

Overview of Investment Instruments and Their Risks

Axiology

1 GENERAL PROVISIONS

- 1.1 UAB Axiology DLT ("Axiology") shall ensure that all clients are duly informed, in a clear and timely manner and prior to the provision of any investment or ancillary service, of the nature and risks of the investment instruments to which such services relate under the requirements set out in Directive 2014/65/EU ("MiFID II") and Commission Delegated Regulation (EU) 2017/565. Axiology shall specify, where relevant, the categories of clients for whom each investment instrument is considered suitable or intended, taking into account the client's classification and level of knowledge and experience.
- 1.2 This Document provides a framework for identifying and communicating to clients the material risks associated with investment instruments for which Axiology provides services. It does not constitute an exhaustive description of all risks or product characteristics and does not replace the detailed information provided in the specific agreement with clients, products, or offering documentation. The described risks and indicated investment products may be associated with a subset of services that are provided by Axiology and not necessarily Axiology provides the services with all investment products.
- 1.3 The information contained in this Document is provided for regulatory and informational purposes only and does not constitute legal, tax, financial, or other professional advice. It does not purport to provide a complete analysis of any specific financial instrument, transaction, or product. Each investment instrument shall be assessed individually, having regard to its specific features, contractual terms, and the investor's personal financial circumstances, investment objectives, and risk tolerance. References to financial instruments contained herein are of a general nature and are not intended to relate to any particular issuance, structure, or transaction.
- 1.4 Clients shall familiarise themselves with the risks associated with any contemplated investment or transaction and are encouraged to seek independent professional advice, including financial, legal, accounting, or tax advice, where any uncertainty exists regarding the suitability or implications of a specific investment.
- 1.5 Axiology may, at the Client's request, provide objective general information regarding specific investment instruments or investment services. However, Axiology does not provide investment recommendations, opinions, or evaluations concerning the suitability or profitability of any investment instrument or service.
- 1.6 Every transaction in an investment instrument entails a degree of risk. As a general principle, the higher the expected return and/or the longer the duration of the investment, the greater the potential risk of financial loss. Past performance of any investment instrument is not a reliable indicator of future performance, and there can be no assurance that similar returns will be achieved in the future.
- 1.7 Trading or investing in financial instruments involves the risk of not achieving the anticipated return as well as the risk of partial or total loss of the invested capital. Clients should not engage in transactions whose terms, mechanisms of execution, or potential financial consequences they do not fully understand, including the extent of possible losses, which in certain cases may exceed the amount of the initial investment.
- 1.8 The level of risk associated with an investment instrument varies depending on its nature and characteristics. The degree of risk, often expressed as the ratio between the potential loss and the nominal or current market value of the instrument, differs across asset classes.
- 1.9 The equities, equity-like securities, and commodity instruments are generally considered high-risk investments, as their value is subject to substantial volatility.
- 1.10 By contrast, fixed-income instruments, such as bonds and other debt securities that represent a right to repayment of principal and interest, tend to carry lower relative risk. This is particularly true in the case of government bonds and central bank debt securities, which are generally regarded as lower-risk investments, though they are not entirely free of risk.
- 1.11 An investor in a financial instrument must generally make the right assumptions about the direction, timing, and size of expected changes in the value of the underlying asset. Several risk factors can influence the instrument at the same time, and their combined effect may be difficult or impossible to predict. These risk factors may also interact or amplify one another, leading to outcomes that cannot be foreseen. There is no guarantee as to how any combination of risks will affect the value of a financial instrument.

- 1.12 In addition to risks described above, the investors should be aware that transactions involving financial instruments may be subject to stamp duties, transfer taxes, or other charges under applicable laws. Payment or delivery of amounts due may depend on the settlement of certain taxes or expenses, and Axiology or any relevant third party may withhold or deduct amounts as required to meet such obligations. Investors should review the terms of the financial instruments to understand how these provisions apply and seek independent tax advice if uncertain, noting that tax laws and their interpretation may change over time.

2 DESCRIPTION OF GENERAL RISKS

Market risk

- 2.1 Market risk refers to the possibility of financial loss arising from adverse movements in market variables, including interest rates, equity prices, foreign exchange rates, and commodity prices. To manage market risk effectively, firms typically employ ex-ante value-at-risk (VaR) and other quantitative models to estimate potential future changes in the value of investments under normal market conditions.
- 2.2 These models are designed in line with internationally recognised risk management practices and incorporate economic forecasts from reputable institutions, as well as observed interdependencies among key economic and market indicators. Advanced financial modelling techniques are used to simulate potential future scenarios for relevant market factors.
- 2.3 To ensure that exposure remains within acceptable limits, firms establish risk tolerance thresholds and maintain an appropriate mix of investments to keep the likelihood of exceeding those limits within a defined confidence level. In addition, stress testing is regularly performed to evaluate the potential impact of extreme but plausible market events on the value of investments.

Credit Risk

- 2.4 Credit risk is the risk of loss arising from the default or credit deterioration of a counterparty or issuer of a financial instrument. Effective credit risk management relies on the use of external credit ratings from reputable rating agencies, complemented by internal assessments and quantitative indicators.
- 2.5 Investment firms typically engage only with high-credit-quality counterparties and invest in investment-grade securities, thereby limiting exposure to entities with lower creditworthiness. Settlement risk, a subset of credit risk, arises when a transaction is not completed as expected, potentially resulting in loss. To mitigate settlement risk, firms employ industry-standard mechanisms such as delivery-versus-payment (DvP) arrangements, credit exposure monitoring.
- 2.6 A subcategory of credit risk, counterparty insolvency risk, refers to the possibility of loss arising from the insolvency or default of a firm, intermediary, or broker involved in a transaction. Such an event may result in the liquidation or closure of positions without the investor's consent, or in the failure to return invested assets. Insolvency risk may also relate directly to the investment itself, for example, the default of the company issuing a bond or the counterparty to an off-exchange derivative transaction. In such cases, the risk may extend not only to the derivative instrument but also to any collateral held by the counterparty.

Liquidity Risk

- 2.7 Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due, either because of insufficient cash resources or an inability to liquidate assets promptly without significant loss. Liquidity risk is managed by maintaining an appropriate balance between liquid assets and short-term liabilities, monitoring cash flow projections, and aligning the maturity structure of assets and liabilities to ensure ongoing solvency under normal and stressed conditions.

Concentration Risk

- 2.8 Concentration risk refers to the possibility of loss arising from a significant concentration of exposures to individual counterparties or groups of counterparties whose likelihood of default may be influenced by a common underlying risk factor. Such risk may occur where counterparties operate within the same

industry sector, geographical region, or line of business, or where they trade in the same commodity or belong to the same economic group.

- 2.9 Concentration risk may also arise from the application of credit risk mitigation techniques, particularly in cases where these create large indirect exposures to a single issuer or collateral type. Excessive concentration reduces diversification and may amplify the impact of adverse developments affecting the related sector, region, or asset class. Effective concentration risk management therefore involves identifying, monitoring, and limiting exposures to ensure that overall portfolio risk remains within acceptable parameters.

Operational Risk

- 2.10 Operational risk refers to the possibility of financial loss resulting from the inadequacy or failure of internal processes, human factors, or systems, as well as from external events. This category of risk encompasses failures attributable to the issuer of an investment instrument, third parties, or external circumstances, and includes information technology (IT) risk and legal risk.
- 2.11 Operational risk may arise from a wide range of sources, such as human error, process deficiencies, system malfunctions, or external disruptions. Examples include, but are not limited to, the erroneous transfer of funds to an incorrect account, the loss or mismanagement of trading documentation, miscalculation of interest or pricing parameters, or the destruction of electronic data due to system failure, power outage, or fire.
- 2.12 Effective operational risk management requires the establishment of robust internal controls, clear procedures, staff training, and business continuity planning to mitigate the likelihood and impact of such events.
- 2.13 Operational risk refers to the possibility of loss arising from the inadequacy or failure of internal processes, systems, or controls, including information technology systems. Such risk can affect all types of financial instruments. Operational risk also encompasses business risk, including the risk that a business is managed ineffectively or imprudently, thereby adversely affecting investors. Changes in personnel, management structure, or organisational processes may significantly increase operational risk. In many cases, these risks are not visible or readily apparent from outside the organisation.

Transaction Cost and Commission Risk

- 2.14 Risk associated with commissions and transaction costs refers to the potential impact of various fees, charges, and expenses on the overall profitability of an investment. When financial instruments are purchased or sold, several types of incidental costs — including transaction fees, brokerage commissions, and service charges — may arise in addition to the market price of the instrument. These costs can significantly reduce, or in some cases eliminate, the potential for profit.
- 2.15 Where additional domestic or foreign intermediaries are involved in the execution of an order, such as dealers or brokers in other jurisdictions, investors may also be charged third-party costs, including brokerage fees, commissions, and other expenses. In addition to these direct costs associated with executing transactions, investors should also consider any follow-up or ongoing costs, such as custody or maintenance fees.
- 2.16 Investors are strongly advised to familiarise themselves with all costs and charges — both direct and indirect — associated with the purchase, holding, or sale of an investment prior to entering into a transaction. The effect of transaction costs, particularly in the case of newly issued securities, may result in the issue price initially falling below the subsequent market value once trading commences.
- 2.17 Before commencing any trading activity, investors should ensure they have obtained full details of all applicable commissions, fees, and charges for which they may be liable.

Risk associated with suspensions of trading and grey market investments

- 2.18 Under certain market conditions, it may become difficult or impossible to liquidate an investment position. Such circumstances may arise, for example, during periods of rapid price movements when the price of a security increases or decreases so significantly within a single trading session that trading in that

security is suspended or restricted under the rules of the relevant exchange. The placement of a stop-loss order does not guarantee that losses will be limited to the intended amount, as prevailing market conditions may prevent execution of the order at the specified price.

- 2.19 Transactions may also be entered into in:
- 2.20 securities whose listing on an exchange has been suspended or discontinued, or which are subject to an exchange announcement suspending or prohibiting dealings; or
- 2.21 grey market securities, meaning securities for which an application for listing or admission to trading has been made but not yet approved (other than where the application has been rejected), and which are not already listed or admitted to trading on another exchange.
- 2.22 In such cases, there may be insufficient publicly available information upon which to base an informed investment decision.
- 2.23 Both exchange-traded and off-exchange (OTC) investments may be non-readily realisable, meaning that the market for such investments is limited or may become illiquid. Consequently, it may be difficult to determine their fair market value and/or to liquidate a position at a desired time or price.

3 DESCRIPTION OF INVESTMENT PRODUCTS

Bonds

- 3.1 A bond is a debt security representing a contractual obligation of the issuer to the investor (bondholder). It constitutes a fungible financial instrument that entitles the holder to the repayment of principal, the payment of interest (coupon), and requires the issuer to meet all obligations set out in the bond's terms and conditions. The rights and obligations of both parties are defined in the terms of issue. The bondholder bears no liability for the issuer's obligations.
- 3.2 In general, bond investments carry a lower market risk than equities; however, higher yields are typically associated with higher risk. Investors should carefully assess each bond's characteristics and risk profile in relation to their investment objectives and risk tolerance.
- 3.3 Repayment of the nominal value and the payment of interest are not legally guaranteed unless explicitly specified. In certain jurisdictions, some issuers (such as banks or investment firms) may participate in investor protection or guarantee schemes that provide partial compensation in cases of issuer insolvency; however, such arrangements vary and should not be considered a substitute for due diligence.
- 3.4 Debt instruments may be issued by a variety of entities, including national governments or state agencies in the case of government bonds used to finance public expenditure; regional or local authorities in the case of municipal bonds; commercial companies issuing corporate bonds to raise capital, where the level of risk varies according to the issuer's creditworthiness and directly affects the coupon rate; financial institutions issuing bank bonds as part of their funding operations; and governments or central banks issuing short-term instruments such as treasury bills.
- 3.5 Debt instruments may also be classified by coupon type, including fixed-coupon bonds, where the coupon rate remains constant over the life of the bond, providing predictable returns but exposing investors to potential losses in market value if interest rates rise; floating-rate bonds, where the coupon is linked to a benchmark reference rate (such as EURIBOR) plus a margin, resulting in higher returns when market rates increase and lower returns when they fall; and zero-coupon bonds, which do not pay periodic interest but are issued at a discount to their face value, with the investor's return realised upon redemption at maturity.
- 3.6 The yield of a bond represents the overall return generated from the instrument and consists of the periodic interest income derived from fixed or variable coupon payments, together with any capital gain or loss resulting from the difference between the purchase price and the sale or redemption price. Consequently, the total return on a bond is influenced by both its interest structure and fluctuations in its market value over time.
- 3.7 Main risks associated with bonds:
- 3.8 Credit Risk. Credit risk refers to the possibility that the issuer of the bond may fail to meet its contractual payment obligations, including the payment of periodic coupons or the repayment of principal at maturity. The level of credit risk depends on the financial soundness of the issuer and is generally higher for corporate and lower-rated issuers, and lower for highly rated sovereign or supranational entities.
- 3.9 Interest Rate Risk. Interest rate risk arises from changes in prevailing market interest rates, which affect the market value of fixed-income instruments. When interest rates increase, the market price of fixed-

coupon bonds typically declines to align their yields with current market levels, whereas a decrease in interest rates usually results in higher bond prices.

- 3.10 **Currency Risk.** Currency risk occurs when a bond is denominated in a currency other than the investor's base currency. Fluctuations in exchange rates can significantly affect the value of the investment. A depreciation of the investor's domestic currency relative to the bond's currency may increase returns, while an appreciation may reduce them.
- 3.11 **Liquidity Risk.** Liquidity risk reflects the potential difficulty of selling a bond before maturity at a fair market price. Many bonds are traded over-the-counter (OTC), where trading volumes and market demand may vary. A bond's liquidity is influenced by factors such as the issuer's credit quality, issue size, and prevailing market conditions. Reduced liquidity may result in wider bid-ask spreads, longer settlement times, or the inability to dispose of a position without incurring a material loss.
- 3.12 Investors may adopt a range of measures to mitigate the principal risks associated with bond investments. Credit risk can be reduced by selecting bonds issued by entities with strong credit ratings or by investing in securities that are guaranteed or backed by high-quality collateral. Liquidity risk may be managed by focusing on bonds that are actively traded on established and transparent secondary markets, thereby facilitating the ability to sell positions without significant price concessions. Currency risk can be mitigated by investing in bonds denominated in the investor's domestic currency or by using appropriate hedging instruments, such as currency forwards or swaps, to manage foreign exchange exposure. Interest rate risk may be addressed through the use of interest rate swaps, futures, or similar derivative instruments to hedge adverse rate movements, particularly in the case of floating-rate or long-duration securities.

Equities

- 3.13 A common share, also referred to as an ordinary share, represents a unit of ownership in a company and entitles the holder to a proportionate claim on the company's profits and assets. Holders of common shares typically possess voting rights, allowing them to participate in decisions regarding corporate governance, such as electing board members or approving significant business actions. Unlike bondholders or preferred shareholders, common shareholders are residual claimants—meaning they are entitled to the company's remaining assets only after all debts and other obligations have been satisfied in the event of liquidation.
- 3.14 Common shares do not guarantee fixed returns. Investors may receive dividends, which are periodic payments made from the company's profits, but the amount and frequency of such payments are determined at the discretion of the board of directors and depend on the company's financial performance and dividend policy. In addition to potential dividend income, shareholders may benefit from capital appreciation, as the market price of the shares increases in response to the company's growth prospects, profitability, or favourable market conditions. Conversely, share prices can decline due to poor financial results, adverse economic developments, or broader market volatility, exposing investors to potential capital losses.
- 3.15 The value of common shares is influenced by multiple factors, including the company's earnings performance, industry dynamics, macroeconomic trends, interest rate changes, and investor sentiment. Equity markets are generally more volatile than fixed-income markets, as share prices respond quickly to new information and changing expectations. Accordingly, investment in common shares involves a higher level of risk compared to debt instruments but also offers the potential for superior long-term returns. Investors should carefully consider their financial situation, investment objectives, and risk tolerance before investing in common shares and are encouraged to diversify their portfolios and seek independent financial advice where necessary.
- 3.16 Main risks associated with equities:
- 3.17 **Market Risk.** Market risk refers to the possibility of losses arising from general movements in the market or in specific sectors affecting the value of shares. Share prices are influenced by economic cycles, interest rate changes, geopolitical events, and company-specific factors. Equity markets tend to be more volatile than fixed-income markets, and short-term fluctuations can be substantial.
- 3.18 **Business and Earnings Risk.** Business risk arises from the operational and financial performance of the issuing company. Declines in revenues, profitability, or competitive position may adversely affect share prices and dividend payments. This risk varies by sector, business model, and management quality.
- 3.19 **Dividend Risk.** Dividends are not guaranteed and depend on the issuer's earnings, liquidity, and dividend policy. In periods of weak financial performance or market downturns, companies may reduce or suspend dividend payments, adversely affecting investor returns.

- 3.20 **Liquidity Risk.** Liquidity risk reflects the possibility that shares may not be easily sold at prevailing market prices, particularly for small-cap or less frequently traded companies. Reduced trading activity can result in wider bid–ask spreads, longer settlement times, and potentially material price concessions upon sale.
- 3.21 **Currency Risk.** Where shares are denominated or traded in a foreign currency, exchange rate fluctuations may affect the value of the investment when converted into the investor’s domestic currency. A depreciation of the share’s trading currency relative to the investor’s home currency will reduce the investment’s value, while appreciation may increase it.
- 3.22 **Political and Regulatory Risk.** Changes in legislation, taxation, or regulatory frameworks affecting the issuer’s business or the market in which it operates may impact share valuations. Political instability, trade restrictions, or policy shifts may also influence investor confidence and market performance.

Money market instruments

- 3.23 The main categories of money market instruments:
- 3.24 **Certificates of Deposit.** A certificate of deposit is a promissory note issued by a bank in exchange for a fixed-term deposit. Holders of a certificate of deposit have limited access to the deposited funds until the maturity date, at which time the principal amount and accrued interest are repaid.
- 3.25 Investors should familiarise themselves with the protections available in respect of funds or other property deposited for domestic or cross-border transactions, particularly in the event of the insolvency or bankruptcy of the issuing institution. The extent of recovery in such circumstances may depend on applicable legislation or local insolvency rules. In some jurisdictions, assets specifically identifiable as belonging to a client may be subject to pro-rata distribution, similar to cash, in the event of a shortfall.
- 3.26 Apart from counterparty risk, the principal risk of investing in a certificate of deposit is the opportunity cost associated with restricted access to the funds during the investment period. Prolonged holding periods may prevent the investor from taking advantage of alternative investment opportunities or changing market conditions.
- 3.27 **Commercial Paper.** Commercial paper is an unsecured short-term debt instrument issued by companies to finance immediate funding needs or working capital. It is typically issued at a discount to face value and repaid at par upon maturity, which generally occurs within a few months of issuance.
- 3.28 Because commercial paper is usually unsecured, investors are exposed to higher counterparty default risk compared with secured or collateralised debt instruments. Furthermore, commercial paper is often less liquid than longer-term debt or equity securities; however, its short maturity period typically mitigates this liquidity risk to some extent.
- 3.29 **Treasury Bills.** Treasury bills are short-term government debt instruments with maturities of less than one year. They are backed by the creditworthiness of the issuing government and are considered low-risk investments. Treasury bills are generally issued at a discount to their nominal value, with investors receiving the principal and any accrued yield cumulatively at maturity rather than through periodic interest payments. Due to their high credit quality and short duration, Treasury bills typically offer lower yields compared with other securities and do not provide regular cash flows. Nonetheless, they are widely regarded as a conservative, low-risk investment suitable for short-term liquidity management.
- 3.30 **Notice Money.** Notice money refers to short-term funds lent by a financial institution that must be repaid by the borrower upon demand or after a short notice period. Unlike term loans, notice money lacks a fixed maturity date or repayment schedule.
- 3.31 The interest rate applicable to notice money may fluctuate substantially during the investment period, exposing both lender and borrower to uncertainty regarding returns and costs. As such, participants in notice money transactions are subject to the interest rate volatility and liquidity risks inherent in very short-term interbank lending.
- 3.32 Main risks associated with money market instruments:
- 3.33 **Credit risk in money market funds** refers to the possibility that the issuers of short-term debt instruments held by the fund, such as commercial paper, certificates of deposit, or treasury bills, may be unable to meet their repayment or interest obligations. Although MMFs typically invest in high-quality, short-term instruments to minimise default risk, the creditworthiness of issuers may deteriorate, potentially leading to a decline in the fund’s net asset value (NAV).
- 3.34 **Interest Rate Risk.** Interest rate risk arises from fluctuations in short-term market interest rates, which can affect the yield and valuation of the instruments held within a money market fund. When interest rates rise, the value of existing fixed-rate instruments may decline, leading to a temporary reduction in the fund’s NAV, while a decrease in rates may lower the fund’s overall yield.

- 3.35 **Liquidity Risk.** Liquidity risk refers to the potential difficulty a money market fund may face in redeeming units or selling underlying assets promptly and at a reasonable price. During periods of market stress or reduced liquidity, the fund may experience delays in meeting redemption requests or may be required to sell assets at a discount, thereby negatively impacting investors.
- 3.36 **Market Risk.** Market risk reflects the possibility that overall changes in economic or financial conditions—such as shifts in interest rate policy, credit spreads, or market confidence—may adversely affect the value of the instruments held by the fund. Although MMFs seek to maintain capital stability, their value may fluctuate, and capital preservation is not guaranteed.
- 3.37 **Inflation Risk.** Inflation risk arises from the possibility that the return on a money market fund may not keep pace with inflation, thereby eroding the real value of the investment over time. Given the typically lower yields of MMFs, this risk can be material during periods of rising inflation.

Collective investment undertakings (UCITS)

- 3.38 **Undertakings for Collective Investment in Transferable Securities (UCITS)** are investment funds regulated under EU law, designed to allow investors to pool their capital in a diversified portfolio of financial instruments. UCITS funds are managed by authorised management companies and operate under a harmonised European framework, which imposes strict requirements on risk diversification, liquidity, asset eligibility, and investor protection.
- 3.39 Investors in UCITS hold units or shares in the fund, and the value of their investment corresponds to the net asset value (NAV) per unit, which fluctuates based on the performance of the underlying assets. UCITS funds may invest in a wide range of transferable securities, including equities, bonds, money market instruments, and, within defined limits, derivatives for hedging or efficient portfolio management purposes.
- 3.40 The main categories of risks associated with UCITS:
- 3.41 **Market risk.** The value of a UCITS fund's units may fluctuate due to changes in the market prices of the underlying assets. These fluctuations may result from variations in interest rates, exchange rates, equity valuations, or broader market conditions.
- 3.42 **Credit risk:** If the UCITS invests in debt instruments, there is a risk that issuers of those securities may default on their payment obligations, leading to a decline in the fund's value.
- 3.43 **Liquidity risk.** Although UCITS are generally required to invest in liquid assets, market disruptions or concentrated portfolios may reduce liquidity, making it difficult for the fund to redeem units promptly or at a fair value.
- 3.44 **Currency risk.** Where a UCITS invests in assets denominated in currencies other than the fund's base currency, exchange rate fluctuations can affect the fund's value and the investor's return.
- 3.45 **Interest rate risk.** Changes in interest rates may affect the value of fixed-income securities held by the fund. Typically, rising interest rates cause bond prices to fall, negatively impacting the fund's value.
- 3.46 **Operational and counterparty risk.** The UCITS may be exposed to risks arising from failures in internal systems, processes, or third-party service providers, including depositaries and counterparties involved in derivative transactions.
- 3.47 **Performance risk.** There is no guarantee that the UCITS will achieve its stated investment objective or deliver positive returns. Past performance does not constitute a reliable indicator of future results.
- 3.48 Investors should carefully read the Key Information Document (KID) and the prospectus of the relevant UCITS before investing, in order to fully understand the fund's investment strategy, objectives, risk profile, and the costs and charges applicable. UCITS funds may impose management, administration, and performance fees that can reduce the overall return on investment. Although UCITS are generally regarded as lower-risk and more diversified compared to non-UCITS collective investment schemes, they remain exposed to market volatility, liquidity risk, and the potential for capital loss. Investors should therefore evaluate UCITS investments in light of their individual financial situation, investment objectives, time horizon, and risk tolerance, and are strongly encouraged to seek independent financial advice before making any investment decision.