Risk Warning Disclosure

This Risk Warning Disclosure is provided to clients receiving investment services from Rothschild & Co Wealth Management UK Limited or Rothschild & Co Bank International Limited. Where terms are defined in the agreement governing the provision of those investment services to the Client ("Client Agreement"), the same definitions apply to this Risk Warning Disclosure.

This document sets out a general description of the nature and risks of investments which may be held in the Portfolio.

This disclosure is provided to the Client, as a Retail Client, in compliance with the FCA Handbook or, to the extent applicable, the GFSC's Rules.

This disclosure contains information about designated investments (as defined in the FCA Handbook), including guidance on and warnings on the risks associated with those designated investments. It has been provided to the Client so that the Client is able to understand the nature and risks of the service and of the specific type of designated investment being offered and, consequently, take investment decisions on an informed basis.

This disclosure cannot disclose all the risks and other significant aspects of designated investments. The Client should not deal in these products unless the Client understands their nature and the extent of the Client's exposure to risk and potential loss.

Although derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Different designated investments involve different levels of exposure to risk and in deciding whether to transact in such designated investments the Client should be aware of the following points:

A.1. Equities

When the Portfolio includes equities issued by a company, the Client is buying a part of that company and it becomes a shareholder in it, which usually means it has the right to vote on certain issues. The Client can either buy new shares when the company sells them to raise money (through an initial public offering) or buy existing shares which are traded on the stock market.

The aim is for the value of the Client's shares to grow over time as the value of the company increases in line with its profitability and growth. This is not always achieved. In addition, the Client may also receive a dividend, which is income paid out of the company's profits. No dividend will be paid if there are no distributable reserves. Longer-established companies usually pay dividends whilst growing companies tend to pay lower, or no, dividends (with these a shareholder would typically be hoping for better capital growth).

Under normal circumstances, a shareholder in a company has no right to require that company to return capital to it. Unless the company chooses to return capital to the shareholder (for example by effecting a share buyback) or the shares carry redemption rights exercisable by the shareholder (which is normally not the case), the shareholder's only way to realise its investment will be to sell the shares to another investor. Consequently, a shareholder's return from investing in the equity will depend to a large extent on the market price of the equities at the time of the sale. The market price of an equity is affected by the supply of, and demand for, that equity within the market. In turn, supply and demand (and therefore the volatility of the share price) are affected by a number of factors including:

– sector specific factors – these would include demand for the product the company produces, commodity prices, the economic cycle of industry, changes in consumer demands, lifestyle changes and changes in technology;
– company specific factors – these would include the company's directors, the strength of the company's management and the significance of any key personnel, the company's profit history, the company's tangible asset base, debt level and fixed cost structure, litigation, profits or losses on particular contracts, competition from within the sector, and whether the company already has a profitable business or whether it is exploring for recoverable resources or is developing a new product; and
– international factors – the vulnerability of the company to international events or market factors. These would include movements in exchange rates, changes in trade or tariff policies and changes in other stock or bond markets.

One factor that could affect the price of a share is a change in opinion as to how well the company itself is performing or could perform in the future. This opinion is frequently based on predictions about the economic conditions in which a company is operating.

The level of a stock market goes up or down as the prices of the shares that are the constituents of that market go up or down. At the general market level, various macroeconomic and financial factors will influence the volatility of the overall stock market; for example, broad economic trends, monetary conditions, interest rates, exchange rates and inflation.

Shares are generally a fairly volatile asset class – their value tends to go up and down more than other classes such as bonds and regulated Collective Investment Schemes. If the Client is investing in shares, the Client should expect the value of its investment to go down as well as up, and the Client should be comfortable with this. Holding shares can be high risk – particularly if the Client only holds shares in one or a small number of companies.

In the short term, shares may go up and down in value and this can occasionally be very significant. However, if the Portfolio includes a wide range of shares, it reduces the likelihood of losing all or most of its money.

The liquidity of the shares may be affected by whether the shares are listed or unlisted. Where shares are unlisted it may be more difficult to deal in them or to obtain reliable information about their value (and it may therefore be difficult to establish a proper market in them for the purposes of making a subsequent sale). There may not always be a liquid market in certain listed shares, depending on market factors.

On occasion the Portfolio may include listed equity investments where the issuer proposes to use borrowing or other forms of gearing to enhance the return for or value of investments it has made without increasing the amount invested. The value of such investments may be more volatile than the underlying investments made by the issuer and may be subject to sudden and large falls in value and, if the fall in value is sufficiently large, the value of the investment may fall to zero.

If a company goes into liquidation, its shareholders rank behind the company's creditors (including its subordinated creditors) in relation to the realisation and distribution of the company's assets – with the result that a shareholder will normally only receive any money from the liquidator if there are any remaining proceeds of the liquidation once all of the creditors of the company have been paid in full.

As a shareholder in the company, the Client could lose some or all of the money that it has invested in the shares.

In addition to the above general risks, certain types of equity investment result in additional risks. These include the following:

Penny shares

A 'penny share' is a loose term used to describe shares which have a speculative appeal because of their low value. If the equities in which the Portfolio is invested include penny shares, the Client should be aware that there may be a significant difference between the purchase and sale price of such shares and, if the Client needs to sell the shares, it may get back much less than it paid for them.

Investment trusts

An investment trust is a company that is listed on the London Stock Exchange and that has been formed for the purposes of investing in shares in underlying companies (and which therefore gives its investors the opportunity to invest in shares on a pooled basis). In that respect, they are similar to open-ended Collective Investment Schemes (see the "Collective Investment Schemes" paragraph below) but, unlike an open-ended Collective Investment Scheme, an investment trust is closed-ended. This means there are a set number of shares in the investment trust available, and (in the absence of a formal increase in capital) this will remain the same no matter how many potential investors there are.

The price of the investment trust shares depends on two main factors:

– the value of the underlying investments (in this respect it works in the same way as open-ended Collective Investment Schemes); and

– the demand (or lack of) for the investment trust shares in the market.

The second factor is relevant because an investment trust is closed-ended – it has (in the absence of new issues) a fixed number of shares. The laws of economics say that if there is a high demand for something, but limited supply, then the price goes up. So, if the Portfolio includes some investment trust shares and there are lots of people who want to buy them, then the Portfolio can sell them for more money. On the other hand, if nobody seems to want them then the Portfolio will have to drop the price until someone is prepared to buy.

The result is that investment trust shares do not simply reflect the value of the underlying investments, they also reflect their popularity in the market. This feature may make them more volatile than other pooled investments (such as open ended Collective Investment Schemes) assuming the same underlying investments.

Investment trusts can borrow money to invest. This is called gearing. Gearing improves a trust's performance when its investments are doing well. On the other hand, if its investments do not do as well as expected, gearing lowers performance. An investment trust that is geared is a higher risk investment than one which is not geared (assuming the same underlying investments).

Venture Capital Trusts

Venture capital trusts ("**VCTs**") were introduced by the UK government in 1995 to encourage investment in smaller unquoted companies. They provide a source of capital for small companies and help the UK economy to develop.

A VCT is a company, run by a fund manager, which invests in other companies that are not quoted on a stock exchange but may be listed on the Alternative Investment Market ("**AIM**").

VCTs themselves are listed on the London Stock Exchange, with strict limits laid down by HM Revenue and Customs on the assets in which they can invest.

There are tax advantages offered to UK investors in new VCTs. However, they are complex products which carry a certain level of risk. VCTs should be considered as long-term investments and it is important that the risks are understood before investing in them, which include:

- there may be a limited secondary market for shares – this may make them hard to sell. To partially address this issue, some VCT managers offer a buy back facility, normally at a discount to the net asset value.
- VCTs are designed to provide capital for small companies and each VCT will invest in a number of companies. There is a risk that these companies may not perform as hoped and in some circumstances may fail completely.
- typically, those of the VCTs assets that are (in accordance with the limits referred to above) not invested in venture capital investments, are invested in money market securities/gilts/cash deposits etc. Some, however, invest part of these assets in more risky investment vehicles which may raise the overall risk profile of the Portfolio still further.
- if certain criteria are not met, the initial tax advantages might be withdrawn.
- the levels of charges for VCTs may be greater than for other investments, and the Client may also be charged performance fees.
- as with any asset-backed investment, the value of a VCT depends on the performance of the underlying assets, so the Client may get back less than it originally invested, even taking into account the tax breaks (if applicable).

Real Estate Investment Trusts

A Real Estate Investment Trust (a "**REIT**") is a pooled investment vehicle, which invests primarily in income producing real estate or real estate related loans or interests. REITs are sometimes referred to as equity REITs or mortgage REITs. An equity REIT invests primarily in properties and generates income from rental and lease properties. Equity REITs also offer the potential for growth as a result of property appreciation and, in addition, from the sale of appreciated property. Mortgage REITs invest primarily in real estate mortgages, which may secure construction, development or long-term loans, and derive income from the collection of interest payments. REITs are generally organised as companies and their shares are generally listed on a stock exchange.

In some jurisdictions REITs qualify for beneficial tax treatment provided they invest in accordance with certain rules.

Like any investment in real estate, a REIT's performance depends on many factors, such as its ability to find tenants for its properties, to renew leases, and to finance property purchases and renovations. In general, REITs may be affected by changes in underlying real estate values and rental incomes, which may have an exaggerated effect to the extent a REIT concentrates its investment in certain regions or property types. Ultimately, a REIT's performance depends on the types of properties it owns and how well the REIT manages its properties.

In general, during periods of rising interest rates, REITs may lose some of their appeal for investors who may be able to obtain higher yields from other income-producing investments, such as long-term bonds. Higher interest rates also mean that financing for property purchases and improvements is more costly and difficult to obtain. During periods of declining interest rates, certain mortgage REITs may hold mortgages that mortgagors elect to prepay, which can reduce the yield on securities issued by mortgage REITs. Mortgage REITs may be affected by the ability of borrowers to repay debts to the REIT when due and equity REITs may be affected by the ability of tenants to pay rent.

Like small cap stocks in general, certain REITs have relatively small market capitalisation and their securities can be more volatile than – and at times will perform differently from – large cap stocks. In addition, because small cap stocks are typically less liquid than large cap stocks, REIT stocks may sometimes experience greater share price fluctuations than the stocks of larger companies. Further, REITs are dependent upon specialized management skills, have limited diversification, and are therefore subject to risks inherent in operating and financing a limited number of projects.

A.2. Bonds

A bond is a loan to a government, company or a local authority. Generally, interest is paid to the Portfolio as the lender and the amount of the loan repaid at the end of the term.

When the Portfolio includes bonds, it becomes a creditor of the issuer of the bonds. The issuer might be a government or a corporate business or it may be an entity that has been formed specifically for the purposes of issuing the bonds (this is normally the case where the bonds pass through to investors the cashflows generated by specific assets, such as corporate loans, residential mortgages or credit card receivables).

Bonds have a nominal value. This is the sum that will be returned to investors when the bond matures at the end of its term.

However, because bonds are traded on the bond market, the price for a bond may be more or less than the nominal value. There are several reasons why the price might vary from the nominal value, for example:

- If a bond is issued with a fixed interest rate of, say, 8% and general interest rates then fall well below 8%, then 8% will look like a good yield and the market price of the bond will tend to rise above the nominal value.
- The reverse is also true. If interest rates rise, the fixed rate of a particular bond might become less attractive and its price could fall below the nominal value.
- Ratings agencies might take the view that a particular company's bond no longer qualifies for a high rating – perhaps the company is not doing as well as it was when the bond was issued. If this happens then the market price of the bond might fall. On the other hand, the company's rating may be improved leading to a price rise.
- The inflation rate might start to creep up and the interest rate on some bonds might start to look less attractive compared with other investments.

The risks associated with investing in bonds include:

- interest rate risk – the risk that bond prices will fall as interest rates rise. By buying a bond, the bondholder has committed to receiving a fixed rate of return for a fixed period. Should the market interest rate rise from the date of the bond's purchase, the bond's price will fall accordingly. The bond will then be trading at a discount to reflect the lower return that an investor will make on the bond.
- Market interest rates are a function of several factors such as the demand for, and supply of, money in the economy, the inflation rate, the stage that the business cycle is in as well as the government's monetary and fiscal policies.
- default risk – the risk that the bond's issuer will be unable to pay the contractual interest or principal on the bond in a timely manner, or at all. Credit ratings services such as Moody's, Standard & Poor's and Fitch give credit ratings to bond issues, which helps to give investors an idea of how likely it is that a payment default will occur.
- inflation risk – the risk that the rate of price increases in the economy deteriorates the returns associated with the bond. This has the greatest effect on fixed-rate bonds, which have a set interest rate from inception. For example, if an investor purchases a 5% fixed bond and then inflation rises to 10% a year, the bondholder will lose money on the investment because the purchasing power of the proceeds has been greatly diminished. The interest rates of floating-rate bonds are adjusted periodically, thereby limiting investors' exposure to inflation risk.
- call risk – the risk that a bond will be called by its issuer. Callable bonds have call provisions, which allow the bond issuer to purchase the bond back from the bondholders and retire the issue. This is usually done when interest rates have fallen substantially since the issue date. Call provisions allow the issuer to retire the old, high-rate bonds and sell low-rate bonds in an attempt to lower debt costs.

Bonds can usually be bought and sold in the market and their price can vary from day to day. A rise or fall in the market price of a bond does not affect what the Client would get back if the Client holds the bond until it matures. The Client will only get back the nominal value of the bond (plus any coupon payment to which the Client has been entitled during its ownership of the bond), irrespective of what the Client paid for it.

For some bonds there may be a restricted market and it may be more difficult to deal in them or obtain reliable information about their value (and it may therefore be difficult to establish a proper market in them for the purposes of making a subsequent sale).

Some bonds generate a return that is linked to the performance of a real or notional pool of underlying assets. In such circumstances, the return the Client receives will depend upon the performance of the underlying pool. Many structured products take the form of bonds (see the "Structured Products" paragraph below for further details of the risks associated with structured products).

As a bondholder the Client could lose some or (in extreme cases) all of the money that it has invested in the bonds that it holds.

Convertible bonds

Some bonds are convertible or exchangeable into a specific number of another form of security (usually the issuer's ordinary shares) at a specified price or ratio. A company may issue a convertible security that is subject to redemption after a specified date, and usually under certain circumstances. A holder of a convertible bond that is called for redemption would be required to tender it for redemption to the issuer, convert it to the underlying equities or sell it to a third party.

Convertible bonds typically pay a lower interest rate than nonconvertible bonds of the same quality and maturity, because of the convertible feature. This structure allows the holder of the convertible bond to participate in share price movements in the company's shares. The actual return on a convertible bond may exceed its stated yield if the company's shares appreciate in value and the option to convert to shares becomes more valuable.

The difference between the conversion value and the price of a convertible bond will vary depending on the value of the underlying shares and interest rates. When the underlying value of the shares decline, the price of the issuer's convertible bonds will tend not to fall as much because the convertible bond's income potential will act as a price support. While the value of a convertible bond also tends to rise when the price of the underlying shares rises, it may not rise as much because their conversion value is more narrow. The value of convertible bonds also is affected by changes in interest rates. For example, when interest rates fall, the value of convertible bonds may rise because of their fixed income component.

A.3. Depositary receipts

Depositary receipts include American Depositary Receipts (“**ADRs**”), European Depositary Receipts (“**EDRs**”), Global Depositary Receipts or Global Depositary Shares (“**GDSs**”) or other similar global instruments that are receipts representing ownership of shares of a foreign-based issuer held in trust by a bank or similar financial institution. These securities are designed for United States and European securities markets as alternatives to purchasing underlying securities in their corresponding national markets and currencies. Depositary receipts can be sponsored or unsponsored. Sponsored depositary receipts are certificates in which a bank or financial institution participates with a custodian. Issuers of unsponsored depositary receipts are not contractually obligated to disclose material information in the United States. Therefore, there may not be a correlation between such information and the market value of an unsponsored depositary receipt.

Depositary receipts also include securities issued by a trust representing an undivided beneficial ownership interest in the assets of the trust, usually common stocks of a group of companies. The trust generally holds the deposited common stocks for the benefit of the holders of the depositary receipts. Issuers generally are not registered as investment companies. The trustee of a trust is typically limited to performing only administrative and ministerial duties, for which it is paid out of trust assets. The risks of investing in depositary receipts generally reflect the risks of the securities held in the trust. The acquisition and disposal of some depositary receipts is limited to round-lots or round-lot multiples. Depositary receipts may trade in the secondary market at prices lower than the aggregate value of the corresponding underlying securities. In such cases, some depositary receipts enable the holders to realize the underlying value of the securities by cancelling the receipt and receiving a corresponding amount of underlying securities, which requires the payment of fees and expenses.

A.4. Warrants

A warrant is a time-limited right to subscribe for shares or bonds at a particular price and is exercisable against the issuer of the underlying securities.

Generally, the success of investing in warrants depends primarily on how the underlying asset performs during the life of the warrant. The price of the warrants will therefore be affected by the risk factors that can affect the price of the underlying securities to which the warrant relates. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

The right to subscribe for underlying securities conferred by a warrant 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. The price of a warrant may reflect the value attributed to the life of the warrant.

The Client should not buy a warrant unless it is prepared to sustain a total loss of the money it has invested plus any commission or other transaction charges.

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 the Client's 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 is a fair price.

Each warrant is a contract between the warrant issuer and the holder. The Client is therefore exposed to the risk that the issuer will not perform its obligations under the warrant.

Issuers of warrants sometimes reserve the right to nominate an extraordinary event which may result in the early expiry of a warrant series. Examples of extraordinary events include suspension in trading of the underlying security, the de-listing of the underlying company and a takeover of the underlying company. As a consequence of an extraordinary event the warrant’s expiry date may be brought forward, or the warrant may lapse with any intrinsic payment provided to the holder.

A.5. Options

An option gives the buyer of the option the right (but not the obligation) to buy (call option) or sell (put option) an underlying security or other asset at a future date and at a price that has already been agreed or that is determinable in accordance with a pre-agreed mechanism. Options are sometimes referred to as covered warrants.

Buying options involves less risk than selling options because, if the price of the underlying asset moves against the Portfolio, it can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if the Client buys a call option on a futures contract and the Client later exercises the option, it will acquire the future. This will expose the Client to the risks described in the “Futures” paragraph below.

If the Client writes an option, the risk involved is considerably greater than buying options. The Client may be liable for margin to maintain its position and a loss may be sustained well in excess of the premium received. By writing an option, the Client accepts a legal obligation to purchase or sell the underlying asset if the option is exercised against the Client, however far the market price has moved away from the exercise price. If the Client already owns the underlying asset which it has contracted to sell (when the options will be known as ‘covered call options’) the risk is reduced. If the Client does not own the underlying asset (‘uncovered call options’) the risk can be unlimited.

The performance of an option that the Client has written depends primarily on how the underlying asset performs during the life of the option. The value of the option can therefore be affected by any risk factors that can affect the price of the underlying asset to which the option relates. A relatively small movement in the price of the underlying asset can result in a disproportionately large movement, unfavourable or favourable, in the value of the option. The prices of options can therefore be volatile.

If the Client writes options, it may sustain a total loss of any margin it deposits with the Counterparty to establish or maintain a position. If the market moves against the Client, it may be called upon to pay substantial additional margin at short notice to maintain the position. If it fails to do so within the time required, its position may be liquidated at a loss and it will be responsible for the resulting deficit.

Even if a written option transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when the Client entered the contract.

Certain London Stock Exchange member 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 its 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 the Client may subsequently be called upon to pay margin on the option up to the level of its premium. If the Client fails to do so as required, its position may be closed or liquidated in the same way as a futures position.

The insolvency or default of the Counterparty or any of the brokers involved with the Client's option transaction, may lead to positions being liquidated or closed out without the Client's consent. In certain circumstances, the Client may not get back the actual assets which it lodged as collateral and the Client may have to accept any available payments in cash.

On many exchanges, the performance of a transaction by the relevant broker is ‘guaranteed’ by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover the Client, as the customer, and may not protect the Client if the broker or another party defaults on its obligations to the Client. There is no clearing house for traditional options, nor normally for “over-the-counter” (“**OTC**”) instruments.

Options may be executed on an investment exchange or on an OTC basis. While some OTC markets are highly liquid, transactions in OTC 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 OTC 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 is a fair price.

A.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 performance of a futures contract depends primarily on how the underlying asset performs during the life of the contract. The value of the future can therefore be affected by any of the risk factors that can affect the price of the underlying asset to which the futures contract relates.

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 the Client's investment, and this can work against the Client as well as for it. Futures transactions have a contingent liability which means that the Client may be liable for margin to maintain its position and a loss may be sustained well in excess of the premium received. By entering into a futures contract, the Client accepts a legal obligation to purchase or sell the underlying asset, however far the market price has moved away from the agreed price.

The Client may sustain a total loss of any margin it deposits with the Counterparty to establish or maintain a position. If the market moves against the Client, it may be called upon to pay substantial additional margin at short notice to maintain the position. If the Client fails to do so within the time required, its position may be liquidated at a loss and the Portfolio will be responsible for the resulting deficit.

The insolvency or default of the Counterparty or any of the brokers involved with the Client's futures transaction, may lead to positions being liquidated or closed out without the Client's consent. In certain circumstances, the Client may not get back the actual assets which it lodged as collateral and it may have to accept any available payments in cash.

On many exchanges, the performance of a transaction by the relevant broker is ‘guaranteed’ by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover the Client, as the customer, and may not protect the Client if the broker or another party defaults on its obligations to the Client. There is no clearing house for futures executed on an OTC basis.

Futures may be executed on an investment exchange or on an OTC basis. While some OTC markets are highly liquid, transactions in OTC 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 OTC 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 is a fair price.

A.7. Contracts for differences

Futures and options contracts that only contemplate cash-settlement of the parties’ obligations (rather than physical delivery of the underlying assets) are known as “contracts for differences” or “CFDs”. CFDs include options and futures on the FTSE 100 index and other stock indices, as well as currency, interest rate, equity and commodity swaps, some credit derivatives, spread bets and rolling spot foreign exchange contracts.

The ‘gearing’ or ‘leverage’ often obtainable in CFD 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 the Client's investment, and this can work against the Client as well as for it. CFD transactions have a contingent liability which means that the Client may be liable for margin to maintain its position and a loss may be sustained well in excess of the premium received.

The Client may sustain a total loss of any margin it deposits with the Counterparty to establish or maintain a position. If the market moves against the Client, it may be called upon to pay substantial additional margin at short notice to maintain the position. If the Client fails to do so within the time required, its position may be liquidated at a loss and it will be responsible for the resulting deficit.

The insolvency or default, or that of the Counterparty or any of the brokers involved with the Client's CFD transaction, may lead to positions being liquidated or closed out without the Client's consent. In certain circumstances, the Client may not get back the actual assets which it lodged as collateral and it may have to accept any available payments in cash.

CFD transactions may be executed on an investment exchange or on an OTC basis. While some OTC markets are highly liquid, transactions in OTC 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 OTC 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 is a fair price.

Due to the risks of CFD transactions to Clients outlined above, from 1 August 2019 for CFDs, and 1 September 2019 for CFD-like options, the FCA has placed restrictions on the sale, marketing and distribution of such products to Retail Clients. The FCA requires firms that offer CFDs and CFD-like options to Retail Clients to:

a) limit leverage to between 30:1 and 2:1 depending on the volatility of the underlying asset;
b) close out a Client’s position when their funds fall to 50% of the margin needed to maintain their open positions on their CFD account;
c) provide protections that guarantee a Client cannot lose more than the total funds in their trading account;
d) stop offering current and potential Clients cash or other inducements to encourage Retail Clients to trade; and
e) provide a standardised risk warning, telling potential Clients the percentage of the firm’s Retail Client accounts that make losses.

In addition to the restrictions placed by the FCA on sales, marketing and distribution of CFDs, from 2 April 2019, the FCA banned the marketing, distribution and sale of derivative contracts of a binary or other fixed outcomes nature (binary options) to Retail Clients in or from the UK.

A.8. Collective Investment Schemes

A Collective Investment Scheme (“**CIS**”) is a scheme which allows an investor to invest money on a pooled basis (along with a number of other investors). A CIS may take the form of a company, partnership or trust.

As an investor, the Client buys shares/partnership interests/units in the CIS in the hope that the value rises over time as the prices of the underlying investments increase. The price of the shares/partnership interests/units depends on how the underlying investments perform.

Some CISs are called “open ended” because the number of shares/partnership interests/units in issue increases as more people invest and decreases as people take their money out. “Closed-ended” CISs are CISs where investors are either unable to withdraw their investments or can only do so in very restrictive circumstances.

Normally, there is no established secondary market in CISs which means that the Clients' investment in them cannot usually be sold to third parties. However, (except for certain types of “closed-ended” fund) the constitutional documents of the CIS will normally provide for the Client to be able to redeem its investment in the CIS at its net asset value. The frequency with which the Client can redeem its investment will depend upon the precise terms of those constitutional documents.

In certain cases, for example where the liquidity of the underlying assets of a CIS is longer than its redemption frequency, when the Client redeems their investment in the CIS, the Client may receive underlying assets of the CIS, including but not limited to shares/interests/units in hedge funds, instead of cash.

As an investor in a CIS, the Client could lose some or all of the money that it has invested. The level of risk of an investment in a CIS will depend on the underlying investments in which it is invested and how well diversified the CIS is. For example, a CIS which invests only in one industrial sector, such as technology, will invariably be more risky than Portfolios that invest across the whole range of companies in a market.

Some CISs are regulated which means that there are rules about (and limits on) the types of underlying investments in which the CIS can invest and the frequency and price at which investments in the CIS can be redeemed. In particular, the rules applicable to regulated CISs limit the extent to which they can invest in derivatives or leverage their portfolios. Regulated CISs include authorised unit trusts; OEICs (open ended investment companies, which are the same as ICVCs – Investment Companies with Variable Capital); SICAV (Société d’investissement à capital variable); and FCPs (Fonds communs de placement).

Other CISs are unregulated which means that there are very few or no rules about the types of investments in which they can invest or the frequency at which they can be redeemed. Five of the most common types of unregulated CIS are hedge funds, private equity funds, real estate funds, exchange-traded funds and funds of funds.

Hedge funds

Hedge funds are typically unregulated CISs that use derivatives for directional investing and/or are allowed to have a short position and/or use significant leverage through borrowing. Additional characteristics of hedge funds are the free choice of assets (including illiquid and distressed securities), free choice of markets (including emerging markets) and the free choice of trading style, including a lack of asset diversification.

Rothschild & Co will only select investments for Clients in funds which it classifies as a Hedge Fund as part of a diversified discretionary strategy and to achieve the stated investment objectives. Rothschild & Co explains how it classifies funds as “Hedge Funds” in the definitions in the Client Agreement.

Whilst returns may be higher than standard investments, investments in hedge funds involve a high degree of risk and are only suitable for investors who fully understand and are willing to assume the risks involved. In particular such investors are exposed to potential loss which could involve the complete loss of the investment. Their use of leverage may mean that market movements could have a disproportionate effect on the net asset value of the CIS.

Hedge funds are often domiciled in offshore jurisdictions where the standards of regulation and in particular the standards of regulatory supervision do not meet the standards required in the UK.

Investments in hedge funds are typically subject to transfer and redemption restrictions. Transfers are usually subject to the approval by the CIS and redemption may be permitted only after an initial lock-in period and long notification periods. In most cases there is no liquid market for investments in hedge funds. It may therefore be difficult for the Client to obtain reliable information about the value of such investments or the extent of the risks to which it is exposed.

Another risk factor to be considered is the dependence upon key portfolio managers of the CIS, whose experience levels may vary. Furthermore, where hedge fund portfolio managers are compensated on a performance incentive basis it may cause them to make riskier and more speculative investment decisions than if such a fee was not paid.

Private equity funds

Private equity funds are unregulated CISs that invest exclusively or almost entirely in financial instruments issued by companies that are not listed (or that take over publicly listed companies with a view to delisting them). Investment in private equity funds is typically by way of commitment (i.e. whereby an investor agrees to commit to invest a certain amount in the fund and this amount is drawn down by the fund as and when it is needed to make private equity investments).

Private equity funds tend to be closed ended and to have a finite lifespan. During the life of the fund it is usually not possible for the Portfolio to redeem its investment. Therefore, if the Portfolio invests in a private equity fund, it may be several years before the Client sees any sort of return on the investment.

Whilst returns may be higher than standard investments, investments in private equity fund involve a high degree of risk and are only suitable for investors who fully understand and are willing to assume the risks involved. The returns are dependent on the performance of the companies in which the fund invests and, in turn therefore, largely dependent on the manager of the fund's ability to influence that performance. Investors in private equity funds are exposed to potential loss which could involve the complete loss of the investment.

Real estate funds

Real estate funds are unregulated CISs that invest exclusively or almost entirely in real estate, or in companies that invest in real estate. Most real estate funds are structured and operate in a similar manner to private equity funds. See above.

Returns are dependent on the value of the properties or companies in which the fund invests (and therefore on the ability of the manager to pick investments that increase in value). Investors in such funds are exposed to the risk of a general downturn in the property market. Investors in real estate funds are exposed to potential loss which could involve the complete loss of the investment.

Exchange-traded funds

Exchange-traded funds (or "**ETFs**") are shares in funds which have an exchange listing and for which there is a secondary market on the exchange on which the shares are listed. Therefore, unlike other types of fund, profits or losses from a position in shares in the ETF can be realised not just by redeeming the shares but also by selling them on the relevant exchange. Typically, ETFs try to replicate a stock market index such as the FTSE 100 or the Hang Seng Index, a market sector such as energy or technology, or a commodity such as gold or petroleum;

The legal structure can vary, however the major common features include:

– ETFs have an exchange listing;

– ETFs are normally index-linked rather than actively managed;

– there is often an ability to handle contributions and redemptions on an in-specie basis (typically in large blocks of shares only); and

– the 'value' of the ETF (but not necessarily the price at which its shares trade – they can trade at a 'premium' or 'discount' to the 'underlying' assets' value) derives from the value of the 'underlying' assets comprising the ETF.

The price of the ETF shares depends on two main factors:

– the value of the underlying investments; and

– the popularity (or unpopularity) of the ETF shares in the market.

The result is that ETF shares do not simply reflect the value of the underlying investments, they also reflect their popularity in the market. At any time the share price may be at a discount or premium to the asset value.

Some ETFs borrow money to invest (to increase the level exposure to the underlying index). This is called gearing. Gearing improves an ETFs performance when its investments are doing well. On the other hand, if its investments do not do as well as expected, gearing lowers performance. An ETF that is geared is a higher risk investment than one which is not geared (assuming the same underlying investments).

Funds of Funds

Funds of funds are Collective Investment Schemes that invest in other CISs. Two common types are funds of hedge funds and private equity funds of funds. A fund of hedge funds invests in other hedge funds. A private equity fund of funds invests in other private equity funds. Fund of funds offer an opportunity for investors to invest in a fund of hedge funds or private equity funds (and thereby diversify their risk). The returns on a fund of funds will be lower than a series of direct investments in the underlying funds because the manager of the fund of funds takes a fee in addition to the fee charged by the managers of the underlying funds. Investments in a fund of hedge funds are typically subject to transfer and redemption restrictions. Transfers are usually subject to the approval by the fund and redemption may be permitted only after an initial lock-in period and long notification periods. Investment in private equity fund of funds is typically by way of commitment (i.e. whereby an investor agrees to commit to invest a certain amount in the fund and this amount is drawn down by the fund as and when it is needed to honour its commitments to the private equity funds in which it has invested). Private equity funds of funds tend to be closed ended and to have a finite lifespan. During the life of the fund it is usually not possible for the fund to redeem its investment. Therefore, if the fund invests in a private equity fund of funds, it may be several years before the fund sees any sort of return on the investment.

A.9. Structured Products

Structured products are products structured to fulfil a particular trading or market objective. A structured product may combine the features of two or more financial instruments (for example a bond and a derivative). Derivatives often constitute an integral part of a structured product. The product may involve an element of leverage and so a relatively small movement in the value of the relevant underlying asset or index may have a significant effect on the value of the structured product.

Structured products are generally not traded on regulated markets and the Client takes the risk on the Counterparty issuing the structure. There is typically no recognised market for these investments and it may, therefore, be difficult for the Client to deal in the investment or to obtain reliable information about its value or the extent of the risks to which it is exposed.

Some structured products include an element of capital protection – however, the Client should bear in mind that this is not a guarantee that the amount invested will be returned in all circumstances. The capital protection offered is typically subject to the investment being held until maturity and to the creditworthiness of the issuer. In addition, redeeming the product early may lead to redemption penalties.

Structured products are often high risk investments and the Client could lose some or all of the money that it has invested in them.

A.10. Currency Exposure and Foreign Exchange Trading

Investments may be denominated in a currency other than the Client's base reference currency. Where an investment is denominated in a different currency the Client is exposed to fluctuations in the exchange rate of that currency as well as to the movement in the price of the investment itself. Changes in the exchange rate can cause the overall value of an investment to fall as well as to rise.

Engaging in foreign exchange trading ("**fx trading**") (buying one currency in exchange for another) exposes the Client to the risk of adverse changes in exchange rates. Exchange rates can be volatile and are driven by a variety of factors affecting the economies of the jurisdictions whose currencies the Client is trading.

The 'gearing' or 'leverage' often obtainable in fx 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 the Client's investment, and this can work against the Client as well as for it. Some fx transactions involve a contingent liability which means that the Client may be liable for margin to maintain its position and a loss may be sustained well in excess of the premium received

The Client may sustain a total loss of any margin it deposits to establish or maintain a position. If the market moves against the Client, it may be called upon to pay substantial additional margin at short notice to maintain the position. If the Client fails to do so within the time required, its position may be liquidated at a loss and the Client will be responsible for the resulting deficit.

The insolvency or default of the Counterparty or any of the dealers involved with the Client's fx transaction, may lead to positions being liquidated or closed out without the Client's consent. In certain circumstances, the Portfolio may not get back the actual assets which it lodged as collateral and it may have to accept any available payments in cash.

A.11. Life policies

A life policy is a form of pooled investment offered by a life insurance company. The insurance company accumulates money from the policy holder (and its other policy holders). The policy is a contract that promises certain things, such as to provide life insurance which pays a fixed sum of money if the insured dies before the end of the policy. The company also promises to invest the money – for example in shares or bonds – with the aim of making it grow enough to provide the policy holder with a lump sum at maturity.

When the Portfolio includes a life assurance policy, a proportion of the premiums it pays to the insurance company will be used to buy life assurance that pays a fixed sum of money if the insured dies before the end of the policy. The insurance company will spend part of each contribution made to meet its costs.

As with open-ended CISs, a life insurance company pools its money and invests in one or more asset classes. The insurance company promises to pay the policy holder, as described in the policy, part of the money it makes from that investment. The insurance company organises its investments into portfolios and it will usually allow the policy holder to choose which portfolio(s) it wants to share in. There are usually a number of portfolios to choose from within the policy, for example, shares (UK and overseas), bonds, property, and cash deposits. Similarly, there are usually portfolios which invest across different asset classes and these are usually called managed portfolios.

Most life policies allow the policy holder to switch between portfolios once a year without charge. Some companies make a charge for more than one switch per year, while others allow several switches without charge.

A.12. Commodities

Commodities are physical assets (other than cash or financial instruments) which are capable of delivery; typically assets such as gold, oil, metals, wheat etc. which are traded on exchanges. Investors would not normally transact in the underlying physical commodity but via one of the other instrument types set out above such as futures, ETFs, structured products, open-ended funds and investment trusts. The risks associated with an investment in commodities therefore includes the risks inherent with those instruments as well as the commodities themselves. In addition, the use of derivatives can add an additional element of risk, in that an investor's return will be affected by the relationship of the future price to the current price of the commodity.

Individual commodity prices can be very volatile so baskets of commodities are generally bought to give broader diversification within the asset class and to ensure reduced levels of risk.

Historically, commodities have generally reduced risk when added to a portfolio however they can individually, and in aggregate, be seen to add to risk over the short term.

A.13. Off-Exchange Derivative Transactions

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 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 is a fair price.

A.14. Contingent Liability Transactions

A contingent liability transaction is a transaction under the terms of which the Client will or may be liable to make further payments (other than charges) when the transaction falls to be completed or upon the earlier closing out of the Client's position. These payments may or may not be secured by an amount in money (or represented by securities) deposited with a Counterparty or a broker as a provision against loss on transactions made on account (a "**Margin**").

Contingent liability transactions for which a Margin is deposited (in other words, which are "Margined") require the Client to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If the Client trades in futures, contracts for differences or sell options the Client may sustain a total loss of the Margin the Client deposits with us to establish or maintain a position. If the market moves against the Client, the Client may be called upon to pay substantial additional Margin at short notice to maintain the position. If the Client fails to do so within the time required, the Client's position may be liquidated at a loss and the Client 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 the Client entered the contract. Contingent liability transactions which are traded off-exchange may expose the Client to substantially greater risk.

A.15. Potential implications of Brexit

The United Kingdom's withdrawal from the European Union may have a negative impact on global economic conditions and financial markets.

The United Kingdom formally withdrew from the European Union on 31 January 2020 and entered into a transition period which ended on 31 December 2020. Significant political and economic uncertainty remains about whether the terms of the relationship will differ materially from the terms before withdrawal, as well as about the possibility that a so-called "no deal" separation will occur if negotiations are not completed by the end of the transition period. This may have political consequences not only in the United Kingdom but also in the remaining European member states.

These developments, and the potential consequences of them, have had and may continue to have a material adverse effect upon global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates and credit ratings have been and may continue to be subject to increased market volatility. Lack of clarity about future laws and regulations in the United Kingdom, and the terms upon which businesses in the UK may continue to access European markets, including financial laws and regulations, tax and free trade agreements, immigration and employment laws, could increase costs, depress economic activity, impair the ability to attract and retain qualified personnel, and have other adverse consequences.

Currency volatility resulting from this uncertainty may mean that the returns of Investments are adversely affected by market movements, potential decline in the value of the British Pound and/or Euro, and any downgrading of UK sovereign credit rating. This may also make it more difficult, or more expensive, for Rothschild & Co and/or its Associates to execute prudent currency hedging policies. This mid to long term uncertainty may have an adverse effect on the economy generally and on the ability of Rothschild & Co to execute investment strategies, and may also result in increased costs.