European Markets in Financial Instruments Directive (MiFID)

Information for retail (private) clients of Banque Degroof Petercam ("the Bank")
November 2017

Degroof Petercam

European Directive 2004/39/EC, which came into force in 2007, has been replaced by Directive 2014/65/EU on Markets in Financial Instruments (hereinafter “the Directive”) and the various delegated regulations relating to it (hereinafter referred to together with the Directive as “MiFID II”) which is set to come into force on 3 January 2018 for all financial institutions (credit institutions, investment firms, portfolio management companies, etc.) providing investment services in the EU.[1]

MiFID II governs a very wide range of transactions in the field of finance, and in particular transactions involving financial instruments, investment advisory services and wealth management.

The purpose of this brochure is to inform you of the main provisions of the Directive affecting your relations with the Bank. It also aims to provide you with certain information required by MiFID II and not contained in the Operating Regulations, Schedule of Charges or specific agreements we may have entered into.

We recommend you read the following information carefully.

The information found in this brochure completes, but does not alter, the terms of business, prices and the particular arrangements you may have agreed with the Bank.

[1]The Bank has been approved as a credit institution by the FSMA (Financial Services Market Authority). Further information on this approval is available from the Bank or on the FSMA’s website www.fsma.be.

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PART ONE

MiFID: what does it involve?

The Directive involves a number of changes in your relations with the Bank. The main ones are as follows:

A REGIME TAILORED TO EACH CATEGORY OF CLIENT

The Bank has always been committed to providing a personalised service to its clients, tailored to their particular situation. This strategy in some ways anticipated MiFID II, which obliges financial institutions to treat their clients in a manner appropriate to their situation, particularly in terms of their experience and knowledge of financial matters.

To this end, MiFID II obliges financial institutions to **classify their clients into categories**, namely retail clients[2], professional clients and eligible counterparties, and to apply to these clients a regime suited to their category. The distinction among these categories is based on the client's experience and knowledge of financial matters: the professional clients and eligible counterparties categories are reserved to clients with experience and in-depth knowledge of finance matters, justifying a lower level of information and protection in the context of their financial transactions. The retail clients category is reserved to clients with more limited experience and knowledge of financial matters warranting a higher level of information and protection.

MiFID II obliges financial institutions to **inform their clients of the category** in which they have been placed (retail, professional or eligible counterparty). The category in which the Bank has placed you can be found in Part Two of this brochure (see "Category Applied").

MORE INFORMATION TO CLIENTS

MiFID II imposes tougher obligations on financial institutions to provide information to their clients, particularly as regards costs and charges. Much of the information required by MiFID II has already been provided to you, notably through our General Operating Regulations, the Schedule of Charges, any specific agreements entered into and the various reports and statements. The additional information required is provided to you in this brochure.

TRANSACTIONS APPROPRIATE TO THE CLIENT'S KNOWLEDGE AND PROFILE

When a financial institution gives investment advice to its clients or offers them portfolio management services, it may not decide to carry out transactions or give advice on transactions unless such transactions are appropriate to its clients' financial situation, including their capacity to bear losses, their objectives, their propensity to take risks and their real knowledge and experience in financial matters, all of which is to be established by means of a suitability assessment.

[2]The retail client category is as defined in the Directive.

When a retail client gives a financial institution an order relating to a financial instrument classified as complex, even in the absence of investment advice, MiFID II obliges the institution to check whether the client has sufficient knowledge and experience to understand the risks associated with the transaction (appropriateness test) and to warn him if the order is not appropriate for him.

It is in order to fulfil these obligations that the Bank collects information from all its clients enabling it to define their investment profiles, and for this reason it is in clients' interests to provide accurate and up-to-date information. Without this information the Bank will not even be able to provide investment advisory or portfolio management services.

INVESTMENT ADVICE

MiFID II distinguishes between independent and non-independent investment advice. When a financial institution provides investment advice to its clients, it is obliged to inform them whether or not this advice is provided on an independent basis. This information will generally be set out in such specific agreements as we may have entered into.

EXECUTION OF ORDERS

The Directive requires financial institutions to take all reasonable steps when executing orders for transactions involving financial instruments to obtain the best possible result for their clients taking into account a number of factors such as price, cost, speed, likelihood of execution, size and nature of the order.

It also requires financial institutions, before executing orders involving financial instruments, to establish an order execution policy in which they explain how they intend to fulfil their obligations in this respect.

The information required by the Directive on the Bank's order execution policy is provided in Part Two of this brochure (see "Order Execution Policy for Financial Instruments").

PART TWO

Information required by MiFID II[3]

1. Category applied

In view of the information in our possession, we consider you as belonging to the category of retail clients[4] and will therefore apply the regime appropriate to this client category unless you inform us otherwise.

You are authorised to ask to be assigned to a different category, in your case that of professional client.

However, such change, which is subject to the Bank's prior written agreement and your meeting the objective criteria defined by the law, automatically entails your losing all the protection reserved by MiFID II to the retail client category.

Please contact your relationship manager if you wish to proceed in this way.

[3]As stipulated in Part One of this brochure, the following information is limited to such information as has not already been made available by means of our Operating Regulations or such specific agreements as you may have entered into with the Bank.
[4]As mentioned in Part One of this brochure, the retail client category is as defined in the Directive.

2. Nature and specific risks of the main financial instruments

This section, in accordance with the Directive, provides you with general information about the characteristics of the main financial instruments and their inherent risks. More specific information may be obtained on request from your relationship manager.

2.1. Fixed income investments

DEPOSITS AND SAVINGS BONDS

DEFINITION

- **Deposit** means deposits of funds with financial institutions, with or without interest, whereby the financial institution concerned has the right to use the funds in its business but is responsible for returning them to the depositor and providing the depositor with a cash service. A distinction is made among sight deposits, term deposits and notice deposits, in both euros and foreign currency.

- **Savings bonds** are bearer securities representing a claim on a credit institution, issued on tap by such institutions, usually in minimum denominations of €200. Their term is generally from one to five years, but can sometimes be ten years or more. The following are the main types (the list is not exhaustive):

  - Ordinary savings bonds, the rate of which is invariably established at the time of issue.
  - Savings bonds with a progressive interest rate, for which the subscriber has the periodic option of redeeming the bond, it being understood that the longer it is held, the higher the interest.
  - Growth certificates which, upon each maturity, offer the choice between capitalisation or payment of interest.
  - Capitalisation certificates, for which the capitalisation of interest is compulsory.

RISKS

Exchange risk for investments denominated in foreign currencies (movement of exchange rates relative to the reference currency) which will influence the return on investment.

Risk of bankruptcy of the financial institution acting as custodian of your assets or of the issuer of the savings bond.

MONEY MARKET SECURITIES

DEFINITION

- **Belgian treasury certificates** are short-term (maximum one-year) book-entry debt securities issued by auction by the Belgian Finance Ministry. They are ideal for professional investors. Retail investors can also acquire them on the secondary market.

- **Belgian government bonds** are debt securities with a term of three, five, eight or ten years, issued by the Belgian Finance Ministry at interest rates that are either fixed or revisable, but in the latter case generally with a guaranteed minimum. Only private individuals can subscribe to them. The minimum subscription amount is €200.

  Thanks to the National Bank of Belgium's X/N settlement system, any natural or legal person can hold them. The settlement system makes a distinction between holders liable for withholding tax and exempt holders.

- **Commercial paper** consists of debt securities issued by companies and certain public authorities (State, Communities, Regions, provinces, etc.) both Belgian and foreign. Their minimum amount is €1,000 or the foreign currency equivalent.

- **Certificates of deposit** are debt securities issued by Belgian credit institutions or foreign credit institutions operating in Belgium. Their minimum amount is the same as for commercial paper.

RISKS

Exchange risk for treasury bonds, commercial paper and certificates of deposit denominated in foreign currency (movement in exchange rates relative to the reference currency) which will influence the return on the investment.

Risk of capital loss in the event of sale of a security on the secondary market prior to its maturity.

Risk of bankruptcy of the issuer in the case of commercial paper and certificates of deposit (non-payment of interest and non-repayment of the capital invested).

Illiquidity risk, especially for commercial paper and certificates of deposit, if the secondary market for the securities concerned is thin.

DEFINITION

A **bond** is a debt security issued by a legal person (government, company, etc.) for a particular duration (generally more than a year) and a specific amount.

The issue, transaction or redemption price of a bond may be equal to or more or less than its nominal value, depending on whether the bond is issued at par or above or below par. Some bonds can be redeemed early, generally at the issuer's initiative.

The main types are as follows (the list is not exhaustive):

- **Fixed rate bonds**: bonds with a fixed rate of interest defined by reference to the nominal value of the bond.
- **Revisable rate bonds**: on which the interest rate is not fixed definitively but can be revised (nearly always subject to a floor rate).
- **Variable rate bonds**: bonds on which the interest rate varies at dates and in accordance with parameters defined at the time of issue (often with a guaranteed minimum rate).
- **Bonds with warrants** entitling their holders to subscribe to or acquire one or more shares or bonds: bonds carrying a right (warrant) entitling their holder to acquire or subscribe, during a specified period, a share or bond of the issuer of the warrant or of another company, at a price generally set in advance. The prices of the bond and of the attached warrant are often listed separately.
- **Convertible bonds** and "**reverse convertibles**": bonds which may at the holder's request be converted into new shares of the company at the end of a certain period or at a specified date. The conversion of the bond into a share may require, in certain cases, the payment of a balancing amount to the issuing company. In the case of a reverse convertible, the conversion is made at the initiative of the issuer.
- **Zero coupon bonds**: bonds not giving rise to the payment of periodic interest but the redemption price of which is higher than the issue price.
- **Subordinated bonds**: bonds in respect of which the holder accepts, in case of bankruptcy, liquidation or any other insolvency situation affecting the issuer's assets, to be repaid (and/or be paid interest) after the creditor's unsubordinated creditors.
- **Ordinary linear bonds (OLO in the French abbreviation)**: fixed-income book-entry securities issued by the Belgian government by auction, in minimum denominations of €1,000, and at terms varying between three and twelve years. Only certain categories of persons can subscribe, principally professionals in the finance sector. After having subscribed to the linear bonds, these professionals are responsible for ensuring their promotion and distribution to the public (individuals, companies etc.).

- **Eurobonds**: bonds issued by public authorities or private companies, outside their domestic markets, in currencies other than that of the borrower. These bonds are generally placed with the investing public by an international syndicate of financial organisations. As with other bonds, there are different types of eurobonds (convertible eurobonds, eurobonds with warrants, with foreign exchange options, floating rate, zero coupon, etc.)

RISKS

Risk of non-payment of interest and/or of the capital invested depending on the debtor's solvency. This risk is greater when the bond is subordinated.

Risk of capital loss if the bond is sold in the secondary market before its maturity.

Exchange risk for eurobonds and bonds denominated in foreign currencies.

Risk of illiquidity if the secondary market for the bonds concerned is a narrow one.

ISSUER'S RATING

The majority of issuers of bonds receive a credit rating from one or more of the independent rating agencies (Moody's, Standard & Poor's, Fitch, etc.)

This rating indicates an assessment of the issuer's solvency. The higher the rating (e.g. AAA), the lower the risk of non-reimbursement. Over the course of the bond's life the rating is subject to review by the rating agencies in the light of economic and financial circumstances affecting the issuer's solvency.

Ratings below Baa3 or BBB- are considered as speculative and may go to Ca or C (issuer has defaulted on repayment; some hope of recovery).

2.2. Variable-income investments

SHARES (OR EQUITIES)

DEFINITION

A **share** is a co-ownership security representing a certain share in the capital of a Belgian or foreign company and entitling its holder, in proportion to his shareholding, to receive any dividends distributed by the company and, except if otherwise stipulated in the Articles of Association, to vote at the general meetings of shareholders, often in proportion to his shareholding in the company.

RISKS

Risk of absence of income, given that dividends represent variable income, which depends on the profitability of the company and its dividend policy.

Risk of volatility of stock market prices due to both the management of the company and the economic and financial context.

Risk of bankruptcy of the company issuing the shares.

Exchange risk for foreign shares.

Liquidity risk if the secondary market for the shares is thin.

UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCIs)

DEFINITION

Undertakings for Collective Investment are undertakings which take one of the following forms:

- ***fonds communs de placement*** (collective investment scheme or mutual fund),
- **investment company** (incorporated as a company),

and are made up of:

- either a variable number of units, the entity being obliged in this case to accept participants' requests for issue or redemption of units, based on their net asset value (open-ended collective investment fund or SICAV),
- or a fixed number of units, participants being obliged in this case, when wishing to sell their units, to find an acquirer (closed-end collective investment fund or SICAF).

Undertakings for collective investment are managed by specialists and invest mainly, depending on the provisions of their issue prospectuses, in shares, bonds, other financial instruments (particularly shares or units of other UCIs), receivables (SIC closed-end investment funds in receivables) or real estate (SICAFI fixed-capital real estate investment trusts).

Depending on how the income is to be allocated, shares or units in UCIs take the form either of distribution shares or units (dividends are distributed to shareholders or unitholders) or capitalisation (also referred to as accumulation) shares or units (dividends are capitalised or accumulated, i.e. reinvested.)

RISKS

Risks identical in principle to those **associated with shares, bonds and other categories of investments** in which the UCI invests, although in principle the diversification of the UCI's investments mitigates the risks run.

Liquidity risk in the case of UCIs with a fixed number of shares or units if the secondary market for the shares or units of the UCI concerned is thin.

Structured products

DEFINITION

Structured products is the term used for financial instruments that in most cases are made up of a combination of several other financial instruments, notably options, the yield on which (received in the form of capital gain and/or interest) depends on the development of, as the case may be, indices, financial instruments, currencies, commodities or other underlying securities.

RISKS

Risks (capital loss, volatility, exchange, etc.) **linked to the type of underlying** forming the product.

Risk of bankruptcy of the issuer of the structured product. Where financial instruments are used to construct a product, the risk of loss and/or gain can be modelled upwards or downwards relative to a direct investment in the underlying security.

Liquidity risk if the secondary market for the product concerned is thin.

Warrants:

DEFINITION

Warrants are securities giving the holder the right to buy or subscribe to a specified number of shares or bonds of a particular company, at a date and price generally set in advance. The characteristics of warrants are very similar to those of options (see below).

RISKS

Risk of price volatility during the life of the warrant, which is a speculative investment instrument.

Risk of loss identical to that of an option, except that in the case of a warrant the risk of loss is always limited to the amount of capital invested.

Risk of bankruptcy of the issuer of the warrant.

Liquidity risk if the secondary market for the warrant concerned is thin.

Forward foreign exchange contracts

DEFINITION

The **forward foreign exchange contract** is a contract to buy or sell foreign currency at a date and price set at the time of entering into the contract. The payment is made only on delivery of the currencies.

There is no organised market for forward foreign exchange contracts, so these transactions are governed exclusively by over-the-counter agreements entered into by the parties.

The characteristics of a forward foreign exchange contract are similar to those of a future (see the heading "Futures" below).

In the context of non-speculative management, forward foreign exchange contracts make it possible to hedge an investor's portfolio against possible exchange risks, in return for a limited risk.

They can also be used for more speculative purposes, to take advantage of exchange rate fluctuations, but may in this case entail higher risks.

RISKS

Risk of loss linked to how and for what purpose the forward foreign exchange contract is used (see above).

Risk of bankruptcy of the counterparty.

Liquidity risk in the sense that, in the absence of an organised market, the investor is unable to sell his forward foreign exchange contract or to liquidate his position in advance, other than by agreement with his counterparty, in contrast with futures (see hereunder).

Swaps

DEFINITION

A distinction is generally made between currency swaps and interest rate swaps.

The **currency swap** is a contract whereby two parties agree to exchange principal amounts denominated in different currencies at maturities determined at the time of signing the contract.

The ***Interest Rate Swap*** is a contract whereby two parties agree to pay, at due dates fixed at the time of signing the contract, interest calculated differently on the same amount “notional amount”. The swap relates generally to amounts of interest calculated on the basis of a fixed rate and a floating rate.

Different variants are possible, for example parties can agree to swap at the same time capital amounts denominated in different currencies and interest calculated in different ways on these principal amounts (interest rate currency swap). There is no organised market for swap contracts, so as with forward foreign exchange contracts, these contracts are governed exclusively by over-the-counter agreements made by the parties.

Swap contracts can be used for various purposes.

Within the scope of a non-speculative management strategy, they can be used, with limited risk, to hedge a portfolio against possible risks of fluctuations in interest rates.

They can also be used for more speculative purposes, to take advantage of interest rate fluctuations, but may in this case entail higher risks.

RISKS

Risk of loss linked to how and for what purpose the swap contract is used (see above).

Risk of bankruptcy of the counterparty.

Liquidity risk in the sense that, in the absence of an organised market, the investor is unable to sell his interest rate swap contract or to unwind the resulting position other than by agreement with his counterparty.

Private equity and private equity funds

DEFINITION

The term private equity covers a variety of types of investment, the point in common being the fact that they are private, that is to say not listed on an organised market, not very liquid, difficult to sell before expiry and usually requiring long-term investment (seven to ten years or even more). The purpose of this type of investment is generally to obtain high returns, but the risk of loss is also high, with losses sometimes as high as 100% of amounts invested.

Private equity funds

Typically, private equity funds invest in a series of unlisted companies, pursuing a predetermined investment strategy in accordance with a number of predefined parameters. Investors in such a fund commit to contribute capital up to a certain amount specific to them which they will be called upon to pay in by the manager as and when it makes the investments. Distributions to investors are also spread over time in accordance with the sales carried out by the fund. A private equity fund generally benefits from a degree of diversification within any given strategy, since the manager deploys the capital through a portfolio comprising several investments.

The strategies most commonly encountered are buy-out, venture capital, growth capital, secondary funds and co-investment funds. There are also private equity funds specialising in private debt, turnarounds, infrastructure, real estate, etc. These strategies are distinguished by their cash-flow and risk profiles.

Buy-out strategy

This strategy consists in a fund's acquiring a controlling interest in a company, or at least a significant equity stake, with certain rights and influence on the company's management. By playing the role of professional active shareholder, the fund aims to sustain or boost the development of the target company and later sell it with a capital gain. The value creation comes from the growth in revenue and cash-flows of the target company, but also often from the ability to repay the initial acquisition debt (leveraged buy-out).

Co-investment strategy

This strategy consists of co-investing alongside private equity funds (usually buy-out funds) as minority partner in one or more of their investments. Certain private equity managers have developed funds that deploy their investors' capital exclusively in this way, with multiple partnerships with a series of managers of different funds within the same portfolio.

Secondary private equity strategy

This strategy consists in acquiring existing positions in private equity funds from certain private equity investors, usually several years after the launch of the funds, when they have already largely established their investment portfolios.

Direct investment in private equity

The acquisition of an equity stake in an unlisted company also falls under the concept of private equity in its broadest sense. However in this case it is usual to refer to direct private equity. It may also be in the form of a co-investment, when an investor takes part in such a transaction alongside one or more partners. The risk profile of these investments depends on the type of involvement sought and the degree of development of the target company (taking control of a company, often in collaboration with its management, capital injection for a start-up, managing succession for a family firm, etc.)

By its nature, private equity is basically for qualified investors with significant assets allowing them to carry these relatively illiquid investments over long periods and to bear losses.

RISKS

Risk of loss linked to how the investments evolve (see above).

Risk of bankruptcy of the companies invested in.

Liquidity risk in the sense that, in the absence of an organised market, the investor cannot sell his units except with the agreement of a buyer and the fund manager.

Real estate certificate

DEFINITION

A **real estate certificate** is a transferable security giving its holder a claim on the income generated by a real estate investment (income from the letting of the building and any capital gain on its sale). Without being *sensu stricto* a legal co-owner of the building, the certificate holder is effectively an economic co-owner.

RISKS

Risk of unpredictable capital gain or reimbursement by reason of the lack of guarantee as to the maturity date and the net sales proceeds of the property right(s) underlying the real estate certificate.

Risk of fall in income in the event that the asset underlying the real estate certificate cannot be let and/or in the case of an increase in the costs (property or financial) borne by the company issuing the certificate.

Liquidity risk if there is no secondary market or if such market is thin.

Interest rate risk if rates are higher than the current yield on the certificate (coupon).

Gold

DEFINITION

Gold is the precious metal most used for investment purposes, generally acquired in the form of ingots, coins or ounces of gold.

RISKS

Risk of price volatility linked to macroeconomic, financial and geopolitical developments.

Exchange risk: the price of gold usually being set in US dollars on the world markets.

Income risk: total lack of income/return.

DEFINITION

The term “**hedge fund**” covers a variety of investment vehicles with as a point in common their pursuit of non-traditional investment strategies aimed at achieving an absolute performance, i.e. independent of the general economic climate or trends in the underlying sector. Depending on its management strategy (see below), a hedge fund can invest in equities, bonds, commodities, liquid assets, as well as leverage instruments such as futures options and short selling of assets.

For many years hedge funds were reserved to institutional investors. However alternative management, as hedge funds are also referred to, has gradually become accessible to private individual investors through funds of funds managed by professionals.

The degree of risk attaching to an investment in a hedge fund is linked to its management strategy. In certain cases the level of risk may be much higher than that associated with an investment in other UCIs (see above). Furthermore, hedge funds are much less liquid.

Among the numerous strategies available, we may mention three, each of which generates different risks in terms of performance and volatility:

Relative value strategy

This strategy seeks to take advantage of any dysfunctional pricing of a particular financial instrument (equity, convertible bond, option, etc.) Quantitative or qualitative analyses are used to identify financial instruments whose price deviates from the fair value or historical norm. Relative value strategies generally exhibit low levels of volatility and are therefore less risky.

Event-driven strategy

This strategy seeks to profit from particular situations affecting certain companies which offer short-term opportunities for gain. Such special situation can be, for example, public takeover bids for cash or shares, management buy-ins/buy-outs, or other similar events that temporarily affect the price of a company’s shares.

Opportunistic strategy

This generally aggressive strategy seeks to achieve gains by investing in all types of assets and trading on all types of markets, buying or selling short and frequently using leverage. Opportunistic strategies are among the most volatile and therefore the most risky. Funds of hedge funds for non-professional clients generally follow a low volatility management objective and seek a relatively stable return over time by spreading their assets among different hedge fund strategies.

Putting very specific investment strategies in place through hedge funds often leads to relatively high charges (including performance fees).

RISKS

Volatility risk linked to the underlying assets and the management techniques used (short selling, leverage, etc.)

Risk of loss linked to the way the hedge fund is managed. The diversification inherent in funds of hedge funds mitigates this risk in principle.

Liquidity risk: generally these funds can be redeemed only at fixed intervals (minimum one month), sometimes subject to prior notice or “gates” (barriers to exit if too many assets are required for reimbursement at the same time).

Counterparty risk: a hedge fund may fall victim to the failure of other parties with which it has entered into commitments.

Exchange risk: hedge funds active in foreign currencies may be highly volatile as a result of leverage.

Options

DEFINITION

An **option** is a right, but not an obligation, to buy (a buy or “call” option) or sell (a sell or “put” option) at a given price (the “exercise price” or “strike price”) a specified number of underlying assets (shares, foreign currencies, commodities, indexes, etc.) during a specified period (American-type option) or at a specified date (European-type option). The buyer of the option pays a premium to the seller. This premium is based notably on the maturity and the strike price of the option, and on the price and volatility of the underlying asset.

There are two ways in which options can be exercised - physical delivery of the underlying asset, or delivery of the cash corresponding to the payment of the difference (if it is positive) between the value of the index on exercise date and the strike price.

For a small investment, options allow you to take quantitatively substantial positions. This **leverage effect** explains why a relatively small market movement will have a proportionally larger impact on the investor’s portfolio.

This leverage will either multiply the gains of the investor, or multiply its losses if market fluctuations go against its expectations.

For all listed options, notably those listed on the BXS Derivatives market, the writer (seller) is required to provide a margin. For any issue (sale) of an option, the investor must provide an initial margin, in cash or in securities, representing a percentage of the value of the contract issued. The option is revalued at the end of each trading day and, depending on the development of the market, the writer (seller) of the option may be required to provide additional margin. If the investor does not pay in the additional margin required, the intermediary may close its position.

Degroof Petercam requires all clients entering into OTC contracts to provide a margin in cash or securities to cover the risk of the position. The amount of this margin is calculated by the risk management at the time the option is issued.

Options can be used for a number of purposes.

[5] The particular risks and conditions applying to transactions involving derivative instruments are more fully described in the specific agreement governing transactions involving derivative financial instruments, as well as, for clients who have signed a portfolio management contract with the Bank, in the appendix to the asset management contract specific to derivatives.

In the context of non-speculative management, options allow an investor to hedge a portfolio against possible fluctuations, limiting the risk of loss strictly to the price paid for the option.

They can also be used for more speculative purposes, to profit, for a small investment, from fluctuations in the underlying asset. In this case, because of the leverage effect (see above), options can give rise to larger risks than those associated with equities or bonds. The risks associated with short selling options (transactions in which the underlying asset is not held) are in theory limitless.

RISKS

Risk of price volatility, options being speculative investment instruments.

Risk of loss linked to how and for what purpose the option used (see above). The leverage effect can multiply the losses when the fluctuations in the price of the underlying asset go against the expectations of the investor.

Option buyer's risk limited to the premium paid for the option.

Option seller's risk theoretically unlimited.

Liquidity risk if the secondary market for the option concerned is thin.

Futures

DEFINITION

A **future** is a contract to buy or sell an underlying asset (shares, bonds, foreign currencies, commodities, indexes, etc.) at a date and price specified when entering into the contract. The underlying assets are paid for only upon delivery.

Futures enable an investor to take large positions in return for a small investment. This **leverage effect** explains why a relatively small market movement will have a proportionally larger impact on the investor's portfolio. This leverage effect can multiply the investor's gains, but it can also multiply his losses, when the market fluctuates in the direction opposite to his expectations.

A margin system is imposed on buyers and sellers of futures on most organised markets. For all transactions (purchase or sale), the parties must provide an initial margin deposit, in cash or securities, representing a percentage of the value of the contracts purchased or sold. At the end of each day's trading, contracts are revalued, giving rise to additional margin calls or margin refunds depending on the movements in the price of the future in question. If the investor does not pay the additional margins required of him, the intermediary may close its position.

Futures can be used for a number of purposes.

Within the scope of a non-speculative management strategy, they can be used, with limited risk, to hedge a portfolio against possible fluctuations.

They can also be used, however, for more speculative purposes, to take advantage, for a small investment, of fluctuations in the underlying asset. In this case, because of the leverage effect (see above), futures can give rise to larger risks than those associated with equities or bonds. The risks associated with short selling of futures are in theory limitless.

RISKS

Risk of price volatility, the future being a speculative investment instrument.

Risk of loss linked to how and for what purpose the future is used (see above).

Liquidity risk if the secondary market for the future concerned is thin.

3. Policy for managing conflicts of interest

The purpose of this section is to inform you, in accordance with MiFID II, of the policy adopted by the Bank (hereinafter the “Policy”) on the management of conflicts of interest. You can request further information from the Bank.

3.1. Conflicts of interest covered

With its many years of experience in a number of areas in the financial sphere, the Bank offers its clients a full and integrated range of services in asset management and investment advice, financial advice and planning, UCI management, financial analysis, credit and the execution of security trading and investment orders. Our clients are private investors, institutional investors, listed or private companies and public investors.

The **possibility of conflicts of interest between the Bank** (its representatives, managers or other group companies) **and its clients or between clients of the Bank** is inherent in the Bank's parallel performance of competing services addressing a variety of clients with sometimes divergent interests.

For example, the Bank might grant credit or give advice to companies, while at the same time investing on behalf of its asset management clients in financial instruments (equities, bonds etc.) issued by these same companies. It might also be that the Bank advises its clients to invest in financial instruments issued by companies in which it has an interest, notably on the grounds that the Bank itself has a stake in these companies, or these companies are clients of the Bank or, in the case of UCIs, the assets of the UCIs are managed by the Bank or other companies in its group. The Bank's Financial Analysis department might also sometimes, subject to observing certain conditions, publish recommendations relating to the companies advised by the Bank, within the context of investments for example.

The parallel performance of such activities for clients with sometimes divergent interests requires **specific measures** to be taken **in order to prevent potential conflicts of interest where possible** and manage them when they do arise in a way that equitably respects the interests of the parties involved.

3.2. Main measures aimed at preventing and where necessary managing conflicts of interest

The Bank's Policy on conflicts of interest is based, in general terms, on the segregation of activities likely to lead to conflicts among them.

To this end, the Bank's activities are carried on by separate departments and even for certain activities by legally distinct entities.

Thus for example, a specific department of the Bank called Private Banking, has particular responsibility for managing retail (private) clients' assets and advising them on their investments, while another department called Institutional Portfolio Management has the exclusive responsibility of providing advisory and asset management services to institutional clients[6]. Advisory services to businesses and management of UCIs are performed by distinct entities, namely Degroof Petercam Corporate Finance and Degroof Petercam Asset Management respectively.

The management of each department or distinct company is carried out by a member of the management and where applicable its own decision making committee so that decisions can be taken autonomously.[7]

Thus the Private Banking and Institutional Portfolio Management departments referred to above, and the Credit department, are each managed by specific representatives and each have their own decision making committees composed of representatives of the department.

Whenever the activities carried out within any one department are likely to lead to conflicts of interest among them, **specific measures** can also be put in place within the department **with a view to ring fencing particular activities or transactions.**

This for example the Bank's trading room is organised into specific desks with clearly distinct activities with a view to preventing any conflicts.

This division into departments or subsidiaries finds expression above all in **physical segregation (separate premises) of the persons carrying out the activities concerned**, as well as in strict rules on confidentiality and the transmission and use of information in and among departments or group entities.

[6]Trading room, financial analysis and credit activities are also carried out by distinct departments. Operational, compliance, audit, risk management and legal advisory functions are also carried out in specific departments.

[7]It being understood that a collegiate body assumes the management at the highest level, this being inherent in the management of any company.

Specific measures are also taken to ensure that **representatives of the Bank (managers, employees and delegated agents) perform their activities in the clients' interests.** They regularly receive specific training on ethics, particularly when they first join the Bank. Specific limitations are imposed as regards transactions involving financial instruments on behalf of representatives of the Bank and their close relatives. Representatives of the Bank are notably prohibited from carrying out certain transactions which might compromise their independence (due to benefits obtained from third parties for example).

Other measures can also be adopted at specific departmental level with a view **to preventing or managing specific conflicts.**

Such is the case for example of the financial analysis department, which is subject to particular rules and its own code of ethics intended among other things to ensure the independence and objectivity of the members of this department.

Within the limits allowed by the law and regulations, the Bank may receive, directly or indirectly and retain remuneration and monetary or non-monetary benefits from third parties in connection with the provision of investment services or ancillary services within the meaning of Directive 2014/65/EU other than portfolio management. These remunerations and these benefits are justified by the ancillary services in the meaning of Commission Delegated Directive (EU) 2017/593 offered by the Bank to the clients concerned. On the same terms the Bank may also pay remuneration and monetary or non-monetary benefits to third parties should the need arise. It does not receive monetary or non-monetary benefits from third parties in respect of portfolio management services, or if it does it returns them to the clients concerned as soon as they are received.

In the aforementioned context, the Bank may be remunerated in monetary or non-monetary benefits by issuers or distributors of financial instruments in the context of the distribution of certain financial instruments. Exceptionally, it may also remunerate third parties who have contributed to business relations between the Client and the Bank being entered into or maintained. In either case, information is provided to the clients concerned, in accordance with Commission Delegated Directive (EU) 2017/593, before the service is provided and once a year, indicating individually the amount of benefits received or, in the case of minor non-pecuniary benefits, a generic description of the benefits received. The prior information relating to the monetary and non-monetary benefits received and/or paid by the Bank is shown in the schedule of charges booklet and its appendices which are sent to clients.

The ancillary services within the meaning of Commission Delegated Directive (EU) 2017/593 provided by the Bank and warranting the remuneration and monetary or non-monetary benefits received may consist, depending on the type of investment or ancillary service offered to the client, of one or more of the following services:

- an assessment, at least once a year, of the appropriateness of the client's portfolio to his profile and, if applicable, investment strategy. This service finds expression in the dispatch to the client, at least once a year, of a Periodic Appropriateness Report indicating the extent to which the products forming his portfolio are in accordance with his profile and, if applicable, investment strategy.

- the provision of access at a competitive price to a wide range of financial instruments capable of meeting the client's needs, including an appropriate number of appropriate instruments from providers of products without close links to the investment firm, rounded out by information tools allowing the client to track and evaluate his portfolio, such as in particular the provision of periodic reports on the performance of the financial instruments and on the associated costs and charges.

4. Order execution policy for financial instruments

PREAMBLE

MiFID II requires financial institutions to take all sufficient steps when executing transactions involving financial instruments on behalf of their clients **to obtain the best possible result** for their clients taking into account a number of factors such as price, cost, speed, likelihood of execution, size and nature of the order.

It also requires financial institutions, before executing orders involving financial instruments, to establish **an order execution policy** in which they explain how they intend to fulfil their obligations in this respect, in accordance with the provisions of Directive 2014/65/EU and more particularly Article 27.

The execution policy will be **deemed to have been accepted** by the client when the client gives the Bank an order for execution. Any client not wishing to accept this policy must without fail therefore, at the same time of the order, give a written instruction not to apply this policy to the point(s) specified by the client. Unless otherwise instructed, a specific instruction given for a particular transaction will apply only to that transaction, the client's other orders being deemed to have been transmitted for execution in accordance with this policy.

The acceptance and execution of orders relating to all financial instruments may be subject to any conditions imposed by the Bank. Where relevant, the execution conditions of certain particular transactions may be established within the scope of specific agreements.

CRITERIA FOR QUALITY OF EXECUTION

Within the limits provided by its execution policy, the Bank determines the parameters that it considers most appropriate to favour and/or to take into account in the context of the execution of any transaction – this comprises the price, the cost, the speed and likelihood of execution, the size and nature of the order, as well as any other parameter that might affect the quality or the total cost of the execution of the order. As regards retail clients, in accordance with the legal and regulatory requirements, the best possible result depends on the total price, taking account of both the price of the financial instrument and the costs associated with the execution of the transaction – which include any and all fees paid to third parties taking part in the execution of the order.

The Bank makes sure of the quality of execution obtained for its clients by means of various controls and reports.

INTERMEDIARIES

The Bank is not obliged to execute transactions entrusted to it by its clients itself. It may call on one or more intermediaries of its choosing whenever it considers this useful or necessary. Based on its experience, the Bank will select such intermediaries on a best quality of service basis.

A list of intermediaries that the Bank may use is available on our website. This list is not exhaustive, and the Bank reserves the right to choose other intermediaries whenever it sees fit, in accordance with this order execution policy and in the best interests of its clients.

EXECUTION VENUES

The Bank selects the execution venues that seem to it best placed to provide the best execution of orders on behalf of its clients having regard to the parameters provided.

A list of the execution venues selected by the Bank is also available on our website. Unless otherwise instructed by the client, clients' orders will be executed at these execution venues. The Bank nevertheless reserves the right to change the list at any time or to select other execution venues for certain particular orders in accordance with this policy and in its clients' best interests.

REVIEW AND UPDATE

The Bank regularly re-evaluates its order execution policy. In particular it evaluates its selection of intermediaries and execution venues at least once a year and whenever there is a significant change requiring either of these lists to be altered.

The complete version of the Bank's order execution policy for financial instruments and the lists of intermediaries and execution venues are available on our website or on request from your usual contact person in our institution.

The Bank bases its selection of execution venues and intermediaries on the following explicit criteria, in order of importance:

- Market share and liquidity, ensuring competitive prices and handling of the typical orders that the Bank wishes to execute on behalf of its clients;
- Performance of execution and consistency of quality of execution criteria (total costs, speed and likelihood of execution); and
- Resilience and reliability, guaranteeing stable and optimal execution results.

5. Charges

Clients are informed of the costs and charges associated with the investment services and products offered by means of the tariff booklet sent to clients at the start of the relationship and in the specific agreements and any tariff appendices thereto.

The provisions of the Operating Regulations, particularly as regards changes to scheduled charges, shall apply.

6. Tax regime applicable to income from movable assets, personal income tax and financial transactions

This section summarises the main features of the tax regime in force as at 1 January 2015 for Belgian tax residents subject to personal income tax. This information is merely a summary of the applicable tax provisions, which are subject to change at any time[8]. Clients are urged to study their particular tax situation with their usual advisers.

DIRECT TAXATION

Income from **movable property** received in the form of dividends and interest by natural persons resident for tax purposes in Belgium is taxable under personal income tax at the special rate[9] equal to the *précompte mobilier* (withholding tax on income from movable property). This includes interest received in the event of redemption or sale of units or in the event of liquidation:

- of a UCITS more than 25% of the assets of which are invested directly or indirectly in receivables or
- of a UCITS more than 10% of the assets of which are invested directly or indirectly in receivables providing the units have been acquired on or after 1 January 2018.

Withholding tax, which is definitive and in full discharge, is generally deducted by the Bank or the issuer at the time of the allocation or payment of the income. Where the tax due is not withheld by the issuer or the Bank, the beneficiary must declare the income in his tax return.

INDIRECT TAXATION

A **tax on stock exchange transactions** is charged upon the purchase or sale of financial instruments on the secondary market, and when its units are bought by a capitalisation SICAV[10].

A subscription tax on securities accounts at the rate of 0.15% is due once the valuation of the investor's assets invested in securities reaches €500,000.

[8]Clients are invited to contact their relationship manager in order to check whether there have been any changes in the laws and regulations on these various points.

[9]Income from capital and on movable property is taxed at 25%, with the notable exception of
- dividends distributed by the residential category of B-REITS;
- income from the regulated savings deposits referred to in Article 21 5) to the extent that it does not exceed the indexed amount of €1,250.00 per annum (€1,880.00 for the 2016 tax year);
- Income from savings bonds or term deposits offered by credit institutions to fund a "thematic citizen's loan" as referred to in the law of 26 December 2013 and providing such savings bonds or term deposits meet the criteria and conditions laid down by said law.

[10]Depending on the financial instruments concerned, the rate of tax on stock market transactions amounts to 0.09% (€650 maximum per transaction), 0.27% (€800 maximum per transaction) or 1.32% (€2,000 maximum per transaction).

7. Information on deposits

The Bank has produced an information document on its custody of financial instruments on behalf of its clients and the Deposits and Financial Instruments Protection Fund.

This document is available on our website www.degroofpetercam.be (under *Legal information/General Operating Regulations*) and on request from the Bank.

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