

- **Return:** The return of a Branch 21 consists of a guaranteed interest rate and a possible share in profits.
  - The guaranteed interest rate applies to the net premium paid (after deduction of the premium tax and entry fees). The interest rate is that in force when the premium is credited to the insurer's account. It is guaranteed on such premium for the whole lifetime of the contract.
  - The share in profits depends on the economy and the results of the insurer. Consequently it varies each year and is not guaranteed. Moreover shares in profits are definitely acquired. They are capitalised at the interest rate in force at the time of their allocation.
- **Guaranteed capital:** the guaranteed capital consists of the capitalisation at a guaranteed interest rate of the net premium paid, possibly, plus a share in profits. Such capital is reduced by any partial redemption(s). Some Branch 21 products offer the possibility of taking out supplementary death insurance which guarantees the payment of a minimum capital to the beneficiary(ies) in the event of the death of the insured before the end of the contract.
- **Duration:** Branches 21 generally have a minimum term of 8 years and 1 day. Payments from a Branch 21 contract are exempt from withholding tax after such term (depending on the taxation in force at the time this brochure was compiled).
- **Premium:** Branch 21 contracts are funded by an initial premiums paid which can possibly be followed by supplementary premiums.

6.1.3. Pros and cons of a Branch 21 contract

6.1.3.1. Pros

- The security of an investment which offers a guaranteed interest rate on the net premiums paid in. The reserve of Branch 21 contracts also benefits from the guarantee of the Special Deposits and Life Insurance Protection Fund.

- Inheritance structuring: Branch 21 allows you to designate a beneficiary in the event of death.

- Exemption from withholding tax for non-fiscal contracts after 8 years and 1 day, or in the case of death benefit at least equal to 130% of the reserve, provided the policyholder is both the insured and the beneficiary in the case of life (depending of the taxation at the time this brochure was compiled).

- Possibility of a tax break for fiscal Branch 21 policies (under pension savings or long-term savings (depending on taxation at the time this brochure was compiled)).

- Flexibility: In the case of recurrent premium contracts, investors determine how much and when to save themselves. After the payment of the initial premium, they can choose to pay in supplementary premiums or not under the contract.

6.1.3.2. Cons

- A premium tax is owed on all premium payments under Branch 21 contracts, except for contracts linked to pension savings (depending on taxation at the time this brochure was compiled).

- Exit fees: redemptions are generally liable to exit fees, even if generally they are scaled down over the final years of the contract. Under some contracts, compensation can also be owed for early withdrawal of the amount invested which incurs a loss for the insurer.

6.2. Investment insurance products

6.2.1. Description

- Investment insurance products include life insurance where return is linked to the trend of one or several investment funds (see section 3. Undertakings in collective investment (UCIs)).
- **Subscription** to such products is in the form of a contract whereby the contracting parties are the insurer (= the insurance company) and the policyholder.
- **The purpose of the contract** is payment by the insurer of capital (or income) in exchange for the payment of a premium (or several premiums) by the policyholder.
- **The moment the capital and any accrued interest is paid** by the insurer depends on the life of the insured: in the case of life, the payment is made at term or during the lifetime of the contract or asset, in the case of death of the insured where the latter dies before the end of the contract. The payment is made either to the beneficiary in the case of life or to the beneficiary in the event of death.
  Generally the policyholder is also the insured and the beneficiary in the case of life. Consequently the premium that the policyholder paid reverts to him/her as a payment by the insurance company at the end of the contract, provided he/she is still alive. The policyholder freely designates another beneficiary in the event of his/her possible death before the end of the contract.
- Investment insurance products have certain features in common with two other financial products: firstly, savings insurance products for the insurance part (see 6.2. Insurance savings products); secondly, UCIs for the investment part (see section 3 Undertakings in collective investment (UCIs).
- Nonetheless investment insurance products present two major differences in relation to savings insurance products:
  1) the insurance premiums invested in investment insurance products are not expressed in monetary units (euros), but in investment fund account units.
  2) Contractually, the customer acquires a certain number of account units in an investment fund whose value develops over time.

6.2.2. General features

- **Return:** The insurer is not under a result obligation. Generally return is not guaranteed: the value of the investment evolves, upward and downward, depending on financial market trends. The return depends on the return of the underlying fund. The policyholder bears the risk of the contract. The beneficiary (in the case of life, or death accordingly) will receive the current value of the account units.
- **No capital guarantee (in general)**. Nevertheless, among the closed-end fund (see definition in Point 6.2.3 above) and provided the investor waits for the contract to mature, the funds aimed at protecting the capital are recouped.
- **Premium:** investment insurance contracts work with a single premium or with recurrent premiums.

6.2.3. Main types of investment insurance product types

Like UCIs, there are various types of contracts which depend on the types of underlying funds:
- limited subscription period funds or "closed-end funds"
- funds on permanent offer or "open-ended funds".

6.2.4. Pros and cons of investment insurance products (in relation to UCIs)

6.2.4.1. Pros

- As with any life insurance, a beneficiary can be designated. Inheritance tax may be owed on a payment made in the event of the death of the insured.
- No stock market tax (depending on taxation at the time this brochure was compiled).

6.2.4.2. Cons

- A premium tax is owed on all premium payments under investment insurance contracts (depending on taxation at the time this brochure was compiled).
- Less flexible than UCIs for withdrawals: in the event of a withdrawal during the first years of the contract, most of the time exit penalties must be paid.

Part II.
The various risk types of investment instruments

1. The various types of risk - Definitions

1.1. Insolvency risk

The insolvency risk is the probability, for the issuer of the transferable security, that the debtor will no longer be able to meet its commitments.
The quality of the issuer of a transferable security is crucial as the issuer is responsible for repayment of the initial capital. It is imperative to assess this risk effectively.
The poorer the issuer's financial and economic position, the greater the risk of not being repaid (or of only being partly repaid).
The interest rate offered by this type of issuer will obviously be higher than that offered by a debtor of better quality for a similar product.

One way or responding to this issue is a rating: this is a risk assessment, established by an independent rating body such as Standard & Poor's, Moody's or Fitch. It should be noted that a rating is not permanently fixed and that it can change during the lifetime of the product.

1.2. Liquidity risk

Sometimes an investor wishes to recoup their money (capital + any interest) before the investment matures, either out of necessity or to reinvest in a product with a greater return.
The liquidity risk is the probability, for the investor, of encountering difficulties when recouping the whole initial capital invested before the fixed maturity (if there is one).

The liquidity of an investment is affected by a number of factors, namely:

- the volume of transactions on the market in which the product is traded: prices fluctuate more in a limited market where a large order can result in a significant price variation. The bigger the market, the lower the liquidity risk,
- the costs associated with leaving an investment
- the time required to recoup funds (payment risk).

1.3. Exchange rate risk

When investing in a currency other than euro, there is inevitably an exchange or currency risk. The exchange risk is the probability that an adverse trend in the currency being invested in will reduce the return of the investment.
If the trend in the currency is adverse, the return will be eroded following the shortfall in profit due to the conversion to euro.
If the trend is positive, the investment will enjoy a "normal" return, as well as a capital gain due to the favourable exchange rate.

A distinction can be made between five major regions from the viewpoint of the "currency" risk: the eurozone, European countries outside Euroland (UK, Switzerland, Sweden, etc.), the dollar zone, Japan, and the emerging countries (Asia excluding Japan, Latin America and Central Europe).

1.4. Interest-rate risk

The interest rate risk is the risk associated with a change in interest rates in the market, resulting in a drop in the financial instrument price.
In the case of fixed-rate investments, such as bonds, the interest rate risk is expressed as by the probability that a change in rates will result in a change in the price of the bond and, therefore, in a capital gain or loss.

If selling in the secondary market prior to maturity when the market rate is higher than the nominal rate of the bond, the investor will incur a capital loss.

On the other hand, if the market rate is less than the nominal rate, the investor will realise a capital gain, all other elements remaining equal.

Example: a ten-year bond issued in 2001, whose rate is fixed at 5%, will see its value decrease if the market rate rises to 6% in 2002. However, its value will increase if the rate falls to 4%. In the case of variable-rate investments,, such as shares, an interest rate rise generally impacts negatively on share prices.

1.5. Price volatility risk

The volatility risk is the probability that the price of a variable-yield investment will fluctuate more or less severely, resulting in a capital gain or loss. Investors will book a capital loss if the price drops and a capital gain if it rises.

1.6. Risk of no income

The risk of no income is the probability that an investor cannot withdraw income from his/her investment.
This will result in an absolute loss owing to inflation and a relative loss compared with a remunerative investment (opportunity cost).

1.7. Capital (or redemption) risk

This is the probability that the investor will not recoup his/her entire initial outlay upon maturity or on exiting from his/her investment.
When investing in shares for instance, the capital risk is significant as the capital invested fluctuates in line with the company's financial and economic position, as well as according to stock market trends.

1.8. Other risks

Risks specific to a type of investment.
See summary table point 2.

2. Summary table

This table shows the risks specific to each type of financial instrument.

	Insolvency risk	Liquidity risk	Exchange rate risk	Interest-rate risk	Volatility risk	Risk of no income	Capital risk	Other risks
1. Bonds								
1.1. Savings certificates	Negligible, since credit institutions are closely supervised by the FSMA (Financial Services and Markets Authority). Credit institutions are obliged to belong to the "System for the protection of deposits and financial instruments" which indemnifies investors if any credit institution goes into liquidation. Savings certificates are also concerned if they are nominative, dematerialised or held in accounts with the issuing institution.	Relatively liquid investment instruments. Savings certificates are not officially tradable on the stock exchange. Investors wanting to access money held in a savings certificate earlier than planned can either look for a buyer, or ask the bank to redeem their savings certificate with the redemption price agreed with the bank. In practice, most banks buy back their own savings certificates.	Nil as savings certificates must be denominated in euros (financial institutions do not issue savings certificates in other currencies).	The interest rate is fixed for a pre-defined term. As long as this is respected, the rate risk is nil.	If selling in the secondary market when the market rate is higher than the nominal rate , the investor will incur a capital loss. In the opposite scenario (market rate less than the nominal rate), the investor will make a capital gain.	Nil.	Nil.	Nil.
1.2. Government bonds / linear bonds (OLOs)	No risk. In OECD countries, the State is regarded as the best debtor (sovereign state).	- Government bond: no risk. Government bonds are a readily negotiable instrument and are easy to resell on the stock market before maturity subject to proper conditions. - Linear bonds: liquidity risk nil owing to the high volume of long-term public debt, the major activity in the secondary market and the role played by market makers.	Nil since government bonds / OLOs are imperatively denominated in euros.	See "Savings certificates".	See "Savings certificates".	Nil.	Nil.	Nil.
1.3. Bonds-others	Depends on the quality of the issuing company. This quality is assessed by ratings agencies which give ratings to companies. The higher the rating, the lower the risk. Ratings agencies are however not infallible and from time to time, there are accidents (especially as regards eurobonds/convertibles, etc.).	Depends on the existence and operation of a secondary market for the security. The greater the transaction volumes, the lower the liquidity risk.	Exchange risk depends on the currency in which the loan is issued; for euro investments, it is thus nil. It may be high for investments in other currencies.	See "Savings certificates".	See "Savings certificates". In addition, the issuer quality will also impact on the bond price (see "insolvency risk").	- Conventional bonds which accrue interest: low risk. - Structured bonds linked to equities or stock market indices: potentially high risk since income depends on trends of the underlying. - Convertible bonds: interest is paid until conversion.	Structured notes: according to the conditions stipulated for structured notes, the capital risk can vary from 0% (full capital protection) to 100% (no capital protection). Repayment conditions may thus depend on relatively risky underlyings (equities, stock market indices, etc.).	Bonds can be coupled with a call option which allows the issuer to redeem the loan early at a specified price and on a specified date (option used when the market interest rate has become significantly less than the bond rate).
2. Shares								
	Shares constitute risk capital. The company issuing them is, therefore, not obliged to redeem them. In the event of liquidation, shares can lose almost their entire value.	Liquidity is assured by the existence of an organised market, i.e. the stock exchange. It depends especially on the volume of trading for the security: the higher the company's market capitalisation, the broader – therefore more liquid – the market for its shares.	Limited for shares in euros. Even if shares are listed in euros, an exchange risk exists when some of the company's assets or turnover are denominated in a foreign currency. In the case of other currencies, the risk depends on their volatility: risk of exchange loss when the shares are resold. Exchange rate fluctuations can have both a negative and a positive impact on the return on share investments.	An interest rate rise in the markets usually has a negative impact on share price trends. This effect is indirect. For example, if rates rise, this means that it would be more expensive to the company which is financed via borrowing, which will weigh down on its costs. In addition, if bonds become more attractive, the equity market will tend to suffer as a result since this will reduce investors' attraction to risk capital.	Depends considerably on the quality of the company, the trend in its industrial segment and the general market tone. So-called "speculative" shares have a higher risk of price volatility than shares of a company with stable activities.	Dividends represent variable income. The company may decide, for various reasons, not to distribute dividends some years.	The investor bears the whole company's risk. There is always a risk of reselling shares at a loss (i.e. at less than the purchase price) or a risk to lose the whole value of it. This risk is high, especially in the short term.	The market risk (uncertainty about interest rate trends, inflation, and the economic and political situation, not to mention unforeseen events) can never be dismissed in the equities markets. In the case of foreign stock exchanges, there is a specific risk as trends may be more adverse overall than on Euronext.

	Insolvency risk	Liquidity risk	Exchange rate risk	Interest-rate risk	Volatility risk	Risk of no income	Capital risk	Other risks
3. Undertakings for collective investment								
	The risk of a UCI failing is practically out of the question. The diverse nature of securities in the portfolio considerably reduces the debtor risk. UCIs which are authorised in Belgium are closely supervised and must meet very strict standards. The debtor risk is obviously more significant for UCIs which specialise in loans to high-risk debtors.	- Low for the most part. These securities can always be sold at market conditions. - Variable for SICAFs: despite their stock exchange listing, liquidity varies considerably from one fund to another and over time. When the market is in the doldrums, disagios are sometimes high, making it difficult to sell.	This depends on the currency in which the portfolios are their respective underlyings are denominated.	Depends on the underlyings in which the UCIs invest. In terms of a bond UCI for instance, this risk is the same as that of an ordinary bond with a residual maturity equal to the average maturity of the bond portfolio of the bond fund. The interest rate risk exists throughout the entire investment period.	Depends on the underlyings in which the UCIs invest. Generally speaking, the diversification characterised by UCIs offers lower volatility than that of underlyings taken individually.	Everything depends on the distribution policy to which the investor has subscribed. A capitalisation UCI does not distribute income, unlike a distribution UCI.	Depends on price trends of the UCI, in line with financial market trends.	Depends on the nature of the underlying.
4. Alternative investments								
4.1. Real estate	Depends on the quality of the issuing company. The higher the internal diversification of the investment, the lower this risk is (a SICAFI will depend less on this risk than a real estate certificate, as a result).	- Some certificates are not quoted on Euronext Brussels, but can be traded at Weekly Public Sales. With regard to quoted certificates, liquidity depends on the volume of transactions. The number of real estate certificates issued is generally fairly limited. - The same applies for the liquidity of a SICAFI. Some small and medium-sized SICAFIs have fewer transactions. As it happens, when the market is thin, an order to buy or sell can affect the price if there are too few counterparts.	Nil for real estate certificates denominated in euros.	Yes. Sensitivity to interest rate fluctuations (in principle, a rise in market rates results in a drop in value, as with company shares). As real estate certificates/SICAFI are long-term investments, their return partly depends on long rates.	Yes. Depends to a large extent on the trend in the property sector and on characteristics specific to the premises (location, age, quality of materials, quality of tenants, etc.).	The income distributed depends: it depends, notably, on the occupancy rate of the premises and the rent indexation. Coupons can possibly include a redemption of the initial outlay.	- Real estate certificate: a capital gain or loss may be realised when the premises are sold; the value of the certificate at final maturity is therefore unknown. - SICAFI: no, apart from the risk of price volatility as, in principle, a SICAFI has an unlimited term and there is no planned repayment of capital on any date.	Depends on the nature of the underlying.
4.2. Hedge funds	The absence of transparency in terms of investment policy is a major risk factor.	Hedge fund investments generally offer low liquidity. The time between the sale of units and crediting of the investor's account may vary from a few weeks to several months.	The exchange risk depends on the currency in which the Hedge Fund is listed and the currencies in which the fund's assets are expressed.	Depends on the nature of the strategy, but has only low correlation with conventional equity and bond markets.	Price volatility can be significant and could entail a reduction in value. Volatility however depends on the strategy followed.	Most hedge funds are capitalisation funds.	The wide range of products used, notably derivatives, and the use of loans to produce leverage, can entail substantial losses when selling, if the manager makes the wrong decisions.	Hedge funds are generally set up in countries where supervision by the authorities is limited, or non-existent, which increases substantially risks, including fraud, non-respect of the investment strategy, jeopardising the financial structure, etc.
4.3. Or, Gold, gold mines shares, commodities	Not applicable	- Physical gold: fairly low risk except for certain specialised gold coins. In the case of gold mines shares, this depends on transaction volumes. - Commodities: see derivatives since it is mainly via commodity futures and futures that commodities investments are made.	- As the gold price is fixed in dollars in the international markets, fluctuations in this currency can offset or worsen a drop in the gold price. - The same is true for commodities prices which are also generally fixed in US dollars in the international markets.	- A rise in interest rates may also affect share price fluctuations for gold mines shares. Generally speaking, an increase in interest rates will impact negatively on the price of gold (since the opportunity cost of physically holding it increases) and, as a result, this will negatively affect gold mine shares. - An increase in interest rates in the international markets also influences the price of commodities indirectly, by impacting the level of consumption, and as a result, demand for such commodities.	- The gold price and the price of gold mines shares are highly volatile. Significant risk of reselling at a loss, at a market price below that of purchasing, especially in the short term. - The volatility of commodities prices is very significant and varies depending on numerous parameters, including international demand for the commodity in question, but also geopolitical factors which are often less predictable but which nonetheless have a strong influence on prices.	- Holding physical gold does not generate any income. Gold mines shares give right to a dividend, with variable income possibly not distributed some years. - Commodities: See derivatives.	Significant risk of reselling at a loss, at a market price below that of purchase. Holding physical gold covers the repayment risk.	Investors sometimes have trouble obtaining sufficient and accurate information. This makes investment in this area more risky.

	Insolvency risk	Liquidity risk	Exchange rate risk	Interest-rate risk	Volatility risk	Risk of no income	Capital risk	Other risks
5. Derivative financial instruments								
	The risk lies in the fact that the counterpart may not fulfil its commitments. Investors should ensure that the issuer is solvent. If it is a controlled institution, the risk is fairly low but exists all the same.	Derivatives can be traded in organised secondary markets (see Euronext) or over the counter directly with a credit institution. However, liquidity is relative: obtaining a good price when reselling is not guaranteed.	Nil for derivatives denominated in euros. The exchange risk can be high for derivatives denominated in other currencies, especially those that are volatile.	A rate rise affects share prices and indirectly affects the price of derivatives. In addition, derivatives whose underlyings are of a bond nature are even more sensitive to such an eventuality.	As derivatives are speculative instruments, their prices are very volatile. They reflect trends and expectations for the underlying assets.	Derivatives do not generate income, only a potential capital gain depending on the price of the underlying security.	No redemption. The return on investment varies considerably and recouping the invested amount is far from certain. O n expiry, the derivative becomes worthless.	If the underlying asset displays an adverse trend, the derivative can become worthless (for the buyer of the option, loss limited to the premium paid). Potential unlimited risk in the event of sale (or redemption).
6.1. Savings insurance and investment insurance products (Branch 21)								
	Limited. Branch 21 carry a risk of insolvency due to the fact that they are issued by insurance companies. Nevertheless such risk is limited given the "Special Deposits and Life Insurance Protection Fund" (set up by the Royal Decree of 14/11/2008). The Special Protection Fund covers life insurance contracts with guaranteed return under the Branch 21. It is limited to the redemption value of contracts and, in addition, to an amount of 100,000.00 euros for all protected contracts taken out by a same policyholder with an insurance company. Furthermore, the risk of Belgian insurance companies going bankrupt is very low, as they are subject to very stringent prudential control.	Redemptions are allowed but penalised (costs and taxes).	Nil, as Branch 21 insurance contracts are denominated in euros.	Nil, as the interest rate is guaranteed on the net premium paid in. The interest rate is that in force at the time the insurer receives the premium on its collection account. This rate is guaranteed on such premium for the whole lifetime of the contract.	Nil.	Nil.	Nil.	Nil.
6.2. Savings investment products								
In the main, we refer to the risks of UCIs (see Point 3) as investment insurance contracts have such instruments as underlyings.	The risk that the UCI underlying the investment insurance contract goes bankrupt is practically non-existent. The diverse nature of securities in the portfolio considerably reduces the debtor risk. UCIs which are authorised in Belgium are closely supervised and must meet very strict standards. The debtor risk is obviously more significant for UCIs which specialise in loans to high-risk debtors.	Low for most of the underlying UCIs. These securities can always be sold at market conditions.	Investment insurance contracts are denominated in euros but the exchange risk can apply depending on the currency in which the portfolios and their respective underlyings are denominated.	Depends on the underlyings in which the UCIs invest. In terms of a bond UCI for instance, this risk is the same as that of an ordinary bond with a residual maturity equal to the average maturity of the bond portfolio of the bond fund. The interest rate risk exists throughout the entire investment period.	Depends on the underlyings in which the UCIs invest. Generally speaking, the diversification characterised by UCIs offers lower volatility than that of underlyings taken individually.	Not applicable	Depends on price trends of the underlying UCI, in line with financial market trends. Various risk levels exist depending on the portion of the portfolio which the funds invest in equities, for which risks are higher, as well as liquidities and bonds, for which risks are lower. The rate of the funds fluctuates in line with offer and demand on the market. This implies that the beneficiary is exposed to the risks of such market except for funds with capital protection.	Depends on the type of the underlying (see capital risk).

[1] **Important information**

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