

## Investor Guide

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### RISKS

Risk is inherent in financial instruments and is synonymous with uncertainty, meaning the possibility of achieving not only lower or higher performances than expected, but also having to assume a total or partial loss of the invested capital, or even, in the worst-case scenario, losing an amount greater than the initial investment. There is a correlation between risk and performance: generally, the higher the expected performance, the greater the risk taken.

#### **Business Risk or Intrinsic Risk**

The investor must be aware that any investment in a security issued by an entity may carry the risk of depreciation in its value due to reasons related to the management of that entity.

#### **Economic Risk**

Changes in the activity of a market economy generally impact the evolution of financial instrument prices. Prices fluctuate roughly in line with the cycles of economic contraction or growth. The duration and extent of these cycles can vary, as can their effects on different sectors of the economy. Additionally, business cycle may differ between countries. Failing to take into account or incorrectly analyzing the evolution of the economic situation when making an investment decision can lead to losses. It is important to consider the impact of the economic cycle on the prices of financial instruments.

#### **Inflation Risk**

The investor may suffer losses due to a devaluation or depreciation of the currency in which they invest. This can indeed affect both the real value of existing assets and the expected real return on those assets.

#### **Country Risk**

In the event of restrictions on the free movement of foreign currency or financial instruments, it is possible that a foreign debtor, even if solvent, may not be able to pay interest or repay their debts at maturity. This often occurs in the case of economic sanctions or currency controls in their home country. Such a risk indicates local economic and/or political instability. Thus, payments owed to the investor may default due to a lack of currency or transfer limitations abroad. This scenario may arise when a bond is issued in a foreign currency that may temporarily not be convertible due to currency control measures. As a precaution, the investor can consult studies and information on country risks published by specialized organizations (OECD, COFACE, etc.).

#### **Exchange Rate Risk**

Currency prices fluctuate. There is thus an exchange rate risk whenever an investor holds financial instruments issued in a foreign currency. Key elements influencing currency prices include the inflation rate of the country concerned, the interest rate differential compared to foreign countries, perceptions of economic conditions, local and global political situations, and investment security. Furthermore, psychological events, such as crises of confidence in political leaders, can weaken a country's currency.

#### **Liquidity Risk**

In cases of insufficient market liquidity, the investor risks being unable to sell their financial instruments. It is important to distinguish between illiquidity related to supply and demand and illiquidity related to the inherent characteristics of the financial instrument or market practices. Illiquidity due to supply and demand occurs when the supply or demand for a financial instrument at a certain price is very low or nonexistent. In such circumstances, buy and sell orders may not be executed immediately, or may only be partially executed or at unfavorable conditions. Additionally, transaction costs may be higher. Illiquidity related to the characteristics of a financial instrument may occur, for example, due to a lengthy process for transferring ownership of registered shares, the specific characteristics of the financial instrument (closed-end venture capital funds), or long execution times due to local practices. The issuer of the securities cannot guarantee that a market can be created or maintained for trading these securities, nor that there is a regular price or valuation of their value. Therefore, these securities may be illiquid, meaning their holders may face difficulties selling them and may be forced to hold them until maturity, if they have one. Similarly, if a third party is interested in buying these securities, the transaction price will depend on their offer and may not correspond to the market value of the

product, being lower than the nominal value and/or the purchase price paid by the investor. Liquidity risk can thus result in a penalization of the selling price when a quick transaction is necessary.

#### **Behavioural Risk**

Irrational factors can influence the overall movement of prices, such as trends, opinions, or rumors that may lead to significant price drops, even though the financial situation and outlook of companies have not deteriorated. This represents a generalized aversion to market risk.

#### **Credit Risk**

Purchasing financial instruments financed through credit presents certain advantages. Notably, using credit allows the investor to acquire new assets while retaining their financial instruments. However, the borrower faces the risk of needing to provide additional collateral if the value of the financial instruments used as collateral is or becomes insufficient. If they are unable to provide it, the bank may be forced to sell the deposited securities at an unfavorable time. Leverage can be achieved through the purchase of financial instruments on credit. The concept of leverage is defined in the glossary.

#### **Counterparty Risk**

The investor should pay attention to the identity of the counterparty that has made commitments towards them. The default of the counterparty may lead to the total or partial loss of the invested funds. The rating of the counterparty is an important indicator for assessing this risk.

#### **Information Risk**

The investor may be led to make inappropriate investment choices due to a lack of information, incomplete, or incorrect information. It is advisable to rely on multiple sources of information before investing!

#### **Transmission Risk**

When placing an order, the investor must provide certain information necessary for its execution by the bank. The more precise the order given, the lower the risk of error.

#### **Transaction Cost Risk**

The fees and commissions of all entities involved in executing an order will be charged to the investor. The investment will only become profitable once all these costs have been covered.

#### **Additional Risks in Emerging Markets**

In the case of investments in emerging markets, the previously mentioned risks are amplified. For example, political or economic changes will have a greater impact on the prices of financial instruments in emerging markets than in other countries. Similarly, emerging markets generally react more strongly and sustainably in the event of natural disasters or wars.

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## **DESCRIPTION OF INVESTMENT TYPES AND SPECIFIC RISKS**

### **1. TERM DEPOSITS**

A term deposit consists of depositing cash with a banking institution for a specified period. The deposit can be made for the short, medium, or long term. The depositor receives fixed or variable interest. In principle, the deposit is only returned at the end of the term. Early withdrawal is subject to a bank's agreement and generally incurs penalties.

#### **RISKS**

Term deposits are primarily subject to risks of inflation, currency fluctuations, interest rates, and counterparty risk.

### **2. BONDS**

Bonds are negotiable debt securities, either registered or bearer, issued by a state, a public authority, or a commercial company, intended for those who lend them capital, and whose nominal value at the time of issuance corresponds to a fraction of the total amount of the loan. There are fixed-interest bonds, variable-interest bonds, and even zero-coupon bonds. The duration and repayment method are predetermined. The bondholder has a creditor's right against the issuer. They can, if they wish, sell their right (in practice, their bond) at the current price, provided it is listed.

## **CHARACTERISTICS OF BONDS**

- **Coupons or Interest:** The loan is generally remunerated. The amount of interest to be received and the frequency of payment are determined at the time of subscription.
- **Repayment:** On predetermined dates: Unless otherwise specified or in the case of issuer insolvency, loans are repaid either at maturity or through annuities. On indeterminate dates: The issuer may reserve the right to repay at a date it determines later at its discretion.
- **Duration:** Short term (up to 3 years), medium term (3 to 7 years), or long term (over 7 years).
- **Yield:** The yield of a bond is the interest rate received, considering its market value on a daily basis. If the bond is purchased during its lifetime, the coupon is just one component of the yield, and the purchase price of the bond must be taken into account. Indeed, if the price paid for the bond is high, the yield decreases, and vice versa.
- **Issue Value:** A bond can be issued at par (100% of nominal value) or at a price below or above par.

### **Convertible Bonds**

This type of bond, generally at a fixed rate, can be exchanged upon request for shares at a price determined at issuance or determinable at a certain date or over a certain period. The subscriber of the bond can, if they wish, become a shareholder in the borrowing company. If the conversion right is not exercised, the repayment and coupon payment terms established at issuance remain unchanged. Due to the existence of a conversion right, the coupon of this type of bond is generally lower than that of ordinary bonds. The value of convertible bonds is primarily dependent on the value of the underlying shares. Thus, if the price of the shares drops, the value of the convertible bond also drops. The risk of loss in value of the bond is therefore greater than for non-convertible bonds (but generally lower than the risk of loss associated with a direct investment in the relevant shares).

### **Coco Bonds**

"CoCos" or "Contingent Convertible Bonds" are bonds or, more precisely, hybrid financial products that can be exchanged for shares under certain conditions. The occurrence or non-occurrence of specific events, detailed in the prospectus, can influence the yield, repayment terms, and expiration date of the product. CoCos are characterized by two attributes:

- A loss absorption mechanism that occurs through a forced transformation of the CoCo (conversion from bond to share) at a predetermined conversion level, or by a complete loss of the obligation to repay the nominal value without exchange for shares.
- A trigger mechanism that can be automatic (e.g., the bank's capitalization indicator falls below a predefined level) or discretionary (the banking supervisory body forces the conversion if deemed necessary).

Given the diversity of CoCos, it is recommended to analyze the issuance documents (prospectus, information notice, etc.) of each CoCo on a case-by-case basis to determine their characteristics. The bank only sells or advises CoCos to clients classified as "professional."

## **RISKS OF BONDS**

### **Insolvency Risk**

The issuer risks being temporarily or permanently insolvent, leading to an inability to pay interest or repay the loan. The solvency of an issuer can change due to the evolution of certain factors during the loan: general economic developments, structural changes specific to the issuer, the financial stability of the company, developments in the issuer's sector, political developments in the issuer's country, etc. This risk varies depending on whether the bonds are issued by a public authority or a private entity, which is generally more susceptible to economic fluctuations. A deterioration in the issuer's solvency has unfavorable repercussions on the price of the bonds it has issued.

### **Interest Rate Risk**

If interest rates rise, the price of a fixed-rate bond decreases. The sensitivity of bonds to interest rate changes depends, in particular, on the remaining term and the nominal interest level. If the bond is held until maturity, there is generally no loss related to interest rate risk. However, if the bond is sold, the holder will incur a loss. This risk does not exist for variable-rate bonds because their remuneration is linked to interest rate changes.

### **Early Repayment Risk**

The terms and conditions of the bond may allow the issuer to repay its loan early. The issuer will be inclined to do so if it can refinance on better terms. An early repayment can affect the expected yield for the investor, as reinvesting the repaid funds may occur under less favorable conditions.

### **Currency Risk**

If the investor subscribes to a bond in another currency, they will be exposed to currency risk and exchange rate fluctuations of that currency.

### **Specific Risks of Certain Bonds**

Certain types of bonds (zero-coupon bonds, foreign currency bonds, convertible bonds, index-linked bonds, subordinated bonds, etc.) involve additional risks to which the investor must pay particular attention. For example, holders of subordinated bonds will only be repaid, in the event of the issuer's default, after all creditors with a higher rank have been paid. In the case of "CoCos," the bondholder who becomes a shareholder may ultimately find themselves in a situation where they must bear the losses of the issuing bank. In the event of the issuer's bankruptcy, their shares will only be repaid last, after all other debts have been settled. The investor thus incurs the risk of losing the capital invested. Investors are encouraged to review the risks outlined in the issuance prospectus and not to acquire such securities before fully understanding all the risks involved.

## **3. SHARES**

A share is a security representing a portion of the issuer's capital. Each holder of a share is called a "shareholder." A shareholder has the right to receive a portion of the company's profits in the form of an annual dividend, the amount of which is proportional to their level of participation. A shareholder only receives dividends if the company's income level permits.

A share is a security issued to the shareholder, establishing their ownership right in a company. Depending on the issuer's country, a share may be registered, bearer, or dematerialized. It represents a fraction of the share capital of a capital company. Shares may be listed on an organized market or unlisted.

### **CHARACTERISTICS OF SHARES**

- **Yield:** The share of profits allocated to each shareholder is called a "dividend."
- **Capital Gains or Losses:** When the share is listed, its price fluctuates with supply and demand. If the share is unlisted, its value will depend on the estimated value of the company's assets.
- **Shareholder Rights:** Financial and participation rights; these rights are determined by law and the statutes of the issuing company.
- **Share Transfer:** The mode of transferring a share depends on its form. The transfer may be conditioned or prohibited by legal, statutory, or contractual provisions.

### **RISKS OF SHARES**

#### **Business Risk**

The buyer of shares is a capital provider. They share in the gains while also contributing to the losses. In the event of bankruptcy, they lose their entire contribution.

#### **Market Risk**

A general market downturn due to uncertainties about global growth prospects can unpredictably affect the stock market as a whole.

#### **Dividend Payment Risk**

The dividend depends on the profits earned by the issuing company. Thus, in the case of low profits or losses, the dividend may be reduced or not paid at all. In any case, there is no guaranteed right to the dividend. The competent body of the company, usually the annual general meeting that decides on the accounts of the previous year, can decide to distribute or not to distribute some or all of the profits made

## **4. DERIVATIVES**

A derivative product is one whose value "derives" from an underlying asset, which can be a financial instrument, a commodity, a market price, such as an index, an interest rate, or a currency exchange rate, or credit risk.

These contracts are concluded between two parties, who exchange the risks inherent in an economic activity: economic agents who do not wish to bear these risks transfer them to other agents willing to take them on. This operation is generally called "hedging." Conversely, taking risks is typically referred to as "speculation."

Derivative products allow for greater leverage than other products: a small investment can control a large position in the market, thus maximizing potential gains, but also possible losses.

There are two main categories of derivative products: optional contracts (options, warrants, and credit derivatives) and futures contracts (futures, forwards, and swaps).

Investing in derivative instruments can incur unlimited risk. The bank generally requires full coverage of this risk throughout the investment period, and the investor may thus have to respond to margin calls from the bank depending on market movements.

### Options

An option is a contract that grants the buyer the right—but not the obligation—upon payment of a premium, to buy (call option) or sell (put option) a specified financial asset at a predetermined price and expiration date (or during a specified period). The seller of the option commits to selling (for a call option) or, as the case may be, buying (for a put option) the asset under the agreed conditions if the option is exercised. The seller of the option faces unlimited risk if they do not hold the underlying asset. The bank will generally require them to fully cover this risk, and the investor may thus have to respond to margin calls depending on market developments.

### Warrants

A warrant is a financial instrument issued by a credit institution that grants its holder the right to buy (call warrant) or sell (put warrant) a specified financial asset (called the underlying asset: stock, index, bond, currency) at a defined price (called the exercise price or strike) at a determined date (called the expiration date).

It differs from an option in several ways:

- The issuer of a warrant is always a credit institution, while any investor can buy or sell an option.
- In the case of an option, parties can buy/sell a standardized options contract on an organized market or, in the case of an over-the-counter option, determine their own contract characteristics. For warrants, it is the credit institution that unilaterally determines these characteristics.
- An investor can only sell a warrant to a third party if they have previously purchased it. In the case of an option, short selling is generally possible.

### Futures

A future is a contract that entails a firm commitment to deliver (for the seller of the contract) financial instruments, currencies, etc. (the underlying asset) or to take delivery (for the buyer of the contract) on a specified date and for a determined amount.

These contracts, which carry an obligation to buy or sell, differ from options contracts, where the buyer merely acquires the right to exercise the option granted. When the investor does not hold the underlying asset, they incur unlimited risk. The bank will generally require them to fully cover this risk, and the investor may thus have to respond to margin calls depending on market movements.

## 5. STRUCTURED PRODUCTS

### CHARACTERISTICS

A structured product is generally a combination of two financial instruments, one being a capital element (usually a bond or a money market instrument) and the other being a risk element (a derivative product, often an option).

Structured products thus possess the risk and return characteristics of the different financial instruments they comprise. The investment duration is determined by the capital element.

They are custom-built to meet the specific needs of investors who are not satisfied with standard financial instruments (monetary placements, bonds, etc.).

Four categories of structured products can be distinguished:

- Capital-protected products, which partially or totally protect the invested capital. This protection is limited to the nominal amount of the structured product and not to the amount actually paid by the investor upon subscription.
- Yield products that provide a high return but do not offer capital protection.
- Participation products that allow for full investment in the underlying financial asset without having to own it. Their risk level is determined by that of the underlying asset.
- Leveraged products that consist of exposure greater than 100% of capital.

Investors should keep the following questions in mind when analyzing a structured product:

What is the time horizon or maturity of the product?

What is the level of capital protection?

What is the level of potential leverage?

What is the risk associated with the derivative products used?

## **RISKS**

In general, the risk level of a structured product is measured by the exposure of the capital element. The capital-protected product is the least risky, while the leveraged product is the most risky. However, within the same category, risk levels can vary significantly.

### **Risks at the Capital Element Level**

The solidity of the guarantee depends on the solidity of its issuer or, where applicable, the guarantor. Capital is thus only guaranteed if the issuer or guarantor can meet its commitments at maturity. The investor only benefits from protection if they hold the product until maturity. This protection is not assured if they sell the product earlier, as its price on the secondary market may be lower than the nominal amount.

### **Liquidity Risk**

The investor is generally bound until the planned maturity at the time of issuance. If they wish to realize their investment before the normal term, the offered conditions may be very unfavorable. There may even be complete illiquidity of the security throughout its lifetime, meaning the investor cannot find a buyer and must hold the product until its maturity, at which point they will be reimbursed by the issuer.

### **Early Redemption Risk**

The issuer of a structured product may provide for an early redemption right in its favor, which it may exercise in case of a decrease in the level of interest rates in the market. Such early redemption can lead to changes in the initial expected returns over the originally planned duration, as the investor may not be able to reinvest the repaid amounts under similarly favorable conditions.

### **Risk of Non-Payment of Coupons**

If the capital element of the structured product consists of a bond, there is a risk, in case of financial difficulties of the issuer, that the coupons that may be due will not be paid in whole or in part on the determined due dates.

## **EXAMPLE OF A REVERSE CONVERTIBLE**

A reverse convertible is a structured product issued by a bank. The capital component of a reverse convertible consists of a debt instrument against a banking establishment. The risk element consists of the option for the bank to discharge its debt by paying either the initial invested amount or a predetermined number of shares.

If, at maturity, the price of these shares is lower than the nominal invested amount, the bank will opt to deliver the shares. The holder of the reverse convertible will then incur a loss equivalent to the difference between the invested amount minus the value of the shares received. This loss can be partially or fully offset by the amount of coupons received. In return for this risk, the issuing bank typically commits to paying a high-interest rate.

## **6. INVESTMENT FUNDS**

An investment fund is a company or an undivided co-ownership that collects funds from a number of investors to invest in various assets following the principle of risk diversification and to share the results of the management of these assets with those investors.

### **GENERAL RISKS**

#### **Management Risk**

Since the return of an investment fund depends, among other things, on the skills of its manager and the quality of their decisions, errors in the management of the fund can lead to losses or lower values.

#### **Risk of Decline in Share or Stock Prices**

The value of the shares or stocks of investment funds (referred to as NAV or net asset value) is calculated on a regular basis (daily, monthly, quarterly, etc.) and depends on the aggregated value of the securities, currencies, or other assets composing the fund's holdings. The NAV is therefore subject to a decline risk that reflects that of the underlying assets. All else being equal, the greater the diversification of investments, the lower the risks of losses will theoretically be. Conversely, risks are higher in the presence of more specialized and less diversified investments. Investors should pay attention to the specific risks associated with the financial instruments and other assets in which the fund is invested. Investors should inform themselves about the specific risks of each fund by consulting the issuance prospectus and, where applicable, the KID (Key Information Document).

## **MAIN TYPE OF FUNDS.**

### **Money Market Funds**

Money market funds invest in short-term negotiable debt instruments (less than one year) issued by states, banks, and companies. This includes treasury bills, certificates of deposit, and even bonds issued by multinational companies. The yield of this type of fund is very close to the money market rate, hence the name money market funds. The objective of a money market fund is to generate a stable income while placing great importance on the protection of the invested capital. Money market funds are the least risky funds. However, there is no capital guarantee. The manager selects money market securities for which the issuers present high guarantees and for a loan duration not exceeding one year to limit risks.

### **Bond Funds**

Bond funds invest in bonds. Bond borrowings can be issued at fixed or variable rates, for varying durations (longer than one year). The risks of these funds are simply the risks of the underlying securities. They offer the advantage of diversification and accessibility to markets that may be narrow and difficult for individuals to access.

### **Equity Funds**

Equity funds primarily invest in stocks. Just like bond funds, the risks of equity funds are the risks of the underlying securities.

### **Mixed Funds / Profile Funds**

The category of diversified funds includes funds that do not fall into the three main categories (money market, bond, and equity) described above. Diversified funds invest in monetary products, bonds, or stocks from one or more geographical areas. They can also invest in derivative products. The manager freely chooses the market in which to invest, in accordance with the fund's prospectus. Profiled funds are a type of diversified fund composed of assets determined based on the level of risk desired by the investor. These funds are usually assigned labels such as "cautious," "balanced," or "dynamic" based on their risk level.

## **OTHER SPECIFIC TYPE OF FUNDS**

Funds that are distinguished by the nature of the assets in which they invest, their investment strategy, or their location.

### **Sector Funds**

Sector funds invest exclusively in a specific sector or a group of sectors. Historically, sector funds specialized in real estate, commodities, gold, and precious metals first emerged. Today, there are sector funds in all fields (health, environment, etc.).

### **Absolute Return Funds**

The objective of an absolute return fund is to offer a positive and stable return over time, exceeding the return of risk-free assets, rather than outperforming a benchmark index.

### **Trackers**

Trackers (also known as Exchange Traded Funds or ETFs) are index funds that strive to replicate the performance of stock market indices. Having the same composition as the index they replicate, they vary up or down according to the same amplitude as the index, possibly multiplied by a coefficient in the case of a leveraged tracker. Trackers are listed on the stock exchange. They allow investors, through a single vehicle, to invest in a set of securities representing a geographical area (domestic or international indices) or a specific sector (such as banks or oil companies).

### **Specific Risks of Trackers**

#### **Price Risk**

The prices of trackers are subject to the unpredictable fluctuations of the markets they replicate, leading to proportional loss risks. Increases or decreases in prices over short, medium, or long terms alternate without it being possible to determine the duration of these cycles.

#### **Dividend Non-Payment Risk**

The dividend of a tracker is primarily determined by the profits made by the companies comprising the index in which the tracker invests. Thus, in the event of low profits or losses, it is possible that the dividend may be reduced or that no dividend will be distributed.

#### **Company Risk**

The investor should be aware that there is an intrinsic risk for each value comprising the tracker.

## 7. HEDGE FUNDS (ALTERNATIVE FUNDS)

Alternative management refers to a very diverse set of specialized, technical asset management methods or strategies focused on a specific market niche.

**Hedge funds** are the most well-known form of alternative investments. Contrary to what their name might suggest (hedge), they are not necessarily used for "hedging" purposes: they are, in fact, partly high-risk investments aiming to generate above-average returns.

A hedge fund is a collective investment organization that uses derivatives for investment purposes and may engage in short selling or use significant leverage through credit. Unlike "traditional" funds, hedge funds typically achieve performance that is disconnected from the overall trends of stock or bond markets. A hedge fund is generally less transparent than a traditional investment fund, as investors are not always informed about the strategies followed or changes in strategies, nor about potential changes in management. Additionally, they are not required to publish. Investors can only make their hedge fund investments on specified dates. Hedge funds have limited liquidity, long lock-up periods, and restrictive exit terms. The hedge fund business is very technical and specialized, typically practiced by experienced managers whose personal wealth is often partially invested in the fund. Managers are usually compensated based on the fund's performance.

Due to the lesser diversification of portfolios (choosing a single strategy) and the potentially significant use of derivatives, hedge funds fall outside traditional regulated fund categories. A hedge fund typically specializes in a specific alternative strategy. That is why there are as many types of hedge funds as there are alternative strategies. Hedge funds attract wealthy and informed investors due to the potential results they offer, independent of overall market trends.

### Funds of Hedge Funds

A hedge fund is expected to specialize in one strategy and adhere to it consistently: this is a matter of transparency, and one of the risks associated with investing in hedge funds is precisely an undisclosed change in management style ("style drift") if the initially announced strategy does not yield the expected results. The performance of hedge funds is often very variable. Furthermore, as volatility is often high, an investor may wish to choose a fund offering less favorable long-term prospects but with greater stability, allowing for quicker realization of their shares. This is why funds of alternative funds have been created. The capital raised is invested by the manager across a range of alternative funds, distributed over a series of known strategies. A true effort in research and financial engineering is necessary for the manager to diversify portfolios effectively. However, this type of investment also requires expertise and monitoring as it involves investing in funds rather than directly in securities. One characteristic of the performance of a fund of alternative funds, compared to the market growth curve, is that the fund of funds never captures all the gains during periods of growth. In the event of market declines, the negative effect on the alternative fund of funds will generally be less severe than that suffered by an equity fund. However, these funds do not offer any capital guarantee.

### Specific Risks of Offshore Funds

The term "offshore fund" refers to funds domiciled in so-called offshore jurisdictions, such as the British Virgin Islands, the Bahamas, Bermuda, the Cayman Islands, Panama, Jersey, or the Netherlands Antilles. These funds are very lightly regulated and therefore carry increased risks.

#### Lack of Transparency

Clients should be aware that information about offshore investments is not easily available. Furthermore, the sometimes complex strategies of these funds often lack transparency. Finally, changes in strategy, which may lead to a significant increase in risks, can often be misunderstood or completely underestimated by investors.

#### Leverage Effect

In this area, investment strategies can lead to high risks. For example, using leverage, a small market movement can result in significant gains or substantial losses. This could lead to a total loss of the initial investment.

#### Potentially Limited Liquidity

Offshore investments have varying degrees of liquidity. Liquidity can be very limited. Redemptions are typically only possible monthly, quarterly, or even annually. Additionally, problems or delays may occur in executing buy or sell orders for shares of these funds.

Investors interested in alternative investments, particularly offshore funds, should be aware of these risks. It is advisable to carefully study the prospectuses before making any investment.



## 8. PRIVATE EQUITY FUNDS (ALTERNATIVE FUNDS)

Private Equity includes all activities involving long-term investments in unlisted companies at all stages of their development.

Different investment strategies are distinguished according to the maturity stage of the company (creation, growth, transfer, etc.). Each of these strategies presents a certain risk profile and requires a different type of expertise from the manager.

The nature of the investments implies a long-term investment horizon. By investing in the capital of unlisted companies, the manager will implement value creation strategies over several years. Therefore, an allocation to this asset class should be considered as a small part of the portfolio that the investor will not need in the short or medium term.

In addition to investments constituting a direct or indirect capital contribution to unlisted companies, the broader asset class also includes strategies related to debt instruments that are not traded on regulated markets or not issued by listed companies (so-called "private" debts), unlisted real estate assets (often referred to as "Private Equity Real Estate"), and more generally any investment opportunity in financial instruments in the realm of unlisted investment. This notion can also apply to initial positions in listed companies with the aim of acquiring, at a later date, a significant stake allowing the private equity fund manager to influence management decisions.

Generally, these are closed vehicles whose shares or stocks are not liquid, and their redemption is usually subject to the manager's approval, who assesses the opportunity at their discretion.

### RISKS

This section aims to draw investors' attention to the main risks inherent in private equity investments. Before making any private equity investment, it is important to understand the specific characteristics and risks of such investments as described in the documentation provided by the issuer.

#### Loss of Capital Risk

Private equity investments are not guaranteed. The investor may lose all or part of the invested capital, whether subscribing to diversified funds or making a direct or indirect investment or co-investment in a single target entity. In the latter case, the risk of capital loss is heightened.

#### Liquidity Risk

Liquidity depends on the ability to quickly sell an asset. Private equity investments are commonly made in unlisted assets that are generally illiquid. In particular, shares in private equity funds subscribed by an investor may be subject to a lock-up period. They cannot therefore be sold during this entire period. Additionally, shares of such funds are generally not freely transferable, and there is no secondary market. There is no expectation that such a market will develop. Thus, it will be difficult for an investor to sell their shares during the investment period. When an investor manages to find a buyer during the investment period, it is usually only at a discount to the net asset value of the private equity fund, which can vary depending on circumstances and may be quite significant. Therefore, investing in private equity requires a long-term financial commitment.

#### Valuation Risks

The valuation of unlisted financial instruments is based on the current value of these securities, which is calculated by reference to significant recent transactions. Such valuation cannot predict the actual price at which the assets will later be sold.

#### Risks Related to Investments in Unlisted Companies

Investments in unlisted companies are generally riskier than investments in listed companies, as unlisted companies can be smaller and more vulnerable to changes affecting markets and technologies. They often depend on the skills and commitment of a small management team. Upon liquidation of private equity funds, these investments may be distributed in kind, meaning investors are likely to become minority shareholders. Holdings in unlisted companies can be difficult to sell.

#### Credit Risk

Credit risk is the risk that the issuer of bonds or debt securities will not repay them at maturity, leading to a decline in their value.

#### Mezzanine Financing Risks

A private equity fund or other vehicle may invest in mezzanine financing instruments that will be subordinated to senior debt, exposing them to higher loss risks than the latter in case of borrower/issuer difficulties. Generally, mezzanine debt holders have no right to receive any payment in case of bankruptcy or liquidation until senior creditors are fully paid. Holders of preferred shares may not have the right to payments until all creditors are fully satisfied. If any issuer of mezzanine debt fails to generate sufficient cash flow to service the senior debt, the fund could suffer a partial or total loss of the invested capital.



#### **Interest Rate and Currency Risks**

Depending on their policy, private equity funds may hold assets denominated in or exposed to multiple currencies different from their reference currency. The funds are then exposed to fluctuations in these currencies relative to the reference currency. Amounts called pending an investment, sums received by the fund awaiting distribution to investors, and generally cash holdings are also likely to be subject to such risks as they may be temporarily invested in money market funds, bond funds, or general-purpose funds, or in short-term negotiable instruments.

#### **Commitment Investment Risk**

Private equity investments are often made by committing to release a fixed amount ab initio over a period of several years at the request of the issuer. The investor agrees to respond to capital calls regardless of the current or anticipated performance of the investment

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**Please do not hesitate to contact your client representative at Qualion Finance should you have any additional question.**