General Description of the Nature and Risks of Financial Instruments

This document contains a general description as required by EU Directive 2014/65 of the nature and risks of financial instruments in respect of which Houlihan Lokey EMEA, LLP and/or Houlihan Lokey (Corporate Finance) Limited (together, **"Houlihan Lokey"**) may provide advisory services, and is principally aimed at Professional Clients (as described in such Directive). However, this document is not intended to be a complete listing of all financial instruments, nor is this document intended to provide an exhaustive description of all the risks that may be associated with all financial instruments. Rather, it is a description of the principal risks arising therefrom. Houlihan Lokey may supplement these descriptions from time to time, including by providing information that relates to a particular financial instrument (for example, an information memorandum, prospectus or other offering or marketing material).

Clients should not transact in financial instruments unless they understand their nature and extent of exposure to risk, as well as being satisfied that they are suitable for them in light of their financial position. Clients should contact us if they do not understand any of the contents of the descriptions below.

<u>General Introduction</u>

You should not make an investment unless you are prepared to bear the risk of loss arising from that investment.

The tax impact of any strategy is important and tax treatment will depend on the individual circumstances of each client any may be subject to future change. Independent tax advice should be sought in such regard.

All financial instruments involve a certain degree of risk and even low-risk financial instruments and strategies contain an element of uncertainty. Past performance is not a reliable indicator of future results. The value of a financial instrument and the income received from such instrument can go down as well as up, and investors may not get back the amount that they invested. There can be no assurance that expected or targeted returns for any client will be achieved as forecasts may not be a reliable indicator of future performance. Even where a return is expressed to be "guaranteed", an investor is exposed to the risk of default of the underlying "guarantor".

Even if a financial instrument performs as anticipated, fluctuations in exchange rates or changes in taxation may have an adverse effect on the price or value of, or income received from, the financial instrument. Investment returns may be constrained by charges levied and inflation may reduce the value of investments. Also, financial instruments (even those which share similar characteristics) may be exposed to different risks, different combinations of risk, or may exhibit or be exposed to those risks to different degrees. Furthermore, where a portfolio holds two or more financial instruments, the aggregate risk of the portfolio may be different in nature or extent from the risks of the individual financial instruments of which the portfolio is comprised.

As set out in the descriptions below, certain principal risks typically impact particular financial instruments. However, they may be subject to other risks, for example, because of any specific features of the particular financial instrument. Further, many of the risks described below apply generally to financial instruments and individual financial instruments may be impacted by multiple risks. For example, an emerging market equity or debt may be impacted by a number of risks, including currency risk; legal and regulatory risk; non-domestic market risk; emerging market risk; issuer risk; liquidity risk; and market risk.

We may, from time to time, make solicit investor interest in financial instruments that have additional terms and conditions. These may be included in various types of documents, including (without limitation) documents referred to as a "**prospectus**", "**offering memorandum**", "**information memorandum**", "**final terms**" or "**terms and conditions**". These documents may contain additional descriptions of risk that apply to the particular financial instrument and it is important that you read these. The terms and conditions of those financial instruments may also give rise to other risks and the relevant financial instrument to which they apply may have features that are not commonly found in the relevant category of financial instrument.

The terminology used to describe different types of financial instruments may not be used uniformly or consistently; may differ between markets or countries/jurisdictions; and may have different meanings in different contexts (for example, for the purposes of financial services regulation and taxation). The precise features (and, therefore, the risks) of a particular financial instrument will depend on the specific terms and conditions that apply to that financial instrument. A financial instrument might have peculiar features that distinguish it from similarly categorised financial instruments and those distinctions may only become apparent in certain market conditions or upon the occurrence of certain events that may be issuer-specific and therefore may result in unexpected outcomes. Therefore, it is important to review and understand the terms of any financial instrument before making any investment.

Certain financial instruments may be highly speculative and may be suitable only for experienced and financially sophisticated investors who are willing to bear the risks associated with such instruments, which can include the loss of all or a substantial portion of any the value of or all such instruments. For example, unlisted instruments are frequently highly illiquid and difficult to value in a precise manner. Investors should ensure that they fully understand the features of the financial instrument and the risks involved, before deciding whether or not to invest in any such financial instrument.

Unless the context otherwise requires, the terms "**securities**", "**investments**" and "**financial instruments**" may be used interchangeably. Although certain of the risk descriptions may refer to "**securities**", those risks may apply to financial instruments and investments more generally.

<u>Types of Financial Instrument</u>

1. Equities

An equity (or share) represents an ownership interest in an issuer. An investment in an equity may be made with the objective of achieving capital growth and/or the generation of income through the distribution of dividends to the investor by the issuer. However, in the same way that there can be no assurance of capital growth, the distribution of dividends is not guaranteed.

In the event of the insolvency or winding up of the issuer, shareholders rank behind the company's creditors (including its subordinated and unsecured creditors) in relation to the realisation and distribution of the issuer's assets. As a result, shareholders will normally only receive a return if there are any remaining proceeds of the liquidation once all of the creditors of the issuer have been paid in full.

Equity securities generally have greater price volatility than most fixed income securities since the value of equity securities is more closely tied to the profitability of the issuer. This means that the value or price of equities generally fluctuates to a greater extent than fixed income securities, even of the same issuer.

The value of an equity that is a component of an index may fall if it is removed from an index and, similarly, the value of an equity may increase if it is added as a component of an index.

Even where equities are listed on an exchange, the rules of exchanges vary and some exchanges operate different markets (for example, growth markets or small and medium enterprise (“**SME**”) markets for particular categories of issuers that might not qualify for listing on the “main” market). These differences in rules can impact the availability of information and result in lower levels of liquidity.

Unlisted equities are generally less liquid than listed equities and therefore may not be tradeable, may be subject to pre-emption rights in any shareholder or other agreement and are generally more difficult to value precisely.

Depositary Receipts – these are financial instruments, typically issued by a bank (or other custodian), which represent ownership of a certain number of financial instruments (usually shares, hence they are mentioned here under “Equities”) of a company listed on an exchange in another jurisdiction and that have been deposited with the custodian. They were originally developed in response to the desire of investors to make investments in companies outside their home market but who also wanted to avoid some of the associated complexities that would otherwise be involved. Categories of depositary receipts include American Depositary Receipts ("**ADRs**") and Global Depositary Receipts ("**GDRs**"). ADRs are traded on U.S. exchanges and markets and GDRs on European exchanges and markets. The risks involved relate both to the underlying financial instrument and to the bank issuing the receipt.

Depositary receipts can be categorised as either “**sponsored**” or “**unsponsored**”. Unsponsored depositary receipts are certificates which are issued by the bank without the involvement or participation of the issuer of the underlying financial instrument. The relevant terms and conditions will define the features of the particular depositary receipt, but differences between these two categories may include (without limitation) the availability of information from the issuer of the underlying equity; the treatment of corporate actions (such as rights offerings); the exercise of voting rights relating to the underlying equity; and the allocation of expenses relating to the operation of the depositary receipt arrangements.

Depositary receipts may represent the underlying shares on a one-for-one basis or may represent a fraction of a share or multiple shares. Investors in depositary receipts may also be exposed to other risks, such as currency risk, as the underlying instrument may be denominated in a different currency from that in which such receipt is denominated.

Preference shares – This refers to a category of equity that gives a class of shareholder(s) the right to a fixed dividend that is payable before (that is, “**in preference to**”) the distribution of dividends to other class(es) (usually ordinary) shareholders of the issuer. Although there is no recourse to the issuer if the preferred dividend is not paid, certain preference shares may confer a cumulative right to dividends entitling the holder of the preference shares to receive dividends not paid in previous periods. Preference shares usually carry limited voting rights.

2. Fixed Income Securities

The term “**fixed income securities**” refers to debt securities such as bonds, notes and certificates of deposit. These financial instruments, in effect, represent loans to the issuer and the holder of such instrument becomes a creditor of the issuer of the fixed income security. In the event of an insolvency of the issuer, holders of fixed income securities are likely to be able to participate in the proceeds of liquidation of its assets in priority to holders of equity securities.

Fixed income securities have a nominal (or face) value. This is the sum (or principal amount) that will be returned to investors at the end of the security's term (its "**maturity date**"), which term may vary to the extent for example that the instruments contain a provision permitting early redemption (typically where interest rates are falling). As well as repayment of the principal amount at maturity, fixed income securities typically entitle the holder to receive periodic interest payments (sometimes referred to as "**coupons**").

The price at which a fixed income security is purchased or sold (in the secondary market) may be more or less than the nominal value. There are several reasons for this, including: (a) the interest rate payable with respect to the fixed income security relative to the prevailing and anticipated future market rates; (b) the maturity date of the security; (c) the credit worthiness of the issuer, including any applicable credit rating and anticipated changes; and (d) the rate of inflation.

Fixed income securities are subject to interest rate risk. If interest rates rise, the value of the instrument on the secondary market (that is, the amount a holder would receive if it were to sell the bond) will likely fall. Bonds that have a floating or variable rate of interest (meaning that the amount of interest payable is adjusted periodically according to the particular terms of the security) may be less susceptible to falls in value as a result of interest rate rises, but may still be impacted. A rise or fall in the value (that is, the market price) of a bond in the secondary market prior to maturity does not affect the amount that is due and payable when the bond matures.

The rate of interest on a fixed income security may be fixed, floating or variable, and may vary inversely with respect to a reference rate. The rate of return or return of principal on some debt obligations may be linked or indexed to the level of exchange rates between different currencies or other assets or reference rates. In addition, corporate debt securities may be highly customised and as a result may be subject to, among other things, increased liquidity risk and pricing transparency risks.

Where the issuer is distressed then holders of debt securities risk not being paid back in full. Solvency of issuers could be dependent on a range of factors like the solvency and credit rating of its parent company and the issuer itself, its business sector, political and economic factors within the relevant countries. These factors may in turn affect the price of, and demand for, the debt securities in the markets. The value of debt securities will, all other things being equal, fall in the event of a weakening of the financial position of an issuer which may impact its ability to repay such securities.

Sovereign Debt – investments in fixed income securities issued (or guaranteed) by sovereign entities (which includes a government, its agencies and sponsored enterprises, public sector bodies, local public authorities and municipalities) are similarly susceptible to declines in value as a result of the default or other adverse credit events resulting from the issuer's inability or unwillingness to make principal or interest payments in a timely fashion. A sovereign entity's failure to make timely payments on its debt can result from many factors, including, without limitation, insufficient foreign currency reserves (where the debt is denominated in a foreign currency) or an inability to sufficiently manage fluctuations in relative currency valuations; an inability or unwillingness to satisfy the demands of creditors and/or relevant supranational entities regarding debt service or economic reforms; the size of the debt burden relative to economic output and tax revenues; cash flow difficulties; and other political and social considerations. The risk of loss in the event of a sovereign debt default or other adverse credit event is heightened by a general lack of any effective formal recourse or means to enforce an investor's rights as a holder of the sovereign debt. In addition, sovereign debt restructurings, which may be shaped by factors beyond an investor's control, may result in a loss in value of an investor's sovereign debt holdings. Although certain sovereign debt instruments may be described as "**risk free**", this is not the case; as mentioned above, all investments involve a degree of risk, not only credit risk but also other risks such as currency risk interest rate risk.

Asset Backed Securities - Some fixed income securities generate a return that is linked to the performance of a real or notional pool of underlying assets. In such circumstances, the return that the investor receives will depend upon the performance of the underlying asset pool. The issuer might be a government, corporate business or an entity that has been formed specifically for the purposes of issuing the bonds (this is normally the case where the bonds pass through to investors the cash flows generated by specific assets, such as corporate loans, residential mortgages or credit card receivables). The risks to which investors in these securities will be exposed will depend on the particular terms and conditions of the securities, as well as the risks associated with the underlying assets. Examples of risks include the following:

(a) as well as being exposed to the credit risk of the issuer, there is a risk that the ultimate borrowers may not repay the debts included in the pool of underlying assets;

(b) the risk of early repayment. For example, when interest rates decline, borrowers may pay off their mortgages sooner than expected, resulting in returns that are lower than expected;

(c) the consumer credit industry may be subject to regulation which makes it more difficult for servicers of such loans to collect payments, resulting in losses. Changes to applicable bankruptcy or insolvency laws may also adversely impact the collection of payments or otherwise alter the timing and amount of collections;

(d) the underlying loans may be unsecured, thereby exposing the investors to default risk as an unsecured creditor;

(e) asset-backed securities are subject to risks associated with fraud or negligence by, breach of an obligation by, misappropriation and other failures of, the entities servicing the underlying assets. In some circumstances, a servicer's or originator's mishandling of documentation related to the underlying pool of assets or associated collateral (for example, failure to properly document a security interest in the underlying collateral) may affect the rights of security holders in and to the underlying collateral;

(f) the number and nature of assets forming the underlying pool may make it extremely difficult to ascertain the risks involved given that each asset will have a different risk profile from the others; and

(g) where the pool of assets comprises loans, those loans may have been extended pursuant to inappropriate underwriting guidelines, to no underwriting guidelines at all, or to fraudulent origination practices.

3. Convertible Bonds

Some bonds are convertible or exchangeable, meaning that the principal amount of the bond (the amount that would otherwise be payable to the bond holder at maturity) is converted into or exchanged for a specific number of another form of financial instrument (usually the issuer's ordinary shares) at a specified or determinable price or ratio, usually within a specified period and under certain circumstances. Depending on the terms of the bond, the conversion or exchange may be at the option of the issuer or bond holder or may be mandatory (for example, at maturity).

The basic structure of a convertible bond combines a fixed income security and an equity option. Due to their hybrid nature, convertible bonds display characteristics of both equities and bonds, including the risks of both and the factors that impact the market price of the convertible bond (including the prevailing interest rate, the price of the underlying equity and the credit rating of the issuer).

Some convertible bonds are exposed to "**call risk**", the risk that the issuer may redeem the bond early and, as a result, the investor loses the opportunity to convert the bond into equity; or, the bond is converted into equity but not at a time desired by the investor.

Although convertible bonds may provide the investor with the potential upside of the underlying equity, they do not comprise a direct ownership in the equity.

If conversion does not take place, the investor will if the issuer is solvent receive the face value at maturity, providing potential for downside protection in the event of a fall in the price of the underlying shares.

It is important to review the terms of any convertible bonds, including with respect to the conversion price or ratio, including any provisions for adjustment as a result of corporate events, such as takeovers and rights issues. These, as well as the other factors mentioned above, may impact the value of the convertible bond.

4. Pooled Investments

Pooled investments such as mutual funds, exchange traded funds, investment trusts, hedge funds, and private equity investments are sometimes referred to as "**collective investment schemes**". They are structured in a number of different forms, including (without limitation) corporate vehicles, partnerships and trusts.

Generally, they involve an arrangement that enables a number of investors to "pool" their assets and have these professionally managed by an independent manager and for the investors to receive profits and/or income arising from the collective investment of their assets.

Depending on the structure, the investors may or may not have beneficial ownership of the assets in the pool.

Assets held in the pool will typically include the financial instruments described elsewhere in this document, such as bonds and equities as well as other pooled investments, and may include derivatives, real estate or any other asset. As such, a collective investment scheme will be exposed to the risks associated with those financial instruments and other underlying assets held in the pool; and, in addition, may be exposed to other risk types depending on the decisions taken by the manager of the collective investment scheme. Although, therefore, seen as a way to spread risks, the value of an investment in a collective investment scheme can fall as well as rise, which may be amplified to the extent that leverage is used as a means to seek an enhanced return.

Subject to this, investment in such schemes may provide the opportunity to reduce risk by spreading the investor's investment more widely than may have been possible if the investor invested in the assets directly. The reduction in risk may be achieved because the wide range of investments held in a collective investment scheme can reduce the effect that a change in the value of any one investment may have on the overall performance of the portfolio. However, there can be no assurance that this will result in improved performance or that such risk reduction techniques will be successful. For example, if the collective investment scheme invests in a single asset class (such as equities), the scheme will be exposed to the risk of a decline in value of equity markets generally.

Pooled investments may also be categorised as "**closed-ended**" or "**open-ended**". The distinction relates to whether or not the fund has a fixed number of shares (or other ownership interests) in circulation. In turn, this can affect whether the shares (or other ownership interests) in the fund trade (broadly) at net asset value or at a discount/premium to net asset value.

Closed-ended funds have a fixed number of shares (or other ownership interests or units) in circulation and therefore a fixed pool of assets to manage. The value of the pool of assets can grow (or shrink) due to good (or poor) investment performance, but normally no extra capital is added from investors or paid out. An existing investor who wants to exit must typically sell his shares (or other ownership interest) in the market to another investor. As a result, demand and supply factors can influence the price at which shares (or other ownership interests) in closed-ended funds trade and this may be at a discount or premium to the value of the fund's underlying assets. Exchange traded funds and investment trusts are examples of closed-ended schemes.

In contrast, the value of the assets held in open-ended funds can change due to net inflows or outflows of capital from investors, as well as from investment performance. When net new money comes in, the manager invests in extra underlying assets; when exiting investors sell units back to the fund manager, the manager disposes of underlying investments to satisfy those redemptions.

The investor's investment is valued on the basis of the value of the pool of assets – the net asset value. Essentially, the aggregate net value of the scheme's assets is divided by the number of shares (or other units of ownership interest) in circulation to provide a net asset value per share. This means that there is less chance of supply and demand factors influencing the price of the shares (or units). UCITS funds and unit trusts are examples of open-ended funds.

Typically, there is no secondary market for investment in open-ended funds; instead, an investor realises the investment through a process of redemption under which the fund will sell a portion of the underlying assets and transfer the proceeds to the investor. The precise terms of this process, including the frequency at which redemptions may take place and any required notice periods will be contained in the terms and conditions or governing documents for the fund. The fund may have discretion to reduce the frequency at which redemptions take place or impose restrictions or levy fees on redemptions, or to impose other measures to limit withdrawals from the fund.

As managers of closed-ended funds do not need to sell underlying assets held in the pool to meet investor demand for the redemption of an investor's interest in the fund, this can add a degree of stability to the management of the closed-end fund. By contrast, open-ended funds can issue or redeem fund interests at any time to satisfy investors who want to buy into the fund or sell their interest; this may cause problems, as the manager may have to sell assets at a low point to pay investors who want to sell their interests and there may be no market for illiquid assets held by the fund.

Pooled investments may be regulated or unregulated. Unregulated funds may be established in other jurisdictions (for example, so-called "**offshore jurisdictions**") where the standards of regulation and in particular the standards of regulatory supervision may be less stringent that those in the United Kingdom ("**UK**") or European Union ("**EU**"). An unregulated collective investment scheme is described in this way because it is not subject to the same restrictions as a regulated scheme (for example, in terms of their investment powers, and how they are managed and operated). Although the schemes themselves may not be authorised or recognised or regulated, persons providing services to the scheme (e.g., the manager or custodian) may be subject to regulation. UCITS funds are examples of regulated funds. Unregulated funds are typically subject to restrictions on promotion and/or sale; for example, they may be limited to institutional or highly sophisticated investors. This means that the market for unregulated funds may be more limited and it may be more difficult to sell such an investment.

Some pooled investments are passively managed, meaning that they try to replicate a stock market index such as the FTSE 100 or the Hang Seng Index, a market sector such as energy or technology, or a commodity such as gold or petroleum. However, there is a risk that they may underperform the index or other benchmark which they are seeking to replicate and, in addition, the fees payable to the service providers (including the manager) will reduce the returns on the investment. Where they are closed-ended (such as exchange traded funds), as mentioned above, the value of the interest in the pooled investment may be at a premium or a discount to the net asset value.

Funds of funds - Funds of funds are pooled investments that invest in other pooled investments. They offer investors the opportunity for diversifying their exposure (whether to a single manager or a single strategy). However, as well as additional fees, fund of funds include the risk that the fund of funds manager may not have the necessary experience and expertise to select the relevant underlying funds and supervise the underlying managers on an ongoing basis to ensure any desired diversification in strategy is achieved. Further, diversification does not assure profit nor protect against loss.

5. Alternative Investment Funds

As their name implies, alternative investment funds ("**AIFs**") seek to accomplish their objectives through non-traditional investments and trading strategies, meaning investments and strategies that are typically not used by or available to regulated pooled investments. In the context of the EU, the term "**AIF**" refers to any fund that is not regulated as a UCITS fund (that is, under the European Directive on Undertakings for Collective Investment in Transferable Securities). AIFs may be open-ended or closed-ended.

As unregulated pooled investments, AIFs typically have limited (or no) regulatory restrictions on the financial instruments in which they may invest and/or the strategies that they may implement, including with respect to leverage. This does not mean that they are not subject to restrictions on the investments they may make or the investment strategies they may pursue or other limitations. However, compliance with such restrictions or limitations may only be enforceable as a matter of contract and is unlikely to be subject to supervision by a regulatory authority.

AIFs might invest in assets such as global real estate (whether directly or indirectly, for example through the extension of credit facilities, whether securitised or not), commodities, leveraged loans, start-up companies and unlisted securities.

The strategies employed by AIFs are frequently at the complex end of the spectrum. Examples include hedging and leveraging through derivatives, short selling and "opportunistic" strategies that change with market conditions as various opportunities present themselves. Some AIFs employ a single strategy (single-strategy funds). For instance, they may offer 100 percent exposure to currencies or distressed bonds, or employ a market-neutral or "**absolute return**" strategy that uses long and short positions in stocks to generate returns. Others may employ multiple strategies (multi-strategy funds) such as a combination of market-neutral strategies and various arbitrage strategies. Still, others are structured as a fund containing numerous alternative funds, a special type of "**fund of AIF funds**."

Investments in AIFs are typically subject to transfer and redemption restrictions and, as such, present greater liquidity risk than regulated pooled investments. Transfers may be subject to prior approval and redemption may be permitted only after an initial lock-in period and long notification periods. In most cases there is no liquid market for investments in AIFs. In addition, the manager may have broad discretion to impose notice periods or lock-ins in response to certain market conditions. Investors may therefore not be able to exit their investments at advantageous prices or at all.

As examples of pooled investments, they share similar risk characteristics, but these may be exhibited to a greater extent. For example, the successful implementation of the strategy for the AIF may be more dependent upon key portfolio managers, whose experience levels may vary. Another example is that, if they engage in leverage, they will be exposed to the risk of higher losses in the event of the decline in value of the financial instruments in which they have invested.

Categories include private equity funds, real estate funds, hedge funds and real asset funds (such as infrastructure funds). There may be overlaps between these categories of funds, including with respect to the investments they make and the strategies they pursue. The descriptions below are intended to provide general descriptions of the characteristics that typically distinguish between the categories of AIF.

The fee structure for AIFs may result in higher fees than those charged on traditional mutual funds and may include performance-based fees. This means that the managers typically get a higher fee when their funds outperform specified performance targets, which might lead to riskier positions being taken and more speculative investment decisions than if such a fee was not payable.

Pricing and reporting may be less frequent (typically monthly) and this makes investor due diligence, monitoring, and performance tracking more complicated. Transparency with respect to the implementation of the fund's investment strategy might be low compared with regulated funds. In particular, AIFs may wish to limit disclosure with respect to their investment strategies or investment positions as they may consider them to be proprietary and confidential. Positions might be disclosed only in part or with a significant delay. Further, the disclosure of information may not be uniform for all investors as some investors may have access to more or more detailed information and or may have the opportunity to influence decision making in relation to the management of the AIF.

Where AIFs are seeking to invest in less liquid markets or financial instruments, they may face competition from other AIFs and may be unable to execute the desired transactions; or they face competition in the form of AIFs who are taking a contrary investment view and whose actions result in a fall in value in the AIF, as other AIFs trade against an AIF's positions.

Hedge funds – Hedge funds typically engage in active management of their portfolios. They often invest in the capital markets, alongside traditional mutual funds and may share many of the same characteristics. However, some of the characteristics with which hedge funds are particularly associated include the following:

(a) they may use derivatives for directional investing and/or to take short positions and/or for significant leverage through borrowing;

(b) they may have concentrated positions in particular issuers and may engage in shareholder activism;

(c) they may invest in a broad range of financial and non-financial assets (including illiquid, unlisted and distressed securities and commodities) and in a broad range of markets (including emerging markets); and

(d) they may pursue short term investment strategies and this may mean that hedge funds trade more frequently. This may result in the fund incurring higher transaction commission and charges, reducing returns.

Not all hedge funds employ any or all of these strategies. Hedge funds may focus on a particular investment strategy or may pursue a range of strategies or combinations of strategies. As such, the risks involved in such funds are varied and may change from time to time.

Although returns may be higher than regulated pooled investments, investments in hedge funds typically involve a higher degree of risk and/or additional risks above and beyond those arising in relation to regulated pooled investments such as UCITS. As such, they are only suitable for investors who fully understand and are willing to assume the risks involved. In particular, such investors are exposed to potential loss which could involve the complete loss of the investment. Their use of leverage may mean that market movements could have a disproportionate effect on the net asset value of the collective investment scheme.

Private equity funds - Private equity funds are unregulated pooled investments that invest exclusively or almost entirely in financial instruments issued by companies that are not listed (or that take over publicly-listed companies with a view to delisting them). Investment in private equity funds is typically by way of commitment (i.e., whereby an investor agrees to commit to invest a certain amount in the fund and this amount is drawn down by the fund as and when it is needed to make private equity investments). Private equity funds tend to be closed-ended and, generally, will be liquidated within a defined period (although there may be provisions under which the life of the fund can be extended).

Real estate funds – Real estate funds are unregulated pooled investments that invest primarily in real estate, in companies that invest in real estate and/or in real estate related loans. Most real estate funds are structured and operate in a similar manner to private equity funds. Investment in real estate funds is typically by way of commitment (i.e., whereby an investor agrees to commit to invest a certain amount in the fund and this amount is drawn down by the fund as and when it is needed to make real estate investments). Real estate funds tend to be closed-ended and, generally, will be liquidated within a defined period (although there may be provisions under which the life of the fund can be extended).

6. Derivatives

There are many different types of derivative financial instruments, with different characteristics and subject to different conditions. As mentioned elsewhere, derivatives are sometimes combined or embedded in other financial instruments. Derivatives are complex instruments and individual transactions may comprise more than one derivative and may be tailored to the particular requirements of the parties. Certain of the risks arising from the use of derivatives may depend on whether the derivative is exchange traded or over-the-counter ("**OTC**").

The main categories of derivatives are: options, futures (forwards) and swaps. The term "**contract for difference**" (used, in particular, in the UK) is sometimes used to describe certain types of cash settled derivatives transaction. The terminology used to describe the different types of derivatives may not be used uniformly or consistently, may differ between markets or countries and may have different meanings in different contexts (for example, for the purposes of financial services regulation and taxation). Derivatives are suitable only for sophisticated investors and investors should carefully review all the terms and conditions of the derivative transaction to ensure they have a comprehensive understanding of their rights and obligations and of how the derivative may function in different market conditions.

Options – an option, in this context, is simply the right to buy or sell an underlying asset. Options are broadly divided into puts and calls. Simplistically:

(a) a call option gives the purchaser (holder) the right to buy an underlying asset from the seller (writer) of the option, and imposes the obligation on the seller of the option to sell the underlying asset to the option purchaser; and

(b) a put option gives the purchaser the right to sell an underlying asset to the seller of the option, and imposes the obligation on the seller of the option to buy the underlying asset from the option purchaser.

Instead of the physical delivery of an underlying asset, an option may give the purchaser the right to receive a cash amount (for example, an index option) or the right to require the seller to enter into another transaction with the purchaser (for example, a "**swaption**", which is an option to enter into a swap transaction). The terms of the option will typically specify, as well as the identify and amount of the underlying asset, the price at which at that asset will be purchased/sold (the "**strike price**"), whether it is physically or cash settled, the date(s) on which the option may be exercised (by the purchaser) and the date on which the option expires (after which the purchaser can no longer exercise the option). The purchase price payable by the purchaser for the option is called the "**premium**" and it is usually (but not necessarily) paid up front when the option is purchased.

Buying options generally involves less risk than selling (writing) options as the purchaser can allow the option to lapse (i.e., not exercise the option). For example, in the case of a call option, a purchaser of an option would likely not exercise the option if the market price of the underlying asset is less than the strike price.

However, selling (writing) options involves considerably more risk. The seller of an option assumes the legal obligation to purchase or sell the underlying asset (or pay the cash settlement amount) if the option is exercised, regardless as to the difference between the strike price and the market price prevailing at the time of exercise. In the case of call options, if the seller of the option does not own the underlying asset, the seller is exposed in theory to unlimited risk as the seller will need to purchase the underlying asset in the market (or, as relevant, pay the cash settlement amount) and the market price may be significantly higher than the strike price. This risk could be increased further by other factors, for example, if the underlying asset is illiquid. If the option seller owns the underlying asset (a "**covered call**"), the risk is reduced.

The maximum loss arising from the purchase of an option is, essentially, the cost of that option (also known as the premium) plus any associated commissions and other transaction-related costs.

If an option is not exercised before expiry, in accordance with its terms, it may expire worthless. Accordingly, it is important to identify the applicable terms for exercise, which may include specific provisions relating to time and method of notification. Failure to observe those terms may invalidate any purported exercise of the option.

Futures – futures involve the obligation to make, or to take, delivery of the underlying asset at a future date, or in some cases the payment of a cash amount. Futures transactions share the characteristics of forward transactions; however, historically, the term "**futures**" has typically been used to describe standardised exchange traded transactions (whether physically or cash settled) and the term "**forwards**" has typically referred to individually negotiated over-the-counter physically settled transactions, in both cases where the delivery date is for a future date that is beyond the date on which a "**spot**" transaction for the relevant underlying asset commonly settles. However, this terminology is not consistently applied and, for example, currency forwards may be structured as "**non-deliverable forwards**" meaning that the relevant currencies in the currency pair are not exchanged on the settlement date. Where a future is physically settled, an investor who does not want to make or take physical delivery must close out the position (typically by entering into an equal and opposite position) before any applicable cut-off time. There can be no assurance that it will be possible to close out the position on advantageous terms or at all.

Swaps – This term typically describes a financial instrument under which the parties agree to exchange certain cash flows based on the value of, or return from, one or more underlying assets or other reference points (for example, an index or interest rate).

The term "**contract for difference**" (or "**CFD**") is generally used to describe a contract between two parties, typically described as "**buyer**" and "**seller**", stipulating that the seller will pay to the buyer the difference between the value of an asset (often a share or an index) on one date and its value at a subsequent date (if the difference is negative, then the buyer pays the difference to the seller). In effect CFDs are financial derivatives that allow traders to take advantage of prices moving up (long positions) or prices moving down (short positions) on underlying financial instruments and are often used to speculate on those markets.

The terms "**swap**" and "**contract for difference**" are sometimes used interchangeably to refer to the same financial instrument.

Some examples of swaps include the following:

Interest rate swaps - typically, these swaps involve the exchange of cash flows based on two or more interest rates, where the cash flows exchanged are calculated by reference to a notional principal amount. For example, one party might pay the other a floating or variable rate of interest (based on the notional principal amount) in return for the payment by the other party of a fixed rate of interest (based on the notional principal amount). Companies use interest rate swaps to alter their interest rate exposure. A company paying floating interest rate can obtain fixed rate exposure by entering into a swap. Therefore, the company can enter into a swap in which they receive floating rate and pay the fixed rate.

Credit default swap - a credit default swap ("**CDS**") is a contract in which a protection (the swap is similar to a form of insurance contract) buyer pays a premium to the protection seller in exchange for a protection against a credit event experienced by a reference entity. The CDS purchaser will be exposed to the credit risk of the protection seller. If there is a high correlation between the default risk of the reference entity and the CDS seller, this credit protection becomes less valuable.

OTC derivatives are typically documented under industry standard terms (for example, the ISDA Master Agreement) which contain key provisions governing the contractual relationship between the parties, including their respective rights, liabilities and obligations. These terms (which, in fact, comprise a number of documents, including a master agreement, a schedule, relevant definitions and the individual confirmation containing specific provisions relating to the particular transaction) govern how the derivative will operate in different circumstances, including where there is a market disruption event impacting the relevant underlying asset. In these circumstances, the investor may have no ability to influence the outcome. Although the terms and conditions used by banks, investment firms and other participants for these transactions may be based on industry standard terms, they may be tailored by the particular bank, investment firm or other participant and an investor may have limited ability to make amendments. These are often very technical and complex documents and you should ensure that you have appropriate expertise to review and understand them and/or seek independent advice before you enter into a transaction.

Collateral (sometimes referred to as "**margin**") is an important feature of derivatives transactions. This relates to the "contingent liabilities" that typically arise under a derivatives transaction and where one or both parties are exposed to the credit (or performance) risk of the other party. Collateral is used to manage the credit exposure between the parties to the derivatives transaction until the obligations of the parties have been completed. The risks arising from the provision of collateral are described further below.

7. Warrants

The term "**warrant**" is sometimes used to describe a time-limited right to subscribe for shares, debentures, loan stock or government securities which is exercisable against the original issuer of the underlying securities. Warrants (when given this meaning) and options (that is, call options) share similar characteristics, principally in terms of conferring on the purchaser of the warrant the right (but not the obligation) to acquire an underlying asset. However, a warrant (when given this meaning) can be distinguished from an option (that is, a call option) as follows:

(a) the term "**option**" refers to the right to purchase an underlying financial instrument that is already in existence, and where the option seller is someone other than the issuer of the underlying financial instrument; and

(b) by comparison, the term "**warrant**" (as described above) refers to the right to subscribe for a financial instrument that will be newly issued when the warrant is exercised (i.e., the underlying financial instrument is not already in existence) and where the warrant is also issued by the issuer of the financial instrument.

However, the term "**warrant**" is also used to describe a variety of different financial instruments in different markets which may have features other than those described above, including the possibility for cash settlement.

The price of the warrant will primarily depend on the price or value of the underlying asset, including the volatility of that price or value, as well as the time remaining before the warrant expires.

8. Structured Products

The term "**structured product**" refers to financial instruments that generate a return that is linked to the performance of an underlying asset or index, such as an equity, currency, or commodity. Structured products come in many different forms and typically combine the components of fixed income securities and derivatives and, where they do so, they exhibit the risk characteristics of those component parts. Depending upon the particular structure, they may be referred to as "**notes**", "**certificates**" and "**warrants**".

They may have principal protection features; however, where this is the case, it typically refers to a feature under which the principal amount payable at maturity is not less than a stated amount, regardless as to the performance of the underlying asset or index. However, if an investor sells the structured product before its maturity, the sale price may be less than the amount payable at maturity under the principal protection feature. Also, investors are typically exposed to the credit risk of the issuer and (as with fixed income securities generally) the value (that is, the market price) of the structured product prior to maturity will be impacted not only by the forces of supply and demand but also the credit rating or perceived credit worthiness of the issuer.

Typically, the issuer will be a special purpose vehicle established by a banking institution or investment firm. Although structured products may be listed on an exchange, they may have limited liquidity. The banking institution, investment firm or an affiliate may provide a limited undertaking to act as market maker but it may be difficult to obtain an independent assessment of the price quoted.

Structured products are typically structured with the intention that they are held to maturity. The disposal of the structured product prior to maturity may result in a purchase price that is significantly less than the amount invested and may not reflect any increase in value attributable to the increase in the underlying reference asset.

Structured deposits – these are deposits where the interest rate or return is derived from or based on an underlying asset or index (similar to a structured product). The deposits are placed with a credit institution (such as a bank or building society) and, therefore, the investor is subject to the credit risk of that credit institution as well as other risks, principally the market risk relating to the underlying asset or index. The terms of structured deposits may prohibit termination prior to the scheduled maturity or provide that such termination can only occur upon payment of an exit fee that may not be a fixed amount or a percentage of the original amount invested.

Principal Investment Risks

This section contains a list of the principal categories of general investment risks that are typically associated with financial instruments. Not all of these risks will apply to all financial instruments and different financial instruments (including those which share similar characteristics) may exhibit some or all of these risks to different degrees.

1. Issuer Risk

This refers to the risks associated with the particular issuer of a particular financial instrument. The value of a financial instrument may decline because of a number of reasons, which directly relate to the issuer, such as (without limitation) insolvency, management and financial performance, the availability and/or cost of financing, financial leverage, reputation, and reduced demand for the issuer's goods or services, as well as the historical and prospective earnings of the issuer and the value of its assets. The issuer may also fail to perform its obligations under the terms and conditions applicable to the financial instrument. Issuer risk also relates to the risk arising from corporate events such as mergers, acquisitions and takeovers (including the failure to execute any such transaction), as well as other events that may result in the dilution of any ownership interest of an investor in the issuer.

2. Credit/Counterparty Risk

Credit (or counterparty) risk arises from the inability or unwillingness of a counterparty, issuer or other relevant person (for example, a custodian or broker) to perform their contractual obligations, or the perception or expectation that this may be the case or may occur in the future. As such, there is some overlap with issuer risk, described above.

For example, the holder of a financial instrument will be exposed to the credit risk of (a) the parties with whom it enters into transactions (including derivatives transactions and stock loans); (b) any person with whom it deposits its assets or funds or to whom it transfers collateral; (c) the issuer of a fixed income security; (d) and any person who owes monies to the holder.

This risk may arise in the course of the settlement of a transaction, for example, where the purchase price for a financial instrument has been paid but where the financial instrument has not been delivered.

3. **Credit Ratings Risk**

Credit ratings are opinions about credit risk. They express an opinion about the ability and willingness of an issuer, such as a company or state or government, to meet its financial obligations in full and on time. Credit ratings can also speak to the credit quality of an individual financial instrument, such as a corporate or government bond, and the relative likelihood that the issuer may default. Credit ratings are not an absolute measure of default probability. Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. Credit ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or debt issue will (or will not) default.

As they are opinions, credit ratings assigned by different ratings agencies (or other ratings providers) may differ in respect of the same issuer or financial instrument.

4. **Interest Rate Risk**

Interest rates may fluctuate significantly at any time and from time to time. As a result of such fluctuations, the value of financial instruments may increase or decrease in value. For example, when interest rates increase, fixed income instruments will generally decline in value. Long-term fixed income securities or instruments will normally have more price volatility because of this risk than short-term fixed income instruments. A wide variety of market factors can cause interest rates to rise, including central bank monetary policy, rising inflation and changes in general economic conditions.

5. **Market Risk**

The term "**market risk**" is sometimes used generically to describe the systematic risk to which investors may be exposed and which may result in losses due to factors affecting financial markets generally, or particular geographies, countries, sectors or issuers. As such, many of the risks described elsewhere in this document may comprise components of market risk.

The value of a financial instrument may decline due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, inflation, adverse investor sentiment generally and the forces of supply and demand. The value of financial instruments may also be impacted by market disruptions and by the activities of other market participants which influence prices.

The value of particular financial instruments may be impacted by the price or value of other financial instruments (whether or not there is a direct relationship with those other financial instruments); and values may go up or down, sometimes rapidly or unpredictably.

6. **Currency Risk**

This refers to the risks relating to the currency in which the financial instrument is denominated. Where a financial instrument is denominated in a currency that is different from the investor's "**base currency**" (this generally refers to the currency in which the performance of the portfolio is measured and is typically, but not always, the currency in which the investor is located), the investor is exposed to the risk that the relative value of the two currencies (or exchange rate) may deviate over time. So, although the value of the financial instrument might increase when measured in the currency of denomination, when measured in (or converted into) the base currency, the investor might experience a loss. This would happen where the currency in which the financial instrument is denominated falls in value relative to the base currency. This risk also arises where the investor hold funds in a currency other than the base currency.

Currency rates may fluctuate significantly, including over short periods of time, for a number of reasons, including changes in interest rates; intervention (or the failure to intervene) by foreign governments; central banks or supranational entities such as the International Monetary Fund; or by the imposition of currency controls or other political developments.

Currency risk also refers to the risk that events may occur that adversely impact the currency in which a financial instrument is denominated. For example, a government may impose exchange controls (which may artificially impact the applicable exchange rate) or other restrictions on the repatriation of the proceeds of sale.

7. Legal and Regulatory Risk

Changes in, or the introduction of new, rules, regulations and laws (including with respect to particular categories of financial instruments, issuers, and taxation) or the way in which they are applied or interpreted may impact your financial instruments and/or the implementation of your investment strategies.

Investors may be exposed to the risks arising under the rules, laws and regulations of jurisdictions other than the jurisdiction in which the investor is located and/or with which the investor is familiar. For example, where you invest in financial instruments that are subject to the rules, laws and regulations in other jurisdictions and/or you invest in financial instruments traded in markets in other jurisdictions, it is important to recognise that those laws and regulations may differ from those with which you are familiar and may have unexpected consequences.

Further, such rules, regulations and laws 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 might not be experienced in the areas of business and corporate law. Legislatures might revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that an overseas 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 overseas courts. This may be exacerbated by the arrangements under which financial instruments are held in custody; for example, if an investor's ownership interest is not recognised in the overseas jurisdiction where the arrangements for holding the relevant financial instrument involve a nominee.

Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets will vary, and such a program may have positive or negative effects on the liquidity, valuation and performance of an investor's holdings.

Houlihan Lokey is not responsible for providing legal or regulatory advice and is not responsible for and provides no guarantee or assurance with respect to such matters.

8. Liquidity Risk

Liquidity risk exists when particular financial instruments are difficult to purchase or sell (e.g., if they are not publicly traded and/or have no market that is currently available or may become less liquid in response to market developments). This can reduce returns because a holder may be unable to transact at advantageous times or prices, or at all. Investments that are illiquid or that trade in lower volumes may be more difficult to value.

Liquidity risk may be attributable to a number of factors including: the particular terms and conditions of the instrument; legal, regulatory or contractual restrictions on their sale or transfer; the fact that the instrument is not publicly traded (for example, because it is not listed on an exchange); or in response to market developments or adverse investor perceptions. Liquidity risk may arise where ownership in a particular financial instrument is concentrated in one or a small number of investors, and this may impact the value of the instrument. Liquidity risk may also arise as the result of the reduced number and capacity of traditional market participants to make a market in the relevant financial instrument. Additionally, market participants may attempt to sell holdings at the same time as the investor, and there may be insufficient liquidity to accommodate all these intended sales. These factors may exist at the time of investment or may arise subsequently.

Certain financial instruments may be intended to be held until maturity. Although the issuer or another person (who may be associated with the issuer), may agree to act as market maker in the relevant financial instrument, they may place limitations on their responsibilities to make a market (for example, in certain market conditions). Also, if there is only one market maker (and, particularly if that person is associated with the issuer), it will be difficult to verify whether the price offered by the market maker represents fair value.

9. Call (or Redemption) Risk

Certain financial instruments, in particular fixed income securities (including hybrid investments such as structured products), will be subject to the risk that the issuer may exercise its right to redeem the security earlier than expected (a "**call**"). Issuers may redeem or call the financial instrument prior to the original scheduled maturity for a number of reasons (e.g., declining interest rates, changes in credit spreads and improvements in the issuer's credit quality and, in the case of structured products or hybrid investments, changes in the reference price of the relevant asset, reference rate or index). If an issuer redeems or calls a financial instrument before the original scheduled maturity, a holder's objective in acquiring that financial instrument may be frustrated and may receive a return that is lower than the return the holder would receive at maturity. The holder may not realise the full anticipated investment returns and may be forced to reinvest in lower-yielding financial instruments or financial instruments with greater credit risks or other less favourable features.

10. Hedging Risk

Certain strategies are intended to reduce (or "**hedge**") one or more risks relating to one or more financial instruments held in any portfolio or certain risks in a portfolio as a whole. There can be no assurance that such risk reduction techniques will be successful.

Hedging transactions (for example, through the use of derivatives) may not correlate perfectly with, or may be more sensitive to market events than, the exposure that is being hedged. Furthermore, hedging transactions will involve additional risks, for example (in relation to derivatives transactions) credit risk to the counterparty. Therefore, not only might hedging transactions fail to accomplish their objective, they may also result in additional or increased risks.

Hedging transactions (such as derivatives) typically have a defined termination or maturity date and this maturity date might not coincide with the period of time for which the underlying financial instrument is held. When the hedging transaction terminates, it might not be possible to execute a similar hedging transaction or an investor may only be able to enter into a similar hedging transaction on terms that are less advantageous.

11. Leverage or Gearing Risk

Leverage and gearing describe various techniques and investment strategies that are typically intended to generate returns through increased exposure to financial instruments or other assets (including currencies and indices). Examples of these techniques include the following: borrowing (often using a portfolio of financial instruments as collateral) and investing the proceeds in financial instruments; and using derivatives to gain an (increased) exposure to a financial instrument, greater than the exposure that would be achieved by purchasing the financial instrument directly. These techniques and strategies may be applied to one or more financial instruments or may be embedded in a financial instrument (for example, a structured product or a hedge fund).

These techniques and strategies can magnify both profits and losses in a financial instrument or portfolio, even where there is a relatively small movement in the relevant underlying asset(s). Depending on the technique or strategy used and (as applicable) the terms and conditions of the financial instrument in which the technique or strategy is embedded, the amount of losses incurred by an investor could result in the loss of the entire amount committed. In certain circumstances, an investor may be liable to make further payments; for example, where an investor has borrowed money secured against a portfolio of financial instruments and uses the proceeds of the loan to make further investments, the investor would be liable to repay the loan even in the event of the entire loss of value of the portfolio.

12. Non-domestic Market Risk

Where an investment is made outside the investor's domestic (or home) market, the investor will be exposed to the risks of that market, as well as practical issues, for example relating to local language considerations. The precise nature and extent of those risks will be specific to that market and the following describes, in general terms, some of the risks that might be encountered. Please see below for a description of the additional (or increased) risks that may arise in relation to investments in emerging markets.

Even in developed markets, the laws, rules, regulations, trading conventions and practices may differ from those with which the investor is familiar. For example, the nature and extent of investor protections, the level of transparency (including with respect to accounting, auditing and reporting standards) and relevant corporate governance standards may be different.

Further, the rights typically associated with particular financial instruments, including with respect to the exercise of voting rights, may differ and these may be impacted by the arrangements under which financial instruments are held in custody; for example, an investor's ownership interest may not be recognised in the overseas jurisdiction where the arrangements for holding the relevant financial instrument involve a nominee. Information relating to the financial instruments distributed from the issuer may not be received on a timely basis or at all. This may also impact the processing of corporate actions.

13. Emerging Market Risk

Investments in emerging and/or developing markets may have an increased exposure to certain of the risks described in this document and/or may be more susceptible to other risks (which may also exist in more developed markets, but to a lesser extent). These risks include (but are not limited to): volatility; illiquidity; currency risk; issuer risk; and legal and regulatory risk.

Their economies may be less diverse and investment opportunities may be concentrated in a small number of issuers representing a limited number of industries. This may result in increased illiquidity and volatility.

The nature and extent of investor protections and the level of transparency (including with respect to accounting, auditing and reporting standards) may be lower than in more developed markets. Compared to mature markets, some emerging markets may have low levels of regulation, enforcement of regulations and monitoring of investors' activities, including with respect to the regulation and control of market abuse and trading based on material non-public information.

Some governments exercise substantial influence over the private economic sector and the political and social uncertainties that exist for many developing countries are sometimes significant. In response to adverse social and political circumstances, some governments have implemented policies resulting in: expropriation; confiscatory taxation; nationalisation; intervention in the securities market and trade settlement; and foreign investment restrictions and exchange controls.

Practices and processes in relation to the settlement and custody of financial instruments in emerging markets may involve higher risks and may be less reliable than those in developed markets.

14. Tax Risk

Dividends, interest and other amounts payable (including, without limitation, principal amounts) with respect to financial instruments and other funds held by an investor may be subject to taxes, including withholding taxes. The effect of taxation will reduce the return on the relevant financial instrument. Where tax is withheld (which may be effected by a tax authority in another jurisdiction), an investor may be able to recover the amount withheld or otherwise offset part or all of the amount withheld against the investor's tax liability. However, there can be no assurance that any such recovery will be successful. The location of the custodian (or its nominee) may also impact the tax treatment and (where applicable) the process for recovery of tax withheld.

Tax laws and regulations, and their interpretation and application, may change from time to time, including with retroactive effect. As a result of such changes, investors might incur unanticipated tax liabilities and/or may lose tax benefits previously attaching to particular financial instruments. As a result, the actual investment return may differ (potentially, significantly) from the expected return.

Houlihan Lokey is not responsible for providing tax advice and is not responsible for and provides no guarantee or assurance with respect to the tax treatment of any financial instrument.

15. Bail-In Risk

This is the risk that the financial instruments of certain issuers, including banking institutions, building societies, investment firms and certain banking group companies, may be subject to action taken by governmental, banking and/or other regulatory authorities, for example to address banking crises pre-emptively, whether or not the express terms of such financial instruments anticipate such action. The relevant authorities may have broad discretion on the action that they may take and their powers may be extended in response to particular events. Examples of the actions that they may be able to take could include the following:

(a) the reduction, including to zero, of the principal of the fixed income instruments of such issuers;

(b) the conversion of such fixed income instruments into equity securities or other instruments of ownership (resulting in the dilution of ownership interests of existing shareholders);

(c) the variation of the terms, including with respect to maturity, of such fixed income instruments; and

(d) shareholders being divested of their shares.

16. Unlisted (and Non-Exchange Traded) Financial Instruments Risk

Financial instruments that are not traded or listed on an exchange may present greater risks. For example, these may include increased liquidity risk and lower levels of transparency with respect to accounting, auditing and reporting standards. It may also be more difficult to assess the value of such financial instruments; bid and offer prices might not be quoted, and even where they are, it may be difficult to establish a fair price.

17. Risk Regarding Personnel

Certain strategies may rely heavily on certain key personnel. The departure of key personnel or their inability to fulfil their responsibilities may adversely affect the execution of the strategy.

18. Collateral Risk

Financial instruments and/or strategies relating to financial instruments may involve exposure to the risks associated with the provision of collateral (sometimes referred to as "**margin**"). For example, if an investor enters into a derivatives transaction, the investor may be required to provide the counterparty with collateral to mitigate the risk that the investor might fail to perform the obligations arising under the derivatives transaction; and depending on the nature of the derivatives transaction and changes in the value of the underlying asset, the investor may be required to deposit additional collateral. Failure to provide collateral may result in the termination of the relevant transaction and the investor will remain liable for any remaining losses.

Further, the investor may be exposed to the credit risk of the person (typically the counterparty to the transaction) to whom the collateral is provided in the event that the collateral is not returned and the investor may be an unsecured creditor with respect to any claim in the event of the insolvency of the person to whom the collateral has been provided.

The arrangements under which collateral is provided and held may be governed by the laws of jurisdictions other than the jurisdiction in which the investor is located and/or with which the investor is familiar.

A detailed analysis and explanation of the consequences of providing collateral (including the concept of fungibility) is beyond the scope of this document and involves complex legal concepts and analysis. Before entering into transactions that require (or may require) the provision of collateral, investors should ensure that they understand the arrangements applicable to the collateral, the circumstances in which they may be required to provide additional collateral, and the legal and practical consequences of such arrangements. Where necessary, investors should obtain their own independent advice.