UWEALTH

GUIDE TO UNDERSTANDING ASSET CLASSES :

TRADITIONAL FUNDS

U Wealth : Your partner in mastering financial instruments.

We want you to feel comfortable making suitable investment decisions based on knowledge of the opportunities and risks of given financial instruments.

September 2026

FINANCIAL INSTRUMENTS: OPPORTUNITIES AND RISKS

The higher the complexity of a financial instrument, the higher its potential risk –but the higher, too, the opportunities for returns.

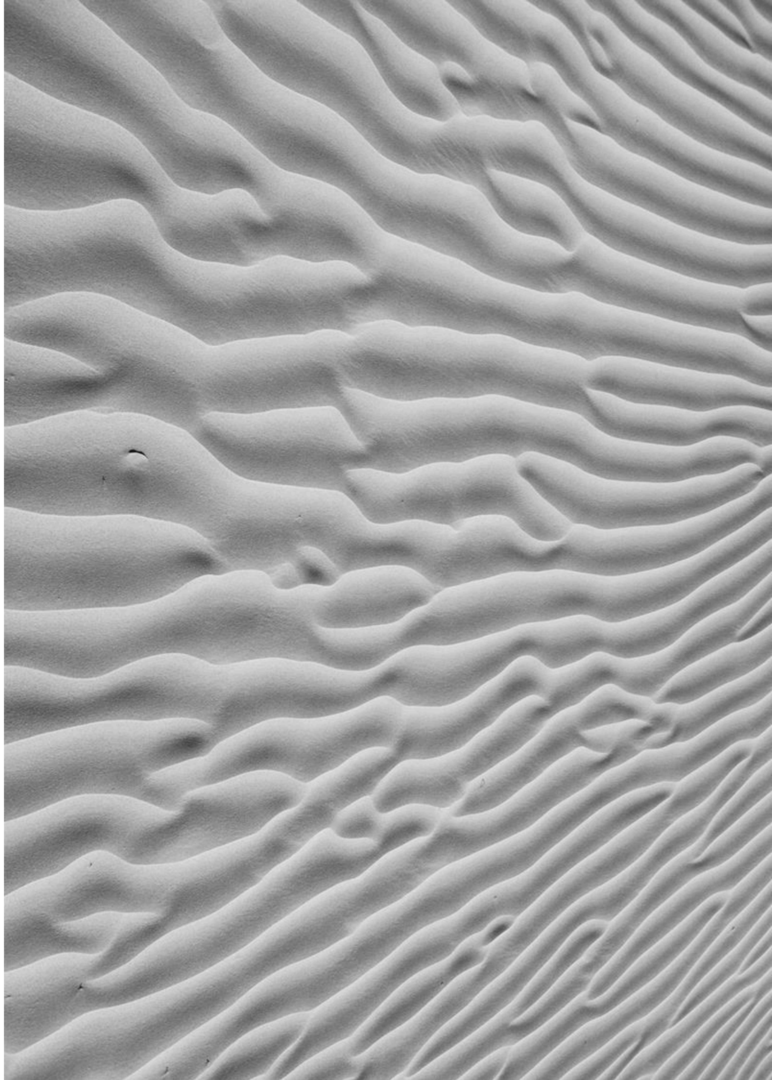
WHAT ARE INVESTMENT FUNDS?

An **investment fund is a regulated vehicle** that raises and **pools money** from a large number of investors **by selling shares** for the purpose of **investing in a portfolio** of securities. Major types of investment funds include mutual funds, unit trusts, and exchange-traded funds.

A **mutual fund**'s portfolio is structured and managed actively according to its investment objectives and strategy.

A **unit trust** invests in a specific portfolio that is not actively managed and is closed after a defined period of time.

An **exchange-traded fund (ETF)** is listed on one or more exchanges, permanently traded, and passively managed. It is an index fund that seeks to replicate the risk/return characteristics of a specific benchmark index.



OBJECTIVES OF FUND INVESTMENTS

By investing in funds, investors try to take advantage of joint capital investment, risk diversification, and professional fund management.

Joint capital investment

Funds provide access to markets, instruments, and strategies that are not otherwise within reach of individual investors due to their required investment volumes, skills, and specialized know-how.

Risk diversification

Investments are made in a wide variety of securities. As a result, the safety of the investment increases through diversification to a degree that individual investors cannot achieve.

Professional fund management

The management of a fund maintains the portfolio in a manner that exceeds the possibilities that individual investors have.

ADVANTAGES/DISADVANTAGES

Advantages

Professional management: shareholders transfer responsibility to the fund managers.

Diversification: investors profit from investing in a structured portfolio rather than in the base values.

Affordability: some funds offer affordable share prices/volumes to small investors.

Liquidity: investment funds are readily redeemable.

Regulated: investment funds are regulated concerning the sale, marketing, and registration in order to protect consumers. (1)

Disadvantages

Costs: several types of costs can eat up returns and have to be paid even in case of loss.

Lack of control: decisions about the fund management and actual portfolio composition are not transparent to the investor.

Price uncertainty: the net asset value (price) of a fund is calculated at specific intervals, not at the time when investors order trades.

(1) Regulations differ considerably depending on the country of fund registration and sale (e.g. UCITS regulations in the European Economic Area). Please refer to the corresponding product information for details.

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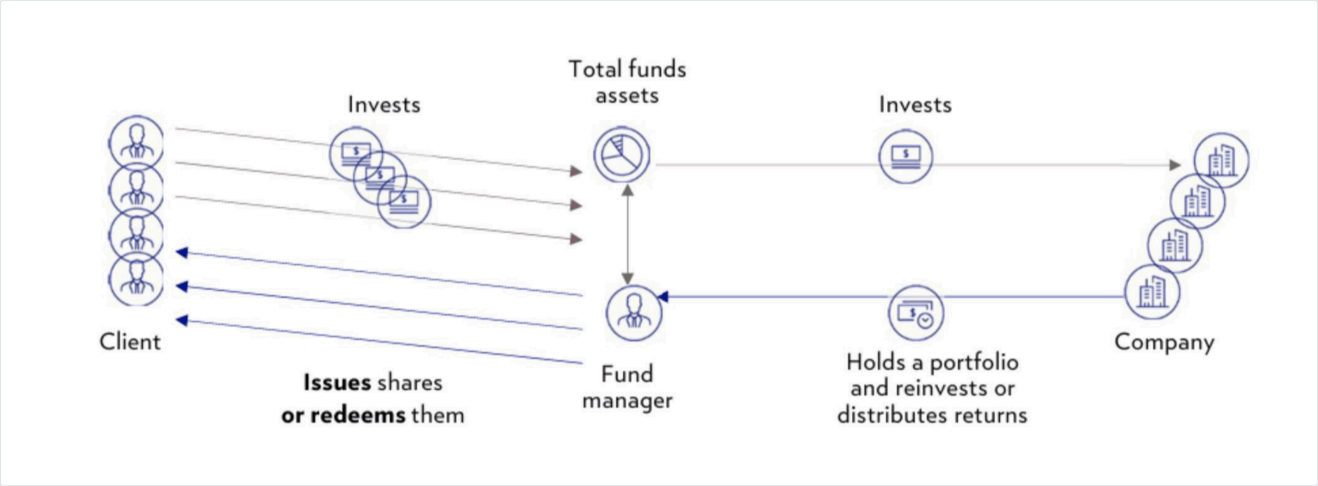
A CLOSER LOOK AT INVESTMENT FUNDS

HOW INVESTMENT FUNDS WORK

A **fund** is an investment vehicle that **raises and pools money from many investors by selling shares** for the purpose of common **investment in a portfolio of securities**. The fund's portfolio is structured according to its publicised **investment objectives and strategy**. Its **goal is to deliver returns** from capital gains, dividends, and interest to its investors. It is operated by fund managers, who **deduct fees** for their investment services.

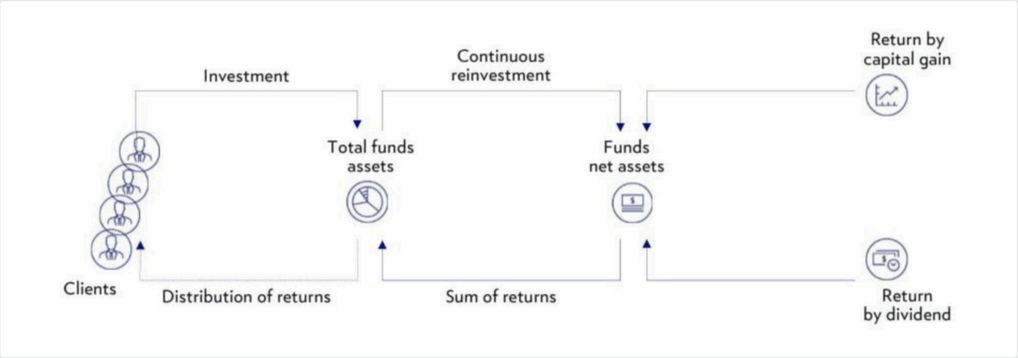


VALUE OF INVESTMENT FUNDS

- The value of a fund is expressed by the **net asset value (NAV)** of all its assets held. Dividing the NAV by the number of shares results in the current price of a share in the fund.

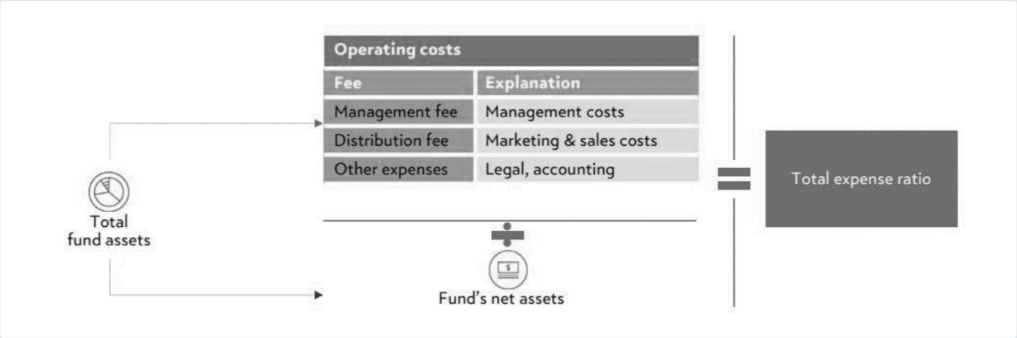
- The NAV is calculated at regular intervals, mostly daily, using the closing prices of the trading day. Therefore, trading is not continuous. Investors requesting transactions will trade at the fund's next price (forward pricing).

- Fund returns on capital gain, interest, and dividends **are either reinvested (accumulating fund) or fully or partially distributed to the shareholders (distributing fund)**. As a consequence, the NAV may not be an adequate way of comparing mutual funds.



MANAGEMENT AND OPERATING COSTS OF INVESTMENT FUNDS

- The **fund managers** are responsible for implementing the fund's investment strategy. They must be well qualified in terms of education and management experience, as they handle the fund's portfolio trading activities.
- **Management quality** is an important factor when assessing fund investments.
- The management is entitled to **management fees** for the services provided. These fees and other so-called **operating costs** are usually paid out of the fund's assets.
- The **total expense ratio** (TER) expresses the sum of all operating costs – excluding transaction and performance costs –charged on an ongoing basis and thus reduce the return of the fund.

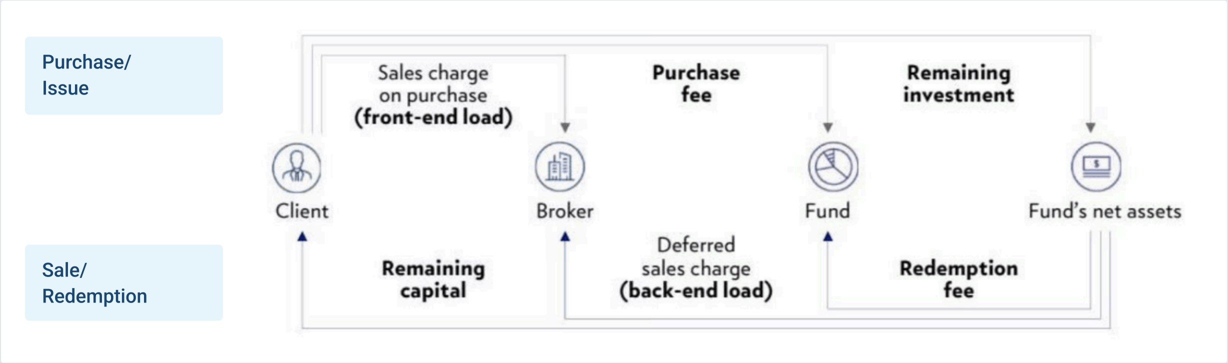


COSTS AT PURCHASE/REDEMPTION OF INVESTMENT FUNDS

- Apart from the operating costs, a fund usually charges **additional fees on the purchase or redemption** of shares.
  - They decrease the capital invested on purchase.
  - They decrease the capital redeemed on sale.

These costs have to be considered when calculating the performance of a specific fund.

Some common charges that may apply are given in the figure below. For more detailed information, consult the prospectus of the fund of interest.



GENERAL TYPES OF MUTUAL FUNDS (1/2)

There are innumerable types of mutual funds and investment objectives. They fall into the following categories, each with its own characteristics and risks. (1)

Money market funds	They invest in money market instruments, reflecting short-term interest rates, or in high-grade debt obligations with near-term maturity. Their goal is to offer high liquidity and minimum risk, at the expense of lower returns.
Bond funds	They invest in fixed income instruments. Since the quality of the debt obligations can vary, bond funds vary widely in their risk/return profiles (e.g. high-yield bonds bear a higher risk).
Equity funds	They invest principally in equities. They vary widely with respect to goals and strategies. A distinction is commonly made between: • *index funds*, which aim to deliver the same returns as a specific market index, and • *sector funds*, which specialise in specific economic or industry segments.
Asset allocation funds (strategy funds)	They invest in different instruments (equities, money market, bonds, etc.) in order to balance risks with income and capital-gain opportunities. They may prescribe fixed proportions of each asset class, according to their specific investment objective.
Real estate funds	They invest in real estate companies, i.e. property development, construction, management.
Other funds for traditional or alternative investments	They invest in particular securities, precious metals, real estate, commodities, derivatives, and units of other collective investment schemes as well as other assets and rights.

(1) Mutual funds make use of a variety of financial instruments. Please refer to the available educational documentation for details on these instruments.

GENERAL TYPES OF MUTUAL FUNDS (2/2)

- Any **combination** of the general fund types described on the previous page is possible.
- A **fund of funds** does not invest directly into securities but into other funds.
- In regard to **real estate**, care has to be taken to distinguish between
  - **real estate funds,** which are mutual funds as described on the previous page, and
  - **real estate investment trusts (REITs)**, which are investment companies that invest directly in properties or mortgages. Investments in publicly traded REITs are made through the stock market. REIT investments can bear additional risks to those of mutual funds.

UNIT TRUSTS

- **Unit trusts are a form of open-ended fund**, i.e. they create additional shares, so-called 'units', that reflect the portfolio's composition.
  - The fund invests in a specific and fixed portfolio, for a certain period of time, after which the fund is closed. In this respect, the fund's portfolio is **passively managed.**
  - Unit holders are entitled to receive the returns in proportion to the number of units they hold.

- Unit trusts share many of the properties and risks of mutual funds; however, they may differ in the following respects.
  - They usually have **lower costs** due to lower operating costs.
  - It is possible to create unit trusts that are **less diversified**, while diversification is a regulatory requirement for mutual funds.
  - **Portfolio composition is fixed**, which creates other risks and opportunities.
  - They have a defined lifespan.

EXCHANGE-TRADED FUNDS (1/2)

- **Exchange-traded funds** (ETF) are a special form of open-ended investment fund. Unlike mutual funds, they are not issued/redeemed by the fund investment company directly to clients, but are securitised and exchange-traded similar to equities.
- ETFs are predominantly **used as trackers** for indices or a well-defined portfolio. As a consequence, they are more passively managed than mutual funds.
- Even though they aim to track the underlying index as closely as possible, replication will not be 100%. The deviation of the ETF's performance from the index performance is **called a tracking error**. This may be due, among other things, to transaction and tax costs, as well as the deferred reinvestment of dividends.
- To track a benchmark, ETFs can apply one of the following three index-replication techniques.
  - **Full replication**: buying all the securities featured in the underlying index
  - **Optimised sampling**: investing in a representative selection of the securities contained in the index on the basis of mathematical optimisation models, with the goal of keeping the tracking error as low as possible
  - **Synthetic replication**: investing in a broadly diversified basket of securities equivalent to at least 90% of the fund's assets and holding a total return swap via a counterparty, who delivers the return of the underlying index. Investors are buying the performance of the index and not the physical securities it contains.
- They are diversified according to the limits of the index they track. The risks inherent to the index are accepted as part ofthe investment strategy.
- ETFs may or may not distribute dividends, depending on their dividend policy.
- ETFs expose the investor to **specific risks** (market, tracking error, counterparty, and liquidity risks). As with mutual funds, the issuer risk is limited, since investments in ETFs constitute a preferred debt obligation.

EXCHANGE-TRADED FUNDS (2/2)

Main differences between exchange-traded funds and mutual funds

	Exchange-traded funds (ETFs)	Mutual funds
Trading/pricing	Exchange-traded, priced on a continuous basis, can be used for advanced investment strategies such as leverage and short selling	NAV publication usually once daily
Accessibility	Direct (via fund management), primarily market, or mainly through banks and brokers (secondary market)	Banks, financial advisors, or directly via fund management (primary market)
Costs	Transaction costs including brokerage, transaction levy, stamp duty, and/or bid-ask spread	Various, including operating costs and front-end/redemption fees, in addition to transaction costs
Management	Usually more passive, since many ETFs serve as trackers	Usually more active, creating higher operating and transaction costs
Disclosure	Holdings published daily	Holdings published at regular intervals, typically semi-annually

ALTERNATIVE UCITS FUNDS

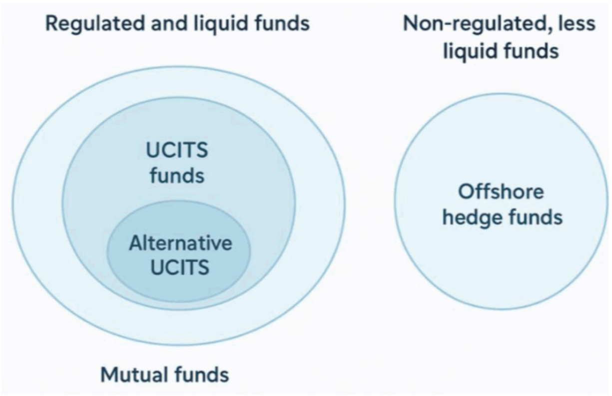
Regulated funds that are benchmark-agnostic

The term 'UCITS' refers to undertakings for collective investment in transferable securities that are authorised under the European UCITS Directive. The UCITS regime used to focus on traditional funds such as equity, bonds, or mixed-asset funds, but may also be used to create some alternative types of funds.

Alternative UCITS are simply UCITS that take advantage of certain investment techniques permitted by the UCITS Directive. These techniques enable them to pursue strategies that were previously more common in the hedge fund sector.

Performance objectives of alternative UCITS are less driven by traditional market index benchmarks. They tend to be more benchmark-agnostic and use financial derivative instruments to have both long and short exposures, and they may use a certain degree of leverage.

The use of such techniques and instruments to create alternative UCITS has been allowed since the implementation of UCITS III at the beginning of 2003.



ALTERNATIVE UCITS FUNDS

Building blocks

The characteristics of a UCITS fund can be broken down into the following building blocks.

Structural principles

- Ability to redeem at NAV on demand
- Segregation of assets
- Valuation occurs any time that units are issued or redeemed (usually daily or weekly liquidity; in contrast to monthly or quarterly for offshore hedge funds)
- Separation of functions to limit conflicts/abuse

Investment rules

- List of eligible assets
- Risk diversification
- No direct borrowing/shorting (only through derivatives)
- No direct investment into commodities or real estate (only through derivatives)
- Limit to global exposure or limit to value at risk

Note: Through the use of derivatives, many (liquid) hedge fund strategies are actually easily replicable in a UCITS format.

UCITS passport

- European-Union-wide marketing once authorised in home country
- Notification procedure
- Very limited host country involvement

IMPORTANT RISKS TO CONSIDER WHEN INVESTING IN FUNDS

Market risks

Even though a fund aims to diversify risks, investors inherit the market risks of the assets the fund invests in. The risks of the fund increase with the investment risks of the underlying assets.

Currency risks

Investors may be exposed to currency risk because the product or underlying of the product is denominated in currencies other than that of the country in which the investors reside.

Underperformance

The benchmark and investment objectives are a statement of intent. There is no guarantee that the fund will meet its performance objectives.

Fund management

Some funds are actively managed. A change of management can influence the future performance maintenance capabilities. Investing in a fund means transferring investment decisions to the management; as a result there is a lack of direct control and information about portfolio composition and investment style.

Costs transparency and structure

The operating and transactional costs of a fund are paid independently of the returns. Assessing the total costs of a fund can be complex.

Fund structure and investment instruments in the fund

Some types of funds, such as those that are invested directly in real estate, may expose the investor to additional risks.

COMPARISON OF INVESTMENT FUNDS (1/2)

The **investment risk and return are highly dependent on the investment strategy.** This makes the risk and return of funds difficult to quantify and to compare.

Investment companies have defined five **measures**to describe the risks and returns of a fund.

Measure	Explanation	Significance
Alpha	The excess of a fund's return compared to a benchmark.	It expresses the portion of the return by which a fund outperforms or underperforms the market.
Beta	The volatility of a fund compared to that of the market as a whole.	It expresses the sensitivity of a fund's return to market changes.
R^2	The percentage of a fund's movement due to movements in the benchmark.	It expresses the degree to which a fund moves in accordance with the market.
Standard deviation	The variation of a fund's return as compared to its historical performance.	It expresses the historical volatility of the fund's return.
Sharpe ratio	Risk-adjusted performance.	It compares the fund's realised return with the risk taken.

COMPARISON OF INVESTMENT FUNDS (2/2)

There are **independent companies** that measure and rate the performance of funds.

Two important **rating companies and systems** are Morningstar and Lipper Analytical Services.

- **Morningstar** Inc. provides a five-point rating system based on risk-adjusted performance, costs, and fund category.
- **Lipper Analytical Services** provides a five-point rating system based on different measures, such as returns and expenses.
- Rating companies also award prizes for funds in different categories.
- While **ratings** can help to compare funds, one has to keep in mind that ratings are based on historical data and are not an indicator for the future performance of a fund.

WHAT TO EXPECT FROM INVESTMENT FUNDS

Investment horizon

- Medium term
- Long term

Income expectation

- Capital gain
- Regular interest
- Irregular dividends

Market expectation

- Increasing
- Independent

Funds are very diverse investment instruments. Funds are available for most income and market expectations.

IMPORTANT TO KNOW BEFORE INVESTING IN FUNDS

Maximum gain

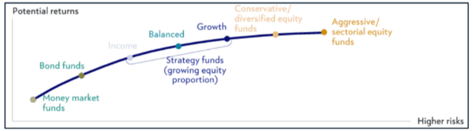
The sum of the capital gain, dividends, interest on individual securities, as well as any capital gain on the NAV of the fund.

Maximum loss

The theoretical risk of a total loss of the invested capital.

Profit/loss

Fund risks can loosely be visualised according to the general category of assets they are invested in.



- Whether or not a fund meets the individual risk/return trade-off desired by the investor must be decided by looking at the investment strategy of each fund.
- Indicators such as Morningstar ratings or the Sharpe ratio, which measures the risk-adjusted performance, can be used to compare funds.

FOR FURTHER INFORMATION ON RISKS OR ON OTHER AVAILABLE FINANCIAL INSTRUMENTS, PLEASE REQUEST TO YOUR RELATIONSHIP MANAGER ON U WEALTH EDUCATIONAL MATERIAL.

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