Exchange Traded Funds

1. What is ETF?

An ETF is an investment fund that is traded on a stock exchange. Like a traditional investment fund, your ETF investment gives you access to a portfolio of companies (shares), bonds or other asset types (such as commodities or property). Like a share, an ETF is bought and sold on a stock exchange. Consequently, ETFs offer you the diversification of an investment fund, with the easy tradability of a share. The aim of an ETF is to track the performance of a specified index (such as FTSE 100) and to provide you with the same return as that index, less fees.

2. Benefits of ETF?

Transparency	Investors can have daily visibility of what securities the fund holds, how it's performing and costs.
Diversification	• ETFs give you access to a broad range of asset classes, sectors and geographies. • ETFs also give you access to wide range of security types including shares, bonds, commodities etc.
Flexibility	ETFs are traded in stock exchanges; you can buy and sell at any time during opening time of the stock exchange.
Liquidity	Sources of liquidity: • Traded intraday on regulated exchanges. • Direct creation and redemption of units by ETF providers.
Cost effectiveness	ETFs often have lower costs than other types of investment funds.

3. What are the differences between ETFs and Investment Funds (Mutual Funds)?

	ETF	**Investment Fund (Mutual Funds)**
Strategy	In General, ETFs passively track performance of indices.	Most mutual funds are actively managed; seek to outperform the fund's stated benchmark.
Trading	Traded on stock exchange throughout the day at a fluctuating market price, which may be greater or less than its Net Asset Value (NAV).	Subscribe and redeem directly through the fund company or a broker. Traded usually at the end of the day at Net Asset Value (NAV).
Cost	On-going management cost plus transaction costs.	On-going management cost (normally higher than ETFs)[1] plus subscription costs.
Transparency	Daily disclosure of holdings.	Generally quarterly disclosure of holdings.

[1] Comparing with ETF, traditionalinvestment funds are actively managed hence charge relatively higher on-going charges, because the fund may have relatively higher management and research costs.

4. ETF Price and NAV?

ETFs are listed in stock exchanges; therefore, they have prices as well as Net Asset Values (NAV). Simply speaking, NAV is calculated as dividing end-of-day market price of ETF's underlining holdings by total number of ETF units in the market; price is ETF's unit price that are traded in exchanges, which is affected by supply and demand of the market. Under normal conditions, price should be very close to NAV.

5. What can be returns from Investing in ETFs?

Capital Gain/Loss

Investors buy an ETF at a price, and then sell it at a higher price to make a capital gain; or sell at a lower price and suffer from a loss.

Dividend Distribution

Like some shares and investment funds, some ETFs distribute dividends.

6. Who may be interested in investing ETFs?

ETFs are mainly tracking the performance of market indices. They are interesting to investors who have particular views of the market and are capable of taking related risks. ETFs are also interesting to investors who like investments that have high transparency, flexibility and low costs.

ETFs are also interesting to investors who wish to diversify investment risks via investing in a whole market/index, rather than investing in individual shares.

7. How to invest in ETFs via Citi?

Citi provide you access to hundreds of ETFs that are traded in global markets with multiple currencies. Please refer to below sections for details:

Investment Channel

a. Citi Online

Place your investment transactions via Citi Online Brokerage platform.

b. Relationship Manager

If you are a Citigold or Citigold Private Client, you can place your investment transactions via your dedicated Relationship Manager.

Investment Service

a. Execution Service

Make your investment choices and place transactions via Citi's investment channels.

b. Advisory Service

With a detailed understanding of your financial situation and investment knowledge and experience, we'll create a wealth strategy most suited to your personal goals and share our expertise to help you independently manage your money.

Investment Order Type

a. **Limit Order:** Investors can set limits to price at which the orders can be executed. You can set the highest price (upper limit) you can accept to buy or a lowest price (lower limit) you can accept to sell.

b. **Market Order:** Price for execution is not specified. Your order will be executed at the prevailing market price (i.e. the price at the time your order is placed into the market).

c. **Stop Loss:** This is a pricing condition for sell equity orders that allows you to set a trigger lower than current market price. A stop loss is an order, which automatically becomes a market order in the trading system when the trigger specified in the order is reached. For example, the current trading price of stock A is 30.4 USD and you give a stop loss order with the trigger of 28 USD. The order is activated and will be executed if the price of stock A falls to 28 USD or below. This type of order is only available on a limited number of Exchanges.

d. **Day order (Day):** By default, the expiry date of the order would be close of market on the day order is entered.

e. **Good till Date (GTD):** The order is valid till a pre-determined date stated by the client; the maximum validity is 90 calendar days.

Order Execution Type

a. Full Execution

All units in the order are executed.

b. Partial Execution

If all units in the order cannot be executed, part of the order may be executed.

8. Are there charges of investing in Exchange Traded Funds via Citi?

Yes – please refer to the Fee Schedule or the Key Facts document for full details of applicable charges.

What are the risks of investing in Exchange Traded Funds?

An ETF's past performance does not represent its future performance, and in the worst case scenario, an investor may risk losing all of the principal amount and interest (if any).

Market risk

ETFs prices change along with market fluctuations in the underlying indices/assets. There are many causes of market fluctuations, including but not limited to the economic conditions and changes in the political climate.

Foreign exchange risk

When the ETF is denominated in one currency while the underlying assets of the ETF are denominated in another currency, or when the ETF and/or the underlying assets are denominated in a currency that is not the investor's home currency or local currency, there is a possibility of foreign exchange loss or gain. The investor must bear the foreign exchange risk.

Risks arising from security lending

Some ETF providers may lend the security held by the ETF to other counterparties in order to boost returns. There is a risk that the ETF provider cannot recall or retrieve securities lent to counterparties (e.g. if the counterparty becomes insolvent).

Termination risk

An ETF may be delisted from exchanges if the ETF fails to fulfil conditions as stipulated by the exchange. It is important to review prospectus for terms and conditions where the ETF may be terminated/early terminated.

Liquidity risk

A higher liquidity risk is involved if an ETF does not have an active secondary market or invests in highly illiquid securities. It is important to review prospectus for terms and conditions that could impact liquidity of the ETF.

Tracking error risk

Tracking error risk measures the volatility of performance difference between portfolio returns and the benchmark. Tracking error may be due to:

- Costs/Expense ratio: Higher cost leads to higher tracking error.
- Method of replication: Many ETFs use computer optimization techniques to create portfolios that track the index while minimizing transaction costs. Under this technique, the ETF omits or underweight certain stocks (usually less liquid or smaller cap stocks) and this may lead to higher tracking error.
- Rebalancing: ETFs are required to change the portfolio composition when stocks are added or dropped from an index. The timing, market impact and transaction costs of the changes can increase tracking error.
- Restrictions/limitations: Certain (e.g. emerging) markets are difficult to access or have restricted access. The inability to access all stocks, caps on single stock investments (sector specific) especially in the case of narrowly focused ETFs, may also increase tracking error.
- Dividend reinvestment: Some ETFs hold dividends in cash and only pay them out/reinvest them on a periodic basis. A lag in dividend reinvestment may increase tracking error.

Bid-offer spread and typical premium/discount price to the NAV

The share price of an ETF may trade at a premium or discount to the Net Asset Value (NAV) of the underlying portfolio. Trading activity in pursuit of an arbitrage opportunity may help to reduce the premium or discount of an ETF's share price to its NAV. ETFs that track indices or markets with restricted access and ETFs with less liquid underlying securities may therefore be particularly prone to share price premiums or discounts to its NAV.

Legal structure risks

An ETF's legal structure may pose risks. For example, Grantor trusts are not regulated by US SEC laws, and do not offer the protection of companies registered under the US Investment Company Act 1940.

Derivative/Counterparty risks

If an ETF uses derivatives to fulfil their stated investment strategy, the credit default risk of the derivative counterparty may have a negative impact on the ETF's price. If an ETF invests in derivatives in secondary markets that are not active, there could also be liquidity risk, or the risk of investment loss from a wide bid offer spread.

Complexity Risk

Many ETFs, particularly those launched more recently, have investment strategies that are complex and may not be readily understood by many investors, such as those that follow quantitative or algorithmic strategies. As such, investors may not fully understand how their investment returns are generated and the potential risks embedded in such ETFs.

- Leveraged/Inverse ETFs (only available to professional investors) – Many leveraged and inverse ETFs seek to deliver their stated investment objective (expressed as a multiple of the percentage return of the underlying asset, e.g. x2, x3, x-1, x-2, etc.) over a single trading day. Over holding periods of greater than one trading day, the compounded return of leveraged and inverse ETFs (the actual return) may differ significantly from the percentage return on the underlying asset multiplied by the leverage/inverse multiple of the fund. This makes leveraged and inverse ETFs potentially inconsistent with many investors' expectations and objectives when held for periods greater than one day.

- Commodity ETFs (also known as ETCs) – Most commodity ETFs invest in commodity futures rather than physical commodities. As such, the investment return of the fund will be determined by the performance of dated futures on those commodities rather than the spot commodity price and changes in the term structure of futures on a particular commodity can often play an important part in driving commodity ETF NAV returns.

Operational Risk

Operational inefficiencies and errors may cost investors and harm the performance of an ETF. Before entering a transaction or making a commitment to purchase any ETFs, the investor must ensure that he/she understands the transaction and has made an independent assessment of the appropriateness of the transaction in light of his own investment objectives and financial circumstances. In particular, the investor should obtain advice from his/her tax, financial and/or legal advisors as necessary or appropriate.

This document has been prepared for your personal use to give you an overview of Exchange Traded Funds and is for information purposes only. This document does not constitute an offer to sell nor is it a solicitation of an offer to enter into a transaction. The description of the products in this document is not comprehensive and is of a general description only. The risks, disclosures and other information herein set out are not exhaustive of the risks involved.

The information in this document has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the information, consider its appropriateness, having regard to their objectives, the risks, and their financial situation and their needs. Any investment decisions should be made based on a review of your particular circumstances with your financial adviser and other professional advisers as appropriate. Prior to making any investment decision, you should fully understand the economic risks and merits as well as the legal, tax and accounting characteristics and consequences of the transaction, and make your own determination that the investment is consistent with your objectives and that you are able to assume the risk.

Investment products are subject to investment risks, including possible loss of the initial investment. Past performance is not indicative of future results, investments can go down as well as up. Investors investing in investment products denominated in non-local currency may be subject to risk of exchange rate fluctuations if the investment is not in your home currency, which could result in loss of principal if converted back to your home currency. We will provide you with details of any fees, penalties or surrender charges that apply to any investment you make. We will advise you whether an investment transaction has been made for you on an advised or a non-advised basis. All investment decisions relating to your account are solely to be undertaken by you. When taking any investment decision (whether at Citi or elsewhere) you should always bear in mind that concentration is an important element to consider. Concentrated positions may entail greater risks than a diversified approach to securities and issuers.

2598 0717