ALPHA PATRIMOINE
Gérant de Fortune

OVERVIEW OF KEY CHARACTERISTICS AND RISKS OF FINANCIAL INSTRUMENTS

BASIC RISKS

a- Economic risk

Changes in the activity of a market economy always have repercussions on the evolution of the prices of securities. Prices fluctuate according to the rhythm of phases of economic downturn or expansion. The duration and extent of economic cycles of recession and expansion vary, as do their impacts on the different sectors of the economy. Furthermore, the economic cycle may differ from one country to another. Failure to take into consideration or an incorrect analysis of economic developments when making an investment decision may lead to losses. It is necessary to consider the impact of the economic cycle on price movements.

b- Inflation risk

The investor may suffer financial losses because of a devaluation of the currency. In this respect, it is necessary to consider the real value of existing assets as well as the real return that should be obtained from these assets. It is necessary to base decisions on real interest rates, that is, the difference between the interest rate and the inflation rate.

c- Country risk

Even if solvent, a foreign debtor may be unable to make interest payments and repay its debts at maturity, or may even default completely due to the absence of transfer capacity or availability in its country of origin. This risk includes, on the one hand, the danger of economic instability and, on the other hand, that of political instability. Thus, payments to which the investor is entitled may fail in the event of a shortage of foreign currency or restrictions on transfers abroad. Regarding securities issued in a foreign currency, the investor may receive payments in a currency that is no longer convertible due to exchange restrictions. In principle, there are no means of protection against such a risk.

d- Currency risk

Since exchange rates fluctuate against one another, there is a currency risk when securities are denominated in a foreign currency. The main factors influencing a country's exchange rates include its inflation rate, differences in interest rates compared to abroad, expectations regarding economic developments, the political situation, and the security of the investment. In addition, psychological factors, such as crises of confidence in political leaders, may weaken a country's currency.

e- Liquidity risk

In the event of insufficient market liquidity, the investor may be unable to sell their securities at the market price. In principle, a distinction must be made between illiquidity resulting from supply and demand and illiquidity due to characteristics inherent to the security or to market practices.
Illiquidity resulting from supply and demand exists when there is exclusively or almost exclusively supply (ask prices) or exclusively or almost exclusively demand (bid prices) for a security at a given price.
In such circumstances, the execution of a buy or sell order is not possible immediately and/or only partially (partial execution) and/or under unfavourable conditions.
In addition, higher transaction costs may apply.
Illiquidity due to characteristics inherent to the security or to market practices may arise, for example, in the case of lengthy procedures for registering transactions in registered shares, long execution periods due to market practices or other trading restrictions, or a short-term liquidity need that cannot be covered by the sale of securities.

f- Psychological risk

Irrational factors may influence the general evolution of prices, such as trends, opinions or rumours that may lead to significant price declines, even though the financial situation and prospects of companies have not deteriorated.

g- Leverage risk

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Purchases of securities financed by means of credit involve leverage and include several additional risks.
On the one hand, additional collateral may be required in the event of an excess over the credit limit due to changes in the value of pledged assets. If the investor is unable to provide such collateral, the Bank may be forced to sell the deposited securities at an unfavourable time.
On the other hand, losses incurred in the event of an unfavourable price movement are amplified by the leverage effect and may therefore exceed the initial personal investment.
Furthermore, fluctuations in the prices of pledged securities may also negatively affect the ability to repay the credit.
Therefore, attention should be paid to the increased sensitivity of performance resulting from the use of leverage: while the potential for gains may appear higher, the risks of losses are also greater.
These risks increase as the level of leverage rises.

SPECIFIC RISKS RELATING TO INVESTMENTS

A. BONDS
A bond is a tradable debt security representing a fraction of a loan issued by a company, a public sector entity, or a State. The remuneration associated with this instrument is contractual, either in the form of an interest rate fixed until the maturity of the bond, or in the form of a margin set in relation to a reference interest rate (Libor, Eonia, Euribor, etc.). The holder of a bond (the creditor) has a claim against the issuer (the debtor).
Characteristics

- Return: interest payments, possible capital appreciation
- Maturity: this is contractually defined and may range from a few months to 30 years. Repayment: unless otherwise specified, loans are repaid either:
  - at the maturity of the bond,
  - in instalments,
  - at different dates by drawing lots.
- Interest: interest is contractually determined according to the terms of the loan

Risks:

a- Insolvency risk
The issuer may become temporarily or permanently insolvent, resulting in its inability to pay interest or repay the loan. The solvency of an issuer may change because of general economic developments or changes relating to the company and/or the issuer's sector of activity during the life of the loan. This may be due to economic changes, changes relating to the company, the sector of activity and/or the country concerned, as well as political developments leading to significant economic consequences. A deterioration in the issuer's solvency has adverse effects on the price evolution of the securities concerned.

b- Interest rate risk
Uncertainty regarding the evolution of interest rates means that the purchaser of a fixed-rate security is exposed to a risk of price decline if interest rates rise. The sensitivity of bonds to interest rate changes depends on the remaining term to maturity and the nominal interest rate.

c- Early redemption risk
The issuer of a bond may reserve the right to redeem it early, which it may exercise in the event of a decrease in market interest rates. Such early redemption may lead to changes in the expected returns.

d- Liquidity risk
The price of a bond issued by a company may vary depending on the relative liquidity of the market in which it is traded. This variation may occur without necessarily being linked to the company's solvency or to the level of interest rates.

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B. SHARES

A share represents a portion of the equity of a company when it is incorporated as a public limited company. It has an unlimited lifespan (unlike a bond). A share is a security issued to the bearer to certify its rights to dividends (which constitute the remuneration of this security) and to voting rights (which allow participation in the management of the company through the general meeting of shareholders).

Characteristics

- Return: dividends and price increases are possible
- Shareholder rights: financial and participation rights; these rights are determined by law and by the articles of association of the issuing company
- Transfer of shares: unless otherwise provided by law, bearer shares are, in principle, transferable without specific formalities, whereas registered shares are often subject to restrictions

Risks:

a- Business risk

The shareholder is not a creditor but a capital provider and thus becomes a co-owner of the company. As a result, they participate in the development of the company as well as in the associated opportunities and risks, which may lead to unexpected developments in the investment. The extreme case is the bankruptcy of the issuing company, which may result in the total loss of the invested amounts.

b- Market risk

Share prices may be subject to unpredictable fluctuations, leading to risks of losses. Price increases or decreases may alternate over the short, medium, or long term without it being possible to determine the duration of these cycles. In principle, a distinction must be made between general market risk and the specific risk related to the company itself. Each of these risks, taken individually or cumulatively, influences the evolution of share prices.

c- Dividend risk

The dividend of a share depends primarily on the profit generated by the issuing company. Thus, in the event of low profits or losses, the dividend may be reduced or no dividend may be distributed.

C. INVESTMENT FUNDS

An investment fund is a company or an organized co-ownership structure that collects money from several investors in order to invest it in various assets according to the principle of risk diversification and to allow its shareholders or participants to benefit from the results of the management of its assets. These funds are regulated by a national supervisory authority (CSSF for the Grand Duchy of Luxembourg), which sets several rules concerning investor information, asset management, the preparation of annual accounts, the nature and concentration of investments in certain asset classes, etc.

Characteristics

- Open-ended funds: in an open-ended fund, the number of units and, consequently, the number of participants cannot be determined in advance. The fund may issue new units or redeem existing ones. With respect to the investor, the fund is obliged to redeem the units, at the expense of the fund, at the agreed redemption price and in accordance with the contractual provisions.

- Closed-ended funds: in a closed-ended fund, issuance is limited to a fixed number of units.
  Unlike open-ended funds, there is no obligation for the fund to redeem units. Units may only be sold to third parties or, where applicable, on the stock exchange. The price obtained is determined by supply and demand.

Risks:

a- Management risk

Since the performance of an investment fund depends, among other things, on the skills of the managers and the quality of their decisions, errors in the management of the fund may lead to losses or decreases in value.

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b- Risk of decline in unit value

Units of investment funds are subject to the risk of a decline in their price, such decreases reflecting a reduction in value corresponding to the securities or currencies composing the fund's assets, all other things being equal. The greater the diversification of investments, the lower the risk of loss. Conversely, risks are higher in the case of more specialized and less diversified investments. Therefore, attention must be paid to both the general and specific risks attached to the securities and currencies included in the fund.

c- Liquidity risk

The redemption of fund units may involve certain delays when such redemptions are significant and require the deferred liquidation of investments held by the fund in order to generate the liquidity necessary for repayment. This risk materializes as a delay in the effective execution of unit redemptions.

D. DERIVATIVE INSTRUMENTS

A derivative is a financial instrument whose value evolves according to the changes in an underlying asset. This asset may be a stock market index, an interest rate, a currency, the price of a commodity, or even another derivative. Within derivative products, a distinction can be made between:

a) option transactions, which give one party the right, but not the obligation, to enter into a transaction. One party (the seller of the option) is firmly committed, while the other (the buyer of the option) has a mere right which they are free to exercise or not.
b) forward transactions, where the parties enter a transaction that must be executed at a fixed date in the future. In a forward transaction, both parties are firmly committed to execute the transaction at the agreed maturity.

I- OPTION TRANSACTIONS

Options are derivative instruments whose value evolves depending on the underlying asset. The party that buys an option obtains the right to purchase ("call") or sell ("put") the underlying asset at a certain date or during a certain period at a predetermined price, in exchange for the payment of a premium to the counterparty, the seller of the option.

Characteristics:

1) Term: the term of the option is the period from the subscription date until the expiration date of the option right.
2) Relationship between the option and the underlying: this relationship defines the number of units of the underlying that the holder of an option may buy (Call) or sell (Put) by exercising the option right.
3) Exercise price: the exercise price corresponds to the price agreed in advance at which the holder of the option may buy or sell the underlying asset when exercising the option.
4) Leverage effect: any change in the price of the underlying asset generally leads to a proportionally greater change in the price of the option right.
5) Purchase of a Call or a Put: the buyer of a Call option expects the price of the underlying asset to rise during the life of the option, resulting in an increase in the value of the option. Conversely, the buyer of a Put option benefits from a decrease in the price of the underlying asset.
6) Sale of a Call or a Put: the seller of a Call option anticipates a decline in the value of the underlying asset, whereas the seller of a Put option expects an increase in the value of the underlying asset.

Risks:

a- Market risk

Options are traded on-exchange or over-the-counter and are subject to the law of supply and demand. An important factor in determining the price of an option is whether there is a sufficiently liquid market for that option, as well as the actual or expected evolution of the price of the corresponding underlying asset.
A Call option loses value when the price of the underlying asset decreases, whereas the opposite applies to a Put option.
The price of an option is not only determined by changes in the price of the underlying asset, but also by several other pricing factors, such as the duration of the option or the frequency and intensity of changes in the price of

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the underlying asset. Consequently, the risk of a loss in value of the option may exist even if the price of the underlying asset remains unchanged.

b- Leverage risk

The leverage effect of an option generally reacts more than proportionally to changes in the price of the underlying asset and thus offers higher profit potential during its life but also higher risks of loss. The risk associated with purchasing an option increases with the level of leverage of the option.

c- Purchase of an option

The purchase of an option is a highly volatile investment, and the probability that the option expires worthless is high. In such a case, the investor will lose the entire amount paid as the premium.
The holder of an option may keep the position until maturity, resell the option, or, in the case of American-style options, exercise it before maturity. Exercising the option may involve either a cash settlement of a differential or the purchase or delivery of the underlying asset.

d- Sale of an option

The sale of an option generally involves a higher risk than its purchase.
Even if the price received for the option is fixed, the losses that may be incurred by the seller result from a favourable evolution (in the case of a call) in the price of the underlying asset, which may increase or even multiply by 2 or 3 within a few weeks, for example in the case of a takeover bid.
If the market price of the asset evolves unfavourably, the seller of the option will be required to post margin in order to meet their obligation to deliver or settle. If the option sold is of the "American" type, the seller may be required at any time to settle the transaction in cash or to buy or deliver the underlying asset.
The seller's exposure to price risk, as described above, may be reduced by holding the underlying assets covered by the contract.

II- WARRANTS

A warrant is defined as the right to buy or sell a financial asset under predefined price and time conditions. Thus, a call warrant gives the right to buy a given underlying asset at a fixed price (the exercise price) until a given date (the maturity), and a put warrant gives the right to sell that underlying asset at a fixed price (the exercise price) until a given date (the maturity).
The purchaser of a warrant therefore holds a right, for which they have paid, on the underlying asset. If they decide to exercise this right, they may buy (call warrant) or sell (put warrant) the underlying asset at the exercise price until maturity.
A warrant is a tradable security: the holder may sell it at any time on the stock exchange. The underlying asset is highly variable and may consist of shares, indices, currencies, etc.
Since it is not possible to sell a warrant as an initial transaction (short selling) in order to repurchase it later, the leverage risk described above cannot materialize to the detriment of the investor. The investor bears a risk equivalent to that of an option buyer: in the worst-case scenario, they will lose the entire amount paid as the premium plus commissions.

III- OTHER FORWARD TRANSACTIONS

Futures are exchange-traded contracts that are standardized in terms of the quantity of the underlying asset and the maturity of the transaction.
Over-the-counter (OTC) forward transactions, or "forward" transactions, are contracts that are not traded on an exchange and may include standardized specifications or terms individually agreed between the buyer and the seller.

Characteristics

1) Initial margin requirement: whether it is a purchase or sale of an underlying asset on a forward basis, an initial margin is set when the contract is concluded. This margin is generally expressed as a percentage of the contract value.
2) Margin call: throughout the duration of the contract, an additional margin (variation margin) is periodically determined. It represents the accounting profit or loss resulting from changes in the contractual value of the underlying asset. If this additional margin is negative, it will be required from the investor. This margin may reach a multiple of the initial margin. The calculation methods for the variation margin, during the life of the contract or in the event of liquidation, depend on exchange rules

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and contractual specifications applicable in each case.

3) Liquidation: in principle, the investor may at any time, during the life of the contract, close or liquidate the contract before its maturity, either by selling the contract or by entering an offsetting contract. Liquidation terminates the risk positions undertaken: gains and losses accumulated up to liquidation are realized.
4) Execution: contracts that are not closed out at maturity must be fulfilled by the parties concerned.

Regarding contracts whose underlying consists of assets, they may in principle be settled either by physical delivery of the underlying or by cash settlement.
However, contracts whose underlying consists of reference rates (except for currencies) can only be settled in cash.
In the case of physical delivery, the contractual obligation must be fulfilled in full, whereas in the case of cash settlement, only the difference between the agreed price at contract inception and the current market value at the time of execution is payable.
This is why an investor requires more liquidity for a contract involving physical delivery than for a contract settled in cash.

Risks:

a- Change in the value of the contract or the underlying

At the end of the transaction, if the value of the contract or the underlying asset is higher than at the beginning, the seller will be required to deliver the underlying asset at the initially agreed price. This difference may be significant. For the seller, the risk therefore corresponds to the difference between the agreed price at the time the contract was concluded and the market value observed on the maturity date. Since market value can theoretically increase without limit, the seller's potential losses are unlimited and may significantly exceed the required margins.

Conversely, at the end of the transaction, the buyer will be required to accept delivery of the underlying asset at the initially agreed price, which may be significantly higher than the market value observed. For the buyer, the risk therefore corresponds to the difference between the agreed price at contract inception and the market value observed at maturity.

The maximum risk therefore relates to the level of the initially agreed price. This loss may significantly exceed the required margins.

Transactions are regularly valued (mark-to-market), and the investor must always maintain sufficient collateral (initial margin plus variation margins). If, for any reason, a margin call is not met (see above), the position may be liquidated early under prevailing market conditions. Such liquidation may result in a loss.

b- Difficult or impossible liquidation

In order to limit excessive price fluctuations, an exchange may set price limits for certain contracts. In such cases, the investor must bear in mind that once a price limit is reached, it may temporarily become impossible to close out the contract.

It will not always be possible (depending on the market and the terms of the transaction) to enter into transactions that eliminate or reduce the risks associated with an open position at any time.

Stop-loss transactions are executed once the specified limit is reached in the market and then become "market order" orders. However, the outcome of such interventions remains uncertain and does not guarantee protection against losses related to the initial transaction.

c- Specific risks related to OTC forward transactions

For standardized OTC forward transactions, the market is generally transparent and liquid. Therefore, closing out positions is usually possible.
There is no organized market for OTC forward transactions with individually negotiated specifications. As a result, liquidation is only possible with the agreement of the counterparty.

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E. "ALTERNATIVE" INVESTMENTS

"Alternative investments" refer to investments in domestic and foreign investment funds (SICAV or FCP) and participations that differ from traditional investments in shares and bonds by their investment style.
The most well-known forms of alternative investments include, for example, hedge funds, whose investment strategies often involve short selling, leverage, or derivative financial instruments.
The manager generally limits the list of eligible funds for their strategy to a universe whose characteristics are defined in advance.

Risks:

a- Leverage risk

An alternative fund may use various forms of borrowing. In this case, the potential gains and losses associated with an alternative strategy are amplified by the level of leverage. Leverage is the ratio of the assets held by the fund to its net asset value.

b- Information risk

Investors in alternative investments may sometimes have access to limited information. The often complex strategies of such funds frequently lack transparency for investors and therefore require thorough prior analysis.

c- Potentially limited liquidity

Alternative investments are traditionally less liquid. The frequency of net asset value calculations and of subscriptions and redemptions may range from daily to annual.
More generally, as already noted for traditional funds, market liquidity may also be insufficient to allow the execution of redemption or subscription orders.

d- Limited and heterogeneous regulation

For example, and unlike SICAVs and FCPs, there is no harmonized European regulation for this type of fund. Each European country currently offers different regulatory frameworks, favoring certain types of alternative funds.
These funds may also be registered outside the European Union and thus benefit from lighter regulation, to the detriment, for example, of investor information requirements.

F. STRUCTURED PRODUCTS

This type of product consists of a combination of one or more asset classes described above. Two main categories can be distinguished:

- products (or collective investment instruments such as SICAVs) where the initial capital is protected, but the return is uncertain;
- products where the repayment of the initial capital depends on the outcome at maturity of one or more derivative transactions.

I- CAPITAL-PROTECTED STRUCTURED PRODUCTS

Structured products with capital protection are built from a bond issued by a company (see above) and therefore carry the associated risks. Capital protection may also result from an explicit guarantee issued by a third party whose credit rating provides protection equivalent to that provided by a bond.
In addition, the uncertain return is generated through a strategy combining one or more derivative products (see above). This type of product may also be structured based on a SICAV, benefiting from a third-party guarantee.

Risks:

a- Bond risk

Since the underlying asset is a bond issued by a company, the associated risks apply: default risk, liquidity risk, interest rate risk, margin risk, etc. In addition, there is a risk of illiquidity due to the absence of a secondary market

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allowing the disposal of this type of investment before its contractual maturity.

b- Return risk

The return of a structured product is not known in advance. There is therefore a risk that the conditions required for its existence may not be met during the contractual life of the investment. The level of this return, if any, is also uncertain and can only be determined with certainty at the maturity of the structured product.

II- STRUCTURED PRODUCTS WITHOUT CAPITAL PROTECTION

These products are designed to offer a higher coupon than that available in the market for a given issuer at a given time. In return, the capital of this type of bond is not protected. The amount repaid at maturity is calculated according to a formula defined in advance, generally indexed to the performance of a share or a basket of shares. The manager generally determines the type of reverse convertible to be included in the portfolios they manage, by limiting the maturity and the underlying assets.

Risks:

a- Bond risk

Since the underlying security is issued by a company, the associated risks apply: liquidity risk, margin risk, interest rate risk.

b- Return risk

The return of a reverse convertible consists of a fixed component (the coupon) and an uncertain component (the capital repaid at maturity). The risk related to the repayment of capital at maturity is similar to that of a share: a decrease in the price of the underlying share below the initially set level will result in an equivalent reduction in the capital repaid.

- RISKS OF COMPLEX / NON-COMPLEX PRODUCTS

The MiFID II Directive requires assessing the level of product complexity and comparing it with client-related information (their knowledge and experience). Although the concept of complexity is relative and depends on several factors, firms must consider the criteria and principles set out in the MiFID II Directive when defining and properly assessing the level of complexity to be assigned to products for the purpose of suitability assessment.

This document does not claim to describe all the risks inherent in investments in financial instruments. Its purpose is rather to provide some basic information in order to raise clients' awareness of the existence of risks inherent in any investment in financial instruments.
Each client is invited not to make any investment before being certain of fully understanding all the risks involved and to ensure that their investments are suited to their financial situation and their needs.

In the event of any discrepancy between the French version and the English version, the French version shall prevail.

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