

Complex investments risk warning notice

Under current Financial Services Authority rules, the investment you wish to deal in is defined as “complex”. We are required to make sure you understand how dealing in this type of investment differs from trading “non-complex” investments, such as most shares and funds (known as Unit Trusts and OEICs).

Where you have not dealt in a particular complex investment in the past, we are also required to carry out an Appropriateness Assessment. This involves asking you a number of questions about your investment experience in relation to that class of complex investment. If, based on the answers you provide, we believe the investment would not be appropriate for you, we will tell you, and we will not undertake the transaction.

If you have any questions, please call our Advice Team on 01296 41 43 45 for further details. Lines are open from 08:00 to 18:00 Monday to Friday and they’ll be pleased to help.

This notice is provided to you as a Retail Client, in compliance with the rules of the Financial Services Authority. Retail Clients are afforded greater protections under these rules than other customers. Please note that this notice cannot disclose all the risks and other significant aspects of complex investments. You should not deal in these products unless you understand the nature and extent of your exposure to them. You need to be satisfied that the product is suitable for you having considered your circumstances and financial position.

Although these products can be used for the management of investment risk, some of these products are unsuitable for many investors.

Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments you need to be aware of the following points:

1. Warrants

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile. It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time. This means that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless. You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

2. Securitised Derivatives

These instruments may give you a time-limited right to acquire or sell one or more types of investment, which are normally exercisable against someone other than the issuer of that investment. Or they may give you rights under a contract for differences, which allow for speculation on fluctuations in the value of the property of any description or an index, such as the FTSE 100 index. In both cases, the investment or property may be referred to as the “underlying instrument”. These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile. These instruments have a limited life, and may (unless there is some form of guaranteed return to the amount you are investing in the product) expire worthless if the underlying instrument does not perform as expected.

You should only buy this product if you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges. You should consider carefully whether or not this product is suitable for you in light of your circumstances and financial position, and if in any doubt please seek professional advice.

3. Convertible Bonds

A convertible bond is one which has an equity convertible element contained within it. This allows the investor the option to convert the bond into a given number/ratio of shares in the underlying company at a given price. Throughout the specified life of the bond, holders receive a regular dividend income, albeit generally at levels lower than those associated with the vast majority of bonds. However, at the specified point in time, holders have the right to convert into the said number of shares. The conversion is at the holder’s choice and cannot be forced by the issuing company. Having the option to convert to shares, the bonds are often seen as having an embedded ‘call’.

In times when the underlying company is doing well, the share price will rise, however, the bond itself is unlikely to do much and the holder will wish to exercise the option at the earliest possible point. However, in times of a decline and value in the share price, the holder is unlikely to convert, preferring to keep within the bond unconverted. In the extreme event of the company going bust, bondholders rank higher than shareholders in terms of repayment. The final consideration should be that of the income differential between converting and not converting. The bond will be paying interest, albeit lower than normal due to the convertible element, however, the share will pay a dividend, and is unlikely to exceed the income stream from the bond in the early years of the life of the bond.

4. Convertible Preference Shares

This form of investment is similar to that already outlined in paragraph 3 earlier.

The investor has the option at a pre-defined date or dates, to convert the holding of preference shares into the class of underlying ordinary shares. Due to the investor having the option to convert, they are seen to have an embedded 'call' option. The risk exposure to which the investor should be aware is that of general market volatility. As with Convertible Bonds, the option to exercise the 'call' is entirely at the discretion of the holder subject to the specified conversion dates. Like convertible bonds, the convertible preference shareholder is ranked higher than ordinary shareholders in terms of repayment, although it is outranked by bond holders.

5. Exchange Traded Commodities (ETCs)

Exchange Traded Commodities are investments (asset backed bonds) that allow the investor to track the underlying performance of a commodity index, including total return indices. Trading is exactly the same as any normal share, in that prices are available throughout the trading day, with market maker support, thereby stimulating liquidity.

ETCs themselves will either focus solely on a single commodity or on an Index, examples being Gold, Silver or Lean Hogs for individual commodity exposure or energy and livestock for Index exposure.

Exposure via the ETC allows the investor to invest in an asset class previously thought to be off limits to the general retail investor. Commodities have formed a key part of institutional investment strategies historically. However, inherent risks such as contingent liability (where your liability may be greater than the initial purchase price of the investment), margining requirements (where you are required to make a series of payments against the purchase price, depending on whether the underlying investment or index is moving in your favour) and international exchanges (which can mean a reduced level of investor protection, as well as currency fluctuation if the investment is not traded in sterling) meant these were out of reach.

In terms of risk, due to the very nature of the underlying commodity in which the ETC invests, this asset class is not for the faint hearted as sudden swings and drops in worldwide demand will immediately impact the share price. The commodity investment will be either directly within the physical product, or be priced on the futures market. If the investment is based on the futures market, the risks associated with this form of investment include gearing or leverage (as explained in paragraph 2).

6. Nil Paid Rights

Sometimes, companies may decide to raise further funds from its shareholders in return for the issue of further shares. This is known as a 'rights issue'. Should an entitled shareholder decline to take up the rights allocated to them, they have the opportunity to sell these rights to the new shares 'nil paid'

(i.e. without paying anything further to the company) or let them lapse (where the company sells the 'nil paid rights' on the investors behalf and remits any realising proceeds to the relevant investors). The purchaser in the open market will then have the opportunity to take up the shares at the discounted rights issue price. The new investor has effectively purchased a short dated (maximum 21 days) 'call' option, which can only be exercised within this given period. Investors need to be fully aware as to why the rights issue has been made by the company, as there is the potential that take up of the rights issue may not reach the required levels.

7. Structured Products

Structured products have been created to allow investors to meet needs that are unable to be met through the standard financial instruments available within the markets. They are used as an alternative to direct investment and as part of an asset allocation process to help reduce risk and exposure within a portfolio.

The general concept is based around investment within derivatives (normally options, but with the ability to utilise 'swaps' i.e. when one investment is temporarily exchanged for another) but with the added feature of protection if held to maturity. Due to the varying combinations of derivatives and financial instruments within the structures, there are significant risks involved, albeit with the potential for greater returns, whilst also offering the potential cost savings not normally achievable in the general market place.

Whilst seen as an ideal way in which to help portfolio diversification, due to the investments to which they are exposed, the risks involved should not be underestimated.

8. Liquidity

In certain circumstances, a variety of financial instruments may have difficulty in providing readily available liquidity due to the nature of the underlying investment.

To this extent, certain investments may carry warnings advising that should the investor wish to liquidate their holding, there may be a given period of time before which the benefits can be realised. An example of this may potentially be an investment containing commercial property, which following a run of people requesting their money, the investment manager may need to sell some of the underlying assets to raise cash.

Appropriateness Assessment

In order for us to understand a little bit about your investment experience, please can you take a moment to complete the assessment below. If based on the answers you provide, we believe the investment would not be appropriate for you, we will tell you, and we will not undertake the transaction.

Section 1: My details

Title	<input type="text"/>	Customer reference	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
Surname	<input type="text"/>	Phone	<input type="text"/>
Forenames	<input type="text"/>	email	<input type="text"/>
Occupation	<input type="text"/>		

Section 2: Investment type

Please tick the investments that you propose to invest in now or anytime in the future:

<input type="checkbox"/> Warrants	<input type="checkbox"/> Securitised Derivatives	<input type="checkbox"/> Convertible Bonds
<input type="checkbox"/> Exchange Trade Commodities (ETCs)	<input type="checkbox"/> Nil Paid Rights	<input type="checkbox"/> Structured Products

Section 3: Assessment (please tick one answer per question)

What is your attitude to risk?	<input type="checkbox"/> Cautious	<input type="checkbox"/> Moderate	<input type="checkbox"/> Adventurous
Would you be prepared to lose a significant part of your investment?	<input type="checkbox"/> No	<input type="checkbox"/> Yes	
How long have you been dealing in the stock market?	<input type="checkbox"/> Up to 1 year	<input type="checkbox"/> 1 to 3 years	<input type="checkbox"/> 3 to 5 years
	<input type="checkbox"/> 5 to 10 years	<input type="checkbox"/> 10 to 15 years	<input type="checkbox"/> 15 + years
What is your average total dealing activity per year?	<input type="checkbox"/> Up to 5 deals	<input type="checkbox"/> 5 to 10 deals	<input type="checkbox"/> 10 to 20 deals
	<input type="checkbox"/> 20 to 50 deals	<input type="checkbox"/> 50+ deals	
What is the approximate value of your overall investment portfolio?	<input type="checkbox"/> Up to £5,000	<input type="checkbox"/> £5,000 to £15,000	<input type="checkbox"/> £15,000 to £30,000
	<input type="checkbox"/> £30,000 to £75,000	<input type="checkbox"/> £75,000 to £150,000	<input type="checkbox"/> £150,000+
In percentage terms, what level of your overall portfolio does this investment represent?	<input type="checkbox"/> Up to 1%	<input type="checkbox"/> 1% to 3%	<input type="checkbox"/> 3% to 7%
	<input type="checkbox"/> 7% to 10%	<input type="checkbox"/> 10% to 20%	<input type="checkbox"/> 20%+
How long do you intend to invest this money for?	<input type="checkbox"/> Short (up to 1 year)	<input type="checkbox"/> Medium (1 to 3 years)	<input type="checkbox"/> Long (3+ years)

continued...

What are your investment objectives? Income Growth Balanced

Have you ever invested in Securitised Warrants & Derivatives? No Yes Unsure

Are you fully aware of the risks these types of investments carry? No Yes Unsure

Do you believe your educational background and/or profession are relevant in understanding the risks involved? No Yes

Section 4: Declaration

To: The Share Centre Limited

I/we have read and understood the complex investments risk warning notice and have answered the questions enclosed on this assessment to the best of my knowledge.

Name

Name

Signature

Signature

If your account is in joint names, please ensure that this form is signed by both parties.

Date

For office use only

Adviser

Date

Outcome

PO Box 2000 Aylesbury Bucks HP21 8ZB
Phone 01296 41 41 41 Fax 01296 41 41 40
Email info@share.co.uk Visit www.share.com