STOCKTRADE
APPROPRIATENESS ASSESSMENT – COMPLEX INVESTMENTS

Introduction

You have asked us to invest in a product that we believe is a complex financial instrument. Before we can act on your instruction the rules of our regulator (the FCA) mean we have to assess whether the investment is appropriate for you. We will not act on your instruction until we have let you know the result of our assessment and you have decided whether or not you would still like to go ahead with it.

We will carry out a periodic reassessment every 3 years to ensure that investments are still suitable for your needs and objectives and there have been no material changes in your circumstances.

What is the appropriateness test?

The appropriateness test is designed to check whether your knowledge and experience is such that you are likely to be able to understand the features of the product, the terms and risks involved in the investment, and therefore whether it is appropriate for you.

Assessing the appropriateness of an investment for your level of knowledge and experience is not the same thing as advising you on whether a particular investment is suitable for you. Stocktrade does not give financial advice. If you have any doubts whether an investment is suitable to you, you should seek professional financial advice.

Please answer all of the relevant questions or we will not be able to assess you.

What is a Complex Financial Instrument?

A complex financial instrument could be anything that is not defined as non-complex.

Non-complex financial instruments are;

- Shares listed on a recognised stock exchange
- Units/shares in a UCITS qualifying Collective Investment Scheme
- Bonds
- Money market instruments

A complex financial instrument is one that requires a greater experience and knowledge of investments to fully understand the risks involved, for example by including very speculative contracts like financial derivatives, by being valued infrequently or by not being 'readily realisable' (potentially difficult to sell when you want to). Examples include (but are not exclusively limited to):

- Some types of exchange traded product
- Shares in Collective Investment Schemes that are not FCA recognised (non mainstream pooled investments)
- Warrants
- Non-readily realisable investments
- Putable or Convertible bonds

1 PERSONAL DETAILS

Name:

Address:

Postcode:

Account Number:

2 WHICH COMPLEX INVESTMENTS YOU INTEND TO INVEST IN

Please select all investment types which you are intending to invest in and confirm that you have read the relevant section in Appendix 1 for each asset category:

I intend to invest in Exchange Traded Products	Yes ☐	I have read the relevant section in Appendix 1	Yes ☐
I intend to invest in Non mainstream pooled investments	Yes ☐	I have read the relevant section in Appendix 1	Yes ☐
I intend to invest in Warrants	Yes ☐	I have read the relevant section in Appendix 1	Yes ☐
I intend to invest in Non-readily realisable investments	Yes ☐	I have read the relevant section in Appendix 1	Yes ☐
I intend to invest in Complex Bonds	Yes ☐	I have read the relevant section in Appendix 1	Yes ☐

3 YOUR INVESTMENT KNOWLEDGE AND EXPERIENCE

Please answer the following in relation to all investments selected:

Have you previously been/Are you a financial services or investment professional with relevant experience, qualifications or knowledge of or about this investment type? ☐ Yes ☐ No

If yes, please confirm the relevant experience:

Have you traded in the above selected investments previously? ☐ Yes ☐ No

Have you read and agreed to the Terms and Conditions of the investment? ☐ Yes ☐ No

Do you understand the charges associated with the investment? ☐ Yes ☐ No

Do you fully understand and accept the risks of the investments you want to trade in? ☐ Yes ☐ No

Do you acknowledge that although higher risk investments could mean higher returns, there is no guarantee of this and you may get back less or even lose all that you invested? ☐ Yes ☐ No

How many times have you traded in these instruments in the last 12 months? ☐ 0 ☐ 1-4 ☐ 5-10 ☐ 11+

How many months have you been trading on an execution only basis without advice? ☐ 0-6 ☐ 7-12 ☐ 13-18 ☐ 19+

The following questions relate to specific investment types, please answer all questions related to the investments selected above:

Exchange Traded Funds

Do you understand that if the security you are wishing to trade is in a foreign currency the value can be affected by exchange rates? ☐ Yes ☐ No

Do you understand that investments in securities and derivatives, in general, are subject to market risks that may cause their prices to fluctuate over time? ☐ Yes ☐ No

Do you understand that there can be no assurance that an active trading market for the ETP's shares will be available at the time you choose to dispose of the holding, which can impact your ability to dispose of the holding? ☐ Yes ☐ No

Do you understand that the more an ETP invests in leveraged derivative instruments, the more this leverage will magnify any losses on those investments, e.g. the value of the ETP's shares will tend to increase or decrease more than the value of any increase or decrease in its Underlying Index? ☐ Yes ☐ No

Non-mainstream pooled investments

Do you understand that there may be penalties for early redemption? ☐ Yes ☐ No

Do you understand that you may not be able to access your investment at short notice, should you require access to the funds invested? ☐ Yes ☐ No

Warrants

Do you understand that included in a Warrant price is an element called time value and that as a Warrant nears expiry this element will decrease through a process called time decay? ☐ Yes ☐ No

Do you understand that Warrants can be volatile due to changes in the price of the underlying security? ☐ Yes ☐ No

Non-readily realisable investments

Do you understand that you may not be able to obtain a clear price for this investment due to lack of liquidity? ☐ Yes ☐ No

Do you understand that you may not be able to dispose of the holding at the time you choose due to lack of liquidity? ☐ Yes ☐ No

3 YOUR INVESTMENT KNOWLEDGE AND EXPERIENCE (CONTINUED)

Complex Bonds

Do you understand there may be Liquidity risk compared to traditional bonds and it may be difficult to establish a market price for them?	☐ Yes	☐ No
Do you understand you may lose your entire investment if a bond issuer goes bankrupt?	☐ Yes	☐ No

4 ACCOUNT HOLDER DECLARATION AND SIGNATURE

I confirm that the answers given on this form are true to the best of my knowledge. I accept and fully understand the answers given to the questions above. I declare that I have the sufficient knowledge and experience or have received sufficient advice to assess the merits and risks of these types of instruments and declare that the instruments are suitable given my investment objective and attitude to risk. I fully accept the risks that accompany these instruments and confirm that no advice has been taken from Stocktrade on the suitability of the investments.

I have read and understood the implications of the transaction I am entering into.

Signed:

Full name:

Date: D D M M Y Y Y Y

For official use only

Embark Reference: Account Number:

Appropriateness assessment result

Exchange Traded Products	☐ Pass	☐ Fail	Score:
Non mainstream pooled investments	☐ Pass	☐ Fail	Score:
Warrants	☐ Pass	☐ Fail	Score:
Non-readily realisable investments	☐ Pass	☐ Fail	Score:
Complex Bonds	☐ Pass	☐ Fail	Score:

5 APPENDIX 1

Exchange Traded Products

Definition

Essentially, Exchange Traded Products (ETPs) are open-ended index funds that, like stocks, are listed and traded on exchange. They allow investors to gain exposure to stock markets of different countries and regions as well as different sectors and investment styles. They also cover other asset classes such as fixed income, currencies and commodities. ETPs are the umbrella name covering the entire product range. Exchange Traded Funds (ETFs), Exchange Traded Commodities (ETCs) and Exchange Traded Notes (ETNs) are all Exchange Traded Products. There is no standard industry definition, however, some may refer to ETPs as the umbrella covering ETCs and ETNs and classify ETFs separately.

ETFs

There are two main approaches to ETF construction, direct replication and synthetic replication and it is important to understand the major differences.

Direct Replication

This method is the more straightforward with the ETF investing directly in every security in the index with an identical weighting. If this is not possible the provider will buy an optimal mix of stocks thus minimizing tracking error and maximising liquidity. In this instance the assets are held separately from the asset manager. It can be too hard to get access to some markets by direct replication as illiquid or obscure indices may not lend themselves to direct replication as it would be very difficult for the ETF provider to buy and sell the underlying holdings.

Synthetic Replication

Generally these are either swap based or an investment note/certificate. Swap based methods use investments made into an ETF to purchase a basket of securities. The composition of this basket will be determined by either the swap counterparty or an independent third party. The returns on this basket are then swapped for the return on a specific underlying index. It is important, that the value of

5 APPENDIX 1 (CONTINUED)

the underlying basket closely mirrors the underlying index, or investors will become exposed to a greater risk of capital loss should the counterparty default. Third parties are often used to build the basket as it removes 'conflicts of interest' such as 'over valuation' and the 'dumping' of illiquid assets.

Investment notes or certificates are debt instruments promising to pay investors the return of an index. These structures can carry significant counterparty risk as they may be solely dependant on the issuer meeting the obligation. To reduce this risk these structures may be 'collateralised' which involves a separate basket of 'collateral' becoming the property of the investor should the debt issuer default. This method has similar conflicts of interest to the swap based method, which can be mitigated by the appointment of a third party collateral manager. In this instance it is important to know the value of the collateral versus the underlying index, and the frequency that it is topped up or trimmed.

ETCs and ETNs

(ETCs) and (ETNs) are open-ended securities that trade on regulated exchanges and enable investors to gain exposure to commodities without taking physical delivery. They are similar to ETFs in that they are traded and settled on exchange, exactly like normal shares.

These issues are largely swap based, with the underlying basket likely to be comprised of either the physical asset or futures contracts (these require purchase and delivery of an asset). Like ETF's the same issues of basket composition/collateral management apply. The two broad forms of ETCs are:

Single commodity

Investors can buy single-commodity ETCs like gold and oil.

Index tracking

Investors can invest in index tracking ETCs giving exposure to a range of underlyings. Generally, both types of ETCs track a total return index, meaning there are three sources of return:

- The change in the futures price – largely affected by changes in the spot commodity price
- The roll – in order not to receive delivery of the underlying commodity, ETCs will sell the expiring futures contract and buy a contract with a later maturity (normally the next expiry due to liquidity). As the future is 'rolled' into the later month, there is usually a price difference between the two. This can be a significant factor in the disparity in performance of the underlying commodity and the ETC.
- Interest on collateral – since futures are margined instruments, interest is earned on the cash value of the initial investment.

Other Risks

Effects of Leveraging

Leveraged ETFs/ETPs try to deliver multiples of the performance of an index or benchmark they track. These have the potential to deliver higher returns but also greater losses. Leveraged and inverse ETFs require daily rebasing and during periods of high volatility this may increase the risk of holding these investments over the medium to long term.

Short or Inverse ETFs/ETPs

Inverse products attempt to deliver the performance opposite to the index using derivative instruments. One consequence of daily calculation, however, is that performance over a longer period of time can differ significantly from the benchmark. This imperfect hedge needs to be accounted for. Also, the more volatile the referenced asset, the greater this risk becomes. Leveraged Inverse ETFs seek to achieve a return that is a multiple of the inverse performance of the underlying index. These come with the potential for higher levels of return but also greater loses.

Non-Mainstream Pooled Investments

Definition

Non Mainstream Pooled Investments (NMPIs) are pooled investments or funds, which are characterised by unusual, speculative or complex assets, product structures, investment strategies and/or terms and features.

NMPIs are a particular type of pooled investment vehicle and are generally regarded as high risk products that often invest in assets which are typically not traded in established markets and which are therefore difficult to value and may be highly illiquid. The investments are often complex and difficult to understand and performance information may be unavailable or unreliable. NMPI's may invest in one or more volatile assets, such as property, emerging market stocks, renewable energy or fine wine, and therefore the risk of an investor losing all or part of their money are much higher than other investment types such as Collective Investment Schemes (CIS).

A NMPI encompasses:

- Units in an Unregulated Collective Investment Scheme (UCIS)
- Units in a Qualified Investor Scheme (QIS)
- Securities issued by special purpose vehicles (SPVs) (other than excluded securities)
- Traded life policy investments (TLPIs), and
- Rights to or interests in investments in any of the above.

NMPIs are unlikely to be suitable for the average or ordinary retail investor; they are more likely to be appropriate for professional or institutional investors and to those retail clients who are sophisticated investors, and have significant investment experience of investing in these types of investments, and understand all the associated risks.

Risks

- High risk and illiquid.
- A client investing in a NMPI could lose some or all of their investment.
- Unlike regulated CIS, NMPI may not be subject to investment and borrowing restrictions aimed at ensuring a prudent spread of risk, therefore the risk of a total or partial loss of capital is much higher. As a result they are generally considered to be a high risk investment and you should always ensure that you understand the risks before investing.
- You may not be covered by the Financial Ombudsman Service (FOS), should you have a complaint about the fund, or the Financial Services Compensation Scheme (FSCS) should you need to seek compensation.
- Some investments do not have cancellation rights.

5 APPENDIX 1 (CONTINUED)

Warrants

Ordinary Warrant

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 can result 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.

Covered Warrants

A covered warrant is a security issued by a party other than the issuer or originator of the underlying asset which is then listed as a fully tradeable security on the London Stock Exchange. Covered Warrants are geared investments giving the holder the right but not the obligation to buy or sell the underlying asset, at a specified price (known as the "exercise price") on or before a predetermined date (known as the "expiry date").

You should not buy an ordinary warrant or covered warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or transaction fees. This is the maximum you can lose and is known in advance. There is no margin call, i.e further payments to maintain your position. Some of these investments can have an element of gearing, this can magnify potential returns and also magnify potential losses.

You should not deal in these products unless you understand their nature and the extent of your exposure to risk.

Non-Readily Realisable Investments

Transactions in Non-Readily Realisable Investments (NRRI) are transactions in securities which are not admitted to, or traded under the rules of, a Recognised Investment Exchange, and which may be subject to large price fluctuations.

The risks associated with Private, Unlisted companies may include, but are not limited to:

- Recently established companies may have difficulty in obtaining market acceptance of their underlying products or services
- There may be little or no market liquidity in the securities and it may be difficult to establish a proper market price for them
- The management teams of such companies may be inexperienced and the companies could therefore encounter management, financial or operational difficulties which they may not be able to address adequately
- Companies may underestimate their capital requirements and may have difficulty in raising additional capital when required.

You should only make investments in non-readily realisable investments using funds that you are not going to need for another purpose in the foreseeable future, as you may be unable to sell such securities at the time of choosing due to a lack of, or little liquidity, in them from time to time.

Complex Bonds

Complex Bonds are different to typical bonds and they may embed a derivative or incorporate a structure that make it difficult to understand the risk involved. They are also affected by the same overall factors affecting typical bonds. You should seek comprehensive information about the characteristics of the bond you wish to invest in.

Non-exhaustive list of examples:

- Convertible and exchangeable bonds.
- Indexed bonds and turbo certificates.
- Contingent convertible bonds.
- Callable or putable bonds.
- Perpetual bonds

Some of the risks to be considered are:

- Liquidity risk compared to traditional bonds and it may be difficult to establish a market price for them
- There may be lockout periods when you are unable to sell
- The bonds may not necessarily mature at par value
- Credit Risk – the Issuer may be incapable of repaying
- The return you earn on your investment may not keep pace with inflation
- Bondholders like other creditors may lose their entire investment if a bond issuer goes bankrupt.
- Even though the company can repay the principal at maturity, the bond may experience high volatility during its life time, if the company experiences financial difficulties or the market is struck by e.g. a financial crisis.