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# High Yield Corporate Bond Securities Risk Acknowledgement Disclosures



You understand that, as briefly described below, high yield corporate bond securities are considered riskier than investment-grade bonds.

High yield corporate bond securities are defined as bonds rated below BBB- by S&P or Baa3 by Moody's rating agencies.

The risks of trading high yield corporate bond securities include, but are not limited to:

**Credit Risk:** A bond's credit quality is an important consideration when evaluating investment choices. Credit agencies may assign a credit rating to a bond or to an issuer based on the issuer's financial condition and management, economic and debt characteristics, and specific revenue sources securing the bond, if any. The highest ratings are AAA (S&P) and Aaa (Moody's). Bonds rated in the BBB/Baa category or higher are considered investment-grade; bonds with lower ratings are considered higher risk, and are often referred to as "speculative," "junk" or "high yield." Bonds rated below investment-grade will often offer comparatively higher yields to compensate investors for increased risk of default. It is important to monitor changes in the credit quality of the issuer of a bond, as less creditworthy issuers are more likely to default on interest and/or principal payments.

**Default Risk:** If a bond issuer fails to make either an interest or principal payment on its bonds as they come due, it is said to be in default. This could arise in connection with the issuer's bankruptcy, or a failure to meet some other provision of the bond indenture. Bondholders are creditors of an issuer. In the event of default, there are differences in the order of priority of payment between all the bond holders of an issuer, and the type of bond you hold will determine your status. The payment of principal and interest on a bond, if any, are dependent on the financial health of the issuer. Unforeseen events, economic or otherwise, may impact the ability of the issuer to meet its obligations.

**Liquidity Risk:** There are many factors that influence the price an investor will receive if their bond is sold prior to maturity. The most significant factors are changes to the credit rating of the bond issuer and the prevailing interest rates. If the bond's original issuance was small, that may also affect liquidity, as will the individual bond type. Finally, the bond may have features or attributes that are not attractive to buyers in the current market. Bonds are generally more liquid during the initial period immediately after issuance, as that is when the largest volume of trading in that bond generally occurs. High yield bonds may be less liquid than bonds issued by investment grade companies or the U.S. government. If you decide to invest in high yield bonds you should be prepared to hold the investment to maturity, or to absorb a loss of the investment.

**Interest Rate Risk:** Although the primary driver of high yield bond valuation is the underlying financial health of the issuing company, changes in interest rates will typically impact high yield bond prices as well. When interest rates rise, the price of existing bonds will likely fall. In the event you sell a bond in a rising interest rate environment, you may get less than your original investment. The volatility created by interest rate risk is generally greater for bonds with longer maturities, and may decline as the maturity date nears.

**Call Risk:** Bonds may have a feature that allows or requires the issuer to redeem or "call" the bonds at a specified price and date before maturity. Bonds are often called by issuers when interest rates have declined from the time the bond was originally issued. Since a call provision offers protection to the issuer, callable bonds usually offer a higher yield than comparable non-callable bonds. This is to compensate the investor for the risk that they might have to reinvest the proceeds of a called bond at a lower interest rate. Before you buy a bond, check to see if there is a call feature and, if there is, be sure to consider the yield-to-call as well as the yield-to-maturity. Investors considering the purchase of callable bonds should be aware that the call may result in a lower-than-expected yield or even a loss.

**Reinvestment Risk:** In a declining interest rate environment, bond holders risk having to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

**Concentration Risk:** While diversification does not ensure against a loss, or assure a gain, an investors overall concentration, and the diversification of the portfolio should be considered. The risk of correlated portfolio movements is typically greater when the portfolio consists of an undiversified, or concentrated investment in that is limited to a small number of issuers, issues or is overly exposed to particular sectors.

## Clients who have acknowledged the risks of these products have made the following representations:

- You acknowledge that you have read and considered the risks of high yield corporate bond securities that you may elect to purchase through Ameriprise Financial.
- You have determined that high yield bond securities are generally appropriate for you and your account, and the particular high yield securities that you intend to purchase are suitable for your investment needs and portfolio, notwithstanding the risks associated with purchasing such securities.
- You represent that your investment experience is a minimum of three years in length and that it includes experience in general securities such as fixed income instruments, equities, Exchange Traded Products, or options.