CADOGAN
ASSET MANAGEMENT

15 Half Moon Street
London W1J 7DZ

Telephone 020 3889 1610
Website cadoganam.com

# RISK WARNINGS

**All forms of investment which may be undertaken by Cadogan Asset Management on behalf of the Client for the Portfolio involve risk, including the risk of losing the entire investment. The value of investments and the income derived from them can fall as well as rise and is not guaranteed. Yields and income on investments are not guaranteed and as such may fall or rise. The attention of the Client is also specifically drawn to the following types of transactions which Cadogan Asset Management may effect on behalf of the Client and the risks associated with such transactions.**

### Investment Denominated in Foreign Currencies

If a liability of the Client in one currency is to be matched by an asset in a different currency, or if Cadogan provides services under this Agreement relating to an investment denominated in a foreign currency, a movement in exchange rates may have an effect which may be either favourable or unfavourable on the investment, which effect may be separate from the gain or loss otherwise experienced on such investment.

### Investments not readily realisable

Cadogan may purchase investments and other assets for the Portfolio which are not readily realisable, which means that there is no recognised market for them. It may therefore be difficult to deal in such investments or to obtain reliable information about their value or the extent of the risks to which they are exposed.

### Smaller Companies/Penny Shares

Cadogan may invest the Portfolio in smaller companies and/or penny shares. Investment in some smaller companies including penny shares involves extra risk of losing money. There is often a big difference between the buying price and selling price of such securities. Liquidation of such investments may result in the realisation of much less than their acquisition cost. The value of such investments may be subject to volatility and may go down as well as up.

### Foreign Markets

Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater. On request, Cadogan must provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including the extent to which it will accept liability for any default of a foreign firm through whom it deals. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

### Warrants and Derivatives Risk Warning Notice

This notice is provided to the Client, if the Client is a Retail client in compliance with the rules of the FCA. Retail clients are afforded greater protections under these rules than other clients are and the Client should ensure that Cadogan tells them what this will mean to them. This notice cannot disclose all the risks and other significant aspects of warrants and/or derivative products such as futures, options, and contracts for differences. The Client should not deal in these products unless it understands their nature and the extent of its exposure to risk. The Client should also be satisfied that the product is suitable for it in the light of its circumstances and financial position. Certain strategies, such as a ‘spread’ position or a ‘straddle’, may be as risky as a simple ‘long’ or ‘short’ position.

Although warrants and/or derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments the Client should be aware of the following points;

***Warrants***

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless.

The Client should not buy a warrant unless it is prepared to sustain a total loss of the money it has invested plus any commission or other transaction charges. Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a ‘covered warrant’).

***Off-exchange Warrant Transactions***

Transactions in off-exchange warrants may involve greater risk than dealing in exchange traded warrants because there is no exchange market through which to liquidate the position, or to assess the value of the warrant or the exposure to risk.

Bid and offer prices need not be quoted, and even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

***Futures***

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The ‘gearing’ or ‘leverage’ often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of an investment, and this can work against the Client as well as for it. Futures transactions have a contingent liability, and the Client should be aware of the implications of this, in particular the margining requirements, which are set out in numbered paragraph 8 of this risk warning notice.

***Options***

There are many different types of options with different characteristics subject to the following conditions:-

***Buying Options***

Buying options involves less risk than selling options because, if the price of the underlying asset moves against the Client, it can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if the Client buys a call option on a futures contract and it later exercises the option, it will acquire the future. This will expose the Client to the risks described under ‘Futures’ and ‘Contingent Liability Investment Transactions’.

***Writing Options***

If the Client writes an option, the risk involved is considerably greater than buying options. The Client may be liable for margin to maintain its position and a loss may be sustained well in excess of the premium received. By writing an option, the Client accepts a legal obligation to purchase or sell the underlying asset if the option is exercised against the Client, however far the market price has moved away from the exercise price. If the Client already owns the underlying asset which it has contracted to sell (when the options will be known as 'covered call options') the risk is reduced. If the Client does not own the underlying asset ('uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

***Traditional Options***

Certain London Stock Exchange member firms under special exchange rules write a particular type of option called a 'traditional option'. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation the Client may subsequently be called upon to pay margin on the option up to the level of its premium. If the Client fails to do so as required, the position may be closed or liquidated in the same way as a futures position.

***Contracts for Differences***

Futures and options contracts can also be referred to as contracts for differences. These can be options and futures on the FTSE 100 index or any other index, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and the Client should be aware of these as set out in numbered paragraphs 3 and 4 respectively of this risk warning notice. Transactions in contracts for differences may also have a contingent liability and the Client should be aware of the implications of this as set out in numbered paragraph 8 of this risk warning notice.

***Off-exchange Transactions in Derivatives***

It may not always be apparent whether or not a particular derivative is arranged on exchange or in an off-exchange derivative transaction. Cadogan must make it clear to the Client if the Client is entering into an off-exchange derivative transaction.

While some off-exchange markets are highly liquid, transactions in off-exchange or 'non- transferable' derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may 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. Bid prices and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

***Contingent Liability Investment Transactions***

Contingent liability investment transactions, which are margined, require the Client to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If the Client trades in futures contracts for differences or sells options, the Client may sustain a total loss of the margin deposited to establish or maintain a position. If the market moves against the Client, it may be called upon to pay a substantial additional margin at short notice to maintain the position. If the Client fails to do so within the time required, its position may be liquidated at a loss and the Client will be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when the Client entered the contract.

Save as specifically provided by the FCA, Cadogan may only carry out margined or contingent liability transactions with or for the Client if they are traded on or under the rules of a recognised or designated investment exchange. Contingent liability investment transactions which are not so traded may expose the Client to substantially greater risks.

***Limited Liability Transactions***

Before entering into a limited liability transaction, the Client should assess the extent of the loss liability on each transaction.

The amount the Client can lose in limited liability transactions will be less than in other margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of the loss will be subject to an agreed limit, the Client may sustain the loss in a relatively short time. The Client's loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

## Collateral

If the Client deposits collateral as security with Cadogan's custodian, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of the Client's collateral, depending on whether the Client is trading on a recognised or designated investment exchange, with the rules of that exchange (and the associated clearing house) applying, or trading off-exchange. Deposited collateral may lose its identity as the Client's property once dealings on its behalf are undertaken. Even if the Client's dealings should ultimately prove profitable, the Client may not get back the same assets which it deposited, and may have to accept payment in cash. On request Cadogan will provide the Client with a statement detailing how its collateral will be dealt with.

## Fees and Commissions

Before the Client begins to trade, it should obtain details of all commissions and other charges for which it will be liable. If any charges are not expressed in money terms (but, for example, as a percentage of contract value), the Client should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of the Client's initial payment. Cadogan will provide these on request.

**Suspensions of Trading**

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit the Client's losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

**Clearing House Protections**

On many exchanges, the performance of a transaction by Cadogan's custodian (or third party with whom it is dealing on the Client's behalf) is 'guaranteed' by the exchange or clearing house. However, this guarantee is unlikely in most cases to cover the Client, and may not protect the Client if Cadogan's custodian or another party defaults on its obligations to the Client. On request, Cadogan must explain any protection provided to the Client under the clearing guarantee applicable to any on-exchange derivatives in which the Client is dealing. There is no clearing house for traditional options, nor normally for off-exchange instruments which are not traded under the rules of a recognised or designated investment exchange.

**Dealing in Securities which may be subject to stabilisation**

(This statement complies with the rules of the FCA)

Cadogan or its representatives may, from time to time, recommend transactions in securities to the Client, or carry out such transactions on the Client's behalf, where the price may have been influenced by measures taken to stabilise it.

You should read the explanations below carefully. This is designed to help the Client judge whether the Client wishes its funds to be invested at all in such securities and, if the Client does, whether the Client wishes:

(1) to be consulted before Cadogan carries out any such transaction on its behalf; or

(2) to authorise Cadogan to carry out any such transaction on its behalf without first having to consult the Client.

*What is stabilisation?*

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it.

The FCA allows stabilisation in order to help counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found.

Stabilisation is being carried out by a 'stabilisation manager' (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilising manager follows a strict set of rules, it is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

*The Stabilisation Rules:*

1. limit the period when a stabilising manager may stabilise a new issue;
2. fix the price at which he may stabilise (in the case of shares and warrants but not bonds); and
3. require it to disclose that it may be stabilising but not that it is actually doing so.

The fact that a new issue or a related security is being stabilised should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.