

By buying investment fund units (investment association certificates), you become a member of an investment fund (also referred to as an investment association in Denmark), and you invest jointly with other investors. Investment funds are typically divided into funds with each fund representing its own investment strategy and portfolio of securities. Through an investment fund certificate, you own a share of the individual funds Assets.

The value of a fund reflects the value of the underlying securities. This value is also called net asset value. Under normal market conditions, it is possible to buy and sell investment certificates at a price close to the net asset value.

Investment funds are subject EU legislation, under which this type of investment is called UCITS, which is the acronym for Undertakings for Collective Investment in Transferable Securities.

Danish investment funds are subject to supervision by the Danish Financial Supervisory Authority.

Investing via investment funds provides an opportunity to make investment by following various investment strategies and in various types of securities, such as

- Broadly composed portfolios containing both bonds and shares
- Stock portfolios that may compose global stocks, stocks in specific industries or in a specific country.
- Bond portfolios that invest in specific types of bonds, geographic regions or countries

Investment funds typically measure the return on the fund against comparable reference portfolios, also called benchmarks.

There are two types of asset management: Actively and passively managed investment funds:

- Actively managed funds seek to yield a better return than its benchmark. The more the composition of investments in the funds deviate from the composition of the benchmark, the more active the fund. The

return of an actively managed fund may deviate from its benchmark in a positive or negative direction.

- Passively managed funds invest in the securities included in the benchmark. The objective is to yield a return corresponding to that of the benchmark. The return will largely track the benchmark before costs. Costs of portfolio management mean that the return will be slightly lower than that of the benchmark.

1. Opportunities offered by investment funds

An investment fund is relevant for you, if you want to have a good diversification of your investments while allowing specialists to manage your portfolio. A longer-term investment horizon is typically recommended for investments made in investment funds. The recommended investment horizon of the fund is stated in the document: PRIIPs KID (Key Information Document), which is available at the funds website.

In investment funds, specialists monitor the market and select and trade the securities. This means that, in order to invest via an investment fund, you do not need extensive knowledge of the markets.

Moreover, investment funds offer the opportunity that even with a small amount of capital you can spread the risk across many different securities. Therefore, your return will not be nearly as affected by an unfortunate development in one company as would have been the case had you invested in individual shares or bonds.

2. Investment funds - Sustainability

The EU regulation on sustainability disclosure requires investment funds to disclose how it shows consideration for sustainability in its investment decisions. You will find details on a specific investment fund in the funds prospectus or perhaps at the funds website.

3. Pros and cons

Pros	Cons
An easy way to invest, as specialists manage the investments for you.	Investment funds can only invest in securities that comply with the UCITS legislation. This means that there will be investment opportunities that are not available to the specialists - even if they find the opportunities fitting.
You do not need to spend a lot of time on your investments, and wide investment experience is not required	You do not influence the selection of securities in which the fund invests.
As you invest jointly with a lot of other investors, you can obtain diversification of your investments, which would normally only be obtained by investing very large sums.	Investment funds that offer a great diversification provide poorer opportunities of benefiting from high returns on individual assets.
Access to investments in markets to which retail investors will typically not have access.	Portfolio management is not free of charge.
Investment funds are subject to UCITS legislation, which has an extensive focus on investor protection. This means that they are subject to restrictions regarding the types of financial instruments allowed, risk diversification requirements and requirements to disclosure of the risk level in each fund, among other things.	

4. Return

Investment funds aim to yield a return that is in line with or exceeds that of a comparable reference portfolio (benchmark). Benchmarks will typically be based on internationally recognised indices. Examples of such indices are: S&P 500, Euro Stoxx 50, the DAX stock index.

The return is the sum of returns on the individual investments in the fund less administrative and trading costs in the fund. An investment fund holder receives his/her return as a dividend payment or a capital gain/loss.

There are two general types of funds: Distributing and cumulative. The two types of funds differ inasmuch as distributing funds pay an annual dividend, while cumulative funds do not. Among other things, funds also differ in terms of taxation.

Distributing fund

Your return is a combination of the price development in the fund and the annual dividend. When dividend is paid, the following happens: After a dividend payment, the price of the investment certificate will fall, as the value of the portfolio has fallen by the exact amount of the dividend paid.

Cumulative fund

Cumulative funds do not pay dividend. Instead, the realised returns generated in the underlying portfolio are reinvested. The return on the investments are thereby solely reflected in the price development of the investment fund certificate.

5. About risk

When you invest in an investment fund, it is important to consider your risk. You run the same market risk with an investment fund certificate as you would if you had invested in the same underlying securities on your own. And just like investments in individual securities, it is actually possible to lose the entire investment amount. The risk of an investment fund depends on the investment strategy of the fund, among other things.

Investment funds have investment strategies with low risk and investment strategies with very high risk.

Broadly diversified portfolios investing in both global stocks and bonds normally entail lower price fluctuations (and hereby risk) than funds investing in stocks in one specific country or industry.

Investment funds release a document called Key Information Document, also called PRIIPs KID. When you buy into an investment fund, you will be offered a copy of the document, which is also available on the website of the relevant investment fund. This document provides information about the risk of the individual fund as well as details on its investment strategy, return, costs, etc. The document presents a risk indicator between 1 and 7, with 7 representing the highest risk. The risk indicator includes the credit risk dimension as well as the risk of incurring a loss on the investment owing to movements in the market. The document also presents projected return trends based on various results scenarios. The risk indicator allows for a comparison of risk across the various investment opportunities.

Risks can be broken down by the following types of risks:

- **Investment strategy:** Actively managed funds deviate from their benchmark, as they aim to generate a better return than the benchmark. In contrast, passively managed funds track a benchmark.

The risk of a benchmark portfolio depends on the securities comprised by the benchmark portfolio. Passive management is often carried out by investing in a portfolio that broadly follows the benchmark development. The risk of passive management is that the returns deviate from those of the benchmark, formally known as tracking error.

Active management that deviate from benchmark entails a higher risk of fluctuating returns than passive management.

- **Market risk:** The risk that the price on one or more securities in the fund goes up or down, resulting in the price on the investment fund going up or down.
- **Credit risk:** The risk that an issuer of a security (e.g. a bond) cannot pay interest or repay the debt outstanding.
- **Currency risk:** The risk of losing in case of a decline in the exchange rate of a currency. If an investment fund denominated in DKK makes an investment in e.g. an American stock, and the Dollar price drops, the value of the investment in this stock will fall as measured in Danish kroner. Conversely, an exchange rate increase may result in a gain.
- **Risk diversification:** Investment funds are required to spread its investments on numerous securities/issuers.
 - For instance, in an equity fund, there must be at least 20 different stocks. Diversification on numerous stocks reduces the risk. If e.g. one stock defaults, the loss will account for a smaller proportion of the funds investment, because the stock only accounts for a small proportion of the portfolio. The effect of the diversification is also affected by whether all stocks have been invested in a specific industry or country, compared to an investment in a broad global stock portfolio. In the event that all IT stocks slide, and you have invested in a fund that only invests in IT stocks, the risk of incurring a loss is higher compared to an investment in a broad global stock portfolio.
 - In a bond fund, there are other requirements for risk diversification when investing in securities issued by different issuers.
- **Liquidity risk:** The risk of not being able to sell a security when you want. The risk of the investment increases, if the investment fund is unable to sell one or more securities in a portfolio. In certain (exceptional) cases, securities trading may be suspended for a shorter or longer time, e.g. in case of political unrest.

This may potentially affect the investment funds possibilities for trading, i.e. also your possibility to buy and sell an investment certificate.

- **Sustainability risk:** Sustainability risk means an environmental, social or corporate governance event or condition that, if it occurs, may cause an actual or potential significant negative impact on the value of a company's share.

Environmental disasters that impact a company's actions, regulatory requirements to companies that do not conduct sustainable behaviour, a company's breach of labour rights or managerial neglect are examples of events or circumstances that have a potential negative impact on the value of a share, hereby also the value of the investment fund.

Sustainability risks will be highest in funds based on issues made by companies and lowest in funds based on issues made by states. Funds based on issues made in Emerging Markets are assumed to have higher sustainability risks than issues in the developed markets.

The UCITS rules comprise a number of provisions aimed at limiting e.g. the credit risk, in order to ensure investment diversification and liquidity however, this does not mean that there is no risk.

6. What you should know before trading

Tax

We offer general advice on tax issues. The tax rules differ depending on whether you trade as a private individual, as a personally owned enterprise, as a company or if you invest your retirement money. If you want to know more about the consequences of the tax rules that are specific for you, we recommend that you consult an accountant.

Expenses

You will be informed about the costs associated prior to making an investment in an investment fund. Costs are divided into service costs, distribution fee and product costs:

- **Service costs** are the costs you pay to the bank for making the deal. Costs are incurred in connection with the purchase and sale of investment fund certificates (brokerage fee). Brokerage fee is calculated as a percentage of the market value and is stated on the trade confirmation (contract note). In addition, there are costs associated with safe keeping your assets in your custody account, which are paid separately. The relevant costs are stated on the Bank's website.
- **Distribution fee:** When you invest in an investment fund with which the bank has a collaborative agreement, you will be informed about the size of the distribution fee that the bank receives (if any) due to your investment in the investment fund.
- **Product costs** are paid by the owners of the fund in which an investment is made and charged against the fund's book value. Product costs include the fund's trading costs and administrative costs. When you invest in a fund for which the bank receives a distribution fee, this fee is charged against the product costs, as the fee appears separately as distribution fee. When buying and selling investment certificates, costs must be paid in connection with entry and exit.

These costs may vary over time. The specific product costs will appear on the fund's website or in the investment fund prospectus.

Recommendation

We recommend that you contact your adviser if you have any questions in relation to the above text - or if you would like to have some points clarified.