

# PRODUCT KEY FACTS

## E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

Issuer: E Fund Management (Hong Kong) Co., Limited

*A product established under the E Fund Leveraged and Inverse Series*

27 April 2020

***This is an inverse product. It is different from conventional exchange traded funds as it seeks inverse investment results relative to the Index and only on a Daily basis.***

***This product is not intended for holding longer than one day as the performance of this product over a longer period may deviate from and be uncorrelated to the inverse performance of the Index over the period.***

***This product is designed to be used for short term trading or hedging purposes, and is not intended for long term investment.***

***This product only targets sophisticated trading-oriented investors who understand the potential consequences of seeking Daily inverse results and the associated risks and constantly monitor the performance of their holdings on a Daily basis.***

***This is a product traded on the exchange.***

***This statement provides you with key information about this product.***

***This statement is a part of the Prospectus.***

***You should not invest in this product based on this statement alone.***

### Quick facts

Stock Code:	07302
Trading Lot Size:	100 Units
Manager:	E Fund Management (Hong Kong) Co., Limited
Investment Adviser:	Yuanta Securities Investment Trust Co., Ltd. – Taiwan (external delegation)
Trustee:	Cititrust Limited
Administrator:	Citibank, N.A., Hong Kong Branch
Registrar:	Computershare Hong Kong Investor Services Limited
Ongoing charges over a year <sup>#</sup> (annual average daily ongoing charges*):	3.14% (0.0127%)

<sup>#</sup> The ongoing charges figure is based on the expenses for the period from 1 January 2019 to 31 December 2019. It represents the sum of the ongoing expenses chargeable to the Product for the above period expressed as a percentage of the average Net Asset Value over the same period. This figure may vary from year to year.

<sup>\*</sup> The annual daily ongoing charges figure is equal to the ongoing charges figure divided by the number of dealing days for the year ended 31 December 2019. This figure may vary from year to year.

**Actual annual average daily tracking difference<sup>##</sup>:** -0.02%

**Underlying Index:** Hang Seng Index

**Trading Currency:** Hong Kong dollars (HKD)

**Base Currency:** Hong Kong dollars (HKD)

**Distribution Policy:** The Manager does not intend to pay or make regular distributions or dividends. However, the Manager may pay special dividends upon making an announcement in respect of the relevant distribution amount (in HKD only).

**Financial Year End of this Product:** 31 December

**Website:** <http://www.efunds.com.hk/products/index/25.html>

### What is this product?

- E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product (the “**Product**”) is a product of E Fund Leveraged and Inverse Series, an umbrella unit trust established under Hong Kong law. Units of the Product (the “**Units**”) are traded on The Stock Exchange of Hong Kong Limited (the “**SEHK**”) like stocks.
- It is a futures-based product which invests directly in Hang Seng Index Futures (“**HSI Futures**”) and Mini-Hang Seng Index Futures (“**Mini-HSI Futures**”) which are traded on the Hong Kong Futures Exchange Limited (the “**HKFE**”) so as to give the Product the inverse (-1x) of the Daily performance of the Index.
- The Product is denominated in HKD. Creations and redemptions are in HKD only.

### Objective and Investment Strategy

#### Objective

The investment objective is to provide Daily investment results, before fees and expenses, which closely correspond to the inverse (-1x) of the Daily performance of the Hang Seng Index (the “**Index**”). **The Product does not seek to achieve its stated investment objective over a period of time greater than one day.**

#### Strategy

The Manager and the Investment Adviser intend to adopt a futures-based replication investment strategy to achieve the investment objective of the Product, through directly investing in the spot month HSI Futures and the spot month Mini-HSI Futures, subject to the rolling strategy discussed below, to obtain the required exposure to the Index. For the purpose of this product key facts statement, any reference to HSI Futures shall include Mini-HSI Futures, unless the context requires otherwise.

In entering the spot month HSI Futures, it is anticipated that no more than 10% of the Net Asset Value (“**NAV**”) of the Product from time to time will be used as margin to acquire the HSI Futures. Under exceptional circumstances (e.g. increased margin requirement by the exchange in extreme market turbulence), the margin requirement may increase substantially. The actual margin requirement for HSI Futures is determined by HKFE.

At least 90% of the NAV (this percentage may be reduced proportionately under exceptional circumstances, as described above) will be invested in cash (HKD or USD) such as deposits with banks in Hong Kong, and HKD or USD denominated investment products, of which up to 60% of the NAV may be invested in SFC authorised money market funds and other money market funds (either recognized jurisdiction money market funds or non-recognised jurisdiction money market funds) in accordance with the requirements of the Code, as amended by the SFC from time to time.

<sup>##</sup> This is an actual annual average daily tracking difference for the year ended 31 December 2019. Investors should refer to the Product’s website for information on the actual daily tracking difference and actual annual average daily tracking difference.

The Product will not enter into securities lending, repurchase, reverse-repurchase transactions or other similar over-the-counter transactions.

“**Daily**” in relation to the inverse performance of the Index or the performance of the Product, means the inverse performance of the Index or the performance of the Product (as the case may be) from the close of market of a given Business Day until the close of the market on the subsequent Business Day. The Product will be rebalanced Daily, on each day when the HKFE and SEHK are open for trading (i.e. a Business Day), as further described below.

### Daily rebalancing

At or around the close of the trading of the underlying futures market on each Business Day, the Product will seek to rebalance its portfolio, by decreasing inverse exposure in response to the Index’s Daily gains or increasing inverse exposure in response to the Index’s Daily losses, so that its Daily inverse exposure ratio to the Index is consistent with the Product’s investment objectives.

### Futures roll

The HSI Futures are monthly futures contracts traded on the HKFE, which offer liquid benchmark contracts to manage exposure to the constituents of the Index.

A “roll” occurs when an existing HSI Future is about to expire and is replaced with a HSI Future representing the same underlying but with a later expiration date. The Index does not include provisions for the rolling of the HSI Futures as it is a standard equity index. The Manager and the Investment Adviser have full discretion of futures rolling execution to meet the Product’s investment objective. The rolling of a HSI Future occurs within a 5-calendar day period every month, starting 5 trading days before the last trading day of the spot month HSI Futures, and ending 1 business day before the last trading day of the spot month HSI Futures. No rolling occurs on the last trading day.

### Index

The Index measures the performance of the largest and most liquid companies listed in Hong Kong. It comprises a representative sample of stocks quoted on the SEHK. It is denominated in HKD. The Index was launched on 24 November 1969 and had a base level of 100 on 31 July 1964. The Manager and the Investment Adviser (and each of their respective Connected Persons) is independent of Hang Seng Indexes Company Limited, the Index Provider.

The Index is a price return, free float-adjusted market capitalisation weighted index with a 10% cap on individual constituent weightings and without adjustments for cash dividends or warrant bonuses. As at 30 November 2019, it comprised of 50 constituent stocks with total market capitalisation of approximately HKD16.967 trillion.

The constituents of the Index and their respective weightings are published at <https://www.hsi.com.hk/eng/indexes/all-indexes/hsi> (this has not been reviewed or approved by the SFC). You can also obtain additional information of the Index including the index methodology and the closing level of the Index from the above website.

Bloomberg Code: HSI

Reuters Code: .HSI

## Use of derivatives / investment in derivatives

The Product’s net derivative exposure may be more than 100% of the Product’s NAV.

### What are the key risks?

**Investment involves risks. Please refer to the Prospectus for details including the risk factors.**

#### 1. Investment risk

- The Product is a derivative product and is not suitable for all investors. There is no guarantee of the repayment of principal. Therefore your investment in the Product may suffer substantial or total losses.

#### 2. Long term holding risk

- **The Product is not intended for holding longer than one day** as the performance of the Product over a period longer than one day will very likely differ in amount and possibly direction from the inverse

performance of the Index over that same period (e.g. the loss may be more than -1 times the increase in the Index).

- The effect of compounding becomes more pronounced on the Product's performance as the Index experiences volatility. With higher Index volatility, the deviation of the Product's performance from the inverse performance of the Index will increase, and the performance of the Product will generally be adversely affected.
- As a result of Daily rebalancing, the Index's volatility and the effects of compounding of each day's return over time, it is even possible that the Product will lose money over time while the Index's performance falls or is flat.

### **3. Inverse product vs short selling risk**

- Investing in the Product is different from taking a short position. Because of rebalancing, the return profile of the Product is not the same as that of a short position. In a volatile market with frequent directional swings, the performance of the Product may deviate from a short position.

### **4. Unconventional return pattern risk**

- Inverse products aim to deliver the opposite of the Daily return of the Index. Risk investment outcome of the Product is the opposite of conventional investment funds. If the value of the Index increases for extended periods, the Product will likely lose most or all of its value.

### **5. Futures contracts risk**

- Investment in futures contracts involves specific risks such as high volatility, leverage, rollover and margin risks. There may be imperfect correlation between the value of the underlying reference assets and the futures contracts, which may prevent the Product from achieving its investment objective.
- The Product may be adversely affected by the cost of rolling positions forward as the HSI Futures approach expiry.
- An extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a HSI Future may result in a proportionally high impact and substantial losses to the Product, having a material adverse effect on the NAV. A futures transaction may result in significant losses in excess of the amount invested.

### **6. Inverse performance risk**

- The Product tracks the inverse (-1x) Daily performance of the Index. Should the value of the underlying securities of the Index increase, it could have a negative effect on the performance of the Product. Unitholders could, in certain circumstances including a bull market, face minimal or no returns, or may even suffer a complete loss, on such investments.

### **7. Risk of rebalancing activities**

- There is no assurance that the Product can rebalance its portfolio on a Daily basis to achieve its investment objective. Market disruption, regulatory restrictions or extreme market volatility may adversely affect the Product's ability to rebalance its portfolio.

### **8. Liquidity risk**

- The Product is exposed to liquidity risk linked to HSI Futures. Moreover, the rebalancing activities of the Product typically take place at or around the close of trading of the underlying futures market to minimise tracking difference. As a result, the Product may be more exposed to the market conditions during a shorter interval and may be more subject to liquidity risk.

### **9. Intraday investment risk**

- The Product is normally rebalanced at or around the close of trading of the underlying futures market. As such, return for investors that invest for period less than a full trading day will generally be greater than or less than the inverse investment exposure to the Index, depending upon the movement of the Index from the end of one trading day until the time of purchase.

### **10. Portfolio turnover risk**

- Daily rebalancing of Product's holdings causes a higher level of portfolio transactions than compared to the conventional exchange traded funds. High levels of transactions increase brokerage and other transaction costs.

#### **11. Holding of HSI Futures restriction in number risk**

- The positions of futures contracts or stock options contracts held or controlled by the Manager, including positions held for the Manager's own account or for the funds under its management (such as the Product) but controlled by the Manager, may not in aggregate exceed the relevant maximum under the Securities and Futures (Contracts Limits and Reportable Position) Rules (the "Rules"). Accordingly, if the positions held or controlled by the Manager reach the relevant position limit or if the Net Asset Value of the Product grows significantly, the restrictions under the Rules may prevent creations of Units due to the inability under the Rules of the Product to acquire further HSI Futures. This may cause a divergence between the trading price of a Unit on the SEHK and the Net Asset Value per Unit. The investment exposure could also deviate from the target exposure which adds tracking error to the Product.

#### **12. Concentration risk**

- To the extent that the index constituents concentrates in Hong Kong listed securities (including H-shares and red chip shares) of a particular sector or market, the investments of the Product may be similarly concentrated. The value of the Product may be more volatile than that of a fund having a more diverse portfolio of investments. The value of the Product may be more susceptible to conditions in such particular market/sector.

#### **13. Passive investment risk**

- The Product is passively managed and the Manager will not have the discretion to adapt to market change due to the inherent investment nature of the Product. When the Index moves in an unfavourable direction (i.e. if it increases), the Product will decrease in value.

#### **14. Reliance on the Investment Adviser risk**

- The Manager has delegated the investment discretion of the Product to the Investment Adviser and will rely on the Investment Adviser's expertise and systems for the Product's investments. Any disruption in the communication with or assistance from the Investment Adviser or a loss of service of the Investment Adviser or any of its key personnel may adversely affect the operations of the Product.

#### **15. Trading time differences risk**

- The HKFE and the SEHK have different trading hours. As the HKFE may be open when Units in the Product are not priced, the value of the HSI Futures in the Product's portfolio may change at times when investors will not be able to purchase or sell the Product's Units. Differences in trading hours between the HKFE and the SEHK may increase the level of premium/discount of the Unit price to its NAV.
- Trading of the Index constituents closes earlier than trading of the HSI Futures so there may continue to be price movements for the HSI Futures when Index constituents are not trading. There may be imperfect correlation between the value of the Index constituents and the HSI Futures, which may prevent the Product from achieving its investment objective.

#### **16. Trading risk**

- The trading price of the Units on the SEHK is driven by market factors such as the demand and supply of the Units. Therefore, the Units may trade at a substantial premium or discount to the NAV.
- As investors will pay certain charges (e.g. trading fees and brokerage fees) to buy or sell Units on the SEHK, investors may pay more than the NAV per Unit when buying Units on the SEHK, and may receive less than the NAV per Unit when selling Units on the SEHK.

#### **17. Reliance on market maker risk**

- Although the Manager will use its best endeavours to put in place arrangements so that at least one market maker will maintain a market for the Units and gives not less than three months' notice prior to termination of the market making arrangement, liquidity in the market for the Units may be adversely affected if there is only one market maker for the Units. There is also no guarantee that any market making activity will be effective.

**18. Tracking error and correlation risks**

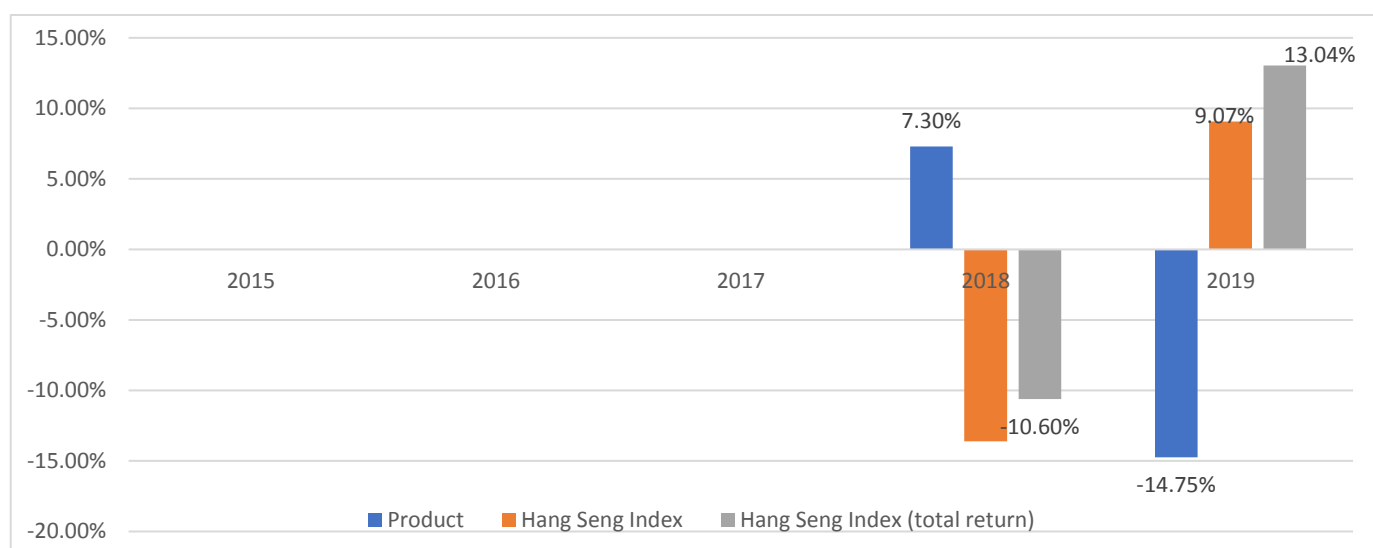
- The Product may be subject to tracking error risk, which is the risk that its Daily performance may not precisely track that of the inverse Daily performance of the Index. This tracking error may result from the investment strategy used, high portfolio turnover, liquidity of the market and fees and expenses and the correlation between the performance of the Product and the inverse (-1x) Daily performance of the Index may be reduced. The Manager and the Investment Adviser will monitor and seek to manage such risk in minimising tracking error. There can be no assurance of exact or identical replication of the inverse performance of the Index at any time.

**19. Volatility risk**

- Prices of the Product may be more volatile than conventional ETFs because of the daily rebalancing activities.

**20. Termination risk**

- The Product may be terminated early under certain circumstances, for example, where there is no market maker, the Index is no longer available for benchmarking or if the size of the Product falls below HKD500 million. Investors may not be able to recover their investments and suffer a loss when the Product is terminated.

**How has the Product performed?**

- Past performance information is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of the performance is based on the calendar year end, NAV-To-NAV, with dividend reinvested.
- These figures show by how much the Product and the Index increased or decreased in value during the calendar year being shown. Performance data has been calculated in HKD including ongoing charges and excluding your trading costs on SEHK.
- The Product seeks to achieve its stated investment objective in one day and rebalances at the end of the day. That is, the performance of the Product may not correspond to the opposite return of the Index over a one-year period or any period beyond one day. Investors should refer to the Prospectus for more information about the differences between the performance of the Product and the opposite return of the Index over a period longer than one day.
- Where no past performance is shown there was insufficient data available in that year to provide performance.
- Underlying Index: Hang Seng Index
- Fund launch date: 2017

**Is there any guarantee?**



The Product does not have any guarantees. You may not get back the full amount of money you invest.

## What are the fees and charges?

### Charges incurred by you when trading the Product on the SEHK

Fees	What you pay
Brokerage fee	Market rates
Transaction levy	0.0027% <sup>1</sup> of the trading price
SEHK trading fee	0.005% <sup>2</sup> of the trading price
Stamp duty	Nil

1. Transaction levy of 0.0027% of the trading price of the Units, payable by each of the buyer and the seller.
2. Trading fee of 0.005% of the trading price of the Units, payable by each of the buyer and the seller.

### Ongoing fees payable by the Product

The following expenses will be paid out of the Product. They affect you because they reduce the NAV of the Product which may affect the trading price.

	Annual rate (as a % NAV)
<b>Management fee*</b> The Product pays a management fee to the Manager.	0.8%
<b>Trustee's and Registrar's fee*</b>	0.10% per year of the Net Asset Value, subject to a monthly minimum of USD2,200 (waived for 12 months from 3 July 2018)
<b>Performance fee</b>	Nil
<b>Administration fee</b>	Included in the Trustee's fee

\* Please note that these fees may be increased up to a permitted maximum on giving 1 month's notice to unitholders. Please refer to the section of the prospectus entitled "Fees and Expenses" for further details of the fees and charges payable and the permitted maximum of such fees allowed as well as other ongoing expenses that may be borne by the Product

### Other fees

You may have to pay other fees when dealing in the Units of the Product. Please refer to the Prospectus for details.

### Additional information

The Manager will publish important news and information with respect to the Product (including in respect of the Index), both in the English and in the Chinese languages, on the Manager's website at <http://www.efunds.com.hk/products/index/25.html> including:

- (a) the Prospectus and this statement (as revised from time to time);
- (b) the latest annual and semi-annual financial reports (in English only);
- (c) any notices relating to material changes to the Product which may have an impact on Unitholders such as material alterations or additions to the Prospectus or the Product's constitutive documents;
- (d) any public announcements made by the Product, including information with regard to the Product and Index, the notices of the suspension of the calculation of the NAV, suspension of creation and redemption of Units, changes in fees and the suspension and resumption of trading;
- (e) the near real time indicative NAV per Unit updated every 15 seconds throughout each dealing day in HKD;
- (f) the last NAV of the Product and the last NAV per Unit in HKD;

- (g) the ongoing charges figure and the past performance information of the Product;
- (h) the daily tracking difference, the average daily tracking difference and the tracking error of the Product;
- (i) full portfolio information of the Product (updated on a Daily basis);
- (j) a “performance simulator” which allows investors to select a historical time period and simulate the performance of the Product vis-à-vis the Index during that period based on historical data; and
- (k) the latest list of the participating dealers and market makers.

**Important**

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.