

Dear Client,

RE: Risks Relating to Exchange Traded Funds (ETFs) and Related Products

In the spirit of enhanced investor protection and as part of our ongoing commitment to improve our services to our clients, we have prepared the following highlighting the key features of trading in ETFs and related products.

ETFs are typically designed to track the performance of their underlying benchmarks e.g. indices, market sectors, or groups of assets such as commodities. An ETF manager may adopt one or more of the following strategies to achieve the fund's objective:

- i. full replication by investing in a portfolio of securities that fully replicates the composition of the underlying benchmark;
- ii. representative sampling by investing in a portfolio of securities featuring a high correlation with the underlying benchmark, but is not exactly the same as those in the benchmark;
or
- iii. synthetic replication by investing in financial derivative instruments, such as swaps and performance-linked notes, to replicate the benchmark performance.

ETFs in (i) and (ii) are commonly known as traditional ETFs whereas ETFs in (iii) are commonly known as synthetic ETFs.

Before investing in ETFs or products linked to the performance of an underlying ETF, you must understand the key features and risks of the ETFs. The following section highlights the key risks, but may not include all the risks, relating to an investment in ETFs in addition to the general product risks described in the relevant product disclosure.

- i. You are exposed to the political, economic, currency and other risks related to the underlying securities, index or sector tracked by the ETF.
- ii. The net asset value (NAV) of the ETF will change with changes in the market value of the underlying securities or other assets it holds and such changes may be amplified or inverse in the case of leveraged or inverse ETFs. The performance of the ETF may deviate from the underlying security, index or sector. Tracking error may be due to the ETF's fees and expenses, failure of tracking strategy, and currency differences.
- iii. The ETF may trade at a discount or a premium to its NAV driven by supply and demand factors and also where the index or market that the ETF tracks is subject to restricted access, the efficiency in unit creation or redemption to keep the price of the ETF in line with the NAV is disrupted.
- iv. The ETF may be less liquid than the underlying securities it tracks and as a result, you could be exposed to greater liquidity risk in the event of early termination than if the ETF was linked directly to the underlying securities. Furthermore, ETF that invest in derivatives

may have higher liquidity risks if the derivatives do not have active secondary markets, and may incur losses if the bid-offer spreads on such derivatives are wider than commonly occurs.

- v. If the ETF engages in derivatives transactions, it is subject to the risk that its counterparties may default on their obligations which may expose the ETF to greater losses than if the ETF invested only in conventional securities. This counterparty risk may be magnified if the ETF is highly concentrated in one counterparty, or by potential contagion in which the failure of one derivative counterparty of an ETF has an effect on the stability of the other derivative counterparties for the ETF. The ETFs may also have collateral to reduce counterparty risk, but the market value of the collateral may have fallen substantially when the ETF seeks to realize the collateral.
- vi. An ETF's assets and securities or other investments may be denominated in a currency that differs from the currency in which the ETF's NAV is denominated. Accordingly, any fluctuation in the relevant exchange rates will affect the value of the underlying securities, assets and other investments of the ETF as well as the NAV of the ETF, which in turn may affect the price of the ETF.

We strongly urge you to review the prospectus for the ETF for further information, including a more detailed description of the relevant risks relating to the ETF before deciding to enter into any ETF-related transaction.

Additional general information on ETFs can be found on the HKSF and HK Exchange websites:

<http://www.invested.hk/invested/en/pdf/etfleaflet.pdf>

http://www.invested.hk/invested/en/html/section/products/funds/ETF/etf_key.html

<http://www.hkex.com.hk/eng/prod/secprod/risksetf.htm>

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