Risk Disclosure

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Risk Disclosure
of DonauCapital Pure Investment GmbH

Dear client,

thank you for choosing DonauCapital Pure Investment GmbH ("we") as your service provider.

We attach great importance to acting in the best interests of our clients. This includes informing clients comprehensively about how our service works and all the risks involved. This document is intended to achieve this. We therefore kindly ask you to read this document carefully.

1 Preliminary remark

Every investment activity and every financial service involves risks. Before making a decision to use a financial service or to make an investment, it is therefore important to understand how the service and the financial instruments used in it work. It is also very important to know and take into account the risks involved.

We offer clients the execution of social trading on the basis of Contracts for Differences ("CFD", plural "CFDs").

To understand the risks of the service offered and the financial instruments used in it, one must first understand how the service and the financial instruments used in it work. As our service and the CFDs used in it are closely linked, we first explain in general terms how our service works (see section 2) and then how CFDs work (see section 3). Since certain aspects of the functioning of CFDs are important for understanding the course of a transaction carried out within the framework of our service, we then explain how the transactions actually take place when using our service (cf. section 4).

This explanation is then followed by an explanation of the risks (cf. section 5). This is divided into the disclosure of the maximum risk (cf. section 5.1), the explanation of the risks of CFDs (cf. section 5.2) and the explanation of the risks of our service (cf. section 5.3).

2 Overview of how the social trading offered by us works

We offer our clients social trading on the basis of CFDs.

Social trading means that you (as a so-called signal taker) do not make the decisions about the execution of transactions in financial instruments yourself, but select one or more market participants (so-called signal providers) and have their trading decisions automatically executed in your own account. We call this process of selecting signal providers and having their trades executed automatically in your account "following", i.e. you then follow the respective signal provider(s). Since the trading decisions of a signal provider should be based on a consistent investment strategy, we also refer to a signal provider as a "strategy provider" and a signal taker as a "strategy investor".

In the system we offer, the strategy providers trade CFDs, so any strategy investor who follows a strategy provider also invests in CFDs.

We offer our service by providing you with an infrastructure that allows you to,

- view information about different strategy providers, such as their trading strategy, transaction history and costs incurred;
- select strategy providers whose transactions are to be automatically executed in your account;
- have trading orders from Strategy Providers selected by you automatically routed to a Broker on your behalf for execution as part of a collective order without any further intervention by you.

To be able to use our service, you therefore need an account with the broker cooperating with us (the “Broker”). You can find out which broker this is on our website.

In order to be able to explain our service in more detail, it is necessary to first explain how the CFDs work which are used in the process. Therefore, CFDs are first explained in more detail below, before we then describe in more detail how the social trading we offer is actually carried out.

3 How CFDs work

3.1 Introduction

CFDs are financial instruments in the form of derivatives. This means that the value of a CFD depends on the value of an underlying asset on which the CFD in question is based.

A CFD is the mutual promise between a broker and a client to settle the price differences occurring between the opening and closing of a position by making cash payments. It is the client who decides when to open and close the position (at least if he has sufficient funds in his account during the period between opening and closing the position to meet the broker's margin requirements, more on this later). The client can speculate on rising or falling prices. To speculate on rising prices, the client must open a so-called "long position", to speculate on falling prices a so-called "short position". Since a CFD generally has an unlimited term, every position that has been opened must be closed again at some point by executing a counter transaction. A transaction consisting of opening and closing a position is also called a "round turn".

The following example ("Example 1") shall serve as an illustration:
A client opens a long position at a price of the CFD on the DAX of 100 €. The client uses 100 € for this purpose. The price subsequently rises and the client closes the position at a price of 110 €. Since the difference between the price at the opening of the position and the closing of the position is 10 € and the price has moved in the direction favourable to the client, the broker must pay 10 € to the client. If, on the other hand, the price had fallen and the client had closed the position at 90 €, the client would have had to pay 10 € to the broker.

In order to illustrate the mechanics of a transaction in a way that is easy to understand, Example 1 above is greatly simplified. In this simplified example, two aspects have been omitted that will be explained in the following:

1. The price offered by a broker to buy a CFD is usually different from the price offered by the same broker to sell the same CFD. Of course, this difference between the price to buy and sell an instrument does not only exist with CFDs, but with practically all financial instruments. It is usually called the "bid-ask spread" or "spread".
2. When trading CFDs, the client does not have to pay the entire price of a position he opens, but only has to deposit a part of the price as collateral with the

broker. This security is called "margin". This allows the client to use a certain amount of money to open a position the value of which is many times greater than the amount of money deposited for this purpose. This results in a so-called leverage effect, which brings with it opportunities and risks in equal proportions.

These two aspects - spread and leverage - are examined in more detail below. In addition, the structure of the markets on which CFDs are traded and the price formation in CFD trading will be explained.

3.2 The Spread

The spread is the difference between the price at which you can buy and sell a CFD. The price to buy a CFD is higher than the price to sell the same CFD.

Therefore, if you were to open a position and close it at the same instant, you would make a loss on that transaction. This loss would be offset by a profit for the broker of the same amount.

It is important to understand that the spread is incurred on every round turn and thus the result that the client would actually have achieved on the basis of the pure price differences without the spread is thereby changed to the disadvantage of the client in every transaction. Or, to put it another way: if the client opens a position, he is always initially at a loss; the price must then move in the right direction for the client in order to compensate for this loss and then possibly move into the profit zone. In this respect, the spread represents transaction costs that must be taken into account when planning transactions.

3.3 Margin and leverage

To purchase a CFD, it is not necessary to pay the entire value of the CFD as a purchase price. Rather, usually only a fraction of the value of the CFD position to be opened is deposited with the broker as collateral. This is done on the client's trading account held with the broker and serves to cover possible losses of the client from the position. During the time that a CFD position is open, the amount that has to be deposited with the broker as collateral can change, e.g. because the losses incurred with the position exceed the value of the collateral. The security deposited with the broker is called "margin". Each broker determines how large the margin must be in order for

the client to open a position ("initial margin") and how large the margin must be at any given time in order to maintain a position.

The fact that the client does not have to pay the entire value of the CFD in order to open and maintain a position results in a so-called leverage effect, which shall be illustrated by the following example ("Example 2"):

As in Example 1, a client opens a long position at a price of the CFD on the DAX of 100 €. Unlike in Example 1, however, the client now does not deposit 100 €, but only 10 € as collateral. We then say that he trades with a leverage of 1:10, because he only deposits one tenth of the value of the CFD as collateral. If the price of the CFD rises and the client closes the position at a price of 110 €, the client would have made a profit of 10 € with a stake of 10 €. The client would therefore have made a profit of 100 % on a price movement of 10 %. However, this mechanism does not only apply to profits, but also to losses. If the price had fallen in the above example and the client had closed the position at a price of 90 €, he would have made a loss of 10 € and thus lost his entire stake. With a leverage of 1:10, a price movement of 10 % that is unfavourable for the client is therefore sufficient to lead to a loss of 100 % for the client. With a leverage of 1:20 – if the client would deposit only 5 € to open the position with a value of 100 € – even an unfavourable price movement of 5 % is sufficient to cause a total loss.

The leverage thus increases the impact of price movements on the trading result achieved by the client. And this applies in both directions: the leverage increases the effects of both favourable and unfavourable price movements. This means that the use of leverage increases both the opportunities and the risks.

It is also important to note that the greater the leverage, the greater the impact of price movements on the result. In this respect, the greater the leverage used, the greater the risks and opportunities.

3.4 The markets for trading CFDs

Those who are not familiar with CFDs might think that the markets on which CFDs are traded function like a stock exchange. However, this is not the case.

On an exchange, prices are formed by supply and demand, in that all market participants wishing to buy or sell a security indicate in the exchange's order book how many units of a particular security (e.g. shares or bonds) they wish to buy or sell and at what price. The stock exchange price of a security is then formed on the basis of the transactions that come about on the basis of these buy and sell orders. Furthermore, all securities traded on exchanges are interchangeable (fungible), so that the securities can be sold to any market participant and, if the security is also traded on another exchange, also on another exchange.

This is fundamentally different with CFD trading. CFDs are traded over the counter (also called "OTC"). This trading does not take place on an exchange, but between a client and a broker. A CFD position opened with a particular broker can only be closed again with that broker. CFDs are therefore not fungible. In this respect, each broker forms a separate, self-contained trading venue for CFDs.

Moreover, price formation does not work like on stock exchanges. In CFD trading, prices are rather set unilaterally by the broker ("quoted"), i.e. the broker continuously shows the client at which prices the client can open or close positions (long or short). This means that the broker is free to decide how to set the prices on his platform.

Despite this basically free pricing, however, it is ultimately the case that brokers reduce ("hedge") their market risk in whole or in part through countertrades with larger brokers, and the largest brokers at the end of the hedging chain hedge themselves in whole or in part on the markets on which the underlying assets of the CFDs are traded, namely on the markets for shares and futures. As a result, the prices quoted by CFD brokers are ultimately linked to the exchange prices of the underlying assets of the CFDs. However, this feedback does not mean that the price movements of CFDs are always identical to the price movements of the underlying assets, but only that the broker will usually have an interest in orienting his pricing to the market and exchange prices.

4 Detailed description of the workflow of our service

In concrete terms, our service works as described below:

If you have set up your user account with us in such a way that you follow a certain Strategy Provider with an amount of money defined by you, then that amount of

money is allocated for accounting purposes to a trading account maintained by the Broker that contains the capital of the Strategy Provider and all Strategy Investors following him ("Pooled Account"). The capital of the Strategy Provider and all Strategy Investors following him is thus pooled for accounting purposes ("Pooled Capital").

The Strategy Provider sees how much Pooled Capital is held in total in the Pooled Account and then trades this Pooled Account. If the Strategy Provider then places a trading order ("Order") with the Broker via the platform, this Order is executed by the Broker. As soon as a Strategy Investor terminates following the Strategy Provider, the capital due to the Strategy Investor is deducted from the Pooled Account and allocated to his own trading account.

The following example ("Example 3") shall illustrate how this works:

Let us assume a Strategy Provider has an account balance of 20,000 €. He is followed by two Strategy Investors with 10,000 € each. The Strategy Provider now places an order to open a long CFD position on the DAX. The Strategy Provider thus trades the Pooled Account, which has an account balance of 40,000 €. The price of the CFD on the DAX is quoted at 100 € per unit, the strategy provider places an order to go long with a leverage of 1:5 with 100 units. The order has a volume of 10,000 €, so that a margin of 2,000 € has to be deposited.

If the price of the CFD now falls and the position is closed by the Strategy Provider at a price of 90 €, the position results in a loss of 2,000 €. The loss is then deducted from the Pooled Account. Of this loss, €1,000 is attributable to the Strategy Provider and 500 € to each of the Strategy Investors following him, so that the capital allocated to the respective person in the Pooled Account is reduced accordingly. The pooled account would then contain 38,000 €, of which 19,000 € would belong to the Strategy Provider and 9,500 € to each of the Strategy Investors.

If the price had risen in the above example and the Strategy Provider had closed the position at a price of 110 €, a profit of 2,000 € would have been made. The Pooled Account would then have 42,000 €, of which 21,000 € would belong to the Strategy Provider and 10,500 € to each of the Strategy Investors.

5 The risks of trading CFDs and social trading

The risks mentioned below can not only arise individually, but also cumulatively and thus reinforce each other. This can lead to a risk that you originally considered to be of a lower risk category becoming a much higher risk. Your personal circumstances can also lead to a risk developing a higher risk potential than presented here.

The order chosen in the presentation of the risks does not contain any statement about their probability of occurrence or the extent of possible impairments through the realisation of the risks.

The strategy providers you can follow on our platform trade in CFDs and are therefore directly exposed to the risks described in section 5.2. If you follow a strategy provider, you invest in the same CFDs as the respective strategy provider, and are therefore also subject to the risks described in clause 5.2.

5.1 The Maximum Risk in Social Trading

The maximum risk when using our service exceeds the potential loss of the total capital invested. This is due to the possibility that you may be obliged to pay taxes on profits earned in the past, even though you have suffered losses, potentially up to the complete loss of all funds invested, since the tax assessment (risk exceeding the total loss risk).

5.2 Risks when trading CFDs

5.2.1 Market risk

When trading CFDs, you are subject to the risk that the price of the CFD you are trading may not move in a direction that is favourable to you. An unfavourable price development for you means that losses are incurred in relation to your open CFD position, which you must compensate the broker for with cash payments. This risk is increased when using leverage (cf. section 5.2.3).

5.2.2 Counterparty risk (counterparty default risk)

Counterparty risk or counterparty default risk is the risk that a debtor no longer meets or can no longer meet its obligations to its creditor. In the case of the service we offer, the Broker is the counterparty for all transactions. In addition, the Broker maintains a trading account for you into which you deposit the funds you intend to use for trading. Your counterparty risk is therefore specifically that the Broker does not or cannot fulfil

his payment obligations towards you, so that you do not receive payments to which you are entitled or receive them late. In the event of the broker's insolvency, your funds held with the broker are not protected by a deposit protection scheme.

5.2.3 Risk of disproportionately large losses due to leverage effect

The leverage effect has already been explained in section 3.3. It follows from these explanations that the use of leverage causes unfavourable price developments to lead to disproportionately large losses for you. The greater the leverage used in the transaction, the greater will be this effect. When speculating on a rising price with a leverage of 1:10, a price drop of 1 % already leads to a loss of 10 %, and a price drop of 10 % leads to a loss of the entire capital invested (total loss). In the case of a speculation on a rising price with a leverage of 1:20, a price drop of 1 % already leads to a loss of 20 %, and a price drop of 5 % leads to a loss of the entire capital invested (total loss).

If you make a loss on a transaction, the use of leverage causes these losses to be magnified.

5.2.4 No or unfavourable options for closing open positions

If you have an open CFD position, it can only be closed with the broker with whom it was opened. This is only possible if the broker in question offers any prices at all in relation to the CFD to be closed at the time when the position is to be closed. However, there may be situations in which the broker (e.g. due to technical problems) does not quote prices at a certain time, so that the position in question cannot be closed at the moment you wish to do so. Even if the broker then offers prices, it may be that these are unfavourable for you, so that you can only close the position with a loss.

This may result in profits from transactions that could have been realised being reduced, or in transactions that could otherwise have been closed at a profit ending in a loss, or in losses from transactions being increased.

5.2.5 Risk of closing positions against your will due to limited financial resources

In order to open a CFD position and to keep it open, it is necessary to deposit a security in the form of a margin with the broker. The broker decides which amount this margin has to be. The amount of margin required to keep a position open may change over time while the position is open. In particular, the amount of margin required will increase if the position is in loss. Therefore, if a position is in loss, you

may not have sufficient funds in your brokerage account to keep the position open and the broker may close the position against your will. This may result in losses on transactions that you could otherwise have closed at a later date at a smaller loss or at a profit.

5.2.6 Risks due to high spreads in illiquid instruments

The size of the spread differs for CFDs on different underlyings. The rule of thumb is that the less liquid the market for the CFD in question, the higher the spread. Liquidity in this context describes the extent of trading activity in the CFD in question.

For a CFD that is traded by many market participants at a certain point in time, the spread will therefore be lower ceteris paribus (i.e. provided other relevant influencing factors are the same) than for a CFD that only a few market participants want to trade at the same point in time. For example, the CFD on the exchange rate of the Euro against the US Dollar is very liquid and can therefore usually be traded with low spreads, whereas the CFD on the exchange rate between the Euro and the South African Rand, for example, is much less liquid and therefore usually has much higher spreads.

Experienced traders know that spreads consume a part of their money and calculate their spreads depending on the size of the order. If the spread is too large, trading often does not make sense. Especially traders who trade on shorter timeframes have to pay attention to the size of the spreads.

Trading in illiquid CFDs therefore entails the risk that it is unlikely from the outset to make a profit with the respective transaction due to the high spreads. If trading in such instruments is even carried out several times or frequently, the probability of making a profit may be reduced to such an extent that profitable trading is practically impossible.

5.2.7 Technical problems

When executing transactions, we, the Broker, the strategy provider or you may experience technical problems, e.g. due to internet failure or errors in the software or hardware used. If technical problems occur, this may mean that transactions cannot be executed or cannot be executed as planned.

This may result in profits from transactions that could otherwise have been realised being reduced, or in transactions that could otherwise have been closed with a profit ending with a loss, or in losses from transactions being increased.

5.3 Risks in the Social Trading offered by us

5.3.1 Starting point of the risk assessment

The description of the risks of CFD trading (cf. section 5.2) highlights the fact that it is a speculative activity involving significant risks. These risks remain even if social trading is used to carry out CFD trading. Therefore, the risks described in section 5.2 form the basis of the risk assessment of social trading, with the risks mentioned below being added.

5.3.2 Reduced probability of profits and increased probability of losses due to higher costs

When using social trading, higher costs are incurred than with CFD trading without the use of social trading. This is due to the fact that you have to pay a performance fee and a management fee for the social trading service, and also because the Broker charges higher transaction costs for CFD trading when you use social trading than without the use of social trading. Depending on the underlying asset, these higher transaction costs consist either of a commission to be paid per traded unit or of an increase in the spread.

The transaction costs incurred in the social trading offered by us are higher than the transaction costs that professional market participants have to pay when trading CFDs. It can be assumed that the transaction costs paid by professional market participants when trading CFDs are calculated in such a way that their amount corresponds to the (albeit largely speculative) price expectations that they still consider to be realistic. This means that the level of these transaction costs establishes a balanced distribution of opportunities and risks between seller and buyer. Higher transaction costs, on the other hand, mean that the distribution of probabilities of profit between you and the Broker are skewed to your disadvantage. Assuming that the probability of profit, based on the costs paid by professional market participants, is 50 % for each side of the transaction, the probability of profit for you, if you accept higher transaction costs, is less than 50 % per transaction. If several transactions are carried out with such a reduced probability of profit, this leads to an exponential reduction in the probability of profit. For example, if we assume that the probability of winning with

higher transaction costs is only 99 % of the balanced probability of winning (50 % chance of winning for both sides of the transaction), the chance of making an overall profit is for example

- with the first transaction 99 % of 50 %, i.e. 49.5 %;
- when carrying out two transactions 98.01 % of 50 %, i.e. 49.005 %;
- when carrying out three transactions, 97 % of 50 %, i.e. 48.5 %
- when carrying out ten transactions, 90 % of 50 %, i.e. 45.22 %.

Please note that we do not know by what percentage the probability of winning is actually reduced by the higher transaction costs. The above numerical values therefore do not represent the actual circumstances, but only serve to illustrate the exponential reduction in the probability of making a profit when several transactions are carried out.

The higher transaction costs thus lead, both in relation to each individual transaction and in relation to the use of social trading as a whole, to a reduction in the probability of making profits and an increase in the probability of suffering losses.

The performance fee and the management fee do not affect the likelihood of profit and loss of individual transactions, but they reduce the likelihood that you will make an overall profit by using social trading and increase the likelihood that you will suffer losses overall by using social trading.

5.3.3 Conflict of Interest due to Performance Fee

Strategy Providers are remunerated through a management fee and a performance fee for the social trading offered by us. This widespread fee structure brings with it not only advantages but also a possible conflict of interest:

Strategy Providers may be tempted to take disproportionately high risks in order to achieve the highest possible performance and thus an increased performance fee. Although we try to reduce the resulting risk for our clients by means of internal random and retrospective monitoring of the investment decisions made, the risk cannot be completely eliminated and must therefore be taken into account when assessing the risk.

5.3.4 Limited significance of past performance information

Strategy investors can view information about strategy providers on our platform in order to select which strategy providers they may wish to follow. This information includes, among other things, the past performance of a strategy provider.

While this information is of course important, it should be noted that past performance is no guarantee that the strategy provider in question will achieve the same or a similar performance in the future.

5.3.5 Risk due to false sense of security

The risks described in this document cannot be eliminated and therefore exist throughout the duration of your investment activity. Nevertheless, it is possible for strategy investors to falsely lull themselves into a sense of security, thinking that there is little or no risk in their trading activity due to the delegation of investment decisions to one or more strategy providers.

We therefore expressly point out once again that the risks described cannot be eliminated. You should therefore keep an eye on your investment activity managed by social trading at all times and regularly check whether the trading activity of the strategy providers you have selected is in line with your preferences.