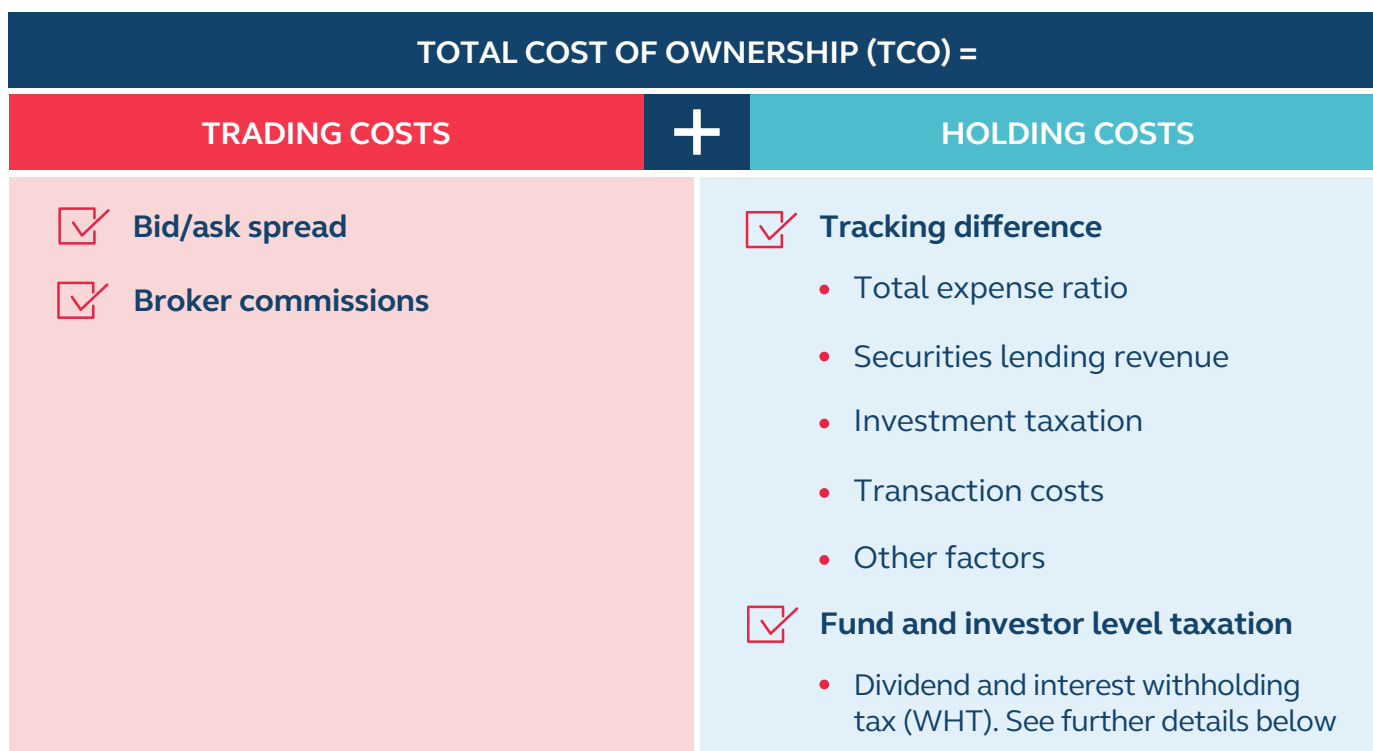


The overemphasis on the Total Expense Ratio (TER) is a common pitfall in ETF selection. In fact, TER is only one component of the Total Cost of Ownership (TCO) – the true cost of ETF investing. This leaflet will look into the components of TCO and reveal how much ETF investors can save by trading Asia, in Asia.

WHAT IS THE TOTAL COST OF OWNERSHIP (TCO)?

The true cost of ETF investing can be broken down into both trading and holdings costs:



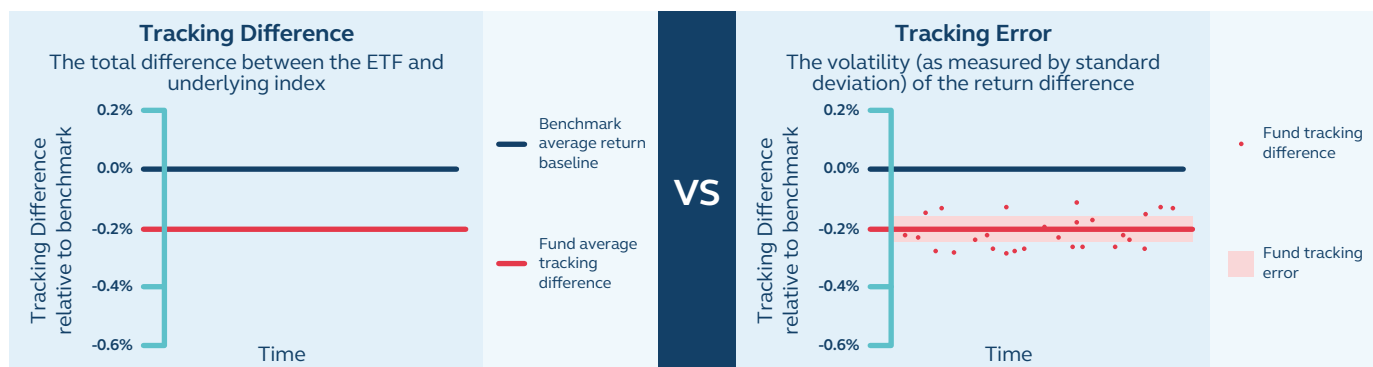
TAX SAVED IS ALPHA CREATED

ETF investors spend considerable time optimising their investment strategies, but few are aware that tax reduction can be a way to maximise return. Learn more about this significant yet overlooked source of alpha:

THREE TIER TAXATION	LOCATION MATTERS										
<p>Investment Level Taxes incurred to an ETF for its underlying investments, including stamp duty and withholding tax (WHT) on interest, dividends received or capital gains incurred</p>	<p>Tax costs vary widely depending on domicile of the investor, domicile and type of ETF, and the jurisdiction of the underlying portfolio investments. With its tax treaty network and domestic tax rules, Hong Kong offers benefits for investors seeking to gain exposure to Asian markets.</p> <table border="1"> <caption>After tax return received by Hong Kong investors</caption> <thead> <tr> <th>ETF Domicile</th> <th>After tax return</th> </tr> </thead> <tbody> <tr> <td>Hong Kong</td> <td>\$90</td> </tr> <tr> <td>Ireland</td> <td>\$85</td> </tr> <tr> <td>Luxembourg</td> <td>\$85</td> </tr> <tr> <td>US</td> <td>\$63</td> </tr> </tbody> </table> <p>Source: EY report</p> <p>Example: By investing in Japanese equities through a Hong Kong ETF, Hong Kong investors would receive 90% after tax return for dividend versus 63% using a US ETF.</p>	ETF Domicile	After tax return	Hong Kong	\$90	Ireland	\$85	Luxembourg	\$85	US	\$63
ETF Domicile		After tax return									
Hong Kong		\$90									
Ireland	\$85										
Luxembourg	\$85										
US	\$63										
<p>Fund Level WHT on dividends, interests and other distributions paid by the ETF. Access to reduced or nil WHT dependent on domicile of the fund</p>											
<p>Investor Level Taxes on an individual investor’s income, capital gains, estate tax etc. dependent on the investor’s profile</p>											

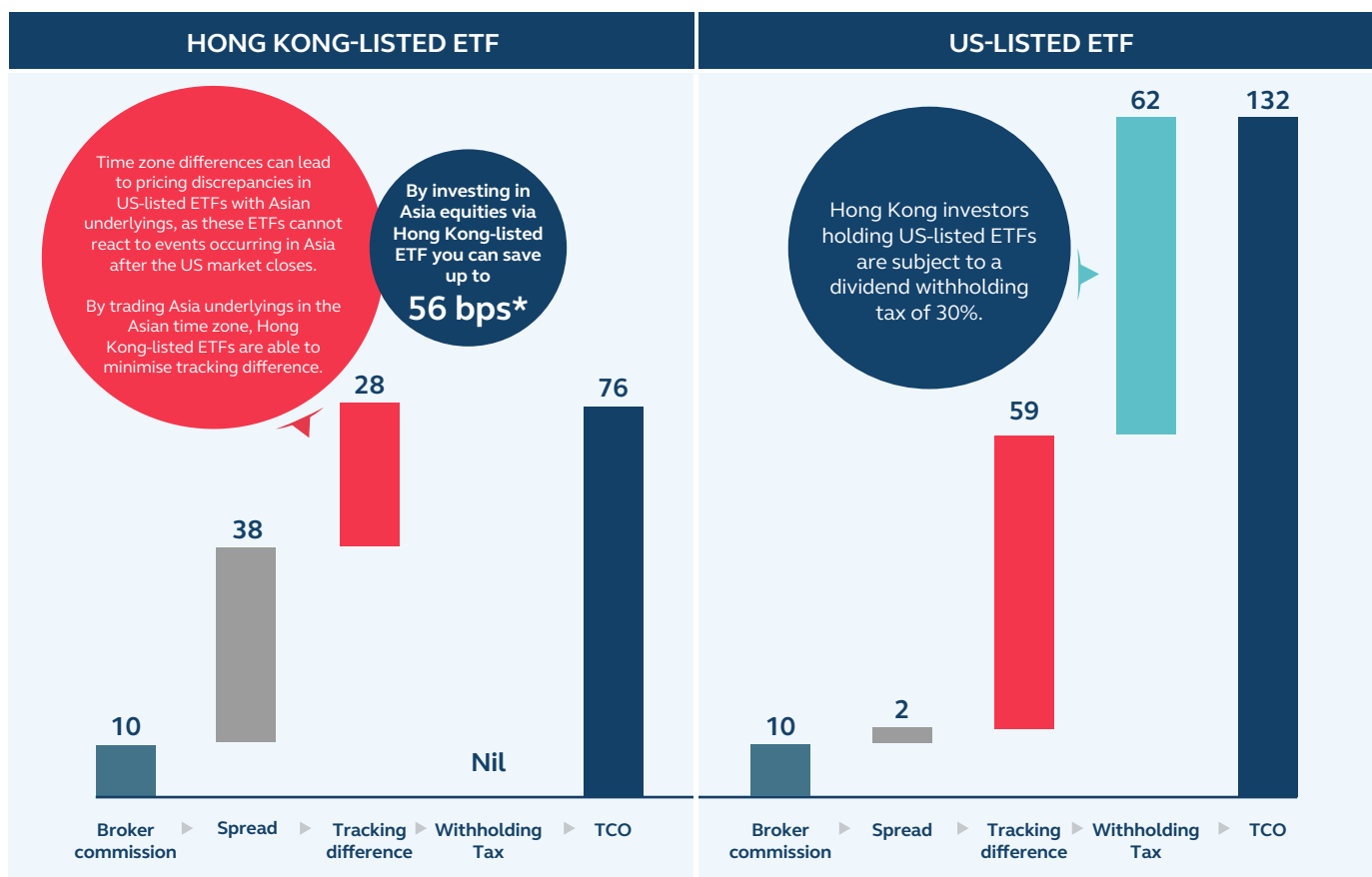
TRACKING DIFFERENCE VS. TRACKING ERROR

Tracking difference, an important component of TCO, is often confused with tracking error. In fact, tracking error is the standard deviation of tracking differences. In other words, it measures the volatility of tracking differences.



TCO CASE STUDY: HONG KONG ETF VS. US ETF

The following case study compares the Total Cost of Ownership (TCO) incurred by gaining exposure to Asia equities through ETFs listed in Hong Kong and the US. All figures are expressed in basis points.



*The case study and all figures are provided for demonstrating the calculation of TCO and are for reference only. They do not constitute investment advice.

Assumptions:

- Hong Kong ETF: iShares Core MSCI AC Asia ex Japan Index ETF (3010 HK); US ETF: iShares MSCI All Country Asia ex Japan ETF (AAXJ US)
- Tracking difference is measured over a period of 12 months as of 30 June 2019. Data sourced from Blackrock.
- Spread represents a 30-day average as of 30 June 2019. Data sourced from Bloomberg.
- Dividend yield based on dividend payments in the 12 months up to 30 June 2019. Data sourced from Bloomberg.

DISCLAIMER:

The information contained in this document is for general informational purposes only and does not constitute an offer, solicitation or recommendation to buy or sell any securities or other products or to provide any investment advice or service of any kind. This document is not directed at, and is not intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited ("SEHK") (together, the "Entities", each an "Entity"), or any of their affiliates, or any of the companies that they operate, to any registration requirement within such jurisdiction or country.

No section or clause in this document may be regarded as creating any obligation on the part of any of the Entities. Rights and obligations with regard to the trading, clearing and settlement of any securities effected on SEHK shall depend solely on the applicable rules of SEHK and the relevant clearing house, as well as the applicable laws, rules and regulations of Hong Kong.

Although the information contained in this document is obtained or compiled from sources believed to be reliable, neither of the Entities guarantees the accuracy, validity, timeliness or completeness of the information or data for any particular purpose, and the Entities and the companies that they operate shall not accept any responsibility for, or be liable for, errors, omissions or other inaccuracies in the information or for the consequences thereof. The information set out in this document is provided on an "as is" and "as available" basis and may be amended or changed. It is not a substitute for professional advice which takes account of your specific circumstances and nothing in this document constitutes legal advice. Neither of the Entities shall be responsible or liable for any loss or damage, directly or indirectly, arising from the use of or reliance upon any information provided in this document.