

Terms of Business

Financial Advisers

Terms of Business for Financial Advisers

This is an important document. Please read it carefully.

The terms and conditions (the "Terms") constitute the contractual basis on which LGT Wealth Management US Limited ("LGT Wealth Management US", "LGT WMUS", "we" or "us") agrees to facilitate payments to you and/or your Appointed Representatives (the "Financial Adviser"), in accordance with the rules of the Financial Conduct Authority ("FCA"), including the FCA Handbook ("FCA Rules").

The parties shall have specific reference in this regard at all times to the FCA Rules as they relate to adviser charges.

Payments shall be facilitated to and contingent upon:

- the Financial Adviser's capacity as an authorised person within Section 31 of the Financial Services and Markets Act 2000 ("FSMA");
- the Financial Adviser being nominated by a client or clients (the "Client", "Clients") in their account agreement with LGT WMUS (the "Account Agreement") to receive information, to be paid fees and/or to exercise authority over the Client's account; and
- payment instructions to this effect being completed by the Client in the relevant section of the schedule of LGT WMUS's fees and charges duly signed by the Client (the "Schedule of Charges"). References herein to statutes, the FCA Rules, and any other regulations shall be taken to include any amendments made to them from time to time. Any words or phrases used in the Terms which are defined in the FCA Rules shall have the same meanings in the Terms.

By accepting payments facilitated by LGT WMUS, the Financial Adviser confirms that it accepts the Terms and will be bound by them.

1. Interpretation

- 1.1 In this document the singular shall include the plural and vice versa, and the following terms shall have the meanings respectively ascribed to them.
- 1.2 References to any legislation include any amendment or subordinate legislation enacted pursuant to, or consolidation or replacement of it.
- 1.3 References to any government or regulatory body shall be to that body and to any successor bodies or organisations from time to time of that body.
- 1.4 References to clauses are to clauses of this document unless otherwise expressly stated therein.
- 1.5 In this document the following words and expressions shall, where not inconsistent with the context, have the following meanings respectively:

Account Agreement - The legal agreement between LGT WMUS and the Client, comprising the Account Agreement, Schedule of Charges, Investment and Risk Profile Questionnaire, Investment Management Terms of Business and Investment Policy Statement.

Applicable Laws - All laws, rules and regulations applicable to LGT WMUS and the Financial Adviser.

Client Account - Discretionary or advisory, but not execution only, accounts opened by the Client with LGT WMUS.

Execution and Custody Account Agreement - The legal agreement between LGT WM and the Client, comprising the account agreement, Fee schedule and Execution and Custody Terms of Business.

FRN - The Firm Reference Number assigned by the FCA to the Financial Adviser in question on the FCA's register.

Instruction - An instruction received by LGT WMUS in connection with a Client's Account in accordance with the terms of reference set out in the Account Agreement.

Intellectual Property Rights - All intellectual property rights, including patents, supplementary protection certificates, petty patents, utility models, trademarks, database rights, rights in designs, copyrights (including rights in computer software), and all rights and forms of protection of a similar nature or having equivalent or similar effect to any of these which may subsist anywhere in the world for the full term of such rights, and any renewals or extensions of them.

Investment - Any asset other than cash.

Nominated Bank Account - The UK bank or building society account, as specified to LGT WMUS from time to time in writing by the Financial Adviser, in the Financial Adviser's name (or in the case of an Appointed Representative by the registered Principal) or the Financial Adviser's trading name on the FCA's register.

Suitability - The suitability of the advice provided by LGT WMUS and of the transactions entered into by LGT WMUS on behalf of the Client.

2. Regulatory Status

- 2.1 LGT Wealth Management UK LLP ("LGT WM") is registered in England (No. OC329392) and its principal place of business and registered address is 14 Cornhill, London EC3V 3NR. LGT Wealth Management US Limited is registered in England (No. 06455240) and its principal place of business and registered address is 14 Cornhill, London, EC3V 3NR.
- 2.2 LGT Wealth Management UK LLP is authorised and regulated by the FCA of 12 Endeavour Square, London E20 1JN, and is a member of the London Stock Exchange ("LSE"). LGT WM is required to act in accordance with the rules of the FCA and the rules of the LSE where applicable. LGT WMUS is authorised and regulated by the FCA of 12 Endeavour Square, London E20 1JN.



3. Application and Scope

- 3.1 LGT WMUS shall act as discretionary/advisory manager to manage the investment and re-investment of such Client assets as each Client may authorise LGT WMUS in accordance with LGT WMUS's standard Investment Management Terms of Business. Whilst payment instructions to the Financial Adviser shall be contained with the LGT WMUS's Schedule of Charges, LGT WM shall effect such payments in accordance with the Schedule of Charges.
- 3.2 The Terms shall come into effect when the Client has signed a Schedule of Charges instructing LGT WMUS to facilitate payment to the Financial Adviser via LGT WMUS, and the Financial Adviser has supplied the details of its Nominated Bank Account details to LGT WMUS.
- 3.3 Each of LGT WMUS and the Financial Adviser warrants to the other that it has all necessary authorisations, licences and permits to provide its services to the Client, and undertakes to comply with all Applicable Laws.
- 3.4 The Financial Adviser will notify LGT WMUS immediately if it receives notice of any actual or prospective suspension, cancellation, rejection or amendment of the Financial Adviser's authorisation by the FCA. LGT WMUS will not accept Instructions from the Client to make payments to a Financial Adviser should it cease to be authorised by the FCA.

4. Fees

- 4.1 LGT WMUS will not pay the Financial Adviser for its recommendation or introduction of LGT WMUS to the Client.
- 4.2 LGT WMUS will not pay the Financial Adviser for any services provided by the Financial Adviser to the Client.
- 4.3 The Financial Adviser acknowledges and accepts that it has sole responsibility for disclosing, invoicing and recovering from the Client its fees for the services it provides to the Client, which shall at all times constitute, and be limited to, Adviser Charges.
- 4.4 LGT WMUS will, on receiving written payment Instructions set out in the duly completed Schedule of Charges from the Client, notify LGT WM who will process such payments as the Client may instruct from the Client Account to the Financial Adviser.
- 4.5 The Financial Adviser acknowledges and accepts that in respect of the payments referred to in 4.4 LGT WM will act solely as a payment agent on behalf of the Client.
- 4.6 The Financial Adviser will nominate and provide details of its applicable account to which LGT WM should remit any monies collected pursuant to the Terms. Such details will be supplied on the Financial Adviser's letterhead and authorised by a person with the requisite regulatory/legal authority.
- 4.7 The Financial Adviser acknowledges that the Client may terminate any payment instruction at any time, and at the Client's sole discretion. On receipt of such instruction, LGT WM will cease to collect any such payment(s) on behalf of the Financial Adviser.
- 4.8 LGT WM will only process payments from the Client Account where monies are available for this purpose. Where insufficient monies are available, LGT WM will not arrange such payments.

5. Regulation

- 5.1 LGT WMUS is entitled to assume that the Financial Adviser's regulatory authorisation under FSMA to provide services contemplated herein remains in effect until otherwise notified.
- 5.2 LGT WMUS does not have any obligation to ensure that the

Financial Adviser is in compliance with any rule or requirement of the FCA, FSMA nor any other competent regulatory authority.

6. Role and responsibilities of LGT WMUS

- 6.1 LGT WMUS will manage a Client's assets held by LGT WM in accordance with the Client's requirements, as set out in the Account Agreement completed by the Client.
- 6.2 LGT WMUS will rely on the Financial Adviser to have made a Suitability assessment as required under FCA Rules, as and where appropriate, in relation to the investment of the Client's funds. In accepting the Terms, the Financial Adviser is confirming to LGT WMUS that such Suitability assessment, as and where appropriate, has been made.
- 6.3 LGT WMUS will carry out relevant anti-money laundering customer due diligence on the Client and will apply its own identification/notification procedures.
- 6.4 LGT WMUS will accept no responsibility or liability for any error made by the Financial Adviser in respect of any instructions which it has communicated.
- 6.5 LGT WMUS has and shall maintain all necessary legal and regulatory authorisations and approvals required to conduct the activities contemplated by the Terms.
- 6.6 LGT WMUS shall notify the Financial Adviser as soon as is practicable if it becomes subject to any formal investigation or disciplinary or enforcement order by the FCA or any other body regulating the relevant business of LGT WMUS which is material in relation to the Terms.

7. Role and responsibilities of LGT WM

- 7.1 LGT WM will custody, execute and administer a Client's assets held on the Client Account in accordance with the Client's requirements, as set out in the Execution and Custody Account Agreement completed by the Client.
- 7.2 LGT WM will act as custodian for Client assets, save where otherwise agreed with the Client.
- 7.3 LGT WM will accept no responsibility or liability for any error made by the Financial Adviser in respect of any instructions which it has communicated.
- 7.4 LGT WM has and shall maintain all necessary legal and regulatory authorisations and approvals required to conduct the activities contemplated by the Terms.
- 7.5 LGT WM shall, to the extent legally permissible, notify the Financial Adviser promptly if it becomes subject to any formal investigation or disciplinary or enforcement order by the FCA or any other body regulating the relevant business of LGT WM which is material in relation to the Terms.

8. Role and responsibilities of the Financial Adviser

- 8.1 LGT WMUS will rely on the Financial Adviser to have made a Suitability assessment as required under the FCA Rules, as and where appropriate, in relation to investment of the Client's funds. In accepting the Terms, the Financial Adviser is confirming to LGT WMUS that such a Suitability assessment, as and where, has been made.
- 8.2 LGT WMUS is entitled to assume, without enquiry, that any information which the Financial Adviser provides is complete and accurate and that it remains so, unless the Financial Adviser advises otherwise or LGT WMUS has reasonable grounds on which to doubt it.
- 8.3 Where information and/or communication from, or in respect



of, a Client is required under the FCA Rules, LGT WMUS is entitled to rely on the Financial Adviser to provide a complete and accurate version of the same on behalf of the Client.

- 8.4 The Financial Adviser and LGT WMUS will each perform with relevant anti-money laundering customer due diligence.
- 8.5 The Financial Adviser shall notify LGT WMUS immediately if it becomes subject to any formal investigation or disciplinary or enforcement order by the FCA or any other body regulating the relevant business of the Financial Adviser which is material to this Agreement.
- 8.6 Where requested by the Client, LGT WM will send the Financial Adviser copies of all valuation reports, portfolio summaries and any other information that the Financial Adviser may reasonably request. If required by the Client, the Financial Adviser shall review all such reports to keep appropriately informed in relation to all aspects of the Clients' holdings and to monitor the Suitability of the investments pursuant to the Account Agreement.

9. Financial Adviser Warranties

- 9.1 The Financial Adviser warrants, where applicable, that the Client has duly authorised the Financial Adviser in the Account Agreement to have authority over the Account and/or to receive information about the Account.
- 9.2 The Financial Adviser warrants that their principal, if any, permits the Financial Adviser to enter into this Agreement.

10. Intellectual Property

- 10.1 Save as otherwise expressly provided in the Terms, neither LGT WMUS nor the Financial Adviser shall receive any right, title or interest in or to the Intellectual Property Rights of the other party.
- 10.2 The Financial Adviser must not use LGT WMUS's name or any logo, trademark or any other intellectual property of LGT WMUS without LGT WMUS's prior written permission.
- 10.3 Information obtained from LGT WMUS by the Financial Adviser may only be used or reproduced for the bona fide purposes of the Financial Adviser's business, must be kept confidential for those purposes and is not the property of the Financial Adviser.

11. Confidentiality and Data Protection

- 11.1 Neither party hereto shall either before or after the termination of these Terms, unless required to do so by any court of competent jurisdiction or regulatory body, disclose to any person not authorised by the other party to receive the same, any information (other than information which is at the time of such disclosure a matter of public record) relating to the other party of which they shall have become possessed before or during the period of the Terms.
- 11.2 The Financial Adviser consents to LGT WMUS recording and monitoring telephone calls and emails.
- 11.3 The Financial Adviser agrees that LGT WMUS will hold and use information relating to the Financial Adviser, its employees and consultants (which may include personal data for the purposes of the Act) for the purposes of setting up the Terms and ongoing administration and contact with the Financial Adviser.
- 11.4 To the extent that the obligations of either party involve the processing of any personal data in respect of which the other party is the data controller, the party processing such personal data shall:
- (i) be acting as a data processor only;

(ii) process such personal data only in accordance with the data controller's written instructions and only as required to perform its obligations under this Agreement;

(iii) take technical and organisational measures which are consistent with best industry practice against unauthorised or unlawful processing of such personal data and against accidental loss or destruction of, or damage to, such personal data; and

(iv) at all times take reasonable steps to ensure the reliability of those of its employees who have access to the personal data held on behalf of the data controller and shall use its best endeavours to ensure their compliance with the obligations set out in this clause.

In this clause, 11, "personal data", "data controller" and "data processor" have the meanings given in the Data Protection Act 1998.

- 11.5 Each party shall indemnify, defend and hold harmless the other party on demand against all claims, actions, proceedings, and all damages, losses, fines, judgments, demands, fees, costs and expenses (including legal fees and disbursements on a full indemnity basis) arising as a result of any breach by that party of this clause 11.

- 11.6 This clause, 11, shall remain in full force and effect notwithstanding any termination of the Terms.

12. Communications and Complaints

- 12.1 All written communications from LGT WMUS will be copied to the Financial Adviser at the address held on LGT WMUS's records in accordance with the most recent Instructions from the Client.
- 12.2 The Financial Adviser agrees that LGT WMUS may telephone the Financial Adviser to discuss investments and offer services that LGT WMUS may deem suitable. Such telephone calls may be recorded. The recordings shall remain LGT WMUS's sole property and shall be conclusive of any disputes that the Financial Adviser may have with LGT WMUS.
- 12.3 Any notice or other communication to be made or given by one party to another hereunder shall (unless otherwise provided in the Terms) be in writing and may be delivered by hand or made or given by first class post, by facsimile transmission or other electronic means of communication addressed to the registered office of the recipient for the time being or such other address as may have been previously notified to the party making or giving such notice or communication. Any such notice or communication shall be deemed to be made or given when delivered (in the case of a notice or communication delivered by hand), or on being received clearly in full (in the case of a notice or communication made or delivered by facsimile transmission or other electronic means) or on the second day after posting (in the case of a notice or communication made or delivered by first class post). Evidence that a notice or communication was properly addressed, stamped and put in the post shall be conclusive evidence of posting.
- 12.4 It is LGT WMUS's policy not to send marketing solicitations directly to the Financial Adviser's clients. However, LGT WMUS may from time to time have statutory or other obligations to send documentation directly to Clients and reserves the right to do this.
- 12.5 Any complaint made or received by the Financial Adviser on behalf of the Client in respect of LGT WMUS operation of the Client's Account shall immediately be notified in writing to the Compliance Officer of LGT WMUS, who shall, if appropriate,



acknowledge such complaint promptly, investigate the circumstances and report the results to the Client. For the avoidance of doubt, LGT WMUS shall not respond to any complaints other than in relation to the management of the portfolios held on the Client Account. Any other complaints, including any in relation to wrappers recommended by the Adviser to the Client shall be the sole responsibility of the Financial Adviser.

13. Liability

- 13.1 The Financial Adviser will indemnify and keep LGT WMUS indemnified against all losses, costs, damages or claims incurred by LGT WMUS directly or indirectly as a result of:
- (i) any failure by the Financial Adviser to comply with any Applicable Laws;
 - (ii) the inaccuracy of any information, statement or Instruction to given to LGT WMUS by the Financial Adviser; or
 - (iii) any breach by the Financial Adviser of these Terms.
- 13.2 LGT WMUS will only be liable to the Financial Adviser for losses arising directly as a result of negligence, fraud or wilful default by it or any of its partners, employees or agents. In no event shall LGT WMUS be liable for special, indirect, incidental or consequential damages or losses. LGT WMUS is not responsible for the accuracy of information obtained from it by the Financial Adviser other than information prepared by LGT WMUS.
- 13.3 In this clause, "Financial Adviser" shall include the Financial Adviser's directors, officers, employees or agents.
- 13.4 Nothing in the Terms shall operate to exclude or restrict any duties or liabilities assumed by LGT WMUS under the FSMA (as amended or restated) or the FCA Rules that are incapable of exclusion or restriction.
- 13.5 The provisions of this section shall continue to apply notwithstanding the fact that the parties cease to provide services.

14. Force Majeure

Neither LGT WMUS, nor any of its partners, employees, delegates or agents shall be liable for any of our obligations contemplated under the Terms if such circumstance or failure results wholly or partly from any event or state of affairs beyond our reasonable control (including, without limitation, any failure of communication, settlement, compute or accounting system or equipment, any failure or interruption in the supply of data, any political crisis or terrorist action, the suspension of limitation of trading by any exchange or clearing house or any fire, flood or other natural disaster) and, in such circumstances, any of our obligations shall be suspended pending resolution of the event or state of affairs in question.

15. Amendment

- 15.1 LGT WMUS reserves the right to amend the Terms at any time upon giving 10 days' written notice, or earlier, if giving such notice is in LGT WMUS's reasonable opinion impracticable. The Financial Adviser is deemed to have consented to any alteration that may be affected to the Terms if LGT WMUS does not receive notification from the Financial Adviser, in writing, before the time specified for the changes to come into effect.
- 15.2 The Financial Adviser shall not amend the Terms unless LGT WMUS confirms in writing that any proposed amendment is acceptable to LGT WMUS. Such confirmation will also set out the date from which such an amendment will become effective.

16. Termination

LGT WMUS may terminate the Terms at any time on giving 30 days' written notice to the Financial Adviser. Termination of the Terms will not affect a party's accrued rights and obligations at the date of termination.

17. Assignment

- 17.1 The Financial Adviser is not entitled to sub-contract or transfer any of its rights and obligations under the Terms without the prior written consent of LGT WMUS.
- 17.2 LGT WMUS may assign its rights and obligations under these Terms to any associated company on notice to the Financial Adviser.

18. General

- 18.1 Nothing in the Terms shall prevent LGT WMUS or the Financial Adviser from entering into arrangements similar to those provided for in the Terms with any other person.
- 18.2 Our obligations to the Financial Adviser shall be limited to those set out in the Terms.

19. Jurisdiction

The Terms shall be governed by English law, and both parties agree to submit to the non-exclusive jurisdiction of the English Courts in respect of any disputes or claims which may arise out of or in connection with the Terms.



Annex 1

Risk Warnings

It is important that you understand the risks involved in investing in various instruments. All investments involve a degree of risk to your capital and/or income, but the level of risk can vary significantly. You should be aware that, even when an investment is labelled as capital protected, it does not mean that the return of your initial investment is guaranteed. There are few investment products which provide total capital protection. This document cannot cover all risks but is meant to act as a general guide to the most significant aspects of the risk associated with any products and services we may offer to you. Should you have any questions that are not dealt with herein, you should raise them with your Investment Director.

1. Product Risks

1.1 Equities

If you buy shares or equity in a company, you become a member of the company and therefore share in the financial risk of that company. Equity-based investments are subject to general risks (political risk, interest rate risk, dividend risk, price risk, exchange rate risk, changes in the economic or regulatory environment, tax changes) as well as risks specific to the particular company. If a company issues a dividend, you will be entitled to receive one. However, the dividend per share depends on the issuing company's earnings and on its dividend policy. In cases of low profit or losses, dividend payments may be reduced or suspended. In the event of the company going into insolvency, your claim for recovery of your investment will rank behind various creditors of the business, whether secured or unsecured. The value of the equity can go down as well as up and you may lose part or all of your capital.

There are specific risks associated with particular equities:

1.1.1 Penny Shares

There is an additional risk of losing money when buying shares in some smaller companies, including penny shares (unquoted securities with a bid/offer spread of 10% or more). Usually, there is a big difference between the buying price and the selling price of these shares. If you have to sell immediately, you may get back much less than you paid for them. Prices may change very quickly.

1.1.2 AIM Shares

AIM is a market operated by the London Stock Exchange for small and growing companies. AIM-traded shares may carry a higher degree of risk than those listed on the main market as AIM is less regulated and less information is available. Shares in smaller companies tend to be traded less frequently and in smaller amounts than those of larger companies. Price volatility may be greater, making the timing of sales and purchases more difficult.

1.1.3 Foreign Stocks

As well as the risks associated with the underlying company's business, there are additional risks associated with stock listed overseas, and these are covered in section 17 (Foreign Markets) and section 18 (Emerging Market Risk).

1.1.4 Regulation S Securities

We may on occasion purchase securities for your account which are exempt from the requirement of registration in the United States pursuant to Regulation S of the Securities Act 1933, as amended. These securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act 1933, as amended, and the applicable state securities laws, pursuant to registration or exemption there from. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

Regulation S Securities can only be held by non-US residents and citizens and cannot be registered in the United States for twelve months from date of issue. The effect of this is that you can only sell these securities off-exchange during the twelve month period and only to non-US persons. Thereafter the securities can only be sold into US markets pursuant to securities registration or an applicable exemption from registration. No hedging transactions with respect to the securities may be conducted unless in compliance with US securities laws.

Consequently, in addition to the high risks inherent in dealing in small capital market securities, you run an extra risk of losing money when you buy shares in "restricted" or "non-readily realisable" securities due to the difficulties in selling such securities.

We and our associated companies may receive an additional fee, ultimately paid by the issuing company, in respect of our role as introducing broker for these securities.

1.2 Fixed Income/Debt Securities

In buying fixed income/debt securities, you are, in effect, lending money to a company or government, and you will be entitled to receive the interest payable on that security and for the principal sum to be repaid to you at the maturity date. Interest rates may be fixed or variable. If you buy or sell a fixed income security, other than at issue, you may pay more than the principal sum and therefore could suffer a reduction in the capital value on maturity or at any time you sell it before maturity. In the event of insolvency, you will share with other creditors of the firm in a claim against the firm's assets. Your ranking in the order of creditors will depend on the nature of the security. Dealing in fixed income/debt securities may involve risks such as insolvency risk, interest rate risk, credit risk or early redemption risk.

Additional risks may be associated with certain types of bonds, including without limitation floating rate notes, zero coupon bonds (bonds on which no interest is paid), convertible bonds; for such bonds you are advised to make inquiries about the risks referred to in the issuing prospectus.

1.3 Collective Investment Schemes

Collective investment schemes such as investment funds and open ended investment companies ("OEICs") and unit trusts invest monies on a pooled basis in a basket of investments, which typically might include gilts, bonds and quoted equities, but depending on the type of scheme, may also include derivatives, real estate or any other asset. The collective investment scheme then issues shares or units in the vehicle holding the pooled funds and investments. They allow for diversification at a lower cost than might be achieved otherwise. However, you still remain exposed to the risks associated with the underlying investments that the collective investment scheme makes, though potentially to a lesser degree. A collective investment scheme that holds a number of different assets will thus spread its risk and reduce the effect that a change in the value of any single component investment will have on the overall portfolio.

1.3.1 Investment Trusts

Investment trusts are companies listed on stock exchanges whose main business activity is investing in other companies. Most investment trusts can, and some do, borrow money to make investments. This can increase the volatility of the price of the shares of the investment trust itself, and can increase the risk of the investment in the trust.

The effect of the borrowing is that where there is a rise in the price of the underlying securities, the value of the net assets attributable to each investment trust security rises by a greater percentage, and when the value of the underlying portfolio



falls, the net assets attributable to each investment trust security falls by a greater percentage. Investment trusts often pursue a policy of “cross-investing” in other investment trusts, which in turn may also be borrowing money to leverage themselves. So where an investment trust employs a higher degree of direct or indirect leverage, its securities are likely to be subject to significant fluctuations in value, and as a result, holdings in such an investment trust may be subject to sudden falls in value.

1.3.2 Exchange Traded Funds

ETFs are open-ended investment companies comprised of units traded on a regulated market or designated investment exchange. Like an index fund, an ETF represents a basket of stocks that reflects an index such as the FTSE100. Unlike a typical collective investment scheme (e.g. a unit trust), it trades like any other company on a stock exchange. An ETF’s price changes throughout the day, fluctuating with supply and demand. This is different from a typical collective investment scheme that has its net-asset value (NAV) calculated at the end of each trading day. It is important to note that while an ETF attempts to replicate the return on indices, there is no guarantee that they will do so exactly. It is not uncommon to see a 1% or more difference between the actual index’s year-end return and that of an ETF. By owning an ETF, you get the diversification of an index fund with the flexibility of an equity investment. Because ETFs trade like stocks, you can margin them and purchase them in very small quantities. The expense ratio of an ETF is often lower than that of a typical collective investment scheme.

1.3.3 Venture Capital Trusts (VCTs)

VCTs are professionally managed collective investment schemes listed on the London Stock Exchange, and are similar to investment trusts. They invest in fledgling venture capital backed unquoted companies. These unquoted companies will ordinarily be at an earlier stage of development than larger quoted companies and will therefore carry a greater risk of failing.

VCTs must be approved by HMRC for the purpose of the scheme. Once invested an investor may be entitled to various income tax and CGT reliefs, and VCTs are exempt from corporation tax on any gains arising on the disposal of their investments. However, in order to take advantage of the tax relief associated with VCTs, you should be aware that you must hold your investments therein for at least 5 years from the date of purchase.

1.3.4 Enterprise Investment Schemes (EISs)

EISs are tax efficient schemes approved by HMRC to encourage investment into small unquoted companies carrying on a qualifying trade in the United Kingdom. Investment in companies that are not listed on a stock exchange often carries a high risk and the tax relief is intended to offer some compensation for that risk. As such, EIS investments are inherently high risk in nature. The specific risks vary depending on the particular EIS (e.g. an EIS based on investment in a single company is, of its nature, riskier than a more widely diversified EIS). Because the underlying holdings are not listed, the manager of an EIS cannot sell them, and unlike a VCT, the EIS itself is not traded on any market. Investors accordingly have to wait until the manager realises the cash value of the underlying holding(s) before they can redeem the value of their investment. Investors also face risk in relation to CGT. If a capital gain is deferred by means of investment in an EIS, the same gain is re-crystallised when the EIS is sold. If the CGT rate falls, investors benefit, but if it rises then they will lose out.

1.3.5 Property Funds

These funds are often structured as limited liability partnerships which are not regulated and invest in properties directly (although they may also be set up as unit trusts or OEICs). As

such they may also be set up to be highly illiquid and you may not be able to realise your investment immediately or the price may reflect a forced seller discount. They also carry many of the risks detailed immediately below in section 1.4 (Alternative Investments).

1.4 Alternative Investments (including Hedge Funds and Private Equity Funds)

1.4.1 Hedge funds and other alternative investment funds

(“alternative investments”) may involve complex tax and legal considerations and can give rise to considerable risks. Such schemes may deal infrequently and may limit redemptions. It is not possible to generalise on the associated investment risk of such schemes. Alternative investment vehicles are often operated in offshore centres where the level of investor protection is unlikely to be equivalent to that available in the UK. If established in the EU they are regulated as Alternative Investment Funds but are not subject to the same regulatory requirements or oversight as other regulated collective investment schemes, such as a UCITS fund. Additionally, the tax status of such funds, which often will not have reporting fund status, should be considered prior to investment.

1.4.2 Alternative investments often engage in leverage and other speculative investment practices, which involve a high degree of risk. Such practices will often increase the volatility of the performance of the alternative investment and the risk of investment loss, including the loss of the entire amount that is invested. Interests in alternative investments are often highly illiquid as there is no public market for such interests and are often only transferable with consent. The illiquid nature of such investments can mean interests can be difficult to value and can render transfer (particularly within a required timeframe) difficult.

1.4.3 Investors in alternative investments may also have limited rights with respect to their investment interest, including limited voting rights and participation in the management of the alternative investment.

1.4.4 Alternative investments will often invest in other products or vehicles that may be highly illiquid and difficult to value. Alternative investments may not be required to provide you with regular periodic pricing or valuation information. This may limit your ability to redeem or transfer your investment or delay receipt of redemption proceeds.

1.4.5 It should be noted that alternative investments may impose significant fees and charges, including management fees that are based upon a percentage of the realised and unrealised gains or management fees that are set at a fixed percentage of assets under management regardless of performance returns.

1.5 Warrants

1.5.1 A warrant ordinarily gives the holder of the warrant the right to subscribe for shares, debentures, loan stock or government securities at a specific price within a certain time frame and is exercisable against the original issuer of the underlying securities. The prices of warrants can be volatile as a relatively small movement in the price of the underlying security may result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant.

1.5.2 It is essential when considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time with the consequence that if you fail to exercise this right within the predetermined timescale then the investment becomes worthless.

1.5.3 You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.



1.6 Covered Warrants

A covered warrant is a type of warrant that allows the holder to buy or sell a specific quantity of shares, currency or other financial instruments from an issuer, usually a bank or similar financial institution at a specific price and time.

The main differences between normal warrants and covered warrants are:

- 1.6.1 covered warrants can have a wide variety of underlying assets. Normal warrants only have the issuing company's stock as their underlying asset;
- 1.6.2 covered warrants are only issued by financial institutions. Normal warrants are only issued by the company that issued the underlying stock;
- 1.6.3 covered warrants can have a variety of exercise prices depending on the conditions set forth in each issue. Normal warrants ordinarily have only one exercise price; and
- 1.6.4 covered warrants allow the warrant holder to buy or sell the underlying assets. Normal warrants allow the warrant holder only to buy the underlying assets.

1.7 Futures

Futures involve the obligation to make, or to take delivery of the underlying physical asset of the contract at a future date, or in some cases to settle the position with cash. The 'gearing' or 'leverage' often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains and carry a high degree of risk. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you.

Futures transactions have a contingent liability, meaning that you may be called upon to pay additional sums during the life of the contract and on maturity. It is very important that you understand the potential amounts you could be liable for, and are comfortable that you will be able to afford to pay such amounts when they fall due if required to do so. Futures are different to options as options give the holders the right to buy or sell an underlying asset at expiration while the holder of a futures contract is obligated to fulfil the terms of his contract.

1.8 Options

- 1.8.1 An option is the right either to buy or to sell a specified amount or value of a particular underlying interest at a fixed exercise price by exercising the option before its specified expiration date. An option that gives the right to buy is called a "call" option, an option which gives the right to sell is called a "put" option.
- 1.8.2 There are two types of options – physical delivery options and cash settled options. Physical delivery gives the owner the right to receive physical delivery (if it is a call) or to make physical delivery (if it is a put) of the underlying interest when the option is exercised. A cash settled option gives its owner the right to receive a cash payment based on the difference between the determined value of the underlying interest at the time the option is exercised and the fixed exercise price of the option. You may be required to pay monies as well as receive monies under a cash settled option.
- 1.8.3 Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a future contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under 'futures' (section 1.7

above) and 'contingent liability transactions' (section 2 below).

- 1.8.4 If you write or sell an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you do not already own the underlying asset which you have contracted to sell the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.
 - 1.8.5 Certain London Stock Exchange firms under special exchange rules write a particular type of option called a 'traditional option'. These may involve greater risk than other options. Two way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.
 - 1.8.6 Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to provide margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.
- ## 1.9 Contracts for Differences (CFDs)
- 1.9.1 A CFD is a derivative contract that gives the holder exposure to the underlying equity or index, but without paying the full price of the total value of the position. Contracts for difference are traded on margin, and the profit/loss is determined by the difference between the buy and the sell price. CFDs may be suitable for short-term trading but become expensive for holding long-term positions.
 - 1.9.2 When trading on margin, a sudden drop in the price of an instrument (i.e., the underlying equity) could cause you to receive a margin call. In that case, you would be required to deposit additional collateral into your account. If you do not respond in a timely manner, the existing collateral in your account could be sold, or your positions liquidated, in order to cover the call, and you would be responsible for any losses to your account.
 - 1.9.3 Some CFDs are known as swaps. Typical forms of this type of contract can be similar to an agreement to purchase or sell a series of options over an underlying asset or index at an average price specified today. Swaps and other CFDs are contingent liability investments, meaning that if the underlying price moves in an unfavourable direction, an investor can be called to pay additional cash on final settlement.
- ## 1.10 Structured Products
- 1.10.1 Structured products are synthetic investments specially created to meet specific needs that ordinarily cannot be met from the standardised financial investments available in the markets. Structured products can be used: as an alternative to a direct investment; as part of an asset allocation process to reduce the risk exposure of a portfolio; or to take advantage of a current market trend.
 - 1.10.2 A structured product is ordinarily a pre-packaged investment strategy, which is based on derivatives (i.e. options and, to a lesser extent, swaps). They may feature protection of the principal if held to maturity. You should always check whether a structured product is principal protected or not.



- 1.10.3 More often than not structured products are not 100% principal protected. The return of the capital you initially invested may be linked to the performance of an index, a basket of selected stocks or other factors. If the product has performed within specified limits, you will be repaid the capital you initially invested but if not, you could lose some or all of your initial capital. Investing in these products can put the capital you invested at risk.
- 1.10.4 The range of products may include those where the return is linked to an index or indices, a basket of securities or other specified factors which relate to one or more of the following: equity or debt securities, interest rates, currency exchange rates or commodities.
- 1.10.5 As mentioned above, some of the products include an element of principal protection, at a level which is stated at the time of the initial investment, so that on maturity of the investment you are assured of the return, at a minimum, of the stated proportion of your initial capital invested (subject always to the credit of the issuer of the product). In respect of some products which include an element of principal protection, the return of the stated proportion of your initial capital invested may depend on a pre-agreed level of performance being achieved or the product being held to maturity. If the performance is not attained or the product is not held to maturity the element of principal protection will not apply.
- 1.10.6 Different products involve different levels of exposure to risk (and reward) and in deciding whether to trade in such products you should be aware of the following points:
- 1.10.6.1 There is no guarantee that all of the initial capital invested by you will be returned to you on maturity of the investment. You may therefore get back a lesser amount than you originally invested;
- 1.10.6.2 These investments may involve a degree of gearing, which means that a small percentage fall in the related index may result in a larger reduction in the amount paid out to you”;
- 1.10.6.3 Investments linked to the performance of an index do not include an allowance for any return or reinvestment of dividend income from the underlying constituents of the index;
- 1.10.6.4 If you decide to redeem or sell the investment before its stated maturity, you may not gain the maximum benefit of the investment and may receive a poor return or less than the initial capital invested. Early redemption penalties maybe applicable in some circumstances;
- 1.10.6.5 The initial capital you invest may be placed into high risk investments such as non-investment grade bonds/ instruments linked to commodities or indices on commodities;
- 1.10.6.6 The stated rate of growth or income in relation to an investment may depend on specified conditions being met, including the performance of the relevant index/indices, basket of selected stocks or other specified factor(s);
- 1.10.6.7 You should not deal in these investments unless you are prepared to sustain a loss of the money you have invested (a loss which may be total or may be partial as specified in the relevant terms and conditions) plus any commission or other transaction charges; and
- 1.10.6.8 Some structured products may have a limited secondary market; it may therefore be difficult to deal in such investments or to obtain reliable information about their value.
- 1.11 Securitised Derivatives**
- 1.11.1 These instruments may give you a time-limited right or an absolute right to acquire or sell one or more types of investment, which is normally exercisable against someone other than the issuer of that investment. Or they may give you rights under a contract for difference, which allows for speculation on fluctuations in the value of the property of any description or an index, such as the FTSE 100 index. In both cases, the investment or property may be referred to as the “underlying instrument”.
- 1.11.2 These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.
- 1.11.3 These instruments have a limited life, and may (unless there is some form of guaranteed return to the amount you are investing in the product) expire worthless if the underlying instrument does not perform as expected.
- 1.11.4 You should only buy this product if you are prepared to sustain a total or substantial loss of the money you have invested plus any commission or other transaction charges.
- 1.11.5 You should consider carefully whether or not this product is suitable for you in light of your circumstances and financial position, and if in any doubt please seek professional advice.
- 1.12 Listed Securities where gearing is involved**
- In relation to listed securities where gearing is involved, the gearing strategy used by the issuer may result in movements in the price of the securities being more volatile than the movements in the price of the underlying investments. Your investment may be subject to sudden and large falls in value and you may get back nothing at all if there is a sufficiently large fall in your investment.



2. Contingent Liability Investment Transactions

Contingent liability investment transactions are derivative transactions (such as futures, contracts for differences or options) which are structured so that the investor will or may be liable to make further payments when the transaction is to be completed or on closing out a position.

If you undertake contingent liability investment transactions using "margin" (i.e. money you are borrowing to purchase securities), you may sustain a loss of the margin you deposit to establish or maintain a position. If the market moves against you, you may be called upon to pay additional margin at short notice to maintain a position. If the request for additional margin is not met, your position may be liquidated at a loss, and you will be responsible for the resulting deficit.

Save as specifically provided by the FCA, we may only carry out margined contingent liability transactions with or for you if they are traded on or under the rules of a recognised or designated investment exchange. Contingent liability investment transactions which are not so traded may expose you to substantially greater risks.

3. Margin for Purchasing Securities

If you purchase securities using "margin" (i.e. money you are borrowing to purchase securities), you are subject to a greater risk than you would be if you purchased fully paid for securities. If the value of the assets in your account(s) falls then you may be required to deposit additional securities or monies to secure the loan, which has been made to you to purchase securities. If you fail to meet the additional requests for payment, then we may realise your assets to pay down or pay off your loan (without prior notice and potentially at a loss or lower price than in other circumstances). You are liable for any debits as a result of such enforced sales.

4. Stabilisation

- 4.1 We may, from time to time, recommend transactions in securities to you, or carry out such transactions on your behalf, where the price may have been influenced by stabilisation.
- 4.2 Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. The FCA allows stabilisation in order to help counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found.
- 4.3 Stabilisation is carried out by a "stabilisation manager" (ordinarily the firm chiefly responsible for bringing a new issue to market). As long as the stabilising manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.
- 4.4 The stabilisation rules:
 - 4.4.1 limit the period when a stabilising manager may stabilise a new issue;
 - 4.4.2 fix the price at which he may stabilise (for shares and warrants but not bonds); and
 - 4.4.3 require him to disclose that he may be stabilising but not that he is actually doing so.
- 4.5 The fact that a new issue or a related security is being stabilised

should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

5. Clearing House Risk

On many exchanges, the performance of a transaction by us (or third party with whom we are dealing on your behalf) is 'guaranteed' by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the client, and may not protect you if we default in our obligations to you or another party defaults on its obligations to you. On request, we will endeavour to explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing. There is no clearing house for traditional options, nor ordinarily for off-exchange instruments which are not traded under the rules of a regulated market.

6. Trading Facilities Risk

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms. Such limits may vary: you should ask the firm with which you deal for details in this respect.

7. Electronic Trading Risk

Trading on a particular electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake Transactions on an electronic trading system, you will be exposed to risks associated with that system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions, is not executed at all and a lack of capability to keep you informed continuously about your positions and fulfilment of the margining requirements.

8. Off-Exchange Transactions in CFDs

These transactions are not carried out on a recognised exchange or designated exchange and this may mean a higher level of risk is incurred by the investor. It is important that you fully understand the risks involved before making a decision to enter into an off-exchange transaction in a CFD (a 'Contract') with us. The structure of a Contract and the roles of the parties to a Contract are established solely by us. This means, for example, that if you wish to close the Contract earlier than at the time at which it would otherwise automatically expire, you will have to close it at our quotation, which may reflect a premium or discount to the underlying market. When the underlying market is closed, our quotation can be influenced by the weight of other clients buying or selling. Contracts entered into with us can only be closed with us, and are not transferable to any other person. No Contracts provide any right to the underlying instruments or voting rights.

9. Off-Exchange Transactions in Derivatives

It may not always be apparent whether or not a particular derivative is arranged on exchange or in an off-exchange derivative transaction. We must make it clear to you if you are entering into an off-exchange derivative transaction.

While some off-exchange markets are highly liquid, transactions in off-exchange or non-transferable derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange



transaction or to assess the exposure to risk. Bid prices and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what a fair price is.

10. Non-Readily Realisable Investments

We may arrange or enter into transactions in non-readily realisable investments. This means that the investment is neither a government security, nor a listed investment, nor an investment that regularly trades on an exchange. In this case there may be no secondary market available, and it may be difficult to obtain any reliable independent information about the value and risks associated with such an investment. You may have difficulty selling this investment at a reasonable price and, in some circumstances, it may be difficult to sell it at any price. Do not invest in such an investment unless you have carefully thought about whether you can afford it and whether it is right for you.

11. Insolvency Risk

Our insolvency or default, or that of any other brokers involved in transactions undertaken by us on your behalf, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. On request, we will endeavour to provide an explanation of the extent to which we will accept liability for any insolvency of, or default by, other firms involved in transactions undertaken by us on your behalf.

12. Past Performance

You should be aware that the price of the financial instruments that you are dealing with depends on fluctuations in the financial markets outside of our control and that past performance is no indicator of future performance.

13. Suspension of Trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of a rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

14. Volatility of Returns

The value of investments and the amount of income derived from them may go down as well as up. All investments can be affected by a variety of factors, including macro-economic market conditions such as the interest or exchange rate environment, or other general political factors in addition to more company or investment specific factors.

15. Tax Risks

You have sole responsibility for the management of your tax and legal affairs including making any applicable filings and payments and complying with any applicable laws and regulations.

16. Investment Leverage, or Gearing

Use of borrowing to invest increases both the volatility and the risk of an investment. This applies if a company has significant borrowings, or if an investment vehicle otherwise allows an investor to gain much greater economic exposure to an asset than is paid for at the point of sale. It also applies if an investor borrows money for the specific purpose of investing. The impact of leverage can be as follows:

- movements in the price of an investment leads to much greater volatility in the value of the leveraged position, and this could lead to sudden and large falls in value;
- the impact of interest costs could lead to an increase in any

- rate of return required to break even; or
- a client may receive back nothing at all if there are significantly large falls in the value of the investment.

17. Foreign Markets

Foreign markets will involve different risks from UK markets and non-EEA markets will involve different risks from EEA markets. In some cases the risks will be greater in foreign markets. On request, we will endeavour to provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including the extent to which we will accept liability for any default of a foreign firm through whom it deals. The potential for profit or loss from transactions undertaken by us on your behalf on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

18. Emerging Market Risk

Emerging markets can carry significantly greater risks than those typically associated with investing in more developed markets. The nature and extent of these risks will vary from country to country. Emerging markets in respect of financial investments are those countries that may possess one or more of the following characteristics:

- a certain degree of political instability;
- relatively unpredictable financial markets and economic growth patterns; and
- a financial market that is still at the development stage.

The list of emerging markets is constantly changing and may be ascribed this status according to criteria set by several different organisations, such as the International Finance Corporation or the World Bank. Broadly, they include any country other than Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US. These countries' markets are regarded as developed markets.

Before making any investment in these markets, you should independently satisfy yourself that you understand and appreciate the significance of the relevant risks, and that such an investment is suitable for you. This statement is intended to summarise some of these risks, but it does not purport to be an exhaustive list.

18.1 Market Characteristics

- 18.1.1 The securities markets of emerging countries are in the early stages of development and many of them often lack the levels of transparency, liquidity, efficiency and regulation characteristics of the more developed markets. In some of these markets, standard practices, market customs and usages have yet to evolve and be readily identifiable as such by market participants. The credit rating of local financial institutions may not be high and there is often limited trust in such institutions.
- 18.1.2 Government supervision of securities markets, investment intermediaries and of quoted companies may be considerably less well developed than in many countries with well-established markets and, in some cases, effectively non-existent. Many regulations are unclear in their scope and effect, and there may be a greater risk than in more developed countries of activities conducted in good faith on the basis of professional advice, subsequently being regarded as not in compliance with fiscal, currency control, securities, corporate or other regulatory requirements. In addition, where a system of regulation is present, it may lack any, or any adequate, mechanism to enforce compliance by participants.
- 18.1.3 The valuation of both enterprises and securities in some of these countries has sometimes proved problematic in the



absence of efficient secondary markets. In particular, the illiquidity of the markets in general or of particular securities in some of these countries may make it difficult to determine an accurate valuation for a particular security or whether such security could actually be sold at such a price. In addition, due to historic difficulties in acquiring securities in certain of these countries, depository receipts or derivatives relating to certain of such securities have been created which may not be fungible with each other or the securities underlying or relating to such depository receipts or derivatives. This might lead to such depository receipts or derivatives trading at substantial premiums or discounts to the underlying or related securities.

18.2 Economic Risk

18.2.1 Many emerging countries lack a strong infrastructure.

Telecommunications generally are poor, and banks and other financial systems are not always well developed, well regulated or well integrated. These countries may also have considerable external debt, which could affect the proper functioning of their economies with a corresponding adverse impact on the performance of their markets. Tax regimes may be subject to the risk of a sudden imposition of arbitrary or onerous taxes, which could adversely affect foreign investors.

18.2.2 Businesses in these countries may have a limited history operating in market conditions. Accordingly, when compared to companies in more developed markets, such businesses may be characterised by a lack of management who are experienced in market conditions and a limited capital base with which to develop their operations.

18.3 Political Risk

The political systems in the majority of emerging countries have been the subject of substantial and positive reforms. The relative infancy of some of these political systems may mean that they are more vulnerable in the face of popular dissatisfaction with reform, political or diplomatic developments, or social, ethnic or religious instability. Such developments, if they were to occur, could in turn lead to a reversal of some or all of the democratic reforms, a backlash against foreign investment and, in a worst case scenario in some countries, a return to a centralised planned economy and state ownership of assets. This could involve the compulsory nationalisation or expropriation of foreign-owned assets without adequate compensation, or the restructuring of particular industry sectors in a way which could adversely affect private investors in such sectors.

18.4 Investment, Foreign Exchange and Repatriation Restrictions

Foreign investment in emerging countries is in some cases restricted. Some of these countries have non-convertible currencies and the value of investments may be affected by fluctuations in available currency rates and exchange control regulations (which could change at any time). The repatriation of investors' funds and profits may therefore be restricted or difficult and could involve significant cost. Moreover, considerable delays may occur in the transfer of funds within, and with repatriation of monies out of, these countries.

18.5 Tax Risks

In some countries the tax position is complex and subject to more frequent change than in western countries. It may not be possible to reclaim tax even where this is theoretically possible due to practical and timing issues.

18.6 Legal Risks

Many emerging countries do not yet have a legal system comparable to those of more developed countries. Legal reforms may not always correspond to market developments, resulting in ambiguities and inconsistencies which increase the risk of investing in these countries. Legislation to safeguard the

rights of private ownership and control as well as establishing intellectual property concepts may not yet be in place, and there is risk of conflicting rules and regulations. Laws and regulations governing investment in securities markets may not exist or may be subject to inconsistent or arbitrary interpretation or application. The independence of the judicial systems, and their susceptibility to economic, political or nationalistic influences, remains largely untested. It may be impossible to predict whether a foreign investor would obtain effective redress in the local courts in respect of a breach of local laws or regulations, or in an ownership dispute.

18.7 Settlement Risk

The concepts of ownership of and procedures for the transfer of securities in emerging countries may differ radically from those in more developed markets. In some markets, for example, the term "dvp" (delivery versus payment) does not imply that securities and cash move at the same time. Registration of shares may not be subject to standardised procedures or to a centralised system, and may be effected on an ad hoc basis. The concept of nominee ownership is undeveloped and, in some cases, not recognised at all. As a result, registration can be administratively cumbersome and time consuming, leading to delays in settling trades, ownership disputes and constraints on trading. The realisation of rights of ownership, for example the exercise of shareholders' rights, cannot be assumed. Moreover, in some markets the risk of conflicts of interest on the part of those responsible for the conduct of the registration procedures, and the risk of fraud (for example, in connection with physical certificates) or of a registrar refusing to effect registration without justification (or of a registrar deleting a registration once it has occurred, with a consequential total loss of investment) is higher in many cases than in more developed markets.

18.8 Shareholder Risks

Rules in emerging countries regarding ownership and corporate governance of domestic companies (for example, limiting the ability of management to effect transactions with affiliates or to sell or otherwise dispose of their company's assets) may not exist or may confer little practical protection on minority shareholders. Disclosure and reporting requirements are in many cases less than in more developed countries and may be non-existent or rudimentary. Anti-dilution protection may also be very limited. Redress for violations of shareholder rights may be difficult in the absence of a system of derivative or class action litigation.

18.9 Accounting Practices

Accounting, auditing and financial reporting standards in many emerging countries are not yet equivalent to those applicable in more developed countries and in some of these countries are of virtually no assistance to an investor. The availability, quality and reliability of corporate information (including official data) is likely to be lower than that in respect of investments in more developed markets.

18.10 Custody and Asset Servicing in New Markets

18.10.1 The custody of assets and asset servicing in new markets can carry significantly greater risks than those typically associated with more developed markets. The nature and extent of these risks will vary from country to country. Before investing in these markets, you should independently satisfy yourself that you understand and appreciate the significance of the relevant risks, and that such an approach is suitable for you and any clients for whom you are acting in a fiduciary capacity. This statement is intended to summarise some of these risks, but does not purpose to be an exhaustive list.

18.10.2 In accordance with the Agreement, we may hold Assets with a Sub-Custodian in a new market jurisdiction. The Sub-Custodian may hold your Assets either directly through registration with



the relevant registrar or via local depositories. As a result, you may be exposed to operational and other risks associated with the market infrastructure of new markets including registrars and local depositories and you should make yourself familiar with the relevant infrastructure before deciding to invest in any emerging market. Registration processes in emerging markets can be administratively cumbersome and time consuming, leading to constraints on trading.

18.10.3 The concept of beneficial ownership is not yet fully developed in many new markets and it is possible that the law of a new market will not recognise your beneficial ownership of Assets held at a Sub-Custodian in such jurisdiction in a segregated account for our clients. The consequence of this is that in the event that a valid order is served on the Sub-Custodian seeking to freeze, attach or otherwise restrict assets belonging to us, a court in any such market may treat your Assets as assets belonging to us and open to seizure or arrest and you may lose your beneficial interest.

18.11 Asset Servicing

18.11.1 Ownership of securities may only transfer under the law of a new market upon settlement and registration of the securities in question. However, under the Agreement, we may undertake asset servicing in respect of income, dividends, coupons, stock distributions and other entitlements from trade date. As a result, your corporate action entitlements and obligations may not correspond with legal ownership of the securities in question.

18.11.2 Corporate actions in a new market may be subject to a "record date" on which we or you will be required to be the legal owner of the security in question in order for you to be entitled to participate in the event. Where such "record date" considerably precedes the date of the event and/or where re-registration of securities ownership occurs a considerable time period after trade date, your ability to participate in the event may not correspond with your current holdings on our books and records or include all trades undertaken by us on your behalf prior to "record date".

18.11.3 There may be no central source of disclosure of corporate action events in certain markets and corporate action events of local issuers may only be notified in national or local newspapers or the web sites of local exchanges. In such cases, we will not be responsible or liable for the failure to locate or identify relevant events.

18.11.4 Tender offers by issuers in new markets may be subject to particular requirements, for example: (i) a requirement upon us to present copies of its constitutional documents to the issuer; and/or (ii) taxation rates which may only be determined following elections being submitted to the issuer. In the former case, our ability to participate in any such tender offer on your behalf may be dependent on the ability and our willingness to disclose its constitutional documentation to the issuer. You acknowledge our right to refrain from such disclosure at its sole discretion.

18.11.5 We may not be able to offer a proactive proxy voting service to you in respect of new market securities of which we are the legal owner. We may only be able to vote on your behalf where all other beneficial owners of the relevant security on our books and records advise that they wish to vote in the same manner as you.

18.11.6 The Russian market has certain nuances in respect of the distribution of dividends of which you should be aware. If a Russian issuer has not distributed dividends within one year of such dividends being approved, the legal owners of the securities in question may never receive their dividend entitlements. In addition, during the above one year period, a Russian issuer may pay registered owners of the entitled securities at different times. As a result, we may only pay

distributions to you in respect of Russian securities of which we are the legal owner upon (i) full payment being received from the issuer; or (ii) one year having passed from the date of the issuer's company meeting where the distribution was declared. In the latter case, we may pro-rate your entitlement in accordance with the funds we have received. Due to such nuances in the Russian market, we may not be able to participate (whether entirely or partially) in all events to which you may be entitled.



Annex 2

Conflicts Management Policy

In accordance with regulatory requirements, we have taken reasonable steps to identify conflicts of interest that exist, or may exist, between ourselves and our clients or between one client and another.

1. Our Duties

Our main business is the provision of wealth management financial advisory services. In this context a variety of conflicts arise between our interests and those of our clients, or between the duties owed by us to different clients. Therefore we must:

- 1.1 take all reasonable steps to identify conflicts of interest between (i) LGT WMUS and its clients, and (ii) one client and another;
- 1.2 operate effective organisational and administrative arrangements in order to take all reasonable steps to prevent such conflicts from giving rise to a material risk of damaging clients' interests. If the conflicts of interest are so great that they cannot reasonably be managed by a combination of these and/or other steps in such a way as to ensure fair treatment for a client, then we will decline to act for that client;
- 1.3 disclose any conflicts that cannot be managed effectively by our organisational and administrative arrangements to ensure that clients' interests will not be damaged; and
- 1.4 keep records of the firm's services and activities in which conflicts may arise.

2. Identifying Conflicts of Interest

To identify conflicts that may arise, and which may entail a material risk of damage to clients' interests, we take into account whether we, or an associate or employee of ours:

- 2.1 are likely to make a profit or avoid a loss at the expense of the client;
- 2.2 have an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of a client, which is distinct from the client's own interest in that outcome;
- 2.3 have a financial or other incentive to favour the interest of another client or group of clients over the interests of the client;
- 2.4 carry on the same business as the client; or
- 2.5 receive or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard fee or commission for that service.

3. Personal Conduct

Employees' personal holdings of, or dealings in, securities may conflict with their obligations to either corporate or investing clients. We have policies and procedures in place to monitor employees' personal account dealing and to restrict it in certain circumstances. Our employees do not solicit or accept inducements that could conflict with our obligations to our clients, nor offer or give inducements which could conflict with the recipient's obligations to its own clients. Gifts, corporate hospitality and similar benefits could fall within this category and we have detailed policies and procedures in place on the giving and receiving of gifts and hospitality.

Further details of our Conflicts Management Policy are available on request.