ETF (Exchange traded funds)

General information

An exchange-traded fund (ETF) is similar to a regular investment fund because it is a pool of securities or other underlying assets, but unlike a regular investment fund, ETF units/shares are traded on the stock exchange similarly to corporate stocks. The underlying assets of an ETF may be specific shares, bonds, derivatives, commodities, foreign currency and other assets. An ETF may follow a specific index and acquire only assets within the composition of the index, e.g. shares belonging to certain indices. There are ETFs that invest only in certain industry or geographical region. There are also ETFs that are always not related to one index or sector. In the case of such ETFs, investments are managed actively and the composition of their underlying asset may change over time. The information regarding ETF is disclosed in the fund documents, including Key Investor Information Document.

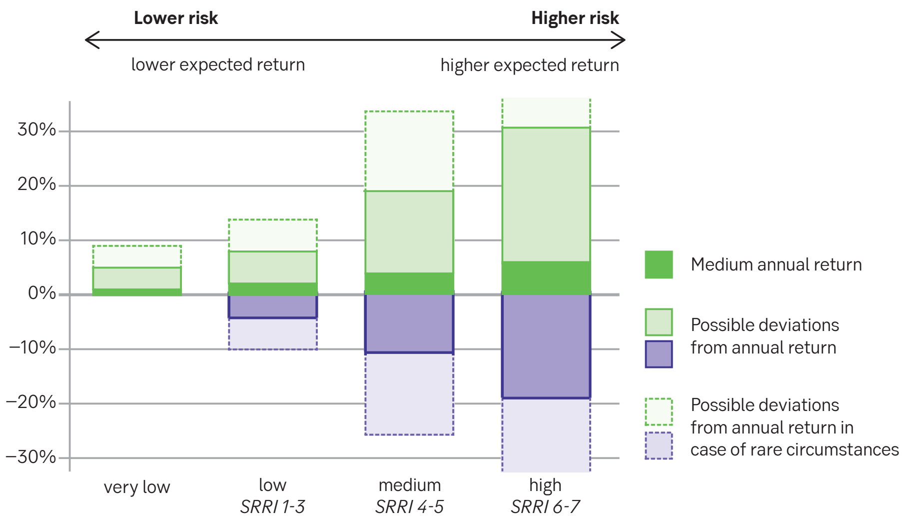
Outcome of the ETF depends on:

- the manager and/or the management company,
- movement of the underlying financial index of ETF
- geographical regions and sectors in which investments are made
- general financial market backdrop.

There are ETF-s

- that enable changes in the value of underlying asset twice or more times (leveraged ETF);
- the value of which moves in the opposite direction to the value of underlying asset (inverse ETF);
- which leverage the opposite movement to the value of underlying asset (leveraged-inverse ETF);
- the underlying assets of which are other funds traded at the market.

Classification



Synthetic Risk and Reward Indicator (SRRI) is agreed methodology to measure the overall risk and reward profile of a fund. Funds are categorized on a scale from 1 to 7, with 1 being lowest risk and 7 being highest risk. Typically, the SRRI is derived from the volatility over a period of last 5 years or, if the fund has operated for a shorter period, then the volatility of the respective period of operation.

All ETF-s, the units of which are not denominated in the main currency,[1] always have a high risk level.

Complexity: units/shares of ETF-s are treated as complex instruments.

1 EUR, USD, GBP, CHF, CAD, AUD, JPY, SEK, DKK, NOK are defined as main currencies.

Value

With an ETF an investor gains to a larger or smaller extent a diversified exposure to a broad market, asset class and market sector or investment style. Also, regular pay-outs can be made from an ETF, depending on the ETF's underlying assets. Unlike regular funds, ETF-s have no issue or redemption fees and service fees of equities transactions apply only when traded.

ETFs are valued as mutual funds using net asset value (NAV) of unit/share, however unlike regular funds, their purchase and sale price is formed on a stock exchange likewise to stocks. The value of ETF unit/share can change during the investment period and can be lower or higher compared to the amount initially invested depending on the market conditions. Selling and buying ETF units/shares works only through major exchange market at any time on trading day. The system with bid and ask price is the same as it is for ordinary stocks.

The figures are illustrative. The presented information should in no case be construed as an investment consultation, investment recommendation or a service offer. The rate of return achieved in previous periods or the previous history do not constitute a promise or indication with regard to the rate of return or the achievement of its objectives in future periods.

Figure 1. Long term performance

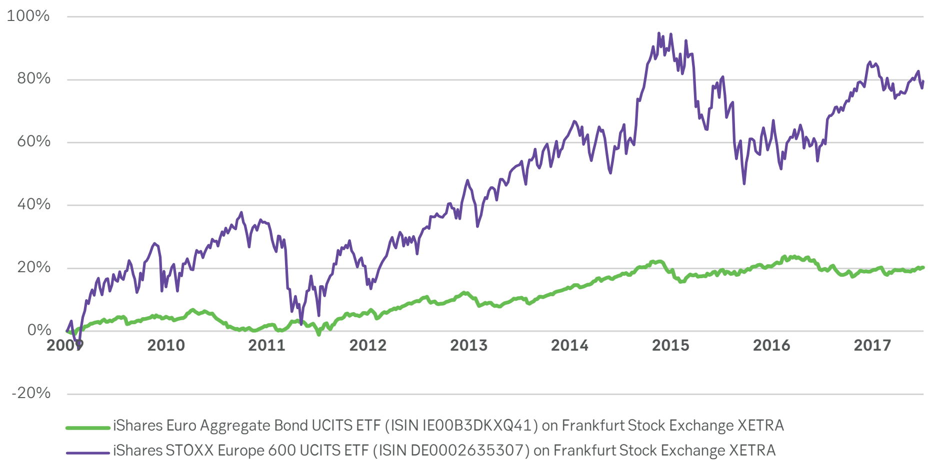


Figure 2. Positive scenario

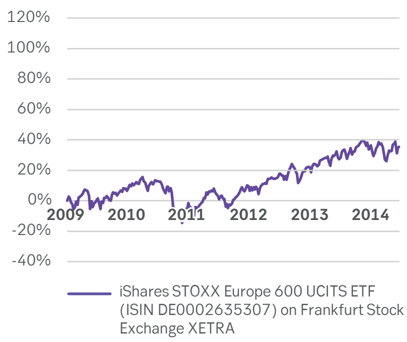
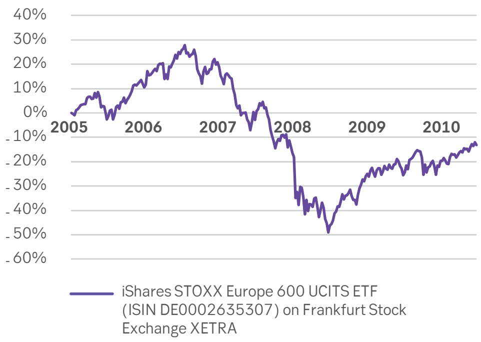


Figure 3. Negative scenario



Source of Figures 1, 2 and 3: Bloomberg. (2017) Bloomberg Professional. Available for a fee (data as at: 21 November 2017).

Fees applied:
- Management fee
- Brokerage fee
- Settlement fee
- Safekeeping fee

More detailed information about the fees is provided in SEB's price list, on the Investor Protection website or in documents concerning the specific security.

Risks

ETF does not guarantee a rate of return. **The higher is the possible return, the bigger is the risk of losing substantial part of initial investment**.

Past performance of ETF is not a reliable indicator of future performance (if the return on investments is positive at some point, there is no guarantee that it will remain such also in future), but it can help to assess the volatility of ETF unit/share price over time.

Market risk is a risk that the client suffers losses due to overall adverse price movement in the securities market or in a certain area thereof. Adverse price movements may be caused, for instance, by poor economic indicators of the relevant state or branch of the economy, unstable economic environment, unstable securities market, etc.

Interest risk is related to the market risk and lies in the fact that the client may suffer losses from adverse developments on the market, which may be manifested in changes in interest rates, interest rate volatility, interest rate gap between investment objects of different risk levels, early repayment of debts, etc. This risk is related to ETFs that are investing in bonds.

Foreign currency risk in the case of investments denominated in a foreign currency there is a risk that the client suffers losses on such investments due to unfavourable changes in the exchange rates of various currencies.

Issuer risk refers to the possibility that the value of the instrument may significantly fall due to the activity of ETF's sponsor.

Liquidity risk is associated with the market risk and lies primarily in the fact that the client may suffer losses due to absence of liquidity in the respective regulated market, which impedes the sale of securities at the time desired by the client or the securities cannot be sold at a price close to the market price or at a price desired by the client. Despite of underlying assets and their liquidity, the ETF unit/share may in some situation become illiquid and therefore selling, buying or redeeming thereof can become complicated or impossible. It is also complicated or impossible to buy, sell or redeem the units/shares of ETFs close to net value level. The possibility to sell the units/shares ETFs is not guaranteed.

Taxation

Income from investments is taxed. An investment account allows Estonian tax residents to postpone the taxation of return on investments. The taxation depends on the investor's tax residency and legal form, but also the income type and several other circumstances. For more specific instructions, consult your tax office or contact a tax advisor.