OVERVIEW OF INVESTMENT RISKS

Effective as of 27 November 2017

This overview has been prepared by AS Redgate Capital for the purpose of notifying potential investors of the main investment risks associated with equity and bond investments. An investor is independently responsible for making investment decisions in such a manner that they correspond to the risk level desired by the investor.

This overview does not provide an exhaustive list of all the investment risks and, therefore, an investor is independently required to study and analyse other risks arising from investment activities and assess the potential effect and consequences thereof. Due to the risks related to investment activities, a potential investor must carefully consider whether they are able to bear those risks, taking into account their investment experience, investment objectives, financial and economic possibilities and other similar circumstances.

A considerable part of the securities which Redgate Capital produces or markets are traded outside the regulated market (OTC). If investments are made in such securities, the following risks must be primarily considered:

a) as such securities are not quoted, it may be more difficult to determine their fair value, conclude transactions with them and obtain information about the issuer;
b) the relevant markets are less regulated and do not provide an investor with the same level of protection and information as provided by regulated markets;
c) as a rule, instruments traded on such markets have a low level of liquidity and, therefore, it may be difficult to sell them under reasonable conditions prior to redemption.

MAIN RISKS RELATED TO BOND INVESTMENTS

1) **Credit risk.** The inability of an issuer to perform the obligations imposed on them by the terms and conditions of the bond, e.g. to make interest and principal payments. Upon materialisation of the credit risk, an investor may partially or fully lose the invested capital and expected revenue.
2) **Price and interest rate risk.** This is the risk that rising interest rates, a deteriorating general investment climate or a decline in the credit quality of the company will decrease the price of bonds, as investors will find instruments with a similar price and risk level but higher returns on the market. If an investor is forced to sell the bonds prior to the redemption deadline at a price lower than the acquisition cost, the investor will incur a loss. If the investor keeps a bond with a fixed interest rate until redemption, the fluctuations in interest rates do not influence the return on the investment.
3) **Liquidity risk.** Bond investments entail the risk that the security cannot be sold prior to the redemption deadline if necessary, as a buyer who would buy the security on acceptable conditions cannot be found. As a rule, the greater the volume of a bond issue and the number of investors who have made an investment, the lower the liquidity risk. The liquidity risk of bonds not traded on the market is generally higher, as the buyer must be found outside the regulated market.
4) **Inflation risk.** Fixed income bonds do not provide investors with protection against a rise in inflation, and the investor must consider the risk that in the event of a rise in inflation, the investor may incur a loss as a result of the decrease in the real return on investment, i.e. the return adjusted by purchasing power.

5) **Early redemption or reinvestment risk.** The terms and conditions of some bonds include the possibility that an issuer may redeem the security early. If this happens, the investor loses the revenue that they would have earned if they had been able to keep the bond until redemption. In the event of such bonds, an issuer often has an obligation to pay an additional reward to the investor upon early redemption, which partially compensates for the revenue not earned.
6) **Regulatory risk.** Due to amendments to legislation, an investor may incur a loss due to an increased tax liability or other adverse amendment to law that may reduce the return on the investment.
7) **Currency risk.** If an investment is made in bonds quoted in foreign currencies, an investor may incur a loss due to the adverse change in exchange rates.
8) **Settlement risk.** In certain cases, a bond transaction may also entail the risk that the counterparty does not transfer the sum of money or securities agreed. Such a risk occurs, for example, in the event of a subscription of bonds where the securities transaction is not made in a central register against payment, but the money moves separately via a bank transfer and securities without payment.
9) **Security agent/collateral agent risk.** In the event of investing in secured bonds, the investor must take into account the risk that the security agent/collateral agent may be unable to properly perform their obligations and organise the transfer and sale of collateral in the best interests of the investor if the issuer becomes insolvent.
10) **Depositary risk** is the threat of loss of assets kept with the depositary/account manager through insolvency, bankruptcy, negligence or the intentional illegal act of the depositary or any other person organising the safekeeping of the assets.

MAIN RISKS RELATED TO EQUITY INVESTMENTS

1) **Price risk.** The adverse movements of the market price of equities reduce the value of an investment, and an investor may lose a part of the capital invested. If the company that has issued equities faces bankruptcy, there is a risk that the investor will lose all the capital invested. Equities are generally considered instruments with a higher risk than bonds due to the greater price volatility and the pre-emption right of bond investors to the assets of the company in the event of bankruptcy.
2) **Liquidity risk.** Equity investments entail the risk that the security cannot be sold if necessary, as a buyer who would buy the security on acceptable conditions cannot be found. Liquidity risk primarily depends on the activity on the secondary market – if the security has been admitted to trading on the stock exchange, the number of investors is large and frequent transactions are made on the market, exiting the investment is more likely to be successful.
3) **Dividend risk.** Due to changes in the dividend policy of a company, an investor may lose the revenue expected from dividends. In the case of increased dividend payments or a reduction of share capital, the investor may also bear the reinvestment risk, i.e. the available capital cannot be invested with similar returns and the total return on the capital invested is therefore lower than expected.
4) **Currency risk.** If an investment is made in equities quoted in foreign currencies, an investor may incur a loss due to the adverse change in exchange rates.
5) **Regulatory risk.** Due to amendments to legislation, an investor may incur a loss due to an increased tax liability or other adverse amendment to law that may reduce the return on the investment.
6) **Settlement risk.** In certain cases, an equity transaction may also entail the risk that the counterparty does not transfer the sum of money or securities agreed. Such a risk occurs,

for example, in the event of a subscription of equities where the securities transaction is not made in a central register against payment, but the money moves separately via a bank transfer and securities without payment.

7) **Depositary risk** is the threat of loss of assets kept with the depositary/account manager through insolvency, bankruptcy, negligence or the intentional illegal act of the depositary or any other person organising the safekeeping of the assets.