GLOSSARY

Introduction

In accordance with Article 48 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, the investment services provider is required to provide the client with a general description of the nature and risks of financial instruments, taking into account, in particular, the client's categorisation as either a retail client or a professional client.

This glossary meets this obligation by describing each financial instrument or major category of financial instruments and the related risks.

It allows retail clients to understand the nature and the risks of the instruments offered so that they can make informed investment decisions.

This glossary describes the types of market and the main categories of financial instruments which may be offered by the Rothschild & Co. The document will be updated regularly to reflect changes in the range of financial instruments provided.

The updated glossary is available on the *Bank*'s website or upon request from your usual point of contact.

If, after reading this glossary, you wish to learn more about financial products and you have access to the internet, we recommend consulting the website of Institut pour l'Education Financière du Public (IEFP).

It is a general interest, non-profit organisation created in 2006 at the initiative of the AMF (French Financial Markets Authority), to facilitate and promote financial education for French citizens. Website: www.lafinancepourtous.fr. More detailed information about financial products can also be found at www.wikifin.be, a financial education website developed by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF).

1. Definition of types of markets

Regulated market

A regulated market is a multilateral system operated or managed by a market operator, which brings together or facilitates the bringing togetherof multiple third-party buying and selling interests in financial instruments – in its system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules or systems, and which is authorised and functions regularly and in accordance with Title III of this Directive: MIFID 2 DIRECTIVE 2014/65 (Article 4, Paragraph 1, Point 21).

Multilateral Trading Facilities (MTF)

An MTF is a multilateral system operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules – in a way that results in a contract, in accordance with Title II of this Directive MIFID 2 DIRECTIVE 2014/65 (Article 4, Paragraph 1, Point 22).

Systematic internaliser

A systematic internaliser is an investment firm which, on an organised, frequent, systematic and substantial basis, deals on own account when executing client orders outside a regulated market, an MTF or an OTF without operating a multilateral system.

Organized Trading Facilities (OTF)

The Autorité des Marchés Financiers (French Financial Markets Authority) approves the OTF rulebook. OTFs are trading venues that comply with the provisions of AMF's general regulations. The operator of the OFT itself performs oversight of transactions concluded and settled on the platform.

2. The French markets

The *Bank* trades in financial instruments (equity and bond markets) admitted to trading in France on the Eurolist market, Alternext and the Marché libre.

2.1 Lists of different markets

The Eurolist market

It is a regulated market replacing the former First, Second and New Market. Companies listed on the Eurolist market are classified in alphabetical order and by compartment based on their market capitalisation:

- compartment A for capitalisations above €1 billion,
- compartment B for capitalisations between €150 million and €1 billion,
- compartment C for capitalisations below €150 million.

Alternext market

Alternext is a non-regulated market created in 2005. It aims to give small and medium enterprises in the eurozone simplified access to listing while meeting the expectations of investors in terms of financial transparency.

'Marché Libre'

The 'Marché Libre' is a non-regulated market for companies that do not meet the conditions to access a regulated market. These companies are not subject to disclosure requirements. It is therefore a market which involves high risks and is intended for sophisticated operators.

In France, the operating procedures of the different types of market are notably governed by the Autorité des marchés financiers, which may amend them on a regular basis. Consequently, any changes to the operation of markets do not entail the termination of the Agreement and shall not constitute grounds for the Bank's liability.

2.2 Trading hours

Financial instruments are traded either continuously (for securities of average and high liquidity) or by auction (for less liquid securities).

Continuous trading hours

Trading begins with a 'pre-opening' period. It starts at 7.15 a.m. and ends at 9.00 a.m. (Paris time). This phase is only for the registration of orders. There is no trading and no transactions.

At 9.00 a.m. (Paris time), all orders registered during the pre-opening phase are matched.

This determines the opening price such that the largest number of securities can be traded. The Trading session proper begins then. It closes at 5.25 p.m. During this phase, there is continuous matching between sale orders and purchase orders recorded on the 'market sheet'.

The recording of a new order immediately leads to a transaction if the market position permits (alignment between supply and demand).

From 5.25 to 5.30 p.m. (Paris time) is the pre-closing phase. The orders are entered but do not give rise to a transaction as was the case in the pre-opening phase.

At 5.30 p.m. (Paris time), all remaining orders are matched so as to determine the closing price. From 5.30 to 5.40 p.m. (Paris time) is the trading-at-last phase.

Auction trading hours

In this case, purchase orders and sale orders are matched twice a day (10.30 a.m. and 4.00 p.m., Paris time) except for secondary listing (11.00 a.m. and 4.30 p.m., Paris time), securities listed on the 'Marché Libre' (3.00 or 3.30 p.m. Paris time according to securities), certain securities listed on Alternext (3.30 pm or 4.00 p.m. Paris time).

The *Bank* draws the attention of the Client to the fact that the hours specified above are subject to change in line with regulatory changes.

3. Negotiable Debt Securities

3.1 General characteristics

TCNs (Titres de Créances Négociables or Negotiable Debt Securities) are securities issued at the option of the issuer on a regulated market or OTC, each of which represents a claim on the issuer.

They are governed, among others, by Articles L213-1 to 4 and D213-1 to 14 of the French Monetary and Financial Code. They are like a time deposit, with the remittance of funds by an investor giving the latter the right to repayment at the agreed maturity.

TCNs are different from bonds in that they can be subject to a single issue. TCNs may be issued at a different price to the par and may contain a maturity premium.

They may be issued in euros or in foreign currencies. Their return can be freely determined, but is very close to that of the money market. The buyback or redemption by the issuer can be freely determined.

Different types of French TCNs

Commercial paper (French BT)

Commercial paper is a negotiable debt security issued by corporations on the money market for a maturity ranging from 10 days to 1 year. In practice, the average maturity of a commercial paper is very short, between 1 and 3 months. It is issued in minimum denomination of EUR 150,000. Commercial paper is the main OTC instrument in France. It allows corporations to borrow directly and for the short term from other corporations without going through the banking system, and on terms very close to those of the money market.

Negotiable Certificates of Deposit (French CDN)

A negotiable certificate of deposit is a term deposit represented by an dematerialised negotiable debt instrument in the form of a bearer or promissory note and is issued by an approved financial institution. The minimum amount is EUR 150,000. Its maturity must be fixed, between 1 day and 1 year. Its return is very close to that of the money market. The main advantage is that it can be traded on the secondary market, thus avoiding the heavy penalties applicable upon early termination of term deposits. However, negotiable certificates of deposit are subject to interest rate risk.

Negotiable Medium Term Notes (French BMTN)

Negotiable medium term notes are commercial paper and negotiable certificates of deposit issued with maturities of more than 1 year with no upper limit. The minimum amount is EUR 150,000.

Negotiable Treasury Bills (French BTN).

These consist of fixed-rate Treasury bills and fixed-rate Treasury notes with interest paid annually (BTF/BTAN). They are issued by the government via weekly or monthly auctions. The typical maturities of Negotiable Treasury Bills are 13, 26, 52 weeks, 2 years and 5 years. Its advantage lies primarily in the quality of the issuer's credit rating (the best) and the large amount of Negotiable Treasury Bills outstanding guaranteeing satisfactory liquidity, even for substantial volumes. For investors, it can be a relatively interesting solution for short-term investments.

3.2 Risks related to TCNs

Credit risk	Credit risk (or issuer risk) is the consequence, for the investor, of the issuer's total or partial inability to meet its obligations. It depends on the creditworthiness of the issuer. This is assessed by rating agencies which assign 'ratings'. The higher is the rating, the lower is the risk. However, rating agencies are not infallible.
Liquidity risk	Liquidity risk is the likelihood of the investor facing difficulties to recover his funds before the maturity date, if there is one. It depends on the existence and operation of a secondary market for the instrument. The higher the volume of trading, the lower the risk of liquidity.
Foreign exchange risk	Foreign exchange risk is the likelihood that an unfavourable change in the currency in which one invests reduces the return on the investment. It is nil for TCNs denominated in euros, but exists for TCNs denominated in other currencies.
Interest rate risk	Interest rate risk is the risk related to a change in the market interest rate leading to a fall in the price of the security. In the event of a sale on the secondary market at a time when the market rate is higher than the TCN's nominal rate, the investor will suffer a capital loss. Conversely (market rate lower than nominal rate) the investor will realise a capital gain.
Other risks	Certain TCNs may come with an option allowing the issuer to redeem them early at a given price and on a given date. This option is used when the market interest rate has fallen significantly below the TCN rate.

4. Bonds

4.1 General characteristics

Generally speaking, a bond is an acknowledgement of debt by the issuer.
It represents participation in a long-term loan, on which the bondholder earns interest (coupon).
The issuer may be:

- a French or foreign public institution;
- a French or foreign private corporation;
- an international institution;
- a credit institution.

Bonds are one of the most widespread financial instruments in the world. The principle is simple: an interest rate giving right to the payment of a periodical coupon, a loan duration, a purchase price and a final redemption price.

Bond market

A bond is always issued on the primary market, which is the market for the issuance of new securities. Investors can only subscribe to a newly issued bond over a limited period of time, called the issuance period. This is determined by the issuer and can be shortened or extended, depending on the bond's success with investors. This is called subscription, subject to the terms and conditions of the issuance.

To buy a bond after the issuance period, the investor must either go through the secondary market, i.e. the stock exchange (regulated markets or organised multilateral trading system), or a multilateral trading facility (market accessible via an approved investment service provider). Certain service providers called 'internalisers' can also clear client orders in compliance with certain rules, in particular as regards prices.

On the secondary market, prices fluctuate every day: when interest rates go up, prices go down, and vice versa. Older issuances at lower rates are thus less attractive compared to new issuances at higher rates.

Issuer's Rating

The rating gives an investor, individual or institutional, a reference point on the quality of the debtor - corporations, countries or international organisations - and of the bond issue.

The rating is determined by the creditworthiness of the debtor, and also depends, in most cases, on a specific issuance or on several bonds from the same debtor. Rating is a standardised code, consisting of letters and figures, which is an independent appraisal of the debtor's creditworthiness. The better the rating, e.g. AAA, the lower the debtor risk.

Ratings are assigned by specialised companies, called rating agencies. The most prominent ones are from the US: Moody's, Standard & Poor's, Fitch. A rating can change.

Indeed, after the issuance period, rating agencies continue to closely monitor the debtor's situation and may sometimes downgrade or upgrade a rating, to reflect the debtor's situation at a given time.

The debtor risk, or credit risk, is one of the factors that determine the final yield on a bond.

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Issue price - Redemption price

The issue price of a bond is not necessarily equal to its nominal value. It may be adjusted to suit market conditions. Bonds may be issued:

- **at par:** the issue price is equal to the nominal value and the subscriber pays the full price, i.e. 100% of the nominal value;
- **below par:** the issue price is below the nominal value; the difference is the issue premium, which de facto increases the yield for the investor;
- **above par:** the investor pays more for the bond than its nominal value.

The redemption value at maturity is in most cases 100% of the nominal value, but the bond issue may provide for a redemption premium if the issuer decides to redeem at a price higher than 100%.

Duration

Maturity is determined upon issuance of the bond. The final date when the initial capital will be repaid is thus known. However, the conditions of issue may provide for an early redemption (repayment date earlier than the maturity date).

Fall in the real value of bonds

Upon redemption at maturity, the real value of the principal may have fallen due to inflation. This fall in value

is greater the higher the inflation rate and the longer the bond's maturity period. If the nominal rate is equal to or higher than the average inflation rate over the life of the bond, the fall in value is at least offset.

Some common types of bonds

Ordinary bonds

They have a fixed duration and the interest rate does not change throughout this duration. Bearers of ordinary bonds are not entitled to any preferential rights. In the event of issuer bankruptcy, they are paid after all preferential creditors.

Senior bonds

Bearers of senior bonds are paid in priority in the event of issuer bankruptcy. The repayment of the capital and interests is guaranteed by certain assets of the obligor.

Subordinated bonds

Bearers of subordinated bonds are only paid, in the event of issuer bankruptcy, after all other bond bearers (preferential creditors and ordinary creditors).

Zero-coupon bonds

No coupon is paid. Interests are not paid annually but capitalised until maturity. The bond is issued under par: the subscription price paid by the investor is less than the nominal value. In fact, the issue price is much lower than the redemption price as it is equal to the nominal value discounted on the basis of the issue date and the interest rate set.

Indexed bonds

Their yield is linked to a representative index such as inflation, the price of gold, a stock market index, a share price, a given exchange rate, etc. Different indexation clauses may be set out. In certain cases, only the redemption price is indexed and no coupon is paid.

Floating rate bonds

The coupon rate is not fixed and is periodically reset.

Convertible bonds

Convertible bonds are bonds issued by a company with the right to convert them into shares of the same company, over a given period and under predefined conditions. When the conversion is done, interests on the bond are no longer payable. Conversion is irreversible.

The conversion period is the period during which conversion is possible. The conversion price is fixed by the issuer upon issuance of the convertible bonds. It is the price payable in convertible bonds at the nominal value, which is the price at which the issuer will sell the shares during the conversion period. This is how the conversion ratio is determined. It is the number of shares obtained for converting one bond, based on the nominal value. The conversion price is obtained by dividing the current market price of the convertible bond by the conversion ratio defined upon issuance of the bonds. The conversion premium is the difference, in percentage terms, between the conversion price and the current share price. A positive conversion premium means that the share could be bought at a price lower by x% by buying it directly from the stock market rather than by converting the convertible bond, assuming immediate conversion.

The price of the convertible bond generally moves more in line with the company's share price than with the interest rate, given that it is a potential share, excluding the fixed rate and at par redemption.

Equity warrant bonds (French OBSA): an equity-warrant bond is a bond issue to which a share subscription warrant is attached. This warrant allows subscription to future capital increases at a fixed price. In practice, the bond and the subscription warrant are listed separately.

Bonds with a bond subscription warrant (French OBSO): a bond with a bond subscription warrant is a bond issue to which a bond subscription warrant is attached. This warrant allows subscription to a new bond issue at a fixed price. In practice, the bond and the subscription warrant are listed separately.

Bond warrant: a bond warrant entitles the holder to buy, over one or more specified periods, in a set proportion and at a set price, securities representing bonds of the issuer. When the warrant is attached to a bond (French OBSO), it is generally detachable from this bond, and can be traded separately, in the case of listed companies.

4.2 Risks related to bonds

Credit risk	Credit risk (or issuer risk) is the consequence, for the investor, of the issuer's total or partial inability to meet its obligations. It depends on the creditworthiness of the issuer. This is assessed by rating agencies which assign 'ratings'. The higher is the rating, the lower is the risk. However, rating agencies are not infallible.
Liquidity risk	Liquidity risk is the likelihood of the investor facing difficulties to recover his funds before the maturity date, if there is one. It depends on the existence and operation of a secondary market for the instrument. The higher the volume of trading, the lower the risk of liquidity.
Foreign exchange risk	Foreign exchange risk is the likelihood that an unfavourable change in the currency in which one invests reduces the return on the investment. It is nil for bonds denominated in euros, but exists for bonds denominated in other currencies.
Interest rate risk	Interest rate risk is the risk related to a change in the market interest rate leading to a fall in the price of the security. In the event of a sale on the secondary market at a time when the market rate is higher than the bond's nominal rate, the investor will suffer a capital loss. Conversely (market rate lower than nominal rate) the investor will realise a capital gain.
Volatility risk	The volatility risk is the likelihood that the price of an investment is subject to fluctuations, such as to lead to a capital gain or capital loss. This risk is particularly present for convertible bonds.
Other risks	Certain bonds may come with an option allowing the issuer to redeem the bonds early at a given price and on a given date. This option is used when the market's long-term interest rate has fallen significantly below that of the bond.

5. Shares

5.1 General characteristics

A share is a unit of ownership representing a portion of a company's share capital. Issuing shares has the effect of distributing the company's share capital among different owners. The shareholder is therefore an owner of the company, in proportion to the number of shares he owns.

Since shares represent ownership of a company, they are in general permanent, unlike bonds which are debt securities representing a loan, granted for a given period, and therefore have a maturity. Shares do not generate any fixed income, unlike bonds which produce periodic interest on the loan granted. Dividend and increase in the share price (capital gain), if any, represent the 'gain' produced by a share.

Only registered shares, where the share capital is full paid up, and bearer shares are admitted to trading. Moreover, for a share to be admitted to trading, certain conditions laid down by the market authorities must be met (minimum size, publication of detailed and regular information, corporate governance rules, etc.).

The stock market constantly assesses the risk related to each share. The price of a share is a balance between income – dividends and capital gains –

and risks, which depend on several factors. These may be inherent to the company: its financial, technical and commercial position, its investment policy, its own outlook and that of the industry, etc. They may also be external since the stock market is impacted by political events, the economic and monetary situation, both national and international, and emotional and irrational factors that can amplify, upward and downward, fluctuations in stock market prices. All these complex factors impact the share price and may render it rather volatile in the short term. Investment in shares must therefore be considered as a long-term investment.

Venture capital

Venture capital consists in a temporary investment in a non-listed company, in view of generating capital gains subsequently. 'Venture capital' is a US term, also called 'private equity'. Strictly speaking, venture capital only concerns equity investment in new companies or those about to be created.

Depending on cases, a venture capitalist may invest in ordinary shares, preferred dividend shares or shares with equity warrants (French ABSA). Venture capital investment is generally carried out by *Sociétés de Capital-Risque* (SCR - venture capital firms), special funds (FCPR, FCPI, FIP) or des *Sociétés par Actions Simplifiées* (SAS - simplified public limited companies).

Rights attaching to shares

Dividend right: if the company has made profit and the general meeting of shareholders decides to distribute all or part of the profit and not to reinvest it or allocate it to reserves, the shareholder is entitled to a share of the profit, called dividend.

Dividends may vary from one year to the next, depending on profits made as well as the distribution policy. If the financial year closed with a loss, it is possible that no dividend is paid out. Dividend is therefore never guaranteed. Dividend is generally distributed in cash. Sometimes, a shareholder may be able to receive dividend in the form of new shares, in accordance with a pre-established proportion.

- **Voting rights:** these rights attached to shares are exercised at the company's general meetings, thus allowing the shareholder to participate in major decisions taken by the company. While a simple, double or no voting right may be attached to a share, only shareholders have voting rights. Unlike creditors, they do not benefit from any repayment guarantee and share the company's risk.
- **Disclosure rights:** before the general meeting, shareholders may obtain information from the company on its balance sheet, content of the securities portfolio, statutory auditor's report, and other periodic and specific information.

- **Ownership rights:** in the event of liquidation, the shareholder is entitled to a portion of the share capital.
- **Subscription rights:** a shareholder holds a pre-emptive subscription right over new shares in the event of a capital increase decided with the agreement of shareholders. A shareholder who does not wish to participate in this capital increase may sell his subscription right on the stock market if the share is listed. Certain corporations sometimes distribute bonus shares.
- **Right to transfer ownership:** for listed companies, the shareholder can sell his shares on the stock market.

Share warrant (French BSA)

A share warrant entitles the holder to buy, over one or more specified periods, in a set proportion and at a set price, securities representing a portion of the issuer's capital.

When the warrant is attached to a share or a bond (French ABSA, OBSA), it is generally detachable from this share or bond, and can be traded separately, in the case of listed companies.

Right to subscription of shares or Right to pre-emptive subscription of shares (French DSA - DPSA)

The right to pre-emptive subscription of shares is a right attached to each existing share, whereby the shareholder is entitled to subscribe to the issue of new shares. The existing shareholder thus has a pre-emptive right to subscribe to a capital increase, which he can also sell throughout the duration of the operation. It is a commercial right which adjusts the share issue price to its market value.

Allotment right (French DA)

This is the right to participate in a capital increase carried out free of cost, such as through the capitalisation of reserves. This right is traded during the operation when a listed company is concerned.

5.2 Risks related to shares

Credit risk	Credit risk (or issuer risk) is the consequence, for the investor, of the issuer's total or partial inability to meet its obligations. Shares represent risk capital: the issuing company has no obligation to pay them back. In the event of bankruptcy, shares may lose practically all their value.
Liquidity risk	Liquidity risk is the likelihood of the investor facing difficulties to recover his funds before the maturity date, if there is one. The existence of an organised market, the stock market, ensures market liquidity. It depends above all on the volume of transactions in the share: the higher the company's market capitalisation, the larger the market for its shares and thus the higher its liquidity.
Foreign exchange risk	Foreign exchange risk is the likelihood that an unfavourable change in the currency in which one invests reduces the return on the investment. This risk is low for shares listed in euros and is related to the portion of the company's assets or turnover denominated in foreign currencies. For shares listed in a currency other than euro, there is a risk of foreign exchange losses when the shares are sold.
Interest rate risk	Interest rate risk is the risk related to a change in the market interest rate leading to a fall in the price of the security. In general, an increase in the market interest rate has a negative impact on share prices.
Volatility risk	The volatility risk is the likelihood that the price of an investment is subject to fluctuations, such as to lead to a capital gain or capital loss. It mainly depends on the creditworthiness of the company, prospects in its industry and the general stock market trend. A so-called 'speculative' share involves a higher price volatility risk than the share of a company whose business is stable.
Capital Risk or redemption risk	Capital risk or redemption risk is the likelihood that the investor does not recover, at maturity or upon his exit from the investment, the full amount of his initial investment. There is always a risk of selling a share at a loss, i.e. at a price which is less than the purchase price. This risk is high, particularly in the short term.
Other risks	The market risk (uncertainty over rate changes, inflation, the economic climate, political situations, and unexpected events) can never be ruled out in the case of shares.

6. Derivative financial instruments

6.1 General characteristics

Derivative financial instruments or products were created to cover the risk related to foreign exchange, shares, interest rates and primarily volatility. They are called 'derivatives' in the sense that they are 'derived' from the underlying financial instruments that they are meant to cover.

A derivative financial instrument gives the holder the right or the obligation to buy or sell an underlying asset, such as a share, currency or stock market index, at a pre-defined price and for a given period.

A derivative must not be mistaken for an investment in the underlying asset. At the expiry of the exercise period, it loses its value.

Derivative financial instruments are highly risky investments: the outcome of the investment is extremely variable and the recovery of the amount invested is highly uncertain; in certain cases, the loss can theoretically be unlimited. Derivatives therefore require very close monitoring, must only account for a limited portion of the overall portfolio and must only be used by sophisticated investors.

Specialised financial markets offer standardised (options and futures) contracts and organise the operations of the market so that anyone can buy or sell contracts by systematically finding a counterparty.

Main types of derivative financial instruments

The main categories of derivative financial instruments are swaps, options, warrants and futures.

Leverage effect

Derivative financial instruments may generate a much more substantial profit compared to the initial investment. This is called the leverage effect. For example, to invest in options, one simply pays the premium. And yet, the resulting profit may be very substantial. However, there is a flip side: if the price, during the instruments' life, does not move as expected, the entire investment may be lost.

The leverage effect is therefore double-edged. It is important to always bear in mind that a potential high gain involves a high risk.

6.2 Options

General characteristics

An option is a financial instrument that can be used for various purposes, such as to protect a portfolio against a risk, to realise an additional return or to speculate on changes, upward and downward, in the price of assets as different as commodities (oil, wheat, metals, gold, etc.), interest rates, foreign exchange rates or shares. An option is a contract between a buyer, also called a holder, and a seller, also called issuer, giving the holder the right to trade a certain quantity of an underlying asset, at a predetermined price (exercise price) and at a given date (European type of option) or within an agreed period of time (US type of option).

The option gives the buyer/holder a right, but gives the seller/issuer an obligation: if the holder of the option expresses the desire to go ahead with a transaction, the seller has the obligation to carry out this transaction. In return for this obligation, the seller receives a premium.

Call option (bull contract)

It gives the holder of the option the right to buy, over a given period or at a given time, a certain quantity of an asset - the contract size. The seller of the option has the obligation to deliver the agreed quantity of the asset at the exercise price if the holder decides to exercise his right.

An investor who buys a call option expects an increase in price (e.g. of the underlying share).

Put option (bear contract)

It gives the holder of the option the right to sell a certain quantity of an underlying asset, at an agreed price. The seller of the option has the obligation to buy a certain quantity of that asset at the agreed price.

An investor who buys a put option expects a decrease in price (e.g. of the underlying share).

How they work

At the due date, the buyer may exercise his right, but has no obligation to do so. The seller's obligation is extinguished if the buyer does not exercise his right.

This option premium compensates the option seller for the obligation and thus for the risk that he assumes. The premium is the price of the option and reflects what the market is willing to pay for the right of exercise that it represents. It is not fixed over the entire life of the option, and varies practically every day. It depends on the two elements that form the option, namely the option's intrinsic value and the option's time-value: the price of an option is higher the longer its life; all other things remaining constant, its price falls rapidly as the expiry approaches, until it reaches zero on that date.

Options may be traded on a secondary market. To facilitate their trading, each organised asset market has standardised the terms of the contract. Thus, in the case of shares, the term of the option is generally of three, six, or nine months; the contract concerns 100 shares and the exercise price is given per share.

Many options are not linked to a specific share but rather to a basket of shares, the evolution of which is measured by a stock market index.

Options are listed on separate stock markets. Most financial centres have an organised options market and put at the disposal of interested investors information brochures describing in particular the operating procedures and the instruments used.

Options can be purchased via any bank or brokerage firm.

Example of a call option

Consider the case of a call option to buy share

X over the next three months at €50. Let us assume that the current price of the share is €45 and the option costs €1.50. The buyer who paid €1.50 for this option hopes that, before three months, the price of share X will increase sufficiently for it to be interesting to exercise the option (i.e. pay €50 to obtain the share) than to buy the share on the stock market. If that is the case, the total cost of one share X will be €51.50 (exercise price €50 + option price €1.50).

If three months later, the share is worth €55, the investor can gain €3.50 (€55 - €51.50) by exercising his option and reselling the share directly on the stock market. The more the price increases above the cost price (€51.50), the higher the gain produced by the option.

The value of a call option therefore increases with the probability that the share price exceeds the exercise price. This probability is higher the longer the life of the option and the higher the volatility of the share.

However, if share X is worth less than €50, the investor will not exercise the option; he will suffer a loss (a profit for the seller of the option), but that will be limited to his maximum initial investment, which is the price of the option, or €1.50. Considering the purpose for which it is bought, the call option is therefore a bull contract.

6.3 Warrants

General characteristics

A warrant is a contract which gives its owner the right to buy (call warrant) or sell (put warrant) an underlying asset during a defined period and at a predetermined price. Any financial product can be subject to a warrant: share, bond, currency, stock market, etc.

A warrant is a right, not an obligation. This right can be exercised when it is most convenient for the holder, either during the period (US type of warrant), or at the end of the defined period (European type of warrant). The contract specifies the quantity of securities to buy or sell when the right is exercised. The settlement is in cash or in the underlying asset.

There are two types of warrants: covered warrants and uncovered warrants. Covered warrants give the possibility to subscribe to new shares, in accordance with terms and conditions set out upon their issuance. Uncovered warrants are different in that they relate to existing shares and they are issued by financial institutions, mainly banks.

How they work

The price of a warrant changes in accordance with specific parameters: the price of the underlying asset, its volatility, the residual life, the price of exercise of the right, the interest rate over the period, the potential return on the underlying asset.

With movement of the underlying asset being a major factor, it is very important that the investor should have a correct expectation of this movement.

The life of a warrant is generally limited: the exercise takes place within a specified period (the exercise period) and the warrant loses any value after the expiry date. It is therefore preferable to trade it before that.

In most cases, a warrant exists on its own basis. It can be traded on the stock market and listed on the same stock market as shares.

The fees for the purchase or sale of warrants are ordinary stock market fees for share transactions, and may vary depending on the bank or the brokerage firm. An investor may buy or sell warrants via his usual financial intermediary, like for shares.

Specific positioning

A warrant is an investment product with a high leverage effect and therefore involves a very high risk. Its performance outlook is much higher than that of shares. The conditions for issuance and listing of a warrant are such that it can be considered as a transferable security, although from an economic point of view it is like an option (on shares, indices, interest rates, foreign exchange rates).

The risk of loss for one who invests in warrants is limited to his investment, which makes them different from options (the theoretical risk is unlimited for uncovered short positions). Warrants and options are also different in other respects. The trading market is not the same. The underlying assets are more varied in the case of warrants. Lastly, options have standardised features (maturities, exercise price, share), unlike warrants where these are chosen by the issuer.

6.4 Certificates

General characteristics

Certificates are financial instruments listed on Euronext Paris. It is a generic term that refers to:

- an exchange-traded product issued by a financial institution (bank);
- continuously traded on the market;
- accessible from an ordinary securities account;
- with repayment at maturity in accordance with calculation methods set out and known upon issuance;

A certificate necessarily relates to a unique specific asset or a pool of assets, called the underlying (or support) of the certificate. Each certificate has a parity: this is the number of certificates relating to one underlying (e.g. the parity may be 10 certificates for 1 share).

Owing to their very diverse nature (leverage, optional content), certain certificates are intended for qualified investors and involve a significant risk for performance prospects better than those of shares.

Some common types of certificates

Tracker certificates

Their objective is to faithfully reflect the stock market value of the underlying asset or its opposite trend in the case of bear tracker certificates. Their price moves in the same or the opposite direction as the underlying asset without any leverage effect.

Leverage certificates

Their objective is to amplify the movements of the underlying asset by a more or less significant leverage effect (two times, three times, etc.). At any time, a movement of the underlying gives rise to a positive or negative movement in the price of the certificate in proportion with the leverage, which can be constant or variable.

These products are based on the financial leverage technique, which consists in taking position in an underlying with a reduced outlay, for example by buying or short selling a share. In the event of an unfavourable movement in the underlying, and unlike the Deferred Settlement System and futures, the investor only loses the amount invested thanks to a ‘knock-out’ barrier.

Option certificates

Their objective is to significantly improve the return on a direct investment in the underlying or to produce a multiplier leverage effect.

These certificates take advantage of various market configurations (low interest rates, markets not very volatile or stable, high dividend pay-outs, etc.). They are designed from options (call, put). They can also combine a position directly in the underlying with one or more options. Thus the simultaneous purchase of a share and a call, so-called “covered call” aims to improve the return on a share whose price is expected to change moderately.

6.5 Futures

General characteristics

A ‘future’ is a forward contract whereby two parties undertake to buy or sell a given quantity of an underlying asset, such as currencies, bonds, and stock market indices, at a fixed price and on a specified future date.

Unlike options, futures imply an obligation for both parties: the buyer undertakes, at the end of the contract, to receive the underlying asset in exchange for paying the seller the ‘amount due’.

The seller of the future undertakes to deliver the underlying asset when the contract expires in exchange for the ‘amount due’.

The classification as future implies that the contract is traded on a futures exchange. In other words, the specific feature of a futures contract as a forward contract lies in the way trading is carried out, as organised by a stock exchange. Futures markets have since long been part of the activities of stock exchanges. In Europe, the largest futures exchanges are the London International Financial Futures Exchange (LIFFE) and Euronext.

How they work

The specifications for a futures contract derive directly from two concerns of any futures exchange, which are market security and market liquidity. Each futures exchange defines its own operating structures and the features of contracts, in order to address these two concerns.

As regards security, a so-called 'margin' system is imposed on buyers and sellers, by way of guarantee against any loss on contracts bought or sold due to price fluctuations. For any transaction (buy or sell), an initial margin deposit, representing a percentage of the value of the contracts bought or sold, must be paid into a margin account, opened for this purpose. At the end of each trading day, the Exchange revalues the contracts, giving rise to a transaction in the margin account: debit, owing to a margin call, for the losing counterparties or credit for the counterparties recording a gain. The Exchange therefore generates the counterparties' daily gains and losses, which avoids any risk of major payment default for both its customers and itself.

Trading in futures is facilitated by the existence of fixed terms and conditions: contract dimension, term, settlement procedure.

6.6 Risks related to derivative financial instruments

Credit risk	Credit risk (or issuer risk) is the consequence, for the investor, of the issuer’s total or partial inability to meet its obligations. It is important to ensure that the issuer is solvent. The risk is relatively low if the issuer is an institution under supervision.
Liquidity risk	Liquidity risk is the likelihood of the investor facing difficulties to recover his funds before the maturity date, if there is one. Options: they are traded on organised secondary markets (cf. Euronext). However, liquidity is relative as there is no guarantee of obtaining a good price upon resale. Warrants and certificates: liquidity depends on the volume of transactions in the warrant or certificate. Futures: they are readily tradable on organised markets.
Foreign exchange risk	Foreign exchange risk is the likelihood that an unfavourable change in the currency in which one invests reduces the return on the investment. It is nil for options and futures denominated in euros, as well as for warrants and certificates whose underlying is in euros.

Interest rate risk	Interest rate risk is the risk related to a change in the market interest rate leading to a fall in the price of the security. Changes in interest rates have an impact on the price of options, warrants and certificates.
Volatility risk	The volatility risk is the likelihood that the price of an investment is subject to fluctuations, such as to lead to a capital gain or capital loss. A very high volatility can affect the price of these instruments. It reflects the trends and expectations of the underlying assets and is amplified by the leverage effect, if there is one.
Capital risk or redemption risk	Capital risk or redemption risk is the likelihood that the investor does not recover, at maturity or upon his exit from the investment, the full amount of his initial investment. There is no capital to be repaid. The outcome of the investment is highly variable and recovery of the amount invested is very uncertain.
Other risks	In the event of an unfavourable movement in the price of the underlying asset, the option (in the case of a call), warrant or certificate may lose its value. As regards futures and options, short selling may lead to losses, which are in principle unlimited, for speculators who get their forecasts wrong.

7. Undertaking for Collective Investment

7.1 General characteristics

The general term ‘Undertaking for Collective Investment’ (UCI) means an entity, with or without legal personality, that raises capital from the public and invests it collectively through a portfolio of instruments, in accordance with the risk diversification principle.

UCIs consist of two types of investment vehicles:

- **UCITS (Undertakings for Collective Investment in Transferable Securities**) fall under the European Directive called UCITS, and the way they are created and operate is harmonised.
- **AIFs (Alternative Investment Funds)** fall under the AIFM (Alternative Investment Fund Managers) European Directive and consist of different types of regulated funds not covered by UCITS, such as general-purpose investment fund (French FIVG), private sector equity funds and Real-Estate Investment Company (French SCPI).

There are two legal statuses for UCIs:

- **Open-ended investment companies (French SICAV),** which have legal personality;
- **Mutual Funds (French FCP)**, which are co-ownerships of securities;

The assets are managed by specialists (licensed management companies) who invest the capital received in various financial instruments (shares, bonds, money market instruments, other UCIs, investments in forward markets, repurchase agreements, etc.) in accordance with the fund’s investment policy set out in the prospectus. The investor has no say in the investment policy followed by the UCI. To know if a UCI meet his requirements, he must refer to the prospectus.

How they work

In most cases, an investor can enter or exit a UCI at any time, with each transaction carried out at the book value, called the ‘net asset value per share’, or NAV, at that time.

The NAV is the market value per share of the portfolio’s net assets. It is calculated periodically, typically daily, and is published in the financial press. It is published with some delay as the NAV of a given day can only be calculated the next day, when all market prices are known.

UCIs may be divided into compartments: a UCI may comprise different types of securities, each of them relating to a separate part of the entity’s assets. Upon the issuance of each compartment, a prospectus is published for investors, explaining the specific investment policy.

Different types of shares (French SICAV - Open-ended investment companies) or units (French FCP - mutual funds) may exist under the same UCI: distribution or capitalisation shares/units, denominated in different currencies or subject to different fees, etc. These differentiations offer an investor a broader range of instruments.

The UCI’s management company, depository and statutory auditor monitor compliance with the investment rules.

The Legislator imposes rules for a minimum diversification of the portfolio. The AMF must also give its approval for all UCIs created under French law (or each compartment), or whenever a significant change is made, and approve the prospectus that must be published when this occurs.

Classification of UCIs based on their management objective

UCIs can be grouped into a few broad categories, based on their management objective and thus the type of securities held in the portfolio.

Money market UCIs

Money market funds, also called cash funds, invest mainly in short-term (six to eighteen months) and very short-term (a few days to three months) money market instruments, such as Negotiable Debt Securities (French TCNs), term deposits, repurchase agreements on money market products. Bonds nearing maturity are also likely to be included in these portfolios.

Certain money market funds invest in euros and others in foreign currencies, which then involves a foreign exchange risk. Some choose pools of currencies, such as strong currencies or high interest rate currencies. The investment policy is explained in the fund’s prospectus.

Bond UCIs

These funds invest in bonds, both government and/or corporate bonds.

This sub-category is itself divided into medium-term bond funds (average maturity between 18 and 30 months) and long-term bond funds (maturity over 30 months). The currency, maturity and geographical distribution of the bond funds vary depending on the investment objective.

The investment policy, explained in the prospectus, may place constraints as to the choice of currencies (one or more currencies), issuers (e.g. only top-tier issuers) or maturities (short, medium or long term).

The advantage for an investor is that he participates indirectly in a diversified bond portfolio for a low subscription cost.

Equity UCIs

Equity funds invest primarily in shares and related instruments. There are ‘general-purpose’ equity funds, i.e. funds that invest in all industries and across the world, as well as equity funds that specialise geographically (French or European equity funds, etc.), by industry (Telecommunications, Health, Biotechnology, Finance, etc.), or by type of shares (large caps, small caps).

The investment policy is explained in the fund’s prospectus.

Equity funds are managed by specialist equity funds managers, whose role is to constantly analyse financial and economic information.

The management may be:

- index related: in this case, it follows the performance of a specific index. Such funds are called EFT (exchange-traded funds)
- active: in this case, the fund manager tries, through a selection of shares, to outperform a stock exchange index or the ‘market’.

Discretionary UCIs

Discretionary UCIs, also called profiled funds, invest their portfolio in shares, as well as bonds, futures, UCIs and money market products. Banks often offer several types of standard portfolios, according to different risk profiles. ‘Defensive’ funds favour bonds, ‘neutral’ funds seek a balance between equity and bonds and ’dynamic’ funds invest primarily in equity. The investment policy is explained in the prospectus.

Capital-protected UCI

Capital-protected funds or ‘formula funds’ guarantee, at maturity, at least the repayment of the initial NAV. The fund’s yield to maturity is linked to the performance of a stock market index or a basket of shares. In certain cases, capital-protected funds also offer a minimum yield guarantee. This guarantee is possible because the fund invests a large portion of its portfolio in hedging products such as swaps and options. The formula used is always explained in the UCI’s prospectus.

Funds of funds

Funds of funds or multi-management funds are funds that themselves invest in other investment funds.

They are active management funds: managers of funds of funds make a strict selection among the best fund managers, based on a number of stringent criteria and pool these funds into one and the same basket. The selection of funds is regularly updated.

Feeder-Master UCIs

A feeder UCI invests only in securities of another UCI, called master. This technique concentrates the management of assets at the level of the master, making it more effective and less costly. The marketing policy may be differentiated across the feeders.

Hedge fund UCIs

UCIs of hedge funds invest primarily in alternative funds and foreign investment funds specialising in alternative management. This type of management involves a certain decorrelation of financial markets (strategies based on Relative Value, Long-Short Equity, Global Macro, Managed Futures, etc.), which does not entirely eliminate risks for the investor. This type of fund is for sophisticated investors.

Trackers

The term ‘trackers’ or ’ETF’ (Exchange Traded Funds) refers to a special type of investment listed on Euronext’s product segment dedicated to trackers called ’NextTrack’. These investments are sometimes also called ‘equity/indices’. They are actually funds or baskets of funds listed on the market in the same way as shares.

These products, issued by credit institutions, offer the performance of an index or a basket of shares and combine the advantages of equity (simplicity, continuous trading, etc.) with those of traditional funds (access to a wide choice of securities, diversification):

- any investor can take advantage of the performance of an industry, a country or a region in a single transaction;
- since trackers are index funds that can be exchange-traded just like shares, any investor can easily buy trackers under price conditions similar to those of shares.

Real-estate UCIs

UCIs invested in real-estate consist of OPCIs and SCPIs:

- ***Real-estate investment schemes (French OPCIs****)* invest primarily in rental real-estate but also in financial assets (bonds, shares, UCIs, etc.) offering higher liquidity. However, they are exposed to the risks of both the real-estate market and the financial market;

- ***Real-estate investment companies (French SCPIs)*** are partnerships whose objective is the acquisition (directly or indirectly) and management of rental real-estate assets. The main risks relate to developments in real-estate markets (valuation and rent) and the limited liquidity, as the management company does not guarantee the resale of units.

7.2 Risks related to financial instruments

Credit risk	Credit risk (or issuer risk) is the consequence, for the investor, of the issuer's total or partial inability to meet its obligations. It is negligible for most UCIs, but exists for hedge funds.
Liquidity risk	Liquidity risk is the likelihood of the investor facing difficulties to recover his funds before the maturity date, if there is one. It is low for most UCIs (sale under market conditions, subject to exit fees as applicable) but exists for hedge funds.
Foreign exchange risk	Foreign exchange risk is the likelihood that an unfavourable change in the currency in which one invests reduces the return on the investment. It depends on the investment policy (see prospectus). It is low to non-existent for funds that invest only in instruments denominated in euros, and high for funds that invest in instruments denominated in volatile currencies without currency hedging.
Interest rate risk	Interest rate risk is the risk related to a change in the market interest rate leading to a fall in the price of the security. It is low for money market UCIs. For a bond UCI, this risk is the same as that of an ordinary bond with a residual maturity equal to the average maturity of the bond portfolio. Generally speaking, an increase in interest rates will negatively impact share prices, and, as a result, prices of an equity UCI or a tracker.
Volatility risk	The volatility risk is the likelihood that the price of an investment is subject to volatility of fluctuations, of varying intensity, such as to lead to a capital gain or capital loss. This risk depends greatly on the instruments in which the UCI invests: it is very low in the case of money market UCIs, and can be very high in the case of equity UCIs.
Capital risk or redemption risk	Capital risk or redemption risk is the likelihood that the investor does not recover, at maturity or upon his exit from the investment, the full amount of his initial investment. Refund. Unitholders do not benefit from a capital protection, unless expressly mentioned in the UCI's prospectus.
Other risks	Risk linked to discretionary management: the discretionary management style is based on the expectation of how the different markets (shares, interest rates) will perform. There is a risk that the UCI is not invested at any one time in the most performing markets. Market risk: a UCI is subject to the risks related to its direct and indirect investments in financial instruments. These risks are those attaching to direct investments in these financial instruments and listed above: credit, liquidity, foreign exchange, interest rate, volatility, capital risks. Performance risk: this is the risk that the UCI's performance is not in line with its objectives. In the case of real estate investment schemes (French OPCIs), there is a risk related to unfavourable developments in the real estate market.

8. Structured products - EMTNs

8.1 General characteristics

A Complex Financial Instrument or Structured Product means a product:

- whose legal nature is very often that of a debt security (bonds, negotiable debt securities, etc.);
- indexed and/or having an option component, i.e. including one or more derivative(s);
- whose issuance is often customised by a credit institution for a client or limited group of clients;

Most structured products are in the form of EMTNs. EMTN stands for European Medium Term Note. They are bonds issued on the European bond market by financial institutions or their subsidiaries that are sometimes used to support complex financial products (structured products). So called 'securitisation' instruments are also structured products.

How they work

The goal is to offer investors a performance in accordance with a predefined mechanism. EMTNs have a defined lifespan, generally of three to ten years: the investor will derive the benefits of the mechanism on condition of keeping his investment until maturity.

The issue often relates to an investment strategy and provides the benefits of certain predefined scenarios over a given time horizon. In certain cases, the capital is partly or fully guaranteed by the issuer.

The return on a structured product depends on an underlying that can range from an index (CAC40, Eurostoxx 50, etc.), a basket of shares or a currency.

The risk/return ratio of structured products is defined in accordance with their protection level at expiry, their underlyings and their maturity. Certain issuances are approved by a regulator (e.g. such as the AMF in France), are listed on the stock market and have a prospectus. But others do not. The minimum purchase amounts are above EUR 100,000 for products not approved by the AMF and are reserved for professional investors within the meaning of Article L533-16 of the French Monetary and Financial Code.

While EMTNs are close to formula funds in terms of their objective, they are different on other points (legal nature, AMF approval, etc.).

Certain certificates may have similarities with structured products in terms of their mechanism, but they do not have the same legal nature (cf. 6.4 ‘Certificates’).

Some common types of structured products offered

‘Autocallable’ products

Yield enhancement product which offers:

- Protection of the capital invested up to a certain level of fall of the underlying
- Delivery of a coupon in proportion with the investment period
- The advantage of an early redemption mechanism

Category	Variants	Example
Autocalls (on shares, interest rates, commodities, currencies)	with barrier	The product is automatically repaid with a return of 8% per year from the first year when the Euro Stoxx 50 is on the rise since the start. If, at the 5-year maturity, the condition is not met and the index has not fallen by more than 30%, the initial capital is repaid. However, if this decrease exceeds 30%, the product pays back the capital less the amount of decrease.
	with coupon	The product pays an annual coupon of 6.50% if the Euro Stoxx 50 does not fall by more than 20%. The product is automatically repaid at the level of the initial capital from the first year when the Euro Stoxx 50 is on the rise since the start. If, at the 5-year maturity, the condition is not met and the index has not fallen by more than 40%, the capital
	with coupon with airbag	The product pays an annual coupon of 5% if the Euro Stoxx 50 does not fall by more than 20%. The product is automatically repaid at the level of the initial capital from the first year when the Euro Stoxx 50 is on the rise since the start. If, at the 5-year maturity, the condition is not met and the index has not fallen by more than 40%, the initial capital is repaid, plus the coupons not paid. However, if this decrease exceeds 40%, the product pays back the capital less the amount of decrease.

Category	Variants	Example
Autocalls (on shares, interest rates, commodities, currencies)	with coupon with airbag	The product pays an annual coupon of 5% if the Euro Stoxx 50 does not fall by more than 20%. The product is automatically repaid at the level of the initial capital from the first year when the Euro Stoxx 50 is on the rise since the start. If, at the 5-year maturity, the condition is not met and the index has not fallen by more than 40%, the initial capital is repaid, plus the coupons not paid. However, if this decrease exceeds 40%, the product pays back the capital less the amount of decrease.
	with coupon with memory	The product pays an annual coupon of 5% if the Euro Stoxx 50 does not fall by more than 20%. If the coupon is not paid in a particular year, it is stored in the memory and paid the next year when the condition is met. The product is automatically repaid at the level of the initial capital from the first year when the Euro Stoxx 50 is on the rise since the start. If, at the 5-year maturity, the condition is not met and the index has not fallen by more than 40%, the initial capital is paid back. However, if this decrease exceeds 40%, the product pays back the capital less the amount of decrease.

'Participating' products

Performance product which offers:

- While partly protecting the investor's capital in the event of a fall
- An upward indexation of the product's underlying at maturity

Category	Variants	Example
Participating products (on shares, commodities, currencies, funds)	with capital guaranteed	The product pays back, at the end of 5 years, the initial capital plus X% of the rise of the Euro Stoxx 50 in USD.
	with capital not guaranteed	The product pays back, at the end of 5 years, the initial capital plus 150% of the CAC40 increase. However, if the index falls by more than 30%, **the repayment is equal to the initial capital less the decrease.**
	with barrier	The product pays back, at the end of 5 years, the initial capital plus the increase in gold prices up to X%, **after which it pays back a compensation balance** of 5%.
	on average	The product pays back, at the end of 5 years, the initial capital plus X% of the rise of the Euro Stoxx 50, calculated on the **monthly average** over the last two years.

8.2 Risks related to structured products

Credit risk	Credit risk (or issuer risk) is the consequence, for the investor, of the issuer's total or partial inability to meet its obligations. It is important to ensure that the issuer is solvent. The risk is low if the issuer is an institution under supervision.
Liquidity risk	Liquidity risk is the likelihood of the investor facing difficulties to recover his funds before the maturity date, if there is one. In general, the issuer ensures market liquidity on this type of investment, but the investor must refer to the issuance document for the precise conditions of exit before maturity.
Foreign exchange risk	Foreign exchange risk is the likelihood that an unfavourable change in the currency in which one invests reduces the return on the investment. Depending on the underlying and the predefined performance mechanism, there may be a currency risk.
Interest rate risk	Interest rate risk is the risk related to a change in the market interest rate leading to a fall in the price of the security. In the event of disposal of the product before maturity, interest rates may affect the valuation. At maturity, interest rate risk only exists if the predefined performance mechanism takes into account the level of interest rates.
Volatility risk	The volatility risk is the likelihood that the price of an investment is subject to fluctuations, such as to lead to a capital gain or capital loss. The valuation of a structured product before and at maturity depends on a number of market factors and in particular on its underlying, and can therefore be highly volatile.
Capital risk or redemption risk	Capital risk or redemption risk is the likelihood that the investor does not recover, at maturity or upon his exit from the investment, the full amount of his initial investment. It exists in the event of sale before maturity. At maturity, there is a risk if the mechanism does not provide a formal guarantee in terms of capital.
Other risks	In the event of disposal before maturity, the investor is not entitled to the predefined performance mechanism.