

## **Description of financial instruments' nature and risks**

### **(i) General Risks**

This document sets out a non-exhaustive list of risks, which may be associated with particular kinds of Investments. This document does not set out all risks arising in relation to all investments and services Nomura Bank (Luxembourg) S.A. may offer, and should not be relied upon as doing so. The risks applicable to any particular investment or service will depend on your particular circumstances and the terms of the relevant transaction. You should not deal in any Investment unless you understand the nature of the product you are dealing in (or contract you are entering into), the extent of your exposure to risk, and unless you are satisfied that the product is appropriate for you.

You should consider carefully whether or not any product is suitable for you in light of your circumstances and financial position, and if in any doubt, seek professional advice.

All financial products carry a degree of risk and even low-risk investment strategies contain an element of uncertainty. Prices may fluctuate and there is a risk you may lose some or all of your investment. The types of risk that might be of concern will depend on various matters, including how the instrument is structured. The specific risks of a particular product will depend upon its terms and the circumstances of the relevant parties involved.

The nature and extent of investment risks varies with, amongst other things, the type of investment, the location or domicile of the issuer, the diversification or concentration in a portfolio, the complexity of the transaction and/or the use of leverage. The price or value of an investment will depend on fluctuations in the financial markets and current performance, past performance, stimulated past performance or forecast performance are no indicator of future performance.

Types of risks that may have an impact on your investment include (without limitation) liquidity risk, insolvency risk (including bail in risk), market risk (including volatility risk and the impact of market conditions), credit risk, settlement risk, currency risk, operational risk, business risk, tax risk, regulatory risk, legal risk, interest rate risk, barriers to or restrictions on divestment, risks relating to leverage and margin requirements, risks inherent in "over the counter trading" sustainability risk, being the environmental, social, or governance (ESG) events that could cause a negative impact on the investment value and/or risks as a result of you assuming additional obligations in relation to the investment, including contingent liabilities.

These risks may occur simultaneously and may have an unpredictable effect on the value of your investment. The types of risks outlined in this document are not an exhaustive list of the risks which may occur in relation to Investments and you should consider any and all additional material provided to you in connection with your investment when assessing your risk exposure.

Risks arising generally in relation to Investments include:

- a) Risk relating to market conditions: the price of an Investment and its divestment risk may each be affected by factors relating to wider market conditions, both positive and negative, and such market conditions will affect each Investment differently.
- b) Divestment risk: Investments may be affected by impediments to divestment, (e.g., Investments may prove illiquid or difficult to sell and/or may be difficult to sell at a price equal to or greater than the transaction price at the point in time that you wish to sell).

### **(ii) Transferable Securities**

#### **Shares**

A share is an instrument representing a shareholder's rights in a company. Shares may be issued in bearer or registered form and may be certificated or non-certificated. One share represents a fraction of a corporation's share capital.

Dividend payments and an increase in the value of the security are both possible, although not guaranteed. The shareholder has financial and ownership rights which are determined by law and the issuing company's articles of association. Unless otherwise provided, transfers of bearer shares do not entail any formalities.

However, transfers of registered shares are often subject to limitations.

Dealing in shares may involve risks including but not limited to the following:

a) Company risk: a share purchaser does not lend cash to the company, but becomes a co-owner of the corporation. He or she thus participates in its development as well as in chances for profits and losses, which makes it difficult to forecast the precise yield on such an investment. An extreme case would be if the company went bankrupt, thereby wiping out the total sums invested.

b) Price risk: share prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in the short-, medium- and long-term alternate without it being possible to determine the duration of those cycles. General market risk must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence share prices.

c) Dividend risk: the dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or losses, dividend payments may be reduced or not made at all.

d) Dilution risk: in the absence of any restrictions in the articles of the company or other agreement, an issuer may issue more of its shares thereby potentially reducing the value of the holding and putting downward pressure on the amount of dividends per share.

## **Bonds**

Bonds are negotiable debt instruments issued in bearer or registered form by a company, a government body or other entity to creditors and whose par value at issuance represents a fraction of the total amount of the debt. The duration of the debt as well as the terms and conditions of repayment are determined in advance. Unless stipulated otherwise, the bond is repaid either at the maturity date, or by means of annual payments, or at different rates determined by drawing lots. The interest payments on bonds may be either (i) fixed for the entire duration or (ii) variable and often linked to reference rates (e.g., secured overnight financing rate, SOFR). The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

Investments in bonds may involve risks including but not limited to the following:

a) Credit risk: the issuer may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change due to one or more of a range of factors including the issuing company, the issuer's economic sector and/or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

b) Interest rate risk: uncertainty concerning interest rate movements means that purchasers of fixed rate securities carry the risk of a fall in the prices of the securities if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.

c) Credit risk: the value of a bond will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure), the higher the perceived credit risk of the issuer.

d) Early redemption risk: the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield.

e) Risks specific to bonds redeemable by drawing: bonds redeemable by drawing have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.

f) Risks specific to certain types of bonds: additional risks may be associated with certain types of bonds, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds, and subordinated bonds. For such bonds,

you are advised to make inquiries about the risks referred to in the issuance prospectus and not to purchase such securities before being certain that all risks are fully understood. In the case of subordinated bonds, you are advised to enquire about the ranking of the debenture compared to the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors and as such there is a risk that you will not be reimbursed. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

g) Tax call risk: the issuer of the bond may have the right to call the bond should there be an adverse change to the tax laws that affect it. This may mean that the yield on the bond is lower than anticipated.

### **Depository Receipts**

Depository receipts (e.g., American Depositary Receipts and Global Depositary Receipts) are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, and which can be listed and traded independently from the underlying shares.

Investing in depository receipts will be subject to the same risks as relate to the underlying shares (as set out above) and:

a) Credit risk: the bank or other entity issuing the depository receipts may default on its obligations in relation to the depository receipts.

b) Performance risk: the rights of a holder of a depository receipt may differ from the rights of a holder of the underlying shares. For example, the underlying share issuer may choose to make a dividend payment that is not passed on to a holder of depository receipts. Differences between the rights of holders of the shares of the underlying issuer and holder of the related depository receipts may be significant and may adversely affect the value of relevant depository receipts.

### **Securitized Derivatives**

These instruments may give a time-limited or an absolute right to acquire or sell one or more types of investment, which are normally exercisable against someone other than the issuer of that investment. Alternatively, they may give you rights under a contract for differences which allow for speculation on fluctuation in the value of the property of any description or an index, such as the FTSE 100 index. In both cases, the investment or property may be referred to as the "underlying investment".

Transactions in securitized derivatives may expose you to following specific risks:

a) Leverage risk: These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.

b) Loss of investment: These instruments have a limited life, and may (unless there is some form of guaranteed return to the amount that you are investing in the product) expire worthless if the underlying instrument does not perform as expected.

You should only buy this product if you are prepared to sustain a total or substantial loss of the money that you have invested plus any commission or other transaction charges.

### **(iii) Money Market Instruments**

A money-market instrument is a borrowing of cash for a period, generally no longer than six months, but occasionally up to one year. Like other debt instruments, investing in money-market instruments expose to the major risk types such as credit risk and interest rate risk.

Transactions in Money-market instruments may be exposed to the following risks.

a) Credit risk: investors in money-market instruments are exposed to the political, market and operational risks that affect the issuers of the underlying assets. Transactions in these instruments are also exposed to currency risk insofar as underlying assets are denominated in a currency other than the one in which their investment was made.

### **(iv) Funds**

Funds are collective investment vehicles which pool the funds of investors in order to make investments in accordance with the involvement objectives of the fund. Funds can be either open-ended or closed-

ended. Open-ended funds are valued on the basis of the value of the assets held. Closed-ended funds are valued on the basis of what investors are prepared to pay/sell.

Investing in funds may involve risks including but not limited to the following:

- a) Liquidity risk: Open-ended funds may not be able to liquidate their assets and return funds to investors in the event that there is poor liquidity in the market generally or in the specific sector in which the fund invests. Ongoing costs to service those investments could lead to increased losses or reduced profits for investors in the fund. Closed-ended funds can be subject to risks of low trading and therefore provide limited liquidity, making it difficult for an investor to realize its investment.
- b) Interest rate risk: a leveraged fund will be exposed to interest rate rises. This could reduce the returns investors receive or even lead to losses.
- c) Country risk: the value of a foreign investment may decline because of political changes or instability in the country where the foreign investment was issued.
- d) Currency risk: if investments in the fund are denominated in a currency other than that in which the investor's initial investment was made, returns could be reduced (or losses incurred) due to currency fluctuations.
- e) Counterparty risk: the insolvency of any institution providing services to the fund such as safekeeping of assets or acting as counterparty to the fund in derivatives transactions or other instruments, may expose the fund to financial loss.
- f) Derivatives risk: a fund may utilize instruments in the form of warrants, futures, options, forward contracts and swaps to seek to enhance investment returns. While this can potentially have the effect of enhancing the fund's performance, it can also be detrimental if there are losses on the derivatives.
- g) Operational risk: an investment in a fund can involve operational risks arising from a wide range of possible operational errors, including system breakdowns, human errors or external events and errors caused by service providers such as the investment manager, which may affect the value of the fund and (if applicable) its ability to pay redemptions within the scheduled timeframe.
- h) Limited diversification risk: unless the fund is subject to investment restrictions and diversification requirements, the number and diversity of investments held by a fund may be limited.
- i) Restrictions on subscription: an investor in the fund's units/shares may be prevented from subscribing and redeeming such units/shares, either at the official net asset value (for example, as a result of the imposition of any charges by the fund) or at all, or the prescribed notice period, timing cut-offs and minimum/maximum amounts in respect of subscriptions and redemptions for the fund's units/shares may be changed.
- j) Compulsory redemption risk: the fund may compulsorily redeem the shares/units upon the occurrence of certain events (for example, if, following the insolvency of the investment manager, the fund becomes unable to fulfil its investment objections).
- k) Performance risk: no assurance can be given relating to the present or future performance of a fund and any underlying component in which the fund may invest, that any analytical model used by the fund will prove to be correct or that any assessments of the short-term or long-term prospects, volatility and correlation of the types of investments in which a fund has or may invest will prove accurate.
- l) Changes to portfolio: the composition of the fund's portfolio of investments may change from time to time. Such changes may have an impact on the value of the fund.
- m) Sub-funds segregation: the sub-funds of the fund may be segregated as a matter of the law of the fund's home jurisdiction and as such the assets of one sub-fund will not be available to satisfy the liabilities of another sub-fund. However, the fund may operate or have assets held on its behalf or be subject to claims in other jurisdictions other than its home jurisdiction which may not necessarily recognize such segregation. There can be no guarantee that the courts of any jurisdiction outside its home jurisdiction will respect the above limitations on liability.

#### **(v) OTC Derivatives**

A derivative is a contract entered into between parties for the exchange of payments calculated by reference to an underlying asset, rate or index.

A derivative can be traded "over-the-counter" (i.e., outside of an exchange or other trading venue) ("OTC") or "on an exchange" ("exchange-traded"). OTC derivatives may include options, forwards and swaps.

**Investing in OTC derivatives involve, in general, the following risks:**

- a) Counterparty credit risk: where the derivative transaction is uncleared and uncollateralised, the counterparties are exposed to the credit risk of the other party. The customer's entire investment could be lost in the event of default by or the insolvency of its counterparty.
- b) Loss of investment: there is a risk that the customer will pay an upfront amount, but never receive any benefit from the transaction. An example of this could be if an option purchased is not in-the-money at the time it can be exercised.
- c) Contingent liabilities: derivatives transactions such as credit default swaps or options may involve contingent liabilities. This can result in the customer incurring losses much greater than its original investment (if any) or premium received (in the case of sold options) should certain conditions be met, such as the occurrence of a credit event or an asset reaching a strike price.
- d) Unlimited loss: losses under certain derivatives transactions can theoretically be unlimited. In the context of an interest rate or FX swap, for as long as the interest or exchange rate continues to rise so too will the customer's loss if it is required to pay the variable rate under the transaction.
- e) Leverage risk: derivatives transactions may be entered into on a highly geared or leveraged basis. This may mean that even a relatively small movement in the value of the underlying asset or other specified factor(s) could result in a disproportionately large movement, unfavourable or favourable, in the amount payable between the parties to the transaction.
- f) Legal risk: if a counterparty goes into default and the derivative is terminated, the ability to recover value from the transaction is ordinarily dependent on netting gains against losses across different transactions and the value of the transactions against the value of the collateral. If the legal netting mechanism is not recognized in any jurisdiction, it may be that losses will be incurred.
- g) Collateral risk: parties to derivatives contracts are often required to post collateral to mitigate their credit exposure to one another. If the market value moves against their position, the investor may be called upon to pay substantial additional collateral on short notice. Failure to post collateral may lead to the contracts being closed out which could crystallize a loss position. There is no guarantee that collateral which is posted by the customer will be returned to the customer. Where collateral is held by a third-party custodian, the return of such collateral is subject to the credit and operational risk of that custodian.
- h) Basis risk: where a derivative transaction has been entered into to hedge price or other risks arising from ownership of a particular underlying, the performance of the derivative and the performance risk of the underlying may not be perfectly correlated, resulting in residual 'basis' risk.
- i) Operational risk: losses may occur due to the failures of processes and systems used in monitoring derivative transactions, including calculating and making payments or deliveries, exercising rights (such as options rights) before their expiry, monitoring lifecycles events and delivering notices in a timely manner. Such failures in third party systems may be subject to limitations on liability.
- j) Delivery risk: if you have entered into a physically settled derivative, you may be obliged to take delivery of the relevant asset. In respect of commodities and natural resources, this may require significant operational resources to achieve.
- k) Early Termination: derivative transactions may be subject to early termination due to a voluntary or agreed early termination, 'events of default' or 'termination events' in relation to the customer or the provider (e.g., failure to pay, insolvency, force majeure, illegality, tax events) or extraordinary events relating to the underlying (e.g., merger nationalization or delisting of an equity, market disruptions, cancellation of an index, disruptions in the ability of one or more parties to hedge the transaction). Such events (with the exception of voluntary or agreed early termination) may be outside the control of the customer and such termination may, depending on the value of the transaction at such time, result in a substantial payment due from the customer (even where the provider is in default or the termination arises from an external event).

Customers may not be able to establish replacement transactions, or may incur significant costs in doing so such as charges for early termination even where such early termination is voluntary or agreed between us.

- l) Liquidity risk: uncleared derivative contracts can be amended or transferred only pursuant to their express terms or by agreement of the parties. Where consent of the dealer to transfer or unwind an OTC derivative transaction is required, it may not provide such consent, for reasons which it is not obliged to disclose. In addition, there may not be another dealer who is willing to provide the same or a similar transaction. OTC derivative transactions on standardized terms (e.g., credit default swaps with set payment dates and maturity dates) will be more liquid than bespoke transactions. OTC derivative

transactions may involve greater risk than investing in exchange-traded derivatives because there is no exchange market on which to close out an open position. It may therefore be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk.

m) Risk of Adjustments: the occurrence of certain events relating to the underlying of the derivative transaction may trigger the right of the calculation agent to make certain adjustments to the economic terms (e.g., market disruption events, stock splits, or the payment of unexpected or extraordinary dividends, currency controls). Such adjustments may involve an element of discretion on the part of the calculation agent.

Exposure to an underlying via a derivative may not correspond in all cases with exposure obtained by holding the underlying directly.

n) Clearing risk: cleared OTC derivatives are OTC derivatives which have been submitted to and accepted for clearing by a clearing house. Such cleared derivatives are subject to the rules of the clearing house, including collateral arrangements required by the clearing house. Therefore, participants may be required to post collateral on short notice to cover losses incurred under the cleared OTC derivative contracts. Failure to post collateral may lead to the contracts being closed out which could crystallize a loss position. The terms and conditions of cleared OTC derivatives contracts (including the strike or forward price) may be modified by the clearing house without notice to reflect changes or events in respect of the underlying asset or otherwise.

#### **(vi) Exchange-traded Derivatives**

Exchange-traded derivatives are typically standardized futures or options contracts traded through an exchange or other recognized trading venue.

Before entering into a transaction, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

Transactions in exchange-traded derivatives may expose you to the following specific risks.

a) Leverage risk: Futures contracts are leveraged instruments as the amount of initial margin required is smaller relative to the potential gains or losses under the contracts.

b) Margin risk: A relatively small market movement will have a proportionately larger impact on the margin an investor has deposited or will have to deposit: this may work against the investor as well as for them. An investor may sustain a total loss of initial margin funds and any additional margin deposited with the firm to maintain their position. However, if the market moves against their position or margin levels are increased, the investor may be called upon to pay substantial additional collateral on short notice to cover losses incurred under the futures contracts and maintain their position. Failure to provide collateral may lead to the contracts being closed out which could crystallize a loss position.

c) Changes to exchange or clearing house rules: The terms and conditions of exchange-traded contracts (including the strike or forward price) may be modified by the exchange or clearing house to reflect changes or events in respect of the underlying asset or otherwise.

d) Options: Transactions in options may carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of option (i.e., put or call) which they contemplate trading and the associated risks and they should calculate the extent to which the value of the options must increase for their position to become profitable, taking into account the premium and all transactions costs. Selling ('writing' or 'granting') an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount.

e) Market risk: 'Stop loss' or 'stop limit' orders intended to limit losses may not be effective if market conditions make it impossible to execute such orders. Market conditions (e.g., illiquidity) and/or the operation of the rules of certain markets (e.g., the suspension of trading in any contract or contract month because of price limits or 'circuit breakers') may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If an investor has sold options, this may increase the risk of loss.

f) Operational risk: Trading facilities utilize computer systems for the order routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary

disruption or failure. An investor's ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms.