5. Increased risk product

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Product brochure

Unleveraged 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 aim of an Index ETF is to track the price changes of an index. The ETF's management may choose from two methods to create an index-linked portfolio: (1) in the case of replication, 100% of the assets are invested in proportion to the indices to be tracked; (2) in the case of representative sampling, 80-95% of the assets are invested based on the proportions of the original index and 5-20% are invested into derivative transactions. The objective of a foreign currency ETF is to track the performance of a specific foreign currency or currency group. There are also commodity market, real estate market, stock market and bond ETFs. With the help of ETFs, one can — slightly exaggerating — practically invest in anything on global commodity and capital markets.

When is it recommended?

- If you are looking for a medium or long-term investment vehicle and are willing to take the risk associated with the underlying product.

Product risk

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

5. Increased-risk product: This category includes financial instruments (such as shares or derivative funds) that characteristically carry substantial risk, featuring a price that may fluctuate significantly even in the short run, but investors are generally shielded from losing the entire value of their capital investment unless some extraordinary market event occurs. Based on historical data, the possible loss calculated for a one-year period is highly unlikely to exceed 65% of the capital invested. (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.

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Scenarios*

Example 1	Let's assume that on 13 September 2016 you decide to invest HUF 750,000 in an unleveraged ETF, and thus purchase 979,511 ETF 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 an unleveraged ETF, and thus purchase 1,312,901 ETF 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.
- This document is intended for information purposes, and should not be construed as an offer to buy or sell any investment product or service or as investment or tax advice by Raiffeisen Bank Zrt. Consequently, before making an investment decision, please consider the appropriateness of the investment in light of your own goals, needs, financial position and the risks involved.