



DESCRIPTION OF FINANCIAL INSTRUMENTS AND PRINCIPAL RISKS

A) Description of Financial Instruments

Money Market Securities

Money market is a market for short-term debt securities with maturity of one year or less and often 30 days or less. Money market securities include certificates of deposit, banker's acceptances, commercial paper, repos (repurchase agreements) and treasury bills.

Money market securities are generally very safe investments, which return a relatively low interest rate. Bid and ask spreads are relatively small due to the large size and high liquidity of the market.

Bonds

Bonds are debt instruments issued for a period of more than one year with the purpose of raising capital by borrowing. The central government, states and provinces, cities, corporations, and many other types of institutions sell bonds. Generally, a bond is a promise to repay the principal along with interest on a specified date (maturity). Some bonds do not pay interest, but all bonds require a repayment of principal.

Buyers of bonds do not gain any kind of ownership rights to the issuer, unlike in the case of equities, but have a greater claim on an issuer's income in the case of financial distress. Bonds are categorized according to a variety of factors including tax status, credit quality, issuer type, maturity, callability, and secured/unsecured.

A bond might be sold at above or below par (the amount paid out at maturity), but the market price will approach par value as the bond approaches maturity. A riskier bond has to provide a higher payout to compensate for that additional risk.

Depending on type and characteristics, bonds can be exposed to various risks. Bonds, like all debt instruments are exposed to the major types of risk particularly credit risk and interest rate risk (fixed income risk). Debt securities may also be subject to the risk of default of the issuer and may also be subject to price volatility, general market liquidity and other economic factors.

Equity Shares

An equity share is a unit of ownership interest in a corporation or financial asset. The two main types of shares are common shares and preferred shares. Common shares represent equity ownership in a corporation providing voting rights, and entitling the holder to a share of the company's success through dividends and/or capital appreciation. In the event of liquidation, common shareholders have rights to a company's assets only after bondholders, other debt holders, and preferred shareholders have been satisfied. Preferred shares provide for a specific dividend that is paid before any dividends are paid to common stockholders, and which takes precedence over common stock in the event of liquidation. Like common stock, preferred shares represent partial ownership in a company, although preferred stock shareholders do not enjoy any of the voting rights of common stockholders. Also unlike common stock, a preferred share pays a fixed dividend that does not fluctuate, although the company does not have to pay this dividend if it lacks the financial ability to do so.

Equity shareholders are exposed to all major risks discussed above, in particular market risk. When investing in a stock a shareholder is severely exposed to company specific risk.

Depository Receipts

Depository receipts are negotiable certificates, typically issued by a bank, representing a specific number of shares in a company traded on a stock exchange, which is local or overseas to the issuer of the receipt.

An American Depository Receipt (ADR) is issued by a US bank representing a specific number of shares of a foreign stock traded on a U.S. stock exchange. A Global Depository Receipt (GDR) is a negotiable certificate held in the bank of one country representing a specific number of shares of a stock traded on an exchange of another country.

The risks involved relate to both the underlying share and to the bank issuing the receipt.

Warrants

Warrants are certificates, usually issued along with a bond or preferred stock, entitling the holder to buy a specific amount of securities at a specific price, usually above the current market price at the time of issuance, for an extended period. In the case that the price of the security rises to above that of the warrants exercise price, then the investor can buy the security at the warrant's exercise price and resell it for a profit. Otherwise, the warrant will simply expire or remain unused.

Warrants are listed on options exchanges and trade independently of the security with which it was issued. Warrants provide leverage the extent of which depends on the warrant's exercise price relative to the price of the underlying security. Therefore a relatively small movement in the price of the underlying security could result in a disproportionately large movement, favourable or unfavourable, in the price of the warrant. A warrant is potentially subject to all of the major risk types referred to above.

Rights

Rights are transferable securities allowing existing shareholders to buy shares of an issue of common stock shortly before it is offered to the public, at a specified and usually discounted price, and usually in proportion to the number of shares already owned. Rights provide leverage, the extent of which depends on the right's exercise price relative to the price of the underlying security. Therefore, a relatively small movement in the price of the underlying security could result in a disproportionately large movement, unfavourable or favourable, in the price of the right. The prices of rights can therefore be very volatile. Rights may potentially be subject to all of the major risk types referred to above.

Options

The buyer of an option acquires the right to buy (a call option) or sell (a put option) a certain quantity of a security (the underlying security) or instrument at a certain price up to a specified point in time. The seller or writer of an option is obligated to sell (a call option) or buy (a put option) the underlying security. When writing (selling) call options on securities, a fund may cover its positions by owning the underlying security on which an option is written or by owning a call option on the underlying security. Alternatively, a fund may cover its positions by maintaining, in segregated account cash or liquid securities equal in value to the exercise price of the call options written by fund or other investment vehicle.

Options are complex products and a number of factors determine their value. Depending on the underlying assets, options may be subject to all risks described above and thus are often considered high-risk products.

Futures Contracts

Futures contracts and options on futures contracts provide for the future sale by one party and purchase by another party of a specified amount of a specific security at a specified future time and at a specified price. An option on a futures contract gives the purchaser the right, in exchange for a premium, to assume a position in a futures contract at a specified exercise price during the term of the option. Index futures are futures contracts for various indices that are traded on registered securities exchanges.

Futures entail many of the risks described above particularly market risk and credit risk. Daily margining can reduce credit risk but trade in futures can result in a total loss of the margin deposited to establish or maintain a position. Depending on market movements additional margin may be required at short notice

to maintain the position. A failure to provide such additional margin within the time required may result in the liquidation of the position.

Forward Contracts

A forward contract between two counter-parties, in which the buyer agrees to buy the underlying asset at a specified price at some point in the future and the seller agrees to sell to the buyer the underlying asset.

Unlike futures contracts (which occur through a clearing firm), forward contracts are privately negotiated and are not standardized. Further, the two parties must bear each other's credit risk which is not the case with a futures contract. Also, since the contracts are not exchange traded, there is no marking to market requirement, which allows a buyer to avoid almost all capital outflows initially (though some counter-parties might set collateral requirements). Given the lack of standardization in these contracts, there is very little scope for a secondary market in forward contracts. The initial value of a forward contract is zero. However, if the value of the underlying commodity changes, the value of the forward contract becomes positive or negative, depending on the position held.

Forward contracts are priced in a manner similar to futures. Like in the case of a futures contract, the first step in pricing a forward contract is to add the spot price to the cost of carry. Unlike a futures contract though, the price may also include a premium for counter-party credit risk, and the fact that there is no daily marketing to market process to minimize default risk. If there is no premium for these credit risks, then the forward price will equal the futures price.

Swaps

An exchange of streams of payments over time in the future, according to specified terms. The most common type swap is an interest rate swap, in which one party agrees to pay a fixed interest rate on a notional capital for a specified number of years in return for receiving a variable rate on the notional capital for the same number of years. The initial capital in this type of swap is usually not exchangeable.

Interest rate swaps are mostly used to convert a loan with variable interest to a fixed interest rate loan and vice versa.

Mutual Funds

A Mutual Fund is an open-ended fund operated by an investment company. The Fund raises money from shareholders and invests in a group of assets, in accordance with a stated set of objectives. Mutual funds then take the money they raise from the sale of their shares and use it to purchase various investment vehicles, such as stocks, bonds and money market instruments. Investors in mutual funds own shares of the fund and in each of its underlying assets. Shareholders are free to sell their shares at any time, although the price of a share in a mutual fund will fluctuate daily, depending upon the performance of the securities held by the fund. Benefits of mutual funds include diversification and professional money management. Mutual funds charge fees and often require a minimum investment.

A mutual fund is a collective investment scheme and may hold a significant number of investments and may use various strategies each of which could, in certain circumstances, magnify losses from adverse market developments. Depending on strategies employed mutual funds are subject to many of the risks outlined above under equities and bonds. In addition the possibility to realise an investment in a mutual fund is often limited in accordance with the applicable terms and conditions.

Exchange Traded Funds

An Exchange Traded Fund (ETF) is a fund that tracks an index but can be traded like a stock. These funds bundle together the securities that are in an index but they never track actively managed mutual fund portfolios. Investors can do with an ETF almost everything they can do with normal stocks including

short selling. ETFs are traded on stock exchanges and can be bought and sold at any time during trading hours unlike most mutual funds. ETFs are more tax-efficient than normal mutual funds, and since they track indexes they have very low operating and transaction costs associated with them. There are no sales loads or investment minimums required to purchase an ETF.

Exchange traded funds are exposed to the same risks of the index they track and its components. Generally, because of diversification exchange traded funds are less risky than the individual holdings involved.

Hedge Funds

A Hedge Fund is a fund, which can use aggressive strategies that are unavailable to mutual funds including short selling, leverage, program trading, swaps, arbitrage, and derivatives. Hedge funds can accomplish aggressive investment goals because they are exempt from many of the regulations governing other mutual funds. Hedge funds are considered riskier investments than traditional funds primarily because they are unregulated entities and lack transparency. They are more likely to invest in riskier or illiquid assets and while their strategies aim to maximise returns, if they are not properly hedged they can also lead to considerable losses.

Structured Products

Structured products represent a wide range of synthetic investments created to meet specific needs that cannot be met from the standardised products in the market. They are usually based on derivatives such as options and futures and investment returns depend on the price of an underlying asset or assets. A typical structured product might combine an element of capital protection with a degree of participation in the return from a higher performing, but higher risk, underlying asset. The capital protection that is sometimes offered is subject to the investment being held at maturity and to the creditworthiness of the issuer.

The interest and/or the redemption amount payable in respect of a structured product may be linked to the price of an underlying asset and the change in the price of such underlying asset may result in the reduction of the amount of interest and/or the redemption amount payable. Depending on the product, in cases where capital is not guaranteed, the investor may lose part of the amount originally invested. In all cases the legal terms and conditions of a product may contain provisions, which could operate against investors' interest. For example, they may permit early redemption or termination at a time, which is unfavourable to the investor, or they may give the discretion to the issuer of the securities to revise the terms.

B) Description of Principal Risks

Credit Risk

Credit risk is the risk that a fund or other investment instrument could lose money if the issuer or guarantor of a debt instrument becomes unwilling or unable to make timely principal and/or interest payments, or to otherwise meet its obligations. Securities are subject to varying degrees of credit risk, which are sometimes reflected in credit ratings.

Currency Risk

Currency risk is the risk that an investment with direct or indirect exposure to foreign currencies will lose value as a result of a possible decline of those currencies relative the domestic currency or the investor's base currency. Foreign currency rate may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rate and imposition of currency controls or other political developments. In addition, funds may incur transaction costs in connection with conversions between various currencies. Funds may also engage in currency hedging transactions, which generally involve buying currency forward, options or futures contracts. However, not all currency risk may be effectively hedged, and in some cases the costs of hedging techniques may outweigh expected benefits.

Derivatives Risk

Some funds and other investment vehicles may hold a percentage of assets in derivatives, such as futures and options contracts, in pursuance of their investment objectives. The use of such derivatives may expose the fund to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. A fund may use futures contracts and related options for hedging purposes to offset changes in the value of securities held. A fund may also use such derivative instruments to gain exposure to a particular market or instrument, to create a synthetic money market position, and for certain other tax-related purposes. There are various risks associated with the use of futures and options contracts. There may be an imperfect correlation between the changes in market value of the securities held by the Fund and the prices of futures and options on futures. Due to market conditions there may not always be a liquid secondary market for a futures contract making and it may not be possible to close out futures contracts at an advantageous time. Trading restrictions or limitations may be imposed by an exchange, and government regulations may restrict trading in futures contracts and options. Because option premiums paid or received are small in relation to the market value of the investment underlying the options buying and selling put and call options can be more speculative than investing directly in securities.

Structured Notes Risk

Investments in commodity currency and financial linked structured notes entail specific risks. Commodity-linked structured notes provide exposure, which may include long and/or short exposure, to the investment returns of “real assets” (i.e. assets that have tangible properties such as oil, gold and silver) that trade in the commodities markets without investing directly in physical commodities. The price movement of the commodities underlying the note determines the performance of these notes. Currency and financial-linked structured notes provide exposure to the investment returns of currencies and financial instruments. A highly liquid secondary market may not always exist for structured notes.

Fixed Income Risk

The market value of fixed income investments, and financial instruments related to those fixed income investments, will change in response to interest rate changes and other factors, such as changes in the effective maturities and credit ratings of fixed income investments. During period of falling interest rates, the values of outstanding fixed income securities and related financial instruments generally rise.

Conversely, during periods of rising interest rates, the values of such securities and related financial instruments generally decline. In addition, while securities with longer maturities generally tend to produce higher yields, the prices of longer maturity securities are also subject to greater market fluctuations as a result of changes in interest rates. Fixed income investments are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default.

Liquidity Risk

Liquidity risk refers to the difficulty purchasing and selling particular investments within a reasonable time at a fair price. To the extent that there is not an established retail market for specific instruments, trading in such instruments may be relatively inactive. In addition, during periods of reduced market liquidity or in the absence of readily available market quotations for particular investments, the ability to assign an accurate daily value to these investments may be difficult. In such occurrences some funds as applicable may require the Advisor to fair value the investments.

Market Risk

Investments in securities and derivatives in general are subject to market risks that may cause their prices to fluctuate over time. Such investments may decline in value due to factors affecting securities markets generally, or particular countries, segments, economic sectors, industries or companies within those markets. The value of a security may decline due to general economic and market conditions

which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions or changes in interest or currency rates.

Systemic Risk

Systemic risk is the risk arising from interdependencies among markets, which results in problems possibly appearing in one of them spreading to other markets. It involves the entire financial sector and not any one individual market and appears in the form of chain reactions.

Non-diversification risk

Where funds and other investment instruments are non-diversified they can invest in the securities of a limited number of issuers. To the extent that a fund invests a significant percentage of its assets in a limited number of issuers, the fund is subject to the risks of investing in those few issuers, and may be more susceptible to a single adverse economic or regulatory occurrence. As a result, changes in the market value of a single security could cause greater fluctuations in the value of such fund's shares than would occur in a diversified fund.

Short Sales Risk

Short sales are transactions involving the sale of borrowed securities, which must later, be purchased back to replace those borrowed. The market price of these securities at the time of replacement may be higher or lower than the price at which the securities were initially sold. If the underlying security goes down in price between the time a fund sells the security and buys it back, the fund will realize a gain on the transaction. Conversely, if the underlying security goes up in price during the period, the fund will realize a loss on the transaction. Any such loss is increased by the amount of premium or interest that must be paid to the lender of the security.

Likewise, any gain will be decreased by the amount of premium or interest that must be paid to the lender of the security. Where a fund is also required to segregate other assets on its books to cover its obligation to return the security to the lender it would mean that those other assets may not be available to meet the fund's needs for immediate cash or other liquidity. The fund's investment performance may also suffer if the fund is required to close out a short position earlier than it had intended. This would occur if the securities lender required the fund to deliver the securities the fund borrowed at the commencement of the short sale and the fund was unable to borrow the securities from another securities lender or otherwise obtain the security by other means. In addition, the fund may be subject to expenses related to short sales that are not typically associated with investing in securities directly, such as costs of borrowing and margin account maintenance costs associated with the fund's open short positions. These expenses negatively impact the performance of the fund.

Tracking Error Risk

Tracking error risk refers to the risk that a fund's or other investment vehicle's Advisor may not be able to cause the fund's performance to match or correlate to that of the fund's benchmark, either on a daily or aggregate basis. Factors such as fund expenses, imperfect correlation between the fund's investments and those of its benchmark, rounding of share prices, changes to the benchmark, regulatory policies, high portfolio turnover rate and leverage all contribute to tracking error. The fund, which seeks to rack its benchmark on a daily basis, is subject to the effects of mathematical compounding which may prevent the fund from correlating with the monthly, quarterly, annual or other performance of its benchmark. Tracking error risk may cause the fund's performance to be less than might be expected.

Other risks:

Other relevant risks that may impact the price of a financial instrument include also:

Legal risk – The regulatory environment

Political risk – National and international political acumen

Operational risk – Breakdown or malfunctioning of systems and controls.