Exchange-Traded Instruments

Important information for investors

This document gives you key information about the various types of exchange-traded instruments that are available. It has been produced to help you understand the main risks involved in these types of investments, and you should read this before making a decision about whether to invest.

Exchange-traded Investments are traded through a nominated stockbroker. The best execution policy contains details of how the trading services are carried out. If you want a copy of this, you should ask your financial adviser. The risks listed below are not exhaustive, and you're advised to make sure you fully understand the investment you're considering before deciding whether to invest.

Shares

Share prices can be volatile, particularly if they are shares in smaller companies (such as those listed on the AIM, London Stock Exchange's international market for smaller growing companies).

There's no guarantee that shares will pay a dividend. If they do, the amount paid will often vary depending on the performance and/or strategy of the company you've invested in.

There is also always a risk that you could lose some or all of your investment if the company you've invested in fails. If this happens, there may not be sufficient assets to be liquidated and distributed to all shareholders. Any money made from selling the company's assets will be distributed to creditors in a pre-determined order of priority.

Investment trusts

Some investment trusts are what's known as 'split capital investment trusts'. These trusts offer more than one type of share, and each type will come with its own risks, entitlements and order of priority. For example, some types of shares might have priority when it comes to receiving income, while others might receive the capital first when the investment trust is wound up.

You should also be aware that investment trusts can borrow money. This borrowing can increase the potential for higher returns in a rising market, but it can also magnify losses if the market is falling.

Exchange-traded products

The two main types of exchange-traded products are 'exchange-traded funds' (ETFs) and 'exchange-traded commodities' (ETCs).

Exchange-traded Funds

Some Exchange-traded Funds (ETFs) track an index by buying the underlying constituents of that index, while others buy derivatives to replicate the performance of the index. If it's the latter, your investment can be subject to 'counterparty risk'. This is the risk that the payments backing the ETF can no longer be made, which may result in you losing some or all of your investment.

If an ETF is tracking an unusual index or an illiquid asset class (one that can't easily be sold or converted to cash), its performance may differ from the index or asset class in question. This is because it can be difficult to adequately replicate the index or asset class.

Exchange-traded Commodities

Some Exchange-traded Commodities (ETCs) physically hold the underlying commodity (such as gold for example), whereas others buy derivatives to replicate the performance of a particular commodity. If it's the latter, your investment can be subject to 'counterparty risk'. This is the risk that the payments backing the ETC can no longer be made, which may result in you losing some or all of your investment.

The performance of an ETC will reflect the nature of the underlying commodity on which it is based. So if the price of the commodity goes up and down a lot, it's likely that the ETC will do the same.

Exchange-traded Funds and Exchange-traded Commodities

Some Exchange-traded Funds (ETFs) and Exchange-traded Commodities (ETCs) can borrow to increase exposure to the underlying index or commodity. This can increase potential returns in a rising market, but it can also magnify losses if the market is falling.

Before investing in an ETF or ETC, please read the Key Investor Information Document or Key Information Document relating to the instrument(s) you're considering. Your adviser can provide you with a copy of the relevant document.

Dealing Costs

When you buy or sell ETIs, you'll incur a cost. This cost is £7.50 per individual trade or £1.50 per individual trade when the ETI is within a model portfolio. See the examples below:

£500 individual trade	£7.50, 1.5%
£500 two stock trades	£15, 3%
£500 five stock trades	£37.50, 7.5%

£1,000 individual trade	£7.50, 0.75%
£1,000 two stock trades	£15, 1.5%
£1,000 five stock trades	£37.50, 3.75%

If the trade is within a model portfolio the charge is reduced to £1.50 per individual trade:

£500 individual trade	£1.50, 0.3%
£500 two stock trades	£3, 0.6%
£500 five stock trades	£7.50, 1.5%

£1,000 individual trade	£1.50, 0.15%
£1,000 two stock trades	£3, 0.3%
£1,000 five stock trades	£7.50, 0.75%

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