

Risk Disclosure Statement for Clients

This notice does not disclose all of the risks and other significant aspects of transactions in financial instruments. In light of the risks, the Professional Client should authorize the Manager to undertake such transactions only if the Client understands the nature of the financial instruments which Manger will use to form his portfolio and the extent of the Client's exposure to risk. Transactions in high risk financial instruments like futures, options, swaps, forward rate agreements and other derivative contracts is not suitable for many members of the public. The Client should carefully consider whether these operations appropriate for his portfolio controlled by the Manager in light of the Client's experience, objectives, financial resources and other relevant circumstances.

Risks inherent in securities transactions

Risks which must be considered when investing are described briefly below. They are assigned to the individual types of securities listed in the table of appendix I.

Credit risk

A deterioration in the solvency, or — even worse - the bankruptcy of a borrower means at least a partial loss of the capital invested.

Monetary risk Inflation

Monetary risk Inflation can reduce the value of an investment. The purchasing power of the invested capital declines if the rate of inflation is higher than the return generated by the securities.

Market risk

Marker risk reflects the extent to which the return of the security varies in response to, or in association with, variations in the overall market returns. If the market value of an investment declines, assets are reduced. Credit, country and interest-rate risks in particular have an impact in the form of price fluctuations. All investments are exposed to this risk.

Country risk

Country risk refers to the likelihood that changes in the business environment will affect the Client's portfolio operating profits or the value of the Client assets in a specific country. For example, financial factors such as currency controls, devaluation or regulatory changes or stability factors such as mass riots, civil war and other potential events contributing to companies' operational risks. This term is also sometimes referred to as political risk, however country risk is a more narrow term, which generally only refers to risks affecting all companies operating within a particular country.

Liquidity risk

Liquidity risk arises from situations in which a party interested in trading an asset cannot do so because nobody in the market wants to trade that asset. Liquidity risk becomes particularly important to parties who are about to hold or currently hold an asset, since it affects their ability to trade. In the case of securities issued by small companies (second-tier stocks), occasional illiquidity of the market is to be expected This can mean that securities cannot be traded at the desired time and/or in the desired quantity and/or at the desired price.

Currency risk

Declining exchange rates reduce the value of investments in foreign currencies. However, the

foreign exchange market also offers opportunities for profits. The currency risk can be eliminated by investing only in the client's domestic currency. However, portfolios operating on an international scale are exposed to the risk of exchange-rate trends to some degree. Such trends can therefore also exercise an indirect influence on the price movements of securities.

Interest-rate risk

Fluctuations in interest-rate levels on the money and capital markets have a direct impact on the prices of fixed-interest securities- Rising interest rates usually have a negative impact on the market prices of equities and bonds. By contrast, falling interest rates have a positive impact on prices.

Operational Risk

Operational risk is the risk of loss arising from inadequacies in, or failures of system and controls for, monitoring and quantifying the risks and contractual obligations associated with financial instruments transactions, for recording and valuing financial instruments and related transactions, or for detecting human error or systems failures.

Risks in investing in Emerging Markets

Emerging markets are the markets for securities trading in countries that possess one or more of the following characteristics:

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

There are risks linked to investments in emerging markets that are not encountered in their more established counterparts. This is also the case when the issuer or provider of a product has its headquarters or primary focus of activity in an emerging nation.

Investing in the products of such providers is therefore often speculative. Before investing in emerging markets, the Client should form an impression of them that allows the Client to assess the risks involved.

When investing in emerging markets, the following risks should be taken into account. This list is not exhaustive. Depending on the type of investment product, there may be additional risks involved as described elsewhere in this notice.

Political Risk

A government's political inexperience or the instability of the political system increases the risk of short-term, fundamental shifts in a nation's economy and politics. The consequences for the Client's portfolio can include the confiscation of the Client's assets with no compensation, the restriction of the Client's rights of disposal over the Client's assets, or a dramatic fall in the value of the Client's portfolio in specific sectors of industry as a result of stale intervention or the introduction of stale monitoring and control mechanisms.

Economic Risk

Emerging market economies are more sensitive to changes in interest and inflation rates, which are

in any case subject to greater swings than in the established nations. Moreover, the focus of such economies is often relatively narrow, allowing single events to have a magnified impact. In addition, emerging nations generally have a lower capital base. Finally, their financial markets often lack an adequate structure and sufficient monitoring.

Credit Risk

Investments in debt paper (e.g. bonds, notes) issued by emerging market governments or companies tend to entail much higher levels of risk than established market debt. This can be due to inferior creditworthiness, a high level of government debt, debt restructuring, and a lack of market transparency or a lack of information. It is also much more difficult to assess credit risk due to inconsistent valuation standards and the absence of ratings.

Exchange Rate Risk

The currencies of emerging market nations are subject to major, unpredictable swings in value. Furthermore, it is important to note that some countries limit the export of their currency or can impose short-term restrictions. Hedging can help limit losses resulting from currency swings, but they can never be entirely eliminated.

Market Risk

The lack of sophistication in monitoring their financial markets can result in poor levels of market transparency, liquidity, efficiency and regulation in the emerging markets. Moreover, high volatility and large price differences are characteristic of these markets. Finally, the inadequacy or absence of regulatory measures gives rise to an increased danger of market manipulation or insider trading.

Market Liquidity Risk

Liquidity is dependent on supply and demand. The impact on the emerging markets of social, economic and political changes or natural disasters can involve a much more rapid and lasting change to this supply and demand equation than would be the case in the established markets. In an extreme case, illiquidity can be the result. This can make it impossible for the investor to sell his/her investments.

Legal Risk

The absence or inadequacy of financial market monitoring can lead to Clients' legal rights being difficult or impossible to enforce. Moreover, legal uncertainty may exist due to the inexperience of the emerging nation's judiciary.

Leverage Risk

Making sale and purchase securities transactions for Client's portfolio whereby settlements are made by the Manager using monetary funds or securities lent by the Manager to the Client. The Client shall provide the Manager with the security of the obligations of the repayment of loans granted to the Client by the Manager. In these cases the Client bears the risk of the Manager's withholding of the Client's Assets in the Manager's favour for the repayment of the loan granted to the Client.

Certain emerging markets have an array of different clearing and settlement systems or none at all. These are often outmoded and prone to processing errors as well as considerable delays in settlement and delivery.

Shareholder Risk and Creditor Risk

Legislation to protect the rights of shareholders and creditors (e.g. duties of disclosure, insider trading ban, management responsibilities, and minority shareholder protection) may be inadequate or non-existent.

What are securities?

A security is a fungible, negotiable instrument representing financial value. Securities are fungible broadly categorized into debt securities, such as bonds and debentures, and equity securities, e.g. common stocks. The company or other entity issuing the security is called the issuer. They include equities, bonds, units of mutual funds, options, warrants and derivatives and may be traded in financial markets such as stock exchanges.

What are derivatives?

Derivatives are financial contracts for which the price is derived either from equities, bonds, commodities or precious metals, or from benchmarks such as currencies, interest rates and indices.

Hence, for example, an equity option derives its value from the "underlying" equity. There are different types of derivatives, including forwards, futures and combinations as well as options.

Transactions involving Special Risks

1 Options

Options transactions can involve major financial risks for the Client and should only be accepted into by Clients who are familiar with this type of transaction, have sufficient liquid resources at their disposal and are able to absorb potential losses.

1.1 Characteristic features

Definition

With an option the purchaser acquires the right, against immediate payment of the option premium, to purchase (call option) or sell (put option) a certain quantity of the underlying instrument at a price stipulated in advance, either at any time during the life of the contract (American option) or on expiry date (European option).

By contrast, the writer of an option undertakes to deliver (call option) or accept (put option) the corresponding underlying instrument at the agreed price (striking price) if the option is exercised. Depending on the contract specifications, cash settlement can also be accepted in lieu of physical delivery.

The following may serve as underlying instruments:

- physical assets (equities, futures, bonds, commodities, precious metals);
- benchmarks (currencies, interest rates, indices).

American-style options: It is possible to exercise American-style options on any trading day up until the expiration date.

European-style options: It is only possible to exercise European-style options on their expiration date. This does not, however, limit their tradability on the secondary market (e.g. on a stock exchange).

"In the money", "out of the money" and "at the money" options

A call option is "in the money", i.e. has an inherent value, if the current market value of the underlying instrument is higher than the striking price. A put option is "in the money" if the current market value of the underlying instrument is lower than the striking price.

A call option is "out of the money" if the current market value of the underlying instrument is lower than the striking price. A put option is "out of the money" if the current market value of the underlying instrument is higher than the striking price.

Call and put options are "at the money" if the current market value of the underlying instrument and the striking price are the same.

Value/Price of an option

The price of an option depends on its intrinsic value and on what is referred to as due time value. The latter depends on a variety of factors, especially the remaining life of the option and the volatility of the underlying. The time value of an option reflects the chance that it will be in the money. Hence, the time value is higher for options with a long duration and a very volatile underlying. The same is true for options that are at the money.

Categories

Traded options are financial instruments whose contract sizes, striking prices and expiry dates are standardized and which are traded on exchanges.

Over-the-counter (OTC) options transactions are contracts with standardized contractual terms or contract specifications agreed upon individually between purchasers and vendors. OTC options transactions are not traded on an exchange.

Warrants are non-standardized financial instruments. Some of them are traded on exchanges but many are traded over-the-counter.

Margin requirement/Margin cover

A margin is fixed for sales of puts and short sales of calls when the contract is concluded. This margin is recalculated periodically during the entire life of the contract and may result in equivalent margin calls.

In the case of traded options these margins and their calculation are subject to the guidelines laid down by the exchange in question and are debited or credited daily. The securities dealers are entitled to request higher margins than the required minimum rates. In the case of all other options transactions the securities dealers can set the margins at their discretion.

Investors must maintain the required margin cover with the securities dealer during the entire life of the contract. A margin shortfall usually results in the liquidation of the position in question by the securities dealer.

Closing out/Settlement

Contracts can be closed out at any time prior to expiry date. Depending on the type of contract and customary practice on the exchange in question, contracts are closed out either by means of an identical counter-transaction or by concluding an offsetting transaction in respect of the obligation, with otherwise identical specifications. In the latter case the delivery and acceptance obligations resulting from the two open contracts cancel each other out.

Obligations arising from the sale of options which are not closed out must always be settled on expiry date. In the case of contracts based on physical assets, settlement usually takes the form of a delivery of the underlying instrument. In the case of contracts based on benchmarks, a corresponding cash consideration is paid in lieu of physical delivery.

1.2 Risks

Risks because of changes in the value of the contract/underlying instrument

Generally speaking, if the value of the underlying asset falls, so does the value of the call option in the Client's portfolio. The value of the put option in the Client's portfolio tends to fall if the underlying asset rises in value. The lower the Client's option premium is in the money, the larger the fall in the option's value. In such cases, value reduction normally accelerates close to the expiration date.

The value of Client's call option can also drop when the value of the underlying remains unchanged or rises.

This can happen due to time value or if supply and demand factors are unfavorable. Put options behave in precisely the opposite manner.

Client must therefore be prepared to fix a potential loss in the value of the option, or for it to expire entirely without value. In such a scenario, the Client risks losing the whole of the premium that the Client paid.

Risks as writer of a covered call option

If, as writer of a call option, the Manager already has a corresponding quantity of the underlying at their disposal in the client portfolio, the call option is described as covered. If the current market value of the underlying rises above the strike price, the Client's opportunity to make a profit is lost since the Client must deliver the underlying to the buyer at the strike price, rather than selling the underlying at the (higher) market value. The underlying assets must be freely available as long as it is possible to exercise the option, i.e. they may not, for example, be blocked by being pledged for other purposes. Otherwise, the Client is subject to the same risks as when writing an uncovered call option.

Risks as writer of an uncovered call option

If, as writer of a call option, Client does not have a corresponding quantity of the underlying at Client's disposal, the call option is described as uncovered. In the case of options with physical settlement, the Client's portfolio potential loss amounts to the price difference between the strike price paid by the buyer and the price the Client must pay to acquire the underlying assets concerned. Options with cash settlement can incur a loss amounting to the difference between the strike price and the market value of the underlying.

Since the market value of the underlying can move well above the strike price, Client's potential loss cannot be determined and is theoretically unlimited.

As far as American-Style options in particular are concerned, the Client must also be prepared for the fact that the option may be exercised at a highly unfavorable time when the markets are against the Client. If the Client is then obliged to make a physical settlement, it may be very expensive or even impossible to acquire the corresponding underlying assets.

The Client must be aware that the potential losses can be far greater than the value of the

underlying assets that the Client has lodged as collateral (margin cover).

Risks as writer of a put option

As the writer of a put option, Client must be prepared for potentially substantial losses if the market value of the underlying falls below the strike price Client has to pay the seller. Client's potential loss corresponds to the difference between these two values.

As writer of an American-style put option with physical settlement, the Client is obliged to accept the underlying assets at the strike price, even though it may be difficult or impossible to sell the assets and may well entail substantial losses.

The Client's potential losses can be far greater than the value of the underlying assets that the Client has lodged as collateral (margin cover).

Physical delivery/Cash settlement

Investors are exposed to greater risks with contracts which have to be fulfilled by physical delivery than with those which are fulfilled by cash settlement. In the case of physical delivery the full contract value must be paid, whereas in the case of cash settlement only the difference between the prices agreed upon when concluding the contract and the current market value on settlement date must be paid. Investors must therefore have greater liquid resources at their disposal for contracts with physical delivery than for contracts with cash settlement.

Special risks of over-the-counter options transactions and transactions with warrants and stock options

As a rule, the market for standardized OTC options transactions and for transactions in warrants and stock options listed on an exchange is transparent and liquid. Closing-out is therefore usually possible without any significant problems.

By contrast, there is no market as such for OTC options transactions with individual contract specifications and for transactions in warrants and stock options which are not listed on an exchange. Closing out is therefore only possible if a counterparty is found who is prepared to conclude an offsetting contract.

Combined transactions

Combined transactions are understood to mean the conclusion of two or more options transactions within portfolio of one client on the same underlying instrument. In such cases the options differ at least in respect of type (call or put), quantity, striking price, expiry date and/or the position taken (long, short).

Due to the diversity of possible combinations, the risks arising in a specific instance cannot be dealt with in detail within the scope of this notice. They can also be altered substantially by closing out individual elements of a combined transaction. Before concluding a combined transaction, investors should therefore make detailed enquiries about its specific risks.

2 Forwards and Futures

Forward transactions can involve major risks and should therefore only be accepted by Clients who are familiar with this type of transaction, have sufficient liquid resources at their disposal and are able to absorb potential losses.

2.1 Characteristic features

Definition

A futures contract is a legally binding agreement between two parties to purchase or sell a specific quantity of a specific underlying instrument on a certain date in the future (expiry date) at a price agreed upon when concluding the contract. A person who buys a futures contract enters into a contract to purchase an underlying instrument and the contract is said to be “long”. A person who sells a futures contract enters into a contract to sell the underlying instrument and the contract is said to be short”. The price at which the contract trades (the “contract price”) is determined by relative buying and selling interest on a regulated exchange.

The following may serve as underlying instruments:

- physical assets (equities, warrants, options, commodities, precious metals);
- benchmarks (currencies, interest rates, indices).

Categories

Futures are forward transactions whose contract sizes and expiry dates are standardized and which are traded on an exchange.

Over-the-counter (OTC) forward transactions (so-called forwards) are contracts with standardized contractual terms or contract specifications agreed upon individually between purchasers and vendors. Forwards are not traded on an exchange.

Difference between futures and forwards

Futures are traded on an exchange. They take the form of contracts in which the quantity of the underlying and the expiration date are standardized.

Forwards are not traded on an exchange; hence they are referred to as OTC (over the- counter) forwards. Their specifications may also be standardized; otherwise they may be agreed between the buyer and seller.

Margin requirement/Margin cover

An initial margin is stipulated for both purchases and forward short sales of underlying instruments when a contract is concluded. A variation margin is also calculated periodically during the entire life of the contract. The variation margin corresponds to the book gain or book loss arising by virtue of the change in value of the contract, i.e. the underlying instrument. In the process, the variation margin can rapidly amount to a multiple of the initial margin. In the case of futures these margins and their calculation are subject to the guidelines laid down by the exchange in question and are debited or credited daily. The securities dealers are entitled to request higher margins than the required minimum rates. In the case of forwards the securities dealers can set the margins at their discretion.

The Manager is obliged to deposit part of the client’s portfolio as the required initial or variation margin cover with the securities dealer for the entire life of the contract. A margin shortfall usually results in the liquidation of the position in question by the securities dealer.

Closing out /Settlement

Contracts can be closed out at any time prior to expiry date. Depending on the type of contract and customary practice on the exchange in question, contracts are closed out either by means of an identical counter-transaction or by concluding an offsetting transaction in respect of the obligation,

with otherwise identical specifications. In the latter case the delivery and acceptance obligations resulting from the two open contracts cancel each other out.

Contracts which are not closed out must be settled on expiry date. In the case of contracts based on physical assets, this usually takes the form of a delivery of the underlying instrument. In the case of contracts based on benchmarks, a corresponding cash consideration is paid in lieu of physical delivery.

The relevant contract specifications determine the further terms and conditions of settlement, especially for stipulating the place of performance.

Repo / Reverse Repo transactions

Repo transaction – an agreement about security sale at a specified price with a commitment to buy the same or similar security back at a specified price at the end of the term of transaction.

Reverse repo transaction – an agreement about security purchase at a specified price with a commitment to resell them or similar securities at a specified price at the end of the term of transaction.

In both transactions cases securities ownership pass to securities buyer.

Repurchase price of securities is calculated on the basis of the agreed interest rate.

Risks:

1. Counterparty risk - The risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered when evaluating a contract.
2. In case of adverse security price changes (if value of security decreases relative to securities purchase price) the counterparty may require additional security.

2.2 Risks

General

Trading security futures contracts involves risk and may result in potentially unlimited losses that are greater than the amount deposited with the Client's broker. As with any high risk financial product the Client should not risk any funds that they cannot afford to lose, such as the Client's retirement savings, medical and other emergency funds, funds set aside for purposes such as education or home ownership, proceeds from student loans or mortgages, or funds required to meet the Client's living expenses.

Risk because of changes in the value of the contract/underlying instrument

Every investor has certain expectations in respect of the change in value of the contract, i.e. the corresponding underlying instrument, in the relevant period. If the actual change in value does not correspond to these expectations, he is exposed to the following risks:

- If the value of the contract/underlying instrument rises, the seller for forward delivery must deliver the underlying instrument at the price originally agreed upon. That can be substantially lower than the current price market value;
- If the value of the contract/underlying instrument falls, the purchaser for forward delivery must accept the underlying instrument at the price originally agreed upon. That can be substantially higher than the current market value.

In both cases the risk lies in the difference between the price agreed upon when the contract was concluded and the actual market value on expiry date. The extent of this risk cannot be defined in advance.

Risk in purchase of the underlying instrument in the case of short sales

Anyone selling an underlying instrument for forward delivery without already being in possession of it when concluding the contract (short sale) is exposed to the risk of having to purchase the underlying instrument at an unfavorable – i.e. high – market value, in order to be able to meet his or her delivery obligations on expiry date. In this case the risk is especially high, indeed it is theoretically unlimited.

Risk because of difficulty or Impossibility of closing out positions

In order to limit excessive price fluctuations, an exchange can fix price limits for certain contracts. The Manger must be aware that when the price limit is reached closing-out is considerably more difficult or even temporarily impossible. Every investor should therefore make enquiries about any existing price limits before concluding forward transactions.

Physical delivery/Cash settlement

Client's are exposed to greater risks with contracts which have to be fulfilled by physical delivery than with those which are fulfilled by cash settlement in the case of physical delivery the full contract value must be paid, whereas in the case of cash settlement only the difference between the price agreed upon when concluding the contract and the current market value on settlement date must be paid. Investors must therefore have greater liquid resources at their disposal for contracts with physical delivery than for contracts with cash settlement.

Special risks of over-the-counter forward transactions

As a rule the market for standardized OTC forward transactions is transparent and liquid. Closing out is usually possible without any significant problems.

By contrast, there is no market as such for OTC forward transactions with individual contract specifications. Closing out is therefore only possible if a counterparty is found who is prepared to conclude an offsetting contract.

Combined transactions

These transactions are understood to refer to various combinations of forward, spot and options transactions. Due to the diversity of possible variations, the risk structures arising in a specific instance cannot be dealt with in detail within the scope of this notice. Note that closing out individual elements of a combined transaction substantially alters the risk profile of the position as a whole, i.e. of the elements remaining open. Before investors conclude a transaction of this nature or close out individual elements of it, they should therefore make detailed enquiries about the specific risks involved.

Client shall assume, as a result of transactions in the above-mentioned financial instruments, financial commitments and other additional obligations, including contingent liabilities, additional to the cost of acquiring the financial instruments.

Appendix 1

Risks inherent in securities transactions

Risks which are assigned to the individual types of securities are listed in the following table

Type of security	Risks

Shares	<ul style="list-style-type: none"> • credit risk • market risk • country risk • liquidity risk • currency risk <p>interest-rate risk (indirect)</p>
- Debenture bonds - Eurobonds - Perpetual bonds	<ul style="list-style-type: none"> • credit risk • monetary risk • market risk • country risk • liquidity risk • currency risk (in the case of foreign currency bonds) • interest rate risk
Medium-term, bank-issued bonds	<ul style="list-style-type: none"> • credit risk • monetary risk • market risk • liquidity risk • interest rate risk
Treasury bonds	<ul style="list-style-type: none"> • monetary risk • market risk • currency risk • interest rate risk
- Convertible bonds - Warrant-linked bonds, with warrants	<ul style="list-style-type: none"> • credit risk • monetary risk (partial) • high market, risk due to leverage • country risk • liquidity risk • currency risk • interest-rate risk (indirect)
Calls (standardized purchase options)	<p>for the purchaser: Same as warrants</p> <p>for the writer: (in uncovered trading)</p> <ul style="list-style-type: none"> • credit risk • high market risk due to leverage • country risk • liquidity risk • currency risk • interest-rate risk (indirect) • risk of having to sell the instruments underlying the call at less than the current market value
PUT (standardized selling options)	<p>for the purchaser: Same as warrants</p> <p>for the writer:</p> <ul style="list-style-type: none"> • credit risk • high market risk due to leverage • country risk • liquidity risk • currency risk • interest-rate risk (indirect) • risk of having to sell the instruments underlying the call at less than

	the current market value
Futures (standardized forward contract)	<ul style="list-style-type: none"> • high market risk due to leverage • country risk • liquidity risk • currency risk <p>other risks depending on underlying instruments</p>
Swaps	<ul style="list-style-type: none"> • market risk • credit risk <p>currency risk</p>