



Regulatory Risk Warnings

Part 1 Introduction

Summarised below is a general description of the nature of and some of the risks associated with specific types of investment that we may deal in and the transactions we may carry out, on behalf of your Portfolio, as part of the discretionary investment management services being carried out by us.

This statement cannot disclose all the risks and other significant aspects of investments and transactions we may undertake on your behalf but is intended to give you information on and a warning of the risks associated with them so that you are reasonably able to understand the nature and risks of the specific types of investments and transactions being entered into on behalf of your Portfolio and consequently, to take investment decisions on an informed basis.

All financial products carry a certain degree of risk and even low risk investment strategies contain an element of uncertainty. Risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of any investment.

You should be aware of the nature of these investments and the extent of your exposure to risk. You should also be satisfied that the relevant investment is suitable for you in the light of your circumstances and financial position and be prepared that you may sustain a loss of the money you have invested. Past performance is not necessarily a guide to the future and the value of investments, as well as any income derived from them, can fall as well as rise. Some of these investments may be unsuitable for certain investors and where necessary, you should seek appropriate advice in advance of any investment decisions. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments you should be aware of the following points.

All of the types of investments that we may choose for your Portfolio are generally intended for investment by retail clients except where explicitly stated below.

Unless otherwise defined in this document, the definitions in the agreement for discretionary investment management services signed by you (the '**Client Agreement**') apply.

Part 2 Investment and Product Risks

Set out below is an outline of the risks associated with certain generic types of investments, which should be read in conjunction with Part 4 (Generic Risk Warnings) below.

2.1. Shares

A share is a security representing a shareholder's rights in a company. Shares may be issued in bearer or registered form. One share represents a fraction of a company's share capital. Dividend payments and an increase or decrease in the value of the security are both possible. The shareholder has financial and ownership rights which are determined by law and the issuing company's articles of association.

The price of shares and income from them may go down as well as up and it is possible that you may not get back the full amount invested on disposal of the shares. The dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or even losses, dividend payments may be reduced or not made at all.

There may be a greater risk associated with buying shares in some smaller or unquoted companies (including penny shares), than is customarily associated with investment in larger, more established

companies. There may be a big difference between the buying and selling prices of these shares and the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock. Proper information for determining their value or the risks to which they are exposed may not be available. If the shares have to be sold immediately, you may get back less than you originally paid for them. The prices may change quickly and it may go down as well as up.

2.2. Collective Investment Schemes

A collective investment scheme (“**fund**”) is an investment vehicle into which investors can make an investment by purchasing a unit, share or interest in the fund (“**unit**”).

There are many different types of fund available including investment trusts, unit trusts, open-ended investment companies with variable capital (“OEICs” or “ICVCs”), Société d’Investissement à Capital Variable (“SICAV”), Sociétés d’Investissement en Capital à Risque (“SICARs”), limited liability partnerships, exchange-traded funds (“ETFs”), real estate investment trusts (“REITs”), venture capital trusts (“VCTs”), property funds, hedge funds and private equity funds. They may be onshore or off-shore, regulated or unregulated. Depending on the legal structure of the fund, units in the fund may be listed on a stock exchange and the fund may be either open ended (being, generally, a fund that confers on investors a right to redeem their interests in the fund with the value of the fund being determined by the value of underlying assets) or closed ended. Some fund structures are more exposed to risk than others due to, amongst other things, the markets they invest in, the nature of their assets and the extent of their leverage.

In each case, the fund is managed by the investment manager or a third party which invests the fund’s cash and assets. The units represent the investor’s interest in the fund and the value of the units purchased is often determined by the value of the underlying investments made by the fund (although where the units in the fund are listed or traded on a market, the units may trade or be sold at a discount to net asset value).

Some funds charge an annual management fee. Usually this will be taken from the income generated. If insufficient income is generated by the fund to cover the management fee, the balance may be deducted directly from the capital of the fund which will reduce capital growth.

Dealing in any type of fund may involve the following risks:

(a) Transferability and Withdrawal

Units in funds may not be readily redeemable or transferable or there may not be a market for such units. In such cases, an investor may have to hold his interest until such time as the fund is wound up or a secondary market develops for those units and this may involve the investor holding his interest for a substantial period of time. If the fund is an open ended fund, restrictions may apply to the redemption of the units that may result in an investor being unable to liquidate his investment in the fund at the time of his choosing. There may also be fees payable on redemption of units. The units in some funds may be listed on a stock market. As a result, the unit price will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value of the units.

(b) Regulation

Some funds may not be regulated in the jurisdiction of their establishment, or elsewhere, meaning that certain investor protections or restrictions on activity applicable, in a given jurisdiction, to a regulated fund may not apply to such funds.

(c) Leverage

Some funds may borrow funds under credit facilities in order to satisfy redemption requests, pay certain organisational expenses and finance the acquisition of investments. As such, leverage exposes the fund to capital risk and interest costs that may reduce the value of an investor’s investment in the fund.

(d) **Rights of Participation**

Investors in funds, generally, have very limited rights of participation in respect of their units and the power to make all decisions, with the consent of investors, is usually delegated to the investment manager of the fund.

(e) **Strategy**

Some funds specialise in particular asset classes or geographical sectors, meaning risk may be concentrated in the relevant asset classes or geographical sectors. Some funds choose strategies which the market would regard as high risk. The investment strategy of a fund may be such that the fund faces strong competition for the purchase of assets from other investors, thereby reducing the investment opportunities available to the fund.

(f) **Valuations**

It may be difficult to determine the net asset value of a fund which has invested in illiquid underlying assets, and therefore it may be difficult to value the underlying units of the fund.

(g) **Underlying Assets**

The underlying assets of a fund can be diverse and cover both long and short positions and a full range of assets, including derivatives. A fund may be exposed to market risks and risks associated with particular trading activities - for example, off-exchange trading, short selling, leveraged trading, frequent portfolio turnover and speculative position limits which may result in losses for the fund or periods of fund underperformance. The risks associated with a direct investment by an investor in the underlying asset are also relevant in determining the risks associated with an investment by the fund in the underlying asset.

(h) **Management of the Fund**

The operation and performance of a fund will be dependent upon the performance of the fund's investment manager. Generally a fund will rely upon the investment manager to make investment decisions consistent with the fund's investment objectives and the investment manager, in turn, will be dependent upon its key personnel carrying out their roles with due care and skill. The investment manager and its affiliates (if any) may be in a position to provide services to other clients which conflict directly or indirectly with the activities of the fund and could prejudice investment opportunities available to, and investment returns achievable by, the fund. If the agreement between the fund and the investment manager is terminated, the fund may not be able to find a suitable replacement for the investment manager, potentially leading to losses for the fund and periods of fund underperformance.

(i) **Unregulated Collective Investment Schemes**

These are schemes that are non ICVC, authorised unit trust or a recognised scheme. Unregulated collective investment schemes are not authorised under the Financial Services and Markets Act 2000 (the "**Act**") and may not be subject to the rules and regulations made under that Act for the protection of investors. Compensation will not be available under the UK Financial Services Compensation Scheme in the event that there is a default in respect of your investment in the scheme and investors may not have any rights of cancellation. Units in such schemes may represent an illiquid investment. The value of units, and the income deriving from them, may fall as well as rise, and you may not get back the amount invested. The FCA considers that unregulated collective investment schemes are not generally suitable (or intended) for the average retail investor.

2.3. Investment Trusts

As shares in investment trusts are traded on a stock market, the share price will fluctuate in accordance with supply and demand and may not necessarily reflect the underlying net asset value of the shares. Depending on market conditions the spread between the purchase and sale price can be wide.

2.4. Highly Geared Investment Trusts

Highly geared investment trusts are collective investment schemes where we can use techniques including borrowing to enhance the volatility of return. As such the value of these schemes can be subject to large movements and can become worthless. Gearing through borrowing can be achieved either directly or indirectly or by investing in the scheme so one party participates in the capital gain or loss, while another party provides the borrowing.

2.5. Money-Market Instruments

A money-market instrument is a borrowing for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower. Unlike in an overdraft, the borrower must specify the exact amount and the period for which he wishes to borrow. Like other debt instruments (see 2.6 below), money-market instruments are exposed to the major risk types in Part 4 below, including credit and interest rate risk.

2.6. Debt Instruments/Bonds/Gilts

All debt instruments are potentially exposed to the major risk types in Part 4 below, including credit risk and interest rate risk.

Debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, duration, market perception of the creditworthiness of the issuer and general market liquidity. When interest rates rise, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities.

Corporate bonds are subject to credit, liquidity and interest rate risks. Adverse changes in the financial position of an issuer of corporate bonds or in general economic conditions may impair the ability of the issuer to make payments of principal and interest or may cause the liquidation or insolvency of an issuer.

A fixed interest bond or gilt is a security or stock which carries a fixed rate of interest, normally payable for a set period. Issuers of such investments can be governments, local authorities and companies. Gilts normally have set redemption dates on which the nominal value is repaid. Bonds and gilts can be bought and sold daily.

Bonds are rarely bought on issue and held until redemption. Thus the purchase and sale prices can vary in unpredictable ways. They carry price risk, driven by the evolution of interest rate markets, and the terms and conditions of the bond. All bonds also carry credit risk. This is the risk that an issuer may default on payments. G7 government bonds have an implied credit risk that is very low, due to tax raising powers, and lack of default historically. Emerging market government bonds, corporate bonds and funding instruments issued by special purpose vehicles carry material credit risk. This can affect prices even if default does not occur, merely that the chance of default has changed. Typically, large stable companies carry little credit risk, and high yield bonds display high yields explicitly to attract investors to companies that might very well default.

2.7. Debentures

Debentures are loans that are usually secured and have either fixed or floating charges with them. Debenture holders have the right to receive their interest payments before any dividend is payable to shareholders and, most importantly, even if a company makes a loss, it still has to pay its interest charges. If the business fails, the debenture holders will be preferential creditors and will be entitled to the repayment of some or all of their money before the shareholders receive anything. These are considered to be low to medium risk.

2.8. Commodities

The primary commodities that are traded are oil, gold, other precious metals and agricultural products. Due to the costs and effort required to transport these commodities, what is actually traded are exchange traded commodity securities or commodities futures contracts or options, which are agreements to buy or sell at an agreed upon price on a specific date and are considered to be high risk.

2.9. Structured Products

Structured products are financial instruments that provide the potential opportunity to earn a higher return and may enable us to implement investment strategy more cheaply and efficiently. These products have returns that can be linked to the performance of an underlying benchmark such as interest rates, equity markets, commodities, corporate credits or foreign exchange markets. For example, an S&P 500 equity-linked note has a return linked to the performance of the S&P 500 index. The greater the return of the S&P 500 over the life of the note, the better the return on the S&P 500 equity-linked note, however the opposite will apply in the event of a fall in the S&P 500.

2.10. Structured Capital at Risk Products (“SCARP”)

SCARP's are financial instruments that aim to return the original money invested at the end of the term unless the index or asset price to which the product is linked has fallen below a predetermined threshold. However, the return of initial capital invested at the end of the investment period for a SCARP is not guaranteed and therefore you may get back less than was originally invested. The amount of initial capital repaid may be geared, which means that a small percentage fall in the related index may result in a larger reduction in the amount paid out to you. Redeeming a SCARP early may result in redemption penalties and a poor return. Any maximum benefit advertised for a SCARP may only be available after a set period. The rate of income or growth advertised may depend on specified conditions being met. The initial capital invested may be placed into high risk investments such as non-investment grade bonds or invested with organisations that may become insolvent with the resulting loss of some or all of the value. In addition to these risks relating to the nature of the product, there is the further risk that a counterparty may default on its obligations under the terms of a SCARP. Due to the complex nature of these products you should ensure that investment into these products is appropriate for your financial circumstances. SCARPs are not generally intended for retail clients, but we may invest in SCARPs on your behalf when we feel they are suitable for you.

2.11. Derivatives

(a) Derivatives Generally

A derivative is a financial instrument derived from an underlying asset's value. Rather than trade or exchange the asset itself, an agreement is entered into to exchange money, assets or some other value at some future date based on the underlying asset. There are many types of derivative, but options, futures and swaps are among the most common.

An investor in derivatives often assumes a great deal of risk, and therefore investments in derivatives must be made with caution, especially for smaller or less experienced investors. You should not deal in these products unless you understand their nature and the extent of their exposure to risk. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position. Derivatives are not generally intended for retail clients, but we may invest in derivatives on your behalf if we feel they are suitable for you and complement the Portfolio as a whole.

Derivatives have high risk connected with them, predominantly as there is a reliance on other underlying assets, which can be unpredictable. Options or futures can allow a person to pay only a premium to bet on the direction in an asset's price, and while this can often lead to large returns if right, it could lead to a 100% loss (the premium paid) if wrong. Options or futures sold “short” (i.e. without the seller owning the asset at the time of the sale) may lead to great losses if the price of the derivative rises significantly.

If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated off-exchange derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

On-exchange derivatives are subject, in addition, to the risks of exchange trading generally. Off-exchange derivatives are contracts entered into with a counterparty and, like any contract, subject to credit risk and the particular terms of the contract (whether one-off or a master agreement) should be considered in all cases.

Derivatives can be used for speculative purposes or as hedges to manage other investment risks. In all cases the suitability of the transaction for the particular investor should be considered. Certain strategies, such as a 'spread' position or a 'straddle', may be as risky as a simple 'long' or 'short' position.

You should therefore consider the terms and conditions of the specific derivatives and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying of a futures contract and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying asset.

Normal pricing relationships between the underlying asset and the derivative may not exist in all cases. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to assess 'fair' value.

The points set out below in relation to different types of derivative are not only applicable specifically to these derivatives but are also applicable more widely to derivatives generally. All derivatives are potentially subject to the major risk types in Part 4 below, especially market risk, credit risk and any specific sector risks connected with the underlying asset.

(b) 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 movement, unfavourable or favourable, in the price of the warrant. 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 which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless. A warrant is potentially subject to all of the major risk types referred to in Part 4 below. You should not buy a warrant unless you are prepared to sustain a total loss of the money invested plus any commission or other transaction charges.

Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a covered warrant). For these instruments, see paragraph 2.11(f) below.

(c) Off-Exchange Warrant Transactions

Transactions in off-exchange warrants may involve greater risk than dealing in exchange traded warrants because there is no exchange market through which to liquidate your position, or to assess the value of the warrant or the exposure to risk. Bid 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.

(d) Securitised Derivatives

Securitised derivatives are derivative products, such as covered warrants and certificates that are freely traded and may be listed on stock exchanges. They enable investors to have exposure to a wide range of underlying products such as shares, indices, commodities and interest rates

without investing directly in the underlying product. An investor's return is always linked to the performance of the underlying instrument which could include shares, indices like the FTSE 100, foreign exchange, commodities and interest rates.

These instruments may give a time limited right (in the case of covered warrants), or an absolute right (for linked notes) to acquire or sell one or more types of investment which is normally exercisable against someone other than the issuer of that investment. Or they may give rights under a contract for differences, which allow for speculation on fluctuations in the value of the property of any description or an index, such as the FTSE 100 index. In both cases, the investment or property may be referred to as the "underlying instrument". These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.

These instruments have a limited life, and may (unless there is some form of guaranteed return to the amount invested in the product) expire worthless if the underlying instrument does not perform as expected. You should only buy this product if you are prepared to sustain a total loss of the money invested plus any commission or other transaction charges.

(e) Futures/Forwards

Transactions in futures or forwards 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 carry a high degree of risk. The "gearing" or "leverage" often obtainable in futures and forwards 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 proportionately much larger movement in the value of the investment, and this can work against you as well as for you.

Futures and forwards transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements associated with these products, which are set out in paragraph 3.2 below.

With all exchange-traded (and most OTC off-exchange) futures and forwards, you will have to pay over in cash, losses incurred on a daily basis to meet margin requirements. If you fail to lodge margin, the contract concerned may be terminated. See further, paragraphs 3.1 and 3.2 of below.

(f) Options

There are many different types of options with different characteristics subject to the following conditions.

(i) Buying options

Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under the headings "Futures" and "Contingent Liability Investment Transactions".

(ii) Writing options

If you write an option, the risk involved is considerably greater than buying options.

You may be liable for 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 it, however far the market price has moved away from the exercise price. If you already own the underlying asset that 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 then only after securing full details of the applicable conditions and potential risk exposure.

(iii) Traditional options

Certain London Stock Exchange member firms under special exchange rules write a particular type of option called a “traditional option”. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

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.

(g) Contracts for Differences

Futures and options contracts can also be referred to as a “contract for differences”. These can be options and futures on the FTSE 100 index or any other index, as well as currency and interest rate swaps. However, unlike other futures and options (which may, depending on their terms, be settled in cash or by delivery of the underlying asset), these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as set out in paragraphs 2.11(e) and 2.11(f) respectively. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of this as set out in paragraph 3.1 below.

(h) Off-Exchange Transactions

It may not always be apparent whether or not a particular derivative is arranged on exchange or in an off-exchange 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.

(i) Swaps

A swap is a derivative where two counterparties exchange one stream of cash flows against another stream.

A major risk of old off-exchange derivatives (including swaps), is known as counterparty risk. If a party, A, wants a fixed interest rate loan and so swaps a variable rate loan with another party, B, thereby swapping payments, this will synthetically create a fixed rate for A. However, if B goes insolvent, A will lose its fixed rate and will pay a variable rate again. If interest rates have gone up a lot, it is possible that A will struggle to repay.

The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting both as principals and as agents using standardised swap documentation. As a result, the swap market has become liquid but there can be no assurance.

(j) Combined Instruments

Any combined instruments, such as a bond with a warrant attached, is exposed to the risk of both those products and so combined products contain a risk which is greater than those of its individual components generally, although certain combined instruments may contain risk mitigation features, such as principal protected instruments.

The value of a basket of products (such as shares, indices etc.) may be affected by the number and quality of reference assets included in such basket. Generally, the value of a basket that includes reference assets from a number of reference asset issuers or indices will be less affected by changes in the value of any particular reference asset included therein than a basket that includes fewer reference assets, or that gives greater weight to some reference assets included therein. In addition, if the reference assets included in basket are concentrated in a particular industry, the value of such a basket will be more affected by the economic, financial and other factors affecting that industry than if the reference assets included in the basket are in various industries that are affected by different economic, financial or other factors or are affected by such factors in different ways.

Part 3 Transaction and Service Risk

3.1. Contingent liability investment transactions

Contingent liability investment transactions which are margined require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately. If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the margin you deposit 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.

Except in specific circumstances under the FCA rules, we may only carry out margined or other 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 transactions which are not traded on or under the rules of a recognised or designated investment exchange may expose you to substantially greater risks.

3.2. Collateral/Margin

If you deposit collateral as security with your custodian, 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 it is trading on a recognised or designated investment exchange, with the rules of that exchange (and associated clearing house) applying, or trading off-exchange. Deposited collateral may lose its identity as your property once dealings on its behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited and may have to accept payment in cash. You should ascertain from your custodian how its collateral will be dealt with.

3.3. Limited Liability Transactions

Before entering into a limited liability transaction, you should obtain from us a formal written statement confirming that the extent your loss liability on each transaction will be limited to an amount agreed by you before the transaction is entered into.

The amount you can lose in limited liability transactions will be less than in other margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in a relatively short time. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

3.4. Commissions

You should be aware that charges are not expressed in money terms (but, for example, as a percentage of contract value), so if you do not understand the effect of such charges in specific money terms you should seek clarification. 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 the initial payment.

3.5. 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. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

There may be insufficient published information on which to base a decision to buy or sell such securities.

3.6. Deposited Cash and Property

You should familiarise yourself with the protections accorded to you in respect of money or other property you deposit with us for domestic and foreign transactions, particularly in the event of us or a counterparty becoming insolvent or bankrupt. Cash or other property that you deposit may be held by a third party on our behalf. In the event of a third party's insolvency, you may not recover all of your cash or other property. The FCA have increased the period that cash may be sent out on fixed term deposits from a maximum of 30 days up to a maximum of 95 days. This means the risk may increase as your cash is exposed to the risk of a third party's insolvency for a longer period. Certain property may be held with a third party in an omnibus account and, in the event of such third party's default, if there is a shortfall in that omnibus account, you may not recover all of your property.

Certain property may be held by a third party outside the United Kingdom (which may also be outside the European Economic Area ("EEA"), and as such, the legal and regulatory regime applying to (and therefore your rights relating to) any such property may be different from that of the United Kingdom (or elsewhere in the EEA). It may not be possible for that property (other than cash) to be separately identifiable. For this reason, you may not get back the same assets which you deposited. The extent to which you may recover your cash or other property may also be governed by specific legislation or local rules. In some jurisdictions, property, which had been specifically identifiable as your own, will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

Your cash or other property may be deposited with a third party who may have a security interest, lien or right of set-off in relation to that property.

3.7. Stabilisation

Transactions may be carried out in securities where the price may have been influenced by measures taken to stabilise it.

Stabilisation enables the market price of the security to be maintained artificially during the period when a new issue of securities is sold. This may affect the price of the new issue and the price of other securities relating to it. The FCA permits the use of stabilisation to help counter the effect of a new issue coming to the market and the price of the security dropping before buyers are found. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

Subject to strict rules a "Stabilisation Manager" (normally the firm chiefly responsible for bringing a new issue to market) is permitted to buy back securities that were previously sold to investors or allotted to investors which have decided to keep them. The FCA limit the period when the Stabilisation Manager may act to stabilise a new issue, fix the price at which he can stabilise and disclose that he may be stabilising. The fact that a new issue or related security is being stabilised should not be taken as an indication of the level of interest from investors including the price they are prepared to pay.

3.8. Non-Readily Realisable Investments

Both exchange listed and traded and off-exchange investments may be non-readily realisable. These are investments in which the market is limited or restricted or could become so. Accordingly, it may be difficult to deal in such an investment or to obtain reliable information about its value and/or to liquidate your position.

3.9. Foreign Exchange

Foreign exchange is the exchange of one country's currency for another. All foreign exchange is determined by a rate of exchange, or a ratio valuing one currency against another. On the foreign exchange market, foreign currency is bought and sold for immediate (spot) or forward delivery.

3.10. Currency Hedging

This is designed to reduce the effect of the movement of exchange rates on investments in the Portfolio, denominated in a currency other than the currency in which your investments are valued. If an asset in the Portfolio is denominated in a currency other than the currency in which your investments are valued a movement of exchange rates may have a separate effect, unfavourable as well as favourable, on the gain or loss otherwise experienced on your Portfolio.

3.11. Short Selling

Short selling is a strategy in which an investor sells a commodity or security that it does not own in order to profit from a falling market. The investor will borrow the commodity or security from a third party and then immediately sell on to the buyer. At a later date, the investor must make good on the loan by buying back the commodity or security from the market to close the position. If the value of the commodity or security has fallen during this period the investor's profit will be the difference between its original sale price and the buyback price (minus interest charges and fees). However, if the market moves against the investor there is the potential for limitless losses.

3.12. Hedging

Hedging is a strategy designed to reduce investment risk using call options, put options, short-selling or futures contracts. A hedge can help lock in profits or reduce the risk of loss. Its purpose is to reduce the volatility of a portfolio.

Part 4 Generic Risk Warnings

4.1. General

The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. Past performance is no indicator of future performance.

The nature and extent of investment risks varies between countries and from investment to investment. These investment risks will vary with, inter alia, the type of investment being made, including how the financial products have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the Issuer, the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of leverage.

The below risk types could have an impact on each type of investment.

4.2. Liquidity

The liquidity of an instrument is directly affected by the supply and demand for that instrument. 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 to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price. In addition, with the off-exchange products, unless the contract terms so provide, the counterparty does not have to terminate the contract early or buy back the product.

4.3. Credit Risk

Credit risk is the risk of loss caused by borrowers, bond obligors, or counterparties failing to fulfil their obligations or the risk of such parties' credit quality deteriorating.

4.4. Market Risk

(a) General

The price of investments goes up and down depending on market supply and demand, investor perception and the prices of any underlying or allied investments or indeed, sector and economic factors. These can be totally unpredictable.

(b) Foreign Markets

Any foreign investment or investment with a foreign element can be subject to the risks of foreign markets which may involve different risks from UK markets. In some cases the risks will be greater. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

(c) Emerging Markets

Emerging markets are less developed countries which may have less stable economic and/or political conditions than larger more mature western economies. Emerging market investing is generally characterised by higher levels of risk than investing in fully developed markets. Accounting, corporate governance and financial reporting standards that prevail in certain countries are often not equivalent to those in countries with more developed markets. Tax and legal regimes may be subject to uncertainty and to significant and unpredictable changes and repatriation of investments and profits may be restricted by exchange controls. There may also be less well developed regulation of markets, issuers and intermediaries. Markets may lack liquidity of those in developed countries, leading to difficulty in valuing assets. Instability in such markets has previously led to and may continue to lead to investor losses. Settlement of transactions carried out on such markets may be lengthier and less secure than in developed markets.

Price volatility in emerging markets, in particular, can be extreme. Price discrepancies can be common and market dislocation is not uncommon. Additionally, as news about a country becomes available, the financial markets may react with dramatic upswings and/or downswings in prices during a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency and regulation found in more developed markets. For example, these markets might not have regulations governing manipulation and insider trading or other provisions designed to "level the playing field" with respect to the availability of information and the use or misuse thereof in such markets. They may also be affected by political risk. It may be difficult to employ certain risk management practices for emerging markets investments, such as forward currency exchange contracts or derivatives.

In some international markets and particularly in developing and emerging markets the marketability of quoted shares may be limited due to foreign investment restrictions, wide dealing spreads, exchange controls, foreign ownership restrictions, the restricted opening of stock exchanges and a narrow range of investors. Trading volume is lower than on more developed stock markets, and equities are less liquid. Volatility of prices can also be greater than in more developed stock markets. The infrastructure for clearing, settlement and registration on the primary and secondary markets of many emerging markets may be undeveloped.

Many developing and emerging markets, and the companies quoted on their stock exchanges, are exposed to the risks of political, social and religious instability, expropriation of assets or nationalisation, rapid rates of inflation, high interest rates, currency depreciation and fluctuations and changes in taxation.

4.5. Clearing House Protections

On many exchanges, the performance of a transaction by us (or the third party with whom we are dealing on your behalf) is “guaranteed” by the exchange or its clearing house. However, this guarantee is unlikely in most circumstances to cover you, and may not protect you if the broker or another party defaults on its obligations. On request, we will explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing. There is no clearing house for traditional options, or normally for off-exchange instruments which are not traded under the rules of a recognised or designated investment exchange.

4.6. Insolvency

Your custodian’s insolvency or default, or that of the firm you are dealing with or any other brokers or counterparty involved with your transaction, may lead to positions being liquidated or closed out without your consent or, indeed, investments not being returned to you. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payment in cash. There is also insolvency risk in relation to the investment itself, for example of the company that issued the bond or of the counterparty to the off-exchange derivatives (where the risk relates to the derivative itself and to any collateral or margin held by the counterparty).

4.7. Currency Risk

If an asset in the Portfolio is denominated in a currency other than the currency in which your investments are valued a movement of exchange rates may have a separate effect, unfavourable as well as favourable, on the gain or loss otherwise experienced on your Portfolio.

In respect of any foreign exchange transactions and transactions in derivatives and securities that are denominated in a currency other than that in which your Portfolio is denominated, a movement in exchange rates may have a favourable or an unfavourable effect on the gain or loss achieved on such transactions. The weakening of a country’s currency relative to a benchmark currency or the currency of your Portfolio will negatively affect the value of an investment denominated in that currency.

Currency valuations are linked to a host of economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange controls which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency. Hedging can increase or decrease the exposure to any one currency, but may not eliminate completely exposure to changing currency values.

4.8. Interest Rate Risk

Interest rates can rise as well as fall. A risk exists with interest rates that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could impact negatively on other investments.

4.9. Commodity Risk

The prices of commodities may be volatile, and, for example, may fluctuate substantially if natural disasters or catastrophes, such as hurricanes, fires or earthquakes, affect the supply or production of such commodities. The prices of commodities may also fluctuate substantially if conflict or war affects the supply or production of such commodities. If any interest and/or the redemption amount payable in respect of any product is linked to the price of a commodity, any change in the price of such commodity may result in the reduction of the amount of interest and/or the redemption amount payable. The reduction in the amount payable on the redemption of an investment may result, in some cases, in you receiving a smaller sum on redemption of a product than the amount originally invested in such product.

4.10. Regulatory/Legal Risk

All investments could be exposed to regulatory or legal risk.

Returns on all, and particularly new, investments are at risk from regulatory or legal actions and changes which can, amongst other issues, alter the profit potential of an investment. Legal changes could even have the effect that a previously acceptable investment becomes illegal. Changes to related issues such as tax may also occur and could have a large impact on profitability. Such risk is unpredictable and can depend on numerous political, economic and other factors. For this reason, this risk applies everywhere but is greater in emerging markets where there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

The laws and regulations governing investments in securities may not exist in some places and where they do, may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that a foreign investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in foreign courts.

4.11. Operational Risk

Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact on all financial products, but in particular for holders of shares, which equate to a part of the ownership of the company. Business risk, especially the risk that the business is run incompetently or poorly, could also impact on this. Personnel and organisational changes can severely affect such risks and in general, operational risk may not be apparent from outside the organisation.