WHAT ARE L&I PRODUCTS?

Leveraged and Inverse Products (L&I Products) offer a new world of opportunities for active investors who want to pursue short-term market views. L&I Products are structured as Exchange Traded Funds (ETFs) and seek to achieve short-term investment results that correspond to the magnified or inverse performance of their underlying benchmarks on a daily basis.

Today, the performance target is capped at two times (2x) for leveraged products and negative two times (-2x) for inverse products. L&I Products have three key features:

1. **Daily investment objective** – seek to achieve a multiple (2x or up to -2x) of their benchmark’s daily performance, before fees and expenses;
2. **Compounding effects of daily returns** – performance can deviate from the multiple of the benchmark’s cumulative return when held for longer than one trading day; and
3. **Use of derivatives** – invest a portion or all of their net assets in derivatives, typically futures or swaps.

INVESTMENT OBJECTIVES OF L&I PRODUCTS

- **Leveraged Products** seek to provide two times (2x) the **daily** performance of their benchmark, before fees and expenses.

  **Illustration:**

  ![Diagram of leveraged products example]

  - Index: 10%
  - Leveraged Product (2x): 20%
  - Index: -10%
  - Leveraged Product (2x): -20%

- **Inverse Products** seek to provide the inverse (up to -2x) **daily** performance of their benchmark, before fees and expenses.

  **Illustration:**

  ![Diagram of inverse products example]

  - Index: 10%
  - Inverse Product (-2x): -20%
  - Index: -10%
  - Inverse Product (-2x): 20%

COMMON SHORT-TERM USES

<table>
<thead>
<tr>
<th>Leveraged Products</th>
<th>Inverse Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Seeking to magnify daily returns</td>
<td>• Seeking profits from a market decline</td>
</tr>
<tr>
<td>• Obtaining a target level of exposure using less cash</td>
<td>• Helping to hedge against an expected decline</td>
</tr>
<tr>
<td>• Overweighting a market segment without committing additional cash</td>
<td>• Underweighting exposure to a market segment</td>
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**INVESTOR SUITABILITY**

The **products are suitable for active investors who:**
- understand the nature and risks of L&I Products, as they are designed for daily investment results; and
- actively monitor their holdings on a daily basis and can respond when market conditions change.

The **products are not suitable for investors who:**
- are unfamiliar with the features and risks of L&I Products, as they are designed for daily investment results; and/or
- are looking for a long-term investment and cannot actively monitor their holdings.

**TRADING L&I PRODUCTS ON HKEX**
- L&I Products may be traded, cleared and settled in Hong Kong dollars (HKD), Renminbi (RMB) and/or US dollars (USD).
- An L&I Product listed on HKEX’s securities market can be identified by the stock short name assigned to it, which indicates some of the basic features of the product.

**Stock short names for L&I Products**

<table>
<thead>
<tr>
<th>L&amp;I Products traded in HKD</th>
<th>L&amp;I Products traded in RMB or USD</th>
</tr>
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<tbody>
<tr>
<td>Active Managed (A) / Futures-based (F) / Swap-based (X)</td>
<td>A/F/X L/I ? QQQQQQQQQQ-R/U</td>
</tr>
<tr>
<td>Leveraged (L) / Inverse (I)</td>
<td>Leverage or Inverse factor in Arabic numerals (Omit if factor = 1)</td>
</tr>
</tbody>
</table>

- L&I Products have market makers to help provide liquidity. Each L&I Product is required to have at least one market maker. The name of the market makers as well as their obligations for each L&I Products can be found in the L&I Products section of the HKEX website.

**RISKS INVOLVED IN TRADING L&I PRODUCTS**

Like ETFs, the risk of L&I Products can include counterparty risk, market risk, tracking errors, trading at discount or premium, and liquidity risk. In addition, investors should understand how the performance of L&I Products is likely to be affected when they are held for more than one trading day (compounding effect) as described previously.

**USEFUL WEBSITES**

Visit HKEX website: www.hkex.com.hk/ETP for details of L&I Products

The Chin Family website (www.thechinfamily.hk), a financial education platform, managed by the Investor Education Centre, introduces L&I Products: www.thechinfamily.hk/liproducts

**ENQUIRY**

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