

# **INFORMATION ON PROPERTIES AND RISKS PERTAINING TO FINANCIAL INSTRUMENTS**

As a Client, you accept the following:

- that investments or other positions in financial instruments are at the Client's own risk
- that, as a Client, you must fully acquaint yourself with the investment firm's general terms and conditions for trading in financial instruments and, where appropriate, information in the prospectus and other information on relevant financial instruments, their properties and risks
- that, when trading in financial instruments, it is important to check the contract note and other reports concerning your investments and to immediately make inquiries about errors
- that it is important to routinely monitor changes in the value to holdings and positions in financial instruments
- that, as a Client, you must initiate the required actions to reduce the risk of losses on your investments or other positions
- that this document is a translation of the Swedish version and in case this version is inconsistent with the Swedish version, the Swedish version takes precedence

## INFORMATION ON PROPERTIES AND RISKS PERTAINING TO FINANCIAL INSTRUMENTS

### 1. TRADING IN FINANCIAL INSTRUMENTS

Financial instruments (including shares in limited companies and similar participation rights in other types of undertakings, bonds, depository receipts, fund units, money market instruments, financial derivatives or other such securities excluding instruments of payment that could be subject to trading in the capital market) are primarily traded in an organised form at a trading venue. Trading takes place through the investment firms that participate in trading at the trading venue. As a Client, you should normally contact an investment firm of this kind to buy or sell financial instruments.

#### 1.1 TRADING VENUES

The term "trading venue" pertains to regulated market, trading facility (Multilateral Trading Facility, or MTF) and systematic internaliser (SI) as well as to venues where trading takes place in investment firms.

Different types of financial instruments are traded in a regulated market. As regards shares, only shares in public companies can be listed and traded in a regulated market, and strict requirements are placed on such companies, for example, as regards the size of the company, operating history, ownership spread and public reporting of the company's finances and operations.

A trading facility (MTF) can be described as a trading system that is organised and provided by a stock exchange or investment firm. The requirements are typically less strict, for example, in the form of information disclosure and operating history, for the financial instruments traded at a trading facility compared with financial instruments traded in a regulated market.

A systematic internaliser is an investment firm that trades on its own behalf in an organised, frequent and systematic manner by executing Client orders outside of a regulated market or a trading facility. A systematic internaliser is obligated to publicise market-related offerings at buy or sell prices for liquid shares that are traded in a regulated market and for which the systematic internaliser conducts systematic internal trading.

Trading can also take place through an investment firm without it being a matter of systematic internal trading, against the institution's own stock or against another of the institution's Clients.

There are currently two regulated markets in Sweden: OMX Nordiska Börs Stockholm AB (hereinafter "the Stockholm Stock Exchange") and Nordic Growth Market NGM AB (hereinafter "NGM"). In addition to these, organised trading takes place at other trading facilities (e.g. the First North and Nordic MTF trading venues) and on the investment firm's own lists.

Trading in regulated markets, at trading facilities and other trading venues constitutes a second-hand market for financial instruments that a company has already issued. If the second-hand market is functioning properly (i.e. finding buyers and sellers is easy, and bidding and closing prices (payment prices) from concluded transactions are routinely listed), the companies also have an advantage in that it is easier to issue new instruments as needed and thereby bring more capital into the companies' operations. The market where newly issued shares are bought and sold is called the first-hand, or primary, market.

#### 1.2 TRADING AND QUOTATION LISTS

As regards shares, trading venues usually divide them into various lists that are published, for example, on the trading venue's website, in daily newspapers and other media. The market value of a company can determine the list on which the

the Stockholm Large, Mid- and Small Cap). The shares with the highest turnover can also be placed on a separate list. Some investment firms also publish their own lists of financial instruments being traded at the institution, the prices at which the instruments are being traded, and so on through the institution's website. Shares on lists with strict requirements and high sales could normally entail a lower risk than for shares on other lists.

Information on prices, etc. pertaining to shares as well as other types of financial instruments (e.g. fund units, options and bonds) are also published regularly via the trading venue websites, daily newspapers and other media.

## 2. RISKS WITH FINANCIAL INSTRUMENTS AND TRADING IN FINANCIAL INSTRUMENTS

### 2.1 GENERAL INFORMATION ON RISKS

Financial instruments can generate returns in the form of dividends (shares and funds) or interest (interest-bearing instruments). In addition, the price (rate) of the instrument can increase or decrease in relation to the price when the investment was made. In the ensuing description, the term "investment" can also include negative positions (negative holdings) taken in the instrument; cf. for example what is stated about shortselling in section 7 below. The total return is the sum of dividend or interest and changes in price on the instrument.

What the investor is aiming for, naturally, is a total return that is positive (i.e. a profit, preferably as high as possible). But there is also a risk that the total return is negative (i.e. there is a loss on the investment). The risk of loss varies with different instruments. Normally, the chance for a profit on an investment in a financial instrument is linked to the risk of loss. The longer the period of holding for the investment, the greater the chance of profits and risk of loss respectively. In an investment context, the term "risk" is sometimes used as an expression for both the risk of loss and the chance of profits. In the ensuing description, however, the term "risk" is used only to denote the risk of loss. There are different methods of investment that reduce this risk. Normally, it is considered better not to invest in one or a few financial instruments, and instead invest in several different financial instruments. These instruments should then offer risk diversification, and not gather together risks that could be triggered simultaneously. Diversifying the investments to markets outside Sweden normally also reduces the risk in the total portfolio, even if a currency risk exists with trading in foreign financial instruments.

Investments in financial instruments are associated with financial risk, which will be described in more detail in this information. The Client bears their own responsibility for the risk and must therefore on their own initiative acquaint themselves with the terms and conditions of the investment firm engaged or through their asset management proxy (in the form of general terms and conditions, prospectuses or the like applicable to trading in such instruments) and of the associated properties and risks. The Client must also routinely monitor their investments in such instruments. This applies even if the Client received individual advice at the time of investment. The Client should be prepared to take quick action in their own interests if called for (e.g. by liquidating investments that are performing negatively or pledging additional collateral for investments financed with loans where the value of the collateral has decreased).

It is also important to consider the risks entailed in trading in financial instruments at a trading venue other than a regulated market, where the requirements imposed are generally lower.

### 2.2. DIFFERENT TYPES OF RISK, ETC.

In connection with the risk assessment that should take place when

you as a Client invest in financial instruments, and also routinely during the holding period, there are a number of different risks and other factors to take into account and consider. A brief description of some of the most common risks follows.

**Market risk** – the risk that the market as a whole, or a certain part thereof where you as a Client have your investments (e.g. the Swedish equities market) will decline.

**Credit** – the risk that, for example, an issuer or counterparty will have insufficient ability to pay.

**Price volatility risk** – the risk that major fluctuations in the rate or price of a financial instrument will negatively impact the investment.

**Price risk** – the risk that the rate or price of a financial instrument will decline.

**Tax risk** – the risk that tax regulation and/or tax rates are unclear or could change.

**Currency risk** – the risk that a foreign currency to which a holding is related (e.g. fund units in a fund that invests in US securities listed in USD) weakens.

**Gearing risk** – the structure of the derivative instruments that means there is a risk that the price trend of underlying property will have a major negative effect on the rate or price of the derivative instrument.

**Legal risk** – the risk that relevant laws and regulations are unclear or could change.

**Company-specific risk** – the risk that a certain company will perform more poorly than expected or be affected by negative events and the financial instruments related to the company will thus decline in value.

**Industry-specific risk** – the risk that a certain industry will perform more poorly than expected or be affected by negative events and the financial instruments related to the companies in the industry will thus decline in value.

**Liquidity risk** – the risk that you will be unable to sell or buy a financial instrument at a desired point in time owing to a low level of turnover in the financial instrument.

**Interest rate risk** – the risk that the financial instrument you have invested in will decrease in value owing to changes in the market rate.

## 3. SHARES AND SHARE-BASED INSTRUMENTS

### 3.1 GENERAL INFORMATION ON SHARES

#### 3.1.1 Shares and limited companies

Shares in a limited company entitle the owner to a share of the company's share capital. If the company makes a profit, the company normally pays a dividend on the shares. The shares also convey voting rights in the General Meeting, which is the highest decision-making body in the company. The more shares the owner holds, the larger share of capital, dividends and voting rights the shareholder has. The voting rights may vary depending on the class of shares. There are two types of companies: public and private. Only public companies can have their shares traded at a trading venue.

#### 3.1.2 Share price

The price of a share is influenced primarily by the supply and demand of the share in question, which in turn—at least over the long term—is governed by the company's future prospects. A share is either upgraded or downgraded based primarily on investor analyses and assessments of the company's possibilities of generating future profits. Future performance in the business environment of the economic cycle, technology, legislation, competition and so on determines demand for the company's products or services, and is therefore of fundamental importance for the price trend in the company's shares.

The current interest rate levels also play a major role in pricing. If market rates rise, interest-bearing financial instruments that are newly issued at the same time have a better return. Normally, prices fall on shares that are regularly traded, as well as on outstanding

interest-bearing instruments. The reason is that the increased return on newly issued interest-bearing instruments is relatively better than the return on shares, as well as on outstanding interest-bearing instruments. Moreover, share prices are negatively impacted by increases in the interest rates on the company's debts when market rates rise, which reduces the scope for profits in the company.

Other conditions directly linked to the company, for example, changes to company management and organisation, disruptions to production and so on can also heavily impact the company's future ability to generate both short- and long-term profits. In the worst case, limited companies could perform so poorly that they must declare bankruptcy. The share capital (i.e. the shareholders' capital invested) is the capital that is first used to pay the company's debts. Most often, this leads to the shares in the company becoming worthless.

The prices in certain large regulated markets or trading venues outside Sweden also influence prices in Sweden because several Swedish limited companies are also listed in marketplaces outside Sweden and price adjustments (arbitrage) occurs among the marketplaces. The price of shares in the companies belonging to the same sector of industry are often affected by changes to the prices in other companies in the same sector. Companies in other countries may also be impacted by this.

The actors in the market have different needs for investing cash (liquid assets) or procuring liquid assets. Moreover, they often have different opinions about how the share price should perform. These circumstances, which also encompass how the company is assessed, contribute to there being both buyers and sellers. If on the other hand the investors are in accord in their perception of the price trend, they will either want to buy, at which point buyer pressure arises from many buyers, or they will also want to sell, at which point seller pressure arises from many sellers. Prices rise with buyer pressure and fall with seller pressure.

Turnover (i.e. how much of a certain share is bought and sold) affects the share price in turn. At high levels of turnover, the difference (also known as "spread") between the price buyers are prepared to pay (the "buy price") and the price sellers are demanding (the "sell price"). A share with high turnover, in which large amounts can be cashed in without affecting the share price, has strong liquidity and is thus easy to buy and to sell. Companies listed on regulated markets (e.g. the Stockholm Stock Exchange Nordic List and NGM Equity) normally have high levels of liquidity. Different shares can display various levels of mobility in share prices (volatility) over the course of a day or a longer period (i.e. rising and falling, and the scope of the changes in price).

The prices at which the shares were traded (prices paid), such as highest/lowest/last paid during the day, the last listed buy/sell prices, and additional information about volume traded in SEK are all published in most major newspapers, teletext and various web sites created by marketplaces, investment firms and media companies. How up to date the information is depends on the method of publication.

### 3.1.3 Different share classes

Shares come in different classes—most commonly Class A and B, which normally concern voting rights. Class A shares normally entitle the holder to one vote, whereas class B shares entitle the holder to more limited voting rights, most often one tenth of a vote. The differences in voting rights depend on such factors as the need, in connection with ownership dispersion, to safeguard the influence of the original founders or owners over the company by giving them stronger voting rights. New shares that are issued are then given a lower vote value than the original Class A shares and are designated Class B, C, or D and so on.

### 3.1.4 Quotient value, splits and reverse splits

The quotient value of a share is that portion of the company's share capital represented by each share, and is obtained by dividing the share capital by the total number of shares. Companies will sometimes

the price of the shares simultaneously falls. The shareholder retains their capital unchanged after a split; it is, however, divided into more shares that have a lower quotient value and a lower price on the share.

Inversely, shares can be consolidated (a "reverse split") if the price has fallen sharply. Two or more shares are then combined into one. The shareholder retains their capital unchanged after a split; it is, however, divided into more shares that have a lower quotient value and a lower price per share.

### 3.1.5 Initial public offering, privatisation and buy-out

An initial public offering, or IPO, means that shares in a company are launched on the stock market, meaning they have been admitted for trading in a regulated market or a multilateral trading facility (MTF). The general public is then offered the opportunity to subscribe for (buy) shares in the company. This often concerns an existing company that had not previously been traded in a regulated market or other trading venue, and the owners had decided to expand the ownership circle and facilitate trading in the company's shares. If a state-owned company is listed in the market, this is called privatisation.

As a rule, a buy-out is when one or more investors offer shareholders in a company the opportunity to sell their shares under certain conditions. If the speculator obtains 90 percent or more of the number of shares in the company being bought out, the buyer can demand the compulsory redemption of the remaining shares from the owners who declined the takeover bid. These shareholders are then obligated to sell their shares to the buyer in exchange for compensation established through arbitration proceedings.

### 3.1.6 Share issues

If a limited company wished to expand its operations, additional share capital is often required, which the company obtains by issuing new shares. Most often, the old owners are given subscription rights, which grants them priority in subscribing for shares in a new share issue. The number of shares that can be subscribed is normally set in relation to how many shares the owner previously had. The subscriber must pay a certain price (issue price)—most often lower than the market price—for the newly issued shares. Immediately after the subscription rights (which normally have a certain market value) have been separated from the shares, the price of the shares normally falls while the number of shares increases for the shareholders who subscribed. During the subscription period, which most often lasts several weeks, the shareholders who did not subscribe can sell their subscription rights in the marketplace where the shares are traded. After the subscription period the subscription rights lapse, thereby becoming useless and worthless.

Limited companies can also carry out private placements, which are conducted like new share issues but targeted only to a certain circle of investors. Limited companies can also carry out non-cash issues, which shares issued to acquire other companies, business operations or assets in forms other than money. In both private placements and non-cash issues, there is a dilution of the existing shareholders' portion of the number of shares and share capital in the company, but the number of shares held and the market value of the capital invested is normally not affected.

If the assets or reserved funds in a limited company have greatly increased in value, the company can transfer a portion of the value to the share capital through a bonus issue, which takes into account the number of shares each shareholder already has. The number of new shares that are added through a bonus issue is set in relation to the number of shares the owner previously held. The shareholder receives more shares through a bonus issue, but the owner's share of the company's increased share capital remains unchanged. The price of the shares falls in connection with a bonus issue, but by increasing the number of shares the shareholder retains an unchanged market value on

## 3.2 GENERAL INFORMATION ON SHARE-BASED INSTRUMENTS

Closely linked to shares are: equity-linked bonds, depository receipts, convertible instruments, share options and equity index options, share futures and equity index futures, warrants and gearing certificates.

### 3.2.1 Index bonds/Equity-linked bonds

Index bonds and equity-linked bonds are bonds in which the return, instead of the interest rate, is dependent on such factors as an equity index. If the index performs positively, the return follows. In the event of a negative trend, there may be no return. However, the bond is always repaid at its nominal amount on the redemption date and thereby has a limited risk of loss compared, for example, with shares and fund units. Apart from any premium paid, the risk of an investment in an equity-linked bond can be defined as alternative interest income (i.e. the interest the investor would have received on the amount invested with a different investment. Index bonds can have different names such as equity-linked bonds, SPAX, share bonds, credit basket bonds, interest rate basket bonds, currency basket bonds and so on depending on what underlying asset types determine the return on the bond. Index bonds are often also called "capital guaranteed" or "capital protected" products. As mentioned above, these terms are used to describe a situation in which the nominal amount is repaid (i.e. the same as the amount invested less any premium paid) regardless of whether or not the product generates a return.

### 3.2.2 Depository receipt

A Swedish depository receipt is proof of the right to foreign shares that the issuer of the receipt stores or holds on the holder's behalf. Depository receipts are traded exactly like shares in a regulated market or trading venue, and the price trend normally follows the price trend on the marketplace outside Sweden where the share is traded. In addition to the general risks in trading shares or other types of participation rights, currency risks (if any) should be taken into account.

### 3.2.3 Convertible instruments

Convertible instruments (convertible loans, or convertibles) are interest-bearing securities (loans to the issuer of the convertible) that can be exchanged for shares within a certain period of time. The return on the convertibles, called the coupon rate, is normally higher than the dividend on the replacement shares. The convertible price is expressed as a percentage of the nominal value of the convertible.

### 3.2.4 Reverse convertibles

Reverse convertibles are a cross between a fixed income investment and a share investment. The reverse convertible is linked to one or more underlying shares or indexes. This investment yields an interest rate (i.e. a fixed, guaranteed return). If the underlying shares or index performs positively, the amount invested is repaid plus the fixed return. If, on the other hand, the underlying shares or index were to fall, there is a risk that the holder will receive one or more shares included in the reverse convertible or similar payment in cash instead of the amount invested.

### 3.2.5 Share options and equity index options

There are different kinds of share options. Call options give the holder the right to purchase shares already issued, within a certain period of time at a price determined in advance. Conversely, put options give the holder the right to sell shares within a certain period of time at a price determined in advance. For every option acquired there is a corresponding option issued. The risk for those acquiring options is that it will decrease in value or become worthless on the final date if action is not taken to limit the risk. In the latter case, the premium paid for the option at acquisition is entirely consumed. The issuer of an option runs a risk that in certain cases, if actions to limit the risk are not taken,

could be unlimited in scope. The price of options normally follows the price of the corresponding underlying shares or indexes, but with greater price fluctuations.

The most comprehensive trading in share options takes place in regulated markets. Trading in equity index options also occurs. These index options return a profit or loss directly in cash (cash settlement) based on the performance of an underlying index.

### 3.2.6 Share futures and equity index futures

A future means that the partners enter into a mutually binding agreement with each other on buying and selling the underlying property at a price determined in advance, with delivery or other execution (e.g. cash settlement) of the agreement at a point in time indicated in the agreement (the expiration date). No premium is paid, since the parties have similar obligations under the agreement.

### 3.2.7 Warrants

Certain call and put options with longer maturities, commonly called warrants in Sweden, are also traded. Warrants can be used to buy or sell underlying shares or, in other cases, to yield case if the price of the underlying share performs correctly in relation to the exercise price of the warrant. Subscription warrants pertaining to shares can be used within a certain period of time for subscribing similar newly issued shares.

### 3.2.8 Gearing certificates

Gearing certificates—often called simply certificates—are often a combination of, for example, a put and a call option and are dependent on an underlying asset (e.g. a share, an index or raw materials). A certificate has no nominal amount. Gearing certificates should not be confused with commercial paper, for example, which is a type of promissory note that can be issued by a company in connection with the company borrowing money on the capital market.

A distinguishing property of the gearing certificate is that relatively small changes in the price of the underlying asset can result in marked changes in the value of the holder's investment. These changes in value could be to the investor's advantage, but they could also be to their disadvantage. The holder should be particularly attentive to the fact that the gearing certificate can decrease in value and even become completely worthless, with the result that all or part of the amount invested could be lost. In many cases, similar reasoning could apply to options and warrants.

## 4. INTEREST-RELATED INSTRUMENTS

An interest-bearing financial instrument is a claim against the issuer of a loan. Yields are normally paid in the form of interest. There are different forms of interest-bearing instruments, depending on which institution issued the instrument, the security the issuer may have pledged for the loan, the duration until the repayment date and the form of payment for the interest. The interest (or "coupon") is normally paid out on an annual basis.

Another form of payment for interest is selling the instrument at a discount (a "discount security"). Upon selling, the price of the instrument is calculated by discounting the loan amount, including estimated interest, to the current value. The current value, or price, is lower than the amount obtained upon repayment (the nominal amount). Bank certificates and treasury bills are examples of discount securities, as are bonds with a zero-coupon construction.

Yet another form of interest-bearing bonds are state lottery bonds, in which the rate of interest on the loan is raffled off among holders of lottery bonds. There are also interest rate

instruments and other savings forms in which the interest rate is protected against inflation, and the investment therefore yields a fixed real interest rate.

The risk in an interest-bearing instrument lies both in the change in price (price risk) that could arise during the tenor owing to changed market rates, and in the issuer potentially being unable to repay the loan (credit risk). Loans for which satisfactory collateral for repayment has been pledged are thereby typically less risky than unsecured loans. In general, however, it can be said that the risk of loss on interest-bearing instruments can be regarded as lower than for shares. An interest-bearing instrument issued by an institution with a high credit rating could thus be a good alternative for those wishing to minimise the risk of their savings capital decreasing in value, and may be preferable for short-term savings. Even in connection with long-term savings in which the capital is not put at risk—with pension obligations, for example—an element of interest-bearing investments is very common. As a rule, the disadvantage of an interest-bearing investment is that it generates a low level of appreciation in value. Examples of interest-bearing investments are savings accounts, retail bonds and fixed-income funds.

The prices are set daily on both instruments with short tenors (less than one year, e.g. treasury bills) and instruments with longer tenors (e.g. bonds). This takes place on the money and bond markets. Market rates are affected by analyses and assessments by the Riksbank and other major institutional market actors of the short- and long-term performance of a number of economic factors such as inflation, the business cycle, and interest rate trends in Sweden and other countries. The Riksbank also carries out monetary operations for the purpose of steering the performance of market rates so that inflation does not exceed a certain set target. The financial instruments traded on the money and bond markets (e.g. government bonds, treasury bonds and mortgage bonds) are often traded in very large items (in the millions).

If market rates rise, the price of outstanding (already issued) interest-bearing financial instruments will fall if they have fixed interest rates, since new loans are issued with an interest rate that follows current market rates and thus yield higher interest than the outstanding instruments do. Conversely, the price of outstanding instruments rises when the market rate falls.

Loans issued by states and municipalities are considered to be risk-free as regards repayment, which thus applies to state and municipal bonds. Issuers other than states and municipalities, when issuing bonds, may sometimes pledge securities in the form of other financial instruments or other property (property security or real security).

There are also other interest-bearing instruments that entail a greater risk than bonds if the issuer experiences difficulties in repaying the loan (e.g. subordinated debenture).

Covered bonds are one form of interest-based instruments. These are associated with particular priority rights under special legislation. The purpose of the regulations on covered bonds is to guarantee an investor full repayment in accordance with the contractual timetable even if the issuer of the bond goes bankrupt, provided that the property securing the obligation is sufficiently valuable enough.

## 5. DERIVATIVE INSTRUMENTS

Derivative instruments such as bonds, futures and so on exist with different types of underlying assets (e.g. shares, bonds, raw materials and foreign currency). Derivative instruments can be used to reduce the risk in an investment.

One particular circumstance to take into account when investing in derivative instruments is that their design permits the price trend in the underlying properties to affect the price of the derivative instruments. This influence on prices is often stronger in relation to the deposit (premium paid) than the change in value

of the underlying property. This influence on price is therefore called the gearing effect, and could lead to greater profits on the capital deposited than if the investment had been made directly in the underlying property. On the other hand, the gearing effect could just as likely result in major losses on the derivative instruments compared with the change in value of the underlying property, if the price trend on the underlying property is different than expected. The gearing effect (i.e. the possibility of profit or risk of loss) varies depending on the construction of the derivative instrument and the way it is used. Strict requirements are therefore placed on monitoring the price trend of the derivative instrument and of the underlying property. The investor should be prepared to act quickly in their own interests, often over the course of a single day, if the investment in the derivative instrument trends in a disadvantageous direction. In their risk assessment, taking into account the possibility that liquidating a position or holding could become difficult in the event of a negative price trend is important.

## 6. FUNDS AND FUND UNITS

A fund is a "portfolio" of different kinds of financial instruments (e.g. shares and bonds). The fund is jointly owned by everyone with savings in the fund—the interest holders—and is managed by a fund company. There are different kinds of funds with different investment orientations. "Investment orientation" means the type of financial instruments the fund invests in. Some of the most common types of funds are described briefly below. For further information, visit the websites of the Swedish Consumers' Banking and Finance Bureau at [www.konsumentbankbyran.se](http://www.konsumentbankbyran.se) and the Swedish Investment Fund Association, [www.fondbolagen.se](http://www.fondbolagen.se).

An equities fund places all, or essentially all, capital that the interest holders have paid in shares. Mixed funds with both shares and interest-bearing instruments also exist, as do pure fixed-income funds in which the capital is placed primarily in interest-bearing instruments. There are also, for example, index funds that are not actively managed by any fund managers but instead invest in financial instruments that follow the composition of a given fixed index.

One of the ideas behind an equities fund is that it invests in several different shares and other share-based financial instruments, which reduces the risk for interest holders compared with the risk for the shareholder who invests in only one or a few shares. Moreover, the interest holder avoids having to choose, buy, sell and monitor the shares and other administrative work in this regard.

The principle for fixed-income funds is the same as for equities funds: investments are made in various interest-bearing instruments so as to obtain risk spread in the fund, and the fund is managed in accordance with analysis of the interest rate outlook.

A fund-of-fund is a fund that invests in other funds, and can be regarded as an alternative to the choice of investing in several different funds on your own. This is a way of achieving the risk spread that a properly composed own fund portfolio can have. There are funds-of-funds with different investment orientations and risk levels.

Yet another type of fund is the hedge fund. In this context, "hedge" means protection against financial loss. Despite hedging being intended to protect against unexpected changes in the market, a hedge fund can be a fund with a high level of risk since such funds are often heavily mortgaged. The differences between various hedge funds are large, however. There are also low-risk hedge funds. Hedge funds endeavour to generate a positive return regardless of whether the stock market or fixed-income markets rise or fall. A hedge fund has a much greater degree of freedom in its investment opportunities than traditional funds do. The investment orientation can be on anything from shares, foreign currency and interest-bearing instruments to various arbitrage strategies (speculation on changes in interest rates and/or foreign currencies). Hedge funds use derivative instruments more often than traditional funds do, for the purpose of increasing or decreasing the risk in the fund. Shortselling (see below) is

also a common element.

Funds can also be divided into mutual funds (also known as UCITs) and special funds. The umbrella term for these are investment funds, and both types are regulated under the Swedish Investment Funds Act. Mutual funds are funds that meet the requirements of the UCITS Directive, primarily as regards investment rules and risk spread. Mutual funds both within and outside Sweden (that have licenses in their home country within the EEA) can be freely sold and marketed in all countries in the EEA. Special funds (hedge funds, for example) are funds that in some way deviate from the regulations in the UCITS Directive, which is why it is important that as a Client, you familiarise yourself with the investment rules that a special fund you intend to invest in will comply with. These will be indicated in the fund's informational brochure and fact sheets. Each fund company is obligated to offer potential investors the fact sheet pertaining to the fund, on their own accord. Special funds cannot be marketed and freely sold outside Sweden. For the funds that invest in financial instruments outside Sweden, there is also a currency exchange risk (see also Section 2.2 above).

The interest holders receive the number of shares in the fund corresponding to the share of capital paid in relation to the total capital of the fund. The shares can be bought and redeemed through investment firms that offer shares in the fund for sale, or directly with the fund company. It is important, however, to consider that certain funds may have predetermined points in time when the fund is "open" for buying and redemption, which is why regular trading is not always possible. The current value of the shares is regularly calculated by the fund company and is based on the price trends in the financial instruments included in the fund. The capital invested in a fund can both increase and decrease in value, which is why it is not certain that the investor will recoup the full amount of the capital

instruments and trading in financial instruments, including suggestions for additional literature in the field, can also be found on the websites of the Swedish Consumers' Banking and Finance Bureau, [www.konsumentbankbyran.se](http://www.konsumentbankbyran.se), and SwedSec Licensiering AB, [www.swedsec.se](http://www.swedsec.se).

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## 7. SHORTSELLING

Shortselling means that a person borrows financial instruments while simultaneously pledging to return instruments of a similar type to the creditor at a later point in time, and sells the borrowed instruments. When selling, the borrower counts on being able to acquire the instruments at the point in time for return at a lower price than the one at which the borrowed instruments were sold. If the price has risen instead, a loss will accrue, which in the event of a drastic rise in price can be considerable.

## 8. MORTGAGING

In many cases, financial instruments can be bought with partially borrowed capital. Since both equity and borrowed capital affect the return, you as a Client can obtain greater profits through loan financing if the investment performs positively compared with an investment of equity alone. The debt that is linked to the borrowed capital is not affected by whether the prices of the instruments purchased perform positively or negatively, which is an advantage in the event of a positive price trend. If the prices on the instruments purchased perform negatively, a corresponding disadvantage emerges since the debt remains at 100 percent, which means that the fall in prices consumes the equity, krona by krona. This is why, in the event of a fall in prices, the equity is entirely or partly consumed, whereas the debt must be paid in full or in part through proceeds from the sales of the financial instruments that have decreased in value. The debt must be paid even if proceeds from the sales do not fully cover the debt.

Information on different types of financial