FIMARGE

your independent wealth managers

RISKS ASSOCIATED WITH DIFFERENT FINANCIAL INSTRUMENTS

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1. INTRODUCTION

The Law 8/2013 of 9 May on the organisational requirements and the operational conditions of entities operating within the financial system, investor protection, market abuse and financial guarantee agreements requires that all financial entities must inform their clients the risks associated with financial instruments.

This document aims to summarize the main risks associated with the different financial instruments that may exists in clients' portfolios.

2. RISK AND RETURN BINOMIAL

The assessment of any investment must be done considering two factors:

- The return of the investment is the return that the investor obtains from his/her investment.
- The risk of the investment is the variation that can affect the return of the investor.

Any investment is characterized by an expected risk and return, and as a general rule, the higher the expected return, the higher the associated risk. The objective of Fimarge is to offer its clients the maximum return with the minimum risk possible.

These two factors allow clients to be classified according to different investment profiles that depend on:

- Financial situation of the investor.
- Time horizon of the investment.
- Objectives of the investment.
- Risk profile of the client.
- Knowledge and expectation of the client.

3. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

Regardless of the investment profile, each client is exposed to different types of financial risk:

3.1. General risk

Foreign-exchange risk

Financial instruments that are derived in a currency other than Euro are associated with a risk arising from exchange rate fluctuations. Foreign-exchange risk (or currency risk) not only affects the valuation of these instruments but also their dividends or interest.

Credit risk

It arises from the eventuality that losses are generated in companies invested due to non-compliance with payment obligations as well as losses in value due to the simple deterioration of their credit quality.

Liquidity risk

Liquidity risk is the inability to sell an asset's position quickly and with significant loss.

Country risk

The socio-political situation of a country affects the valuation of companies in that country.

3.2. Financial instruments specific risk

Variable income

- Business risk: Internal risks of companies that may affect their profits.
- Price risk: Fluctuations in the price of the companies.
- Dividend risk: Risk of cancelation of dividends.

Fixed income

- Issuer risk: Risk the issuer will not be able to meet the payment of interest and principal on the debt.
- Interest rate risk: In general, an increase in rates negatively affects the price of bonds. This risk is greater as the maturity of the bond in question increases.
- Call risk: Some bonds can be bought back before maturity. This fact may affect the expected return on the investment.

Funds

- Liquidity risk: The volume managed by the fund depends on various investors, therefore, the liquidity of the fund my be affected by sales and purchases made by other investors.
- Regulatory risk: Generally, funds or collective investment undertakings are subject to greater regulatory restrictions. Any change or update may pose a risk to the investor.
- Management risk: Generally, funds have a management team which can be terminated at any time. Thus, the strategy pursued by the fund can be affected.
- Associated cost: Generally, the costs of the funds are higher than when an investor invests directly in the assets because of advisory cost, managerial cost, etc. However, keep in mind, that an investor can benefit from diversification.

Forwards

- Counterparty credit risk: Although there is counterparty credit risk in forwards, Fimarge uses them to mitigate foreign-exchange risk and forward contracts are always arranged with internationally renowned depository entities.