Risk warnings and notice

Wealth Management

The intention of this notice is to provide you, the client, with appropriate warnings and notice on the risks associated with certain investment products and services. It does not constitute advice.

In this document, **you** and **your** mean the Client. **We**, **us** and **our** mean RBC Investment Solutions (CI) Limited which is regulated and licensed by the Jersey Financial Services Commission.

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This notice is to provide you with information and warnings about the key risks associated with our investment products and services so that you are able to understand the most significant associated risks and consequently be in a position to take investment decisions on a more informed basis. This notice cannot disclose all the risks associated with the products we may provide to you. You should not deal in these products unless you understand their nature and the extent of your exposure to risk. You should also be satisfied that the product is suitable for you in light of your circumstances and financial position.

Although some financial instruments can be used for the management of investment risk, some of these products can be unsuitable for some investors.

1. Shares and Bonds

Shares (an ownership stake or share in a company) and bonds (a loan to a company or the government) are widely used financial instruments that vary in type, both within and across national boundaries. They carry varying risks brought about by the performance of world markets, interest rates, taxes on income and capital, foreign exchange rates, liquidity (the ease with which a security can be traded on the market) and the financial performance of the issuing companies or governments. Investments, or income from shares and bonds can go down as well as up and you may not necessarily get back the original amount you invested.

2. Collective Investment Schemes (CIS)

There are many different types of collective investment schemes (CIS) with different characteristics and regulatory status. Terminology varies by country but CIS are often referred to as unit trusts, OEICs or ICVCs, SICAVs, managed funds, mutual funds or simply funds. They are arrangements that enable a number of investors to 'pool' their money, in order to gain access to professional fund managers. Investments held with these funds may typically include gilts, bonds and quoted equities, but depending on the type of scheme may go wider and hold instruments such as property, derivatives, unquoted securities and other complex products.

CIS broadly fall into two categories: Authorised (by a regulator) and Unauthorised, which are considered to be riskier because they lack regulatory supervision and regulatory oversight. CIS bear the risks associated with the underlying securities that they invest in. The value of a CIS, or the income derived from them, can decrease as well as increase and you may not necessarily get back the amount you invested. In addition they bear investment management risks and insolvency risks and possibly liquidity risks (see below). You should ensure that you understand these funds before you invest in any of them.

3. Investment trusts

Investment trusts are similar to CIS in that they provide a means of pooling your money, but using a different structure, governed by different regulations. Investment trusts are publicly listed companies whose shares are traded on the London Stock Exchange. They are closed-ended funds (having a fixed number of shares in issue at any time). The price of their shares will fluctuate according to investor

demand, as well as a result of changes in the value of their underlying RBC Investment Solutions (CI) Limited assets. They will be subject to a combination of the risks associated with shares, bonds and CIS in which they are invested in. The value of investment trusts, or income derived from them, can decrease as well as increase and you may not necessarily get back the amount you invested.

4. Complex products

We define some products (many of which are listed in this notice) as complex. There is no one definition for complex products but products that fit into this category are generally those where:

1. there is an actual or potential liability greater than the amount invested for the client; or
2. derivatives or products that have derivatives embedded in them; or
3. there are limited opportunities to sell the product; or
4. adequate comprehensive information is not generally available on the product.

When such products are requested by a client we will carry out enhanced enquiries to ascertain whether the client has the appropriate knowledge and experience to understand the risks of that product, unless the client requests a product on an execution only basis. You should therefore be aware that these types of products carry additional risks, some of which are outlined below in paragraphs five to thirteen.

5. Hedge funds

Hedge funds are a generic term for funds which have a wide scope to invest in a variety of strategies and financial instruments, without the constraint of a benchmark. They frequently employ gearing or leverage, which can increase potential losses. They can also be illiquid. Many based in offshore jurisdictions are not regulated in the way an authorised CIS would be. This may add to the risk to the investor. Hedge funds are extensively used by professional investors and retail clients generally only have access to them through a pooled structure. Returns on hedge funds may be positive or negative and it is essential that clients seek advice before investing in these instruments.

6. Structured products

The term ‘structured products’ refers to a group of financial instruments with varying terms, payout and risk profiles on a range of underlying assets. Structured products fall into broad categories, are non-standardised and bespoke, and usually invest in a variety of underlying assets such as shares, debt securities, commodities or mutual funds. Frequently the investments are achieved by embedding derivative products on indices into a bond. They can also utilise gearing and leverage. Gearing increases the risk of the investment where a structured product employs leverage. The percentage price movements will be greater than those of the underlying asset.

Whilst many structured products have a level of capital protection, not all do so.

Along with many of the risks described in this notice, there are some additional risks that should be highlighted:

1. your capital may fall below the amount you put in. This loss may significantly increase if the product structure involves gearing or leverage;
2. rates of return expected might be achieved only after a set period and you may not know how well your investment has performed until that date;
3. the rate of return may depend on specific conditions being met and you may not be able to judge accurately how likely that will be;
4. if you take your money out early, you may get less than you put in; and
5. where a structured product note has a level of capital protection, this is normally only effective at the maturity of the note.

7. Foreign markets and foreign denominated securities

Transactions on foreign markets, which include the financial markets of developing countries (emerging markets) will involve different risks from transactions on the UK markets. In some cases the risks will be greater. The return achieved from transactions in foreign markets or in foreign denominated contracts and securities will be affected by fluctuations in foreign exchange rates. This can adversely affect the value of your return and the value of your investment. Investments in emerging markets are exposed to additional risks, including accelerated inflation, exchange rate fluctuations, adverse repatriation laws and fiscal measures, and macroeconomic and political factors.

8. Warrants

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large percentage movement, either unfavourable or favourable, in the price of the warrant (high degree of leverage). The prices of warrants can therefore be volatile.

It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe into the underlying investment is invariably limited in time, with the consequence being that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless. You should not buy a warrant unless you are prepared to lose the money you have invested, plus any commission or transaction charges paid.

Some other instruments are also called warrants but they are actually options. For example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities is often called a ‘covered warrant’.

9. Futures

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They can carry a high degree of risk. The 'gearing' or 'leverage' attached to futures trading means that a small deposit or down payment can lead to large losses, as well as gains. It also means that a relatively small movement can lead to a disproportionate movement in the value of your investment, and this can work against you as well as for you. Futures transactions have a contingent liability, and you should be aware of the implications of this.

10. Options

An option offers the right but not the obligation to buy or sell an asset at a set price at some declared time in the future. The two main types are:

- call options, which provide the holder the right but not the obligation to purchase an asset at a specified price;
- put options, which provide the holder the right but not the obligation to sell an asset at a specified price.

Options have many different characteristics, but are broadly subject to the following conditions:

Buying options:

Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, you should also be aware that if you buy a call option on any futures contract and you later exercise the option, you will acquire the future, which will also expose you to the risks described under 'futures' and 'contingent liability investment transactions'.

Selling options:

If you sell (or 'write') an option, the risk involved is considerably greater than buying options. You may be liable for a margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, regardless of how far the market has moved from the exercise price. If you already own the underlying asset which you have contracted to sell (when the options will be known as 'covered call options') the risk is reduced. If you do not own the underlying asset ('uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and only after securing full details of the applicable conditions and potential risk exposure.

Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

11. Swaps

A swap which is a contract for difference is an agreement between two parties (one usually being an investment bank) to exchange one stream of payments for another. Swaps are individually tailored contracts that trade over the counter (OTC) and can be based on any terms agreed by the two parties.

In addition to market risk, swaps entail counterparty risk, as well as the inability to close out a position as the contracts are individually negotiated. They may also have a contingent liability and you should be aware of the implications of this as highlighted below. A client will normally be asked to post collateral when entering a swap transaction. There may be margin calls throughout the life of the transaction which would require the client to increase the amount of collateral posted.

12. Off-exchange transactions in derivatives

It may not always be apparent whether or not a particular derivative is arranged on an exchange or in an off-exchange derivative transaction. In many cases off-exchange transactions in derivatives will be for OTC contracts. These are privately negotiated contracts which are traded directly between two parties. Your investment manager will make it clear to you if you are entering into an off-exchange or OTC derivative transaction. While some off-exchange markets are highly liquid, transactions in off-exchange or 'non transferable' derivatives may involve greater risk than investing in on-exchange derivatives, because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid prices and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what a fair price is.

13. Contingent liability investment transactions

Contingent liability investment transactions are margined transactions, which require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately. The liabilities, which may or may not be crystallised depend on the outcome of a forthcoming event such as market movement.

If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the margin you deposit with your investment manager to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be responsible for the resulting deficit.

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

Your investment manager may carry out margined or contingent liability transactions with or for you if they are traded on or under the rules of a recognised or designated investment exchange. Contingent liability investment transactions which are not so traded may expose you to substantially greater risks.

14. Initial Public Offerings (IPOs)/New Issues

When securities are newly issued, the market price is sometimes artificially maintained by the issuer during the period when a new issue is to be sold to the public. This is known as stabilisation and may affect not only the price of the new issue, but also the price of other securities relating to it. The FCA allows stabilisation, as long as a strict set of rules is followed, in order to counter the prospect of a drop in price before buyers can be found. The overall effect of this process may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

15. Collateral

If you deposit collateral as security with your investment manager, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral, depending on whether you are trading on a recognised or designated investment exchange, with the rules of that exchange (and the associated clearing house) applying, or trading off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets that you deposited, and you may have to accept payment in cash. You should ascertain from your investment manager/advisor how your collateral will be dealt with.

16. Commissions

Before you begin to trade, you should obtain details of all commissions and other charges for which you will be liable. If the charges are not expressed in money terms (for example, as a percentage of contract value), you should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of your initial payment.

17. Suspensions of trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted.

18. Clearing house protections

On many exchanges, the settlement of a transaction is ‘guaranteed’ by the exchange or clearing house. However, this guarantee may not protect you if your investment manager or another party defaults on its obligations to the exchange. There is no clearing house for traditional options, nor normally for off-exchange instruments which are not traded under the rules of a recognised or designated investment exchange.

19. Investment management risks

When managing clients’ portfolios we may use strategies and investment techniques with significant risk characteristics. An investment programme carried out for a client may directly or indirectly utilise, among other things, option transactions, short sales, leverage, derivatives trading and forward and futures contracts. All these investment products risk the loss of capital. In addition to the risk associated to the products and financial instruments, there is the additional risk of loss from the poor performance of investment managers.

20. Insolvency

Your investment manager’s insolvency or default, or that of any other brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. On request, your investment manager must provide an explanation of the extent to which it will accept liability for any insolvency of, or default by, other firms involved with your transactions.

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