S|E|B

Equities on non-regulated markets
Information sheet

Financial instruments are all types of instruments that are intended to be traded on the securities market. They can be divided into complex and non-complex instruments. Before you trade in a financial instrument, we are required to ascertain whether you have sufficient knowledge and experience to understand the properties and risks involved in trading in financial instruments. Below is some information about the most important qualities and risks associated with a type of instrument in which you have shown an interest. If you do not have sufficient knowledge and experience, we recommend that you do not trade in this instrument.

Introduction

Equity means a share in a limited company. It entitles the owner to part of the company's equity, any profit dividends and a vote at the general meeting of equity holders. An equity may both rise and fall in value.

There are public and private limited companies. Equities in public limited companies are bought and sold on marketplaces in which current buy and sell rates are generally listed. There are various categories of marketplace, such as regulated markets and trading platforms.

This material is aimed for investors who wish to trade in equities or convertibles that are not listed on a regulated market. SEB has chosen to treat all equities that are not traded on a regulated market as complex. SEB has also chosen to treat preference equities as complex instruments.

How equities work

Equities in a limited company entitle the owner to a share in the company's equity. The equity is a way for the limited company to finance the business, while for the equity holder it is a capital investment.

Equities may produce a return both through retained profits increasing the value of the company, and thereby the equity (the equity price rises), and by the company issuing a dividend if it makes a profit.

The equity price is determined on the market in which sellers and buyers meet. The price is directly affected by offers and demands for the relevant equity, which in turn are guided by the investors' assessment of the company's future profits. Demand for the company's products and services, development of technology, changes in management and the company's competitive situation are all important factors that may influence the investors' assessment. Equity prices may also be affected by external factors like the general market situation, economic trends, interest rate trends, political decisions and foreign market prices.

Equities also entitle the holder to a vote at the general meeting of equity holders. The are several classes of equities, primarily A and B equities. A equities usually entitle the holder to greater voting right than B equities.

How convertibles work

A convertible is a fixed income instrument (a debt instrument) issued by a limited company which entitles the holder to exchange their receivable for equities for a limited period. The conversion is performed at a predetermined rate, known as the conversion rate. This is affected by the price of the underlying equity and the market interest rate, among other things.

During the investment term, the convertible owner receives a return in the form of predefined interest. The coupon rate, as this is known, is usually higher than the dividend in dividend equities. The convertible rate is expressed as a percentage of the nominal value of the convertible.

Different convertibles have different terms and conditions. It is therefore important to check the specific terms and conditions that apply before making your investment. Unlike equities, convertibles do not entitle the holder to voting rights at the general meeting.

Complex equities and convertibles

SEB has chosen to treat all equities that are not traded on a regulated market as complex.

The fact that the equities are not traded on a regulated market may mean that they do not meet scrutiny requirements and it may be difficult to obtain relevant information about the company. They may also have low liquidity and may be difficult to sell.

In the case of equities that are traded on non-regulated markets outside of Sweden, you may also need more knowledge of the laws of that specific country, risks associated with the relevant country, exchange rate changes etc.

SEB has also chosen to treat preference equities as complex instruments. Preference equities may have a structure that makes it difficult to understand the risk and the expected return. The terms and conditions of preference equities are regulated in the company's articles of association and may differ widely. It is therefore important to check the specific terms and conditions that apply.

Preference equities usually have preferential rights to dividends ahead of A and B equities. Preference equities usually have fewer voting rights than A and B equities.

For whom are equities suitable?

Historically speaking, equities have produced higher returns than traditional fixed income investments, but the price of equities may fluctuate strongly, and this can apply in particular to complex equities. Equities are therefore best suited to investors who are prepared to take a greater risk for the chance to obtain a better return. For the same reason, equities are primarily suited to long-term saving.

For whom are convertibles suitable?

Investing in convertibles means that during the investment term you receive a return in the form of interest. At the end of the investment term you have an opportunity to convert your holding to equities at a predetermined rate. Convertibles may therefore be a suitable investment for someone looking for a stable return who wishes to benefit from the equity's performance at the time of conversion.

Trading in equities

Equities in public limited companies are bought and sold on marketplaces in which current buy and sell rates are generally listed. There are two main types of marketplaces:

- Regulated markets, such as Nasdaq OMX (the Stockholm Stock Exchange). A regulated market is run with the authorisation of the Financial Supervisory Authority and has rules that are intended to protect the investor – for example, by ensuring that trading and pricing work well.
- Trading platform – MTF (Multilateral Trading Facility). This is provided by a stock exchange or a securities institution. Two examples of trading platforms are Aktietorget and Nordic MTF. Lower requirements are typically set for equities traded on a trading platform compared with equities traded in a regulated market, in the form of, say, provision of information.

In order to trade in equities and convertibles, you must have a securities account (VP account)/service account or a custody account. You can also trade in equities and certain convertibles via an investment savings account (ISK).

Risk

In the context of investment, the term "risk" denotes the probability that the invested capital will decline in value. A higher risk often means a greater opportunity for a high return, but at the same time the risk of losing money increases.

Equities

The price of equities can fluctuate substantially, particularly in the short term. Equities are therefore recommended primarily for long-term saving.

The risk can vary substantially between different equities, for example, between large and small companies or between different industries. For equities that are not traded on a regulated market, the risk of not getting your money back or being unable to sell the equity at a particular time may be greater than that for equities traded on regulated markets.

A7828eng_inf (inakt+0) 190919

You can reduce the overall risk of your investment by investing in equities in several different companies or in different industries. Regularly monitor the performance of your equities and initiate reinvestments.

If you invest in equities that are listed in a foreign currency, the value of your investment may be affected by fluctuations in the exchange rates.

The money you invest in equities can rise or fall in value, and it is not certain that you will get back the amount you have invested. If a limited company goes bankrupt, you could lose the entire amount invested. Preference equities usually have preferential rights ahead of A and B equities in the event of bankruptcy.

Convertibles

Convertibles are generally lower risk than equities because you get the nominal amount back on the due date if you choose not to convert to equities. However, this is provided that the company can repay its debt. Should the company encounter major financial problems, such as bankruptcy, owners of convertibles are entitled to get their money back before the equity holders.

The price of a convertible is affected by various factors, including those factors that affect equity prices (see above). The money you invest in convertibles can rise or fall in value if you choose to sell your convertible during the investment period.

If you invest in convertibles that are listed in a foreign currency, the value of your investment may be affected by fluctuations in the exchange rates.

Costs

When you trade in equities and convertibles, you usually pay a commission fee, which is calculated as a percentage of the equity price. Some operators charge a minimum commission fee. If you trade in foreign equities, the commission will be higher. A currency exchange fee is also payable for equities that are traded in a currency other than Swedish kronor. Converting convertibles into equities does not normally incur costs.

Important terms

New issue

In a new issue, the company issues new equities in order to obtain new capital from the equity holders. The equity holders usually get subscription rights, which can be used to buy equities in the new issue at a fixed rate, or sold on the stock exchange before the end of the subscription period. If you do not use or sell your subscription rights before the end of the subscription period, the rights become worthless.

For example, if there is a new issue of 1:4, you will receive one subscription right per equity owned. You need four subscription rights to subscribe to a new equity at the issue price. If your holding is not divisible by four, you can either buy additional rights or sell surplus rights.

Bonus issue

A bonus issue increases the equity without the equity holders needing to inject money. Instead the company transfers money from other own capital to the equity capital. One reason for doing this is to improve the company's credit rating.

In a bonus issue, the equity holders receive additional equities in the company in proportion to the number of equities they own. For example, if there is a bonus issue of 1:3, you will receive one new equity per three equities owned. If your holding is not divisible by three, you generally receive participation rights for each surplus equity, which can be sold on the stock exchange. If you do not sell your participation rights before the end of the subscription period, they become worthless.

Split/reverse split

A split may be performed to reduce the price of an equity to make it more attractive, thus increasing trading in the equity on the stock exchange. The company increases the number of equities without changing the equity capital. In a split of 2:1, after the split you have twice as many equities as you did beforehand. On the other hand, a consolidation (reverse split) can be performed if the price has fallen substantially.

Things to remember:

- The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested.
- In order to trade in these instruments, you must familiarise yourself with the terms and conditions that apply to trading in financial instruments. The contracts that apply depend on the instrument you are trading in.
- Certain instruments require you to be liable to make payments in future. It is important that you are prepared to comply with your undertaking.
- Check the information on the statement and other reporting relating to your holdings, and inform us immediately of any errors.
- Regularly monitor changes in the value of your holdings and positions.
- You are responsible for taking any action necessary to reduce the risk of losses.
- Always ask for supplementary marketing material or further information with more details about the financial instrument you are interested in.

Check your experience

How long have you invested in this type of instrument?	What is the average amount of money you have invested in this type of instrument?	How many times per year have you traded in this type of instrument?
☐ No experience	☐ Up to 50 000	☐ Up to 2
☐ Less than one year	☐ Up to 100 000	☐ Up to 5
☐ 1 to 5 years	☐ Up to 250 000	☐ Up to 10
☐ More than 5 years	☐ Up to 500 000	☐ More than 10
	☐ More than 500 000	

Check your knowledge

1. In what ways can equities produce a return?

A) ☐ By the equity price rising in value and the company performing a split
B) ☐ By the equity price rising in value and the company paying out an annual dividend
C) ☐ By the company issuing new equities

2. What affects the value of an equity to the greatest extent?

A) ☐ The historical price movement of the equity and previous dividends
B) ☐ The CEO's view of the company's future
C) ☐ The company's expected and actual profit development, economic trends, interest rate and so on

A7828eng_inf (inakt+0) 190919

3. To which type of saving are equities primarily suited?

A) ☐ Equities can produce quick gains and are therefore a good means of short-term saving
B) ☐ Because equities produce dividends, they are a good option for someone who wants a stable return
C) ☐ Because the price can fluctuate strongly, they are primarily recommended for long-term saving

---

4. What could you lose if you invest in individual equities?

A) ☐ In the worst case the entire amount invested. This could happen if the company goes bankrupt
B) ☐ In the event of bankruptcy, the deposit guarantee covers 50 per cent of the invested amount
C) ☐ As long as you save for the long-term, equities are a risk-free form of saving

---

5. Which of the following applies to equities in non-regulated markets?

A) ☐ The scrutiny requirements for the company are lower than that for equities in regulated markets
B) ☐ As an equity holder, you are always entitled to information about the company's operations and finances
C) ☐ There is no difference between equities traded in regulated and non-regulated markets

---

6. Which of the following is true in regard to liquidity in equities traded in non-regulated markets?

A) ☐ You can always sell your equities at the current rate
B) ☐ They may be harder to buy and sell than equities traded on regulated markets
C) ☐ Liquidity is high – the company always buys back its equities on request

---

7. Which of the following statements is correct in regard to convertibles?

A) ☐ A convertible entitles, but does not oblige, the holder to switch to equities
B) ☐ The holder of a convertible is obliged to convert to equities after the end of the term
C) ☐ Convertibles are always converted to equities automatically on the due date

---

8. Which of the following is true regarding risk relating to convertibles?

A) ☐ Convertibles are higher risk than equities because you can lose more than the amount you invested
B) ☐ Convertibles are generally lower risk than equities because you can get the nominal amount back
C) ☐ Convertibles are risk-free because they are fixed income investments

---

A7828eng_inf (inakt+0) 190919