Renaissance Capital

Renaissance Securities (Cyprus) Limited

Risk Warning Statement

1. General

You should be aware that there are significant risks in investing in the capital markets and that past performance is not a guide to or guarantee of future performance.

This Risks' Warning Statement ("Statement" or "Notice") cannot disclose all the risks and other significant aspects of transacting in financial instruments and the capital markets at large. You should not deal in financial instruments unless you understand their nature and the extent of your exposure to risk. You should also be satisfied that the specific financial instrument(s) that you select is / are suitable for you in the light of your circumstances, financial position and investment objectives. Some financial instruments are unsuitable for many investors. Different financial instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments you should be aware of the items listed here below.

You should be aware that there are significant additional risks in investing in securities of any issuer located in Higher Risk Countries such as emerging and frontier markets, including the Russian Federation (collectively "**Higher Risk Countries**") which are not typically associated with well-developed markets. It is highly speculative, involves a high degree of risk and may result in the loss of the entire investment. Generally, such investment is only suitable for sophisticated or experienced investors who fully understand and appreciate the risks involved. Accordingly, you (also referred to herein as the "Counterparty") should exercise particular care in evaluating the risks involved and must decide for yourself whether, in the light of those risks, the investment is appropriate for you.

This Notice is not intended to be exhaustive and there may be other risk factors which the Counterparty should take into account in relation to a particular investment. The Counterparty should also note that the information contained in this Notice may become out-dated relatively quickly. ***The Counterparty hereby acknowledges and accepts that it has been properly notified by Renaissance with respect to the risks listed herein and acknowledges and accepts that any one or more of these risks could lead to loss which could, in certain circumstances, far exceed the initial Counterparty's investments and capital.***

Whereas due to the prime focus of our activities being in Emerging and Frontier Markets the risks identified here below refer extensively to such markets, note that most of these risks apply or could potentially apply to more advanced markets.

2 Political risks

Factors such as external or internal conflicts, coups and racial and national tensions create political instability in Higher Risk Countries. Political instability can significantly influence an issuer's ability to generate earnings and stock market returns. Furthermore, changes in the political scene may have an impact on the ability to repatriate capital, dividends and profits earned and generally on investment and investment ownership rights. In most Higher Risk Countries, it is not possible to say whether political reforms aimed at creating a multi-party democracy and transition from a centrally planned economy to a market economy will be successful. There is the possibility that these goals could be disrupted or even reversed due to political, social, economic, ethnic or religious instability. Higher Risk Countries are frequently criticized for the lack of transparency and fairness in their electoral processes and the results of such processes may not always be acceptable to the international community. Higher Risk Countries may also be faced with corruption within their governmental, administrative and financial systems and practices and often are not evaluated positively for their practices to combat bribery and corruption. Higher Risk Countries may face adverse international relations and / or international economic sanctions and / or international attention to their practices with respect to their governmental, administrative, economic and fiscal systems, their practices with respect to the prevention of money laundering and financial crime and their practices on the international effort to combat terrorism. Sanctions may apply to the Higher Risk country as a whole or to natural or legal persons from or affiliated with such Higher Risk Countries. There is a particular risk in the Higher Risk Countries that guarantees of investor protection may not always be honoured, and that policies encouraging foreign investment may be abandoned, interrupted or reversed. There can be no assurance that any Securities or the assets of the issuer of the Securities will not be subject to nationalization, requisition or confiscation, or compulsory reorganization by any authority or body and attention is drawn to the fact that certain constitutions within Higher Risk Countries may allow respective national governments to undertake such actions without respective obligations for fair compensation.

3 Environmental risks

Many Higher Risk Countries have not historically observed international standards for the protection of the environment and for the avoidance of pollution, including industrial pollution. A number of Higher Risk Countries may face heavy financial penalties and clean-up costs imposed on polluting companies or other responsible entities within their respective jurisdictions.

4 Climate change risks

The economies of Higher Risk Countries are vulnerable to the impact of environmental and climatic change and other types of natural disaster. Problems may be particularly severe given the relative economic importance of climatically sensitive sectors (such as agriculture and fisheries), the lack of appropriate emergency management and the limited human, structural and financial capacity to respond to extreme weather conditions and natural disasters. Extreme weather conditions (whether or not linked to climate change) and other natural disasters could lead to social crises, including famine, epidemic and environmental migration, and may have a material adverse effect on an investor's returns as well as on economic conditions generally. Some Higher Risk Countries may impose heavy penalties on issuers which are responsible for pollution which may include fines or forfeiture of property.

5 Economic risks

The underlying economic infrastructure of many Higher Risk Countries is significantly less developed than in more mature economies and many Higher Risk Countries suffer from major macroeconomic problems including hyperinflation, public deficits, unemployment, overdependence on the performance of one or more particular sector(s) (including the oil and gas sector in a number of Higher Risk Countries), volatile interest rates, shortages of basic raw materials and increased levels of poverty. Economic policies and reforms may be taken for reasons other than long term macroeconomic development and stability. Economic policies and reforms may fail, creating a challenging macroeconomic environment for issuers of any Securities and prolonged periods of severe economic disruption, potentially also leading to total economic collapse. Poor infrastructure including, without limitation, telecommunications and transport systems, and an inefficient banking sector, can hinder business development. The limited supply of domestic savings, coupled with the absence of mechanisms and institutions through which new capital can easily be raised, may give rise to problems in obtaining funding. There are also high levels of external debt which, if maintained, could weaken the economic situation of Higher Risk Countries. Government policies within Higher Risk Countries may be of an interventionist nature which may impact the operation of the respective capital market including the banking sector and the domestic stock market. Government interest rate policies (aimed for example at controlling inflation or boosting economic growth) will also impact the performance of the respective stock market as higher interest rates may make Investments in equities less attractive and vice versa.

6 Legal, regulatory and operational environment

6.1 Legal environment

There does not yet exist in many Higher Risk Countries the legal and regulatory systems necessary for the proper and efficient functioning of a modern, efficient and transparent capital market. This may include the nonexistence or limited functioning of Market Regulators, incomplete legislation and regulations pertaining to the capital markets and no or limited Investor Compensation Schemes. There is therefore a high degree of legal uncertainty as to the nature and extent of investor's rights and the ability to enforce those rights. Many advanced legal concepts which now form significant elements of mature legal systems are not yet in place or, if they are in place, have yet to be tested in courts. It is difficult to predict with a degree of certainty the outcome of judicial proceedings or even the quantum of damages which may be awarded following a successful claim. In Higher Risk Countries, courts, arbitration courts and agencies may not consider themselves bound by precedents so the Counterparty may find it difficult to pursue legal remedies or enforce judgments of foreign courts. Furthermore, many relevant regulations are unclear in scope, which increases the risk that transactions entered into in good faith and with professional advice, could later be seen to be in breach of such regulations and subject to challenge. There is likely to be rapid change in many Higher Risk Countries as new legislation is implemented.

6.2 Corporate governance

The level of disclosure of information relating to an issuer's business and ownership to Securities holders may be much less extensive than in more sophisticated markets. Thus, Securities holders have little knowledge of, and less control over, the business decisions of management. There may be less legal protection for minority Securities' holders and remedies for mismanagement are undeveloped. Management may have limited fiduciary duties to the company or the Securities' holders as a whole, and laws preventing companies selling assets or otherwise dealing at an undervalue are not extensively developed. Also, there may be legal and practical obstacles in the way of controlling and dismissing a company's management. It cannot be assumed that regulatory authorities have the ability or the will to enforce legislation to protect investors' interests.

Furthermore, Accounting and Financial Reporting Standards and practices as well as Auditing practices in Higher Risk Countries may vary significantly from internationally accepted standards. It may therefore be difficult to obtain reliable financial information and perform a comprehensive financial evaluation. Great care must therefore be taken to assess asset, business and Securities' valuations.

6.3 Taxation

Tax law and practice is not clearly established and there is significant uncertainty as to the position of investors (local or international) in many Higher Risk Countries. Tax inspectorates often have very wide powers but little experience in applying Taxes in a way which investors would expect in more mature economies. It is possible therefore that a current interpretation of Tax law or practice may change or, indeed, that a specific Tax law may be changed with retrospective effect. Renaissance as well as the Counterparty could become subject to taxation in Higher Risk Countries that is not anticipated when Investments are made and this could impact the overall investment performance. There is no guarantee that applicable double tax treaties, entered into or confirmed by Higher Risk Countries and currently adhered to will remain in place or will not be changed. The Counterparty's attention is drawn to the fact that the proceeds from any sale of Securities or the receipt of any dividends and other income may be subject to Tax levies, duties or charges imposed by Higher Risk Countries as well as restrictions on repatriation.

6.4 Limitation of liability

No liability on the part of Renaissance or its Associated Firms shall exist as a result of losses sustained or damage caused by a change of law, regulation or interpretation or the inconsistent or capricious application of any law or regulation by any relevant authority. No liability on the part of Renaissance or its Associated Firms shall exist where Renaissance acts in accordance with reasonable commercial practice applied in developed markets, when operating in the Securities market of Higher Risk Countries. Renaissance and its Associated Firms will not be liable for any and all claims, losses, costs, damages of any nature whatsoever or claims expenses from any cause or causes, including attorneys' fees and costs and expert witness fees and costs on the Counterparty's behalf.

7 Investment risks

7.1 Settlement procedures and ownership risks

The capital markets in many Higher Risk Countries, and the institutions on which they depend, are undeveloped. Therefore, the procedures for settlement, clearing and registration of security transactions can give rise to technical and practical problems. In the worst cases, this could lead to disputes over title to Securities. In other cases, inefficient systems may result in delayed payments. Risks may also arise in relation to local custody arrangements; the provision of custody services is a relatively novel practice, and the controls put in place in more mature markets may not be available. In addition, the country-specific law of many Higher Risk Countries (particularly those in the CIS and African countries whose legal systems are based on European civil law systems) generally do not recognize the distinction between legal and beneficial ownership with the consequence that nominee arrangements cannot be guaranteed to be effective. This can have significant adverse tax implications for the Counterparty because of uncertainty as to the tax treatment and liability to tax as between the custodian and beneficial owner.

Securities, especially equity securities, are usually registered in book-entry form only and are not evidenced by actual certificates. Title is therefore dependent on the register of stockholders being properly maintained. At worst, the Counterparty could lose the value of their investment because their interest in securities has not been correctly registered or has been removed, or the register itself has been lost or destroyed. In addition, the Counterparty may have to make payment on a purchase or delivery on a sale before receipt of Securities or, as the case may be, sale proceeds.

Special factors relating to the Russian Federation

You will be exposed to operational and other risks associated with the Russian market infrastructure, including to registrars and local depositaries. The registration process can sometimes be cumbersome and time consuming and can lead to constraints in trading.

The concept of beneficial ownership is not yet fully developed under Russian law. It may thus be possible that Russian law would not recognize your beneficial ownership of Securities, despite these being held in segregated accounts for our clients. As a result, you will not be fully protected in the event that a valid order is served on your Custodian seeking to freeze, attach or otherwise restrict Securities registered as belonging to either your Custodian or other sub-custodians. A Russian Court may treat your assets as Securities belonging to your Custodian or its sub-custodians and as such open to seizure and arrest, leading to loss of your beneficial interest.

Typically, ownership of Securities under Russian law will only transfer upon settlement and registration of the Securities in question. As a result, your corporate action entitlements and obligations may not correspond with legal ownership of the Securities in question.

Corporate actions in Russia typically are subject to a ‘record date’. Due to the fact that in Russia the ‘record date’ may precede substantially the event and / or where the registration of Securities ownership, due to delays or otherwise, occurs many days after the trade date, your ability to participate in the event may not correspond with your holding in our records or the holdings that appear on your statement or may include some of the trades that were effected by you prior to the ‘record date’. Similar conditions may apply in other Higher Risk Countries as well.

There is no centralized source of disclosure of corporate actions in many High-Risk Countries. The obligation of the issuers may be limited to press announcements. There is therefore the risk of an announcement not being noticed, especially where the issuer has selected the press route as the sole route for public notification of such corporate actions. We will bear no responsibility or liability for failure on our behalf to locate or identify such relevant events.

7.2 Market liquidity and volatility

Many of the Securities which Counterparty may invest in will not be traded on a stock exchange or on an organised market. There is therefore the risk that Financial Instruments could not be easily liquidated and the valuation of Financial Instruments will be more difficult. The Counterparty is notified and acknowledges that the investments contemplated herein may be highly volatile and relatively illiquid and that there is no guarantee of a return on the investment and no guarantee that a return of or repatriation of any of the invested amounts in a convertible currency will be possible.

7.3 Repatriation of funds

The laws of certain Higher Risk Countries can in some cases prohibit or constrain the repatriation of funds invested therein. Therefore, there can be no guarantee that all such funds will be capable of being remitted to the Counterparty. Although certain Higher Risk Countries, including CIS countries have specific legislation which currently provides assurances of the rights of foreign investors to remit profits and dividends from their investments, such rights may be subject to restrictions. The legislation of Higher Risk Countries may change or be reinterpreted to prevent repatriation.

7.4 Exchange rates and controls

Securities of Higher Risk Countries and issuers based in Higher Risk Countries are, with few exceptions, denominated in foreign currency (e.g. Roubles in Russia, Hryvnia in Ukraine, and Kenyan Shillings in Kenya) which may not be externally convertible into other currencies, although, subject to restrictions, certain such currencies are convertible within their own country of origin. The value of Financial Instruments measured in USD or in other hard currency such as the Euro can fluctuate significantly due to volatile exchange rates and high inflation. Also, the relatively unpredictable operation of the banking systems of the Higher Risk Countries may affect the transfer of funds in and out of the country and the convertibility of the relevant currency into other currencies, including the requirement for advance notice to the respective financial and monetary authorities for the repatriation of funds. Exchange rate fluctuations may occur between the trade date for the transaction and the date on which Counterparty acquires the relevant currency to meet settlement obligations. Accordingly, the purchase price measured in the local currency may be greater than at the trade date.

Because certain Higher Risk Countries operate certain exchange controls affecting the transfer of funds in and out of the country and the convertibility of their currencies, particular care must be taken to ensure that exchange control formalities are complied with and all relevant licences obtained, including where required the registration of initial investments. Currency regulations are frequently changing and it is possible that the ability of the Counterparty to convert local currency into hard currency may be impaired.

7.5 Investment restrictions

Foreign investment in Securities of issuers in Higher Risk Countries is or may become, in certain cases, legally restricted or may become restricted for reasons beyond Renaissance's or the Counterparty's control or understanding. Such actions can affect liquidity, prices of Securities and the overall value of the investment. Sometimes these restrictions are contained in constitutional documents of a company which may not be easily obtainable. The Counterparty acknowledges that ownership of certain Securities in certain Higher Risk Countries is restricted by citizenship, nationality, residency or other requirements which ultimately may purport to implement the policies of certain governments.

The Counterparty acknowledges that it is familiar with the risks inherent in purchasing Securities in Higher Risk Countries or related to Emerging and Frontier Markets, including, without limitation, the risks inherent in purchasing synthetic investments in Higher Risk Countries and that it accepts such risks. In particular the Counterparty understands that the governments of the countries of the CIS have, in many cases, a history of defaulting on its short-term RUB-denominated treasury bills and other RUB-denominated Securities and that the RUB has a history of instability and hyperinflation, all of which could lead to the loss of the entire value of Investments in the Counterparty's account or possession.

8. Risks associated with Financial Instruments

8.1 Shares

A share represents a shareholder's rights in a company. Shares may be issued in bearer or registered form or may not be documented, other than on a private register.

Dealing in shares may involve the following specific risks:

a) **Company risk**: a share purchaser does not lend funds to the company, but makes a capital contribution and, as such takes an ownership interest in the corporation. It is difficult to forecast the precise yield on such an investment. An extreme case would be if the company went bankrupt, thereby wiping out the total sums invested.

b) **Price risk**: share prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in short-medium and long-term alternate without it being possible to determine the duration of those cycles. General market must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence evolution of share prices.

c) **Dividend risk**: the dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of profits or losses, dividend payments may be reduced or not made at all.

8.2 Fixed income

Fixed Income Securities are negotiable debt instruments issued in bearer or registered form by an issuer to creditors whose duration, terms and interest payments may vary depending on their terms. The purchaser of Fixed Income Securities (the creditor) has a claim against the issuer (the debtor).

Fixed Income Securities are subject to credit risk. Credit risk is the possibility that an issuer will fail to make timely payments of interest or principal. Some issuers may not make payments on debt Securities causing a loss. Or an issuer may suffer adverse changes in its financial condition that could lower the credit quality of a security, leading to greater volatility in the price of the security. A change in the quality rating of a bond or other security can also affect the security's liquidity and make it more difficult to sell. The lower quality fixed income Securities in which the Counterparty may invest are more susceptible to these problems than higher quality obligations.

Fixed Income Securities are subject to prepayment risk. The issuers of Fixed Income Securities held in the Customer's Portfolio may not be able to prepay principal due on the Securities, particularly during periods of declining interest rates. Renaissance, if so requested by the Counterparty, may not be able to reinvest that principal at attractive rates, reducing the income. On the other hand, rising interest rates may cause prepayments to occur at slower than expected rates. This effectively lengthens the maturities of the affected Securities, making them more sensitive to interest rate changes and the value of Securities held more volatile.

The Counterparty acknowledges that lower rated debt Securities are subject to additional risks. Lower rated debt Securities, including securities commonly referred to as "junk bonds", are very risky because the issuers may fail to make payments of interest and principal. Part of the reason for this high risk is that, in the event of a default or bankruptcy, holders of lower rated debt securities generally will not receive payments until the holders of all other debt have been paid. In addition, the market for lower rated debt securities has in the past been more volatile than the markets for other securities. Lower rated debt securities are also often less liquid than higher rated debt securities.

The Counterparty acknowledges that sovereign debt securities are subject to significant risk that under some political, diplomatic, social or economic circumstances may lead some developing countries that issue lower-quality debt securities to be unable or unwilling to make principal or interest repayments as they become due.

Additional risks may be associated with certain types of bond, for example, floating rate notes, reverse floating rate notes, zero bonds, foreign currency bonds, convertible bonds, indexed bonds, and subordinated bonds. For such bonds, you should make inquiries about the risks referred to in the issuance prospectus and not to purchase such securities before being certain that all risks are fully understood. In the case of subordinated bonds, you should enquire about the ranking of the debenture compared to the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after payment of all higher ranked creditors. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

8.3 Warrants

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security can result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile. It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined time scale then the investment becomes worthless. 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. Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a 'covered warrant').

8.4 Off-exchange warrant transactions

Transactions in off-exchange warrants may involve greater risk than dealing in exchange traded warrants because there is no Exchange market through which to liquidate your position, or to assess the value of the warrant or the exposure to risk. Bid 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.

8.5 Other derivatives

These instruments may give you a time-limited right (i.e. where you must give some form of notice to exercise that right) or an absolute right (where no such notice of exercise is needed) 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 differences which allow for speculation on fluctuations in the value of the property of any description or an index. In both cases, the investment or property may be referred to as the "underlying instrument".

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.

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.

You should only buy this product if you are prepared to sustain a total loss (where the terms of the other derivative provide that return is totally dependent on the performance of the underlying instrument(s) to which the product is linked), a substantial loss (where terms of the other derivative provide for some form of return irrespective of the performance of the underlying instrument(s) to which the product is linked but where that return is low) or loss (where terms of the other derivative provide for some form of return irrespective of the performance of the underlying instrument(s) to which the product is linked but where that return is high but less than 100% of the amount you paid for the product) of the money you have invested plus any commission or other transaction changes.

ADRs / GDRs:

American Depositary Receipt/s ("ADR") and Global Depositary Receipts ("GDR") are financial instruments that represent a specified number of Securities in a foreign company located outside the jurisdiction where the ADR/GDR may be listed.

ADRs are primarily bought and sold on American markets just like regular stocks, and are issued/sponsored in the United States by a bank or major brokerage house. GDRs may be bought and sold just like regular stocks in various markets around the world (i.e. they are not specifically targeted for American investors) and are issued/sponsored in each jurisdiction by a bank or major brokerage house.

You should understand and be aware of the risks associated with trading in ADRs and GDRs prior to investing in these financial instruments. Here below is a non-exhaustive list of such risks which should be read in conjunction with all other risk warnings in the Agreement:

a) **Political Risk:** As ADRs / GDRs are directly connected with the Security of a foreign company located in another jurisdiction you should always be aware of and take into consideration the political risk which such financial instrument entails and the effect which adverse political instability may cause on the operations and financial stability of the foreign company and the price of the underlying Security.

b) **Exchange Rate Risk**: The currency exchange rate of the jurisdiction where the foreign company is located and by which the underlying Security is valued may be prone to fluctuation, devaluation and other currency related risks. As ADR's/GDRs track the Security value in the home country, you should always monitor the home country's currency valuation since if the currency is devalued this may affect the price of the ADR/GDR even if the foreign company has been performing well.

c) **Inflation Risk**: You should always notice and take into consideration the inflation rate of the issuer's home country. Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling. Inflation can pose a significant detrimental threat to business and may impact the performance of the issuer.

8.6 Futures

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. 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. 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, and you should be aware of the implications of this, in particular the margining requirements, which are set out below.

8.7 Options

There are many different types of options with different characteristics subject to the following conditions.

a) **Buying options**: Buying options usually 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 futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under 'Futures'.

b) **Writing options**: If you write 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 already own the underlying asset which you have contracted to sell (when the options will be known as 'covered call options') the risk is reduced. If you do not own the underlying asset ('uncovered call options') 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.

c) **Traditional options**: Traditional options 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.

   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 pay 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.

8.8 Contracts for differences

Futures and options contracts can also be referred to as contracts for differences. These can be options and futures on any index, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as set out in above. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of detailed below.

8.9 Off-exchange transactions in derivatives

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. You should ask to be advised if a particular derivative is arranged on exchange or in an off exchange derivative transaction.

8.10 Funds

A fund is an investment vehicle into which investors can make an investment by purchasing a unit, share or interest ('unit') in the fund. The fund is usually managed by a third party who invests the fund's cash and assets. The units represent the investor's interest in the fund and the value of the units purchased is often determined by the value of the underlying Investments made by the fund (although where the units in the fund are listed or traded on a market, the units may trade or be sold at a discount to net asset value).

There are many different types of fund available including hedge funds, private equity funds, mutual funds and unit trusts. A fund may be structured as a limited partnership, an investment company (onshore or offshore), a unit trust or an investment trust. Depending on the legal structure of the fund, units in the fund may be listed on a stock exchange and the fund may be either open-ended (being, generally, a fund that confers on investors a right to redeem their interests in the fund) or closed-ended. Some fund structures are more exposed to risk than others due to, amongst other things, the markets they invest in, the nature of their assets and the extent of their leverage.

Dealing in any type of fund may involve the following risks and you should carefully read any prospectus, offering memorandum or other fund literature prior to making any investment:

(a) **Transferability and withdrawal:** units in funds may not be readily redeemable or transferable or there may not be a market for such units. In such cases, an investor may have to hold his interest until such time as the fund is wound up or a secondary market develops for those units — this may involve the investor holding his interest for a substantial period of time. If the fund is an open-ended fund, restrictions may apply to the redemption of the units that may result in an investor being unable to liquidate his investment in the fund at the time of his choosing. There may also be fees payable on redemption of units.

(b) **Regulation:** some funds may not be regulated in the jurisdiction of their establishment, or elsewhere, meaning that certain investor protections or restrictions on activity applicable, in a given jurisdiction, to a regulated fund may not apply to such funds.

(c) **Leverage:** some funds may borrow funds under credit facilities in order to satisfy redemption requests, pay certain organizational expenses and finance the acquisition of Investments. As such, leverage exposes the fund to capital risk and interest costs that may reduce the value of an investor's investment in the fund.

(d) **Rights of participation:** investors in funds, generally, have very limited rights of participation in respect of their units and the power to make all decisions, without the consent of investors, is usually delegated to the investment manager of the fund.

(e) **Strategy:** some funds specialize in particular asset classes or geographical sectors, meaning risk may be concentrated in the relevant assets classes or geographical sectors. Some funds choose strategies which the market would regard as high risk. The investment strategy of a fund may be such that the fund faces strong competition for the purchase of assets from other investors, thereby reducing the investment opportunities available to the fund.

(f) **Valuations:** it may be difficult to determine the net asset value of a fund which has invested in illiquid underlying assets, and therefore in may be difficult to value the underlying units of the fund.

(g) **Underlying assets:** the underlying assets of a fund can be diverse and cover both long and short positions and a full range of assets, including derivatives. A fund may be exposed to markets risks and risks associated with particular trading activities — for example, off-exchange trading, short selling, leveraged trading, frequent portfolio turnover and speculative position limits — which may result in losses for the fund or periods of fund underperformance. The risks associated with a direct investment by an investor in the underlying asset are also relevant in determining the risks associated with an investment by the fund in the underlying asset.

(h) **Management of the fund:** the operation and performance of a fund will be dependent upon the performance of the fund's investment manager. Generally, a fund will rely upon the investment manager to make investment decisions consistent with the fund's investment objectives and the investment manager, in turn, will be dependent upon its key personnel carrying out their roles with due care and skill. The investment manager and its affiliates (if any) may be in a position to provide services to other clients which conflict directly or indirectly with the activities of the fund and could prejudice investment opportunities available to, and investment returns achievable by, the fund. If the agreement between the fund and the investment manager is terminated, the fund may not be able to find a suitable replacement for the investment manager, potentially leading to losses for the fund and periods of fund underperformance.

You should carefully consider whether an investment in a fund is suitable for you taking account of your financial circumstances and the specific risks involved, and be prepared to sustain a total loss of the money you have invested.

8.11 Contingent liability investment transactions

Contingent liability investment transactions, which are margined, require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the margin you deposit with your firm to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short Notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract.

8.12 Limited liability transactions

The amount you can lose in limited liability transactions will be less than in other margined transactions, which have no predetermine loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in a relatively short time. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

8.13 Collateral

If you deposit collateral as security with us, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral depending on whether you are trading on a recognized designated investment Exchange, with the rules of that Exchange (and the associated clearing house) applying, or trading off exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets, which you deposited and may have to accept payment in cash.

8.14 Stock lending

Stock lending may affect your tax position and you should consult a tax advisor before proceeding.

As a result of lending securities, you will cease to be the owner of them, although you will have the right to reacquire at a future date Equivalent Securities (or in certain circumstances their cash value or the proceeds of redemption). However, except to the extent that you have received collateral, your right to the return of the securities is subject to the risk of insolvency or other non-performance by the borrower. Since you are not the owner during the period the securities are lent out, you will not have voting rights nor will you directly receive dividends or other corporate actions although you will normally be entitled to a payment from the borrower equivalent to the dividend you would otherwise have received and the borrower will be required to account to your benefit any corporate actions. Full details will be contained in any stock lending agreement you enter into and the above description is subject to the terms of any such documents.

8.15 Commissions

Before you begin to trade, you should obtain details of all commissions and other charges for which you will be liable. If any charges are not expressed in money terms (but, for example, as a percentage of contract value), you should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of your initial payment.

8.16 Suspensions of trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of 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.

8.17 Clearing house protections

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 Counterparty, and may not protect you if we or another party defaults on its obligations to you.

8.18 Stabilization

From time to time we may carry out transactions in securities with you where the price may have been influenced by measures taken to stabilize it. Stabilization 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. Stabilization may affect not only the price of the new issue but also the price of other securities relating to it. Certain regulators permit stabilization 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. Stabilization will be carried out by a “stabilization manager’ (normally the firm chiefly responsible for bringing a new issue to the market). As long as the stabilization manager follows certain 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 stabilization. The fact that a new issue or a related security is being stabilized should not be taken as any indication of the level of interest from investors, or of the price at which they are prepared to buy the securities.

8.19 Futures on Cryptocurrencies

A cryptocurrency is a cryptographically encrypted digital representation of value that functions as a medium of exchange, a unit of account, and/or a store of value, which does not have legal tender status in any jurisdiction and is traded on non-regulated decentralised digital exchanges. Cryptocurrencies may include without limitation bitcoins, litecoins and others.

When trading in futures on regulated stock exchanges where the underlying asset is a cryptocurrency, you should be aware that the cryptocurrencies are not recognized as Financial Instruments for the purposes of MiFID II.

Cryptocurrencies (but not their Futures referred to above) are traded on non-regulated decentralized digital exchanges. Accordingly, price formation and price movements of the cryptocurrencies depend solely on the internal rules of the particular digital exchange, which may be subject to change at any point in time and without notice. This often leads to a very high intra-day volatility in the prices of the cryptocurrencies (and consequently of the Futures) which may be substantially higher compared to Financial Instruments recognized under the MiFID II. Therefore, by trading futures in cryptocurrencies you accept a significantly higher risk of loss of your invested amounts which may occur within a very short time frame as a result of sudden adverse price movements of the cryptocurrencies.

Regulated markets which offer futures on cryptocurrencies derive their market and pricing data on the cryptocurrencies from one or more of the digital decentralized exchanges the cryptocurrencies are traded on. Due to the non-regulated nature of such exchanges, the market data and price feed information provided by such exchanges may be subject to the internal rules and practices of such exchanges which may significantly differ from the rules and practices observed by the regulated exchanges. In particular, you should be aware that the pricing formation rules of the cryptocurrency exchanges are not subject to any regulatory supervision and may be changed at the relevant digital exchange’s discretion at any time. Similarly, such digital exchanges may introduce trading suspensions or take other actions that may result in suspension or cessation of trading on such exchanges or the price and market data feed becoming unavailable to us. The above factors could result in material adverse effect on your cryptocurrencies futures positions in the regulated markets offering these, including the loss of all of your invested amounts. Temporary or permanent disruption to or cessation of trading may occur on any digital exchange from which the regulated exchanges derive their price feeds for the relevant cryptocurrency futures, affecting therefore the value of your portfolio.

9. Risks Associated with Trading in FX Spot

Trading foreign exchange including FX Spot carries a high level of risk and may not be suitable for all investors. Before deciding to invest in a foreign currency you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts, prior to trading in foreign exchange. RESEC is not licensed to provide investment advice and will not be in a position to advise you on any queries you may have on foreign exchange trading.

Trading foreign currencies is a particularly complex area of trading which is suitable only for professional investors. If you are not a professional investor you should avoid trading in any currency related financial instrument (including derivative) or FX Spot as the value of your investment or any transaction involving currencies involves risks including, but not limited to, the potential for changing political and/or economic conditions that may substantially affect the price or liquidity of a currency and consequently your investment.

You need to be aware that there is no central market or global regulatory agency responsible for regulating and monitoring the activity of the foreign currency markets and there is a weak regulatory framework in place governing foreign currency trading. This may impact you and your investment in foreign currencies as limited protection is offered through the current legal and regulatory framework in place for clients trading in foreign currency (including FX Spot). In addition, FX Spot is not a financial instrument covered by the Markets in Financial Instruments Directive (MIFID) of the European Union and no protection will be offered to you under the above Directive or under the respective law of each member state implementing the above Directive in its national legislation.