RISK DISCLOSURE

CONCORDE
INVESTMENTS

Introduction

Generally, the following should be kept in mind when investing in securities.

- The potential return of every investment depends directly on the degree of risk. The higher the potential return, the higher the risk.
- Irrational factors (sentiment, opinions, expectations, rumors) may also impact prices and thus the return on your investment.
- Investing in several different types of securities can help to reduce the risk of the overall position. (Principle of risk diversification)
- Every customer is responsible for the proper taxation of his or her investment. The credit institution is not permitted to give tax advice outside the scope of investment advice.

General investment risks

Currency risk

In the case of transactions in foreign currency, the return and performance of an investment depends not only on the local yield of the security in the foreign market, but also heavily on the exchange rate development of the respective foreign currency relative to the currency of the investor (e.g. euro). This means that exchange rate fluctuations may increase or decrease the return and value of the investment.

Transfer risk

Depending on the respective country involved, securities of foreign issuers pose the additional risk that political or exchange-control measures may complicate or even prevent the realisation of the investment. In addition, problems in connection with the settlement of an order may occur. In the case of foreign-currency transactions, such measures may obstruct the free convertibility of the currency.

Country risk

The country risk is the creditworthiness of a given country. The political or economic risk posed by a country may have negative consequences for all counterparties residing in this country.

Liquidity risk

Tradability (liquidity) refers to the possibility of buying or selling a security or closing out a position at the current market price at any time whatsoever. The market in a particular security is said to be narrow if an average sell order (measured by the usual trading volume) causes perceptible price fluctuations and if the order cannot be settled at all or only at a substantially lower price.

Credit risk

Credit risk refers to the possibility of counterpart default, i.e. the inability of one party to a transaction to meet obligations such as dividend payments, interest payments, repayment of principal when due or to meet such obligations for full value. Also called repayment risk or issuer's risk. Such risks are graded by means of “ratings”. A rating is scale of evaluation used to grade an issuer’s creditworthiness. The rating is prepared by rating agencies, notably on the basis of credit risk and country risk. The rating scale ranges from “AAA” (best credit rating) to “D” (worst credit rating).

Interest rate risk

The risk that losses will be incurred as a result of future interest rate movements in the market. A rise in interest rates on the market will lower the market price of a fixed-interest bond, whereas a fall in such interest rates will raise the market price of the bond.

Price risk

The risk of adverse movements in the value of individual investments. In the case of contingent liability transactions (forward exchange deals, futures, option writing, etc.), it is therefore necessary to provide collateral (margin requirement) or to put up further margin, which means tying up liquidity.

Risk of total loss

The risk that an investment may become completely worthless, e.g. due to its conception as a limited right. Total loss can occur, in particular, when the issuer of a security is no longer capable of meeting its payment obligations (insolvent), for economic or legal reasons.

Buying securities on credit

The purchase of securities on credit poses an increased risk. The credit raised must be repaid irrespective of the success of the investment. Furthermore, the credit costs reduce the return.

Placing orders

Buy or sell orders placed with the Broker must at least indicate the designation of the investment, the quantity (number of securities/principal amount) to be purchased or sold, at what price the transaction should be carried out and over what period of time the order is valid.

<u>Price limit</u>
If buy or sell orders are placed with the instruction "at best" (no price limit), deals will be executed at the best possible price. This way, the capital requirement/selling proceeds remain uncertain. With a buy limit, the purchase price and thus the amount of capital employed is limited. No purchases will be made above the price limit. A sales limit stipulates the lowest acceptable selling price; no deals will be carried out below this price limit.

Important note: A stop market order will not be executed until the price formed on the stock reaches the selected stop limit. Once the order has been executed, it will enter into effect as an “at best” order, i.e. with no price limit. The price actually obtained may therefore differ significantly from the selected stop limit, especially in the case of securities on a tight market.

<u>Time limit</u>
You can set a time limit to determine the validity of orders. The period of validity of unlimited orders depends on the practices of the respective stock market.

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BONDS

Definition

Bonds are securities that obligate the issuer (= debtor) to pay the bondholder (= creditor, buyer) interest on the capital invested and to repay the principal amount according to the bond terms.

Return

The bond yield is composed of the interest on the capital and any difference between the purchase price and the price achieved upon sale/redemption of the bond.
Consequently, the return can only be determined in advance if the bond is held until maturity. With variable interest rates, the return cannot be specified in advance. For the sake of comparison, an annual yield (based on the assumption of bullet repayment) is calculated in line with international standards. Bond yields which are significantly above the generally customary level should always be questioned, with an increased credit risk being a possible reason.

The price achieved when selling a bond prior to redemption (market price) is not known in advance.

Consequently, the return may be higher or lower than the yield calculated initially. In addition, transaction costs, if any, must be deducted from the overall return.

Credit risk

There is always the risk that the debtor is unable to pay all or part of his obligations, e.g. in the case of the debtor's insolvency. The credit standing of the debtor must therefore be considered in an investment decision.

Credit ratings (assessment of the creditworthiness of organisations) issued by independent rating agencies provide some guidance in this respect. The highest creditworthiness is "AAA" (e.g. for Austrian government bonds). In the case of low ratings (e.g. "B" or "C"), the risk of default (credit risk) is higher but by way of compensation the instruments generally pay a higher interest rate (risk premium). Investments with a rating comparable to BBB or higher are generally referred to as "investment grade".

Price risk

If a bond is kept until maturity, the investor will receive the redemption price as stated in the bond terms. Please note the risk of early calling-in by the issuer, to the extent permitted by the terms and conditions of the issue.
If a bond is sold prior to maturity, the investor will receive the current market price.

This price is regulated by supply and demand, which is also subject to the current interest rate level. For instance, the price of fixed-rate securities will fall if the interest on bonds with comparable maturities rises.

Conversely, bonds will gain in value if the interest on bonds with comparable maturities falls. A change in the issuer's creditworthiness may also affect the market price of a bond.

In the case of variable-interest bonds whose interest rate is indexed to the capital market rates, the risk of the interest being or becoming flat is considerably higher than with bonds whose interest rate depends on the money market rates.

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The degree of change in the price of a bond in response to a change in the interest level is described by the indicator “duration”. The duration depends on the bond’s residual time to maturity. The bigger the duration, the greater the impact of changes of the general interest rate on the price, whether in a positive or negative direction.

Liquidity risk

The tradability of bonds depends on several factors, e.g. issuing volume, remaining time to maturity, stock market rules and market conditions. Bonds which are difficult to sell or cannot be sold at all must be held until maturity.

Bond trading

Bonds are traded on a stock exchange or over-the-counter. Your Broker will quote buying and selling rates for certain bonds upon request.

In the case of bonds that are also traded on the stock market, the prices formed on the exhange may differ considerably from the off-the-market quotations. The risk of weak trading may be restricted by adding a limit on the order.

Shares

Definition

Shares are securities evidencing an interest held in an enterprise (public limited company). The principal rights of shareholders are participating in the company's profits as well as the right to vote in the shareholders' meeting. (Exception: preferred stock)

Return

The yield on equity investments is composed of dividend payments as well as price gains or losses and cannot be predicted with certainty. The dividend is the distribution of earnings to shareholders as decided at the shareholders’ meeting. The dividend amount is expressed either as an absolute amount per share or as a percentage of the nominal value of the stock. The yield obtained from the dividend in relation to the share price is called dividend yield. In general, it is considerably lower than the dividend indicated as a percentage of the nominal value.
The greater part of earnings from equity investments is usually achieved from the stock's performance/price trend (see price risk).

Price risk

Stocks are usually traded on a public exchange. As a rule, prices are established daily on the basis of supply and demand. Investments in stocks may lead to considerable losses.
In general, the price of a stock depends on the business trend of the respective company as well as the general economic and political setting. Besides, irrational factors (investor sentiment, public opinion) may also influence the share price trend and thus the return on an investment

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Credit risk

As a shareholder, you hold an interest in a company. Consequently, your investments may be rendered worthless in particular by the company's insolvency.

Liquidity risk

Tradability may be limited in the case of shares with a narrow market (especially stocks quoted in the "Unregulated Market, over-the-counter trade).
If a stock is quoted in several stock exchanges, that may lead to differences in its negotiability on different international stock exchanges.

Stock trading

Stocks are traded on a public exchange and sometimes over-the-counter. In the case of stock exchange trading, the relevant stock exchange rules (trading lots, order types, contract settlement, etc.) must be observed. If a share is quoted at different stock exchanges in different currencies it also entails an exchange rate risk.

EUROBONDS

Eurobonds are actually bonds that are denominated in a currency other than that of the country in which they are issued. They are usually issued in more than one country of issue and traded across international financial centers.

Eurobonds are not regulated by the country of the currency in which they are denominated. Eurobonds are so-called “bearer bonds”, they are not registered anywhere centrally, so whomever holds or bears the bond is considered the owner. Their “bearer” status also enables Eurobonds to be held anonymously.

Since many investors hold Eurobonds for a long time, these bond issues may not be frequently traded which will make it more difficult for an investor who wants to buy or sell a Eurobond to assess the market price.

TYPES OF EUROBONDS

Conventional or Straight Eurobonds have a fixed coupon (usually paid on an annual basis) and maturity date when all the principal is repaid.

Floating rate bond notes (FRN) are usually short to medium term bond issues, with a coupon interest rate that “floats,” i.e. goes up or down in relation to a benchmark rate plus some additional “spread” of basis points (each basis point being one hundredth of one percent). The reference benchmark rate is usually LIBOR (London interbank offered rate) or EURIBOR (Euro interbank offered rate). The “spread” added to that reference rate is a function of the credit quality of the issuer.

Zero-coupon bonds do not have interest payments. The investor in this type of Eurobond may be looking for some kind of tax advantage.

Convertible bonds can be exchanged for another instrument, usually an ordinary share or shares (fixed ahead of time with a predetermined price) of the issuing organisation. The bondholder decides whether to convert the bond. In convertible bonds, the coupon payable is usually lower than it otherwise would be. Because convertible bonds can be viewed more as equity shares than bonds, the credit and interest rate risks for investors are higher than with conventional bonds.

High-yield bonds are also part of the Eurobond markets, a class of bonds (rather than a type of bond) which individual investors may encounter. High-yield bonds are those that are rated to be "below investment grade" by credit rating agencies (i.e. issuer has a credit rating below BBB).

Eurobonds – Buying and Selling

Brokers can help investors buy and sell Eurobonds but most market professionals advise potential individual investors to take advice and be sure any broker or bank you use has expertise in the type of Eurobond that you are interested in.

Eurobond issuers price Eurobonds related to LIBOR, EURIBOR or the U.S. Treasury Bond Market Yield curve, adjusted to indicate the credit quality of the issuer.

Some investors considering investing in Eurobonds, especially ones denominated in a currency other than the U.S. dollar, may see mention of a swap curve related to pricing. An interest rate swap has to do with how corporations and banks think interest rates will go, whether a rate will go up or go down or stay the same and is effectively the fixed rate banks will pay to convert a floating rate bond to be fixed for the various maturities.

There are advantages to Eurobond investments but there are complexities and risks attached. Individual investors may consider individual Eurobond issuers or Eurobond funds.

On individual Eurobond issuers, the credit quality and credit rating of the issuer are very important for an investor to understand. Investors have credit risk in investing in a Eurobond, and need to be able to judge whether the yield on the bond is worth the risk. The credit quality of some sectors of Eurobond issuers may generally be higher than others but each investment must be considered on the basis of the issuer and the research and documentation provided, not on some overall sense of what kinds of organisations are good or bad.

If the Eurobond issuer is a corporation, there may also be significant "event risk" as well, since credit ratings can change over time as corporations change.

Also, as noted above, many investors hold Eurobonds for a long time so Eurobond issues may not be frequently traded which will make it more difficult for an investor who wants to buy or sell a Eurobond to assess the market price.

Emerging Market Bonds

Emerging markets are defined as those nations with economies which are developing. Among those considered emerging markets are some countries in Africa, Asia, Latin America, Middle East, Russia, and eastern/southern Europe. Emerging market bonds usually include government (or "sovereign") bonds; sub-sovereign bonds and corporate bonds. The majority of external emerging market bonds are government bonds.

Risks of Emerging Market Bonds

Some individual investors have found bonds issued by emerging market governments are attractive because of their higher yields, but there are also higher risks to these investments.

Emerging bond investments are subject to currency risk (as with any bond outside an individual investor's home currency); liquidity risk and credit quality risks.

Currency risk is because interest on the bonds may be paid in a weak or devaluing currency and therefore the payment will be worth less which makes the yield worth less than an investor might have expected.

Second, as it can be difficult to participate in the markets for emerging market bonds, **liquidity risk** exists with emerging market bonds because it may not be possible to sell them on the market when an investor wants to, or at least at a good price.

Third, it is very important that investors considering emerging market bonds or bond funds understand what **credit ratings** have been given to the debt issuer. As credit ratings influence the perception of the risk of the bond debt, the lower the credit rating, the more the issuer will have to offer in yield as compared to benchmark government bonds to attract investors. Higher yields for emerging market bonds reflect the fact that there is a possibility the issuer could default and not pay investors the interest and/or principal they are due.

The most important point here is the emerging market bonds investments or funds may offer investors higher yields, but with higher yields come more risk that the investor will not receive his interest or principal payments.

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