

COMPREHENSIVE RISK DISCLOSURE DOCUMENT FOR SECURITIES TRADING**Van Sterling Capital Ltd.****Version 2.1 — April 2026****In Compliance with MiFID II, PRIIPS, SFDR, and MFSA Requirements****REGULATORY NOTICE AND DOCUMENT PURPOSE**

This document fulfills the regulatory obligations of Van Sterling Capital Ltd. under the European Markets in Financial Instruments Directive (MiFID II) and the specific requirements of the Malta Financial Services Authority (MFSA). It provides comprehensive disclosure of the risks associated with financial instruments that may be included in the managed investment strategies offered by the Company.

Regulatory Framework Applicable to This Document**European Union Regulations:**

- Directive 2014/65/EU (MiFID II) and Regulation (EU) No 600/2014 (MiFIR)
- Regulation (EU) No 1286/2014 on PRIIPs (Key Information Documents)
- Regulation (EU) 2019/2088 on Sustainability-Related Disclosures (SFDR)
- Regulation (EU) 2022/2554 on Digital Operational Resilience (DORA)

Malta Specific Requirements:

- MFSA Conduct of Business Rulebook (Latest Version)
- Malta Investment Services Act (Chapter 370)
- MFSA Guidance Notes and Circulars on Risk Disclosure

Document Structure and Usage

This document is organized in five main parts to ensure complete coverage of all risk factors while maintaining accessibility. Clients should read all sections relevant to their investment strategy. The document uses both narrative explanations and technical specifications to satisfy different levels of investor sophistication.

EXECUTIVE SUMMARY OF KEY RISKS

Before reading the detailed risk descriptions that follow, investors are invited to keep seven fundamental principles in mind. They apply, to a greater or lesser extent, to every financial instrument discussed in this document and to every managed investment strategy offered by the Company.

First, all investments carry the risk of capital loss. The value of an investment may go down as well as up, investors may recover less than the amount they originally committed, and in the case of leveraged products losses may exceed the amount initially invested. Second, past performance is not a reliable indicator of future results; historical returns, whether positive or negative, should not be extrapolated into the future, and a strategy that has performed well in one period may perform poorly in the next. Third, financial instruments range from comparatively simple to highly complex, and more complex instruments typically carry a higher and less predictable risk profile that requires a corresponding level of understanding before any investment decision is taken. Fourth, the ability to exit an investment at a fair price is never guaranteed; liquidity can deteriorate sharply during periods of market stress, and investors may be unable to sell at the time or the price they would prefer.

Fifth, every financial transaction depends on other parties — issuers, counterparties, custodians, clearing houses, execution venues — honouring their contractual obligations, and no investor protection framework can eliminate the consequences of the failure of such a party. Sixth, the laws, regulations and tax rules applicable to investments evolve continuously, and regulatory or fiscal change can materially affect the value of an investment or the return it generates. Seventh, every investment involves costs — management fees, performance fees, transaction costs, spreads, financing charges, currency conversion and, where applicable, value-added tax — and those costs compound over time, so that even a modest annual drag can materially reduce long-term wealth.

These principles are not substitutes for the detailed descriptions that follow but a framework within which those descriptions should be read. No single summary can capture every risk an investor may encounter, and each client is encouraged to read the chapters relevant to their chosen strategy in full, to consider the information provided in the strategy factsheet and the mandate documentation, and to seek independent professional advice where they feel unable to form an independent judgement.

WHO WE ARE AND HOW WE OPERATE

Van Sterling Capital Limited (the “Company”) is a Maltese investment firm authorised and regulated by the Malta Financial Services Authority (the “MFSA”) under licence number VANS-IF-9616. The Company is licensed as a Class 3 investment firm under the Investment Services Act (Chapter 370 of the Laws of Malta) and provides investment services within the framework of Directive 2014/65/EU on markets in financial instruments (“MiFID II”), Regulation (EU) 2022/2554 on digital operational resilience for the financial sector (“DORA”) and Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”), as transposed and applied in Malta. The Company is supervised by the MFSA in the ongoing conduct of its business.

The Company’s core activity is discretionary portfolio management. Under a discretionary portfolio management mandate, the client appoints the Company to manage their investments on their behalf in accordance with a pre-defined strategy selected by the client at onboarding. The Company, acting through its Portfolio Manager and subject to the oversight of its Risk Manager, its Trading Risk Manager and its Investment Committee, determines which financial instruments to buy, sell or hold within the client’s managed account, and executes those decisions through the appointed custodian and execution venue. The client is the economic owner of the positions held in their account and bears the economic consequences — positive or negative — of the investment decisions taken by the Company within the scope of the mandate.

Clients using the smarter-investments.com platform do not place orders themselves. They do not have access to a proprietary trading platform operated by the Company, and the Company is not the direct counterparty to the financial instruments held in their managed account. The relationship between the client and the Company is that of a client of a discretionary portfolio management service, and the client’s economic exposure to financial instruments is held through the segregated account maintained for the client at the appointed custodian.

A central feature of the service offered by the Company is that clients do not trade on their own behalf. They subscribe to one of the strategies offered on smarter-investments.com, and the Company thereafter implements that strategy within the client’s managed account in accordance with the discretionary mandate signed at onboarding. The client does not place orders, does not have access to a trading interface, and is not required to monitor or intervene in the day-to-day management of the positions. The economic consequences of the strategy accrue to the client in full, but the execution decisions are taken by the Company through its Portfolio Manager and under the oversight of its Risk Manager, Trading Risk Manager and Investment Committee.

Execution and custody are organised differently for cash instruments and for contracts for difference, because the two types of exposure require different types of infrastructure. For cash instruments — equities, exchange-traded funds, investment fund units, bonds and money market instruments — the Company’s custodian and execution venue is Swissquote Bank AG in Switzerland. Assets held at Swissquote Bank AG are booked in the name of the individual client in segregated accounts and are subject to the client-asset and depositor protection rules applicable under Swiss banking legislation. For contracts for difference, which are synthetic leveraged instruments that cannot be held in a conventional securities custody account, the Company currently executes the positions through its relationship with Swissquote Capital Markets Ltd in Cyprus, which is authorised and regulated by the Cyprus Securities and Exchange Commission (“CySec”) and operates within the framework of MiFID II as transposed into Cypriot law. In both cases the client does not interact directly with the execution venue; the relationship between the client and the Company remains that of a portfolio

management client, and the Company acts in its own name and on the client's behalf in placing and managing the relevant positions.

The Company is subject to prudential requirements under Regulation (EU) 2019/2033 and Directive (EU) 2019/2034 on the prudential supervision of investment firms, to anti-money-laundering and counter-financing of terrorism obligations under the Prevention of Money Laundering Act (Chapter 373 of the Laws of Malta) and the Implementing Procedures issued by the Financial Intelligence Analysis Unit (the "FIAU"), and to operational resilience and information and communications technology risk management obligations under DORA. The Company has appointed a Compliance Officer, a Money Laundering Reporting Officer, a Risk Manager and a Trading Risk Manager, each independent of the portfolio management function, and maintains an Investment Committee and a Strategic Advisory Board to provide ongoing oversight of strategy, risk and conduct.

This section is provided so that, in reading the risk descriptions that follow, the client can keep in mind the nature of the relationship they have with the Company, the role of the custodian, and the manner in which the risks described below are borne by them in practice.

PART I: TRADITIONAL SECURITIES RISKS

CHAPTER 1: FIXED INCOME SECURITIES

Section 1.1: Comprehensive Overview

Fixed income securities represent contractual obligations where issuers promise to pay interest and return principal according to specified terms. These instruments include government bonds, corporate bonds, municipal bonds, mortgage-backed securities, asset-backed securities, and money market instruments. Despite their reputation as "safer" investments, fixed income securities carry substantial risks that can result in significant losses.

The fundamental nature of fixed income investing involves lending money to entities that may become unable or unwilling to repay. This credit risk forms the foundation of all other risks in fixed income markets, as even government issuers can default, restructure debts, or inflate away real values through monetary policy.

Section 1.2: Credit and Default Risk

Credit risk encompasses the full spectrum of an issuer's ability and willingness to meet payment obligations. This risk manifests differently across issuer types and credit qualities, with specific characteristics requiring detailed understanding.

Government Securities Credit Risk:

Government bonds, traditionally viewed as risk-free, carry varying degrees of credit risk depending on the sovereign's fiscal position, political stability, and monetary sovereignty. Developed market governments with their own central banks (United States, Germany, Japan) present minimal nominal default risk but can impose losses through inflation or currency devaluation. Emerging market governments face genuine default risk, as demonstrated by Argentina's nine sovereign defaults, Greece's 2012 restructuring affecting private bondholders with 53.5% nominal haircuts, and numerous other sovereign debt crises.

The assumption of government bond safety proves particularly dangerous when governments lose market confidence. Italy and Spain experienced yield spikes exceeding 7% during the 2011-2012 European debt crisis despite being developed economies. Even highly-rated governments can experience rapid creditworthiness deterioration, as the UK's 2022 gilt crisis demonstrated when pension fund margin calls nearly caused systemic collapse.

Green Bonds:

Green bonds and sustainability-linked bonds carry additional risks including greenwashing risk, where proceeds may not achieve stated environmental objectives, and penalty mechanisms that may inadequately compensate for missed targets.

Corporate Bond Credit Risk:

Corporate credit risk varies dramatically across industries, company sizes, and economic cycles. Investment-grade bonds (rated BBB-/Baa3 or higher) historically default at rates below 0.2% annually, but these rates spike during recessions. The 2008 financial crisis saw investment-grade default rates exceed 1%, while previous assumptions suggested such bonds were nearly risk-free.

High-yield bonds (rated below investment grade) present substantially higher default risk, with historical annual default rates averaging 4-5% but reaching 13.5% during the 2009 crisis. Recovery rates for defaulted bonds average only 40% of face value, but range from zero to 80% depending on seniority, collateral, and bankruptcy proceedings. Subordinated bonds typically recover 15-25%, while senior secured bonds might recover 60-70%.

The speed of credit deterioration can shock investors. Investment-grade companies can become junk-rated "fallen angels" rapidly. Ford Motor Company fell from investment grade to junk in 2005. General Electric, once considered ultrasafe, lost its AAA rating and eventually fell to BBB+. These downgrades trigger forced selling by investors restricted to investment-grade holdings, amplifying price declines.

Financial Institution Bonds - Special Risks:

Bank bonds carry unique risks due to regulatory intervention powers. The Bank Recovery and Resolution Directive (BRRD) in Europe grants authorities power to:

- Convert bonds to equity (bail-in)
- Write down bond principal permanently
- Transfer assets away from bondholders
- Suspend payment obligations

These powers apply outside normal bankruptcy procedures, meaning bondholders can suffer losses even when banks remain technically solvent. The 2023 Credit Suisse AT1 bond writedown, where \$17 billion of bonds became worthless while shareholders received compensation, shocked markets and demonstrated these risks' reality.

Contingent Convertible bonds (CoCos) present extreme risk. These instruments convert to equity or suffer principal writedowns when trigger events occur, such as capital ratios falling below thresholds. Triggers can be mechanical (specific ratio levels) or discretionary (regulatory judgment). The complexity of trigger calculations and potential for regulatory discretion make risk assessment extremely difficult.

Section 1.3: Interest Rate Risk Mechanics

Interest rate risk affects all fixed income securities but operates through multiple channels with varying impacts across different instrument types.

Duration and Convexity:

Duration measures approximate price sensitivity to interest rate changes. A bond with 7-year duration will lose approximately 7% of value for each 1% rise in interest rates. However, duration provides only linear approximation. Convexity measures the curvature of the price-yield relationship, becoming crucial for large rate movements.

Modified Duration = Macaulay Duration / (1 + Yield/n)

For a 10-year bond with 5% coupon trading at par:

- Duration ≈ 8.1 years

- 1% rate increase causes \approx 8.1% price decline
- 2% rate increase causes \approx 15.7% price decline (convexity effect)

Long-term bonds exhibit extreme interest rate sensitivity. A 30-year zero-coupon bond has duration equal to its maturity. If rates rise from 2% to 4%, this bond loses 42% of its value. The 2022 rate hiking cycle demonstrated this risk, with long-term Treasury ETFs declining over 40%.

Negative Convexity in Mortgage Securities:

Mortgage-backed securities exhibit negative convexity due to prepayment options. When rates fall, homeowners refinance, returning principal when investors want to maintain higher-yielding investments. When rates rise, prepayments slow, extending duration precisely when investors want shorter duration. This "heads you win, tails I lose" dynamic makes mortgage securities particularly challenging.

Central Bank Policy Risk:

Central banks dramatically influence interest rates through both conventional and unconventional policies. The decade of zero interest rate policies (ZIRP) and quantitative easing (QE) suppressed yields artificially. The subsequent rapid tightening caused historic bond losses. The Bloomberg Global Aggregate Bond Index lost 16% in 2022, its worst year since inception.

Section 1.4: Inflation and Real Return Risk

Inflation erodes fixed income returns through multiple mechanisms that investors frequently underestimate.

Explicit Inflation Impact:

Real Return = Nominal Yield - Inflation Rate

A bond yielding 4% during 6% inflation provides -2% real return. Compounded over time, this erosion proves devastating. \$100,000 invested at 4% nominal yield experiencing 6% inflation has only \$67,000 of purchasing power after 10 years despite growing to \$148,000 nominally.

Inflation Volatility Risk:

Inflation-linked bonds (TIPS, I Bonds) protect against inflation but introduce complexity. These bonds adjust principal for inflation but can lose value if real yields rise. During 2022, TIPS lost value despite high inflation because real yields rose from -1% to +1.5%. The protection mechanism also depends on specific inflation measures that may not match investors' actual inflation experience.

Currency Debasement Risk:

Beyond measured inflation, currencies can lose value through debasement. This occurs when money supply growth exceeds economic growth, eventually causing currency depreciation and imported inflation. Countries with high debt levels face temptation to inflate away obligations, making long-term fixed income investments vulnerable to purchasing power destruction.

Section 1.5: Liquidity and Market Structure Risks

Fixed income market structure creates unique liquidity challenges that become acute during stress periods.

Over-the-Counter Market Dynamics:

Most bonds trade over-the-counter through dealers rather than on exchanges. This structure means:

- No centralized price discovery & wide bid-ask spreads, especially for smaller issues
- Dealer capacity constraints during volatile periods
- Information asymmetry favoring professional traders

During the March 2020 COVID crisis, even U.S. Treasury markets experienced severe dysfunction. Bid-ask spreads widened to levels not seen since 2008. The Federal Reserve intervened with unprecedented bond purchases to restore market function, highlighting that even the world's deepest bond market can experience liquidity crises.

Corporate Bond Liquidity Illusion:

Corporate bonds appear liquid during calm markets but liquidity evaporates during stress. Typical investment-grade corporate bonds trade only 6-8 times annually. During crises, dealers reduce inventory, widening spreads and limiting transaction sizes. Investors needing to sell can face discounts of 5-10% or more from theoretical values.

ETFs have transformed bond market dynamics by providing intraday liquidity for inherently illiquid underlying bonds. This liquidity transformation works during normal markets but can break down during stress. ETF prices can deviate significantly from net asset values when underlying bonds cannot be traded efficiently.

Section 1.6: Call and Reinvestment Risks

Embedded options in bonds create asymmetric risks favoring issuers over investors.

Call Option Impact:

Callable bonds allow issuers to redeem before maturity, typically when interest rates fall. This creates negative asymmetry:

- When rates rise: investors suffer capital losses
- When rates fall: bonds are called, forcing reinvestment at lower rates

Consider a 30-year bond with 6% coupon callable after 10 years. If rates fall to 3%, the issuer calls the bond, forcing investors to reinvest at half the original yield. The option value belongs entirely to the issuer while investors receive minimal yield compensation.

Reinvestment Risk Quantification:

Reinvestment risk affects total returns significantly. A 10-year bond with 5% yield-to-maturity assumes coupon reinvestment at 5%. If reinvestment rates average only 3%, total return falls to approximately 4.2%. For pension funds and insurance companies matching long-term liabilities, reinvestment risk can create severe asset-liability mismatches.

CHAPTER 2: EQUITY SECURITIES

Section 2.1: Fundamental Equity Risks

Equity securities represent residual ownership claims on corporate assets and earnings after all other obligations are satisfied. This subordinated position creates both opportunity for unlimited gains and risk of total loss. Unlike bonds with contractual payment obligations, equities provide no guaranteed returns, making them inherently more volatile and risky than fixed income securities.

The complexity of equity valuation, depending on countless variables from company-specific factors to global economic conditions, means prices constantly fluctuate based on changing perceptions of future prospects. These perceptions can shift dramatically based on new information, rumors, or simple changes in market sentiment, creating an environment where capital can be destroyed rapidly and without warning.

Section 2.2: Market and Systematic Risk

Market risk affects all equities simultaneously through economic cycles, monetary policy changes, and shifts in risk appetite. During market corrections, correlations among stocks increase dramatically, eliminating much of the benefit from diversification precisely when it's needed most.

Historical Loss Magnitudes:

Major equity markets have experienced devastating losses throughout history:

- U.S. Great Depression (1929-1932): -89% decline
- Japan Nikkei (1989-2003): -82% decline, still below peak 35 years later
- NASDAQ Dot-com Bubble (2000-2002): -78% decline
- Global Financial Crisis (2007-2009): S&P 500 -57% decline
- COVID-19 Crash (2020): -34% decline in 33 days

These losses prove that even diversified equity portfolios in developed markets can suffer extreme depreciation. The assumption that "stocks always go up long-term" ignores that "long-term" can exceed human investment horizons. Japan's experience demonstrates that major markets can remain below previous peaks for generations.

Volatility Clustering and Fat Tails:

Equity returns exhibit volatility clustering, where volatile periods follow volatile periods. Standard models assuming normal distributions severely underestimate extreme event probability. Market movements of 5+ standard deviations, supposedly occurring once per 7,000 years under normal distributions, have occurred multiple times per decade.

The VIX (volatility index) averaged 19.5 historically but spiked above 80 during the 2008 crisis and above 65 in March 2020. These volatility explosions create feedback loops where rising volatility triggers risk-management selling, further increasing volatility. Options hedging, portfolio insurance, and risk-parity strategies can amplify these dynamics.

Section 2.3: Company-Specific and Business Risks

Individual companies face countless risks that can destroy equity value regardless of broader market conditions.

Technological Disruption:

Entire industries can be disrupted by technological change. Consider:

- Kodak: Dominated photography, bankrupted by digital cameras
- Blockbuster: Video rental giant, destroyed by streaming
- Nokia: Mobile phone leader, missed smartphone transition
- Blackberry: Smartphone pioneer, obsoleted by iOS/Android

These weren't gradual declines but rapid collapses. Nokia's market capitalization fell from €110 billion to €10 billion in five years. Investors who believed these industry leaders were "safe" blue-chip investments lost most of their capital.

Management and Governance Failures:

Corporate executives can destroy shareholder value through poor decisions, fraud, or self-dealing:

- Enron: Accounting fraud led to bankruptcy, total loss for shareholders
- WorldCom: \$11 billion accounting scandal, shareholders wiped out
- Wirecard: €25 billion fraud, went from DAX component to worthless
- Theranos: \$9 billion valuation to zero based on fraudulent claims
- FTX: \$32 billion to bankruptcy in one week

Even without fraud, management mistakes prove costly. General Electric, once the world's most valuable company, lost 75% of its value through poor acquisitions and financial engineering. Wells Fargo's fake accounts scandal destroyed billions in market value and resulted in ongoing regulatory restrictions.

Competitive and Strategic Risks:

Companies operate in dynamic competitive environments where advantages erode constantly. Amazon's rise destroyed traditional retailers. Tesla's success pressures established automakers. New entrants with innovative business models can capture market share rapidly, while incumbents struggle with legacy costs and outdated strategies.

Network effects and winner-take-all dynamics in technology markets mean small competitive disadvantages can spiral into irrelevance. Social networks, payment platforms, and operating systems exhibit these dynamics where second place means distant second, and third place means irrelevance.

Section 2.4: Valuation and Multiple Risk

Equity valuations depend on earnings multiples that fluctuate dramatically based on sentiment, interest rates, and growth expectations.

Multiple Compression:

Price-to-Earnings (P/E) ratios can compress rapidly:

- Technology stocks traded at 100+ P/E ratios in 2000, fell to 15-20
- Tesla's P/E exceeded 1,000 in 2020, compressed to under 50
- Entire markets re-rate: S&P 500 P/E fell from 25 to 15 during 2022

A stock maintaining constant earnings can lose 40% of its value purely through multiple compression from 25x to 15x P/E. This risk is separate from and additional to business performance risk.

Growth Stock Vulnerabilities:

High-growth stocks trading at elevated multiples face extreme sensitivity to growth disappointments. Missing quarterly earnings by pennies can trigger 20-30% single-day declines. Netflix lost 35% in one day in April 2022 after reporting subscriber losses. Meta (Facebook) lost 26% in a day in February 2022 on user growth concerns.

The mathematics of high multiples creates asymmetric risk. A stock at 50x earnings that misses growth expectations might re-rate to 25x, losing half its value even if the business remains profitable. Conversely, exceeding expectations might only expand multiples marginally since extreme optimism is already priced in.

Section 2.5: Dividend and Income Risks

Investors seeking equity income through dividends face specific risks often underappreciated.

Dividend Cuts and Eliminations:

Dividends are discretionary payments that companies regularly reduce or eliminate:

- 2008-2009: S&P 500 companies cut dividends by \$58 billion
- 2020: 68 S&P 500 companies suspended or cut dividends
- European banks eliminated dividends under regulatory pressure
- Energy companies slashed dividends when oil prices collapsed

Companies previously considered "dividend aristocrats" with decades of consistent payments have cut dividends. General Electric paid dividends for over 100 years before cutting them 50% in 2009 and eventually to \$0.01. Dividend cuts often accompany share price collapses, creating double losses for income-focused investors.

Dividend Trap Risk:

High dividend yields often signal distress rather than opportunity. Yields rise mechanically as share prices fall, creating "dividend traps" where high yields precede dividend cuts. Investors attracted by 8-10% yields frequently suffer capital losses exceeding any dividends received before cuts occur.

Section 2.6: Market Structure and Liquidity Risks

Modern equity market structure introduces risks beyond traditional business and economic factors.

Fragmentation and Complexity:

Equity trading occurs across dozens of venues including:

- Traditional exchanges (NYSE, NASDAQ)
- Alternative Trading Systems (ATS/Dark Pools)
- Systematic Internalisers
- Over-the-counter markets

This fragmentation means no single "true" price exists. Different venues can show different prices simultaneously. During volatile periods, these price discrepancies widen, creating execution uncertainty.

High-Frequency Trading (HFT) Impact:

HFT firms account for 50-70% of equity trading volume. Their strategies include:

- Latency arbitrage: Exploiting microsecond speed advantages
- Quote stuffing: Overwhelming markets with orders
- Momentum ignition: Triggering directional moves
- Spoofing: Placing false orders to manipulate prices

These practices disadvantage traditional investors through:

- Adverse selection: HFT firms trade against uninformed order flow
- Increased volatility: Algorithms amplify price movements
- Liquidity mirages: Apparent liquidity disappears when needed

Circuit Breakers and Trading Halts:

Markets employ circuit breakers to pause trading during extreme moves:

- Individual stock halts: 5%, 10%, 20% moves trigger pauses
- Market-wide halts: 7%, 13%, 20% S&P 500 declines

While intended to calm markets, halts can trap investors in positions, create gaps at reopening, and signal distress that accelerates selling. The March 2020 market triggered Level 1 circuit breakers four times in two weeks, unprecedented events that amplified uncertainty.

Section 2.7: Regulatory and Political Risk in Equity Investments

Regulatory changes represent a major source of equity value destruction that can occur suddenly and dramatically affect entire sectors or specific companies.

Sector-Specific Regulatory Impacts:

Technology companies face escalating regulatory pressures:

- Data privacy regulations (GDPR, CCPA) imposing billions in potential fines
- Antitrust investigations threatening business model breakups
- Content moderation requirements creating compliance costs
- AI regulations potentially limiting development and deployment
- Cross-border data transfer restrictions affecting operations

Financial services confront continuous regulatory evolution:

- Capital requirements reducing return on equity
- Conduct regulations limiting fee income
- Ring-fencing requirements restricting business models
- Resolution regimes enabling regulatory intervention
- Cryptocurrency regulations affecting fintech ventures

Healthcare companies navigate complex regulatory mazes:

- Drug approval delays or rejections destroying development investments
- Pricing controls limiting revenue potential
- Reimbursement changes affecting profitability
- Patent challenges eliminating exclusivity
- Clinical trial regulations increasing costs

Energy companies face existential regulatory threats:

- Carbon pricing mechanisms affecting competitiveness
- Emission standards requiring massive capital investment
- Drilling and extraction bans eliminating resources
- Renewable energy mandates disrupting business models
- Nuclear regulations affecting operational viability

Sustainability-Related Regulatory Risks (SFDR Integration Point):

EU Taxonomy regulations and mandatory sustainability reporting requirements create new compliance obligations:

- Companies failing to meet taxonomy criteria may lose institutional investment
- Sustainability reporting violations can trigger significant penalties
- Greenwashing accusations can result in regulatory action and reputational damage

- Carbon border adjustments will affect international competitiveness
- Sustainable finance regulations may restrict access to capital markets

Companies not adapting to sustainability requirements face:

- Exclusion from ESG indices and funds
- Higher cost of capital as investors demand risk premiums
- Potential delisting from exchanges implementing sustainability standards
- Stranded assets as regulations phase out certain activities
- Legal liability for inadequate climate risk disclosure

Political Risk Factors:

Government interventions can destroy equity value overnight:

- Nationalization or expropriation of assets
- Windfall taxes on "excess" profits
- Price controls limiting pricing power
- License revocations or non-renewals
- Foreign ownership restrictions forcing divestments
- Trade restrictions limiting market access
- Sanctions affecting international operations

Examples of Regulatory Value Destruction:

- Facebook/Meta: Lost \$230 billion in market value in one day partly due to iOS privacy changes driven by regulatory pressure
- Chinese Education Sector: Lost 90% of value when China banned for-profit tutoring
- Tobacco Companies: Decades of declining valuations from advertising bans, plain packaging, and usage restrictions
- German Utilities: Lost billions when nuclear phase-out was accelerated after Fukushima
- Ride-sharing Companies: Faced 30-50% drops when cities implemented driver employment regulations

CHAPTER 3: INVESTMENT FUNDS

Section 3.1: Structural Risks in Fund Investments

Investment funds pool investor capital for professional management, but this structure creates risks beyond those of underlying assets. The intermediation through fund structures introduces operational, legal, and behavioral risks that can significantly impact investor outcomes.

The fundamental misalignment between fund liquidity terms and underlying asset liquidity creates systemic vulnerabilities. Open-ended funds promising daily liquidity while investing in potentially illiquid assets face inherent contradictions that manifest during market stress. This liquidity transformation function works during normal markets but breaks down precisely when investors most need access to capital.

Section 3.2: Open-Ended Fund Risks

Liquidity Mismatch Dynamics:

Open-ended funds must balance investor redemption rights with investment in potentially illiquid assets. This creates several risk mechanisms:

During redemption waves, funds must sell assets to meet withdrawals. If liquid assets are exhausted, funds must sell less liquid holdings at increasingly unfavorable prices. This creates a "first-mover advantage" where early redeemers receive better prices than those who wait, incentivizing runs on funds during stress.

The mathematics of fund runs prove devastating. Consider a fund with 20% cash holdings and 80% invested assets. If 25% of investors redeem:

- Cash exhausted immediately
- Must sell 6.25% of invested assets
- If those assets trade at 10% discounts: 0.625% loss for remaining investors
- If redemptions reach 50%: must sell 37.5% of assets
- At 10% discounts: 3.75% loss beyond market moves

Real-world examples demonstrate these dynamics:

- UK property funds gated redemptions in 2016 and 2020
- Woodford Equity Income fund collapsed in 2019, trapping £3.7 billion
- GAM funds suspended after manager dismissal, eventual 80% losses
- H2O Asset Management funds suspended on illiquid bond concerns

Gate Provisions and Suspension Mechanics:

Funds can implement various liquidity management tools:

Redemption Gates: Limit redemptions to specific percentages (typically 5-10% per period). Once limits are reached, additional redemption requests queue for future periods. Gates create prisoner's dilemma dynamics where investors rush to redeem before gates close.

Suspension Powers: Funds can completely suspend redemptions for "extraordinary circumstances." Definitions of extraordinary prove elastic during crises. Suspensions can last months or years while funds liquidate positions. The Woodford fund suspension lasted from June 2019 to January 2020, ultimately returning only 40-50% of pre-suspension values.

Swing Pricing: Adjusts fund NAV for transaction costs, making redeemers bear liquidation costs. While theoretically fair, swing factors can reach 5-10% during stress, shocking investors expecting NAV redemptions.

In-Kind Redemptions: Instead of cash, funds deliver portfolio slices to redeemers. This transfers liquidation burden to investors, who may be unable to sell received securities efficiently.

Section 3.3: Alternative Investment Fund Risks

Alternative investment funds (hedge funds, private equity, venture capital) employ complex strategies with unique risk profiles.

Hedge Fund Specific Risks:

Leverage amplifies both returns and risks. Many hedge funds employ 3-10x leverage, with some using 20x or more. Long-Term Capital Management used 25x leverage before its 1998 collapse that nearly triggered systemic crisis. Archegos Capital used total return swaps to achieve massive leverage, losing \$20 billion in two days in 2021.

Strategy-specific risks vary dramatically:

Long/Short Equity: Short squeeze risk demonstrated by GameStop, where shorts lost billions. Crowded shorts can experience infinite loss potential. Factor exposures can cause supposedly market-neutral funds to suffer large losses during factor rotations.

Fixed Income Arbitrage: Relies on small spread differences magnified by leverage. When spreads widen unexpectedly, losses multiply. Basis trades between cash bonds and derivatives can break down, as numerous funds discovered during the UK gilt crisis.

Event-Driven: Merger arbitrage faces deal break risk. Announced deals fail 5-10% of the time, causing immediate 20-30% losses on positions. Regulatory interventions increasingly block deals on competition or national security grounds.

Global Macro: Depends on correctly predicting policy changes and economic trends. Central bank interventions can cause massive losses, as Swiss franc traders discovered when the SNB abandoned its euro peg in 2015, causing 20% currency moves in minutes.

Private Equity Risks:

Private equity investments lock capital for 7-12 years with minimal liquidity. Specific risks include:

J-Curve Effect: Early years show negative returns as fees are charged and investments are made. Returns only materialize upon exits years later, if successful.

Valuation Uncertainty: Portfolio companies are valued quarterly using models rather than market prices. These valuations prove optimistic during good times and may not reflect realizable values. When exits occur, valuations often disappoint.

Capital Call Risk: LPs commit capital but fund it over time via calls. Failure to meet calls triggers severe penalties including:

- Complete forfeiture of existing investment
- Legal action for committed amounts
- Reputational damage affecting future allocations

During the 2008 crisis, many LPs couldn't meet calls, forcing distressed sales of commitments at 30-50% discounts.

Key Person Risk: PE returns depend heavily on specific individuals. Departure of key professionals can trigger fund wind-downs or strategic shifts that destroy value.

Section 3.4: Sustainability-Related Fund Risks:

Funds promoting ESG characteristics (Article 8) or sustainable investment objectives (Article 9) face additional risks:

- Greenwashing accusations if sustainability claims prove unfounded
- Limited investment universe potentially concentrating risks
- ESG data quality and consistency issues
- Performance deviation from conventional benchmarks
- Regulatory reclassification risk if sustainability criteria not met

Section 3.5: Exchange-Traded Fund (ETF) Risks

ETFs appear to offer simple, liquid exposure to various assets, but their structure creates unique risks.

Creation/Redemption Mechanism Risks:

ETFs maintain price alignment with underlying assets through creation/redemption mechanisms involving Authorized Participants (APs). During stress, this mechanism can break down:

- APs may withdraw from market-making
- Creation/redemption can be suspended
- ETF prices can deviate significantly from NAV

During March 2020, many bond ETFs traded at 5-7% discounts to NAV. Some ETFs saw 10%+ discounts. Investors selling ETFs received significantly less than underlying asset values.

Synthetic Replication Risks:

Synthetic ETFs use derivatives rather than holding physical assets. This introduces:

- Counterparty risk to swap providers

- Collateral risk if posted collateral proves insufficient or illiquid
- Tracking error from imperfect replication

When Lehman Brothers collapsed, synthetic ETFs with Lehman as counterparty faced total loss risk, saved only by emergency restructuring.

Securities Lending in Physical ETFs:

Physical ETFs lend holdings to generate additional income, creating:

- Counterparty risk to borrowers
- Collateral risk if borrowers default
- Opportunity cost if securities are recalled during corporate actions

ETF investors rarely understand they bear these risks while receiving minimal share of lending income.

Section 3.6: Fund Fee and Cost Impacts

Fund costs compound dramatically over time, destroying significant value even in successful strategies.

Total Expense Calculations:

Consider a fund with:

- Management fee: 1.5%
- Performance fee: 20% over hurdle
- Trading costs: 0.5%
- Administrative expenses: 0.3%

If the fund generates 10% gross returns:

- Performance fee on 10% = 2%
- Total fees = 4.3%
- Net return = 5.7%
- Fees consume 43% of gross returns

Over 20 years, 2% annual fees reduce terminal wealth by 33%. With 4% fees, reduction exceeds 50%.

Hidden Costs:

Many costs don't appear in expense ratios:

- Market impact of large trades & Bid-ask spreads
- Currency conversion costs
- Stock lending opportunity costs

- Tax inefficiencies

Academic studies suggest these hidden costs often equal or exceed stated expense ratios.

PART II: DERIVATIVE INSTRUMENTS RISKS

CHAPTER 4: OPTIONS AND WARRANTS

Section 4.1: Fundamental Option Risks

Options provide asymmetric payoff structures that appeal to investors seeking leveraged exposure or portfolio protection. However, the complexity of option pricing and behavior creates risks that many investors fundamentally misunderstand. The interaction of multiple variables affecting option values means that correctly predicting underlying asset direction is insufficient for profitable option trading.

The temporal nature of options, with defined expiration dates and continuous time decay, creates urgency absent from other investments. Unlike stocks or bonds that can be held indefinitely awaiting recovery, options face inexorable countdown to expiration. This temporal pressure forces decisions under uncertainty and prevents the "wait and hope" strategy available to other asset holders.

Section 4.2: The Mathematics of Option Risk

Time Decay (Theta) Acceleration:

Time decay follows non-linear acceleration approaching expiration. For at-the-money options:

- 60 days to expiration: Loses 0.5% of value daily
- 30 days to expiration: Loses 1.0% of value daily
- 10 days to expiration: Loses 3.0% of value daily
- 5 days to expiration: Loses 6.0% of value daily
- Final day: Can lose 20-100% of remaining value

This acceleration means holding options through expiration week proves extremely costly unless large favorable moves occur. Weekend time decay is particularly painful, with Friday-to-Monday decay equal to three days despite markets being closed.

Volatility (Vega) Risk:

Option values depend critically on implied volatility, which can change independently of underlying prices. Consider a call option worth \$5.00 with underlying at \$100:

- If implied volatility drops from 30% to 20%: Option falls to \$3.20 (-36%)
- Even if underlying rises to \$102: Option worth only \$4.10 (-18%)

Volatility crush after earnings announcements regularly destroys option values even when underlying moves favorably. Options purchased before earnings at 60% implied volatility might trade at 25% volatility post-announcement, losing 50%+ of value despite correct directional prediction.

Delta and Gamma Dynamics:

Delta measures price sensitivity but changes constantly (gamma effect):

- Deep out-of-the-money option: Delta near 0, minimal price participation
- Approaching at-the-money: Delta accelerates rapidly

- Deep in-the-money: Delta approaches 1, acts like stock

This creates whipsaw risk where options provide little upside during favorable moves but full downside during reversals. Path dependency means identical endpoints can produce vastly different option outcomes depending on volatility along the path.

Section 4.3: Strategic and Execution Risks

Assignment Risk for Option Writers:

American-style options can be assigned any time before expiration. Early assignment typically occurs when:

- Dividends exceed remaining time value
- Options trade below intrinsic value
- Corporate actions create arbitrage opportunities

Early assignment forces writers to deliver stock they may not own (naked calls) or accept stock they don't want (naked puts). Assignment timing is controlled by option holders, creating uncertainty for writers who cannot predict when obligations will be enforced.

Pin Risk at Expiration:

When underlying prices hover near strike prices at expiration, writers face maximum uncertainty. The option may expire worthless or be assigned based on final settlement prices determined after regular trading. After-hours moves can turn worthless options into deep in-the-money obligations, creating weekend risk where positions cannot be adjusted.

Spread Risk in Multi-Leg Strategies:

Complex option strategies involving multiple legs face execution risk:

- Leg risk: One leg fills while others don't, creating unintended exposure
- Width risk: Bid-ask spreads multiply across legs
- Exercise risk: Different legs may be assigned asymmetrically

During March 2020 volatility, option bid-ask spreads widened to 20-30% of option values. Multi-leg strategies became essentially untradeable except at extreme losses.

Section 4.4: Warrants and Structured Product Risks

Warrants issued by companies or banks add issuer credit risk to standard option risks. During issuer distress, warrant values can collapse regardless of underlying asset performance.

Dilution in Equity Warrants:

Company-issued warrants create dilution when exercised. If warrants represent 20% dilution potential:

- Stock at \$100 with warrants at \$80 strike

- If all warrants exercise: Share count increases 20%
- Post-exercise price approximately \$96.67, not \$100
- Warrant value less than \$20 intrinsic due to dilution

Exotic Warrant Features:

Barrier warrants (knock-in/knock-out) can become worthless if barriers are touched:

- Knock-out at \$90 with underlying at \$100
- Brief dip to \$89.99 voids warrant permanently
- Even if underlying subsequently rises to \$150

These barriers are vulnerable to manipulation through:

- Stop-loss hunting
- End-of-day price manipulation
- Thin holiday trading
- Flash crashes triggering barriers

The issuer often acts as market maker, creating conflicts where the issuer benefits from barrier breaches.

CHAPTER 5: FUTURES AND FORWARDS

Section 5.1: Leverage and Margin Dynamics

Futures contracts control large notional values with small margin deposits, creating extreme leverage that amplifies both gains and losses. Initial margins typically represent 3-10% of contract values, implying 10-33x leverage. This leverage means small adverse price movements can eliminate entire margin deposits, forcing position closure at losses.

The margin system operates through daily mark-to-market settlement where gains and losses are realized daily rather than at position closure. This creates immediate cash flow pressures absent from other investments. Consider an S&P 500 futures contract with \$500,000 notional value and \$25,000 initial margin. A 2% market decline creates \$10,000 loss (40% of margin) that must be funded immediately or face forced liquidation.

Variation Margin Death Spirals:

Adverse moves trigger variation margin calls requiring additional funds within hours. If unable to meet calls, positions are liquidated at prevailing market prices, often at the worst possible moment. During volatile periods, margin requirements can double or triple overnight, catching traders unprepared.

The 2022 London Metal Exchange nickel crisis exemplifies these dynamics. Nickel futures rose 250% in two days, creating billions in margin calls. The exchange controversially canceled trades and suspended trading for a week, demonstrating that even exchange rules can change during extreme events, trapping traders in positions.

Rollover Risk and Cost:

Futures contracts expire monthly or quarterly, requiring position "rolls" to maintain exposure. Rolling involves closing expiring contracts and opening new ones, incurring:

- Transaction costs on both legs
- Bid-ask spreads twice
- Market impact from simultaneous rolling by many participants
- Potential adverse price movements between legs

In commodity markets, roll costs can be severe. During 2020's oil price collapse, the May WTI contract fell to -\$37 while June traded at +\$20. Investors rolling positions crystallized massive losses. The United States Oil Fund (USO) lost billions rolling contracts during this period.

Section 5.2: Basis Risk and Convergence Failures

Futures prices should converge to spot prices at expiration, but this convergence can fail or occur violently.

Basis Blow-Outs:

The basis (difference between futures and spot) can widen dramatically:

- Normal basis: 0.1-0.5% for financial futures

- Stressed basis: 2-5% or more during crises
- Extreme cases: 10%+ divergence

During March 2020, Treasury futures traded at significant discounts to cash bonds, causing basis trades to lose billions. Hedge funds using "risk-free" arbitrage between futures and cash bonds faced margin calls on futures losses while unable to sell illiquid cash bonds.

Delivery Squeeze Risk:

Physical delivery futures face manipulation through corners and squeezes:

- Dominant long positions demand delivery
- Limited deliverable supply causes price spikes
- Shorts unable to deliver face unlimited losses

The 1979-1980 Hunt brothers silver corner drove prices from \$6 to \$50 before collapsing. More recently, European power futures have experienced delivery squeezes with prices spiking 10x normal levels when renewable generation disappointed.

Section 5.3: Forward Contract Specific Risks

Over-the-counter forward contracts lack standardization and central clearing, creating unique risks.

Settlement Risk:

Unlike futures with daily settlement, forwards settle entirely at maturity. This creates:

- Large final payment obligations
- No interim cash flows to fund positions
- Potential for massive mark-to-market swings without realization
- Counterparty exposure to full notional amounts

A forward contract with 20% favorable move creates receivable equal to 20% of notional. If the counterparty defaults, entire gain is lost. This risk compounds with contract size and market volatility.

Documentation and Legal Risk:

Forward contracts rely on bilateral documentation (typically ISDA agreements) with complex terms:

- Close-out netting provisions
- Events of default definitions
- Collateral agreements
- Dispute resolution procedures

Legal disputes over documentation can take years to resolve. The Lehman Brothers bankruptcy generated thousands of derivative disputes, many still being litigated over a decade later. Even clear documentation may prove unenforceable in certain jurisdictions.

CHAPTER 6: STRUCTURED PRODUCTS

Section 6.1: Complexity and Opacity Risks

Structured products combine multiple financial instruments creating payoff profiles that appear attractive but hide substantial risks. The complexity of these products makes accurate risk assessment difficult even for sophisticated investors. Issuers exploit information asymmetries, designing products where embedded costs and adverse features are obscured by complicated formulas and appealing headlines.

Marketing of structured products emphasizes potential benefits while minimizing risk disclosure. "Capital protection" suggests safety but depends entirely on issuer solvency. "Enhanced yield" products achieve higher income by selling options that create downside risk. The true cost of structuring, often 3-5% annually, gets buried in complex pricing that investors cannot independently verify.

Section 6.2: Capital Protected Products - False Security

Capital protected products promise return of initial investment at maturity, creating illusion of safety that masks multiple risks.

Issuer Dependency:

Protection depends entirely on issuer creditworthiness. During 2008, Lehman Brothers had issued \$8 billion in "principal protected notes." When Lehman filed bankruptcy, investors discovered their "protected" capital was merely unsecured Lehman debt, ultimately recovering less than 20 cents per dollar.

Even strong issuers can deteriorate rapidly. Credit Suisse was considered highly creditworthy until 2022, then faced crisis within months. Structured product investors found themselves locked into deteriorating credit exposure with no easy exit.

Opportunity Cost and Real Losses:

Capital protection typically requires holding to maturity, often 5-10 years. During this period:

- No access to capital for better opportunities
- Inflation erodes real value of protected amount
- Interest rate rises make fixed protection less valuable

A 5-year product promising 100% capital return during 3% annual inflation provides only 86% real value return. If interest rates rise from 1% to 5%, the product's mark-to-market value might fall to 80%, but selling crystallizes 20% loss despite "protection."

Participation Limitations:

Protected products severely limit upside participation:

- Caps limiting maximum returns (e.g., 25% maximum over 5 years)
- Participation rates below 100% (e.g., 50% of index gains)
- Averaging mechanisms reducing effective returns

- Knockout features voiding participation if barriers breached

These limitations mean investors often receive minimal returns even during strong market performance. A product with 50% participation and 25% cap during a 40% market rally returns only 20%, underperforming simple balanced portfolios.

Section 6.3: Yield Enhancement Structures

Products offering "enhanced yield" achieve higher income through option selling strategies that create hidden downside risks.

Reverse Convertibles - Asymmetric Risk Transfer:

Reverse convertibles offer attractive coupons but embed short put options:

- 10% annual coupon on underlying trading at \$100
- If underlying falls below \$80 strike, investor receives shares
- Effective position: Bond + short put option

During market declines, investors receive depreciated shares worth far less than initial investment. The 10% coupon provides little compensation for potential 30-40% losses. This structure privatizes gains (coupon limited) while socializing losses (full downside exposure).

Autocallable Structures:

Autocallables automatically redeem when underlying assets reach predetermined levels:

- Issued during low volatility with tight call levels
- Markets rally: Product calls early, forcing reinvestment at worse terms
- Markets fall: Investor stuck with deteriorating position
- Heads issuer wins, tails investor loses

The 2017-2019 period saw massive autocallable issuance with tight barriers. Most called within 6-12 months, forcing investors to reinvest at much lower yields. Those not called before COVID-19 crashed through barriers, creating large losses.

Section 6.4: Barrier Products and Digital Risks

Barrier products create discontinuous payoffs where small price movements cause dramatic value changes.

Knock-Out Risk:

Barrier breaches permanently alter product characteristics:

- Knock-out at 70% of initial level
- Underlying briefly touches 69.99%
- Product immediately loses all accumulated value

- Recovery to 150% provides no benefit

These barriers are vulnerable to manipulation:

- End-of-day price manipulation to trigger barriers
- Stop-loss hunting driving prices through barriers
- Thin holiday trading allowing easy barrier breaches
- Flash crashes triggering multiple barriers simultaneously

Observation Frequency Risks:

Continuous observation barriers can be triggered any time during trading hours:

- Official close at 71% (above barrier)
- After-hours trade at 69% triggers barrier
- Investor discovers knockout next morning
- No ability to dispute or recover

Daily observation barriers seem safer but create cliff-edge risk at observation times. Markets often experience unusual volatility near observation points as traders position for barrier events.

Section 6.5: Issuer Conflicts and Pricing Opacity

Structured product issuers face inherent conflicts of interest that disadvantage investors.

Hedging Activities Impact Underlying:

Issuers hedge structured products through dynamic trading that can affect underlying assets:

- Approaching barriers: Hedging accelerates moves toward barriers
- At barriers: Massive hedging flows can push through barriers
- Post-breach: Unwinding hedges amplifies adverse moves

This creates self-fulfilling prophecies where product structure influences underlying asset prices, typically to investor detriment.

Pricing Black Boxes:

Structured product valuation requires complex models investors cannot replicate:

- Correlation assumptions between multiple underlyings
- Volatility surface modeling
- Credit spread determinations
- Proprietary pricing models

Issuers control all pricing inputs and models. Wide bid-ask spreads (often 2-5%) make exit costly. During stress, issuers may stop providing prices entirely, trapping investors. Even when prices are available, investors cannot verify fairness.

PART III: CONTRACTS FOR DIFFERENCE (CFDs)

CHAPTER 7: CFD TRADING RISKS

Scope of this Chapter

This chapter applies to clients whose managed account includes a strategy that executes contracts for difference as part of its investment process. Clients whose chosen strategy executes only cash instruments — equities, exchange-traded funds, investment fund units, bonds or money market instruments — are not exposed to CFDs through their account and may treat the contents of this chapter as informational only. A client who is uncertain whether their chosen strategy involves CFDs is encouraged to consult the relevant strategy factsheet or to contact the Company directly.

Standardised Risk Warning

CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. 44 % of retail investor accounts lose money when trading CFDs with this provider. You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.

The figure shown above is calculated in accordance with Rule R.1.2.71 of the MFSA Conduct of Business Rulebook and corresponds to the percentage of retail managed accounts holding a CFD-based strategy with the Company during the twelve months ending 31 March 2026 whose time-weighted net return, after all fees, was negative. The figure is refreshed at least quarterly under the oversight of the Company's Trading Risk Manager and Risk Manager, and the next scheduled recalculation falls on 30 June 2026.

Section 7.1: The Nature of a Contract for Difference

A contract for difference is a bilateral agreement under which two parties exchange the difference between the value of an underlying asset at the time the contract is opened and its value at the time the contract is closed. The underlying asset may be a share, a share index, a commodity, a currency pair, a bond or another financial instrument. The contract does not convey ownership of the underlying asset. The holder of a long CFD position is not a shareholder of the referenced company, does not receive dividends in the conventional sense, and does not carry voting rights. The holder of a short CFD position has no securities-lending obligation of the kind associated with a conventional short sale.

CFDs are, by design, leveraged instruments. Only a fraction of the notional exposure is required as initial margin, which means that a relatively small movement in the price of the underlying asset can cause a proportionally much larger movement in the value of the position. This leverage is the defining economic feature of CFDs and is the single most important factor in understanding their risk profile.

Section 7.2: How CFDs Operate Within a Managed Account

As explained in the section titled “Who We Are and How We Operate” at the front of this document, clients of the Company do not trade CFDs — or any other instrument — on their own behalf. A client subscribes to a strategy at onboarding, and from that point onwards the Company, acting as discretionary portfolio manager under the signed mandate, opens, monitors and closes the CFD positions required by that strategy within the client’s managed account. The Trading Risk Manager oversees these positions on an aggregate basis, and the Investment Committee reviews strategy performance and risk on a periodic basis. The client’s involvement consists of selecting the strategy, providing the information required by the appropriateness and suitability assessment, funding the account, and receiving periodic reporting; the client does not place orders, does not operate a trading screen, and is not required to be present for the execution of any individual trade.

CFDs cannot be held in a conventional securities custody account in the way that shares or bonds can, because a CFD is a bilateral contract referencing an underlying rather than a title to a physical asset. For this reason, the Company executes the CFD component of its strategies through a separate relationship with a specialised CFD execution venue. At the date of this document, that venue is Swissquote Capital Markets Ltd, a company of the Swissquote group domiciled in Cyprus and authorised and regulated by the Cyprus Securities and Exchange Commission (“CySec”). Swissquote Capital Markets Ltd is a separate legal entity from Swissquote Bank AG in Switzerland, which serves as the Company’s custodian for cash instruments. Clients of the Company do not have a direct trading relationship with Swissquote Capital Markets Ltd; the CFD exposure that forms part of a client’s strategy arises exclusively through the discretionary portfolio management relationship with the Company.

Section 7.3: Leverage Risk

The leveraged nature of CFDs means that relatively small changes in the price of the underlying asset can produce substantial changes in the value of the client’s managed account. A position held at ten-to-one leverage will gain or lose approximately ten per cent of the notional exposure for every one per cent move in the underlying. The European Securities and Markets Authority, through its product-intervention measures, caps retail CFD leverage at 30:1 for major currency pairs, 20:1 for major equity indices and gold, 10:1 for non-major indices and commodities other than gold, 5:1 for individual equities, and 2:1 for crypto-asset CFDs. These ceilings materially reduce the tail risk associated with pre-2018 levels of retail leverage, but they do not eliminate the amplification of losses that is inherent in leveraged exposure.

The arithmetic of leveraged losses is unforgiving. A loss of fifty per cent of the capital allocated to a position requires a subsequent gain of one hundred per cent on the remaining capital merely to return to breakeven; a loss of ninety per cent requires a nine-hundred per cent gain. Clients should have understood and accepted this asymmetry before entering into any CFD-based strategy.

Section 7.4: Market Risk, Volatility and Gap Risk

CFD positions are exposed to continuous changes in the value of the underlying asset. These changes may be driven by company-specific news, macroeconomic announcements, central-bank policy decisions, geopolitical events or the behaviour of other market participants, and they can occur with

very little warning. The client, as the economic beneficiary of the position, bears the full effect of these movements, amplified by the leverage applied to the position.

Of particular importance is so-called gap risk. Because financial markets are not always open, and because even open markets can briefly become disorderly, the price at which a position is opened or closed may differ materially from the most recently observed price. In exceptional cases — the sudden removal of the Swiss franc floor in January 2015, the United Kingdom’s Brexit referendum in June 2016, and the Covid-related market disruption of March 2020 are well-known examples — underlying prices have moved by several percentage points or more between one tradeable quote and the next. In such conditions, stop-loss orders do not guarantee execution at the stop level: they may be filled materially worse, if they can be filled at all. The Company’s risk framework is designed to contain such events, not to prevent them, and clients must understand that losses exceeding the notional stop level remain possible in gap conditions.

Section 7.5: Financing Costs and Performance Drag

CFD positions held overnight are subject to financing costs, commonly called swap rates or overnight financing. These are charged on the notional value of the position rather than on the margin committed, and they accumulate daily. Over extended holding periods, financing costs represent a meaningful drag on performance that must be overcome before the position generates a net return for the client. Depending on the applicable reference rate and the direction of the position, financing may in some circumstances be credited rather than charged, but this is the exception rather than the rule and should not be counted on as a source of return. Spread costs, corporate action adjustments on equity CFDs, and currency conversion between the account currency and the denomination of the underlying asset add further frictional costs, and these are borne by the client as the economic owner of the position.

Section 7.6: Counterparty and Custody Considerations

Unlike cash securities, a contract for difference is a contractual claim rather than a title to a physical asset, and its value depends on the ability of the relevant counterparty to honour the contract. Clients of the Company hold their CFD exposure indirectly, through the relationship between the Company and Swissquote Capital Markets Ltd in Cyprus, which acts as the execution venue for the CFD component of each strategy. Swissquote Capital Markets Ltd is authorised and regulated by the Cyprus Securities and Exchange Commission and is subject to the client-asset segregation, capital adequacy and conduct-of-business rules applicable to Cypriot investment firms under the Investment Services and Activities and Regulated Markets Law and the MiFID II framework as transposed into Cypriot law. In the event of the insolvency or comparable default of Swissquote Capital Markets Ltd, eligible clients would be subject to the investor compensation arrangements applicable in Cyprus, which operate under the Investor Compensation Schemes Directive and provide a last-resort protection against the default of the investment firm. These arrangements do not cover investment losses arising from market movements or from the performance of any particular strategy. The Company itself does not hold client money and is not the counterparty to any CFD position booked in a client’s account; the Company’s role is that of discretionary portfolio manager on behalf of the client.

Section 7.7: Risk Management Within the Strategy

The Company operates a three-line-of-defence risk management framework, within which CFD-based strategies are subject to continuous monitoring. Each strategy has defined position sizing rules, stop-loss discipline, aggregate exposure limits and volatility-based trading suspension thresholds. When a strategy reaches its defined drawdown or volatility limits, trading is suspended until the situation has been reviewed by the Trading Risk Manager and, where appropriate, the Risk Manager and the Investment Committee. These controls are documented in the Company's internal risk management and trading policies and are subject to periodic review by the Board.

No risk management framework, however rigorously applied, can eliminate the possibility of loss. In particular, gap conditions of the kind described in Section 7.4 can produce losses that exceed the level at which a stop-loss would otherwise have taken effect, because the intermediate prices simply do not exist in tradeable form. The Company's framework is designed to contain and manage loss, not to prevent it.

Section 7.8: Suitability, Loss Tolerance and Allocation

CFD-based strategies offered by the Company are classified at the highest risk category on the seven-point scale used under the PRIIPs Regulation and reflected on the Company's strategy factsheets — risk class 7 of 7 — with a stated loss tolerance of seventy-five per cent. They are suitable only for clients who have demonstrated, through the appropriateness and suitability assessment carried out at onboarding, that they possess sufficient knowledge and experience to understand the risks involved, and who have confirmed that they are in a position to bear substantial losses, including, in the most adverse scenarios, the total loss of the capital they have allocated to the strategy.

The Company's internal guidance, which is also reflected on the relevant strategy factsheets, is that retail clients should allocate no more than five to ten per cent of their investable capital to risk class 7 strategies. This guidance is not a regulatory ceiling — no such ceiling currently exists for portfolio-managed CFD strategies — but a matter of prudent diversification, and clients are encouraged to observe it in structuring their overall investment portfolio.

PART IV: DIGITAL ASSETS AND CRYPTOCURRENCIES

CHAPTER 8: CRYPTOCURRENCY RISKS

Section 8.1: Extreme Volatility and Price Dynamics

Cryptocurrency markets exhibit volatility exceeding any traditional asset class, with price swings that can eliminate wealth in hours. Bitcoin, the most established cryptocurrency, has experienced fifteen corrections exceeding 30% since 2013, including four crashes over 80%. Altcoins demonstrate even more extreme volatility, with 90%+ losses common and complete collapses regular occurrences.

The 24/7 trading nature of crypto markets means volatility never pauses. Weekend movements of 20-30% occur regularly when traditional markets are closed and liquidity is thin. The May 2021 crash saw Bitcoin fall from \$59,000 to \$30,000 in two weeks. The November 2022 FTX collapse triggered 25% daily moves across major cryptocurrencies. The Terra/Luna collapse saw a \$60 billion ecosystem go to zero in one week.

This volatility stems from multiple structural factors that won't diminish soon:

- Thin liquidity relative to market capitalization
- High concentration of holdings in few addresses
- Absence of fundamental valuation anchors
- Susceptibility to manipulation and sentiment swings
- Regulatory uncertainty creating binary outcome risks

Section 8.2: Technology Infrastructure Risks

Blockchain technology introduces novel risks absent from traditional financial systems.

Smart Contract Vulnerabilities:

Code errors in smart contracts have caused billions in losses:

- The DAO hack: \$50 million stolen through reentrancy bug
- Parity wallet freeze: \$280 million permanently locked
- Wormhole bridge hack: \$326 million exploited
- Nomad bridge hack: \$190 million drained in hours

Smart contracts are immutable once deployed. Bugs cannot be patched; funds cannot be recovered. Even audited contracts regularly suffer exploits. The composability of DeFi protocols means vulnerabilities in one protocol can cascade through others, amplifying losses.

Blockchain Scalability and Congestion:

Network congestion creates multiple risks:

- Transaction fees spike to unusable levels (\$50-200 on Ethereum)
- Transactions fail but fees are still charged

- Time-sensitive operations fail causing liquidations
- Arbitrage opportunities disappear due to high costs

During high demand, wealthy users can price out others by paying higher fees, creating plutocratic access to blockchain functionality. Critical operations like collateral additions to prevent liquidations can become impossible due to congestion.

51% Attack Vulnerabilities:

Smaller blockchains face risk of majority attacks where attackers:

- Reverse transactions enabling double-spending
- Censor specific addresses
- Reorganize blockchain history

Ethereum Classic suffered three 51% attacks in 2020. Bitcoin Gold, Verge, and other smaller chains have experienced successful attacks causing millions in losses through double-spending.

Section 8.3: Custody and Security Risks

Digital asset custody presents unique challenges with irreversible consequences for errors.

Self-Custody Risks:

Managing private keys requires technical expertise and operational security:

- Lost keys mean permanent asset loss (estimated 20% of Bitcoin lost)
- Stolen keys enable irreversible theft
- No password recovery or account restoration options
- Death or incapacitation can make assets unrecoverable

Hardware wallet vulnerabilities:

- Physical damage or loss
- Firmware bugs or supply chain attacks
- Social engineering for recovery phrases
- Wrench attacks (physical coercion)

Exchange Custody Risks:

Cryptocurrency exchanges regularly suffer hacks and insolvencies:

- Mt. Gox: 850,000 Bitcoin stolen, users still awaiting compensation
- QuadrigaCX: \$190 million lost when founder died with keys
- FTX: \$8 billion customer funds misappropriated
- Celsius: Customer funds lost in risky investments

Exchange risks include:

- No deposit insurance equivalent to bank protection
- Commingling of customer assets
- Rehypotheication without consent
- Regulatory freezes trapping funds
- Exit scams where exchanges disappear

Section 8.4: Regulatory and Legal Uncertainties

The regulatory landscape for cryptocurrencies remains unclear and rapidly evolving.

Regulatory Enforcement Actions:

Sudden regulatory changes can destroy value instantly:

- China's mining ban eliminated 50% of Bitcoin hashrate overnight
- India's on-again-off-again crypto bans create uncertainty
- SEC enforcement actions against tokens deemed securities
- Stablecoin regulations threatening entire DeFi ecosystem

Tax Complexity:

Cryptocurrency taxation creates compliance nightmares:

- Every transaction is potentially taxable event
- Tracking cost basis across multiple wallets/exchanges
- DeFi interactions creating unclear tax obligations
- NFT taxation uncertainty
- Airdrops and forks creating unexpected tax liabilities

Failure to properly report can result in severe penalties. The IRS and equivalent agencies are increasing crypto tax enforcement with sophisticated blockchain analysis tools.

Legal Status Uncertainty:

Fundamental questions remain unresolved:

- Are cryptocurrencies property, commodities, securities, or currencies?
- Which regulations apply to different token types?
- How do cross-border transactions comply with multiple jurisdictions?
- What legal recourse exists for disputes?

Section 8.5: DeFi Protocol Risks

Decentralized Finance introduces additional layers of risk beyond basic cryptocurrency ownership.

Impermanent Loss:

Liquidity providers face losses when asset prices diverge:

- 25% price divergence: 0.6% loss
- 50% divergence: 2.0% loss
- 100% divergence: 5.7% loss
- 500% divergence: 25.5% loss

These losses become permanent when withdrawing liquidity. The complexity of calculating impermanent loss causes many users to unknowingly accept negative expected returns.

Protocol Governance Risks:

Token voting creates vulnerabilities:

- Whale manipulation of governance decisions
- Flash loan attacks on governance votes
- Malicious proposals draining treasuries
- Rug pulls by anonymous teams

Governance tokens often have unclear value accrual mechanisms, with holders bearing risk without proportional reward.

Oracle Manipulation:

DeFi protocols rely on price oracles that can be manipulated:

- Flash loan attacks manipulating on-chain prices
- Oracle front-running
- Delayed oracle updates causing unfair liquidations
- Centralized oracle dependencies

The Mango Markets exploit demonstrated oracle manipulation, with \$100 million stolen through price manipulation.

Section 8.6: Stablecoin Risks

Stablecoins promise stable value but introduce unique risks.

Algorithmic Stablecoin Failures:

Algorithmic stablecoins have repeatedly failed catastrophically:

- Terra USD: \$18 billion collapse to zero

- Iron Finance: "Bank run" causing 100% loss
- Basis Cash, Empty Set Dollar: Multiple failures

These mechanisms rely on confidence and can enter death spirals where selling pressure prevents recovery mechanisms from functioning.

Collateralized Stablecoin Risks:

Even backed stablecoins face risks:

- Tether: Opacity about reserves, commercial paper exposure
- USDC: Circle's Silicon Valley Bank exposure caused temporary depeg
- DAI: Dependency on other stablecoins and collateral volatility
- Regulatory freezing of addresses

Stablecoin depegging events can trigger cascading liquidations across DeFi, amplifying losses.

PART V: EMERGING AND SYSTEMIC RISKS**CHAPTER 9: CLIMATE AND SUSTAINABILITY RISKS****Section 9.1: Physical Climate Risks**

Climate change creates direct physical threats to asset values that are accelerating and increasingly unpredictable.

Acute Physical Risks:

Extreme weather events are increasing in frequency and severity:

- Hurricanes causing \$50-200 billion in single-event damages
- Flooding affecting previously safe areas
- Wildfires destroying entire communities
- Extreme heat reducing economic productivity

Real estate investments face particular vulnerability:

- Coastal properties: Sea level rise and storm surge
- Riverine areas: Increased flooding frequency
- Wildfire zones: Expanding risk areas
- Agricultural land: Drought and changing precipitation

Insurance retreat creates uninsurable assets:

- Florida property insurance crisis with 15 insurer failures
- California wildfire zones becoming uninsurable
- Flood insurance gaps leaving properties exposed
- Self-insurance requirements destroying property values

Chronic Physical Risks:

Gradual changes create persistent drags on asset values:

- Rising temperatures reducing labor productivity
- Water scarcity affecting industrial operations
- Agricultural yield declines from changing conditions
- Infrastructure deterioration from extreme temperatures
- Supply chain disruptions from weather events

Section 9.2: Transition Risks

The shift to low-carbon economies threatens entire sectors with stranded assets and obsolescence.

Stranded Asset Risk:

Fossil fuel assets face potential write-downs:

- Coal plants closing decades early
- Oil reserves becoming unextractable and natural gas infrastructure becoming obsolete
- Petrochemical facilities facing reduced demand

The International Energy Agency estimates \$1.3 trillion in stranded assets under net-zero scenarios. Companies with large fossil fuel exposures face credit downgrades and equity devaluations.

Regulatory Transition Risks:

Climate policies create immediate financial impacts:

- Carbon pricing increasing operational costs
- Emission standards requiring capital investment
- Banned activities eliminating revenue streams
- Disclosure requirements revealing hidden risks

Carbon prices ranging from \$50-200 per ton would make many businesses unprofitable. Border adjustment mechanisms penalize high-carbon imports, disrupting global trade patterns.

Technology Disruption:

Clean technology advancement threatens incumbents:

- Electric vehicles disrupting automotive industry
- Renewable energy undermining fossil fuel generators
- Alternative proteins threatening animal agriculture
- Circular economy eliminating waste-based business models

The speed of disruption continues accelerating. Solar costs fell 90% in a decade. Battery costs declined 89%. These trends will continue, making competing technologies obsolete.

Section 9.3: Liability and Litigation Risks

Climate litigation is expanding rapidly with potentially massive financial consequences.

Companies face lawsuits for:

- Contributing to climate change (Carbon Majors cases)
- Failing to adapt operations or director fiduciary duty breaches
- Inadequate risk disclosure or Greenwashing and misleading claims

Successful litigation could impose damages exceeding tobacco settlements. Even unsuccessful cases create significant legal costs and reputational damage.

CHAPTER 9A: SUSTAINABILITY RISK DISCLOSURE PURSUANT TO SFDR

Regulatory Context

Under Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation), Van Sterling Capital Ltd. is required to disclose how sustainability risks are integrated into investment decisions. This section fulfills that obligation and should be read in conjunction with our separate SFDR policy statement.

Our Approach to Sustainability Risks

Van Sterling Capital Ltd. does not currently consider principal adverse impacts of investment decisions on sustainability factors. This decision is based on our size, scale of operations, and the nature of our investment strategies. However, we recognize that sustainability risks - defined as environmental, social, or governance events that could cause material negative impact on investment values - form part of the overall risk landscape described throughout this document.

Sustainability Risks in Investment Strategies

While we do not specifically integrate ESG factors as distinct investment criteria, sustainability risks can materially affect all asset classes covered in this document:

Environmental Risks affect investments through:

- Physical climate events damaging assets or operations (detailed in Chapter 9)
- Transition costs as economies decarbonize
- Regulatory changes penalizing high-carbon activities
- Stranded assets in fossil fuel sectors
- Resource scarcity affecting production costs

Social Risks impact investments through:

- Labor disputes and social unrest
- Changing consumer preferences
- Demographic shifts affecting demand
- Inequality creating political instability
- Pandemic and health crises

Governance Risks manifest through:

- Corporate scandals and fraud (covered in equity risks)
- Regulatory penalties for misconduct
- Management failures and key person dependencies
- Corruption and bribery impacts
- Inadequate risk management systems

Impact on Different Asset Classes

Fixed Income: Sustainability risks can affect credit ratings and default probabilities. Climate events can impair sovereign creditworthiness. Corporate bonds face transition risks as business models become obsolete.

Equities: Companies with poor sustainability practices face regulatory penalties, reputational damage, and stranded assets. Markets increasingly price in carbon risk and social license to operate.

Real Assets: Property and infrastructure face direct physical climate risks. Agricultural investments confront water scarcity and changing weather patterns. Energy infrastructure faces obsolescence risk.

Derivatives and Structured Products: Underlying asset exposure means all sustainability risks flow through to derivative instruments. Complexity can obscure sustainability risk exposure.

Product Classification

All investment strategies managed by Van Sterling Capital Ltd. are classified as Article 6 products under SFDR. This means:

- They do not promote environmental or social characteristics
- They do not have sustainable investment as their objective
- Sustainability risks are evaluated within general risk management
- No specific sustainability-related investment restrictions apply

Client Sustainability Preferences

Clients with specific sustainability preferences should discuss these with their relationship manager. While we do not currently integrate sustainability factors into investment decisions, we document client preferences and will consider them in our annual review of our sustainability approach.

Remuneration and Sustainability Risks

Our remuneration structure, based on fixed compensation without sales-related commissions, does not encourage excessive risk-taking with respect to sustainability risks. This aligns staff interests with long-term client outcomes rather than short-term gains that might ignore sustainability factors.

Future Developments

The regulatory landscape for sustainable finance continues evolving rapidly. Future requirements may include:

- Mandatory principal adverse impact considerations
- Enhanced disclosure requirements under CSRD
- Taxonomy-aligned reporting obligations
- Minimum sustainability standards

We will adapt our approach as necessary to maintain compliance and meet legitimate client expectations. Any material changes to our consideration of sustainability risks will be communicated to all clients.

CHAPTER 10: ALGORITHMIC AND AI TRADING RISKS

Section 10.1: Systemic Algorithm Risks

Algorithmic trading dominates modern markets, accounting for 70-80% of equity volumes and similar proportions in forex and futures. This dominance creates systemic vulnerabilities where algorithm interactions can destabilize entire markets within seconds.

Flash Crash Dynamics:

The May 6, 2010 Flash Crash saw markets fall nearly 10% in minutes:

- Automated selling triggered more automated selling
- Liquidity providers withdrew algorithmically
- Stop-loss orders created feedback loops
- Circuit breakers failed to halt contagion

Similar events occur regularly:

- October 2016: British Pound flash crash, 6% in seconds
- August 2017: VIX flash spike, 100% in minutes
- January 2019: Apple flash crash, 10% on low liquidity
- May 2022: Stablecoin algorithms causing cascading failures

These crashes demonstrate that protective mechanisms cannot prevent algorithmic accidents. Recovery often occurs equally rapidly, but traders stopped out during crashes suffer permanent losses.

Algorithmic Herding:

Similar algorithms create synchronized behavior:

- Momentum strategies simultaneously buying/selling
- Risk parity funds deleveraging together
- Factor models rotating identically
- Machine learning training on same data

This homogenization amplifies moves. When volatility triggers de-risking, all algorithms sell simultaneously, overwhelming liquidity. The August 2007 Quant Crisis saw supposedly uncorrelated strategies lose 20-30% as algorithms unwound similar positions.

Section 10.2: AI and Machine Learning Risks

Artificial intelligence in trading introduces novel risks beyond traditional algorithms.

Black Box Decision Making:

Deep learning models operate opaquely:

- Millions of parameters impossible to interpret
- Non-linear interactions creating unexpected behaviors
- Training data biases producing discriminatory outcomes
- Adversarial inputs causing misclassification

Models can develop spurious correlations, like trading based on weather patterns in CEO hometowns. These correlations work until they catastrophically fail.

Overfitting and Regime Changes:

AI models trained on historical data fail when regimes change:

- COVID-19 invalidated years of training data overnight
- Negative interest rates broke models assuming positive rates
- Meme stock behavior violated all statistical patterns
- Cryptocurrency correlations diverged from training expectations

Models achieving 90% accuracy in backtesting can lose continuously in production. The gap between training and reality proves fatal for leveraged strategies.

Adversarial AI Competition:

AI systems attempt to exploit each other:

- Spoofing detection versus anti-detection
- Market manipulation versus manipulation detection
- Front-running algorithms versus hiding algorithms
- Adversarial examples causing misclassification

This creates arms races where defensive measures trigger offensive evolution, destabilizing markets through increasingly sophisticated manipulation.

CHAPTER 11: OPERATIONAL AND CYBER RISKS

Section 11.1: Cyber Attack Vulnerabilities

Financial markets face escalating cyber threats from criminals, nation-states, and hacktivists. The digitization of trading creates attack surfaces that expand continuously.

Exchange and Infrastructure Attacks:

Successful attacks on market infrastructure could be catastrophic:

- Trading halt attacks stopping price discovery
- Data corruption affecting settlement
- Ransomware freezing operations
- Manipulation of pricing feeds

The 2020 New Zealand Exchange suffered multi-day DDoS attacks forcing repeated closures. A successful attack on major exchanges could freeze trillions in assets.

Broker and Platform Compromises:

Retail broker platforms are prime targets:

- Account takeovers enabling unauthorized trading
- Data breaches exposing personal information
- Platform manipulation showing false prices
- Fund transfer redirection to criminal accounts

The 2020 Robinhood data breach exposed 7 million users. The 2021 Colonial Pipeline ransomware demonstrated infrastructure vulnerability.

Supply Chain Attacks:

Third-party compromises affect multiple firms:

- SolarWinds hack affecting 18,000 organizations
- Microsoft Exchange Server vulnerabilities
- Cloud provider outages affecting entire sectors
- Vendor software introducing vulnerabilities

Financial firms average 40+ third-party technology relationships, each representing potential attack vectors.

Section 11.2: Operational Failure Modes

Complex technology stacks create multiple failure points threatening trading operations.

Platform Outages:

Trading platform failures trap investors in positions:

- March 2020: Multiple broker platforms failed during volatility
- January 2021: Robinhood outage during GameStop squeeze
- Regular "maintenance" during volatile periods
- Mobile app failures preventing order management

Outages lasting hours can result in massive losses for leveraged positions. Compensation for platform failures is typically minimal or non-existent.

Fat Finger Errors:

Human errors can cause enormous losses:

- 2012: Knight Capital \$440 million loss from software deployment
- 2014: Japanese trader's \$600 billion order error
- 2018: Samsung Securities dividend error costing billions
- Regular retail trader errors adding/removing zeros

Automated safeguards catch many errors but cannot prevent all mistakes. Recovery depends on counterparty cooperation, often unavailable.

CHAPTER 12: GEOPOLITICAL AND SANCTIONS RISKS

Section 12.1: Sanctions and Asset Freezing

Sanctions regimes increasingly weaponize financial systems, creating risks for any international investment.

Asset Freezing Mechanisms:

Sanctions can instantly freeze assets:

- Russian assets: \$300 billion central bank reserves frozen
- Individual oligarch assets seized globally
- Companies added to SDN list losing all access
- Secondary sanctions affecting third parties

Assets can be frozen for years or decades. Recovery requires political change that may never occur. Even lifting sanctions doesn't guarantee asset return, as Libya and Iran cases demonstrate.

Compliance Complexity:

Sanctions compliance grows increasingly difficult:

- Multiple jurisdictions with conflicting rules
- Beneficial ownership obscurity
- Rapid designation changes
- Extraterritorial application of U.S. sanctions

Violations trigger severe penalties. Standard Chartered paid \$1.5 billion for sanctions violations. BNP Paribas paid \$8.9 billion. Individual traders face criminal prosecution.

Section 12.2: Geopolitical Fragmentation

Great power competition creates bifurcated markets and stranded assets.

Technology Decoupling:

U.S.-China technology competition forces choices:

- Semiconductor restrictions eliminating markets
- Software bans removing products
- Data localization preventing operations
- Forced technology transfers

Companies must choose sides, potentially losing half their market. Attempting neutrality satisfies neither side.

Currency Weaponization:

Dollar dominance enables financial warfare:

- SWIFT exclusions preventing transactions
- Correspondent banking restrictions
- Dollar clearing denials
- Foreign exchange restrictions

Alternative systems (CIPS, SPFS) remain limited. Cryptocurrency alternatives face their own restrictions. No true alternative to dollar system exists, creating dependency vulnerability.

PART VI: RISK MITIGATION AND INVESTOR PROTECTION

CHAPTER 13: UNDERSTANDING RISK MITIGATION TOOLS

Section 13.1: Limitations of Risk Management

While various tools exist to manage investment risks, investors must understand their limitations and potential failures. No risk management technique provides absolute protection, and many create new risks while attempting to mitigate others.

Stop-loss orders appear to limit losses but suffer multiple failures:

- Gaps through stop levels without execution
- Slippage causing execution at worse prices
- Stop hunting by market participants
- Flash crashes triggering unnecessary stops
- Removal of positions before recovery

During the 2015 Swiss Franc event, stop-losses on EUR/CHF failed completely as prices gapped 30% instantly. Investors with stops at 1.19 were filled at 0.85, suffering 29% losses instead of expected 1-2%.

Diversification reduces single-asset risk but cannot eliminate systemic risks:

- Correlations increase during crises, reducing benefits
- Alternative assets prove correlated when liquidity disappears
- Geographic diversification fails during global events
- Asset class diversification insufficient for tail events

The 2008 crisis demonstrated diversification failures when all assets except government bonds declined simultaneously. Even gold, traditionally a safe haven, fell 30% as investors raised cash.

Section 13.2: Cost-Benefit Analysis of Protection

Protection strategies involve explicit and hidden costs that can eliminate returns.

Options Hedging Costs:

Portfolio insurance through put options appears attractive but proves expensive:

- Annual cost: 2-4% for at-the-money protection
- 5-year cumulative cost: 10-20% of portfolio value
- Rolling costs during volatility: Premium increases
- Basis risk: Hedges imperfectly match portfolios

Long-term studies show continuously hedged portfolios underperform unhedged portfolios by 2-3% annually. This underperformance compounds dramatically over investment lifetimes.

Guaranteed Products:

Capital-protected products sacrifice returns for protection:

- Typical participation: 50-70% of upside
- Caps limiting maximum returns
- High embedded costs: 2-3% annually
- Credit risk to guarantor

A 5-year guaranteed product with 60% participation and 30% cap during a 50% market rise returns only 18%, vastly underperforming simple balanced portfolios.

CHAPTER 14: REGULATORY PROTECTIONS AND LIMITATIONS

Section 14.1: Investor Compensation Schemes

Client assets of licensed investment firms in the European Economic Area are protected by a combination of client-asset segregation rules, capital adequacy requirements and investor compensation schemes. The Company participates in the Investor Compensation Scheme established under the Investor Compensation Scheme Regulations (Subsidiary Legislation 370.09 of the Laws of Malta), which is described in more detail in the section of this document dealing with complaints handling, investor compensation and client categorisation. Equivalent schemes exist in other Member States of the European Union and the European Economic Area, implemented under Directive 97/9/EC on investor-compensation schemes and the subsequent Union legislation on investment firm prudential requirements.

Investors should keep in mind that investor compensation schemes are designed to provide a last-resort remedy in the event of the insolvency of a participating investment firm or the comparable inability of that firm to return client assets or client money. They do not cover losses arising from movements in the price of financial instruments, from the performance of any particular investment strategy, from changes in interest rates, exchange rates or credit spreads, or from any other form of ordinary investment risk. The compensation payable under these schemes is subject to statutory maximum amounts, which differ across jurisdictions but which are not intended to make investors whole for the full amount of any loss. Historical experience of firm failures — for example the insolvencies of Lehman Brothers and MF Global — has shown that claim processes under investor compensation arrangements can take an extended period to resolve, that partial rather than full recovery is the common outcome, and that the treatment of different client categories and asset classes can vary significantly.

In addition to the Maltese Investor Compensation Scheme, clients whose chosen strategy includes contracts for difference executed through Swissquote Capital Markets Ltd in Cyprus would, in the event of the default of that execution venue, be subject to the investor compensation arrangements applicable in Cyprus, which operate within the same Union-level framework. Clients whose assets are held at Swissquote Bank AG in Switzerland would, in the event of the default of that custodian, be subject to the depositor and client-asset protection arrangements applicable under Swiss banking legislation. These arrangements are described in outline in Chapter 7 of this document in relation to CFDs, and in the Who We Are and How We Operate section at the front of this document in relation to the Company's custody arrangements as a whole.

Section 14.2: MiFID II Investor Protections

The Markets in Financial Instruments Directive (Directive 2014/65/EU, "MiFID II") and the accompanying Regulation (EU) No 600/2014 ("MiFIR"), as transposed into Maltese law and supplemented by the MFSA Conduct of Business Rulebook, establish the principal framework of investor protection within which the Company operates. That framework imposes obligations on the Company across a number of interrelated areas. The Company is required to act honestly, fairly and professionally in accordance with the best interests of its clients; to provide information that is clear, fair and not misleading; to assess the suitability of a strategy where it provides investment advice or discretionary portfolio management, taking into account the client's investment objectives, financial situation, and knowledge and experience; to assess the appropriateness of any non-advised service; to categorise each client at onboarding as a retail client, professional client or eligible counterparty

and to apply the protections associated with the relevant category; to identify, prevent, manage and disclose conflicts of interest; to obtain the best possible result for the client when executing orders; to handle client money and client assets in segregated accounts with properly approved custodians; and to disclose all ex-ante and ex-post costs and charges associated with the services provided.

The MiFID II framework does not and cannot eliminate investment risk; its purpose is to ensure that the client is informed, that the service provided is suitable or appropriate to the client's profile, that the firm acts in the client's interests, and that the relationship between the client and the firm is governed by clear and transparent rules. The protections it affords operate at the level of conduct, disclosure and procedure, and they sit alongside rather than replace the investor's own responsibility to read the information provided, to understand the nature of the strategy selected, and to ensure that the investment is consistent with their overall financial position. The Company's separate policies on order execution, conflicts of interest management, complaints handling, client classification, inducements and safeguarding of client assets give further detail on the manner in which each of these MiFID II obligations is discharged in practice, and are available to clients on request.

CHAPTER 15: PRACTICAL RISK ASSESSMENT

Section 15.1: Risk Capacity Versus Risk Tolerance

Investors must distinguish between psychological willingness to accept risk (tolerance) and financial ability to bear losses (capacity).

Risk Capacity Factors:

Financial capacity to bear losses depends on:

- Time horizon until funds needed
- Income stability and future earning potential
- Existing wealth and emergency reserves
- Debt obligations and fixed expenses
- Insurance coverage and safety nets
- Family dependencies and obligations

A young professional with stable income and no dependents has high capacity despite potential low tolerance. A retiree with fixed income has low capacity regardless of high tolerance.

Behavioral Risk Factors:

Psychological responses to losses prove more important than initial tolerance:

- Loss aversion: Losses hurt twice as much as gains please
- Recency bias: Recent events overweighted in decisions
- Confirmation bias: Seeking information supporting existing views
- Overconfidence: Overestimating knowledge and control

- Herding: Following crowds during extremes

Studies show investors consistently overestimate their risk tolerance during bull markets and underestimate during bears. Actual behavior during 30% losses differs drastically from survey responses.

Section 15.2: Hidden Risks in Common Strategies

Popular investment strategies contain risks that emerge only during stress.

60/40 Portfolio Vulnerabilities:

The traditional 60% equity/40% bond portfolio assumes negative correlation, but:

- 2022 demonstrated simultaneous losses in stocks and bonds
- Rising rates hurt both components
- Inflation erodes both simultaneously
- Correlation assumptions fail during regime changes

The 60/40 portfolio lost 17% in 2022, its worst performance in decades, shocking investors who expected bond protection.

Dollar Cost Averaging Fallacies:

DCA is promoted as risk reduction but:

- Reduces returns in rising markets (majority of periods)
- Provides minimal protection in severe declines
- Creates cash drag reducing long-term returns
- Behavioral benefits offset by implementation challenges

Mathematical analysis shows lump sum investing outperforms DCA two-thirds of the time.

Rebalancing Risks:

Portfolio rebalancing appears logical but involves:

- Selling winners to buy losers (momentum penalty)
- Transaction costs reducing returns
- Tax consequences from realized gains
- Whipsaw losses during volatile periods

Studies show rebalancing adds minimal return while increasing costs and complexity.

CHAPTER 16: BEHAVIORAL BIASES AND INVESTMENT MISTAKES

Section 16.1: Cognitive Biases Destroying Returns

Human psychology creates systematic errors that professional management doesn't eliminate.

Disposition Effect:

Investors hold losses 50% longer than gains, hoping for recovery while quickly taking profits. This behavior:

- Keeps poor investments while selling winners
- Creates tax inefficiency (realizing gains, not losses)
- Reduces returns by 4-5% annually
- Intensifies during volatile periods

Professional fund managers exhibit similar biases, questioning whether professional management adds value after costs.

Overtrading Psychology:

Excessive trading destroys returns through:

- Transaction costs: 2-3% annually for active traders
- Poor timing: Buying high, selling low
- Tax consequences: Short-term gains taxed heavily
- Spread losses: Consistently crossing bid-ask

Studies show the most active traders underperform by 6-7% annually. Trading apps gamifying investing exacerbate these tendencies.

Section 16.2: Social and Information Biases

Modern information environments amplify behavioral errors.

Social Media Influence:

Social media creates new risk vectors:

- Influencer pump and dump schemes
- FOMO-driven position entry
- Echo chambers reinforcing biases
- Misinformation spreading faster than corrections
- Herd behavior amplification

The GameStop episode demonstrated social media's power to drive irrational prices. Retail investors buying at peaks suffered 80-90% losses.

Information Overload:

Excessive information paradoxically reduces decision quality:

- Analysis paralysis preventing action
- Noise drowning signal
- False patterns in random data
- Overconfidence from information illusion

Investors with more information trade more frequently but achieve worse returns, suggesting information abundance harmful without proper frameworks.

REGULATORY COMPLIANCE APPENDIX**Malta Financial Services Authority Requirements**

This document complies with MFSA requirements including:

- Investment Services Rules for Investment Services Providers
- Conduct of Business Rulebook
- Investor Compensation Scheme parameters
- Marketing communication standards

Client Classification Impact:

Retail Clients receive maximum protection:

- Full disclosure requirements
- Suitability assessments mandatory
- Complex product restrictions
- Compensation scheme coverage

Professional Clients have reduced protection:

- Limited disclosure requirements
- No compensation scheme coverage
- Access to complex products
- Assumed knowledge and experience

Record Keeping:

Client acknowledgment of risk disclosure must be documented and retained for minimum five years. Evidence of understanding may be required by regulators.

Key Information Document (KID) Requirements

For PRIIPs, standardized KIDs supplement this disclosure:

- Maximum 3 pages
- Standardized risk indicators
- Performance scenarios
- Cost disclosures

KIDs provide summary information but cannot capture all risks described in this document.

Sustainability Disclosures (SFDR)

Investment strategies must disclose:

- Integration of sustainability risks
- Principal adverse impacts consideration
- Sustainability characteristics or objectives
- Taxonomy alignment percentages

Sustainability risks can materially impact returns through:

- Stranded assets
- Regulatory changes
- Physical climate impacts
- Transition costs

COMPLAINTS HANDLING, INVESTOR COMPENSATION AND CLIENT CATEGORISATION

Client Categorisation Under MiFID II

In accordance with Annex II of MiFID II and the MFSA Conduct of Business Rulebook, the Company categorises each client at onboarding as a retail client, a professional client or an eligible counterparty. Most natural persons are classified as retail clients and receive the highest level of investor protection under the MiFID II framework. That protection includes the obligation on the Company to assess the suitability or the appropriateness of any strategy proposed to the client, the provision of standardised pre-contractual information, and the application of the client-asset, best-execution and inducements rules in their most protective form. A client may request reclassification where the applicable criteria are met, but any such request must be made in writing and is subject to the Company's written acceptance. The Company communicates each client's category at onboarding, and the category will be reviewed periodically and upon the client's request.

Complaints Handling

The Company is committed to handling any complaint fairly, promptly and in accordance with the MFSA Conduct of Business Rulebook. A client who is dissatisfied with any aspect of the service provided is invited, in the first instance, to send a written complaint to the Compliance Officer at compliance@vansterling.com, setting out the nature of the complaint, the dates and parties concerned and any documentary evidence the client wishes the Company to take into account. The Company will acknowledge receipt of the complaint within five working days and will endeavour to provide a substantive response within fifteen working days of receipt. Where the Company is not in a position to provide a final response within that period — for example because the matter requires further investigation — the client will be informed of the reason for the delay and of the date by which a final response can be expected, and in any event the final response will be provided within the maximum time limits set out in the Conduct of Business Rulebook.

Should the client remain dissatisfied with the Company's final response, or should no final response have been received within the expected time, the client has the right to refer the matter to the Office of the Arbiter for Financial Services, established under the Arbiter for Financial Services Act (Chapter 555 of the Laws of Malta). The Office of the Arbiter is an independent statutory body with jurisdiction over complaints by eligible customers against financial services providers licensed in Malta. A complaint must be referred to the Arbiter within two years of the date on which the customer first had knowledge of the matter complained of, and in any event only after the Company has been given a prior opportunity to resolve the matter directly. The Office of the Arbiter for Financial Services is located at First Floor, St Calcedonius Square, Floriana FRN 1530, Malta. The Company's complaints procedure is without prejudice to any other legal remedy that may be available to the client under Maltese or Union law.

Investor Compensation Scheme

The Company is a participant in the Investor Compensation Scheme established under the Investor Compensation Scheme Regulations (Subsidiary Legislation 370.09 of the Laws of Malta). The Scheme is designed to provide compensation to eligible clients of licensed investment firms in the event that

the firm is unable to meet its obligations to its clients, typically following the firm's insolvency. The Scheme covers certain categories of investment services, subject to the eligibility rules and maximum compensation limits set out in the Regulations. At the date of this document, the maximum amount payable to an eligible client in respect of a claim against the Company under the Scheme is the lesser of €20 000 and ninety per cent of the client's net claim, in accordance with the Regulations.

The Investor Compensation Scheme is a last-resort protection against the insolvency or comparable default of a participating investment firm. It does not cover investment losses arising from market movements, from the adverse performance of a chosen strategy, or from any other form of investment risk. Full details of the Scheme, including its scope, its eligibility criteria and the process for submitting a claim, are available on the website of the Malta Financial Services Authority and on request from the Company's Compliance Officer.

FINAL WARNINGS AND ACKNOWLEDGMENTS

Critical Risk Reminders

Capital Loss: You can lose all invested capital. With leverage, losses can exceed deposits.

No Guarantees: No investment is risk-free. Government bonds can default. Bank deposits can be bailed-in. "Capital protected" products depend on issuer solvency.

Complexity: If you don't understand an investment, don't make it. Complexity typically benefits the seller, not buyer.

Costs Compound: A 2% annual cost reduces wealth by 40% over 25 years. Most active strategies fail to overcome their costs.

Past Performance Meaningless: Historical returns provide no information about future returns. Yesterday's winners often become tomorrow's losers.

Behavioral Failures: Your psychology is your greatest enemy. Fear and greed will cause you to buy high and sell low.

Professional Limitations: Professional management provides no guarantee of success. Most professionals underperform indices after fees.

Sustainability Risks: Environmental, social, and governance events can materially impact all investments. We do not specifically manage for sustainability factors beyond general risk management.

Investor Acknowledgment

By proceeding with any investment strategy through Van Sterling Capital Ltd., you acknowledge:

1. Having received and read this complete risk disclosure document
2. Understanding the risks described herein
3. Accepting these risks as inherent to investing
4. Understanding that losses are possible and potentially total

5. Having the financial capacity to bear potential losses
6. Understanding that Van Sterling Capital Ltd. cannot eliminate these risks
7. Accepting responsibility for investment decisions and outcomes

Document Maintenance

This document reflects risks known as of April 2026. New risks emerge continuously. Markets evolve. Regulations change. Products develop. Risks thought impossible become reality.

This document will be updated periodically but cannot capture all risks at all times. Investors must conduct their own research and remain vigilant for new risks.

Contact Information

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Compliance Officer: compliance@vansterling.com

Client Services: info@vansterling.com

Regulatory Authority: Malta Financial Services Authority Triq l-Imdina, Zone 1 Central Business District Birkirkara CBD 1010 Malta

Investor Complaints: Office of the Arbiter for Financial Services First Floor, St Calcedonius Square Floriana FRN 1530 Malta

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