FTI Financial Services Limited

Risk disclosures

Introduction

FTI Financial Services Limited ("FTI") is a MiFID investment firm and is authorised and regulated by the UK Financial Conduct Authority ("FCA"). The Risk Disclosure is provided to you in accordance with the FCA Rules.

Different instruments involve different levels of exposure to risk and may therefore be more or less appropriate to your circumstances, objectives or risk appetite. Please note that this Risk Disclosure may not identify all of the risks and other significant aspects of the financial instruments in which we may provide the Services. You should not enter into a transaction in respect of any instrument unless you are satisfied that you understand its nature and the extent of its potential risk.

Equity and Debt Securities

Shares

A share is the right which a member of a company has to a certain proportion of the capital. When you buy a share, you become a part-owner or shareholder in the company. Most companies are limited by shares, thus you can limit your liability to the amount paid for (or owing on) the shares should the company fail or become insolvent. The price of a share can go up or down, and an investor may therefore lose its capital. The performance of a share may be influenced by a number of factors which are outside the control of the company from which the share is issued. Such risk factors may include the financial performance and prospects of the company, the performance and prospects for the industry in which the company operates, and financial and stock market conditions - particularly where the company operates or is listed.

There are different classes of shares, including ordinary shares, preference shares and deferred shares. The right of each class of share depends on the provisions of the memorandum and articles of association, or on the special resolutions of the company in question. The common class of shares are ordinary shares - which have no guaranteed amount of dividend but carry voting rights, and preference shares - which receive dividends (and/or repayments of capital on winding up) before ordinary shares but have no voting rights.

If the company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become difficult to dispose of. If shares have to be sold quickly, you may get back much less than was paid for them.

Bonds

A bond is a debt security in which the authorised issuer (equivalent to the borrower) owes the bond holder (equivalent to the lender) a debt. The issuer is obliged to repay the bond holder the principal and interest at the maturity date.

After maturity, the bond is redeemed and the issuer has no more obligations to the bond/certificate holders. The maturity can be any length of time, and bonds typically have a term of up to 30 years. The coupon is usually at a fixed rate throughout the life of the bond, although it can also vary with a benchmark or index.

The interest rate that the bond holder receives is influenced by a variety of factors, such as current market interest rates, the length of the term and the credit worthiness of the issuer. These factors are likely to change over time, so the market value of the bond can vary after it is issued.

Convertible bonds are debt securities issued in relation to a company that can be converted into an agreed quantity of the company's shares, usually at the discretion of the bondholder but otherwise at certain points during the term of the bond. In addition to risks generally associated with bonds, investors in convertible bonds are subject to the risks of shares.

Debentures

A debenture is a form of debt instrument, usually given by an incorporated company in favour of a creditor, and which provides the creditor with security over the whole or substantially the whole of a company's assets and undertaking. There are two main types of debentures - fixed charge debentures and floating charge debentures. Fixed charge debentures are secured against the fixed assets of the company. The advantage of fixed charges is that where there is a transfer of the debenture to a third party, it can be effected for a fixed sum without stopping the running account of the company. On the other hand, a floating charge is a charge taken over all the assets or a class of assets owned by a company from time to time as security for borrowings or other indebtedness. With a floating charge, charged assets can be bought and sold during the course of a company's business without reference to the debenture holder. A floating charge crystallises if there is a default or similar event by the company. At that stage the floating charge is converted to a fixed charge over the assets which it covers at that time.

Whether you decide to take as security for a debenture a fixed or floating charge becomes a significant risk in a company's insolvency proceedings. A liquidator is under a duty to distribute assets to the creditors in a fixed order; therefore, creditors with registered fixed charges are entitled to payment from the secured assets before those assets are used for any other purpose. Creditors with registered floating charges would rank after the payment of secured fixed creditors, after the payment of the costs of winding up, and after preferred creditors. Priority between holders of floating charges over the same assets is similarly determined by the dates of execution and registration.

Distressed Debt

Distressed debt describes debt issued by companies that are either already in default, in distress or heading toward such a condition. Historically, distressed debt has traded at discounts to a rational assessment of their risk-adjusted value for a number of reasons. For example, banks or institutional investors often have constraints that prevent them from investing in such circumstances.

When companies enter a period of financial distress, the original holders often sell the debt to a new set of buyers. Investors in distressed securities often try to influence the process by which the issuer restructures its debt, narrows its focus, or implements a plan to turnaround its operations. Investors may also invest new money into a distressed company in the form of debt or equity. Investors in distressed securities must typically make an assessment not only of the issuer's ability to improve its operations but also whether the restructuring process (which frequently requires court supervision) might benefit one class of securities more than another.

Derivatives Instruments

Options

An option is a derivative contract which gives the holder the right to perform a specified transaction with the other party to the contract, but does not place an obligation on the holder to perform the transaction. The future payoffs relating to an option are determined by the price of another security or asset.

A “call” option gives the investor the right to buy at the agreed price at any time between the date of the option and its expiry date. A “put” option gives the investor the right to sell at the agreed price between the date of the option and its expiry date. Buying options is generally less risky than selling them as a decision can be made to simply allow the option to lapse if the price of the underlying asset becomes unfavourable. The maximum loss to an investor is the premium on the option and any commission or other transaction charges. However, if a call option is bought on a futures contract and later exercised, the future will be acquired, which will in turn leave an exposure to risks associated with Futures.

Some options operate on a margined basis which carries additional risks. Margin trading means that the investor may not pay the full premium on the option at the time it was bought but the investor may be subsequently called upon to make a series of payments against the purchase price. If the market moves against an investor, they will be called on to pay substantial additional margin at short notice in addition to the margin which was paid to establish or maintain the position. If margin is not paid within the time required, the position may be liquidated and the investor will be responsible for the shortfall. Non-margined transactions may, in certain circumstances, still require the investor to make further payments in addition to the purchase price that was paid upon entering into the option contract.

Writing an option carries with it a higher level of risk than buying options as the investor may be required to provide a margin (described above) to maintain the position. The investor will ultimately risk losing a greater sum than the premium received. In addition, writing an option means accepting a legal obligation to purchase or sell the underlying asset if the option is exercised against the investor, however much the market price has changed in relation to the exercise price. If the investor already owns the underlying asset which they have agreed to sell, the risk is reduced. If the underlying asset is not owned, the risk can be unlimited.

Futures

Futures contracts are standardised contracts to buy or sell an underlying instrument or other asset at a certain date in the future (the delivery date), at a specified price (the futures price). Once in place, the contract obliges the parties to buy/sell in accordance with the terms of the contact.

Whilst considerable financial gains can be made on futures contracts, they carry a high degree of risk:

- Non-fulfilment of the contract by the holder of the futures position before the delivery date will require offsetting their position which may incur considerable financial outlay;
- It is possible that the investor may make considerable losses should the settlement price (the price of the underlying asset on the delivery date) of the underlying instrument have risen over the pre-set futures price through potentially unforeseen circumstances. Contingent orders may be placed, such as “stop-loss” or “stop-limit” orders which will not necessarily limit losses to the intended amounts, since market conditions on the exchange where the order is placed may make it impossible to execute such orders; and
- Futures contracts have a contingent liability and carry margin risks. The high degree of leverage that is often obtainable in futures trading because of small margin requirements can work against the investor as well as for the investor. In particular, an investor may be required to pay a series of payments against the purchase price instead of paying the whole purchase price immediately.

Warrants

A warrant is a derivative security that gives the holder a time-limited contractual right (but not the obligation) to purchase securities from the issuer at a specific price and within a certain time frame. The securities subject to the right may be shares or debt securities.

It is important for anyone considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time. The consequence of this is that if there is a failure to exercise this right within the pre-determined time-scale then the investment will become worthless. Another risk associated with warrants is that a relatively small movement in the price of the underlying security may result in a disproportionately large movement in the price of the warrant which may be favourable or unfavourable. The prices of warrants can therefore be volatile.

Warrants should not be purchased unless the investor is prepared to sustain a total loss of the money that has been invested plus any commission or other transaction charges.

Contracts for difference

A contract for difference (“CFD”) is an agreement between two parties to exchange the difference between the opening price and the closing price of the contract at the close of the contract, multiplied by the number of underlying units specified in the contract. Such a contract is a derivative that will allow an investor to speculate on price movements, without the need for ownership of the underlying assets. The fluctuation can be in the value or price of an asset, or by reference to an index. Differences in settlement are made through cash payments, rather than the delivery of physical goods or securities.

CFDs carry a high level of risk to the investor's capital, and capital and income are not guaranteed. As the financial outcome is determined by the price movement of the total trade value, profits and losses can quickly exceed the initial deposit. In particular, an investor may lose more than the sum of money which was originally invested, as there will be liability for all money which was invested. The investor will be required to maintain a certain amount of margin, and they may need to make further margin payments at short notice if the positions move against them. If there is failure to do so within the time required, the position may be liquidated at a loss and the investor will be responsible for the resulting deficit. The risks associated with futures and options, outlined above, also apply to CFDs.

Trading Risks

Not Readily Realisable Investments

Where the investments include any securities other than those which are or will be admitted to official listing in an EEA state or securities which are or will be regularly traded on or under the rules of an exchange in an EEA state or recognised investment exchange or designated investment exchange, there is no certainty that market makers will be prepared to deal or that adequate information for determining current value of the relevant investment may be available.

Liquidity risk

The liquidity of an instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions or infrastructure issues, such as a lack of sophistication or disruption in the securities settlement process. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position. This may occur, for example, at times of rapid price movement if the price rises or falls to such an extent that under the rules of the relevant exchange trading is suspended or restricted. In addition, unless the contract terms so provide, a party may not have to accept early termination of a contract or buy back or redeem the relevant product and there may therefore be zero liquidity in the product. In other cases, early termination, realisation or redemption may result in you receiving substantially less than you paid for the product or, in some cases, nothing at all. If you want to terminate early, you may also need to pay break costs, which could be substantial.

Grey Market

Transactions may relate to:

- a security whose listing on an exchange is suspended, or the listing of or dealings in which have been discontinued, or which is subject to an exchange announcement suspending or prohibiting dealings; or
- a grey market security, which is a security for which application has been made for listing or admission to dealings on an exchange where the security's listing or admission has not yet taken place (otherwise than because the application has been rejected) and the security is not already listed or admitted to dealings on another exchange.

There may be insufficient published information on which to base a decision to buy or sell such securities.

Risk associated with Stabilisation

Transactions may be carried out in securities where the price may have been influenced by measures taken to stabilise it. 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. Regulations allow stabilisation in order to help counter the fact that, when a new issue comes on to the market for the first time, the price can sometimes drop for a time before buyers are found. Stabilisation is 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, he 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 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.

Foreign Exchange Risk

If a liability in one currency is to be matched by an asset in a different currency, a movement in exchange rates may have an effect, favourable or unfavourable, on the gain or loss attributable to an investment, separate from and additional to a gain or loss in the currency in which the investment is denominated.

Off-exchange Transactions in Derivatives

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 a fair price is.

Margin Trading

Contingent liability investment transactions, which are margined, require an investor to make a series of payments against the purchase price, instead of paying the whole purchase price immediately. If an investor deals in futures, contracts for differences or sells options, they may sustain a total loss of the margin. If the market moves against them, they may be called upon to pay substantial additional margin at short notice to maintain the position. If there is a failure to do so within the time required, the position may be liquidated at a loss and the investor 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 contract was entered into.

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.

Risk associated with Combined Instruments

Any combined instrument, where the performance or valuation of one financial instrument is dependent on that of another, is exposed to the risk of both those products and so combined products may contain a risk which is greater than those of its components generally, although certain combined instruments may contain risk mitigation features.

Regulatory, Legal and Structural Risk

All investments could be exposed to regulatory, legal or structural risk. Returns on all, and particularly new, investments may be at risk from regulatory or legal actions and changes which can, amongst other issues, alter the profit potential of an investment. Legal changes could even have the effect that a previously acceptable investment becomes illegal. Changes to tax policy may also occur and could have a large impact on profitability. These risks are unpredictable and can depend on numerous political, economic and other factors.

In all cases the legal terms and conditions of a product may contain provisions which could operate against your interests. For example, they may permit early redemption or termination at a time which is unfavourable to you, or they may give wide discretion to the issuer of securities to revise the terms applicable to securities. In other cases there may be limits on the amounts in relation to which rights attaching to securities may be exercised and in the event that you hold too many (or too few) securities, your interests may be prejudiced. In some cases, the exercise of rights by others may impact on your investment. For example, a product such as a bond or note may contain provisions for calling meetings of holders of those bonds or notes to consider matters affecting their interests generally (including yours) and may permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Further, in some cases amendments may be made to the terms and conditions of bonds or notes without the consent of any of the holders.

Foreign Markets

Foreign markets are likely to involve different risks from the UK markets. In some cases the risks will be greater. The type of laws and regulations which investors are familiar with in the EEA may not exist in some jurisdictions, and where they do, they may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic or political influences remain largely untested in many countries. Judges and courts in many countries may be inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that an overseas investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in overseas courts.

Tax risk

Dividends, interest and other amounts payable (including repayment of principal) with respect to financial instruments may be subject to taxes, including withholding taxes. The effect of taxation will reduce the return on the relevant financial instrument. Where tax is withheld (including by an overseas tax authority), an investor may be able to reclaim the amount withheld, but this will not always be possible. If the investment is held through a custodian, this may also impact the treatment of tax amounts due and payable.

Tax laws and regulations may change from time to time and sometimes with retroactive effect. This may result in unexpected tax liabilities or loss of anticipated tax benefits and both of these factors can affect the overall financial return to investors.

FTI is not providing tax advice under this engagement and therefore provides no opinion or assurance as the tax treatment of a particular financial instrument.