Willis Towers Watson Investments GmbH (WTWI)

Part 1: General Risks

Price Movements

Investments may fall as well as rise in value and you may get back less than your initial investment. Past performance is not an indication of future performance.

Volatility

Markets can be volatile. This will have a direct impact on your profits and losses. It should be noted that volatility can be unexpected and unpredictable.

Off-Market Transactions

We may recommend transactions for you that are not effected by means of the facilities of, or governed by the rules of, a regulated investment exchange or a regulated market.

Non-Readily Realisable Investments

We may recommend transactions in investments that are not readily realisable. These are investments in which the market is limited or could become so; they can be difficult to deal in and it can be difficult to assess what would be a proper market price for them.

Stabilisation

We may advise you to invest in investments that have been subject to stabilisation. Stabilisation is a price supporting process that may take place in the context of relevant securities, or any transaction in associated instruments which are equivalent to relevant securities. The effect of stabilisation can be to make the market price of the relevant security temporarily higher than it would otherwise be. The market price of investments of the same class already in issue, and of other investments whose price affects the price of the relevant security, may also be affected.

This process is undertaken in order to ensure that the issue of investments is introduced to the market in an orderly fashion, and that the issue price and/or the price of associated investments is not artificially depressed because of the increase in supply caused by the relevant security.

Stabilisation may only take place for a limited period, and there are limits on the price at which shares, warrants and depository receipts may be stabilised (although there are no limits in respect of loan stock and bonds).

Foreign Currencies and Markets

When we advise you to invest in investments priced in foreign currencies (foreign currency denominated investments) there is a risk that a change in the rates of exchange between currencies may cause the investment, or the income from it, to go down or up. Purchasing and selling investments overseas involves the additional associated risks of dealing overseas. Foreign markets will involve different risks from the Dutch markets. In some cases the risks will be greater.

Market Risk

Market risk is the possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets. Market risk is also known as "systematic risk”.

Liquidity Risk

Under certain market 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.

Credit Risk

Credit risk is the risk of default on a debt that arises from a borrower failing to make the required payments to the lender. The risk is principally that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

Interest Rate Risk

Interest rate risk is the risk that an investment's value is altered due to the unanticipated change in the absolute level of interest rates. This can be in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

Regulatory and Legal Risk

The risk that a change in laws and regulations will materially impact a security and investments in a sector or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape and as such alter the profit potential of an investment. This risk is unpredictable and may vary from market to market. In emerging markets such risk may be higher than in more developed markets. For example, in emerging markets the inadequacy or absence of regulatory measures can give rise to an increased danger of market manipulation, insider trading or the absence of financial market supervision can affect the enforceability of legal rights.

Clearing House Protection

On many exchanges, the performance of a transaction on your behalf is ‘guaranteed’ by the exchange or clearing house and you may have the benefit of certain legal protections from a clearing member. However, it is possible that in some circumstances this guarantee or legal protections will not cover you, the customer, and may not protect you if another party were to default on obligations owed to you.

Insolvency

The insolvency or default of any other brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets that you have invested and you may have to accept any available payments in cash.

Tax Risk

We recommend that you take independent tax advice before entering into any investment to ensure that you understand the potential tax implications (including the implications of any applicable income tax, goods and services or value added taxes, stamp duties and other taxes) of acquiring, entering into, holding and disposing of the relevant investment or transaction. Different transactions may have different tax implications and the tax consequences of any transaction is dependent upon your individual circumstances and may be subject to change in the future.

Emerging Market Risk

Investments in emerging markets entail additional risks associated with political and economic uncertainty, adverse government policies, restrictions on foreign investment and currency convertibility, currency exchange rate fluctuation, higher volatility, inadequate liquidity, possible lower levels of disclosure and regulation, and uncertainties as to the status, interpretation and application of laws, including those relating to private ownership of assets, expropriation, nationalisation and confiscation.

Part 2: Products and Investments

Set out below is an outline of the major risks that may be associated with an investment in certain types of financial instruments. Different financial instruments involve different levels of exposure to risk. You should be aware of the following.

1. Shares and other types of equity instruments

General

When you buy or subscribe for equities issued by a company, you are buying a part of that company and you become a shareholder in it.

The aim is for the value of your shares to grow over time as the value of the company increases in line with its profitability and growth. In addition, you may also receive a dividend, which is an income paid out of the company's profits. A risk with an equity investment is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business. The company's performance may deteriorate in relation to its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail.

Shares are generally a fairly volatile asset class - their value can go up and down more than other classes. Shares and other types of equity instrument also have exposure to the 'General Risk Types' listed in 'Part II' which include market risk (for example problems in the company's industry sector), and liquidity risk (whereby shares could become very difficult to sell, particularly if the company is private (i.e. not listed or traded on an exchange), or is listed but only traded infrequently).

Note that if a company goes into liquidation, its shareholders rank behind the company's creditors (including its subordinated creditors) in relation to the realisation and distribution of the company's assets - with the result that a shareholder will normally only receive money from the liquidator once all of the creditors of the company have been paid in full, if any proceeds of the liquidation remain.

2. Money market instruments

A money-market instrument is a borrowing of cash for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower. Unlike in an overdraft, the borrower must specify the exact amount and the period for which he wishes to borrow. Like other debt instruments, money market instruments may be exposed to all of the ‘General Risk Types’ listed in Part II above, in particular credit and interest rate risk.

3. Debt instruments

All debt instruments are potentially exposed to all of the ‘General Risk Types’ set out in Part II above, in particular credit risk and interest rate risk.

Debt securities may be subject to the risk of the issuer’s inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, general market liquidity, and other economic factors, amongst other issues. When interest rates rise unexpectedly, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities.

4. Units in collective investment schemes

Collective investment schemes (“CIS”) and their underlying assets are potentially exposed to all of the 'General Risk Types’ listed above in Part II.

There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to ‘pool’ their assets and have these professionally managed by an independent manager. Investments may typically include gilts, bonds and quoted equities, but depending on the type of scheme may go wider into derivatives, real estate or any other asset. There may be risks on the underlying assets held by the scheme and investors are advised, therefore, to check whether the scheme holds a number of different assets, thus spreading its risk. Subject to this, investment in such schemes may reduce risk by spreading the investor's investment more widely than may have been possible if he or she was to invest in the assets directly.

The reduction in risk may be achieved because the wide range of investments held in a collective investment scheme can reduce the effect that a change in the value of any one investment may have on the overall performance of the portfolio. Although seen as a way to spread risks, the portfolio price can still fall as well as rise and, depending on the investment decisions made, a collective investment scheme may be exposed to many different major risk types.

Regulated collective investment schemes

Some collective investment schemes are regulated, which means that there are rules about (and limits on) the types of underlying investments in which the collective investment scheme can invest and the frequency and price at which investments in the collective investment scheme can be redeemed. In particular, the rules applicable to regulated collective investment schemes limit the extent to which they can invest in derivatives or leverage their portfolios. Regulated collective investment schemes include authorised unit trusts, OEICs (open ended investment companies, which are the same as ICVCs - Investment Companies with Variable Capital); SICAV (Societe d’investissement a capital variable); FCPs (Fonds commons de placement); and FGRs (Fondsen voor Gemene Rekening).

Exchange-Traded Funds (ETFs)

ETFs are open-ended collective investment schemes that trade throughout the day like a share on the secondary market (i.e. through an exchange). Most ETFs seek to track a benchmark and holdings are not altered in rising or falling markets, so when the benchmark falls in value, the ETF will too. ETFs can be physical (where the fund invests directly in underlying assets) or synthetic (where the fund gains the desired exposure by entering into a swap agreement with a counterparty).

The value of ETFs can fall as well as rise, and you could get back less than you initially invest. The risks of each ETF are dependent on the benchmark the ETF seeks to track (i.e. what the ETF itself is invested in). For example, ETFs which invest in emerging markets are often subject to higher levels of volatility than those invested in the developed world and the price of ETFs which invest in bonds will likely change if interest rates do.

If there is low liquidity in the market then you may not be able to buy or sell units at a price considered to be fair. Any income you receive from your investment in an ETF may vary with the dividends or interest paid by the underlying investments and so could fall as well as rise.

Unregulated collective investment schemes

Other collective investment schemes are unregulated, which means that there are very few rules (or no rules) about the types of investments in which they can invest or the frequency at which they can be redeemed. Four of the most common types of unregulated collective investment scheme are types of hedge funds and fund of funds, private equity funds and real estate funds.

5. Hedge fund investments

A hedge fund is an unregulated collected investment scheme. It is an actively managed portfolio which aims to exploit market inefficiencies using a variety of sophisticated investment strategies in order to achieve a positive return in most market conditions.

The investment return may not closely mirror familiar market indices. The managers may buy and sell a wide variety of financial securities including bonds, equities, options and derivatives. The investment techniques employed may include selling securities not already owned with a view to buying them back at a lower price in the future (a technique referred to as short selling), insofar as this technique is permitted under the applicable regulatory regime. Managers may also borrow funds in order to facilitate transactions and to generate improved returns (known as gearing or leverage). These and other techniques introduce additional financial risks, which may not be present in other investments.

Sophisticated monitoring of the current investment positions by the hedge fund managers aims to limit the level of risk involved but unforeseen circumstances may result in part or total loss of your investment.

A “fund of funds” may invest in a portfolio of hedge funds and accounts managed by third party managers, utilising a variety of strategies.

Hedge funds are potentially subject to all of the ‘General Risk Types’ listed in Part II above. They may also be subject to the following additional risk factors:

- **Borrowing effect.** They use a variety of financial instruments, loans and short selling which can result in a substantial gearing effect. This gives rise to the possibility that small price movements can have a disproportionate effect on the fund value and sometimes a total loss of capital to the investor.

- **Dealing.** Purchases and sales are usually made through the hedge fund manager. Dealing dates for these funds are typically monthly or quarterly and in extreme market conditions dealing frequency may be extended. You may not be able to realise your investment at short notice. Hedge funds are long-term investments but under certain circumstances may be closed to new investment or may be redeemed.
- **Pricing and valuations.** Hedge fund managers generally provide calculations of the net asset value on a monthly basis. Orders are placed in advance of the publication of the dealing price.
- **Regulatory framework.** Hedge funds are usually domiciled in countries with minimal or no legal or regulatory framework (so-called “offshore funds"). The legal risks involved in enforcing possible claims may also need to be taken into account.
- **Potential conflicts of interest.** A substantial proportion of the manager’s remuneration is based on a performance fee. Managers can hold a substantial stake in the funds they manage and may have a direct or indirect interest in the underlying investments.
- **Tax.** The tax treatment of hedge funds may differ from your other investments and we recommend that investors get specialist tax advice where they have a concern.

6. Private equity funds

Companies in which private equity funds typically invest often have high levels of borrowing and investing in these companies can entail greater risk. Such companies are also often more sensitive to negative developments such as rising interest rates where borrowings are not at a fixed rate or need to be refinanced. As most of the companies in a private equity fund’s portfolio are privately held companies, there would generally be no readily available market for private equity fund’s investments and such investments may be difficult to value and exit. Broadly speaking, investments in venture capital funds which invest in companies during the earliest phases of their development would usually entail the greatest risk of loss.

Investments in private equity funds tend to be illiquid, therefore such investments are not tradable on any exchange and liquidity in the secondary market may be limited. This is because the investments in the fund portfolio are themselves illiquid. The majority of private equity fund investments may typically only be sold a number of years after investors have made their initial investment and you will therefore have either no access, or very limited access, to your capital without recourse to the secondary market.

In order to enjoy certain exemptions relating to reporting and registration requirements, private equity funds are required to comply with regulatory restrictions regarding the type of investors and number of investors who can invest in their fund, including a minimum investment requirement. As a result, there is usually less transparency and investor protection **in place** around the management of private equity funds and disclosures required to be made to investors.

7. Property funds

Although property as an asset class tends to have lower price volatility than equity, they have additional problems with liquidity, both at the fund level and the underlying property level. Open-ended investment companies and unit trusts can struggle to liquidate assets during times of duress, leading to liquidity problems for investors. Closed-ended funds, listed or trading on a stock exchange, do not cause liquidity problems for investors but can have more equity-like volatility at times of financial stress.

8. Forex

In the Forex market all world currencies are traded. The forex market is the largest and most liquid market in the world, with average traded values that can be trillions of dollars per day.

Forex transactions take place on either a spot or a forward basis. A spot deal is for immediate delivery, which is defined as two business days for most currency pairs. Any forex transaction that settles for a date later than spot is considered a "forward."

A "future" is similar to a forward in that it is for a date longer than spot, and the price has the same basis. However, unlike a forward, futures are traded on an exchange. Futures can only be executed for specified amounts and dates.

Foreign markets involve different risks from domestic markets. The risks will be greater in some cases in a foreign market than a domestic market. The potential for profit or loss from transactions in foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

Investments in foreign markets may expose you to the risk of exchange rate fluctuation and if you deposit collateral denominated in one currency you may be subject to margin calls in circumstances where the obligations secured by such collateral are denominated in another currency (in addition to the risk of margin calls for fluctuations in relative values).

9. Interest rate swaps

An interest rate swap is an agreement between two parties to exchange cash flows at a future specific time. Swap agreements involve two legs: the fixed leg and the variable leg. An interest rate swap entails counterparty risk as the counterparty to a swap may default and be unable to meet its obligations under the terms of the swap agreement. This risk is mitigated but not reviewed - through collaterisation arrangements.