Degroof Petercam

Markets in Financial Instruments Directive (MiFID)

December 2017

Information for retail clients of Bank Degroof Petercam Luxembourg

European Directive 2004/39/EC, which came into effect in 2007, has been replaced by

EU Directive 2014/65/EU on Markets in Financial Instruments and the various delegated regulations related to it (hereinafter «the MiFID Regulations»), which is scheduled to come into effect on 3 January 2018, in respect of all financial institutions (credit institutions, investment firms, asset management companies, etc.) providing investment services in Europe as defined by the MiFID regulations[1].

These regulations cover a very wide range of transactions in the financial sector, specifically transactions in financial instruments, investment advice and asset management.

The purpose of this brochure is to tell you about the main provisions of the Directive that have an impact on your relationship with Bank Degroof Petercam Luxembourg (hereinafter the «Bank»). In addition, it aims to provide you with certain information required by the MiFID regulations that do not appear in the Bank's General Terms and Conditions, the schedule of charges or special agreements that we may have entered into, where appropriate.

We recommend that you read the following information carefully.

The information contained in this brochure supplements, but does not change, the Bank's General Terms and Conditions, the prices and any special agreements that you may have entered into with our Bank.

[1] Our Bank is approved as a credit institution by Luxembourg's Financial Sector Supervisory Commission, the Commission de Surveillance du Secteur Financier (CSSF). More information on this approval is available from our Bank or on the website www.cssf.lu.

PART ONE

What are the implications of MiFID?

The Directive implies several changes in your relationship with our Bank. The main ones are as follows:

A treatement adapted to each client category

Our Bank has always been committed to providing a personalized service to its clients, adapted to their specific situation. In some ways, this strategy anticipated the MiFID regulations, which require that financial institutions deal with their clients in a way adapted to their situation, particularly in terms of financial experience and knowledge.

In practical terms, the MiFID regulations require financial institutions to classify their clients into categories, i.e. retail clients [2], professional clients or eligible counterparties, and to apply a plan adapted to their category to said clients. The distinction between these categories is based on the client's financial experience and knowledge: the "professional clients and eligible counterparties" category is reserved for clients who have extensive experience and knowledge of financial matters, meaning that they require less information and protection in connection with their financial transactions.

The "retail clients" category is reserved for clients who have more limited financial experience and knowledge, meaning that they require more information and protection.

The MiFID regulations require that financial institutions notify their clients of the category (retail client, professional client or eligible counterparty) to which they belong.

The category selected by our Bank for you is covered in the second part of this brochure (see "Selected classification").

More information for clients

The MiFID regulations strengthen the obligations falling to financial institutions in terms of information provided to their clients (particularly regarding costs and fees). Much of the information required by the MiFID regulations has already been sent to you, in particular in our General Terms and Conditions, prices, special agreements that we have entered into, and various reports and summaries, where appropriate. The required additional information is provided in connection with this brochure.

Transactions adapted to the client's knowledge and profile

When a financial institution gives advice or offers discretionary management services to its clients, it may only decide to perform or advise a transaction if it is suited to the financial position of its clients, including their ability to bear losses, their aims, including their risk appetite, their real knowledge and their financial experience ("Suitability Test").

When a retail client sends an order to a financial institution for a so-called «complex» financial instrument, even when no advice is provided, MiFID requires the institution to check whether the client has sufficient knowledge and experience to understand the risks associated with the transaction («Appropriateness test») and to warn the client if the order is not appropriate.

These obligations show why our Bank collects information from all our clients to establish their investment profile, and why it is in our clients' interest to provide accurate, up-to-date information. Without this information, the Bank will not be able to provide investment advice or discretionary management services.

Investment advice

MiFID regulations distinguish between independent and non-independent investment advice. When a financial institution provides an investment advice service to its clients, it is obliged to inform them about the independent or non-independent nature of this advice. The information will generally be given in the special agreements that we would have entered into where applicable.

Order execution policy

The Directive requires that financial institutions, when executing transactions in financial instruments on behalf of their professional or retail clients, take reasonable steps in order to obtain the best possible result for their clients, taking into account a number of factors such as price, cost, speed and probability of execution, the size and nature of the order.

It also requires that before executing orders on financial instruments, financial institutions draft an order execution policy in which they define the manner in which they intend to fulfil their obligations in this respect.

The information required by the Directive regarding the Bank's order execution policy is provided in the second part of this brochure (see "Order execution policy on financial instruments").

[2] The "retail client" category corresponds to retail clients within the meaning of the Directive.

PART TWO

Information required by MiFID[3]

1. Selected classification

Given the information in our possession, we have determined that you fall within the category of retail clients[4] and as such, unless you advise us otherwise, we will apply the treatement specific to this category of client.

You are authorised to request a different categorisation, namely in your case, that of professional client.

Subject to the prior written agreement of our Bank and compliance with the objective criteria defined by law, this change does automatically entail loss of the benefit of all the protections set out by the MiFID regulations in respect of the retail client category.

Please contact your relationship manager if you wish to make use of this facility.

2. Nature and specific risks of the main financial instruments

This section aims to provide you, in accordance with the Directive, with general information on the features of the main financial instruments and the risks associated with them. More specific information may be obtained upon request from your Relationship Manager.

2.1. Fixed income investments

Deposits and cash certificates

DEFINITION

In this context, **deposit** denotes the deposit of funds with financial institutions, with or without stipulation of interest, subject to the right of the financial institution concerned to use said funds for the purposes of its activity, but under obligation to return them to the depositor and to provide said party with a cashier service. Deposits may be sight deposits, term deposits and notice deposits, both in euros and foreign currencies.

Cash certificates are bearer securities, representing a receivable on a credit institution, issued by such institutions at the «tap», mostly in denominations of at least 200 euros. Their term is usually between 1 and 5 years but may extend for 10 years or more. There are various types of cash certificates including inter alia (the list below is not exhaustive):

- Ordinary cash certificates, whose rate is consistently set at the time of issue.
- Cash certificates with a tiered interest rate, which investors are periodically given the option to redeem, on the understanding that the longer the holding period, the higher the interest.
- Growth certificates, which give holders the choice, at each maturity date, between accumulation or collection of the interest.
- Capitalisation bonds, which schedule the obligatory capitalisation of interest.

RISKS

Foreign exchange risk for investments denominated in foreign currencies (changes in exchange rates relative to the reference currency) that will influence the return of the investment.

Bankruptcy risk of the financial institution with custody of the assets or the issuer of the cash certificate.

Money market securities

DEFINITION

Treasury bills are securities representing a debenture certificate issued by commercial companies, as well as by certain Luxembourg or foreign public authorities (State, Communities, Regions, provinces, etc.).

Certificates of deposit are securities representing a debenture certificate issued by credit institutions operating in Luxembourg or internationally.

RISKS

Foreign exchange risk for treasury bills and certificates of deposit denominated in foreign currencies (evolution of the exchange rate compared to the reference currency), which will influence the return on investment

Risk of capital loss where the security is sold on the secondary market prior to maturity

Risk of bankruptcy of the issuer in the case of treasury bills and certificates of deposit (nonpayment of interest and non-reimbursement of the invested capital)

Liquidity risk, especially for treasury bills and certificates of deposit, if the secondary market for the securities involved is narrow.

Bond investments

DEFINITION

A **bond** is a security representing a receivable on a legal entity (government, company, etc.), relating to a loan for a determined term (generally more than one year) and amount.

The price (issue price, transaction price or redemption price) of a bond may be equal to, less than or greater than its par value (also known as its nominal value), depending on whether the bond is issued at par, below par or above par. Certain loans may be repaid early, usually at the initiative of the issuer.

In particular, the following items are separate (the list below is not exhaustive):

- **Fixed rate bonds**: bonds whose interest rate is fixed and defined in relation to the bond's nominal value.
- **Adjustable rate bonds**: bonds whose interest rate is not fixed permanently, and may be subject to adjustment (a floor rate is almost always scheduled).
- **Variable rate bonds**: bonds whose rate varies at given maturities according to previously defined parameters when the loan is issued (a minimum rate is often guaranteed).
- **Bonds with warrants** giving entitlement to subscribe to or acquire shares or bonds: bonds giving an entitlement to subscribe to or acquire shares or bonds, over a determined period, from the issuer of the warrant or another company, at a price generally set in advance. The bond and the warrant attached to it are often listed separately.
- **Bonds convertible into shares** and "**reverse convertibles**": bonds that may, at the request of their holder, be converted into new shares of the company after a given period, or on a specific date.

  In some cases, the conversion from bonds to shares may require that a cash payment is made to the issuing company. In the case of a reverse convertible, the conversion occurs at the issuer's initiative.
- **Zero coupon bonds**: bonds that do not give rise to periodic interest payments but whose redemption price is higher than the issue price.
- **Subordinated bonds**: bonds for which the holder accepts, in the event of bankruptcy, liquidation or any other competitive situation affecting the assets of the issuer, to be reimbursed (and/or paid interest) after the unsubordinated creditors of the issuer.
- **Linear bonds** ("OLO"): dematerialised fixed-income securities issued by auction by a government (e.g. OLO in Belgium, OAT in France), in denominations of a minimum of €1,000, with a maturity from 3 to 12 years. Only some categories of person may subscribe to these, namely financial sector professionals, for the most part.

  After subscribing to linear bonds, these persons are responsible for promoting and distributing them to the public (private individuals, companies, etc.).
- **Eurobonds**: bonds issued by public authorities or private companies, outside the domestic market, in a currency that is distinct from that of the borrower. These bonds are generally invested publicly by an international syndicate of financial institutions. As with bonds, there are different types of Eurobonds (convertible eurobonds, with warrants, with currency options, floating rate, zero coupon, etc.).

RISKS

Risk of non-payment of interest and/or non-repayment of capital invested depending on the creditworthiness of the debtor. This risk is greater when the bond is subordinated.

Risk of capital loss in the event that the bond is sold on the secondary market before maturity.

Foreign exchange risk for Eurobonds and bonds denominated in foreign currencies.

Liquidity risk if the secondary market of the bonds in question is narrow.

[3] As outlined in the first part of this brochure, only that information not already disclosed in our General Terms and Conditions or special agreements that you may have entered into with our Bank is given hereunder.

[4] As explained in the first part of this brochure, the retail client category corresponds to retail clients within the meaning of the Directive.

Issuer rating

The majority of bond issuers receive a rating that is a standard rating from independent rating agencies (Moody's, Standard & Poor's, Fitch, etc.).

This rating gives an assessment of the creditworthiness of the issuer. The higher the rating (for instance AAA), the lower the risk of non-repayment by the issuer. During the life of the bond, the rating is subject to review by the rating agencies, taking into account the economic and financial circumstances affecting the creditworthiness of the issuer.

Ratings below Baa3 or BBB- are considered speculative and may go as far as Ca or C (issuer in default, with some hope of recovery).

2.2. Variable income investments

Shares

DEFINITION

A **share** is a title deed which represents a fixed portion of the capital of a company (Belgian or foreign) and entitles the bearer, proportional to their shareholding, to the collection of dividends that may be distributed by the company and, unless otherwise specified in the Articles of Association, the right to vote at general meetings of shareholders, often proportional to the capital held in the company.

RISKS

Risk of lack of income, since the dividend is a variable income item, depending on the company's profitability and its distribution policy.

Risk of volatility of share prices either due to the management of the company or to the economic, microeconomic and financial climate.

Risk of bankruptcy of the company issuing the shares.

Foreign exchange risk for foreign securities.

Liquidity risk if the secondary market of the shares in question is narrow.

Undertakings for collective investment (uci)

DEFINITION

Undertakings for collective investment are undertakings that:

- either take the form of **mutual funds** (established in the form of an undivided asset base),
- or **investment companies** (established in the form of a company),

and are made up of:

- with either a variable number of units, in which case the undertaking is obliged to regularly accept requests for the issue or redemption of units made by investors, based on their inventory value (open-ended mutual fund or SICAV),
- or a fixed number of units, in which case investors are required to find a buyer when they wish to sell their shares (closed mutual funds or SICAF).

Undertakings for collective investment, managed by specialists, invest specifically, as provided in their issue prospectus, in shares, bonds, other financial instruments (in particular, units of other undertakings for collective investment), receivables (investment undertaking for receivables) or real estate assets (Sicafi).

Depending on the scheduled allocation of their income, shares and units in undertakings for collective investment are either distribution units (dividends distributed to owners of units and shares) or accumulation units (dividends are capitalised).

RISKS

Risks identical, in principle, to those **related to shares, bonds or other categories** of investment in which the undertaking for collective investment invests, though the diversification of its investments in principle mitigates the risks run.

Liquidity risk for undertakings for collective investment with a fixed number of units, if the secondary market of the shares or units of the undertaking in question is narrow.

Other securities

Structured products

DEFINITION

Structured products refer to a financial instrument that is most often a combination of several other financial instruments, including options, whose returns (paid in the form of capital gains and/or interest) depend on changes, as the case may be, in indices, financial instruments, currencies, commodities or other underlying securities.

RISKS

Risks (capital loss, volatility, foreign exchange, etc.) associated with the type of underlying making up the product.

Risk of bankruptcy of the issuer of the structured product. Where appropriate, when financial instruments are used in the construction of the product, the risk of loss and/or gain can be modelled upward or downward in comparison to a direct investment in the underlying security.

Liquidity risk if the secondary market of the product in question is narrow.

Warrants

DEFINITION

A **warrant** is a security that gives its holder the right to buy or subscribe to a specified number of shares or bonds in a given company, at a date and price generally set in advance. The warrant's features are very close to those of the option (see below).

RISKS

Risk of price volatility of the warrant, since this is a speculative investment instrument.

Risk of loss identical to that of an option, except that the risk of loss is always limited, in the case of the warrant, to the capital invested.

Risk of bankruptcy of the warrant issuer

Liquidity risk if the market of the warrant in question is narrow.

Forward exchange contract

DEFINITION

The **forward exchange** contract is a contract for the purchase or sale of currencies, at a date and price set when the contract was agreed. Payment is only made upon delivery of the currency.

There is no organised market for forward exchange contracts, so these transactions are governed exclusively by the over-the-counter agreements entered into by the parties.

The features of forward exchange contracts are comparable with those of futures (see below under «Futures»).

Forward exchange contracts make it possible, in connection with non-speculative management, to hedge an investor's portfolio against potential foreign exchange risks, with limited risk.

However, they may also be entered into for more speculative purposes, in order to take advantage of fluctuations in the exchange rate but may, in this case, lead to greater risks.

RISKS

Risk of loss associated with the manner and the scope in which the forward exchange contract is used (see above).

Risk of bankruptcy of the counterparty.

Liquidity risk in that, in the absence of an organised market, investors may neither sell their forward exchange contracts nor liquidate their positions in advance resulting from this contract unless an agreement is reached with their counterparty, in contrast to futures (see below).

Swap

DEFINITION

Currency swaps are generally separated from interest rate swaps.

A **currency swap** is a contract in which two parties agree to swap capitals denominated in different currencies at dates set when the contract is entered into.

An **interest-rate swap** is a contract in which two parties agree to pay, at dates set when the contract is entered into, interest calculated differently on the same amount, known as the «notional amount». The swap generally involves interest rates calculated on the basis of a fixed rate and a floating rate.

Several variants are possible, for instance with the parties able to agree to swap both capital denominated in different currencies and interest calculated differently on said capital («Interest Rate Currency Swaps»). There is no organised market for swap contracts, so these forward exchange contracts are governed exclusively by the over-the-counter agreements entered into by the parties.

Swap contracts are likely to be used for a variety of purposes.

In connection with non-speculative management, they allow a portfolio to be hedged against potential risks of rate fluctuations, with limited risk.

They may also be used for more speculative purposes, in order to make the most of rate fluctuations, which may in this case entail greater risks.

RISKS

Risk of loss associated with the manner and the scope in which the swap contract is used (see above).

Risk of bankruptcy of the counterparty.

Liquidity risk in that, in the absence of an organised market, investors may neither sell their swap contracts nor liquidate their positions in advance resulting from this contract unless an agreement is reached with their counterparty.

Private Equity and Private Equity Funds

DEFINITION

The term «private equity» covers a variety of investment types, whose common point is their private nature, that is to say they are not listed on an organised market, they are illiquid, difficult to sell before maturity, and they most often require a long-term investment (7-10 years or more). The aim of this type of investment is usually to generate high returns, but it also presents a high risk of loss, up to 100% of the amount invested.

Private Equity Funds

Typically, a private equity fund invests in a series of unlisted companies pursuing a pre-determined investment strategy according to a set of predefined parameters. Investors in such a fund commit to provide capital up to their own specified amount, which they will be required to pay on request by the manager as investments are made. Dividends to investors are also spread over time, depending on the transfers made by the Fund. A private equity fund usually benefits from a level of diversification as part of the same strategy, because the manager deploys the capital through a portfolio comprised of several investments.

The most commonly used strategies include buy-out, venture capital, development capital, secondary funds, co-investment funds, etc. There are also private equity funds specialising in private debt, rollover, infrastructure, real estate, and so on. These strategies are separated according to their cash flow profile and their risk profile.

Buy-out strategy

For a fund, this strategy amounts to acquiring a controlling interest in a company's capital, or at least a significant holding in the capital, with certain rights and influence over the management of said company. By playing the role of an active professional shareholder, the Fund will aim to continue or accelerate the development of the target company, and then sell it on at a profit. Value is created from growth in the target company's income and cash flow, and often from the ability to repay the initial debt at acquisition, known as a "leveraged buy-out".

Co-investment strategy

This strategy amounts to co-investing alongside private equity funds (most often buy-out funds) as a minority partner in one or more of their investments. Some private equity managers have developed funds that deploy their investors' capital exclusively in this way, increasing the number of partnerships in a single portfolio with a series of separate fund managers.

Secondary Private Equity Strategy This strategy amounts to acquiring the holdings of a number of private equity investors in existing private equity funds in most cases several years after the launch of the Fund, when it has already broadly built up its investment portfolio.

Direct private equity investment

The acquisition of an investment in the capital of an unlisted company also equates to the concept of private equity in a broad sense. We thus talk of direct private equity. This may also be a co-investment, when one investor invests in such a transaction alongside one or more partners. The risk profile of these investments depends on the type of intervention sought, and the degree of development of the target company (taking control of a company, often in collaboration with its management, capital injection in a start-up company, management of the estate of a family business, etc.)

Due to its nature, private equity is primarily targeted at seasoned investors, who have a substantial asset base, allowing them to carry such limited-liquidity investments over long periods of time and to bear losses.

RISKS

Risk of loss due to changes in investments (see above).

Risk of bankruptcy of the companies in which investments are made.

Liquidity risk in that, in the absence of an organised market, investors may not sell their units unless an agreement is reached with a buyer and the fund manager.

Real estate certificate

DEFINITION

A **real estate certificate** is a security that gives the holder a right to receive income from a real estate investment (income from the lease of the property and any capital gain on its sale). Without being strictly a co-owner of a property, the holder of the real estate certificate is precisely that from an economic standpoint.

RISKS

Risk of random or repayment or capital gain due to the lack of a guarantee on the maturity date and on the net proceeds of sale of the underlying real estate right(s) pertaining to the real estate certificate.

Risk of loss of income in the event of non-leasing of the property underlying the real estate certificate and/or higher costs (real estate or financial) borne by the company issuing the certificate.

Liquidity risk in the absence of a secondary market or if the secondary market in question is narrow.

Interest rate risk, if interest rates are higher than the current yield (coupon) on the certificate.

Gold

DEFINITION

Gold is a precious metal most commonly used for investment purposes, usually acquired in ingots, coins or ounces.

RISKS

Risk of price volatility linked both to macroeconomic and financial trends, and to geopolitical developments.

Foreign exchange risk: given that the price of gold is most often set in US dollars on world markets.

Income risk: complete lack of income/yield.

Hedge Funds and Funds of Hedge Funds

DEFINITION

The term «**hedge fund**» covers a variety of investment vehicles having which all have in common that they develop non-traditional investment strategies aimed at achieving absolute performance, that is to say, independent of the economic climate or changes in the underlying segment. Depending on its management strategy (see below), the hedge fund may invest in shares, bonds, commodities, cash, and leveraged instruments (futures, options, short selling).

The hedge fund has long been a type of investment that is the preserve of institutional investors. However, so-called alternative management has gradually become more accessible to private investors thanks to funds of funds managed by professionals.

The degree of risk associated with a hedge fund investment is related to the management strategy it chooses to develop. The level of this risk may in some cases be much higher than investing in other UCIs (see above). In addition, hedge fund liquidity is much more restricted.

Among the many strategies available, three can be noted, each generating separate risks in terms of performance and volatility:

Relative value strategy

This strategy seeks to take advantage of a price "glitch" on a given financial instrument (equity, convertible bond, option, etc.). Quantitative or qualitative analyses should identify financial instruments whose price diverges from their «fair value» or the historical norm. Relative value strategies are usually low in volatility and therefore less risky.

Event-driven strategy

This strategy seeks to take advantage of specific situations affecting a number of companies, which offer short-term profit opportunities. Such specific situations may include takeover bids, management buy-ins or buy-outs, or other similar events that temporarily affect the market price of the company's securities.

Opportunistic strategy

This strategy, which is generally aggressive, aims to make gains by investing in all types of asset and operating in all types of markets, via short buying or selling and often using leverage. Opportunistic strategies are among the most volatile and thus the most risky.

Funds of hedge funds intended for non-professional clients usually have a low-volatility objective, with relatively stable returns over time, by distributing assets between different hedge fund strategies.

The implementation of very specific investment strategies through hedge funds often generates relatively high fees (including performance fees).

RISKS

Volatility risk related to the underlying assets and management techniques used (short selling, leverage, etc.).

Risk of loss due to the way the hedge fund is managed. Because of their diversification, in principle, funds of hedge funds mitigate this risk.

Liquidity risk: generally, these Funds may only be redeemed after a fixed period (at least one month), sometimes with fixed notice, or with gates (barriers to prevent the exit of too many assets if they are all requested for redemption at the same time).

Counterparty risk: A hedge fund may fall victim to the failure of other partners with which it makes commitments.

Foreign exchange risk: hedge funds that are active in foreign currencies may be very volatile as a result of leverage.

Operations on derivatives [5]

Option

DEFINITION

An option is an entitlement, though not an obligation, to buy ("call" option) or sell ("put" option), at a given price (the strike price), a number of underlying assets (shares, currencies, commodities, indices, etc.), over a specified period (US-style option) or at a fixed maturity (European-style option). The buyer of the option pays a premium to the seller. This premium depends specifically on the maturity and strike price of the option and the price and volatility of the underlying asset.

There may be two ways to exercise the option: physical delivery of the underlying asset or delivery in cash corresponding to payment of the difference (if this is positive) between the index value on the day of exercise and the strike price.

Options make it possible to take quantitatively large positions using relatively low levels of investment. Accordingly, they are subject to leverage, which means that a relatively small market movement will have a proportionally larger impact on the investor's portfolio.

This leverage may sometimes have the effect of amplifying the investor's gains, while at other times it may amplify the investor's losses, when market fluctuations go against expectations.

A hedging system is imposed on the issuer (seller) of all listed options, in particular on the BXS Derivatives market. For all issues (sales) of options, the investor must pay an initial hedge, in cash or securities, representing a percentage of the value of the agreement issued. At the end of each trading day, the option is revalued and, in the event of adverse market trends, the issuer (seller) of the option must satisfy additional hedging requirements. If the investor does not pay the additional hedge required, the broker may choose to close out their position.

At the Bank, hedging in cash or securities is requested from all clients entering an OTC contract to hedge the position's risk. The amount of this hedge is calculated by risk management when the option is issued.

Options are likely to be used for a variety of purposes.

In connection with non-speculative management, they are used to hedge a portfolio against potential fluctuations, by strictly limiting the risk of loss on the price paid for the option.

They may also be used for more speculative purposes, in order to make the most, through a limited investment, of fluctuations in the underlying asset. In this event, due to leverage (see above), options may give rise to greater risks than those of shares or bonds. Risks associated with short-selling of options (transactions in which the underlying asset is not held) are theoretically unlimited.

RISKS

Risk of price volatility, since an option is a speculative investment instrument.

Risk of loss associated with the manner and the scope in which the option is used (see above). Leverage can amplify losses when price fluctuations in the underlying asset go against investor expectations.

Risk for the buyer of an option limited to the premium paid for this option.

Risk for the seller in theory unlimited.

Liquidity risk if the secondary market of the option in question is narrow.

Futures

DEFINITION

A **future** is a contract for the purchase or sale of an underlying asset (shares, bonds, currencies, commodities, indices, etc.) at a date and price set when the contract is agreed. Payment for the assets is only made upon delivery of said assets.

Futures make it possible to take quantitatively large positions with relatively limited investment. Accordingly, they are subject to leverage, which means that a relatively small market movement will have a proportionally larger impact on the investor's portfolio. This leverage may sometimes have the effect of amplifying the investor's gains, while at other times it may amplify the investor's losses, when market fluctuations go against expectations.

A margin system is imposed on buyers and sellers of futures in most organised markets. For all transactions (purchase or sale), the parties must make margin deposits, in cash or securities, for a percentage of the value of the contracts purchased or sold. At the end of each trading day, the contracts are revalued, which gives rise, sometimes to a request for additional margins, sometimes to the return of a margin, depending on changes in the price of the future in question. If the investor does not pay the additional margin required, the broker may choose to close out their position.

[5] The specific risks and conditions applicable to derivatives transactions are more fully set out in the specific agreement governing transactions in financial derivatives, as well as, for clients having entered a discretionary management agreement with the Bank, in the appendix to the management agreement specific to derivatives.

Futures are likely to be used for a variety of purposes.

In connection with non-speculative management, they allow a portfolio to be hedged against potential fluctuations, with limited risk.

They may however also be used for more speculative purposes, in order to make the most, through a limited investment, of fluctuations in the underlying asset. In this event, due to leverage (see above), futures may give rise to greater risks than those of shares or bonds.

The risks associated with short futures trading are in theory unlimited.

RISKS

Risk of price volatility, since a future is a speculative investment instrument.

Risk of loss associated with the manner and the scope in which the future is used, similar to the option (see above).

Liquidity risk if the market of the future in question is narrow.

3. Policy to manage conflicts of interest

This section aims to provide you with information, in accordance with the MiFID regulations, on the policy adopted by our Bank (hereinafter referred to as the «Policy») when managing conflicts of interest. More specific information may be obtained upon request from our Bank.

3.1. Conflicts of interest in question

Thanks to its long experience in several professions of the financial sphere, our Bank offers its clients a full and integrated range of services in the field of asset management and investment advice, financial planning, corporate consulting, UCI management, financial analysis, credit, order execution and the placement of securities.

Its clients are private investors, institutional investors, listed or private companies and public investors.

The potential for conflicts of interest between our Bank (its representatives, officers or other group companies) and its clients or between clients of our Bank is inherent in the parallel development by our Bank of competing services directed towards a variety of sometimes divergent interests.

So for instance, our Bank is able to grant credits or provide advice to companies while simultaneously investing on behalf of its asset management clients in the financial instruments (shares, bonds, etc.) issued by the very same companies. Where appropriate, our Bank also advises its clients to invest in financial instruments issued by companies that are clients of our Bank or, in the case of UCIs, that their assets are managed by our Bank or other investment companies in its Group

The parallel development of such activities in favour of clients with sometimes divergent interests means that specific measures must be taken to prevent and, where appropriate, manage potential conflicts of interest in a manner that fairly respects the interests of the parties in question.

3.2. Main measures to prevent and, where appropriate, manage conflicts of interest

Our Bank's Policy on conflicts of interest is generally based on the separation of those activities that are likely to generate conflicts between them.

To this end, our Bank's activities are performed as part of separate departments or even, for certain activities, as part of entities that are legally distinct.

Thus, the "Private Banking" and "Credit" departments are each led by specific representatives and each have their own decision-making committees, made up of representatives from the department.[6]

When activities within the same department are likely to generate conflicts of interest between them, specific measures may also be implemented within the same department to supervise specific activities or transactions.

Accordingly, the Bank's Trading Room is organised into specific desks, whose activities are clearly separated in order to prevent potential conflicts.

Each department (or separate company when subsidiaries are formed) is managed by a member of the management team and, where appropriate, by its own decision-making committee, thus enabling autonomous decision-making. [7]

This separation by department, or by subsidiary in the case of separate companies, is embodied in particular by the physical separation (separate premises) of the persons conducting the activities in question, as well as strict rules on confidentiality, transmission and use of information within and between departments (or group entities).

Specific measures are also taken to ensure that representatives of our Bank (managers, employees, delegated agents) carry out their activities in the interest of clients. As such, specific training on ethics is regularly dispensed to them, especially when they enter our Bank. Specific limitations are imposed on transactions on financial instruments as regards representatives of our Bank and their relatives. Certain transactions that may call into question the independence of our Bank's representatives in connection with their duties (for instance due to benefits received by third parties) are specifically prohibited.

Other measures may also be adopted at the level of specific departments, in order to prevent or manage specific potential conflicts.

Within the limits authorised by the regulations, the Bank may receive, directly or indirectly, and retain monetary and non-monetary remuneration and benefits from third parties pursuant to the provision of investment or ancillary services within the meaning of Directive 2014/65 /EU other than portfolio management.

These remunerations and benefits are justified by the additional services offered by the Bank, within the meaning of the Delegated Directive (EU) 2017/593, to the clients in question. Where appropriate, the Bank may also provide remunerations and monetary or non-monetary benefits to third parties under the same conditions. It does not receive any monetary or non-monetary benefits from third parties in connection with portfolio management services, except for their reimbursement to the clients in question after receipt.

In the aforementioned situation, the Bank may receive monetary or non-monetary benefits from the issuers or distributors of financial instruments in connection with the distribution of certain financial instruments.

Exceptionally, and within the limits authorised by the Regulations, it may also remunerate third parties, where appropriate, who have contributed to the conclusion or upkeep of business relations between the Client and the Bank.

In both cases, information is provided to the clients in question, in accordance with Delegated Directive (EU) 2017/593, prior to the provision of the service, as well as annually, indicating individually the amount of benefits received or, in the case of minor non-monetary benefits, a description of the benefits received. Prior notification relating to monetary and non-monetary benefits received and/or paid by the Bank is summarised in the price brochure and its appendices which are given to clients.

The additional services within the meaning of the Delegated Directive (EU) 2017/593 provided by the Bank justifying the monetary or non-monetary remuneration and benefits received may specifically consist, depending on the type of investment service or ancillary service offered to the client, of one or more of the following services:

- an appraisal, at least annually, of the suitability of the client's portfolio to its profile and, where appropriate, its investment strategy. This service is reflected in the delivery to the client, on an annual basis, of a Periodic Appropriateness Report, indicating the extent to which the products in its portfolio are aligned with its profile and, where applicable, its investment strategy.

[6] Market activities (Trading Room), financial analysis and credit are also performed as part of separate departments. The operational, compliance, audit, risk management and legal advisory functions are also performed as part of specific departments.

[7] On the understanding that a collegial body assumes management at the highest level, an aspect that is inherent in the management of any company.

- the provision of access, at a competitive price, to a wide range of financial instruments likely to meet the client's needs, including an appropriate number of instruments from suppliers of products which are not closely related to the investment company, complemented by information tools enabling the client to monitor and assess their portfolio, such as specifically the provision of periodic reports on the performance of financial instruments and the associated costs and expenses.

4. Order execution policy on financial instruments

Preamble

The MiFID regulations requires that financial institutions, when executing transactions in financial instruments on behalf of their clients, take reasonable steps in order to obtain the best possible result for their clients, taking into account a number of factors such as price, cost, speed and probability of execution, the size and nature of the order.

It also requires that before executing orders on financial instruments, financial institutions draft an order execution policy in which they define the manner in which they intend to fulfil their obligations in this respect, in line with the provisions of Directive 2014/65/EC and more specifically its Article 27.

The execution policy is **deemed accepted** by the client when said party submits an order for execution to our Bank. As such, any clients who do not wish to accept this policy must send in writing, at the same time as their order, a specific instruction not to apply this policy to the point(s) they determine. Unless otherwise instructed, a specific instruction given for a particular transaction is valid only for that transaction, and the client's other orders are deemed to be sent for execution in accordance with this document.

The acceptance and execution of orders relating to any financial instruments may be subject to all conditions imposed by our Bank. Where appropriate, the conditions for the execution of specific transactions may be determined in connection with special agreements.

Criteria governing quality of execution

Within the limits set out in its execution policy, our Bank determines the parameters that it considers most appropriate to encourage and/or to take into account in the execution of all transactions - this includes the price, cost, speed and probability of execution, size and nature of the order, and any other parameters that may have an impact on the quality or the total cost of order execution.

As regards retail clients, in accordance with regulatory requirements, the best possible result depends on the total price, taking into account both the price of the financial instrument and the costs involved in carrying out the transaction, which includes any fees potentially paid to third parties who took part in order execution.

The Bank ensures the quality of execution obtained for its clients by way of various checks and reports.

Intermediaries

Our Bank is not required to execute the transactions entrusted to it by its clients. It may call on one or more intermediaries of its choosing, whenever it deems this useful or necessary. Based on its experience, our Bank selects such intermediaries on the basis of best quality of service.

A list of intermediaries that our bank may use is available on our website. This list is not exhaustive, as our Bank reserves the right to choose other intermediaries whenever it sees fit, in accordance with this order execution policy and in the best interest of its clients.

Places of performance

Our Bank selects the places for performance that it deems most appropriate to ensure the best execution of orders on behalf of its clients in respect of the parameters provided.

A list of places of performance selected by our Bank is also available on our website. If no instructions are received from the client, client orders will be executed at these places of performance. Our Bank reserves the right to modify this list at any time or to select, for certain specific orders, other places of performance in accordance with this policy and in the best interest of its clients.

REVISION AND UPDATE

Our Bank regularly reviews its order execution policy.

It specifically assesses its selection of intermediaries and places of performance at least once a year and whenever there is a significant change requiring that adjustments be made to one or other of these lists.

The full version of the Bank's Order execution policy on financial instruments, as well as the lists of intermediaries and places of performance, is available on our website or on request from your allotted contact person within our establishment.

Our bank selects the places of performance and intermediaries it uses based on the following explicit criteria, in order of importance:

- Market share and liquidity, ensuring competitive prices and management of typical orders that the Bank wishes to execute on behalf of its clients;
- Performance of execution and consistency of criteria governing quality of execution (overall costs, speed and probability of execution); and
- Resilience and reliability, guaranteeing optimum, stable results in terms of execution.

5. Pricing

Fees and costs relating to the proposed investment products and services are disclosed to clients by means of the schedule of charges provided to clients when contact is made, as well as in the special agreements and any price appendices they may contain.

The provisions of the General Terms and Conditions of the Bank, in particular regarding changes to the price rates, are applicable.

6. Information regarding deposits and safekeeping of financial instruments.

The Bank has drafted a disclosure statement regarding deposits and the holding of financial instruments by our Bank on behalf of its clients. Such disclosure include information regarding the deposit guarantee fund and the protection of investors that are granted by the deposit insurance scheme and the investor indemnisation scheme.

This document is available on our website www.degroofpetercam.lu (under Legal Information/General Terms and Conditions) and on request to our Bank.

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