

## What to do when a guarantee expires



Unitholders should keep the guarantee expiry date firmly in mind (as indicated in the fund prospectus and periodic reports), because it marks the time when they must review the situation and decide what action to take.

When the guarantee expires, most funds commence a new guaranteed period that may involve significant changes in their nature, conditions and even their name. In other cases, the fund will simply cease to be guaranteed and will continue operating normally with a different investment policy. Such changes must be spelled out in a letter sent to unitholders as the expiry date approaches.

Investors can choose between two courses:

- **Decline the new conditions:** in which case they should exercise their exit right, meaning that during a given time (a month at least) they can cash in their units or switch them to another fund without paying a redemption fee. This period should be specified in the letter sent by the scheme manager.
- **Stay on as a unitholder:** this option requires no action whatsoever, because all investors not ordering the redemption of their units during the exit period will be assumed to be content to remain in the fund under its new configuration. Accordingly, from this point on, they will be subject to the new conditions (possibly including, for example, the application of redemption fees).

## Don't forget...



- In general, guaranteed funds do not protect your investment at any time, but only on a predetermined date: the guarantee expiry date.
- Not all guaranteed funds also assure you a return on your investment. Before you decide, find out whether the fund offers a fixed return or will only guarantee your initial capital.

- If you opt for a guaranteed fund, you are advised to invest during the initial offer period and redeem during the appointed period following the guarantee expiry date.

This is because guaranteed funds usually charge hefty subscription and redemption fees during the guarantee period to dissuade investors from entering or leaving the pool (except in transition periods).

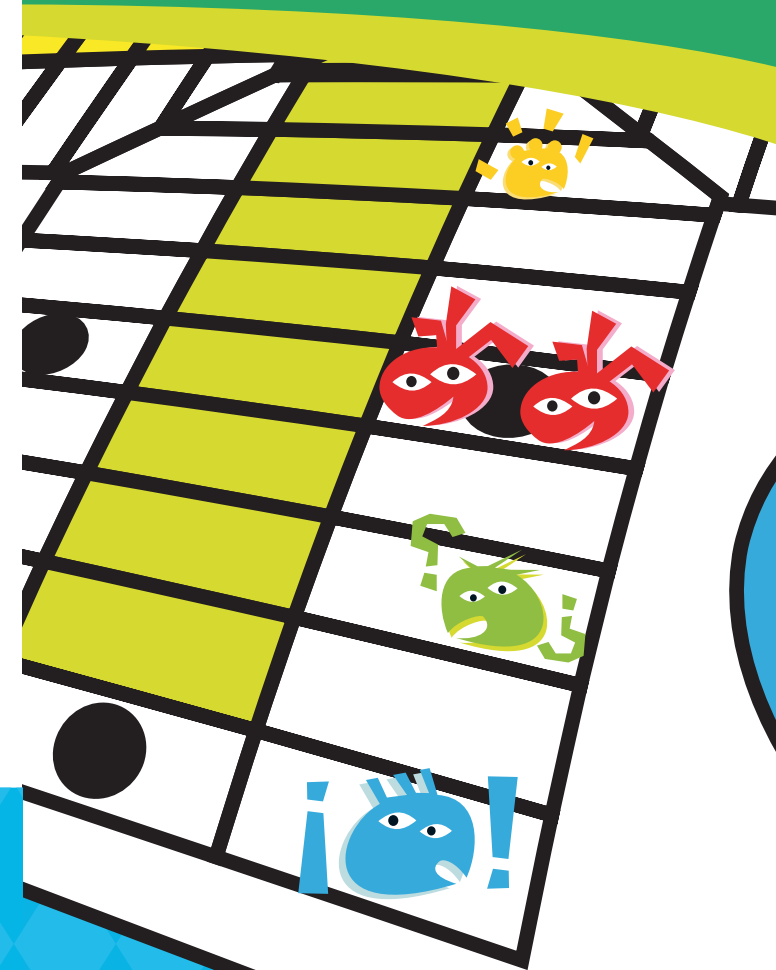
- Units redeemed during an exit window are not covered by the guarantee, so even though the investor saves on fees he or she may still suffer losses.
- Read the prospectus of the guaranteed fund so you are familiar with its main features: initial offer period, guarantee expiry date, target return, fees, exit windows, notice periods, etc. Make this a regular practice, both before you invest and once you are a unitholder.
- It is important to read through all the correspondence you receive from the scheme about guarantee expiry dates and renewal conditions.

*The aim of this factsheet is to inform the general public about different aspects of the securities markets. Its text is for information purposes only and, as such, cannot constitute a support for subsequent legal interpretations, which must rely exclusively on the prevailing regulations.*

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# GUARANTEED INVESTMENT FUNDS



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## 01 What is a guaranteed fund?

Guaranteed funds assure unitholders at least the protection of their initial investment on a given future date. In some cases, they may also offer a guaranteed return.

## 02 Key concepts

**Guarantee expiry date:** the future date on which fund unitholdings are assured a certain net asset value (guaranteed NAV). Only unitholders maintaining their investment up to the guarantee expiry date will be covered by its terms, so those redeeming earlier could suffer losses.

**Underwriter:** entity that undertakes to make up the shortfall to the unitholder's initial investment, if the value of the fund's portfolio on the expiry date is below the guaranteed net asset value.

If the amount of this difference is paid to the fund we talk about an internal guarantee, while if it goes straight to the unitholder we say the guarantee is external. Note that each system implies a different tax treatment, with the amounts unitholders receive under external guarantees being taxable in the same year.

**Initial offer period:** the time during which investors can purchase guaranteed fund units without paying a subscription fee (often as high as 5% of the sum invested).

**Exit windows:** some guaranteed funds specify dates on which investors can redeem all or some of their units without paying a fee (which at other times can run to 5% of the redeemed amount), provided they comply with the notice periods stated in the prospectus. Note, however, that the amount they receive will correspond to the NAV of the request date, i.e., they will not be protected by the guarantee and are at risk of losing some of their investment.

## 03 Types of guaranteed funds

We can talk about two types of funds depending on the scope of the guarantee:

**Fixed-income guaranteed funds:** assure a certain fixed return on your investment on the guarantee expiry date over and above the protected capital. The return on offer should be stated in the fund prospectus in terms of annual equivalent rate (AER).

**Variable-income guaranteed funds:** will generally only protect the initial capital invested on the guarantee expiry date, while offering the possibility of a return linked to the performance of diverse financial assets or indices (using calculation formulas of varying complexity). Investors should be aware that they may earn no return at all if the underlying instruments perform against expectations.

Only unitholders maintaining their investment up to the guarantee expiry date will be covered by its terms, so those redeeming earlier could suffer losses.

guarantee  
expiry date

before or after  
guarantee  
expiry date