Basler Kantonalbank

Shares and participation certificates

This document contains information on shares and participation certificates and informs you about potential benefits and risks of this class of products. These principles can support you in your investment decisions. Please contact your Client Advisor if you would like further information or have any questions.

General Information

Shares are investments in a company or corporate funds. As a shareholder, an investor participates in the success of a company and is entitled to potential dividends. Depending on the structure, the shareholder may receive a voting right at the general meeting of shareholders.

Shares and participation certificates are usually exchange-listed. For unlisted shares there may be no liquid market, in which case it may not be possible to trade the shares on a daily basis at current prices.

Types of shares and participation certificates

Registered shares: The name and address of the shareholder is entered in the share register. Only registered shareholders can exercise the voting right and receive potential dividends.

Bearer shares: The owner of the share can exercise the voting right and is entitled to receive potential dividends, but is not entered in the share register.

Preferred shares: These shares receive preferential treatment compared to normal shares. For example, the owner can be entitled to a larger dividend or a larger withdrawal in case of capital increases. Not all preferred shares have voting rights.

Participation certificates can be referred to as "non-voting shares". They have the same property rights as shares but no voting rights.

Potential benefits

Potential through price gains: The development of the share depends on the success of the company, economic measures, and overall stock market development. If development is positive, price gains can be achieved.

Profit-sharing through dividends: Depending on the fiscal year, a stock company can distribute dividends. The amount is applied for by the administrative board and adopted by the general meeting (shareholders meeting).

Flexibility through exchange-listing: Through the regulated stock exchange, shares can be bought and sold daily at the current price. Stock markets are usually very liquid.

Right of co-determination: A right of co-determination is acquired with the purchase of a share. This right takes the form of a voting right in the general meeting of shareholders.

Potential risks

Downside risk: Because investors participate fully in the price developments of a share, shares are fundamentally associated with a higher risk than other types of investment. Substantial fluctuations in value may lead to partial losses, and in the worst case (insolvency of the company), the investment may result in a complete loss.

Market risk: The value of a share or a participation certificate may decrease. Pricing is determined by the relationship between supply and demand. Both supply and demand can be influenced substantially by changes in investment behaviour or risk acceptance. Therefore, the price of a share can deviate significantly from its internal value. Share price development depends also on other factors, such as company success, general economic conditions, or current market environment.

More long-term investment horizon: Because shares can be subject to substantial price fluctuations, they are more suitable as a long-term investment vehicle. Fluctuations can more easily be compensated over a longer period.

Liquidity risk: Especially with non-listed investments and those with trading restrictions, it is possible that the share or the participation certification cannot be bought or sold in the short term at market prices.

Credit risk: In case of insolvency of the company, the claims of the investors are not paid until after all creditor claims have been satisfied. In the worst case, the investor may lose all of the invested capital.

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Foreign currency risk: If the share is listed in a different currency from the local currency of the investor, there is a risk that fluctuations in the exchange rate will decrease the value of the investment from the investor's perspective. It is possible that the price gains of an investment result in a total loss for the investor due to exchange rate changes. Exchange rates can fluctuate substantially. The exchange rate depends on the development status of the other economy, the relationship of the economies to one another, and interest rate differences.

Benefits and risks of specific equity investments

Real estate shares: Real estate shares are shares in real estate companies. The investor acquires a share in a company that invests in real estate or is engaged in real estate development. Besides real estate funds, real estate shares represent the most liquid type of real estate investments. The performance of real estate shares depends on the stock market and the relevant real estate markets.

Investment in real estate involves the following benefits and risks:

- **Liquid investment:** Besides real estate funds, real estate shares represent the most liquid type of real estate investments.
- **Protection against inflation:** For investors with higher risk tolerance, real estate shares can be a suitable addition in the portfolio, since they offer some protection from inflation and steady returns in the form of rental income.
- **Interest-change risk:** Real estate investments react in inverse proportion to changes in interest rates. A decrease in interest rates leads to more favourable mortgage terms. As a result, an investor can therefore obtain higher returns. An increase in interest rates, on the other hand, can have a negative effect on earnings.
- **Cyclical risk:** Real estate markets depend on economic cycles and can be subject to strong fluctuations.
- **Regional market risk:** Rental income depends on the local market. An oversupply of housing can negatively impact rental incomes.
- **Change of legal framework:** Changes in tax, rental, environmental, or building law can have significant consequences for real estate prices, costs, and income.
- **Liquidity risk:** Real estate transactions may be associated with high costs and longer waiting periods.

Commodity equities: Commodity equities are indirect investments in commodities. The investor buys shares in a company that is involved primarily with the transport or sale of commodities. Commodities are natural resources, such as energy (natural gas, coal, petroleum), metals (precious metals and industrial metals), and agricultural goods (grain, vegetable and fruit crops, etc.). The price development of commodities equities is subject to different influencing factors from other equities. The price of the underlying commodities is influenced, among other things, by the relationship between supply and demand and governmental regulations and/or interventions, as well as interest and exchange rate fluctuations.

Investment in commodities involves the following specific benefits and risks:

- **Diversification:** Since performance is less dependent on the general equities market, investment in commodities is a good opportunity for diversification.
- **Risk of loss:** The risk that commodities prices are subject to strong fluctuations in value is greater than with typical investments. The investor can therefore suffer a partial or total loss.
- **Lack of standardization:** Commodities are only partially standardized (CME). In some markets, therefore, there is a lack of transparency. Available information regarding the quality of a commodity may be inadequate.
- **Liquidity risk:** Commodities contracts can become illiquid. This can lead to major price changes.
- **Government risk:** With commodities, there is a risk that mining projects can be nationalized or subsequently confronted with new demands and/or changed conditions/terms (licenses, taxes, etc.) in collaboration with the respective country. This may result in partial or total loss.

Investments in emerging countries: With investments in shares, the company can have its registered office in an emerging country, or operate in an emerging country. An emerging country is a country that is transitioning, in terms of its economic, social, and political development, from a developing country into an industrial country.

Investments in emerging countries involve the following benefits and risks:

- **Diversification:** Investments in emerging countries offer diversification potential, since the goods and financial markets in such countries develop differently from those in industrial countries.
- **Additional return potential:** Fast-growing markets may offer additional return potential.
- **Risk of loss:** Investments in emerging countries are more volatile than investments in developed markets. Investments maybe subject to stronger fluctuations in value. The risk of suffering a partial loss is increased with such investments. In the worst case, an investor may lose all of the invested capital.

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- **Economic uncertainty:** The economy of an emerging country depends heavily on the monetary policy, the national economy and financial policy, and interest rates and inflation rates. A planned or actual change in these factors may lead to strong price fluctuations, even if development forecasts were positive when the shares were acquired.
- **Political uncertainty:** In emerging countries, economic or political changes may occur at short notice. The resulting uncertainty may lead to significant price changes.
- **Legal uncertainty:** In some emerging countries, legal claims are difficult or impossible to enforce, since jurisprudence is poorly developed. In addition, in some cases market oversight is non-existent or only very weak.
- **Liquidity risk:** Investments in emerging countries involve an increased liquidity risk compared to investments in developed markets. In such markets, liquidity reacts more strongly and faster to economic, social, and political changes. In the worst case, the investment may become illiquid or can only be sold at an unfavourable price.
- **Settlement risk:** Clearing and settlement systems in emerging countries are often outdated or underdeveloped. This can lead to faulty and delayed settlement.

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