# Investment and Risk Warnings Summary.

interactive investor

This Investments and risk warnings summary provides you with a general description of the nature and risks of the investments you may trade with us. It does not disclose all of the risks and other significant aspects of the investments which we offer

General warning

You should not view the past performance of investments as a guide to their future performance.

If you are not sure about any aspect of the risks and features of these products, you should obtain professional advice.

You should be aware that the performance of all of the investment products set out below is not guaranteed and the prices may go down as well as up.

In general, you should consider whether it is appropriate for you to hold your investment in a tax-efficient wrapper, such as a stocks and shares ISA. This may be beneficial to you for tax purposes. If you decide to open an ISA with ii, you will be subject to our ISA Terms in addition to our general Terms of Service. If you are in any doubt as to the suitability of a stocks and shares ISA for your personal circumstances you should seek advice from a suitably qualified financial advisor.

## Shares

### Nature

Shares (also known as equities), represent a portion of a company's share capital. The extent of your ownership in a company depends on the number of shares you own in relation to the total number of shares in issue.

Some shares are bought and sold on stock exchanges and their values can go down as well as up.

A company's share price will be influenced primarily by the financial performance of the company itself. If the company performs well, investors should earn a return over and above the amount originally invested. This might be in the form of capital growth (i.e. the price of the company's shares rises) and/or income, by way of dividends.

Whilst the performance of the company itself is clearly very important, it should also be noted that the value of shares can be impacted by macroeconomic events – i.e. even if the company itself is performing well, a market-wide event can drive down the value of all shares. This happened during the 2008 financial crisis, when a market-wide sell-off caused significant falls in the value of the vast majority of shares, regardless of the long-term prospects of the individual companies.

There are essentially two types of shares: ordinary and preference.

Ordinary shares carry the full risk and reward of investing in a company. Dividends are not guaranteed and, in the event that the company is 'wound up', the ordinary shareholders are paid last and may lose all of their capital.

Preference shares are a hybrid security with elements of both debt and equity. Although they are technically a form of equity investment, they also have characteristics of debt, particularly in that they tend to pay a fixed income. Preference shareholders have legal priority over ordinary shareholders in respect of earnings and, in the event of bankruptcy, in respect of assets.

In general, preference shares are non-voting, pay a fixed dividend each year and rank ahead of ordinary shares in terms of being paid back if the company is wound up.

### Risks

There is there no guarantee of a return from shares, if the company performs poorly, it is likely that its share price will fall and an investor may lose money when they have to sell.

Moreover, if the company becomes bankrupt, an investor risks losing the entirety of their invested capital. If a company is wound up, shareholders will typically be the last in line to receive any money raised after



all other interested parties have been paid up (e.g. paying taxes and repaying bank loans).

As a general rule, shares in smaller companies and/or in companies incorporated in emerging markets tend to carry more risk than well-established and larger, so-called, 'blue-chip' companies (although, such companies are not immune, as proven by the collapse of companies such as Enron, Lehman Brothers, Pan American World Airways and Northern Rock).

There can be a big difference between the buying and selling price (known as the 'bid-offer spread') of shares in smaller companies. If they have to be sold immediately, you may get back much less than you paid for them.

Shares in companies incorporated in emerging markets may be harder to buy and sell than those shares in companies in more developed markets and such companies may also not be regulated as strictly.

### Volatility

Volatility is the term used to describe the degree to which an investment is prone to swings in pricing.

In very general terms, share prices tend to be more volatile than bond prices and the prices of shares in smaller companies tend to be more volatile than the prices of shares in larger 'blue chip' companies.

Consequently, shares are typically regarded as being long-term investments that are suitable for investors with a time-horizon of at least five years (and possibly longer for more volatile investments, such as shares in companies incorporated in emerging markets).

This is because such investors are able to 'ride-out' short-term volatility, with a view to benefitting from longer-term gain.

### Liquidity Risk

Liquidity risk is the risk that an asset may be difficult to sell at a reasonable price or the risk that it may be difficult to sell the asset quickly enough to meet other spending needs. It essentially occurs when there is difficulty in finding a counterparty who is willing to buy the asset.

Regulated markets generally have liquidity provided by market makers. These are members of a regulated Stock Exchange that offer to buy and sell the market's securities at publicly-displayed prices (in return for providing this liquidity to the market, they make profits through the 'bid-offer spread').

Consequently, shares traded on a regulated market tend to be very liquid (i.e. they can be sold quickly and generally at the publicly displayed price). However, even regulated markets will have shares listed that are illiquid and the investor may not be able to sell all of the shares they want to at the publicly-displayed price (i.e. they may have to accept a discount) or they may not be able to sell them at all.

## Bonds

### Nature

Bonds are fixed-income securities (also known as debt securities).

They are a form of loan instrument where an issuer (often a government authority or a corporate firm) issues a bond in return for investment funds. The person who invests in the bond is the lender or investor, and the issuer of the bond is the borrower. A bond is so-called because it represents a promise to repay the capital borrowed at the end of a pre-determined period. The issuer pays interest to the investors during the life of the bond and also repays the original sum of money at the end of an agreed term.

In general, rising interest rate expectations increase the redemption yield and push prices of bonds down. Conversely, falling yield expectations lift bond prices. However, other factors can also affect the price of a bond (see below).

There are essentially two types of bond issuer: governments and corporates. The type of issuer will determine the factors that are likely to impact on investment performance.

Government bonds dominate the bond markets. Sometimes the secondary market is run on regulated stock exchanges (this is typically the case in Europe) and sometimes outside stock exchanges (US).

The price of a government bond (and therefore its yield) is affected by demand in the market. The main factors that will determine demand are:

- interest rates (such as set by the Bank of England) and interest rate expectations
- how long the bond has to run until maturity
- the value of the underlying currency (i.e. the exchange rate)
- the credit worthiness of the issuing government.
- As with a government bond, the price of a corporate bond is affected by demand in the market. The main factors that will determine demand are:
- interest rates (such as set by the Bank of England) and interest rate expectations
- how long the bond has to run until maturity
- the credit worthiness of the issuing company
- the issuing company's long-term business prospects.

The interest payment (also known as the 'coupon') for a bond will generally be related to the perceived financial security of the institution issuing the bond (i.e. less secure issuers will be required to offer a higher rate of interest in order to attract investors).

**Risks**

The risk of losing all of the capital invested in a bond is generally considered to be lower than the risk of losing all of the capital invested in a company share.

The main risk associated with all bonds is that the issuer may be unable to pay back the money it has borrowed and default on the loan. If this happens, some or all of the investor's capital may be lost.

Bonds issued by governments with high-quality credit ratings (e.g. UK, Germany and US) are regarded as the least risky type of bond. Whilst it is technically possible that they might default, this possibility is considered so remote that they are often referred to as 'risk-free' bonds, because the government could raise taxes or simply print more money in order to be able to redeem the bond at maturity.

Bonds issued by governments with lower-quality credit ratings (e.g. in emerging and frontier markets) are likely to be more risky, since those governments are more likely to be situated in countries with weaker economies, high debt burdens, weaker or more volatile currencies and little ability to raise taxes. Consequently, they are more likely to be in a position where they are unable to repay their debts.

The risks associated with corporate bonds are similar to those associated with government bonds, however, since the issuer is a company, micro-economic factors (i.e. how the company itself is performing) are equally as important as macro-economic conditions.

In general, corporate bonds are characterized by higher yields than government securities because there is a higher risk of a company defaulting than a government.

Whilst plain vanilla bonds have a relatively straightforward structure, other bonds are more complicated.

For example, following the 2008 financial crisis, many banks were required to issue bonds with new 'bail-in' features. The basic principle behind these bonds is that bondholders should forfeit part of their investment to 'bail in' a bank before taxpayers are called on to bail it out. The conditions under which a bond may be 'bailed in' are complex and it is extremely important that investors ensure they understand these conditions, before making an investment.

**Volatility**

In general, longer-dated bonds, being those bonds that are due to mature in several years, are more sensitive to interest rate changes than their short-dated counterparts and therefore have greater price volatility.

Coupons also modify the variability of the bond. High coupons damp down volatility while low or zeros increase volatility.

Moreover, greater price volatility is expected in:

- bonds of a lower credit quality – 'junk' (speculative and noninvestment grade) bonds are more volatile because of their greater risk and speculative nature
- lower coupon bonds - a small change in current interest rates represents a proportionately



greater change as a percentage of the coupon
- longer dated bonds - current interest rate expectations have a relatively greater impact on the overall return to maturity.

Liquidity Risk

As with other investments, bonds can carry liquidity risk.

In general liquidity risk is very low for large issues, or issues where there is a guaranteed market (e.g. UK government bonds). However, it can be a much greater problem for smaller issues and those where the creditworthiness of the issuer is less sound.

## Collective Investments

**Nature**

Collective investment schemes (also known as mutual funds) are intermediaries that pool the financial resources of individual investors to create a large, diversified portfolio of assets.

This pooling enables economies of scale, such as lower transaction costs and commissions and investors benefit from the delivery of professional money management services to deliver returns.

There are many types and structures of collective investment schemes. The most commonly bought by retail investors are:

- investment trusts
- authorised unit trusts (AUTs)
- open ended investment companies (OEICs)
- real estate investment trusts (REITs)
- exchange traded funds (ETFs).

Investment trusts, REITs and ETFs are typically traded like shares on a regulated market and can therefore be bought and sold at a publicly-available price throughout the trading session, whereas

AUTs and OEICs are not traded on a stock exchange, but are bought and sold directly with the relevant fund manager.

Investment trusts and REITs may trade at a discount or premium to the cumulative value of their underlying investments, depending on the demand for their shares, whereas AUTs and OEICs are usually priced daily using a set formula based on their net assets minus charges (this is known as the Net Asset Value or NAV).

When you buy shares/units in a collective investment scheme, ii will provide you with a key information document – this will be provided on our website as part of the trading process. You should read this document carefully prior to purchasing a collective investment as it includes details of the particular risks relating to the investment.

**Risks**

In general, the risks associated with collective investments are determined by the underlying investments – e.g. a fund that invests in bonds will be subject to the risks described in the 'Bonds' section above. However, there can also be risks associated with the structure of certain collective schemes.

Synthetic ETFs differ from traditional or 'physical' ETFs in that, instead of holding an index's composite securities, they use complex derivatives, such as 'swaps', to track the underlying index. The ETF enters into a contract with a counterparty (usually a bank) whereby the counterparty agrees that the swap will return the value of the respective benchmark the ETF is tracking. The returns of the ETF are therefore dependent on the counterparty being able to honour its commitment and, as a consequence, the investor is exposed to the risk that the counterparty will default on the agreement (counterparty risk) and the investor will not receive the expected return.

Since the introduction of synthetic ETFs, regulations have been developed which restrict the amount of counterparty risk to which a fund can be exposed and regulators require the counterparty to post collateral in order to mitigate the counterparty risk – should the counterparty default on its obligations,

the ETF provider will have a claim to the collateral.

### Volatility

One of the key features of a collective investment scheme is that, by holding a diversified portfolio of underlying assets, the volatility experienced by single-company securities is smoothed-out – i.e. the price of collective investment schemes should be must less volatile.

Accordingly, the more diverse the portfolio is, the less volatile the price of the scheme should be.

Schemes that are less diverse (i.e. those that invest in very specialist areas) and/or invest in more volatile securities (e.g. emerging markets or smaller companies) are likely to be more volatile, although they should experience less volatility than the individual underlying asset prices.

### Liquidity Risk

In general, the liquidity of a collective investment will be determined by the liquidity of the underlying assets.

A scheme that invests in, for example, UK government bonds is unlikely to experience any liquidity issues and the investor should always be able redeem their investment, whereas, a scheme that invests in large commercial property could suffer liquidity issues if it is inundated with redemption requests, since it will not be able to quickly sell underlying assets to raise cash to pay investors.

In extreme cases, schemes may be suspended and it may not be possible for an investor to redeem their units for an indeterminate period of time. This happened in the wake of the UK's 2016 referendum on remaining in the European Union, when many property funds were suspended for redemptions for 2-3 months.

## Securitised derivatives

### Nature

Certain types of securitised derivatives, including covered warrants, may give you a time limited right to buy or sell one or more types of investment which is normally exercisable against someone other than the issuer of that investment.

Other types of securitised derivatives may give you rights under a contract for difference which allow for speculation on the changes in the value of a particular kind of property (of any description) or changes in the value of an index, such as the FTSE 100 index.

In both cases, the investment or property may be referred to as the 'underlying'.

The lifespan to expiry is usually between 3 months and 3 years from issue. If held until expiry, the cash value (if positive) will be credited to the investor.

The performance of the securitised derivative is directly linked to the performance of the underlying. However, it should be noted that securitised derivatives often involve a high degree of gearing or leverage, so a relatively small movement in the price of the underlying results in a much larger movement, unfavourable or favourable, in the price of the securitised derivative.

Securitised derivatives can incorporate novel features such as in-built 'knock outs' or 'stop losses' which crystalise losses.

Securitised derivatives are 'complex' instruments and you will therefore be required to pass ii's appropriateness assessment before we permit you to buy them. The appropriateness assessment tests the level of your investing knowledge and experience, however, it does not constitute a recommendation to invest.

### Risks

As noted above, a securitised derivative's gearing or leverage has the effect of magnifying the movement of the underlying. This magnification has the effect of significantly increasing the risk that the investor could lose all of the capital invested.

Moreover, since securitised derivatives have relatively short-terms to expiry, investors may not have time to 'ride-out' short term volatility – i.e. whilst the underlying may, in the longer term, perform well, the



securitised derivative may expire worthless in the short-term.

### Volatility

Securitised derivatives' gearing or leverage typically results in extreme price volatility, since movements in the underlying are magnified.

They are therefore considered to be short-term speculative investments and investors should only invest with money that they can afford to lose entirely.

### Liquidity Risks

The securitised derivatives available on ii's platform (e.g. covered warrants) are typically highly-liquid and investors will not, in general, experience difficulty in selling them quickly at publicly available prices. However, it should be noted that the ability to place transactions in these instruments by means of our online service is often restricted and investors may need to contact ii by telephone in order to buy or sell.

## Structured Products

### Nature

Structured products is a general term commonly used to cover a diverse and a varied range of savings and investment products.

They can be separated into two categories: structured deposits and structured investments.

In general, structured products incorporate the following features:

- offer income or growth, but not both
- have defined returns and defined risks
- returns are linked to a defined external measure such as the FTSE 100
- a defined term, typically from five to seven years.

They are generally designed to run up to maturity, at which point the issuer of the product will aim to return the initial investment amount, along with the underlying linked asset's gain.

### Risks

A key risk is the credit quality of the issuer. Even though the cash flows and the principal in a structured product may come from a stable investment (e.g. a bond), the products themselves are legally considered to be the issuer's liability.

If the issuer goes bust, the product's principal-protected guarantee may not apply and the capital will be at risk.

Structured products can be complex and may have unique characteristics that often cannot be replicated or provided by other issuers. For the investor this product differentiation creates price transparency issues. It is therefore harder to determine the intrinsic values of each competitor product in the market and to compare alternatives offered by each provider.

### Volatility

Structured products are intended to be held for a fixed-term, therefore asset price volatility is not generally considered to be a consideration.

### Liquidity Risk

Structured products are intended to be held for a fixed-term, therefore the secondary market is extremely illiquid. Whilst it may technically be possible to sell the security before the end of the fixedterm, it is likely that this will be at a deep discount to the value of the underlying assets. Consequently, structured products are generally unsuitable for investors who may need to encash the investment before the end of the fixed-term.

## Convertible debt instruments

### Nature

Convertible bonds give the holder the option to exchange the bond for a predetermined number of shares in the issuing company. The price at which the instrument can be converted into shares is usually set when the instrument is issued and typically can be converted at any point up until maturity.

They typically offer a lower interest rate than 'standard' corporate bonds, because they can be converted into shares and so have the potential to benefit from a rise in price of the underlying shares.

Convertible bonds are designed to combine the reliability of a debt instrument with the added upside of benefiting from an increase in the share value of the issuing company.

### Risks

The risks associated with convertible bonds are essentially the same as the risks associated with 'standard' bonds, with the key risk being that the issuer may be unable to pay back the money it has borrowed and default on the loan. If this happens, some or all of the investor's capital may be lost.

A specific risk associated with convertible bonds is that if the shares in the issuing company perform poorly there may be no conversion and the investor is left with a lower return than a non-convertible corporate bond would have provided.

Convertible bonds are typically 'callable', which means the issuer can force conversion of the bond for a specified number of shares at a certain price.

### Volatility

One of the key features of a convertible bond is that, as a debt instrument, it has a lower level of volatility than the issuer's shares, whilst retaining some of the upside potential of the shares.

That said, volatility in the underlying share price can result in volatility of the convertibles, that would be absent in the issuer's nonconvertible bonds.

### Liquidity Risk

As with non-convertible bonds, liquidity risk is generally very low for large issues. However, it can be a much greater problem for smaller issues and those where the creditworthiness of the issuer is less sound.

## Over the Counter (OTC) securities

### Nature

An over-the-counter (OTC) security is a security traded in some context other than on a formal exchange (such as the London Stock Exchange).

Shares are usually traded OTC because the company is small and cannot meet exchange listing requirements. Also known as unlisted stock, these securities are traded by broker-dealers who negotiate bilaterally.

In some countries, bonds are technically traded OTC, however, in practice the market in bonds is typically so liquid that a retail investor would not necessarily see any difference in the trading process.

### Risks

Trading in OTC shares carries the same risks as trading in shares listed on a regulated exchange, however, investors are also exposed to further risks as there is typically less transparency and less stringent regulation than trading in shares listed on a regulated exchange.

Reliable information regarding issuers of OTC securities, their prospects, or the risks associated with the business of any particular issuer or an investment in the issuer's securities may not be available.

As a result, it may be difficult to properly value an investment in an OTC security.

### Volatility and Liquidity Risk



Many OTC securities are relatively illiquid, which tends to increase price volatility. Illiquid securities are often difficult for investors to buy or sell without dramatically affecting the quoted price. As there is no formal 'market', two-way pricing is often not available and the liquidation of a position in an OTC security may not be possible within a reasonable period of time, if at all.

## General risks of trading

### Foreign markets

Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater.

The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

### Commissions

Before you begin to trade, you should obtain details of all commissions and other charges for which you will be liable by checking the Rates and Charges.

If you do not understand any charges (because, for example, they are not expressed in money terms but as a percentage of contract value), you should ask us for a written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms.

### Market conditions

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted.

Placing a stop loss order or Limit Order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

### Suitability

As set-out in Section 2.2 of our Terms of Service we shall not be responsible for monitoring your Account or the suitability of any investment on an ongoing basis. As a result, you will not benefit from the protection of the FCA Rules on assessing suitability.