RISK DISCLOSURES

Russell Investments

RIIL services

In this Schedule we use 'we' or 'us' to refer to the Manager, Russell Investments Ireland Limited, and we refer to the Client as 'you'.

Under MiFID you have been categorised as a Professional Client for the purposes of all Services which we provide to you in relation to the following products:

- transferable securities;
- money market instruments;
- units in collective investment undertakings; and
- options, futures, swaps, forward rate agreements and any other derivatives contracts.

This categorisation means we are allowed to assume that you have the level of experience and knowledge necessary to understand the risks associated with the Services.

In deciding to deal with us in such products generally, and in any particular case, you will have already assessed the risks involved in those products and in any related services and strategies which, in any particular case may (as relevant) include any of, or a combination of any of, the following:

- credit risk;
- market risk;
- liquidity risk;
- interest rate risk;
- FX risk;
- business, operational and insolvency risk;
- the risks of OTC, as opposed to on-exchange, trading, in terms of issues like the clearing house 'guarantee', transparency of prices and ability to close out positions;
- sustainability risk;
- contingent liability risk; and
- regulatory and legal risk.

Transferable securities

Shares

A risk with an equity investment such as a share is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business, and the company's performance may deteriorate vis-à-vis its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail.

Shares have exposure to all the major market risk types. In addition, there is a risk that there could be volatility or problems in the sector that the company is in. If the company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become very difficult to dispose of.

Ordinary shares

Ordinary shares are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders which could take the form of cash or additional shares.

Ordinary shares usually carry a right to vote at general meetings of the issuer.

There is no guaranteed return on an investment in ordinary shares for the reasons set out above, and in a liquidation of the issuer, ordinary shareholders are amongst the last with a right to repayment of capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.

Preference shares

Unlike ordinary shares, preference shares give shareholders the right to a fixed dividend; the calculation of which is not based on the success of the issuer company. They therefore tend to be a less risky form of investment than ordinary shares.

Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but shareholders will have a greater preference to any surplus funds of the issuer than ordinary shareholders, should the issuer go into liquidation.

Debt instruments/Bonds/Debentures

All debt instruments are potentially exposed to the major market risk types, in particular credit risk and interest rate risk.

Debt securities may be subject to the risk of the issuer’s inability to meet principal and/or interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, general market liquidity, and other economic factors, amongst other issues. When interest rates rise, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities/lower coupons tend to be more sensitive to interest rate movements than those with shorter maturities/higher coupons.

Money-market instruments

A money-market instrument is a borrowing of cash for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower. Unlike in an overdraft, the borrower must specify the exact amount and the period for which he wishes to borrow. Like other debt instruments, money-market instruments may be exposed to the major market risk types, in particular credit and interest rate risk.

Units in collective investment schemes

Collective investment schemes and their underlying assets are potentially exposed to all of the major market risk types.

There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to 'pool' their assets and have these professionally managed by an independent manager. Investments may typically include gilts, bonds and quoted equities, but depending on the type of scheme, may go wider into derivatives, real estate or any other asset. There may be risks on the underlying assets held by the scheme and investors are advised, therefore, to check whether the scheme holds a number of different assets, thus spreading its risk. Subject to this, investment in such schemes may reduce risk by spreading the investor’s investment more widely than may have been possible if they were to invest in the assets directly.

The reduction in risk may be achieved because the wide range of investments held in a collective investment scheme can reduce the effect that a change in the value of any one investment may have on the overall performance of the portfolio. Although, therefore, seen as a way to spread risks, the portfolio price can fall as well as rise and, depending on the investment decisions made, a collective investment scheme may be exposed to many different major risk types.

The valuation of a collective investment scheme is generally controlled by the relevant fund manager or the investment adviser (as the case may be) of the collective investment scheme. Valuations are performed in accordance with the terms and conditions governing the collective investment scheme. Such valuations may be based upon the unaudited financial records of the collective investment scheme and any accounts pertaining thereto. Such valuations may be preliminary calculations of the net asset values of the collective investment schemes and accounts. The collective investment scheme may hold a significant number of investments which are illiquid or otherwise not actively traded and in respect of which reliable prices may be difficult to obtain. In consequence, the relevant fund manager or the investment adviser may vary certain quotations for such investments held by the collective investment scheme in order to reflect its judgement as to the fair value thereof. Therefore, valuations may be subject to subsequent adjustments upward or downward. Uncertainties as to the valuation of the collective investment scheme assets and/or accounts may have an adverse effect on the net asset value of the relevant collective investment scheme where such judgements regarding valuations prove to be incorrect.

A collective investment scheme and any collective investment scheme components in which it may invest may utilise (inter alia) strategies such as short-selling, leverage, securities lending and borrowing, investment in sub-investment grade or non-readily realisable investments, uncovered options transactions, options and futures transactions and foreign exchange transactions and the use of concentrated portfolios, each of which could, in certain circumstances, magnify adverse market developments and losses.

Collective investment schemes, and any collective investment scheme components in which they may invest, may make investments in markets that are volatile and/or illiquid and it may be difficult or costly for positions therein to be opened or liquidated.

In addition, the opportunities to realise an investment in a collective investment scheme is often limited in accordance with the terms and conditions applicable to the scheme and subject to long periods of advance notice (during which the price at which interests may be redeemed may fluctuate or move against you). There may be no secondary market in the collective investment scheme and therefore an investment in such a scheme may be (highly) illiquid.

Options, futures, swaps, forward rate agreements and any other derivatives contracts

A derivative is a financial instrument, the value of which is derived from an underlying asset's value. Rather than trade or exchange the asset itself, an agreement is entered into to exchange money, assets or some other value at some future date based on the underlying asset. A premium may also be payable to acquire the derivative instrument.

There are many types of derivatives, but options, futures and swaps are among the most common. Derivatives usually have a high risk connected with them, predominantly as there is a reliance on the performance of underlying assets, which may be unpredictable. Options or futures may allow a person to pay only a premium to have exposure to the performance of an underlying asset, and while this may often lead to large returns if the investor has made correct assumptions with regard to performance, it could lead to a 100% loss (the premium paid) if incorrect. Options or futures sold short or uncovered (i.e. without the seller owning the asset at the time of the sale) may lead to great losses if, depending on the nature of the derivative, the price of the underlying asset falls or rises significantly.

If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated off-exchange derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

On-exchange derivatives are subject, in addition, to the risks of exchange trading generally, including potentially the requirement to provide margin. OTC Derivatives may take the form of unlisted transferable securities or bi-lateral OTC contracts. Although these forms of derivatives may be traded differently, both arrangements may be subject to credit risk of the issuer (if transferable securities) or the counterparty (if OTC Derivatives) and, like any contract, are subject also to the particular terms of the contract (whether a one-off transferable security or OTC, or a master agreement), as well as the risks identified in the points above. In particular, with an OTC Derivative, the counterparty may not be bound to "close out" or liquidate this position, and so it may not be possible to terminate a loss-making contract. OTC Derivatives are further subject to the following additional risks:

- Significant events (such as a significant decline in the market value of your assets over a 12-month period) may cause you or a counterparty to terminate the OTC Derivative.
- A default under a derivatives contract may trigger a termination event. Any default or triggering of a termination event under one OTC Derivative may affect all OTC Derivatives with a given counterparty.
- A counterparty may require you to post Collateral, which may be adjusted as the value of your position increases or decreases until the obligations under the OTC Derivative are completely fulfilled. The Collateral is available for the counterparty to trade, lend, or otherwise use until such time as you may have a right for the Collateral to be returned.
- OTC Derivatives may be subject to New York state law and waive the right to trial by jury in the case of a dispute. Such OTC Derivatives can be complex and receiving a fair outcome from a jury of laypeople could be problematic.

Derivatives can be used for speculative purposes or as hedges to manage other investment risks. You should therefore ask about the terms and conditions of the specific derivatives and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of an underlying asset and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying asset.

Normal pricing relationships between the underlying asset and the derivative may not exist in all cases. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to assess 'fair' value.

Futures/Forwards/Forward rate agreements

Transactions in futures or forwards involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures and forwards trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures and forwards transactions have a contingent liability, and you should be aware of the implications of this, in particular margining requirements: these are that, on a daily basis, with all exchange-traded, and most OTC off-exchange, futures and forwards, you will have to pay over in cash losses incurred on a daily basis and if you fail to, the contract may be terminated.

Options

There are many different types of options with different characteristics subject to the following conditions.

Put option: a put option is an option contract that gives the holder (buyer) of the option the right to sell a certain quantity of an underlying security to the writer of the option at a specified price (the strike price) up to a specified date (the expiration date).

Call option: a call option is an option contract that gives the holder (buyer) the right to buy a certain quantity of an underlying security from the writer of the option, at a specified price (the strike price) up to a specified date (the expiration date).

Buying options: buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you must acquire the future. This will expose you to the risks described under 'futures' and 'contingent liability investment transactions'. Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

Writing options: if you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price.

If you already own the underlying asset which you have contracted to sell (known as 'covered call options') the risk is reduced. If you do not own the underlying asset (known as 'uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

Depending on the type of option entered into, there may be increased exposure to market risk when compared to other financial products. There are several option styles including (but not limited to) American-, European- and Bermuda-style. An American-style option may be exercised at any time prior to its expiration. A European-style option may only be exercised on a specific date, its expiration date. A Bermuda-style option may be exercised on certain specified dates during the term of the transaction.

If you buy an American-style call option and the relevant market price of the underlying asset never rises above the strike price on the option (or if you fail to exercise the option while such condition exits), the option will expire unexercised and you will have lost the premium you paid for the option. Similarly, if you buy an American-style put option and the relevant market price for the underlying asset does not fall below the option strike price (or if you fail to exercise the option while such condition exists), the option will not be exercised and you will have lost the premium you paid for the put option.

Purchasing European-style or Bermuda-style options may carry additional market risk since the option could be "in-the-money" for part or substantially all of the holding period but not on the exercise date(s). A call option is "in-the-money" if the strike price is lower than the relevant market price for the underlying asset. A put option is "in-the-money" if the strike price is higher than the relevant market price for the underlying asset.

It is even possible for the holder of an exercised, "in-the-money" option to lose money on an option transaction. Such a situation exists whenever the value received under the option fails to exceed the purchaser's costs of entering into the option transaction (the premium and any other costs and expenses).

If you are a potential writer of an option, you should consider how the type of option affects the timing of your potential payment and delivery obligations thereunder. As the writer of a European-style option, the timing of any payment and delivery obligations is predictable. Absent early termination, no settlements will be necessary prior to the expiration date. As the writer of an American-style option, however, you must be certain that you are prepared to satisfy your potential payment and delivery obligations at any time during the exercise period (possibly quite soon following the sale of the option).

Traditional options: certain London Stock Exchange member firms under special exchange rules write a particular type of option called a 'traditional option'. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

Contracts for differences

Certain derivatives are referred to as contracts for differences. These can be options and futures on the FTSE 100 index or any other index of an exchange, as well as equity, currency and interest rate swaps, amongst others. However, unlike other futures and options (which may, depending on their terms, be settled in cash or by delivery of the underlying asset), these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option. Transactions in contracts for differences may also have a contingent liability.

Swaps

A swap agreement is a derivative where two counterparties exchange one stream of cash flows against another stream, calculated by reference to an ‘underlying’ (such as securities’ indices, bonds currencies, interest rates or commodities, or more intangible items).

A swap agreement may also be combined with an option. Such an option may be structured in two different ways. On the one hand, ‘swaptions’ are transactions that give the purchaser of the swaption the right, against payment of a premium, to exercise or not to exercise, until the agreed maturity date, its right to enter into a pre-agreed swap agreement. On the other hand, ‘caps’, ‘floors’ and ‘collars’ enable a party, against payment or receipt of a premium, to protect itself against, or to take an exposure on, the variation on the value or level of an underlying.

A major risk of off-exchange derivatives, (including swaps) is known as counterparty risk, whereby a party is exposed to the inability of its counterparty to perform its obligations under the relevant financial instrument. For example if a party, A, wants a fixed interest rate loan and so swaps a variable rate loan with another party, B, thereby swapping payments, this will synthetically create a fixed rate for A. However, if B goes insolvent, A will lose its fixed rate and will be paying a variable rate again. If interest rates have gone up a lot, it is possible that A will struggle to repay.

The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting both as principals and as agents utilising standardised swap documentation to cover swaps trading over a broad range of underlying assets. As a result, the swap market for certain underlying assets has become more liquid but there can be no assurance that a liquid secondary market will exist at any specified time for any particular swap.

Combined instruments/Baskets

Any combined instruments, such as a bond with a warrant attached, is exposed to the risk of both those products and so combined products may contain a risk which is greater than those of its components generally, although certain combined instruments may contain risk mitigation features, such as principal protected instruments.

The value of a basket of products (such as shares, indices, etc.) may be affected by the number and quality of reference assets included in such basket. Generally, the value of a basket that includes reference assets from a number of reference asset issuers or indices will be less affected by changes in the value of any particular reference asset included therein than a basket that includes fewer reference assets, or that gives greater weight to some reference assets included therein. In addition, if the reference assets included in basket are concentrated in a particular industry, the value of such a basket will be more affected by the economic, financial and other factors affecting that industry than if the reference assets included in the basket are in various industries that are affected by different economic, financial or other factors or are affected by such factors in different ways.

Sustainability Risks and Monitoring of Adverse Impacts

The EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, “SFDR” or the “Disclosure Regulation”, effective from 10 March 2021, is part of the EU financial policy framework of regulatory measures aimed at mobilising finance for sustainable growth and channelling private investment to the transition to a climate-neutral economy. SFDR imposes transparency and disclosure requirements on the Manager including in relation to the integration of sustainability risks in investment decisions and the consideration of adverse impacts in relation to each financial product it makes available.

Set out below is the way in which the Manager integrates Sustainability Risks into investment decisions that it takes.

“Sustainability Risks” are defined by the Manager as financially-material risks related to environmental, social or governance issues that are relevant to our investment practice.

The Services will be provided in accordance with the Manager’s Sustainability Risks Policy which is available here. The Manager’s policy is to integrate Sustainability Risks in its investment solutions by identifying, evaluating and managing relevant risks in its sub-advisor review process, portfolio management and its implementation of proprietary solutions.

We believe Sustainability Risks are most relevant to investment outcomes when they exhibit financial materiality, and, like all investment risks, are incorporated by balancing expected risk with expected reward. In managing investment solutions, we consider financially-material sustainability risks in the context of expected rewards using a blend of inputs from sources including, but not limited to, sub-adviser, third-party data sources and Russell Investments propriety analysis.

Sustainability Risks will be considered in all investment decisions except for investments in certain asset classes or where a strategy or service does not support the integration of Sustainability Risks. Russell Investments’ Sustainability Risks Policy does not apply to: (i) transition management, interim management, FX, Currency Overlay and Efficient Portfolio Implementation (EPI) services; (ii) outsourced security trading services; (iii) passive and certain systematic strategies; (iv) unlisted securities; and (v) cash equitization, cash management, currency hedging, derivative overlays and certain direct investing strategies.

There may be circumstances in which Sustainability Risks will not be relevant to investments decisions, including but not limited to:

- Where the purpose of the investment is to achieve one or more specific outcome(s) e.g. placing derivative trades to manage liquidity.
- In respect of certain instruments or asset classes e.g. Sustainability Risks are unlikely to affect the value of reserve currency.
- Performance of bespoke mandates which exclude Sustainability Risks or environmental, social or governance (ESG) characteristics.
- Services which are performed by Russell Investments with limited discretion.

Where investment decisions are taken by sub-advisers, each sub-adviser will be responsible for identifying and considering Sustainability Risks and opportunities of investments and determining, in their opinion, whether they are, or could potentially be, financially material. Sub-advisors will be held accountable for monitoring and disclosing Sustainability Risks to Russell Investments on an ongoing basis.

Furthermore, we incorporate bespoke Sustainability Risks based on clients’ requirements for customised mandates. As well, we seek to collaborate with our advisory clients to consider, monitor and manage Sustainability Risk priorities in their portfolios based on our clients’ requirements.

Taking into account the manner in which we integrate sustainability risks in our investment solutions through identification, evaluation and management, we have determined that Sustainability Risks are unlikely to have a material financial impact on the performance objectives of the services that we provide.

The Manager does not consider the Principal Adverse Impacts of its investment decisions on sustainability factors (as defined under SFDR). Nonetheless, it does consider the adverse impacts of its activities on sustainability factors. The manner in which it does so, is set out in its adverse impact statement available here.