Zuger Kantonalbank

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).

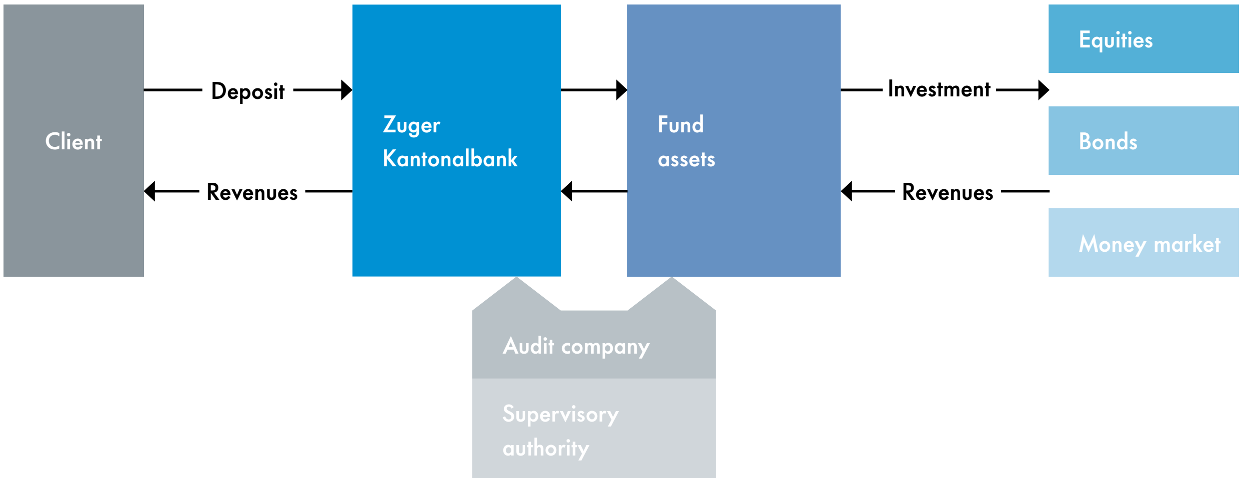
Investment funds also include exchange-traded funds (ETFs), which as a rule passively (i.e. without an active selection of the underlying assets) replicate an index and are traded on stock exchanges.

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.



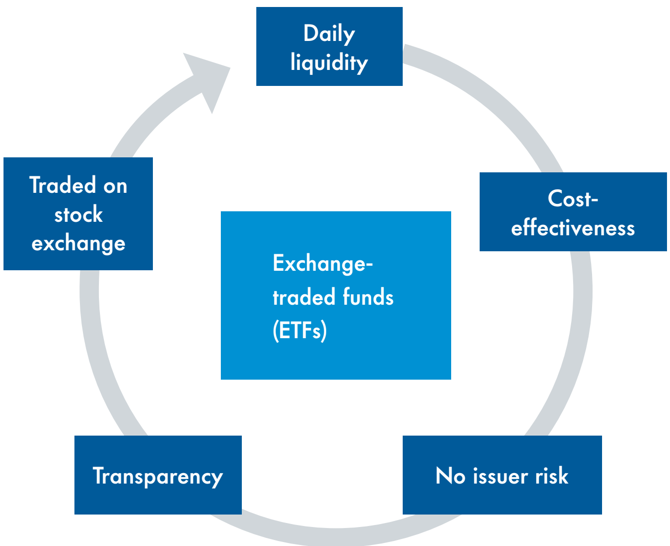
Classification of investment funds

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 debentures 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”.