Complex Instruments: Appropriateness Assessment Form

Redmayne Bentley

Office Use Only

Under the current regulations and the rules of the Financial Conduct Authority, we are required to satisfy ourselves that clients have the experience or knowledge to enable them to understand the risks involved when dealing in 'Complex Instruments'. You should not deal in these instruments unless you understand their nature, the extent of your exposure to risk and you should also be satisfied that the instrument is suitable for you in the light of your circumstances and financial position. In general, these instruments have an increased level of risk and volatility so you should not use them unless you are prepared to sustain a total loss of the monies you have invested. Please read the information below carefully, and sign and return the form only if you understand and are prepared for the risks involved when dealing in this kind of instrument.

This form will help us to assess whether you have the necessary knowledge and experience in order to understand the risks involved in dealing in Complex Instruments. Please answer all of the following questions as accurately as possible. Should you not wish to share the necessary information with Redmayne Bentley then this will restrict our ability to assess whether you have the required knowledge and experience to understand the risks involved in investing in Complex Instruments.

Please complete all details in **CAPITALS**.

PERSONAL DETAILS

Title ______ Surname ______________________ Tel ______________________

First Name(s) (In full) ______________________ Email ______________________

Account number(s) ______________________

INVESTMENT TRUSTS

Certain types of Investment Trusts may be considered to be Complex Instruments, including if they:

1. are derivatives, or embed a derivative
2. are made up of one or more underlying financial instruments that are difficult to value, or are combined in such a way so as to make it difficult to assess the risks involved and the likely performance scenarios
3. use more opaque indices that are, for example, set up by the product manufacturer, rather than using standard market indices
4. have a fixed investment term of a number of years with barriers to exit (which are not clearly explained) – for example due to the lack of a secondary market, or significant penalties or losses on early exit
5. have return or pay-off structures involving multiple variables or complex mathematical formulas
6. include capital protection that may be conditional or partial, or that can be withdrawn on the occurrence of certain events

DECLARATION

1. Do you understand the nature of the risks involved?
2. These instruments can be classed as being high risk and volatile, are you prepared to sustain a total loss of the money you have invested plus any commission or other associated charges?

☐ Yes ☐ No ☐ Not applicable

PLEASE SIGN HERE

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ACCOUNT HOLDER DATE

BONDS/SUBORDINATED DEBT

Callable bonds are bonds that can be redeemed by the issuer prior to their maturity.

Puttable bonds have an embedded put option: the holder of the puttable bond has the right, but not the obligation, to demand early repayment of the principal.

Perpetual bonds are bonds with no maturity date, therefore, they may be treated as equity, not as debt. Issuers pay coupons on perpetual bonds forever, and they do not have to redeem the principal.

An index-linked bond is a bond in which payment of interest income on the principal is related to a specific price index, usually the Consumer Price Index.

A mortgage-backed security (MBS) is a derivative type of asset-backed security that is secured by a mortgage or collection of mortgages. The mortgages are sold to a group of individuals (a government agency or investment bank) that securitises, or packages, the loans together into a security.

Subordinated debt is debt which ranks after other debts if a company falls into liquidation or bankruptcy. Because subordinated debts are only repayable after other debts have been paid, they are higher risk for the lender of the money.

DECLARATION (Please complete)

1. Do you understand the nature of the risks involved?

2. These instruments can be classed as being high risk and volatile, are you prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges?

☐ Yes ☐ No ☐ Not applicable

PLEASE SIGN HERE

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WARRANTS

A warrant in a particular company gives the holder the right to subscribe for ordinary shares in that company without any obligation to buy. Companies generally issue warrants as a bonus to subscribers of New Issues, or as an added incentive to encourage shareholders to take part in a Rights Issue. If the company trades successfully then there is an increased likelihood that the majority of warrant holders will exercise their rights. This provides the company with a future cash call.

Warrants carry very few rights. Warrant holders are not entitled to any dividends and have no voting rights. In addition, if you do not exercise your subscription right by the expiry date then your holding will become worthless.

A covered warrant is very much like a traded option. It gives you the right to buy or sell an underlying equity, or index, at a specified price, on or before a specified date. The term ‘covered’ refers to the fact that the financial institution offering the warrant will cover their position with the actual underlying stock. For investors the risk is limited to the amount that they invest.

DECLARATION (Please complete)

1. Do you understand the nature of the risks involved?

2. Do you understand that a warrant is a time-limited right to subscribe for shares or other securities and is exercisable against the original issuer of the underlying security?

3. Do you understand that a relatively small movement in the price of the underlying security may result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant?

☐ Yes ☐ No ☐ Not applicable

PLEASE SIGN HERE

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ACCOUNT HOLDER DATE

SYNTHETIC EXCHANGE TRADED PRODUCTS (ETPS)

The three main types of Synthetic ETPs are **Exchange Traded Funds (ETFs)**, **Exchange Traded Commodities (ETCs)** and **Exchange Traded Notes (ETNs)**. Synthetic ETPs do not physically hold the underlying assets, instead they rely on derivatives and swaps to execute the investment strategy and replicate the underlying assets.

What is an ETF?
ETFs are funds that are listed and traded on a regulated exchange. Their aim is, normally, to track the performance of an underlying benchmark, which is usually an equity or fixed income index, such as the FTSE 100, the S&P 500 or the FTSE UK Gilt All Stocks index. They are not restricted to tracking indices, for example some may track a pre-selected basket of equities.

What is an ETC?
ETCs are simple and transparent open-ended securities which trade on regulated exchanges. ETCs enable investors to gain exposure to commodities without trading futures or taking physical delivery. An ETC will track commodities, such as metals, natural energy resources, agricultural produce or livestock. In some cases an ETC will try to directly track the performance of a given commodity, in other cases an ETC will track an index that is designed to measure the value of that commodity.

ETCs are very similar to ETFs because they are both open-ended, continuously traded and have multiple market makers. The main difference is that ETCs use a secured, undated, zero coupon note structure, whereas ETFs typically use a fund structure.

What is an ETN?
ETNs are generally issued by banks and hold no assets. The underwriting bank agrees to pay the return of a reference benchmark (less fees) meaning that ETNs are entirely reliant on the creditworthiness of the issuing entity. ETNs are exposed to any change in the level of the underlying index, or the Volume Weighted Average Price (VWAP) level, between the inception date and the applicable valuation date. Additionally, if the level of the underlying index or the VWAP level, is insufficient to offset the negative effect of the investor fee and other applicable costs, you will lose some or all of your investment at maturity or upon redemption, even if the value of such index or the VWAP level has increased or decreased, as the case may be. Because ETNs are subject to an investor fee and other applicable costs, the return on ETNs will always be lower than the total return on a direct investment in the index components. ETNs are higher risk than than ordinary unsecured debt securities and have no principal protection.

Further information can be obtained from **www.etfsecurities.com**

DECLARATION (Please complete)

1. Do you understand the nature of the risks involved?

2. Synthetic Exchange Traded Products: ETFs, ETCs and ETNs may not be for everyone so it is essential you fully appreciate the risks involved. Do you understand the product, its structure and the associated risks?

☐ Yes ☐ No ☐ Not applicable

PLEASE SIGN HERE

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COMPOSITE UNITS

These are a combination of multiple securities, such as ordinary shares, ‘alphabet shares’ and warrants, sold together as a single product. The risks inherent in this type of investment are related to their composite nature as they are exposed to unfavourable movements in the value of the underlying shares, volatility and/or liquidity.

DECLARATION (Please complete)

1. Do you understand the nature of the risks involved?

2. These instruments can be classed as being high risk and volatile, are you prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges?

☐ Yes ☐ No ☐ Not applicable

PLEASE SIGN HERE

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STRUCTURED PRODUCTS

These are pre-packaged investment strategies based on derivatives and which deliver a known return for given conditions and are considered to be high-risk investments. Because structured products are commonly offered by insurance companies and banks it is not usually that firm which promises to return your original investment or pay a given return as they buy complex underlying investments from one or more companies referred to as 'counterparties'. Therefore you will not have any agreement yourself with the counterparties and if any of them were to fail, resulting in the structured product failing to give you your money back or provide the promised return, you will not have any direct claim on the counterparty and no compensation scheme would apply.

DECLARATION (Please complete)

1. Do you understand the nature of the risks involved?

2. These instruments can be classed as being high risk and volatile, are you prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges?

☐ Yes ☐ No ☐ Not applicable

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OTHER TYPES OF COMPLEX INSTRUMENTS

Those mentioned on this form are the most commonly traded types of Complex Instrument, although there are others. If you wish to trade in another type of Complex Instrument please detail it below. Your executive will have a discussion with you to confirm your understanding and its appropriateness for you.

DECLARATION (Please complete)

Name of instrument ____________________________________

1. Do you understand the nature of the risks involved?

☐ Yes ☐ No ☐ Not applicable

PLEASE SIGN HERE

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NON-PERMITTED PURCHASES

Clients with existing holdings in the following Complex Instruments may sell their holding but may not purchase any additional instruments:

- Convertible Bonds
- Redeemable Preference Shares
- Convertible Preference Shares
- Nil-Paid Rights