6. High risk product

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Product brochure

Leveraged ETF

Product description

An ETF (exchange traded fund) is an investment fund traded on a stock exchange that offers a share in an expert-managed portfolio with a predefined investment policy, which may include shares and bonds, as well as commodity market products, futures transactions, options and other derivatives.

The objective of a leveraged ETF is to track – in the same or opposite direction, and by multiple folds (typically 2-3 fold) – the shifts in the price of an investment instrument or asset group. Leveraging can be achieved by the management of an ETF through derivative transactions. Maintaining leveraging requires active management and regular re-weighting, which may be very costly if a market is vary volatile, which may impact the ETF's performance. Depending on the direction of the ETF, two main product groups can be distinguished: long/bull ETFs (ETFs deriving a profit from a rise in the price of the investment instrument) and short/bear ETFs (ETFs deriving a profit from a fall in the price of the investment instrument).

When is it recommended?

- If you are looking for a medium or long-term investment vehicle – have a high risk appetite – and are willing to undertake the risk associated with leveraging in exchange for the opportunities afforded by leveraging.

Product risk

1. VERY LOW	2. LOW	3. MODERATE	4. MEDIUM	5. INCREASED	6. HIGH	7. EXTREMELY

6. High-risk product: This category includes financial instruments (e.g. Turbo certificates, purchased options, etc.) that are leveraged and carry high risk due to the price fluctuations of the underlying financial product(s). They may lose their total value already in the medium term, or only be tradable at a substantial loss. As losses are limited to the initial invested capital, the potential loss cannot exceed 100% of the invested amount. (To assess possible losses, the Bank determines the risk classification of a product using VaR calculation based on historical data, at a 99% confidence level, for a one-year investment horizon.)

Key risk factors

Exchange rate risk of derivative instruments	The market price of options, future and various other derivative investment instruments may fluctuate far more than changes in the underlying product (stock market index, foreign currency, etc.). Therefore the price of ETFs may exhibit significant fluctuations.
Counterparty risk	Non-standardised derivative transactions concluded outside the framework of stock market transactions that are included in the ETF's portfolio carry the risk of any change in the solvency of the issuer of the option or other derivative instrument, and they are unable to meet to their contractual payment obligations towards the fund.
Exchange rate risk	The individual financial instruments may be denominated in different currencies, and as a result, the value (payment) of these securities expressed in a currency may, when converted into the settlement currency, change depending on the exchange rate fluctuations between the given currencies.
Exchange rate risk of the underlying product	The exchange rate risk of the underlying product is the risk that the ETF loses some of its value as a consequence of adverse changes in the price of the underlying product. The underlying product is often a complex transaction, which is shaped by multiple risk factors. Besides price fluctuations of the underlying product, the value of an ETF is also determined by the volatility of the underlying product's price, the cost of roll-over and changes in the dividend yield. As the risk level of ETFs is defined by their specific investment policy, this type of risk is significant.
Liquidity risk	Liquidity risk arises when a customer cannot buy/sell a product because there is no counterparty in the market who would sell/buy it to/from them. This type of risk mainly occurs during times of crisis or in the case of rare markets or products where demand and supply are difficult to match. Market-makers ensure continuous quoting for ETFs, decreasing liquidity risk. There is a trade-off between liquidity and the quantity of a product to be sold/bought: when selling/buying smaller quantities, the investor may perceive higher liquidity, while liquidity may fall as the quantity increases.
Spread risk	Market-makers may quote a lower bid price than offer price (with the bid and offer price interpreted from the market-maker's perspective). In practice, this translates to a wide spread between the offer and bid price, which may incur a loss for the investor in case of a sale.

Scenarios*

Example 1	Let's assume that on 13 September 2016 you decide to invest HUF 750,000 in a leveraged ETF, and thus purchase 979,511 investment fund shares at a price of HUF 0.765688 each. If on 24 February 2020 you decide to sell your ETF shares at a price of HUF 1.105314 each, you will realise a profit of HUF 332,667 on your investment ([HUF 1.105314 - HUF 0.765688 HUF] x 979,511 units).
Example 2	Let's assume that on 1 February 2016 you decide to invest HUF 1,500,000 in a leveraged ETF, and thus purchase 1,312,901 investment fund shares at a price of HUF 1.142508 each. If on 17 March 2017 you decide to sell your ETF shares at a price of HUF 1.022566 each, you will incur a loss of HUF 157,412 ([HUF 1.142508 - HUF 1.022566 HUF] x 1,312,901 units).

PLEASE NOTE: The examples presented in this document do not show every possible outcome. For easier understanding the examples are simple and do not include any fees, commissions or taxes. They are insufficient to form the basis for an investment decision.

Practical information

- Information for customers: https://www.raiffeisen.hu/maganszemely/megtakaritas-befektetes/befektetesi-tajekoztato
- Product-related descriptions and interpretations: https://www.raiffeisen.hu/treasury-utikalauz
- Information on investment products: https://www.raiffeisen.hu/maganszemely/megtakaritas-befektetes/befektetesi-tajekoztato
- Product-related fees and charges: https://www.raiffeisen.hu/hasznos/kondiciok
- Taxation of investments: http://www.nav.gov.hu/
- Institutional protection: http://www.oba.hu/ and http://www.bva.hu/
- Changes in the prices of financial instruments issued by Raiffeisen Bank Zrt.: https://www.raiffeisen.hu/hasznos/arfolyamok
- Changes in the prices of key products: http://bet.hu/ (Hungarian stock exchange), http://akk.hu/ (Hungarian government securities), http://www.mnb.hu/ (exchange rates)
- In the case of of ETFs, no EHM (standardised rate of return on securities) is calculated.

Other information

- Depending on the nature of the given product, investments are exposed to various risks, including the possible loss of the capital invested. No reliable conclusions can be drawn from historical data or information regarding future returns, changes or performance.
- The risk of a financial instrument made up of more than one component may exceed the sum of the risks of the individual components.
- Conversion between different currencies may affect the result achievable.
- Any tax consequence related to an investment product may only be assessed on the basis of the Customer's individual conditions, and may change in the future as a function of changes in legislation.
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