

Investment funds, ETFs, funds with special risks

Asset class fact sheet

This document informs you about the characteristics, advantages and risks of investment funds and is designed to help you make your investment decisions. If you have any questions, please do not hesitate to contact your client adviser at any time.

Investment funds are professionally managed investment instruments. They are used for medium- to long-term asset building and investment purposes.

A fund is an asset that consists of deposits of many individual investors. Depending on the fund, the fund's assets are invested in equities, bonds and other investments by investment experts in the international securities markets.

Investors have units in the fund commensurate with their contribution. The value of these units depends on the price of the securities in the fund assets. As a rule, fund units can be bought or sold at any time. Because the fund assets are legally regarded as special

assets, the investor enjoys heightened protection. The fund management makes specific investment decisions within the defined criteria (investment strategy and fund regulations).

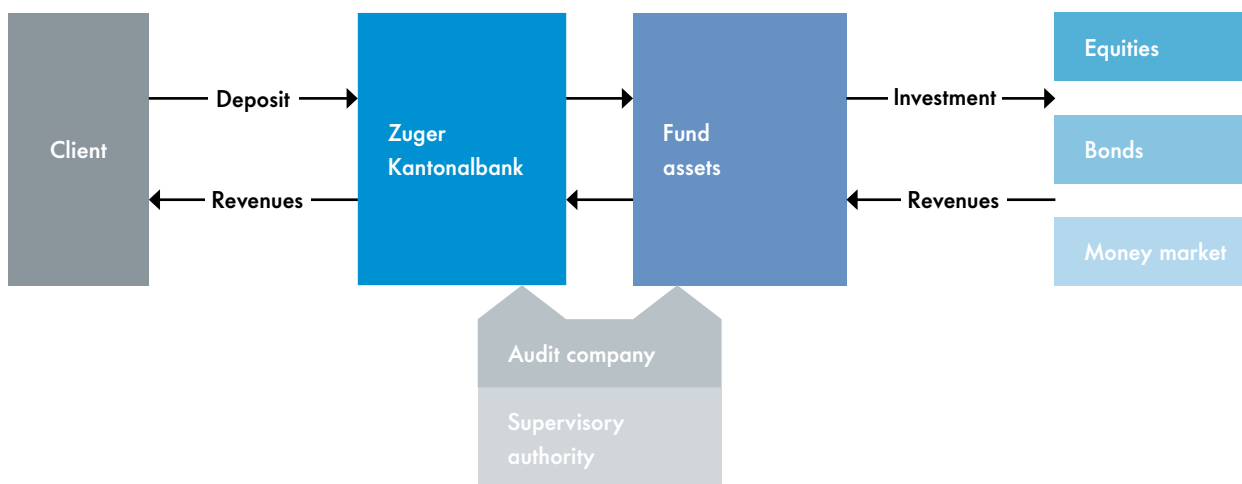
Investment funds also include exchange-traded funds (ETFs), which as a rule passively (i.e. without an active selection of the underlying assets) replicate an index and are traded on stock exchanges.

Standard investment funds

Investment funds, funds of funds, real estate funds and ETFs.

Key benefits of investment funds

Investment funds diversify the risk of an individual investment by investing in a broad portfolio of underlying assets such as equities, bonds, commodities, etc.



Classification of investment funds

The investment fund universe can be classified as follows:

- Money market funds invest in a diversified portfolio of money market securities or short-term fixed-interest assets such as fixed deposits, Treasury bills, corporate and government bonds, etc.
- Bond funds invest in a diversified portfolio of bonds with fixed and variable interest.
- Depending on the particular strategy, equity funds invest in a differentiated manner e.g. in the stocks of small, medium-sized or large corporations of a specific country, economic area or industry.
- Funds with alternative assets are investment funds that invest in so-called alternative assets such as commodities or real estate:
 - Strategy funds invest in a diversified portfolio of money market products, bonds, equities or alternative assets.
 - Commodity funds invest mostly in a diversified portfolio of commodities using equities, bonds, structural products or derivatives.
 - Real estate funds invest in income-generating properties such as commercial real estate, business properties or larger residential developments. A real estate fund can be bought on the stock exchange only plus a premium on the net asset value (NAV).
- Funds with special risks may also invest fund assets in investments that have only limited marketability, are subject to substantial price fluctuations, and exhibit a limited risk distribution. If the investments contain a special risk that is not comparable with the

risk of a securities fund, this constitutes a fund with special risk that is aimed at investors with a heightened risk appetite (risk is indicated by the name “investment fund with special risk”). Units of funds with special risk may be sold only with a written contract in which attention is drawn to this special risk.

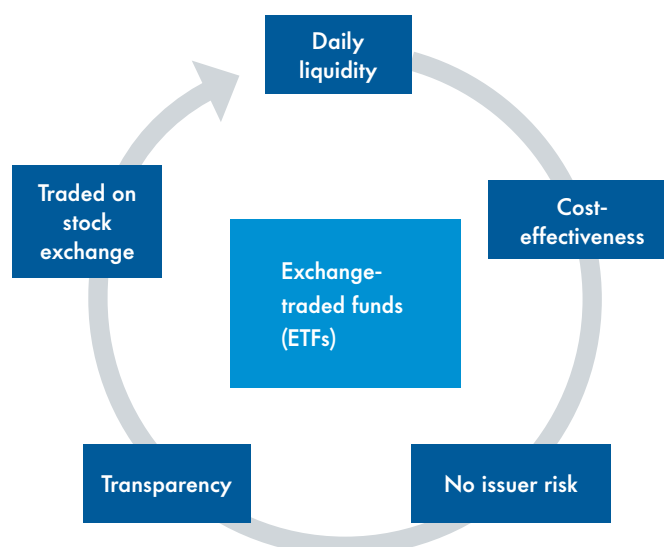
ETFs/special characteristics of exchange-traded funds:

Exchange-traded funds (ETFs) are listed investment funds without maturity limit that are traded on an ongoing basis during stock exchange trading hours.

Like classic investment funds, ETFs invest in asset classes such as equities or bonds and are traded at a price that is close to the underlying asset value. Therefore, the price of the ETFs can fluctuate during the trading day.

Unlike classic investment funds, ETFs within the context of this documentation are not actively managed by the fund management, but instead passively replicate an index.

As in the case of classic investment funds, the investor capital constitutes special assets that in the event of the insolvency of the issuer are not part of the bankruptcy assets (no issuer risk). ETFs should not be confused with exchange-traded notes (ETNs) and exchange-traded commodities (ETCs). These products are derivatives and consequently entail an issuer risk.



High transparency and low management fees:

As a rule, an ETF aims to replicate a specific index 1:1. This means the composition of the fund is clear at all times (high transparency). As a rule, ETFs are cost-effective, as they are traded without an issue or redemption surcharge and are settled for standard trading fees. In addition, management fees tend to be lower than in the case of classic investment funds.

Special ETF types:

There are special types of ETFs, e.g. swap-based, leveraged or short ETFs.

- **Swap-based ETFs** replicate an index using swaps (swap contracts).
- **Leveraged ETFs** replicate an index, but also use borrowed capital in addition to the investor capital in order to achieve a higher return.
- **Short ETFs** enable the investor to participate in any negative performance of the underlying index.

Some of these products have special characteristics that differ sharply from standard ETFs and may consequently also be subject to heightened risks. The detailed characteristics of the special ETF types are set out in the respective fund documentation.

Benefits

Diversification

Comprehensive investor protection (special assets, regulation)

From a legal perspective, investment funds/ETFs constitute special assets that in the event of the insolvency of the issuer of the investment fund are not part of the bankruptcy assets. Investment funds/ETFs are also regulated investment instruments.

Small investment sums

Investors can use investment funds to invest even small sums in broadly diversified portfolios.

New markets and professional fund management

Investment funds make asset categories or markets that are otherwise difficult for private investors to access available for investment purposes, such as for example emerging economies. Individual investors are also not obliged to make investment decisions themselves. This is done by a professional fund manager in accordance with the defined investment strategy.

High liquidity

If the investor wishes to sell units in investment funds, they may return these to the fund company at any time at the net asset value (NAV), or in the case of ETFs, sell these on a stock exchange. In the case of investment funds, prices are calculated only once per day, while ETFs prices are continuously calculated on the stock exchange. Real estate funds are subject to special rules.

ETFs

ETFs are characterised by high transparency and generally low management fees.

Risks

Potential loss

The investor can suffer a loss when investing in an investment fund/ETFs, as the value of the fund can fall below the purchase price. Because the risk is distributed across a large number of underlying securities, the likelihood of a total loss is relatively low.

Market risk

The investor bears the risk that the value of the investment fund/ETFs could fall while being held. This may be brought about by fluctuations in the market prices of the underlying assets, such as equities, interest rates, currencies or commodities.

Credit risk

Swap-based ETFs replicate an index not through the purchase of index components, but instead with the help of swap contracts (swaps). A swap counterparty – usually another bank – thereby undertakes to pay the corresponding index performance of the ETFs. Pursuant to current regulatory provisions, the resulting counterparty risk within the ETFs is limited to 10% of the fund assets.

Liquidity risk

The liquidity of an investment fund/ETFs is determined by the liquidity of the underlying assets. If the underlying assets become illiquid, the redemption of fund units may be suspended for a period defined by the fund. Under certain circumstances, the fund can also be liquidated.

Foreign exchange risk

The investor may be exposed to a foreign exchange risk if (i) underlying assets are traded in a currency other than that of the investment fund/ETFs, or (ii) the fund is invested in a currency other than the domestic currency of the investor.

Tracking risk

As a rule, the return generated by an investment fund/ETFs is lower than the return of the underlying index or of the benchmark, as management fees and additional costs are associated with the investment fund/ETFs.

Further risk aspects

The investor may be exposed to further risk aspects. For example, investment funds/ETFs may invest in securities from emerging economies or in commodities as well as in real estate.

Funds with special risk

In addition to the aforementioned risk aspects, these funds also invest in assets that are marketable only to a limited degree, are subject to substantial price fluctuations and have a limited risk distribution that is inherently contradictory to the fundamentals of the investment fund.

Units of funds with special risk may be sold only with a written contract in which attention is drawn to this special risk. Furthermore, the investor must be in possession of the fund prospectus.

Hedge funds qualify as funds with non-traditional assets and require mandatory classification as "other funds with special risk".

Legal notice

The information used in this publication derives from external sources that Zuger Kantonalbank considers reliable. Zuger Kantonalbank has no reason to assume otherwise. Nevertheless, Zuger Kantonalbank cannot guarantee that the information in this publication is up-to-date, correct or complete. **This is provided for information and marketing purposes only.** It constitutes neither an offer in the legal sense nor a solicitation or an individual recommendation for the purchase or sale of certain financial instruments or banking services, and therefore cannot replace a client consultation with further specific product information. This publication does not relieve the recipient of the need to exercise his/her own judgement. The recipient should in each case also draw upon the specific product documentation as well as the brochure of the Swiss Bankers Association concerning 'Risks Involved in Trading Financial Instruments' (available on the home page of the Swiss Bankers Association: www.swissbanking.org) for information purposes. This publication contains no recommendations whatsoever of a legal nature or pertaining to investment, accounting or tax, nor can it disclose all risks relating to financial instruments. The recipient of this publication is advised to check before each transaction whether this is appropriate for his/her specific circumstances and objectives. For this purpose, Zuger Kantonalbank recommends that the recipients of this publication conduct an independent assessment of the specific financial, legal, regulatory, tax, credit and accounting consequences together with a professional financial adviser. The present publication is moreover intended exclusively for persons domiciled in Switzerland, who are not US persons, and is consequently expressly not intended for persons whose nationality and/or place of residence prohibits access to such information on the basis of applicable legislation. Neither the present publication nor copies thereof may be sent or taken abroad. The bank accepts no responsibility for any such activities by third parties. Zuger Kantonalbank otherwise assumes no liability for potential losses or damage arising from the distribution or utilisation of this publication.