Q&A

Regarding "Announcement - Interim Change of Investment Strategy, Suspension of Creation, Put options hedging strategy, Roll-over of WTI Futures Contracts in respect of the Index" ("Announcement") of Samsung S&P GSCI Crude Oil ER Futures ETF (3175)

In anticipation of inquiries from investors and the media about the Announcement - Interim Change of Investment Strategy, Suspension of Creation, Put options hedging strategy, Roll-over of WTI Futures Contracts in respect of the Index" ("Announcement") issued by Samsung Asset Management (Hong Kong) Limited ("the Manager") on 3 May 2020 regarding SAMSUNG S&P GSCI Crude Oil ER Futures ETF ("3175"), we have prepared the following Q&A:

Q1: In your "Announcement - One-off and Interim Change of Rolling Strategy" issued on 21 April 2020, you mentioned "The Roll-over (on 21 April 2020 night) is a one-off and interim measure adopted by the Manager in light of the current unusual and extreme market circumstances. Accordingly, after the Roll-over, the Sub-Fund will continue to hold the September 2020 contracts until the normal and scheduled roll-over period in August 2020, upon which the September 2020 contracts will be replaced by October 2020 contracts, as currently described in the Prospectus and in line with the current Index methodology." Why does the Manager carry out another special roll-over and other risk management measures in such short notice? Are there any significant changes in the conditions of crude oil markets?

Ans:

Recent actions by a number of institutions and regulatory bodies affirm the high level of risk associated with exposure to the near-term WTI crude oil futures contracts. The fact that the underlying market is under strain highlights structural issues due to which market participants have to follow enhanced risk management framework.

- CME Group, which operates The New York Mercantile Exchange (NYMEX) on which WTI futures contracts are being traded, updated its systems to process negative prices in April.
- On 24 April 2020, Securities and Futures Commission (SFC) issued "Circular to management companies of SFC-authorized exchange traded funds and to intermediaries - Futures-based ETFs", which reminds ETF managers to "Ensure that the relevant margin obligations are and will be fulfilled in a timely manner for ETFs that invest in futures (in particular, the futures-based ETFs)". (Link)
- On 24 April 2020, SFC issued "Circular to commodity futures brokers Managing financial and operational risks under extreme market conditions", which reminds "all commodity futures brokers to vigilantly control their risk exposures and maintain sufficient resources to deal with the challenges posed by extreme market conditions." (Link)

In response to the new risk factors arising from the recent volatility of the crude oil market and the possibility of negative crude oil prices, the clearing broker for 3175 has adjusted its risk management controls and as a result required a series of enhanced risk management measures to be taken for 3175 in a short notice.

- As per the above-mentioned SFC Circular and the clearing broker's requirements, such measures are mandatory and aimed at managing financial and operational risks under extreme market conditions.
- Such measures are aimed at ensuring the smooth operations and stability of 3175 amidst heightened risks in the oil market.
- The Manager carries out such risk management measures after consulting both the SFC and the trustee.

Q2: At the time of the Announcement, what has happened and what will happen with regard to 3175? When will the whole process be completed?

Ans:

What has happened as of the Announcement:

- **Put Options Hedging Strategy:** On 1 May 2020, the Manager, after consultation with all relevant parties including the Clearing Broker, the Trustee and the SFC, made a decision to purchase a total number of 6,750 crude oil put option September 2020 contracts which are listed on New York Mercantile Exchange with an expiration date on 20 August 2020 ("Put Options").

What will happen after the Announcement:

- **Further rolling of WTI Futures Contracts:** After 4 May 2020 Hong Kong trading hours, 3175, which currently holds September Contracts, will diversify with the ultimate goal to hold approximately one-third in September 2020 Futures Contracts, approximately one-third in October 2020 Futures Contracts and approximately one-third in December 2020 Futures Contracts. This roll-over will take at most 5 trading days to complete depending on market conditions.

- **Suspension of Creation Application:** Creations of 3175 units will be suspended with effect from 4 May 2020 Hong Kong trading hours until further notice pursuant to Clause 6.3(E) of the Trust Deed. Secondary market trading on the SEHK and redemption of the units of 3175 will continue. A further notice will be issued to Unitholders upon the resumption of creations of Units.

Q3: Which WTI Futures contract month does 3175 hold during 4 May, 2020 (Monday) HK trading hours?

Ans:

During HK Trading Hours of 4-May-2020, 3175 holds WTI futures Sep contract. 3175 will commence rollover on 4 May 2020 after the trading hours of The Stock Exchange of Hong Kong Limited.

Q4: You had only rolled to September 2020 West Texas Intermediate crude oil futures contracts ("September Contracts") on 21 April 2020 night. Why do you need to roll further to October and December 2020 West Texas Intermediate crude oil futures contracts ("October Contracts" and "December Contracts") in such short notice?

Ans:

- Generally, far months contracts farther out are generally perceived to have lower volatility historically.
- At the time of the Announcement, October Contracts and December Contracts have greater liquidity than November Contracts or Contracts in 2021.
- Such measures are part of the mandatory measures aimed at managing financial and operational risks under extreme market conditions.
- Such measures are aimed at ensuring the smooth operation and stability of 3175 amidst heightened risks in the oil market.
- The Manager carries out such risk management measures after consulting both the SFC and the trustee.

Q5. Why does the Manager decide to hold 3 contract months instead of just one?

Ans:

In consideration of Clearing Broker's adjusted risk management controls and the heightened volatility of single month contracts, the manager determines to mitigate the concentration risk arising from the holding of a single month WTI Futures Contracts and to diversify the single month contract into multiple months' contract.

Q6: Can the Manager improve communication to the public and allow investors more time to digest the information and take necessary action before any risk management measure is implemented?

Ans:

The Manager strives to continuously improve its communication to the public about its measures. In fact, this Announcement is issued one day before the Roll-over is implemented so that investors have time to take necessary actions, including but not limited to reducing their position in 3175. To the extent practicable, the Manager will provide a sufficient prior notice for any material changes affecting 3175. Under exceptional circumstances where a prior notice is not practicable, however, the Manager will strive to inform investors of any material changes as soon as possible. In any event, the Manager will ensure to consult SFC and the trustee before any material changes are implemented.

Q7. In this new Roll-over, will there be another significant price drop similar the one after the Hong Kong stock market opened on 22 April 2020.

Ans:

As the Manager previously clarified, the Roll-over on 21 April 2020 was not the main cause of the drop in the price of 3175 on 22 April 2020. Instead, it was due to significant price decline of the June Contracts after the close of Hong Kong trading session (4:00 p.m. HKT) on 21 April 2020, as 3175 was still holding the June Contracts before the Rollover.

It is unforeseeable at this point whether September Contracts that 3175 currently hold will have a significant volatility similar to that of the June Contracts on 21 April 2020 before they are rolled to October and December contracts. However, investors are reminded that such risk does exist.

Q8: You had bought put options of September contract. Do you believe the oil price will go down to negative in a foreseeable future?

Ans:

- As previously mentioned, recent actions by a number of institutions and regulatory bodies affirm the heightened risk associated with exposure to the near-term WTI crude oil futures contracts. The fact that the underlying market is under strain highlights structural issues due to which market participants have to follow enhanced risk management framework.
- As per the above-mentioned SFC Circular and the clearing broker's requirements, such measures are mandatory and aimed at managing financial and operational risks under extreme market conditions.
- Such measures are aimed at ensuring the smooth operation and stability of 3175 amidst heightened risk in the oil market.
- The manager carries out such risk management measures after consulting both the SFC and the trustee.

Q9: Have the Manager ensured all relevant procedures are followed before implementing this round of risk management measures?

Ans:

- We have sought legal opinions to ensure that the Rollover arrangement is permitted under the Trust Deed of 3175.
- We have consulted both the SFC and Trustee prior to conducting the Rollover.

Q10: Are there any other ETF managers who did similar rollovers recently?

Ans:

Yes. While the Manager cannot comment on other ETF managers' action or decision, the general trend has been for oil ETFs globally that hold near month contracts to roll to contract months farther out due to the latter's perceived lower volatility historically. Major index providers such as S&P Dow Jones

Indices and Bloomberg have also announced special rollover recently, further confirming the high level of risk associated with exposure to the near-term WTI crude oil futures contracts.

Samsung Asset Management (Hong Kong) Limited

3 May 2020