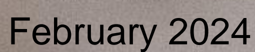
WORLDWIDE
ASSET MANAGEMENT

DESCRIPTION OF FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS



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1 INTRODUCTION

This description of the characteristics and risks of financial instruments is a general description of the types of financial instruments that CWW AM normally offers to its Clients.

2 SHARES AND SHARE-BASED SECURITIES

Shares

A share represents an ownership interest in a limited liability company. The expectation of the investors of the earning capacity of the company has a significant impact on the development of the share price. An investor with significant faith in an increase in earnings will be willing to pay a higher price for the share than an investor expecting lower earnings. The share price thus reflects the markets expectations to the future earning capacity of the company.

Rights

A right (subscription right or purchase right) is typically offered at a lower price than the market price enabling existing investors in a company to buy or subscribe for additional shares at a predetermined price for a specific period typically a couple of weeks. Normally the number of shares available to the investors reflect the number of shares that they already own. If the investor chooses not to exercise the right it can be sold and the investors proportionate ownership of the company will be diluted. This dilution is not in itself a negative situation but it is a risk factor that should be considered.

Depositary receipts

Depositary receipts, including American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs), are financial instruments that represent a specific number of shares in foreign companies. Depositary receipts are issued by financial institutions which hold the underlying shares represented by the depositary receipts.

Depositary receipts allow, for instance, U.S. investors to gain exposure to non-U.S. companies by purchasing instruments issued in USD. Compared to

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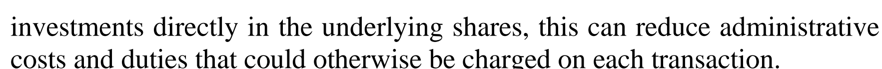

investments directly in the underlying shares, this can reduce administrative costs and duties that could otherwise be charged on each transaction.

There are a number of factors that determine the value of a depositary receipt other than the performance of the company. Analysis of these foreign companies necessitates further examination than simply looking at fundamental valuation principles.

Depositary receipts can be listed on stock exchanges or unlisted and traded over-the-counter (“OTC”).

Return and risk

The return on a share investment depends primarily on the market’s assessment of the ability of the company to make profits. As a consequence, the share price tends to fluctuate materially. Share investments are therefore best suited for long terms investment. The share price tends to fluctuate materially in the short term but over time based on historic data shares tend to provide a better return on investment than bond investments with lower risk.

The risk associated with share investment is primarily that the price of the shares will drop to a level below the purchase price. Such a development can be caused by a number of factors. A primary cause can be internal changes within the company or external changes in the market. All companies are exposed to market risks to some degree and cyclical changes, changes to the oil price, inflation and geopolitical and other external circumstances may have a varying effect on the share price. Depending on the sector or industry to which a company belongs the share price will react more or less dramatically to specific events. When investing in shares it is therefore important to achieve a spreading of risk by compiling a diversified share portfolio comprising of a number of companies within difference industries, sectors and possibly geographical areas.

Since shares represent an ownership interest in a company the share can become worthless if the company goes into bankruptcy.

In addition to the risks of investing in shares, investments in depositary receipts are associated with risks specific to these types of financial instruments. Depository receipts can be exposed to a counterparty risk of the financial institution that issued the depositary receipt. Compared to the underlying shares traded in the country of origin, depositary receipts are generally more thinly traded, which may cause increased volatility and impact purchase and sales prices. Other factors that may impact volatility and prices relative to the underlying shares include issuer corporate actions or actions by foreign countries. Depositary receipts are not always associated with the same corporate rights, such as voting rights, as the underlying shares.

Furthermore, the financial institution issuing the depositary receipts, or the foreign issuer of the underlying shares, may decide to convert a depositary

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receipt from listed to unlisted (OTC traded). Not all brokers offer trading services with respect to OTC traded depositary receipts, which may impose additional constraints on the opportunities to dispose of such instruments.

For emerging markets, certain risks are more pronounced than for developed markets. These risks include:

Political risk: The countries are often characterised by unstable governments and institutions that might create sudden crises effecting a share, rights or ADR/GDR. Generally, a high concentration of power based on an unstable foundation result in an increased risk of instability.

Currency risk: The stability in a country's currency is reflected in a share, a right or a ADR/GDR. If the currency of a country is devalued it will also have an effect. The result can be substantial losses even if the company is profitable.

Inflation risk: Inflation risk shall be considered in extension of the currency risk. Inflation is the rate at which the general price level for goods and services is rising resulting in a decreased purchasing power. Inflation can be a material problem for businesses because the currency in a country with high inflation rates will become less and less valuable day by day.

3 BONDS

Bonds are instruments of debt committing the issuer – for instance, a Danish mortgage credit institution, a Swedish mortgage credit institution or a national government – to repay the bond debt to the investor according to a pre-arranged plan. Investing in a bond is comparable to providing a loan to the bond issuer. In other words, the bond issuer gets access to capital equal to the amount invested in bonds. In return, the bond issuer pays regular interest to the investor, and the rate of interest is determined by the coupon rate and the solvency of the issuer.

The effective yield of bonds varies, depending on factors such as the term to maturity, the coupon rate and the quality of the issuer. Quite a number of factors can influence the pricing of bonds, and various ratios may be calculated for each individual bond to describe, among other things, the risk elements to which the bond is exposed.

Commonly used bond types:

Government bonds

Bonds issued by a national government. The return consists of regular interest payments adjusted for any changes in the price. Government bonds are non-

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callable and are often bullet loans. Maturities often range from one to 30 years, and the interest rate is either fixed or floating.

Danish mortgage bonds

Bonds issued by a mortgage credit institution in Denmark. They are backed by the reserves of the mortgage credit institution and the mortgage on a property. The return consists of regular interest payments adjusted for any changes in the price. The bond's maturity date is known and appears from the bond. Depending on the current level of interest rates, the bond may be callable at par. This is the case in relation to prepayments, for example. Maturities of mortgage bonds range from one to 30 years, and the interest rate is either fixed or floating. Certain types of bonds offer the option of an interest-only period.

Swedish mortgage bonds

Bonds issued by a mortgage credit institution in Sweden. They are backed by the reserves of the mortgage credit institution and the mortgage on a property. Swedish mortgage bonds normally have lower credit ratings than government bonds. The return consists of regular interest payments adjusted for any changes in the price. The bond's maturity date is known and appears from the bond. Maturities of Swedish mortgage bonds range from one month to 30 years.

Corporate bonds

Companies often use the bond market as a supplement to traditional bank loans or equity as it provides access to a large group of investors. Corporate bonds are not normally backed by any type of security. The return consists of regular interest payments adjusted for any changes in the price. Corporate bonds are often issued as bullet loans with maturities from one to 30 years, and the interest rate can be either fixed or floating.

General risk associated with bonds

There are three basic types of risk attached to bonds: credit risk; price risk and liquidity risk. With respect to Danish mortgage bonds, a prepayment risk also applies.

Credit risk is the risk that the issuer – for instance a Danish or Swedish mortgage credit institution or a company – is incapable of meeting its payment

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obligations under the bond terms. Relative to the current market conditions, investors must assess the degree of current risk of the issuer defaulting. This type of risk is dynamic and may change over time. The credit risk will generally be lower for Danish and Swedish mortgage bonds. The credit risk for government and corporate bonds varies a lot and can be relatively high depending on the financial situation of the issuer.

Price risk arises when the effective yield changes. Traditionally, long-term bonds are more sensitive to interest rate fluctuations than short-term bonds, but this may also change over an investment period, depending on the current market situation. The duration of the bond is a measure of such price and interest rate sensitivity (read more about duration below).

Liquidity risk is the risk that investors may not be able to buy or sell a bond at any given time because the trading volume of such bond is too low. This risk may have an adverse impact on the price of the bond (read more about liquidity risk below).

Prepayment risk relates to Danish mortgage bonds that are callable by the borrower. The risk in relation to the often very long-term bonds with long terms to maturity arises when the interest rate level drops and concurrently causes bond prices to rise. If the bond price exceeds par, the bond will be prone to prepayment. In such situations, borrowers may call their bond loans at par, causing investors to suffer a capital loss equal to the difference between the market price, which is above par, and par. Extraordinary drawings may in this case reduce the return on the bond portfolio as the assets will have to be reinvested at higher prices.

The risk of investing in a bond is often expressed by the mathematical term “duration”. One of the reasons that the remaining maturity cannot always be used is that the bond may be called before the maturity date. At the same time, the investment can be influenced both positively and negatively by for example a rise in interest levels. The negative effect is that the rate of the bond will fall with a rise in interest levels. Since the bonds offer returns in the form of regular interest payments and possibly drawings these regular payments can be invested at a higher interest rate than before and thereby effect the investment positively. The duration of the bond takes these effects into consideration and provides an idea of the actual maturity of the bond. At the same time, the duration indicates the number of years that the investment can be expected to provide a return equal to the effective yield appearing from the official price list at the purchase date. Duration can also be seen as a measure weighing among other things price risk against prepayment risk.

An investor investing in bonds risk losing the full investment. Generally, the risk is however lower compared to investments in other types of financial instruments. The risk will generally be highest for corporate bonds and lowest

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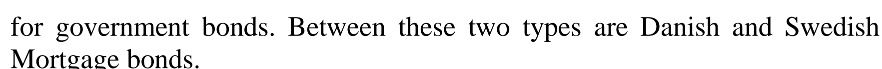

for government bonds. Between these two types are Danish and Swedish Mortgage bonds.

4 UNITS IN UCITS

UCITS (Undertakings for Collective Investments In Transferable Securities) are undertakings within the EU/EEA with the objective of making collective investments in financial instruments (primarily equities and/or bonds) by capital procured from the public and based on a principle of risk spreading. At the request of the holders, units will be repurchased or redeemed out of the assets of the UCITS.

UCITS established in Denmark are organised as associations and are consequently referred to as “investment associations”. UCITS in other EU/EEA member states are often referred to as “funds”, and their organisation depends on the rules of the individual state.

Investments in units in UCITS are an alternative to investing directly in equities and bonds. Investment in units in UCITS has the advantage of spreading the risk of the investor through the investment by the UCITS in a range of different financial instruments. The investment field and risk profile depend on the articles of association of each UCITS. A UCITS typically comprises several sub-funds, each with its own investment focus. The day-to-day management is normally undertaken by a management company. In addition, most UCITS enter into investment agreements with external advisors – investment managers – about the investments.

Since UCITS typically invest in either shares or bonds the risk elements that must be considered are the same as described above under shares and bonds. Generally, bond based sub-funds are more stable than the share based sub-funds. The actual risk associated with a sub-fund depends on the investment strategy of the sub-fund.

5 ADDITIONAL RISK ASPECTS THAT APPLY TO ALL THE FINANCIAL INSTRUMENTS DESCRIBED ABOVE

Risk/Volatility

Risk/Volatility can be perceived in a number of ways. In relation to investments there is generally a link between risk and the potential return on investment. In other words, the higher the risk the investor is willing to assume

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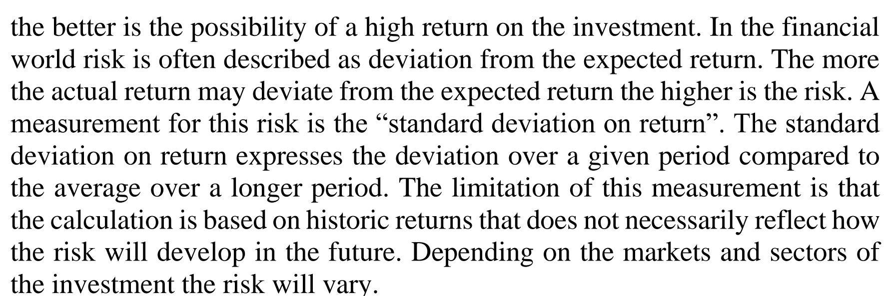

the better is the possibility of a high return on the investment. In the financial world risk is often described as deviation from the expected return. The more the actual return may deviate from the expected return the higher is the risk. A measurement for this risk is the “standard deviation on return”. The standard deviation on return expresses the deviation over a given period compared to the average over a longer period. The limitation of this measurement is that the calculation is based on historic returns that does not necessarily reflect how the risk will develop in the future. Depending on the markets and sectors of the investment the risk will vary.

Liquidity

Liquidity is an expression of the possibility for an investor of selling his/her financial instruments at a later point in time. CWW AM primarily invests in financial instruments that are easy to sell under normal market conditions and with reasonable certainty can be sold within a reasonable timeframe. Generally, the risk of not being able to sell a financial instrument within a reasonable timeframe is lower for shares in large corporations and higher for shares in smaller companies and in emerging markets. Extraordinary circumstances on the markets may lead to situations where financial instruments can be sold only with a loss. For example, a trading halt will constitute an extraordinary circumstance. For CWW AM’s UCITS the liquidity of the units depends on whether or not the units are listed and of the terms for redemption in the prospectus.

Obligations/counterparty risk

When an investor invests in depositary receipts such as ADR’s and GDR’s there is a risk that the counter party will not fulfil its obligation to deliver funds or financial instruments resulting in a loss for the investor.

Currency risk

Investments in foreign financial instrument entail exposure towards currencies that might fluctuate to a smaller or higher degree compared to the basis currency. As a consequence, the value of the individual financial instrument can be affected by fluctuations in the currency rates between the currency of the investment and the basis currency of the investor.

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