EVLI

2.4.2022

INFORMATION ON FINANCIAL INSTRUMENTS AND THE ASSOCIATED RISKS

1. Introduction

This document contains information on the most common financial instruments and the risks most commonly associated with them. However, this information is not exhaustive.

Investment activities always involve a financial risk. The targeted return may not be achieved, and the invested capital could even be lost partly or entirely. Typically, an investor seeking a high return will have to also accept a higher risk associated with the investment instrument. Before making investment decisions, investors must always thoroughly familiarize themselves with the terms and conditions of the financial instruments, and their particular properties and resultant obligations, in order to understand the associated risks and possible effects on the investors financial position. The service provider can provide further information on the financial instruments listed below and on other financial instruments and their risks upon request.

2. Main risk categories

Market risk
The risk that the market invested in will weaken entirely or partially, or that there will be an adverse movement on the market invested in, resulting in a loss. Market risk is a result of fluctuations in market prices. Markets risks include interest rate risk, equities risk, currency risk and other price risks. Value of the financial instruments may rise or fall according to supply and demand, investor interest and price of the underlying or associated investment. Also industrial, political and economic factors may have an impact. Market risk may have an effect in the value of a financial instrument, whether it is a change in the whole market or just in an investment.

Credit risk
The risk that the issuer of a financial instrument, or the counterparty in a transaction, for example, will have insufficient solvency. The issuer, guarantor or the counterparty may be unable to pay interest or repay the capital invested as agreed.

Volatility risk
Means the risk that the value of a financial instrument varies. Associated also with the pricing of options. The risk that the market volatility of underlying assets will become unfavorable. This would affect the price of the options, resulting in a loss.

Price risk
The risk that the price of a financial instrument will become unfavorable, resulting in a loss.

Tax risk
The risk that tax regulations and/or tax rates will be open to interpretation or that they will be amended, resulting in unfavorable tax consequences.

Currency risk
The risk that the foreign currency in which ownership is measured varies. May increase losses or profits of foreign currency, derivative and other financial instruments transactions.

Leverage risk
The structure of a derivatives contract, which results in a risk that the price performance of the underlying assets will significantly affect the price of the derivatives contract. Already a small change in the value of the underlying can have a significant impact on

value or price of the derivative contract.

Legislative risk
The risk that applicable laws will be open to interpretation, or that they will be amended.

Corporate risk
The risk that a certain company will not perform as well as expected or that it will be affected by an adverse event, in which case the value of related financial instruments will weaken.

Sector risk
The risk that a certain sector will not perform as well as expected or that it will be affected by an adverse event, in which case the value of related financial instruments will weaken.

Liquidity risk
The risk that a financial instrument cannot be sold or bought at a certain time, because the amount of trading (liquidity) is low or there is no secondary market for the instrument.

Interest rate risk
The risk results from of interest rates. Interest rates may increase or decrease. The risk that the financial instrument invested in will lose its value, because the market interest rate has changed. Associated especially with bonds and other interest bearing securities.

Emerging markets risks
Risks involved in investments made to emerging markets. Especially in the emerging markets transparency, efficiency, liquidity, market infrastructure, legal system, reliability and legislation may be insufficient compared to developed countries, and therefore, strong market movements are possible.

3. CHARACTERISTICS AND MOST TYPICAL RISKS ASSOCIATED WITH CERTAIN FINANCIAL INSTRUMENTS

3.1 Equities

An equity is an equity security (or share) issued by a limited liability company. The shares of a limited liability company entitle their holder to a share of the company's share capital. An investor could lose all of the capital invested in equities if the company is declared bankrupt. The return from an equity investment consists of dividend and an increase in the share price. Limited liability companies may have different series of shares and one series may confer more votes at a general meeting and a higher dividend may be paid to the shares of another. The value of an equity is based on the view, prevailing at any given time, of the value of the company issuing the equity. The general market trends, cyclical variation, technological advances, legislation, competition and other such factors influence the future demand for a company's products and services. There are two types of limited liability companies: public and private. Only the shares of a public limited liability company are traded in a stock exchange.

The most common risks associated with the price fluctuation of a share are the market risk and the risk associated with the extent of trading (liquidity risk). The non-listed shares are especially susceptible to the liquidity risk. Equity prices vary because of factors such as the company's future outlook and the general market trends. The risks are also generally affected by factors such as the company's line of business, legislative changes, the number of equities issued by the company and the division of ownership. A currency risk is also associated with the value of equities denominated in foreign currencies.

An investor could lose all of the capital invested in equities if the company is declared bankrupt. In addition, investing in equities in the so-called emerging markets can be considered more risky than other equity investment, because these markets may be affected by unstable operating environments and legislation, political risks, abrupt fluctuations in exchange rates, counterparty risks and a lower level of equity market liquidity. Companies may be nationalized, for example, in which case the owner may lose his right of ownership.

Equities subject to trading in stock exchange are typical investments for non-professional and professional investors. Such listed equities are classified as non-complex financial instruments. Unlisted equities are complex financial instruments and especially for non-professional investors it may be difficult to understand risks involved in such instruments.

3.2 Options

Equities can also be equated with equity options, which entitle their holders to buy (call options) or sell (put options) the company's equities during a specified period at a pre-determined price. The purchase price of an option is known as premium. It reflects the price of the right to exercise an option when the option is profitable. There is less risk involved in buying call and put options than in selling them because if the underlying security develops negatively, the option does not have to be exercised. The risk faced by the option holder is that, without measures to minimize the risks, the options may lose their value or have no value at all on the termination date. The maximum loss is equal to the premium and brokerage fees or other transaction charges. The price of options usually follows the equity performance of shares making up the underlying assets of corresponding options or of indexes but their price fluctuations may be greater. Option prices may also be affected by equity price volatility and the remaining exercise period of the options. The price volatility of options is greater than that of the underlying equities, due to the smaller amount of invested capital (the so-called leverage effect).

Options are complex financial instruments and especially for non-professional investors it may be difficult to understand risks associated to such instruments.

3.3 Fixed income instruments

For fixed income instruments the risk is associated with potential exchange rate changes (share price risk) when the market interest rate changes while the investment is valid. Another risk is that the issuer may not be able to repay the bond (credit risk). Bonds that have been fully secured (full collateral) have less risk than unsecured loans (no collateral). In general, the risk of making a loss is lower for fixed income instruments than for equities. A fixed income instrument issued by an issuer with a high credit rating may therefore be a good choice for investors wanting to minimize the risk of their invested assets losing value. A number of fixed income instruments are well suited for short-term saving. Investment in fixed income instruments are very common when investors wanting to make long-term savings to avoid putting the assets at risk, for example accumulating a pension. The disadvantage of investments in fixed income investments is that the increase in their value is generally low compared to shares, for example. Examples of investments in fixed income instruments are savings accounts, private bonds and fixed-income funds.

Different fixed income instruments are typical investments for professional and non-professional investors depending on the characteristics of the individual instrument. Some fixed income instruments may be classified as complex financial instruments and especially for non-professional investor it may be difficult to understand risk associated to such instruments.

3.3.1 Bonds

A bond is a debt security issued by the public sector, a financial institution or a company for the purpose of long-term financing. The duration of bonds is usually three years or more. A bond can have either a fixed or a floating interest rate or even a zero interest rate. The value of a bond is determined on the basis of its current cashflow value. Cashflows are derived from coupon rates and repayments of the loan capital. One exception to this are zero coupon bonds which yield no interest but which are sold at a discount.

A convertible bond is a bond whose holders are entitled to convert their bonds to equities of the issuer according to a pre-determined ratio. A convertible bond combines an interest income and an opportunity to either receive a return of principal or benefit from the increase of the share price. Convertible bonds are complex financial instruments.

A debenture is a bond that has lower priority to the other securities of the issuer in the case of bankruptcy. Because a debenture has a higher risk and lower liquidity than an ordinary bond, it is generally paid a higher interest than other bonds.

The most common risks associated with bonds are the interest rate risk and the credit risk. The value of a bond is determined by the return requirement prevailing on the market, i.e. by the discount rate. Foreign bonds may also be affected by a currency risk. It is also possible, that there will not be a secondary market for the bond every day. Bonds include both higher and lower risk alternatives. The interest rate is lowest for government bonds because they are considered almost risk-free. The higher the risk concerning repayment, the higher the interest the issuer is generally required pay.

3.3.2 Money market instruments

Money market instruments are debt instruments which companies use to gain short-term financing from the financial markets. The maximum life-time of money market instruments is usually 12 months. Money market instruments include treasury bills, certificates of deposit, commercial papers, local authority papers and Euro Commercial Papers (ECP).

Money market investments are primarily so-called non-interest bearing papers where the issuer pays the holder the nominal value of the paper on the due date stated on the paper. The return on interest-free money market investments derives from the difference between the acquisition price and the nominal price. They can be sold on secondary markets.

Two risks are typically associated with money market instruments. One is the risk arising from fluctuation in interest rates and the maturity of the instrument, i.e. the duration of the loan (interest rate risk) and the other is the risk associated with the solvency of the issuer / receiver of deposit (credit risk). The credit risk is greater in the case of fixed income instruments issued by an issuer with a low credit rating.

3.4 Investment funds

It is often also possible to make investments in financial instruments (individually or in combination) through investment funds. A investment fund can be described as a portfolio containing various financial instruments, such as equities and bonds. Funds are mutually owned by all the unit holders investing in them and are managed by a fund management company. The fund management company collects the assets of private persons and entities and invests them in the range of financial instruments that form the mutual fund.

Investmentl funds (so called UCITS funds) can be classified according to the types of financial instruments in which the fund invests. For example, funds can invest in equities (equity fund), fixed income instruments (fixed income fund) or a combination of the two (balanced fund). Funds can also invest in other funds (funds of funds).

The fund rules outline the objectives and restrictions governing the fund’s investment activity. The mutual fund invests the assets gained from the sale of fund units in compliance with the investment strategy stated in the fund rules. The majority of mutual funds follow an investment policy in which the risks are diversified. Some funds do not follow this policy, however, and these funds are known as non-UCITS funds.

According to how the profits are distributed, investment funds may be classified as yield funds (distributing their profits every year) or growth funds (in which the profits are reinvested to increase the value of the fund units). A fund may have both yield and growth units.

The fund's risk level depends on its investment strategy and hence its investment assets. By diversifying the investment assets between several independent investments, the fund's overall risk is decreased in relation to a single investment. The risk of a fund is also influenced by the class of assets the fund invests in. Funds that invest only in the equity market, for example, have a higher level of risk than fixed-income funds and the risk level of a balanced fund depends on the ratio between equity and fixed-income investments. Although the funds are generally liquid every day, their liquidity may be limited by the fund rules to protect unit holders in exceptional market conditions, for example, or due to the investment policy of the fund. In addition, redemptions of the units of non-UCITS funds may only be possible at certain times – for example, once a month, or less. The values of funds denominated in foreign currencies are also affected by exchange rate movements.

The fund management company must redeem fund units at the investor's request. Operating expenses such as management and custodian fees, the amount of which varies from fund to fund as is specified in the simplified fund prospectuses, are deducted from the fund's assets.

Investment funds are typical investments for non-professional and professional investors depending on the characteristics of the individual instrument. Some investment funds may be classified as complex financial instruments and especially for non-professional investor it may be difficult to understand risk associated to such instruments.

3.4.1 Alternative investment funds ("AIF")

There are also various alternative investment funds on the market, such as real estate, hedge and private equity funds. Real estate funds invest in real estate. Alternative investment funds may invest in almost anything because the investment activities in these funds are not regulated. Instead, alternative investment fund managers are regulated on their activities and disclosure obligations towards investors and authorities.

Real estate funds invest in real estates. Hedge funds are non-UCITS funds and often take more risk than mutual funds. They may use techniques that carry a higher risk, such as borrowing, short-selling, leveraging, swaps and derivatives to gain significant return for investments.

Alternative investment funds are complex financial instruments and especially for non-professional investor it may be difficult to understand risk associated to such instruments. Non-professional and professional investors may invest in alternative investment funds depending on the characteristics of the individual product.

3.5 Exchange Traded Funds and other exchange traded products

There are also Exchange Traded Funds (ETF). ETFs are like ordinary funds, but they can be traded like shares in stock exchanges. The risks of ETF investing are generally the same as in other types of international fund investing. ETFs usually follow an index and do not themselves choose what they invest in. Instead, they invest their assets in accordance with an index that reflects the composition of the market. ETFs can also invest in derivatives, the value of which is determined by a chosen index. There are active and passive ETFs and today also many products that invest in a large variety of asset classes. The risks associated with ETFs may vary according to the investment assets. For instance, an ETF that invests in commodities and the emerging markets may have a volatility risk while an ETF investing in bonds may have an interest rate risk. In general, ETFs may have a liquidity risk.

ETFs are typical investments for non-professional and professional investors depending on the characteristics of the individual product.

Other traded products include Exchange Traded Notes (ETN) and Exchange Traded Commodities (ETC). In a structural sense they are bonds and do not have to comply with the diversification and collateral requirements of mutual funds. This means that an investor's position may be weaker than an ETF investor's in the case of a market disruption or an issuer's insolvency. Because of their structure, these products may entail an issuer or counterparty risk.

Other exchange traded products are typically complex financial instruments and especially for non-professional investor it may be difficult to understand risks associated to such instruments.

3.6 Derivatives

A derivatives contract is a contract whose value depends on the changes in the value of the underlying assets, price fluctuations, fluctuations in the interest rate, the maturity of the contract or any other factor affecting the value of the derivative.

The underlying asset of a derivative contract may be a share, currency, interest rate, commodity, credit risk, index or an indicator of the trend of such an asset. The maturity period of derivative instruments ranges from a very short period to several years. The most common derivatives include options, forward contracts, futures, swaps and their combinations. Derivatives may be either standardized and non-standard (OTC derivatives).

Derivatives are most commonly used to hedge other investments and against financial risk. The maturity period of derivative instruments ranges from a very short period to several years. The final return of the derivatives contract depends on the performance of the chosen underlying asset. The return of derivative instruments is also affected by other factors that may be mentioned in the terms and conditions of the contract and by any expenses related to the setting of collateral.

Depending on the type, derivatives contracts may result in financial commitments or obligations for the client other than the acquisition cost, and acquisition may involve a requirement for collateral or other obligations. As the value of a derivatives contract may fluctuate by large amounts very rapidly, any shortfall in collateral may have to be covered by additional collateral. The collateral may also have to be realized.

Because derivatives are contracts with underlying assets, the risks associated with the underlying assets and the resulting price fluctuations will directly affect the value of the derivatives. The risks most commonly associated with derivatives contracts are the market risk associated with the value of the underlying assets, the credit risk resulting from counterparty's insolvency, the leverage risk and the currency risk associated with the value of derivatives denominated in foreign currencies. The terms and conditions of individual derivatives contracts can allow for the possibility of large profits/losses. The risk of making a loss can theoretically, in certain strategies, become limitless.

Derivatives are complex financial instruments and especially for non-professional investor it may be difficult to understand risks associated to such instruments. Investments in derivatives are typically made by experienced or professional investors.

3.7 Warrants

Warrants are securitized derivatives that are traded on the stock exchange. The underlying assets of a warrant can be, for example, equities, indexes, commodities or currencies.

A call warrant gives the right to buy and a put warrant gives the right to sell the underlying assets on a certain date at a certain price. If the warrant has value on its expiry date, the investor will receive the corresponding sum either in cash or in value units. European warrants are exercised on their expiry date. But American warrants can be exercised at any time before expiry.

The trading of warrants is very dependent on market-making by the warrant's issuer. In market-making the issuer can agree to make a sell or buy quotation for the warrant. The terms and conditions of market-making are described in the warrant's prospectus and these terms and conditions can vary significantly, depending in the issuer and the warrant.

A warrant may have no value on its expiry date and in that case the investor will lose his investment. A call warrant will expire with no value if the value of the underlying assets is lower than the exercise right of the warrant on its expiry date. In contrast, a put warrant will expire with no value if the value of the underlying assets is higher than the exercise right of the warrant on its expiry date. The most common risks associated with warrants are the market risk, leverage risk, credit risk and currency risk.

Warrants are complex financial instruments and especially for non-professional investor it may be difficult to understand risks associated to such instruments.

3.8 Structured products

Structured products are usually bonds whose return structure is more complex than that of normal bonds, which can make it difficult to compare them with other investment options. The return structure may contain leverage effects, which means that even very small changes in the performance of the underlying assets can have a significant effect on the value and return of the bond. The bond's return may be tied to the price performance of an equity or mutual fund, an equity or fund index, a currency or currency basket, raw materials or a raw material index, or credit derivatives, or it may be tied to a corresponding underlying asset or combination of assets. The past performance of a corresponding investment is no guarantee of future return, and there is no information on the past performance of certain underlying assets.

A limited amount of information is obtainable on certain underlying assets, such as hedge funds or the indexes formed from them, because information on their official closing prices is quoted less often than normal.

The relationship between the value of a debt instrument and the performance of an underlying asset or the change between them is not always linear, but the return structure and index figure define the extent of the performance to which the investor has access. The amount of the investor's assets that are at risk is greater than normal in those structured products that are subscribed for or purchased at a premium rate. This means that the investor pays a sum of money that is greater than the nominal value. In this case there is a risk that the investor will get back only the nominal value and will lose the premium rate paid.

If the issuer has been given the right to redeem the bonds prematurely, he may use this right particularly if the refinancing expenses for the issuer are lower than the bond's interest. In this case it may not be possible for the investor to reinvest the redemption sum at an effective interest rate that would correspond to the bond's return.

If the terms and conditions of the bond mention that it is subordinated to the company's other commitments then it is a debenture.

If the issuer becomes insolvent or bankrupt, the bond holder will have the same right to the company's assets as other creditors with corresponding unsecured receivables, but the investment will not be subject to deposit protection legislation. The investor should assess the issuer's ability to repay before subscribing to the bond.

Structured bonds are usually capital-protected, which means that the issuer agrees to repay the nominal value of the loan on the expiry date. During the loan period, the issuer may have the right to repay the loan if certain conditions are fulfilled, in which case the amount to be repaid may be lower than the nominal value. As bonds do not have functional secondary markets in Finland, even if they are listed on the stock exchange, the issuer sets the repurchase price.

Structured products are complex financial instruments and especially for non-professional investor it may be difficult to understand risks associated to such instruments. Structured products are typical investments for non-professional and professional investors depending on the characteristics of the individual product.

4. RISK ASSOCIATED WITH INVESTMENT STRATEGIES

The risks associated with various investment strategies are tied to the financial instruments used in the strategy and the related risks. Typically, investor seeking a high return for investment will also have to accept a higher risk associated with the investment strategy.

The chosen weighting between different asset classes in investment strategy affects the overall risk and probability of achieving a set investment objective. Changing the weighting of various asset classes in a strategy may also typically affect the overall risk of the strategy. Fixed income instruments typically involve a lower risk than equities, but the yields of fixed income instruments are lower than in equities. Increasing equities in the investment strategy increases the overall risk of the strategy as well as increases the expected return on investment. Correspondingly, increasing the weighting of fixed income instruments in a strategy reduces the expected return on investment but reduces the overall risk of the investment strategy. Diversification, such as geographic diversification of investments, within a class of assets, reduces the overall risk of a particular asset class.