



# KINESIS ACCOUNT

November 2022

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# Sophisticated Financial Solutions

The Kinesis Account is an extremely efficient and effective method of gaining exposure to the performance of a diverse range of investment objectives and strategies. Whatever your investment objectives or strategy, you can achieve the same performance by executing principal contracts (“Kinesis Contracts”) in a Kinesis Account. With no direct ownership of the investments referenced via a Kinesis Contract, this offers a style of investment wrapper akin to trust, corporate, pension and life policy structures.

A specialist and bespoke service for professional intermediaries and the clients they advise, Kinesis Contracts can significantly enhance net returns from exposure to a wide range of securities, indices and managed strategies that can be tailored to suit low or high risk appetites and then adapted as required.

*Proudly shaping financial futures through innovation, integrity and excellence.*

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The Kinesis Account sits alongside Capital International Group’s (CIG’s) Platform and the investment range is open-architecture, giving access to a wide universe of available assets for inclusion within the underlying investment strategy. The Kinesis Account provides the ability for an appointed investment manager to switch assets and manage the asset allocation of the specified strategy.



# Kinesis Contracts

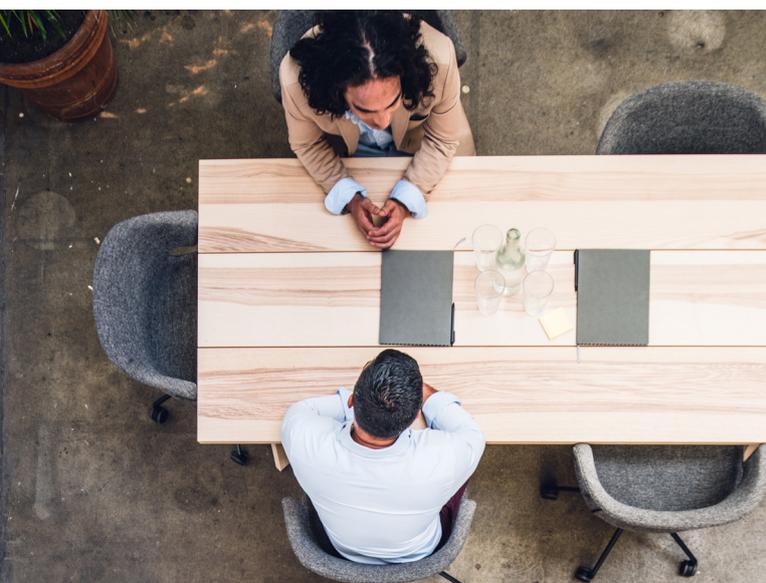
Capital Financial Markets Limited (“CFM”) is a subsidiary of CIG and is licensed by the Isle of Man Financial Services Authority (“IOMFSA”) to issue Kinesis Contracts; as principal contracts, these will reference the performance of underlying assets held within the specified investment strategy.

Kinesis Contracts are flexible and can be established to suit each intermediary and their client’s specific requirements and investment strategies. A wide range of contract types are available, including:

1. A Structured Note (“Note”) where the return is linked to the performance of an underlying asset, group of assets or index. It can be for a fixed term, such as 3 months, 10 years, 20 years or unfixed term. Whatever the term, the Note can be partially or completely encashed at any time. Settlement of the sale will vary dependent on the liquidity of the underlying investment strategy.
2. A Contract for Difference (“CFD”) is a contract between two parties, typically described as “buyer” and “seller”, stipulating that the seller will pay to the buyer the difference between the current value of an asset and its value at contract time. In the Kinesis Account the “seller” is CFM, and the “buyer” is the client.
3. An Option is a contract which gives the buyer the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price on or before a specified date. The seller has the corresponding obligation to fulfil the transaction – that is to sell or buy – if the buyer “exercises” the option. An option which conveys the right to buy something at a specific price is referred to as a Call; an option which conveys the right to sell something at a specific price is referred to as a Put.
4. A Spread Bet allows advisers and their clients to simply speculate on whether the asset price will rise or fall using the prices offered to them by a broker or a counterparty. Key characteristics of spread betting can include the use of leverage, although leverage is not necessary and is generally unable to be used in Kinesis Contracts. Spread betting can offer the ability to go both long and short of the wide variety of markets and securities that are available.

The Kinesis Account enables clients to invest in any of these four primary contract types as well as other principal contract types structured on a bespoke basis.

Under all Kinesis Contracts, the client lodges cash or assets as margin to the value of the maximum potential loss under their contract(s) so that CFM can never suffer any shortfall and the client is not required to lodge further cash should asset prices move against the client.



# Investment Strategies

Kinesis Contracts can be referenced to a wide range of financial instruments either individually or as part of a portfolio strategy. Assets that can be referenced include:

- Mutual, Hedge, Private Equity, Alternative Investment Funds and Structured Products
- Investment Trusts and Listed equities on all recognised Stock Exchanges
- Foreign Exchange Strategies, CFDs and Other Derivative Strategies
- Exchange Traded Funds and other Passive Tracker Strategies
- CIL discretionary strategies and other Third Party Managed Strategies

Clients who are clear about their investment strategy can select their own assets to reference or they can appoint their preferred financial or investment adviser to provide them with recommendations.

Alternatively for clients who prefer a discretionary managed strategy, they can utilise a third party investment manager or use Capital International Limited (“CIL”) to manage the strategy referenced in their Kinesis Contract. CIL is a subsidiary of CIG that is licensed by the IOMFSA and manages discretionary portfolios for a range of Institutional and Private Clients.

*“Kinesis Contracts can be referenced to a wide range of financial instruments”*

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Many traditional principal contracts, such as CFDs and spread bets are often perceived as high risk due to high levels of leverage and the small range of high risk assets which can be referenced. Kinesis Contracts reinvent the proposition of principal contracts so that leverage risk is removed.

This means that clients know their maximum downside risk is limited by the assets in their Kinesis Account.

Further, Kinesis Contracts enable clients to reference a diversified strategy and a wide universe of assets, meaning that the investment risk can be as low or as high risk as required to reflect the client’s risk profile and appetite.

## Bespoke Indices

For clients referencing multiple assets or a diversified strategy in their Kinesis Account, CFM can create a bespoke index called a ‘Specialist Reference Index’ (“SRI”).

The individual assets referenced within an SRI provide a single reference Kinesis Contract. This makes for much simpler administration that enables tailored strategies such as binary, straddle, strangle, floor and upside outcome to be created.

CIG works with intermediaries and investment managers to create the SRIs that are required. To simplify investment administration, multiple clients of IFAs and investment managers can be linked to the same SRIs within the CIG Platform; this provides scalability and efficiency for intermediaries and transparency for their clients.

## Flexibility

As with all CIG products and services, Kinesis Contracts are designed to offer clients maximum flexibility in investment strategies and price points.

Kinesis Contract terms are typically three months but daily, weekly, monthly and undated contracts are available.

Subject to liquidity of the underlying assets, Kinesis Contracts can be closed at any time, even prior to expiry. This means clients are not locked-in and can access their capital at any time.

Closing positions will reflect the liquidity of the underlying asset(s) referenced; if market conditions result in some asset(s) being illiquid, then settlement of any closing position may be delayed or may be paid in units of the underlying asset rather than cash.

Whilst there are no surrender penalties on the Kinesis Account, there may be a small closing spread factored into the closing price of a Kinesis Contract. Irrespective of market conditions, Kinesis Contracts offer the flexibility for assets referenced in a client's Kinesis Account to be changed according to the client's circumstances.

## Financial Planning

Kinesis Contracts are non-income producing assets so returns are typically taxed as capital. Therefore taking out a CFD or Option referencing a certain investment strategy can mean that the investment return is more efficient.

In certain jurisdictions, spread betting can offer further efficiencies where there is an express exemption in legislation from capital gains tax on winnings from bets; this includes financial spread betting where the client takes exposure to risk on an uncertain future outcome.

Kinesis Contracts can be ideal for financial planning because of their flexibility and the ability to structure these to reflect specific client requirements in different jurisdictions.

By using Kinesis Contracts to gain exposure to an investment strategy, rather than wrapping the strategy in an investment bond (such as a life insurance issued personal portfolio bond), a fund (such as an Open Ended Investment Company) or investing in the underlying assets directly, clients can benefit from enhanced investment returns. Kinesis Contracts can provide intermediaries and their clients with more efficient ways of gaining investment exposure through effective financial planning.

*“Kinesis Contracts can be ideal for financial planning...”*

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## Situs

In law, the situs (Latin for position or site) of property is where the property is treated as being located for legal purposes (“Situs”). This may be important when determining which laws apply to the property, particularly when considering the potential tax implications and whether rules of intestacy or forced heirship apply.

The rules for determining Situs vary between jurisdictions and can depend on the context. The English common law rules, which apply in most common law jurisdictions, are in outline as follows:

- The Situs of a registered instrument is where the register is held.
- The Situs of debts is where the debtor resides

In the context of investments, shares or bonds listed on the London Stock Exchange for example, are deemed a UK Situs asset. Similarly, an investment in funds that are domiciled in the UK (for example a UK Open Ended Investment Company), are also deemed a UK Situs asset. The same can then be said of similar investments made in a foreign market (for example the United States or Europe).

Kinesis Contracts provide intermediaries and their clients with several potential advantages:

- CIG’s open architecture investment platform enables clients to gain exposure to the performance of UK Situs and other jurisdiction Situs assets through a Kinesis Contract issued and held in the Isle of Man.
- Existing investments held can also be transferred into a Kinesis Contract; such a transfer may be a disposal for tax purposes but it means any underlying investment does not need to be sold and rebought.
- Managing an investment strategy in a Kinesis Contract may be highly efficient for clients. This is because the Kinesis Contract operates like an insurance “wrapper” whereby investment activity (including switches, buy and sell instructions) in the Kinesis Contract does not typically create a tax event. Similarly income rolls up within the Kinesis Contract. Tax events are typically triggered when the Kinesis Contract is partially or completely encashed.

(Disclaimer: CIG and its subsidiaries do not provide tax advice and all clients should seek professional advice prior to opening a Kinesis Account).

## Asset Security

Clients using the Kinesis Account want to ensure that their cash lodged with CFM is secure and they want comfort that CFM will deliver the profits achieved by any Kinesis Contract.

All cash paid into the Kinesis Account is received into a segregated client money account and then applied to a ring-fenced nominee for the benefit of the client. These accounts carry segregated trust status and are 100% protected from the balance sheets of the underlying companies of the Capital International Group.

All Kinesis Contracts are executed with CFM as a ring-fenced counterparty to provide for full client security. CFM is regulated by IOMFSA to deal with investments as principal in fully hedged contracts for difference on behalf of CIL. To execute any Kinesis Contract, the client must lodge sufficient margin to cover the maximum loss of the client's investment strategy under the Kinesis Contract selected. This means the client knows there is sufficient security lodged with CFM to cover any losses. This is the same position as if the client had invested directly in the underlying assets referenced in their Kinesis Contract.

Once the Kinesis Contract is executed, CFM will always hedge its liability to the client by using the monies lodged as security to purchase the underlying constituents of the strategy against which the client is referencing in their Kinesis Account.

Any assets purchased for its hedging purposes are held solely for the benefit of CFM. Indeed, CFM's regulatory permissions only permit the company to hold assets to back its Kinesis Contracts liabilities and it must remain 100% hedged at all times.

CFM is obliged to make quarterly reports to the IOMFSA and must provide annual audited accounts.

Therefore, Kinesis Account clients are secure in the knowledge that there are assets backing their Kinesis Contract, that CFM must always hold sufficient assets to match these liabilities, and that the ring-fenced structure means that the assets can only be realised to pay out proceeds to Kinesis Account clients.



## Online Services

At Capital International Group, we provide all clients with the ability to view their account online and to download information from it via a secure log-in which enables clients to monitor transactions on their account as well as the value of their account.

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