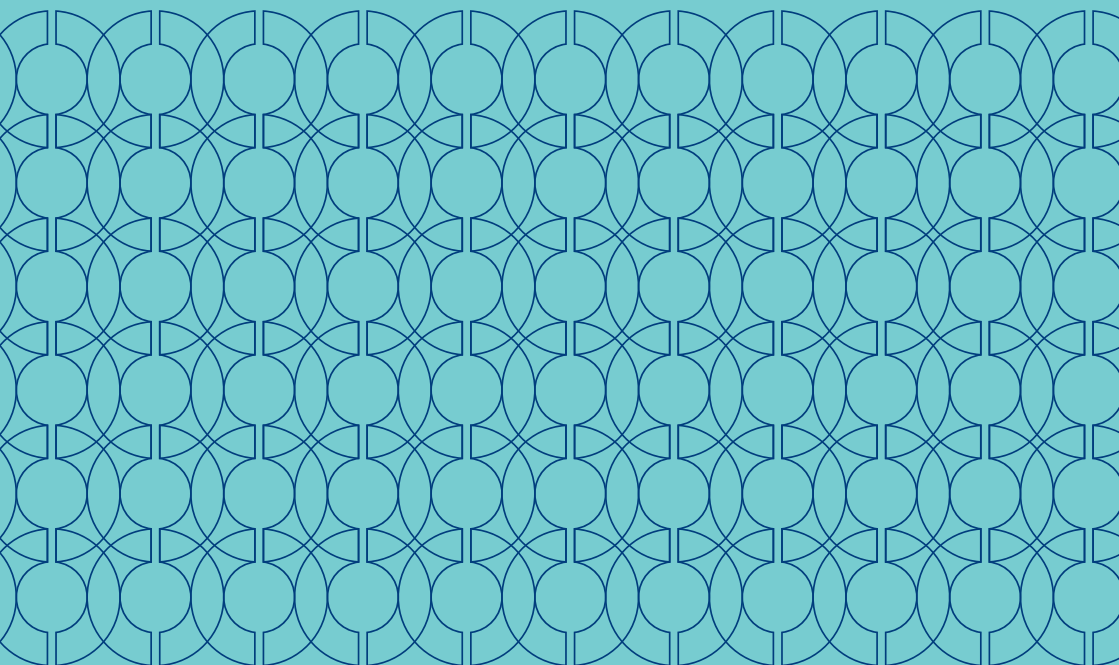


**Schroders**

**Schroder Hong Kong  
Money Market Fund  
Schroder U.S. Dollar  
Money Fund**

**Explanatory Memoranda**

January 2021 Edition  
(Version 1)



Schroder Investment Management (Hong Kong) Limited  
Level 33, Two Pacific Place, 88 Queensway, Hong Kong  
Tel +852 2521 1633 Fax +852 2530 9095  
[www.schroders.com.hk](http://www.schroders.com.hk)

**IMPORTANT: This letter is important and requires your attention. If you have any questions about the content of this letter, you should seek independent professional advice. Schroder Investment Management (Hong Kong) Limited being the manager of the following fund accepts full responsibility for the accuracy of the information contained in this letter and confirms, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement misleading.**

Unless otherwise stated herein, capitalised terms in this letter shall have the same meaning(s) as defined in the explanatory memorandum dated January 2021, as amended ("**Explanatory Memorandum**").

**28 December 2022**

Dear Unitholder

**Schroder Hong Kong Money Market Fund and Schroder U.S. Dollar Money Fund** (each a "**Fund**" and together the "**Funds**")

We are writing to inform you of a change to the Funds. References to "**Fund**" hereafter shall mean each of Schroder Hong Kong Money Market Fund and Schroder U.S. Dollar Money Fund.

**A. Appointment of Schroder Investment Management (Singapore) Ltd as the sub-manager of the Fund**

Schroder Investment Management (Hong Kong) Limited is the Manager of the Fund and currently no sub-manager has been appointed to the Fund. With effect from 30 January 2023 (the "**Effective Date**"), the Manager will appoint Schroder Investment Management (Singapore) Ltd to act as a sub-manager of the Fund ("**Appointment**"). The Manager considers that such appointment will enable the Fund to tap on the strength of Schroder Investment Management (Singapore) Ltd's investment expertise and utilise the investment management resources available within the Schroders group. Accordingly, the Manager considers that the appointment will benefit the unitholders of the Fund as a whole.

Schroder Investment Management (Singapore) Ltd was incorporated in Singapore and has been managing collective investment schemes and discretionary funds since 1992. It is part of the Schroder group and is licensed and regulated by the Monetary Authority of Singapore.

**B. Implication of Changes**

Save as described above, the Appointment will not result in any change to the features and the risk profile of the Funds, and there is no change in the operation and/or manner in which

the Funds are being managed. The Appointment will not result in any material prejudice to or other effects on the rights or interests of unitholders of the Funds.

There will be no increase in the level of fees payable out of the assets of the Funds following the Appointment. The costs incurred in relation to the implementation of the Appointment including legal costs for amending the Explanatory Memorandum (including Product Key Facts Statement) are estimated to be HK\$75,000 for each Fund and will be borne by the Funds.

You are not required to take any action. However, if you would like to redeem your Units, we will execute your instructions in accordance with the provisions of the Explanatory Memorandum. There is currently no redemption charge. Please note that in some countries local paying agents, correspondent banks or similar agents might charge transaction fees.

### **C. Availability of documents**

To reflect the update described above, the Explanatory Memoranda and Products Key Facts Statements of the Funds will be amended, and the same will be available on or after the Effective Date at our website ([www.schroders.com.hk](http://www.schroders.com.hk))<sup>1</sup> or upon request from our office (Level 33, Two Pacific Place, 88 Queensway, Hong Kong) free of charge.

### **D. Enquiry**

If you would like more information, please contact your usual professional advisor or Schroders Investor Hotline on (+852) 2869 6968.

## **Schroder Investment Management (Hong Kong) Limited**

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<sup>1</sup> This website has not been reviewed by the SFC.

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**SCHRODER HONG KONG MONEY MARKET FUND**

**About Schroder Investment Management (Hong Kong) Limited** Schroder Investment Management (Hong Kong) Limited manages a wide range of unit trusts investing in markets worldwide, but with a concentration on South East Asia. The Manager is one of the leading investors on behalf of pension funds, institutional funds and private client portfolios for Hong Kong and international clients.

The ultimate holding company of the Manager is Schroders plc, an international investment group based in London and established in 1804. The Schroder Group worldwide as at 31 December 2019 manages assets of more than US\$662.6 billion.

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## ADMINISTRATION

### Manager

Schroder Investment Management (Hong Kong) Limited  
Level 33, Two Pacific Place  
88 Queensway  
Hong Kong

### Directors of the Manager

Ms. Amy Y.K. Cho (Chairman, Chief Executive Officer)  
Ms. Rena B.L. Tsang  
Ms. Susan S.Y. Soh  
Mr. Glenn R. Wilson  
Mr. Alexander H. McDougall

### Trustee and Registrar

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

### Auditors

PricewaterhouseCoopers  
22/F Prince's Building  
Central  
Hong Kong

### Service Provider

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

### Solicitors to the Manager

Deacons  
5th Floor  
Alexandra House  
18 Chater Road, Central  
Hong Kong

January 2021



**PRELIMINARY INFORMATION** If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial advice.

In particular, nationals or residents of, or persons domiciled in, countries other than Hong Kong should consult their financial advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to acquire units and as to any taxation effects, foreign exchange restrictions or exchange control requirements applicable.

No action has been taken to permit an offering of units of Schroder Hong Kong Money Market Fund (the "Fund") or distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong, where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, units in the Fund may be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised.

Receipt of any document about the Fund does not constitute an offer of units in those jurisdictions in which it is illegal to make such an offer.

Units of the Fund have not been and will not be registered under the United States Investment Company Act of 1940 as amended (the "Investment Company Act"). The units have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") or under the securities laws of any state of the United States of America ("US") and such units may be offered, sold or otherwise transferred only in compliance with the Securities Act and such state or other securities laws. The units may not be offered or sold within the US or to or for the account, of any US Person. For these purposes, "US Person" is as defined in Rule 902 of Regulation S under the Securities Act or the Internal Revenue Code of 1986, as amended including to reflect the provisions of FATCA (the "IR Code").

Rule 902 of Regulation S under the Securities Act defines "US Person" to include inter alia any natural person resident of the US and with regards to investors other than individuals, (i) a corporation or partnership organised or incorporated under the laws of the US or any state thereof; (ii) a trust: (a) of which any trustee is a US Person except if such trustee is a professional fiduciary and a co-trustee who is not a US Person has sole or shared investment discretion with regard to trust assets and no beneficiary of the trust (and no settlor if the trust is revocable) is a US Person or (b) where a court is able to exercise primary jurisdiction over the trust and one or more US fiduciaries have the authority to control all substantial decisions of the trust and (iii) an estate (a) which is subject to US tax on its worldwide income from all sources; or (b) for which any US Person is executor or administrator except if an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with regard to the assets of the estate and the estate is governed by foreign law.

The term "US Person" also means any entity organised principally for passive investment (such as a commodity pool, investment company or other similar entity) that was formed: (a) for the purpose of facilitating investment by a US Person in a commodity pool with respect to which the operator is exempt from certain requirements of Part 4 of the regulations promulgated by the United States Commodity Futures Trading Commission by virtue of its participants being non-US Persons or (b) by US Persons principally for the purpose of investing in securities not registered under the Securities Act, unless it is formed and owned by "accredited investors" (as defined in Rule 501 (a) under the Securities Act) who are not natural persons, estates or trusts.

Pursuant to the IR Code, the term "US Person" means (i) a citizen or resident of the US, (ii) a partnership or other entity treated as a partnership for US federal income tax organized under the laws of the US or any political subdivision thereof, (iii) a corporation or other entity treated as a corporation for US federal income tax purposes organized under the laws of the US or any political subdivision thereof, (iv) an estate the income of which is subject to US federal income tax without regard to its source or (v) a trust, if, either (a) a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to be treated as a US person.

The Fund is not authorised under the United Kingdom Financial Services and Markets Act 2000 (the "FSMA") in the United Kingdom and accordingly this Explanatory Memorandum must not be distributed in the United Kingdom other than to certain categories of person as specified in regulations made under the FSMA. Such categories include certain persons with sufficient expertise such as authorised persons, who understand the risks involved.

Distribution of this Explanatory Memorandum in Hong Kong must be accompanied by the Product Key Facts Statements of the Fund, a copy of the latest available annual report and accounts of the Fund, any subsequent interim report. Units issued after the date of this Explanatory Memorandum are offered on the basis only of the information contained in this Explanatory Memorandum. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorised and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of the units shall not in any way constitute a representation that the information and representations given herein or in such documents are correct as at any time subsequent to the date of this Explanatory Memorandum or such documents.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong (the "SFC"). The SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The Manager accepts full responsibility for the accuracy, as at the date of this Explanatory Memorandum, of the information contained in this Explanatory Memorandum and confirm, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

The issue and redemption of units is not regulated by the provisions of the Banking Ordinance, and is not equivalent to making or withdrawing a deposit with or from a bank or deposit-taking company and the Fund is not subject to the supervision of the Hong Kong Monetary Authority.

## Enquiries and Complaints

Enquiries and complaints concerning the Fund (including information concerning subscription and redemption procedures and the current net asset value of the Fund) should be directed to the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong or by electronic mail at [schroders@schroders.com.hk](mailto:schroders@schroders.com.hk) or by phone at +852 2869 6968.

## SUMMARY

### Principal Features of the Schroder Hong Kong Money Market Fund

- Competitive return – By pooling relatively small amounts of money from a large number of investors access is gained to higher yields usually only available to larger money market investors.
- No currency risk – All investments will be made in Hong Kong dollar denominated assets.
- No dealing charges – There are no charges payable by the investor upon application or redemption of units.
- Security – Investments of the Fund will be in deposits with leading financial institutions, debt securities and other money market instruments.
- Daily dealing.
- Minimum investment is HK\$5,000.
- Access to the specialist investment management expertise of Schroder Group.
- Who should invest? – The Fund will appeal to investors who require:
  - security of investment funds pending a longer term investment decision
  - a higher return through short dated investments
  - ready access to invested funds
  - specialised investment skills in the short term money market

**INVESTMENT POLICY** The Fund aims to provide an investment medium for investors to enjoy the rates available from a managed portfolio of short term and high quality money market investments and seeks to offer returns in line with money market rates combined with a degree of security and ready availability of monies. The Manager's policy will be to invest at least 70% of the Fund's net asset value in a range of short-term deposits and high quality money market instruments and money market funds that are authorised by the SFC under 8.2 of the Code on Unit Trusts and Mutual Funds ("**Code**") or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC. Money market instruments refer to securities normally dealt in on the money markets, for examples, government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptance etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account.

Investments will be limited to HK Dollar short-term deposits and HK Dollar denominated high quality money market instruments with a remaining maturity of less than 397 days, or two years in the case of Government and other public securities, with a weighted average portfolio maturity not exceeding 60 days and a weighted average life not exceeding 120 days.

It is the Manager's present intention to invest in a range of HK Dollar short-term deposits and HK Dollar denominated high quality money market instruments within the maturity limits mentioned above including: –

- deposits with banks and other financial institutions;
- floating rate certificates of deposit issued by banks and other financial institutions;
- fixed rate certificates of deposit issued by banks and other financial institutions;
- bills of exchange, commercial paper or notes issued by any body corporate which has (or the holding company of which has) capital and reserves in excess of HK\$100,000,000;
- bills of exchange, commercial paper or notes unconditionally guaranteed as to principal by any governmental or quasi-governmental institution.

The investment policy will be directed towards the acquisition of short-term deposits and high quality money market instruments which will earn an income for the Fund in line with money market rates and to protect the unit value from fluctuations. Interest rates in the short term money market vary from day to day reflecting changes in the level of money available in the economy and expectations of interest rate trends. The rate of return to investors will therefore fluctuate with these changes.

### Borrowing and Leverage

The Trust Deed permits borrowing on a temporary basis to be used to provide monies to meet redemption requests and to pay operation expenses. The Manager may use this power to borrow but does not intend to gear the Fund.

Borrowing is permitted in an amount not exceeding 10% of the net asset value of the Fund calculated at the immediately preceding Valuation Date.

## Use of Derivatives

The Fund may use financial derivative instruments for hedging purposes only. Accordingly, the Fund is not expected to incur any leverage arising from the use of financial derivative instruments. The Fund's net derivative exposure may be up to 50% of the Fund's latest available net asset value. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.

## Securities Financing Transactions

The Manager currently does not intend to enter into any securities financing transactions in respect of the Fund.

## Change of Investment Policy

The Manager has power to change the investment policy from time to time within the investment restrictions contained in the Trust Deed.

**INVESTMENT RESTRICTIONS** The Trust Deed sets out the investment restrictions of the Fund, and a summary thereof is set out in Schedule 1 of this Explanatory Memorandum.

## RISK FACTORS

**The issue and redemption of units is not regulated by the provisions of the Banking Ordinance, and is not equivalent to making or withdrawing a deposit with or from a bank or deposit-taking company and the Fund is not subject to the supervision of the Hong Kong Monetary Authority. Further, investment in the Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account. It must be recognised that the prices of units depend on the market values of the Fund's investment and may go down as well as up. The Manager has no obligation to redeem units at the issue price originally paid.**

### General risks

- The prices of units depend on the market values of the Fund's investments and such prices as well as the income from units can go down as well as up. Past performance of the Fund does not indicate the future performance. The Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment.

### Market risk

- Investors should be aware that the net asset value of the Units, like securities investments, are subject to market risks and that there is no guarantee against loss nor the Fund's objectives will be achieved. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as actions by various governmental agencies and domestic or international economic and political developments, may cause sharp market fluctuations, which could significantly and adversely affect the results of the Fund and hence the Fund's activities and the value of its investments. In addition, the value of the Fund's portfolio may fluctuate as the general level of interest rates fluctuates.

### Interest rate risk

- The Fund may invest in fixed income securities which are subject to interest rate risk. A fixed income security's value will generally increase in value when interest rates fall and decrease in value when interest rates rise. Certain fixed income securities give an issuer the right to call its securities, before their maturity date, in periods of declining interest rates. The possibility of such "pre-payment risk" may force the Fund to reinvest the proceeds of such investments in securities offering lower yields, thereby reducing the Fund's interest income.

### Credit risk

- The Fund may invest in securities that involve credit risk. Money market instruments involve credit risk to the issuer which may be evidenced by the issuer's credit rating. Money market instruments which are subordinated and/or have a lower credit rating are generally considered to have a higher credit risk and a greater possibility of default than more highly rated securities. In the event that any issuer of money market instruments experiences financial or economic difficulties, this may affect the value of the relevant money market instruments (which may be zero) and any amounts paid on such money market instruments (which may be zero). This may in turn affect the prices of the Fund and in turn affect the net asset value per unit.
- Many emerging market countries have accumulated substantial debt service obligations. This may adversely affect their ability to service their debts and increase the likelihood of their defaulting on their obligations. It should also be noted that investment of any securities issued by corporations may represent a higher credit risk than investment in securities issued by governments.
- The ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint. The rating on an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time the rating is assigned and the time it is updated. In addition, there may be varying degrees of difference in credit risk of securities within each rating category.

**Counterparty, Custody and Settlement risk**

- The Fund may be exposed to credit risk on the counterparties with which they trade in relation to financial instruments that are not traded on internationally recognised exchanges. The Fund will be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which the Fund trades such instruments, which could result in substantial losses to the Fund.
- The Fund may invest in markets where custodial and/or settlement systems are not fully developed. The assets of the Fund that are traded in such markets and which have been entrusted to such sub-custodians may be exposed to risk in circumstances where the custodian will have no liability. The Fund's cash account will usually be maintained on the custodian's records, but the balances may be held by a sub-custodian which poses an additional risk. In addition, in case of liquidation, bankruptcy or insolvency of such sub-custodians, the Fund may take a longer time to recover their assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Fund may even be unable to recover all of its assets. The costs borne by the Fund investing and holding investments in such markets will be generally higher than in organised securities markets.
- The Fund may also be exposed to a credit risk on counterparties with whom they trade securities, and may also bear the risk of settlement default. As the Fund may also directly or indirectly invest in securities in emerging markets where settlement mechanisms are generally less developed and reliable than those in more developed countries. This therefore increases the risk of settlement default which could result in substantial losses for the Fund in respect of investments in emerging markets.

**Liquidity risk**

- Not all securities or investments held by the Fund will be listed or rated or actively traded and consequently liquidity may be low. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at unfavourable prices. The Fund may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity. Moreover, there is no assurance that the liquidity of the Fund will always be sufficient to meet redemption requests as and when made.
- Liquidity risk also exists if sizeable redemption requests are received as the Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests. The Fund may suffer losses in liquidating such investments.

**Valuation risk**

- Valuation of the Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, they may affect the net asset value calculation of the Fund.

**Sovereign debt risk**

- The Fund's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Fund to participate in restructuring such debts. The Fund may suffer significant losses when there is a default of sovereign debt issuers.

**Downgrading Risk**

- There is a risk that investment grade securities that the Fund invests in may be downgraded due to adverse market conditions. In the event of a down-grading of the credit rating of a security or an issuer relating to a security that the Fund invests in, the value of the Fund may be adversely affected. The Manager may or may not be able to dispose of the debt instruments that are being downgraded.

**Credit rating risk**

- Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

**Concentration risk**

- The Fund will invest primarily in HK Dollar instruments. The Fund is therefore likely to be more volatile than a broad-based fund that adopts a more diversified strategy.

**Investor risk**

- Substantial redemptions of units (which are more likely to occur in adverse economic or market conditions) could require the Manager to liquidate investments of the Fund more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions and to achieve an appropriate position. This could adversely affect the net asset value of both units being redeemed and of existing units.

- The Manager is entitled under certain circumstances specified in the Trust Deed to suspend dealings in the units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the units during the period up to the redemption of the units is borne by the redeeming unitholders.
- If, in the opinion of the Manager or the Trustee, units held by any unitholder is in contravention of any laws or regulations or under such other circumstances specified in the Trust Deed, the Manager is entitled to compulsorily redeem all or a portion of the unitholder's units in the Fund. Such compulsory redemption may create adverse tax and/or economic consequences to the unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon any termination of the Fund, compulsory redemption or otherwise.

### **Risk of termination of the Fund**

In the event of the early termination of the Fund, the Fund would have to distribute to the unitholders their pro rata interest in the assets of the Fund. It is possible that at the time of such sale or distribution, certain investments held by the Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the unitholders. Moreover, any organisational expenses with regard to the units that had not yet become fully amortised would be debited against Fund's capital at that time.

### **Foreign Account Tax Compliance Act ("FATCA") related risks**

- The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund. Provided that the Fund acts in accordance with the provisions it will not be subject to withholding tax under FATCA.
- Although the Manager will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA penalty withholding on the Fund, no assurance can be given that the Manager will be able to achieve this and/or satisfy such FATCA obligations. If the Fund becomes subject to a FATCA penalty withholding as a result of the FATCA regime, the value of the units held by unitholders may be adversely affected and unitholders may suffer material losses.
- Unitholders should seek independent professional advice regarding the FATCA requirements with respect to their own situation. In particular, where investors invest in or hold units of the Fund through an intermediary, nominee or custodian, investors are recommended to check whether such intermediary, nominee or custodian is FATCA compliant and any possible FATCA implications.

Prospective investors should consult with their own advisors before deciding to invest in the Fund.

**MANAGEMENT AND ADMINISTRATION** The Manager of the Fund is Schroder Investment Management (Hong Kong) Limited and is licensed by the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. The Manager is not subject to any licensing conditions in respect of its aforementioned licenses for regulated activities pursuant to the Securities and Futures Ordinance.

The Manager undertakes the management and administration of the Fund, including communication with unitholders and conduct of meetings, and in conjunction with the Trustee is responsible for the maintenance of accounts and records in compliance with the Trust Deed and the laws of Hong Kong.

With almost forty years of investment experience in Asia Pacific the Schroder Group is able to offer particular expertise in the management of specialist Asian portfolios and is able to draw on the worldwide resources of the Group with offices and research analysts based throughout the region.

The Manager is adviser to or manager of other Hong Kong authorised unit trusts and investment portfolios of institutional, private and retirement fund clients in Asia and elsewhere. The Schroder Group worldwide manages assets of over US\$662.6 billion as at 31 December 2019 in London, Luxembourg, New York, Zurich, Australia, Hong Kong, Japan and Singapore and other investment centres around the world.

**TRUSTEE** The Trustee of the Fund is HSBC Institutional Trust Services (Asia) Limited which is incorporated with limited liability in Hong Kong on 27 September 1974. It is an indirect wholly-owned subsidiary of HSBC Holdings plc. It is registered as a trust company under the Hong Kong Trustee Ordinance and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance. The Trustee has delegated certain of its functions as registrar to The Hongkong and Shanghai Banking Corporation Limited (the "Service Provider").

Under the Trust Deed and subject to the provisions therein, the Trustee is responsible for the safe-keeping of the assets of the Fund (which shall accordingly be dealt with for the purposes and, where appropriate, insured as the Trustee may think fit) and shall take into custody or under the Trustee's control all property, cash and other assets forming part of the Trust and hold them in trust for the unitholders of the Trust in accordance with the provisions of the Trust Deed. The Trustee shall in respect of any property which by nature cannot be held in custody, maintain a proper record of such property or asset in its books under the name of the Trust.

The Trustee (i) shall exercise reasonable care, skill and diligence in the selection and ongoing monitoring of agents, nominees, delegates, custodian, co-custodian or sub-custodian which are appointed for the custody and/or safekeeping of any property, cash, assets or other property comprised in the Trust (each a “Correspondent”), (ii) shall be satisfied that each Correspondent retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Trust, and (iii) shall, subject to the provisions of the Trust Deed, remain liable for any act or omission of any Correspondent which is a connected person of the Trustee with or to whom or in whose names any investment (including an investment in bearer form) or cash forming part thereof has been lodged, deposited, transferred or registered as if the same were the act or omission of the Trustee, but provided that if the Trustee has discharged its obligations set out in (i) and (ii) hereinabove, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent that is not a connected person of the Trustee. The Trustee may empower any custodian or co-custodian appointed by it to appoint, subject to prior written consent of the Trustee, sub-custodians in accordance with all applicable laws and regulations.

HSBC group has adopted a policy of compliance with the sanctions issued by The Office of Foreign Assets Control of the US Department of the Treasury. The Trustee and its delegates will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control of the US Department of the Treasury.

The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed.

The Trustee is entitled to the fees set out below under the section headed “Charges and Fees” and to be reimbursed for any sub-custodians’ fees and expenses.

If the Trustee or its delegates (which may be affiliates of the Trustee) shall act as banker in respect of Fund then it shall be entitled to retain all normal banking profit and benefits; in the event that the Trustee or its delegates shall act as custodian or broker for the purchase and sale of investments, then it shall be entitled to charge and retain all normal fees and expenses.

The Manager has sole responsibility for making investment decisions in relation to the Fund. Subject to the duty to ensure that investment and borrowing limitations of the Fund are complied with as required by the Code, the Trustee (including its delegate) is not responsible or has any liability for any investment decision made by the Manager. Neither the Trustee, nor its delegate acts as guarantor or offeror of the Units or any underlying investment of the Fund.

**TYPE OF UNITS** There is only one class of units in issue.

**APPLICATION FOR UNITS** To purchase units an investor should: –

- a) complete the application form enclosed with this Explanatory Memorandum and return it to the Manager (details of which as set out in the application form); or
- b) fax an order to the Manager (details of which as set out in the application form).

Fax orders must always be followed by an original completed application form unless the investor already holds units in the Fund or units/shares in other funds managed or distributed by the Manager and has already made arrangements with the Manager to allow orders to be made via facsimile instructions without the same being followed by original orders. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a unitholder or an investor for any loss resulting from non-receipt of any orders sent by facsimile.

Applications may also be sent through an investment adviser.

Units may be acquired on any Valuation Date at the issue price without any initial or dealing charge.

Applications should be made on, and in accordance with the instructions on the application form and be received by the Manager by 10 a.m. Hong Kong time if they are to take effect on the next business day. The minimum investment for initial or subsequent investments is HK\$5,000.

The issue of units is at the discretion of the Manager. Each applicant whose application is accepted will be sent a contract note by the Manager confirming details of the purchase of units.

Payments should be made in HK dollars together with the application.

Monies can be paid by telegraphic transfer to the relevant accounts as set out in the application form or may be paid by cheque in accordance with instructions on the application form. It should be noted that there may be delay in receipt of cleared funds if payment is made by cheque or banker’s draft compared to payment by telegraphic transfer. Any costs of transfer of application monies to the Fund will be payable by the applicant.

The applicant should quote the name of the Fund and applicant’s details in the remittance instructions.

No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 regulated activity under Part V of the Securities and Futures Ordinance.

All holdings will be registered but certificates are not issued. Evidence of title will be the entry on the Register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of units correct to the nearest two (2) decimal places will be issued. The Manager reserves the right to reject any application in whole or in part. A maximum of 4 persons may be registered as joint unitholders.

**TIME OF ISSUE OF UNITS** The date of issue of a unit will depend on the time of receipt of the application by the Manager and method of payment. Applications must be received no later than 10 a.m. on a Valuation Date if units are to be issued on that day. If the Manager's receipt of the application form is later than 10 a.m. then units will be issued on the next Valuation Date.

Applications will generally be accepted only if cleared funds have been received **on or prior** to the Valuation Date on which units are otherwise to be issued. In such case, the method of payment may affect the time of issue of units.

Payment should be made in HK dollars by telegraphic transfer or by a cheque or bankers' draft denominated in HK dollars and drawn on a bank account in Hong Kong, the units will normally be issued on the Valuation Date after the Manager receives the application form. If for any reason, delay occurs in receipt of cleared funds then the time of issue of units will be delayed.

Payment in cleared funds is generally due prior to issue of units. However if units are issued without cleared funds having been received and payment in full has not been received within 3 business days of the relevant Valuation Date, an application for units will be cancelled and considered void.

**REDEMPTION OF UNITS** Units may be redeemed on any Valuation Date at their redemption price on application to the Manager. Redemption notices must be received by the Manager by 10 a.m. Hong Kong time on a Valuation Date to take effect on the next business day. Application should be made on the form available from the Manager by post or by fax to the Manager, or through one of the intermediaries authorised for this purpose. Please see also "Anti-Money Laundering Regulations". Partial redemptions are allowed provided that the value of such unitholder's remaining holding of units is not less than HK\$5,000. There is no redemption charge.

Investors should be reminded that if they choose to send notices of redemption by fax, they bear their own risk of the notices not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the notices. Neither the Manager nor the Trustee shall be responsible to a unitholder for any loss resulting from non-receipt of any redemption request sent by facsimile.

Redemption monies are remitted by telegraphic transfer within 6 business days after the relevant Valuation Date and upon receipt of all properly completed documentation. Redemption proceeds will be paid to the registered unitholder requesting such redemption only and will not be paid to third parties.

Arrangements can also be made for unitholders wishing to redeem their units to receive payment in most other major currencies. The cost of currency conversion where payment is to be other than in the currency of denomination of the Fund will be payable by the unitholder. These costs will be deducted from the redemption proceeds and the net sum paid to the unitholder.

If the Manager receives redemption requests on any one Valuation Date in excess of 10% of the units in issue, the Manager may elect to calculate the redemption proceeds by reference to the actual net proceeds of sale of the appropriate proportion of the Fund's assets added to a similar proportion of the cash forming part of the Fund's capital.

The Trust Deed allows the Manager with the approval of the Trustee to give notice to such person requiring him to transfer such units to a person who is not an Unqualified Person (as defined below) or to give a request of redemption of such units within the relevant time specified in the notice and the Trustee shall be entitled to redeem the units in accordance with this Explanatory Memoranda and Trust Deed. The unitholders shall have no claim in respect of the units save the receipt of the proceeds of redemption (without interest). "Unqualified Person" means a person who by virtue of any law or requirement of any country or governmental authority is not qualified to hold a unit or who would be in breach of any such law or regulation in acquiring or holding a unit if, in the opinion of the Manager, the holding of a unit by such person might result in the Fund incurring liability to taxation or suffering a pecuniary disadvantage which the Fund might not otherwise have incurred or suffered, or might result in the Fund, the Manager or any of its connection persons or the Trustee or any of its connected persons being exposed to any liability, penalty or regulatory action.

**SWITCHING BETWEEN FUNDS** The Manager offers a number of other unit trusts and mutual funds with different investment objectives. Unitholders switching from one fund to another will be generally given, at the discretion of the Manager, discounts on the initial charge (currently up to 5% of the switching amount) which may otherwise apply. A switch is an instruction for a redemption of units or shares in a fund and application of the redemption proceeds to purchase units or shares in another fund and therefore the provisions on application and redemption for the relevant funds generally apply. Acceptance of switching instructions will be subject to the availability of the fund to be switched in (the "New Fund") and to the compliance with any eligibility requirements and/or other specific conditions attached to the New Fund such as minimum subscription and holding amounts.

For switches between funds managed or distributed by the Manager and generally available to investors, save for switches into funds dealt with on a cleared fund basis (for example money funds), switches are normally effected by redeeming units or shares in the fund to be switched out (the "Original Fund") on the dealing day on which the redemption would occur and subscribing into units or shares of the New Fund on the same day, provided that the availability of pricing and the applicable dealing days and settlement periods of both funds match. However, if the availability of pricing, dealing days or settlement periods of the Original Fund and the New Fund do not match, subscription to the New Fund may be deferred to align the settlement dates of both funds. In no circumstances the settlement date of the subscription to the New Fund will precede the settlement date of the redemption of the Original Fund.

For switches into a fund dealt with on a cleared fund basis, cleared funds are needed before units or shares will be issued. The time of issue of the units or shares in the fund will thus depend on the time of receipt of the redemption proceeds in cleared funds from the Original Fund.

In the cases where dealing of the Original Fund and/or the New Fund is suspended, the processing of the switch will be held over until the next dealing day where the dealings are no longer suspended. The switching procedures described above will continue to apply.

Investors are reminded to read the offering document of the fund into which they wish to switch (available on request from the Manager) before investing.

## CHARGES AND FEES

- a) **Initial Charge** There is currently no initial charge payable on the issue of new units. The Trust Deed permits a charge of 5% of the net asset value but the Manager has currently waived this in full.

The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the initial charge received by it on the value of relevant business introduced to the Fund.

- b) **Manager's Fee** The Manager is paid a fee out of the assets of the Fund, calculated on each Valuation Date which accrues daily and is payable monthly in arrears currently at the rate of 0.25% p.a. of the net asset value of the Fund. The maximum permissible charge under the Trust Deed is 0.75% p.a. of the gross value of the Fund. The fee may be increased by 3 months' notice to unitholders subject to the maximum.

The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the manager's fee received by it on the value of relevant business introduced to the Fund.

- c) **Trustee's Fee.** The Trustee is paid a fee of 0.05% p.a. of the net asset value of the Fund calculated on each Valuation Date which accrues daily, and is payable monthly in arrears, subject to an annual minimum fee of USD 20,000. The Trust Deed permits a maximum charge of 0.25% p.a. of the gross asset value of the Fund. The fee may be increased by 3 months' notice to unitholders (subject to the maximum) and with the consent of the Manager.

The Trustee is also entitled to receive a fee for acting as registrar but at present makes no charge.

**EXPENSES** The costs, charges and expenses borne by the Fund, in addition to the Manager's fee, the Trustee's fee and Registrar's fee are those in connection with the registration of unitholders, investing and realising the assets of the Fund, taxation in respect of income, holdings or dealings of the assets of the Fund, the safe keeping or custody of investments including fees and charges of any custodian or sub-custodian, expenses incurred in the collection of income, any interest payable by the Fund, stamp duty and fiscal charges payable in respect of the Trust Deed, the registrar's costs (including Service Provider's costs currently charged at a rate of 0.02% p.a. of the Fund's net asset value), the costs of publishing unit prices and costs incurred in preparing and publishing reports and other communications to unitholders. The Fund will also bear all postage, telex, telephone and facsimile costs incurred by the Manager in obtaining investment advice, the cost of establishing and administering any company which holds assets of the Fund, fees and expenses of any representative in any jurisdiction in which units are distributed appointed to satisfy any regulatory requirement in that jurisdiction and all foreign exchange costs and expenses incurred in connection with the investment of assets of the Fund and the changing and realising thereof. The Fund also bears legal expenses incurred by the Manager or the Trustee in connection with any supplemental deed giving effect to an alteration, modification or variation of the Trust Deed necessary to facilitate compliance with any fiscal or other statutory, regulatory or official requirement or in connection with the interpretation or amendment of the Trust Deed, costs of holding unitholders' meeting, the costs and expenses of auditing the Fund and any other administrative costs relating to the Fund. Any other costs, charges and expenses incurred in connection with the management and trusteeship of the Fund are paid on their own account by the Manager or the Trustee. The Manager's and Trustee's fees are calculated and payable in HK dollars.

The Manager guarantees in the Trust Deed that the aggregate of all fees and expenses payable out of the Fund accruing on any day will not exceed 1.25% p.a. of the gross value of the Fund on that day unless the excess results from any change in law after the date of the Trust Deed. If the fees/expenses would exceed the limit, the excess is payable by the Manager.

The preliminary expenses in relation to the set up of the Fund have already been fully amortised.

The Fund will generally pay brokerage at customary institutional full service brokerage rates. Transactions of the Fund may be entered into through associates of the Manager. The Manager, the investment delegate (if any) and any associates of them will not receive cash or other rebates from brokers or dealers in respect of transactions from the Fund. The Manager may enter into soft commission arrangements for the provision to the Manager or associates provided that (a) the goods and services are of demonstrable benefit to unitholders; (b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full service brokerage rates; (c) periodic disclosure is made in the Fund's annual report in the form of a statement describing the soft commission policies and practices of the Manager or the investment delegate, including a description of goods and services received by them; and (d) the availability of soft commission arrangements is not the sole or primary purpose to perform or arrange transaction with such person.

**VALUATION AND PRICE CALCULATION** Valuation Dates are normally every day on which the stock exchange and banks in Hong Kong are open for business ("Valuation Date"). On each Valuation Date, the net asset value of the Fund will be calculated. Issue and redemption prices are the net asset value per unit in HK dollars as at the time at which the Fund is valued on the Valuation Date on which the application or redemption is being effected. The net asset value per unit is rounded to the nearest four (4) decimal places to give unit prices.



In calculating the net asset value of the Fund, money market instruments having a maturity of less than 12 months will be valued during the period for which they are held by the Fund at the value on the date of acquisition calculated on a yield to maturity basis. Generally the face value of deposits is used, deeming interest or similar income to accrue from day to day and taking the mid-market price where available, and if not the last traded price of any quoted investments held by the Fund as at the close of business immediately prior to the time of valuation on the appropriate market. The Manager may, with the prior consent in writing of the Trustee, permit some other method(s) of valuation to be used if it considers that the use of such other method(s) is required to reflect the fair value of the Fund's assets including where it considers that the existing valuation methods appear impossible or inappropriate due to extraordinary circumstances or events.

Any latest time for receipt of applications and redemption requests may be changed from time to time by the Manager and in the case of Valuation Dates with the approval of the Trustee. The Manager will usually give notice of such changes to the Trustee and Unitholders and will normally give one month's notice of any change in Valuation Dates.

The Manager may deal in units, and subscriptions and redemptions may accordingly at the Manager's discretion be either for direct account of the Fund or sales or purchases by the Manager.

The Manager may, with the prior consent in writing of the Trustee, adjust the value of any investment of the Fund if it considers that such adjustment is required to reflect the fair value thereof and may in making such adjustment have regard to currency, applicable rate of interest, maturity, marketability and other relevant considerations.

**TAXATION** *The below summary is based on the Manager's understanding of the law and practice currently in force as at the date of this Explanatory Memorandum and applies to investors acquiring units in the Fund as an investment. Each prospective unitholder should inform himself of, and where appropriate take professional advice on, the taxes applicable to the acquisition, holding and redemption of units by him under the laws of the places of his citizenship, residence and domicile. Neither the Fund nor any of its respective affiliates accepts any responsibility for providing tax advice to any prospective unitholder.*

Under the prevailing Hong Kong tax legislations and practices: –

**The Fund** The Fund should be exempt from profits tax, in respect of its authorised activities, in Hong Kong upon authorisation as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance.

**Unitholders** Profits arising on the disposal or redemption of any units should only be subject to Hong Kong profits tax for unitholders who carry on a trade or business in Hong Kong where the profits, not being regarded as capital in nature, arise from such trade or business and are sourced in Hong Kong. Unitholders who do not carry on a trade or business in Hong Kong should not be liable to Hong Kong profits tax in respect of any gains from the disposal or redemption of such units.

Distributions received by unitholders from their investments in the units generally should not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise).

There is no withholding tax on dividends and interest in Hong Kong.

Dividends, interest and other income received by the Fund from outside Hong Kong may be subject to withholding taxes in the country from which payment is made. Such taxes will not normally be recoverable by the Fund, though they may be recoverable by individual unitholders who are able to claim the benefit of appropriate double taxation relief.

### Stamp Duty

No Hong Kong stamp duty is payable on the issue and redemption for extinguishment of the units. Hong Kong stamp duty is also not payable if the sale of the units is effected by the Manager, who then either extinguishes the units or re-sells the units to another person within two months thereof. Other types of sales or purchases or transfers of the units by the unitholders will be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and seller) of the higher of the consideration amount or market value.

### US Tax Reporting Obligations under FATCA

The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund.

The Fund intends to comply with the provisions of FATCA under the terms of the inter-governmental agreement ("IGA") Model II that has been entered into between US Treasury and Hong Kong Government on 13 November 2014 and under the terms of the Hong Kong legislation implementing the IGA when introduced rather than under the US Treasury Regulations implementing FATCA. The Manager as the sponsoring entity has included the Fund in the list of funds sponsored by it.

In order to comply with its FATCA obligations, from 1 July 2014 the Fund may be required to obtain certain information from its investors so as to ascertain their US tax status. If the investor is a specified US person under the provisions of FATCA, U.S. owned non-U.S. entity, non-participating FFI or does not provide the requisite documentation, the Fund will need to report information on these investors directly to the IRS. Provided that the Fund acts in accordance with these provisions it will not be subject to withholding tax under FATCA.

## Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The AEOI requires financial institutions ("FI") in Hong Kong to collect information relating to account holders, and to file such information as relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("IRD") who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships ("Reportable Jurisdictions"); however, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund and/or its agents shall collect and provide to the IRD tax information relating to unitholders and prospective investors.

The AEOI rules as implemented by Hong Kong require the Fund to, amongst other things: (i) register the Fund's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e. unitholders) to identify whether any such accounts are considered "Reportable Accounts" for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant Reportable Jurisdiction(s). Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in Reportable Jurisdiction. Under the Ordinance, details of unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

By investing in the Fund and/or continuing to invest in the Fund, unitholders acknowledge that they may be required to provide additional information to the Fund, the Manager and/or the Fund's agents in order for the Fund to comply with AEOI. The unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

Each unitholder and prospective investor should consult its own professional advisor(s) on the administrative and substantive implications of AEOI on its current or proposed investment in the Fund.

**LIQUIDITY RISK MANAGEMENT** The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Fund and to ensure that the liquidity profile of the investments of the Fund will facilitate compliance with the Fund's obligation to meet redemption requests. Such policy, combined with the liquidity management tools of the Manager, also seeks to achieve fair treatment of unitholders and safeguard the interests of remaining unitholders in case of sizeable redemptions.

The liquidity risk management of the Fund is an integral part of investment management process and is operated under Schroders' investment risk management framework. The oversight of the liquidity risk management function will be performed by the investment risk function which is part of Schroders Group Risk. A liquidity report will be generated by Group Risk monthly. The results of the oversight will be reported to a risk management committee consisting of responsible officers, management and senior staff from Compliance, Investment and Operational and Risk on a regular basis. Exceptions on liquidity risk related issues will be escalated to the risk management committee.

The Manager would regularly assess the liquidity of the Fund's assets under the current and likely future market conditions. The Manager's liquidity policy takes into account the investment strategy; the liquidity profile; the redemption policy; the dealing frequency; the ability to enforce redemption limitations and the fair valuation policies of the Fund. These measures seek to ensure fair treatment and transparency for all investors.

The liquidity management policy involves monitoring the profile of investments held by the Fund on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section headed "REDEMPTION OF UNITS", and will facilitate compliance with the Fund's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of the Fund under normal and exceptional market conditions.

**SUSPENSION OF DEALINGS** The Manager may at any time, with the consent of the Trustee, having regard to the best interests of Unitholders, suspend the right of unitholders to require the redemption of units and will at the same time cease to issue units in any of the following circumstances: -

- a. when any relevant market on which any material part of the Fund's investment are listed, quoted or dealt in is closed other than for ordinary holidays; or
- b. when dealings on any such market are restricted or suspended; or
- c. when a state of affairs exists as a result of which the acquisition or disposal of investments, or the making or uplifting of deposits, for account of the Fund cannot be effected normally or without seriously prejudicing the interests of unitholders; or
- d. when there is a breakdown in the means of communication normally employed in determining the value of the Fund or any material part thereof or when, for any other reason, the value of any of the Fund's investments which represents a significant part of the value of the Fund, or the amount of any significant liability of the Fund, cannot be promptly and accurately ascertained; or

- e. when the realisation of any of the Fund's investments or deposits or the transfer of funds involved in such realisation cannot be effected at normal prices or normal rates of exchange.

Whenever the Manager declares such a suspension it shall immediately notify the SFC of such suspension and shall, immediately following such declaration and at least once a month during the period of such suspension, cause a notice to be published on the Schroders' Internet site ([www.schroders.com.hk](http://www.schroders.com.hk)) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC.

**REPORTS AND ACCOUNTS** The Fund's financial year end is on the 31 December in each year. Audited accounts in HK dollars will be made available to unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited semi-annual reports will also be made available within two months after the 30 June in each year. Such reports contain a statement of the net asset value of the Fund and of the investments composing its portfolio.

The Manager will notify unitholders when such accounts (accompanied by the required reports), in printed and electronic forms are available and where such accounts may be obtained. Copies of audited accounts and unaudited semi-annual reports may be obtained free of charge at the registered office of the Manager and from the Schroders' Internet site ([www.schroders.com.hk](http://www.schroders.com.hk)). The website has not been reviewed by the SFC. Copies of the accounts and reports may be posted to investors on request.

**DISTRIBUTION OF INCOME** The income received on the deposits or other assets of the Fund will be accumulated. This income is reflected in the value of units and no distributions will be paid.

**VOTING RIGHTS** Meetings of unitholders may be convened by the Manager or the Trustee, and the unitholders of 10% or more of the units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting.

The powers of such a meeting are to (i) to increase the Manager's and/or Trustee's fees; (ii) to terminate the Fund in certain circumstances and (iii) to sanction a modification, alteration or addition to Trust Deed as approved by the Manager and Trustee.

The quorum for all meetings is unitholders present in person or by proxy holding or representing 10% (or, for the purposes of passing an Extraordinary Resolution 25%) of the units in issue, or (in the case of an adjourned meeting of which separate notice will be given) such unitholders as are present in person or by proxy. On a show of hands, every individual unitholder present personally or by representative has one vote; on a poll every unitholder present in person, by proxy or by representative has one vote for every unit held by him and a further fraction of a vote proportionate to any fraction of a Unit held by him. In the case of joint unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register. A poll may be demanded by the Chairman or one or more unitholders present in person or by proxy representing 5% of the units in issue.

**PUBLICATION OF PRICES** The net asset value per unit on each Valuation Date at which Units are issued and redeemed are published on the Schroders' Internet site ([www.schroders.com.hk](http://www.schroders.com.hk)) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC. Prices are normally the latest available prices but are indicative only.

**TRUST DEED** The Fund was established under Hong Kong law by a trust deed dated 17 June 1986 (as amended from time to time) and made between Schroders Asia Limited as Manager, Bermuda Trust (Far East) Limited as Trustee and HSBC Bank Bermuda Limited as Alternate Trustee, which has been substituted by a consolidated trust deed dated 15 December 2008 made between Schroder Investment Management (Hong Kong) Limited as Manager, Bank of Bermuda (Cayman) Limited as Trustee and HSBC Bank Bermuda Limited as Alternate Trustee (the "Trust Deed"). Since the Fund was established, the Manager and the Trustee have changed. HSBC Institutional Trust Services (Asia) Limited became the Trustee with effect on 30 June 2014 pursuant to a deed of retirement and appointment dated 1 May 2014, while Schroder Investment Management (Hong Kong) Limited became the Manager with effect on 1 January 1995 pursuant to a supplemental deed dated 28 February 1995. The Alternate Trustee retired with effect from 13 December 2019 pursuant to a deed of variation and retirement of alternate trustee dated 24 October 2019.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. In the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed prevail.

Copies of the Trust Deed as for the time being in force may be obtained from the Manager at a cost of HK\$500 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

**TERMINATION OF THE FUND** The Fund may be terminated by the Trustee if within six months of the Manager leaving office no new Manager is appointed or if the Trustee wishes to retire and no replacement is found within six months or if the Manager goes into liquidation. The Trustee may also terminate the Fund if the Trustee is of the opinion that the Manager is incapable of or fails to perform its duties satisfactorily or brings the Fund into disrepute or does anything harmful to the interests of unitholders. The Manager may terminate the Fund if for any six month period the gross asset value of the Fund shall be less than HK\$100 million or if any law is passed which renders it illegal or in the opinion of the Manager impractical or inadvisable to continue the Fund. The party terminating the Trust in the above circumstances shall give notice of at least six months to unitholders. The Manager or the Trustee may terminate the Fund by not less than one year's notice so as to expire at 31 December 1997 or any fifteen years thereafter. The Fund may be terminated at any time after 31 December 1997 or at any time for the purpose of amalgamation if so authorised by unitholders by Extraordinary Resolution. Such termination will take effect from the date on which the Resolution is passed or such later date (if any) as the Resolution may provide.

Any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve months from the date upon which the same were payable, be paid into court subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

**ANTI-MONEY LAUNDERING REGULATIONS** As part of the Trustee and Registrar's responsibility for the prevention of money laundering, the Trustee and Registrar may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where: –

- (a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or
- (b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

The Trustee and Registrar reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and Registrar may refuse to accept the application and the subscription monies relating thereto.

**CONFLICTS OF INTEREST** The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund.

The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest. If such conflicts arise, the Manager and the Trustee will use reasonable endeavours to resolve such conflicts fairly (having regard to its respective obligations and duties) and acts in the best interests of the unitholders. In any event, the Manager shall act in a manner which it believes to be equitable in its allocation of investment opportunities among other funds, other investment vehicles it manages or advises and the accounts of its other clients and ensure that all investment opportunities will be fairly allocated. The Manager will also have regard to its obligations to act in the best interests of the unitholders when undertaking any investments where potential conflicts of interests may arise. The Manager will ensure that all transactions are effected in good faith at arm's length and in the best interests of the Fund on normal commercial terms.

The Manager may enter into trades for the account of the Fund with the accounts of other clients of the Manager or its affiliates ("cross trades"). Such cross trades will only be undertaken where the sale and purchase decisions are in the best interests of both clients and fall within the investment objective, restrictions and policies of both clients, the cross trades are executed on arm's length terms at current market value, and the reasons for such cross trades are documented prior to execution. Cross trades may also be entered into between house accounts (i.e. account owned by the Manager or any of its connected persons over which it can exercise control and influence) and client accounts in accordance with applicable laws and regulations.

In particular, the services of the Trustee, the Registrar and their respective delegates provided to the Fund are not deemed to be exclusive and each of the Trustee, the Registrar and their respective delegates shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other moneys payable thereby and neither of them shall be deemed to be affected with notice of or to be under any duty to disclose to the Fund any fact or thing which comes to the notice of any of them in the course of their rendering similar services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed.

## **SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS**

The Fund shall be subject to the investment restrictions set out in this Schedule save to the extent that any approval, permission or waiver in respect of any of the below restrictions has been obtained from the SFC or otherwise provided under the Code (as defined below), handbook, code and/or guideline issued by the SFC from time to time.

### **Definitions**

The following defined terms used in this Schedule 1 have the following meanings:

**"Government and other public securities"** means any investment issued by, or the payment of principal and interest on which is guaranteed by a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.

**"money market instruments"** means securities normally dealt in on the money markets, including without limitation government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances.

**"Qualified Exchange Traded Funds"** means exchange traded funds that are: (a) authorized by the SFC under 8.6 or 8.10 of the Code; or (b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and products features of which are substantially in line with comparable with those set out under 8.10 of the Code.

**"REITs"** means real estate investment trusts.

**"reverse repurchase transactions"** means transactions whereby the Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.

**"sale and repurchase transactions"** means transactions whereby the Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future.

**"securities financing transactions"** means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

**"securities lending transactions"** means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee.

**"substantial financial institution"** means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HKD 2 billion or its equivalent in foreign currency.

## 1. Investment limitations applicable to the Fund

No holding of any security may be acquired for or added to the Fund which would be inconsistent with achieving the investment objective of the Fund or which would result in:

- (a) the aggregate value of the Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available net asset value of the deposited property:
  - (i) investments in securities issued by that entity;
  - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 4.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

- (A) transacted on an exchange where the clearing house performs a central counterparty role; and
- (B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1;

- (b) subject to sub-paragraphs 1(a) and 4.4(c) of this Schedule 1, the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available net asset value of the deposited property:
  - (i) investments in securities issued by those entities;
  - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of sub-paragraphs 1(b) and 1(c) of this Schedule 1, "entities within the same group" means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards.

The requirements under this sub-paragraph 1(b) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1;

- (c) the value of the Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available net asset value of the deposited property provided that the 20% limit may be exceeded in the following circumstances:
  - (i) cash held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested;
  - (ii) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
  - (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

For the purposes of this sub-paragraph 1(c), "cash deposits" generally refer to those that are repayable on demand or have the right to be withdrawn by the Fund and not referable to provision of property or services;

- (d) the Fund's holding of any ordinary shares (when aggregated with all other of the Fund's holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity;
- (e) the value of the Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a recognised market, exceeding 15% of the latest available net asset value of the deposited property;
- (f) the value of the Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available net asset value of the deposited property (save that the Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise; and

- (g) (i) the value of the Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorised by the SFC in aggregate exceeding 10% of its latest available net asset value; and

(ii) the value of the Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available net asset value unless the underlying scheme is authorised by the SFC, and the name and key investment information of the underlying scheme are disclosed in the offering document of the Fund,

provided that:

- (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;
- (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;
- (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its connected persons; and
- (E) the Manager or any person acting on behalf of the Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

- (aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by the Fund;
- (bb) the investment by the Fund in a Qualified Exchange Traded Fund will be considered and treated as collective investment schemes for the purposes of and subject to the requirements in sub-paragraphs 1(g)(i) and (ii) and proviso (A) to (C) of sub-paragraph 1(g) of this Schedule 1. Notwithstanding the aforesaid, the investments by the Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) above and the relevant investment limits in Qualified Exchange Traded Funds by the Fund shall be consistently applied;
- (cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively; and
- (dd) where the Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code.

## 2. Investment prohibitions applicable to the Fund

The Manager shall not, unless otherwise specifically provided for in the Code, on behalf of the Fund:

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);

- (c) make short sales. This restriction prevails over the provisions of 7.15 of the Code;
- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the Fund which is unlimited. For the avoidance of doubt, the liability of unitholders of the Fund is limited to their investments in the Fund;
- (g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; and
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Schedule 1.

### 3. Authorised Feeder Funds

The Fund is currently not authorised as a feeder fund.

### 4. Use of financial derivative instruments

4.1 The Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 4.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

The Manager, where it deems necessary, shall cause hedging arrangement to be adjusted or re-positioned, with due consideration on the fees, expenses and costs, to enable the Fund to meet its hedging objective in stressed or extreme market conditions.

4.2 The Fund will not acquire financial derivative instruments for non-hedging purposes ("investment purposes").

4.3 Subject to sub-paragraphs 4.2 and 4.4 of this Schedule 1, the Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.

4.4 The financial derivative instruments invested by the Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;
- (b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
- (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, the Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available net asset value provided that the exposure of the Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and

(d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the valuation agent, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative. Further, the valuation agent or fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

- 4.5 The Fund should at all times be capable of meeting all its payment and delivery obligations incurred under transactions in financial derivative instruments (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in financial derivative instruments in respect of the Fund are adequately covered on an ongoing basis. For the purposes of this sub-paragraph 4.5, assets that are used to cover the Fund's payment and delivery obligations incurred under transactions in financial derivative instruments shall be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.
- 4.6 Subject to sub-paragraph 4.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Fund shall be covered as follows:
- (a) in the case of financial derivative instruments transactions which will, or may at the Fund's discretion, be cash settled, the Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
  - (b) in the case of financial derivative instruments transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Fund shall hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation provided further that the Fund shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.
- 4.7 The requirements under sub-paragraphs 4.1 to 4.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an **"embedded financial derivative"** is a financial derivative instrument that is embedded in another security.

## 5. Securities financing transactions

- 5.1 The Fund currently does not intend to engage in securities financing transactions. If this changes and the Fund engages in securities financing transactions, it can only do so if such transactions are in the best interests of unitholders of the Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.
- 5.2 The Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.
- 5.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions, shall be returned to the Fund.
- 5.4 The Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

## 6. Collateral

In relation to over-the-counter financial derivative instruments as set out in sub-paragraphs 3.4(c) of this Schedule 1, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting. The Fund currently does not intend to engage in securities financing transactions, and accordingly no collateral will be held in the manner described in sub-paragraph 4.2 of this Schedule 1.

However, if the above changes and the Fund receives collateral, in order to limit the exposure to each counterparty as set out in sub-paragraphs 3.4(c) and 4.2 (as applicable) of this Schedule 1, such the collateral must comply with the requirements set out below:

- (a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- (b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;
- (c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;



- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the Fund shall be subject to the following requirements:
  - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;
  - (ii) non-cash collateral received may not be sold, re-invested or pledged;
  - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in sub-paragraphs 7(b) and 7(j) of this Schedule 1;
  - (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
  - (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

## 7. Authorised Money Market Fund

For so long as the Fund is authorised as a money market fund, the Manager in the exercise of its investment powers shall ensure that the core requirements on investments as set out in paragraphs 1, 2, 4, 5, 6, 8.1 and 8.2 of this Schedule 1, the Explanatory Memorandum and the Trust Deed shall apply with the following modifications, exemptions or additional requirements:

- (a) subject to the provisions set out below, the Fund may only invest in short-term deposits and high quality money market instruments (i.e. securities normally dealt in on the money markets including government bills, certificates of deposit, commercial papers, short-term notes, bankers' acceptances, asset-backed securities such as asset-backed commercial papers), and money market funds that are authorised by the SFC under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC;
- (b) the Fund shall maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days (or two years in the case of Government and other public securities). For the purposes herein:
  - (i) **"weighted average maturity"** is a measure of the average length of time to maturity of all the underlying securities in the Fund weighted to reflect the relative holdings in each instrument; and is used to measure the sensitivity of the Fund to changing money market interest rates; and
  - (ii) **"weighted average life"** is the weighted average of the remaining life of each security held in the Fund; and is used to measure the credit risk, as well as the liquidity risk,

provided that the use of interest rate resets in variable-notes or variable-rate notes generally should not be permitted to shorten the maturity of a security for the purpose of calculating weighted average life, but may be permitted for the purpose of calculating weighted average maturity;

- (c) notwithstanding sub-paragraphs 1(a) and 1(c) of this Schedule 1, the aggregate value of the Fund's holding of instruments issued by a single entity, together with any deposits held with that same issuer may not exceed 10% of the latest available net asset value of the Fund except:
- (i) the value of the Fund's holding of instruments and deposits issued by a single entity may be increased to 25% of the latest available net asset value of the Fund if the entity is a substantial financial institution, provided that the total value of such holding does not exceed 10% of the entity's share capital and non-distributable capital reserves;
  - (ii) up to 30% of the Fund's latest available net asset value may be invested in Government and other public securities of the same issue; or
  - (iii) in respect of any deposit of less than US\$1,000,000 or its equivalent in the base currency of the Fund where the Fund cannot otherwise diversify as a result of its size;
- (d) notwithstanding sub-paragraphs 1(b) and 1(c) of this Schedule 1, the aggregate value of the Fund's investments in entities within the same group through instruments and deposits may not exceed 20% of its latest available net asset value provided that:
- (i) the aforesaid limit will not apply in respect of cash deposit of less than US\$1,000,000 or its equivalent in the base currency of the Fund, where it cannot otherwise diversify as a result of its size; and
  - (ii) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%;
- (e) the value of the Fund's holding of money market funds that are authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC may not in aggregate exceed 10% of its latest available net asset value;
- (f) the value of the Fund's holding of investments in the form of asset-backed securities may not exceed 15% of its latest available net asset value;
- (g) the currency risk of the Fund shall be appropriately managed and any material currency risk that arises from investments of the Fund that are not denominated in its base currency shall be appropriately hedged; and
- (h) the Fund must hold at least 7.5% of its latest available net asset value in daily liquid assets and at least 15% of its latest available net asset value in weekly liquid assets. For the purposes herein:
- (i) daily liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one business day; and (iii) amount receivable and due unconditionally within one business day on pending sales of portfolio securities; and
  - (ii) weekly liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five business days; and (iii) amount receivable and due unconditionally within five business days on pending sales of portfolio securities.

## 8. Name of the Fund

- 8.1 If the name of the Fund indicates a particular objective, investment strategy, geographic region or market, the Fund must, under normal market circumstances, invest at least 70% of its net asset value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Fund represents.
- 8.2 For so long as the Fund is authorised as a money market fund, the name of the Fund must not appear to draw a parallel between the Fund and the placement of cash on deposit.

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## SCHRODER U.S. DOLLAR MONEY FUND

**About Schroder Investment Management (Hong Kong) Limited** Schroder Investment Management (Hong Kong) Limited manages a wide range of unit trusts investing in markets worldwide, but with a concentration on South East Asia. The Manager is one of the leading investors on behalf of pension funds, institutional funds and private client portfolios for Hong Kong and international clients.

The ultimate holding company of the Manager is Schroders plc, an international investment group based in London and established in 1804. The Schroder Group worldwide as at 31 December 2019 manages assets of more than US\$662.6 billion.

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**ADMINISTRATION**

**Manager**

Schroder Investment Management (Hong Kong) Limited  
 Level 33, Two Pacific Place  
 88 Queensway  
 Hong Kong

**Directors of the Manager**

Ms. Amy Y.K. Cho (Chairman, Chief Executive Officer)  
 Ms. Rena B.L. Tsang  
 Ms. Susan S.Y. Soh  
 Mr. Glenn R. Wilson  
 Mr. Alexander H. McDougall

**Trustee and Registrar**

HSBC Institutional Trust Services (Asia) Limited  
 1 Queen's Road Central  
 Hong Kong

**Auditors**

PricewaterhouseCoopers  
 22/F Prince's Building  
 Central  
 Hong Kong

**Service Provider**

The Hongkong and Shanghai Banking Corporation Limited  
 1 Queen's Road Central  
 Hong Kong

**Solicitors to the Manager**

Deacons  
 5th Floor  
 Alexandra House  
 18 Chater Road, Central  
 Hong Kong

January 2021

**PRELIMINARY INFORMATION** If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial advice.

In particular, nationals or residents of, or persons domiciled in, countries other than Hong Kong should consult their financial advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to acquire units and as to any taxation effects, foreign exchange restrictions or exchange control requirements applicable.

No action has been taken to permit an offering of units of Schroder U.S. Dollar Money Fund (the "Fund") or distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong, where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, units in the Fund may be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised.

Receipt of any document about the Fund does not constitute an offer of units in those jurisdictions in which it is illegal to make such an offer.

Units of the Fund have not been and will not be registered under the United States Investment Company Act of 1940 as amended (the "Investment Company Act"). The units have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") or under the securities laws of any state of the United States of America ("US") and such units may be offered, sold or otherwise transferred only in compliance with the Securities Act and such state or other securities laws. The units may not be offered or sold within the US or to or for the account, of any US Person. For these purposes, "US Person" is as defined in Rule 902 of Regulation S under the Securities Act or the Internal Revenue Code of 1986, as amended including to reflect the provisions of FATCA (the "IR Code").

Rule 902 of Regulation S under the Securities Act defines "US Person" to include inter alia any natural person resident of the US and with regards to investors other than individuals, (i) a corporation or partnership organised or incorporated under the laws of the US or any state thereof; (ii) a trust: (a) of which any trustee is a US Person except if such trustee is a professional fiduciary and a co-trustee who is not a US Person has sole or shared investment discretion with regard to trust assets and no beneficiary of the trust (and no settlor if the trust is revocable) is a US Person or (b) where a court is able to exercise primary jurisdiction over the trust and one or more US fiduciaries have the authority to control all substantial decisions of the trust and (iii) an estate (a) which is subject to US tax on its worldwide income from all sources; or (b) for which any US Person is executor or administrator except if an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with regard to the assets of the estate and the estate is governed by foreign law.

The term "US Person" also means any entity organised principally for passive investment (such as a commodity pool, investment company or other similar entity) that was formed: (a) for the purpose of facilitating investment by a US Person in a commodity pool with respect to which the operator is exempt from certain requirements of Part 4 of the regulations promulgated by the United States Commodity Futures Trading Commission by virtue of its participants being non-US Persons or (b) by US Persons principally for the purpose of investing in securities not registered under the Securities Act, unless it is formed and owned by "accredited investors" (as defined in Rule 501 (a) under the Securities Act) who are not natural persons, estates or trusts.

Pursuant to the IR Code, the term "US Person" means (i) a citizen or resident of the US, (ii) a partnership or other entity treated as a partnership for US federal income tax organized under the laws of the US or any political subdivision thereof, (iii) a corporation or other entity treated as a corporation for US federal income tax purposes organized under the laws of the US or any political subdivision thereof, (iv) an estate the income of which is subject to US federal income tax without regard to its source or (v) a trust, if, either (a) a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to be treated as a US person.

The Fund is not authorised under the United Kingdom Financial Services and Markets Act 2000 (the "FSMA") in the United Kingdom and accordingly this Explanatory Memorandum must not be distributed in the United Kingdom other than to certain categories of person as specified in regulations made under the FSMA. Such categories include certain persons with sufficient expertise such as authorised persons, who understand the risks involved.

Distribution of this Explanatory Memorandum in Hong Kong must be accompanied by the Product Key Facts Statements of the Fund, a copy of the latest available annual report and accounts of the Fund, any subsequent interim report. Units issued after the date of this Explanatory Memorandum are offered on the basis only of the information contained in this Explanatory Memorandum. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorised and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of the units shall not in any way constitute a representation that the information and representations given herein or in such documents are correct as at any time subsequent to the date of this Explanatory Memorandum or such documents.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong (the "SFC"). The SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The Manager accepts full responsibility for the accuracy, as at the date of this Explanatory Memorandum, of the information contained in this Explanatory Memorandum and confirm, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

The issue and redemption of units is not regulated by the provisions of the Banking Ordinance, and is not equivalent to making or withdrawing a deposit with or from a bank or deposit-taking company and the Fund is not subject to the supervision of the Hong Kong Monetary Authority.

## Enquiries and Complaints

Enquiries and complaints concerning the Fund (including information concerning subscription and redemption procedures and the current net asset value of the Fund) should be directed to the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong or by electronic mail at [schroders@schroders.com.hk](mailto:schroders@schroders.com.hk) or by phone at +852 2869 6968.

## SUMMARY

### Principal Features of the Schroder US Dollar Money Fund

- Competitive return – By pooling relatively small amounts of money from a large number of investors access is gained to higher yields usually only available to larger money market investors.
- US dollar denomination – the Fund is authorised in Hong Kong denominated in US dollars. All Investments will be made in US Dollar denominated assets.
- No dealing charges – There are no charges payable by the investor upon application or redemption of units.
- Security – Investments of the Fund will be in deposits with leading companies and other money market instruments.
- Daily dealing.
- Minimum investment is US\$1,000.
- Access to the specialist investment management expertise of Schroder Group.
- Who should invest? – The Fund will appeal to US Dollar or HK Dollar denominated investors who require:
  - security of investment funds pending a longer term investment decision
  - a higher return through short dated investments
  - ready access to invested funds
  - specialised investment skills in the short term money market

**INVESTMENT POLICY** The Fund aims to provide an investment medium for investors to enjoy the rates available from a managed portfolio of short term and high quality money market investments and seeks to offer returns in line with money market rates combined with a degree of security and ready availability of monies. The Manager's policy will be to invest at least 70% of the Fund's net asset value in a range of short-term deposits and high quality money market instruments and money market funds that are authorised by the SFC under 8.2 of the Code on Unit Trusts and Mutual Funds ("Code") or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC. Money market instruments refer to securities normally dealt in on the money markets, for examples, government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptance etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account.

Investments will be limited to US Dollar short-term deposits and US Dollar denominated high quality money market instruments with a remaining maturity of less than 397 days or two years in the case of Government and other public securities, with a weighted average portfolio maturity not exceeding 60 days and a weighted average life not exceeding 120 days.

It is the Manager's present intention to invest in a range of US Dollar short-term deposits and US Dollar denominated high quality money market instruments within the maturity limits mentioned above including: –

- deposits with banks and other financial institutions;
- floating rate certificates of deposit issued by banks and other financial institutions;
- fixed rate certificates of deposit issued by banks and other financial institutions;
- bills of exchange, commercial paper or notes issued by any body corporate which has (or the holding company of which has) capital and reserves in excess of US\$15,000,000;
- bills of exchange, commercial paper or notes unconditionally guaranteed as to principal by any governmental or quasi-governmental institution.

The investment policy will be directed towards the acquisition of short-term deposits and high quality money market instruments which will earn an income for the Fund in line with money market rates and to protect the unit value from fluctuations. Interest rates in the short term money market vary from day to day reflecting changes in the level of money available in the economy and expectations of interest rate trends. The rate of return to investors will therefore fluctuate with these changes.

### Borrowing and Leverage

The Trust Deed permits borrowing to be used to provide monies to meet redemption requests or to pay operation expenses. The Manager may use this power to borrow but does not intend to gear the Fund.

Borrowing is permitted in an amount not exceeding 10% of the net asset value of the Fund calculated at the immediately preceding Valuation Date.



## Use of Derivatives

The Fund may use financial derivative instruments for hedging purposes only. Accordingly, the Fund is not expected to incur any leverage arising from the use of financial derivative instruments. The Fund's net derivative exposure may be up to 50% of the Fund's latest available net asset value. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.

## Securities Financing Transactions

The Manager currently does not intend to enter into any securities financing transactions in respect of the Fund.

## Change of Investment Policy

The Manager has power to change the investment policy from time to time within the investment restrictions contained in the Trust Deed.

**INVESTMENT RESTRICTIONS** The Trust Deed sets out the investment restrictions of the Fund, and a summary thereof is set out in Schedule 1 of this Explanatory Memorandum.

## RISK FACTORS

**The issues and redemption of units is not regulated by the provisions of the Banking Ordinance, and is not equivalent to making or withdrawing a deposit with or from a bank or deposit-taking company and the Fund is not subject to the supervision of the Hong Kong Monetary Authority. Further, investment in the Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account. It must be recognised that the prices of units depend on the market values of the Fund's investments and may go down as well as up. The Manager has no obligation to redeem units at the issue price originally paid.**

### General risks

- The prices of units depend on the market values of the Fund's investments and such prices as well as the income from units can go down as well as up. Past performance of the Fund does not indicate the future performance. The Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment.

### Market risk

- Investors should be aware that the net asset value of the Units, like securities investments, are subject to market risks and that there is no guarantee against loss nor the Fund's objectives will be achieved. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as actions by various governmental agencies and domestic or international economic and political developments, may cause sharp market fluctuations, which could significantly and adversely affect the results of the Fund and hence the Fund's activities and the value of its investments. In addition, the value of the Fund's portfolio may fluctuate as the general level of interest rates fluctuates.

### Currency and Exchange risk

- Investments of the Fund will be denominated in U.S. dollars. Currently, investors may choose to invest in either U.S. dollars or Hong Kong dollars. The Hong Kong dollar is pegged to the U.S. dollars. The Hong Kong Government has repeatedly reaffirmed its commitment to this pegged exchange rate system. However, in the event that this policy were to be changed, there would be a risk that the Hong Kong dollar would be devalued. Investors invested in Hong Kong dollars may suffer loss even though the value of the assets of the Fund in U.S. dollar has not been affected.

### Interest rate risk

- The Fund may invest in fixed income securities which are subject to interest rate risk. A fixed income security's value will generally increase in value when interest rates fall and decrease in value when interest rates rise. Certain fixed income securities give an issuer the right to call its securities, before their maturity date, in periods of declining interest rates. The possibility of such "pre-payment risk" may force the Fund to reinvest the proceeds of such investments in securities offering lower yields, thereby reducing the Fund's interest income.

### Credit risk

- The Fund may invest in securities that involve credit risk. Money market instruments involve credit risk to the issuer which may be evidenced by the issuer's credit rating. Money market instruments which are subordinated and/or have a lower credit rating are generally considered to have a higher credit risk and a greater possibility of default than more highly rated securities. In the event that any issuer of money market instruments experiences financial or economic difficulties, this may affect the value of the relevant money market instruments (which may be zero) and any amounts paid on such money market instruments (which may be zero). This may in turn affect the prices of the Fund and in turn affect the net asset value per unit.
- Many emerging market countries have accumulated substantial debt service obligations. This may adversely affect their ability to service their debts and increase the likelihood of their defaulting on their obligations. It should also be noted that investment of any securities issued by corporations may represent a higher credit risk than investment in securities issued by governments.

- The ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint. The rating on an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time the rating is assigned and the time it is updated. In addition, there may be varying degrees of difference in credit risk of securities within each rating category.

#### **Counterparty, Custody and Settlement risk**

- The Fund may be exposed to credit risk on the counterparties with which they trade in relation to financial instruments that are not traded on internationally recognised exchanges. The Fund will be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which the Fund trades such instruments, which could result in substantial losses to the Fund.
- The Fund may invest in markets where custodial and/or settlement systems are not fully developed. The assets of the Fund that are traded in such markets and which have been entrusted to such sub-custodians may be exposed to risk in circumstances where the custodian will have no liability. The Fund's cash account will usually be maintained on the custodian's records, but the balances may be held by a sub-custodian which poses an additional risk. In addition, in case of liquidation, bankruptcy or insolvency of such sub-custodians, the Fund may take a longer time to recover their assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Fund may even be unable to recover all of its assets. The costs borne by the Fund investing and holding investments in such markets will be generally higher than in organised securities markets.
- The Fund may also be exposed to a credit risk on counterparties with whom they trade securities, and may also bear the risk of settlement default. As the Fund may also directly or indirectly invest in securities in emerging markets where settlement mechanisms are generally less developed and reliable than those in more developed countries. This therefore increases the risk of settlement default which could result in substantial losses for the Fund in respect of investments in emerging markets.

#### **Liquidity risk**

- Not all securities or investments held by the Fund will be listed or rated or actively traded and consequently liquidity may be low. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at unfavourable prices. The Fund may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity. Moreover, there is no assurance that the liquidity of the Fund will always be sufficient to meet redemption requests as and when made.
- Liquidity risk also exists if sizeable redemption requests are received as the Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests. The Fund may suffer losses in liquidating such investments.

#### **Valuation risk**

- Valuation of the Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, they may affect the net asset value calculation of the Fund.

#### **Sovereign debt risk**

- The Fund's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Fund to participate in restructuring such debts. The Fund may suffer significant losses when there is a default of sovereign debt issuers.

#### **Downgrading Risk**

- There is a risk that investment grade securities that the Fund invests in may be downgraded due to adverse market conditions. In the event of a down-grading of the credit rating of a security or an issuer relating to a security that the Fund invests in, the value of the Fund may be adversely affected. The Manager may or may not be able to dispose of the debt instruments that are being downgraded.

#### **Credit rating risk**

- Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

#### **Concentration risk**

- The Fund will invest primarily in US Dollar instruments. The Fund is therefore likely to be more volatile than a broad-based fund that adopts a more diversified strategy.

#### **Investor risk**

- Substantial redemptions of units (which are more likely to occur in adverse economic or market conditions) could require the Manager to liquidate investments of the Fund more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions and to achieve an appropriate position. This could adversely affect the net asset value of both units being redeemed and of existing units.

- The Manager is entitled under certain circumstances specified in the Trust Deed to suspend dealings in the units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the units during the period up to the redemption of the units is borne by the redeeming unitholders.
- If, in the opinion of the Manager or the Trustee, units held by any unitholder is in contravention of any laws or regulations or under such other circumstances specified in the Trust Deed, the Manager is entitled to compulsorily redeem all or a portion of the unitholder's units in the Fund. Such compulsory redemption may create adverse tax and/or economic consequences to the unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon any termination of the Fund, compulsory redemption or otherwise.

#### **Risk of termination of the Fund**

- In the event of the early termination of the Fund, the Fund would have to distribute to the unitholders their pro rata interest in the assets of the Fund. It is possible that at the time of such sale or distribution, certain investments held by the Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the unitholders. Moreover, any organisational expenses with regard to the units that had not yet become fully amortised would be debited against Fund's capital at that time.

#### **Foreign Account Tax Compliance Act ("FATCA") related risks**

- The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund. Provided that the Fund acts in accordance with the provisions it will not be subject to withholding tax under FATCA.
- Although the Manager will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA penalty withholding on the Fund, no assurance can be given that the Manager will be able to achieve this and/or satisfy such FATCA obligations. If the Fund becomes subject to a FATCA penalty withholding as a result of the FATCA regime, the value of the units held by unitholders may be adversely affected and unitholders may suffer material losses.
- Unitholders should seek independent professional advice regarding the FATCA requirements with respect to their own situation. In particular, where investors invest in or held units of the Fund through an intermediary, nominee or custodian, investors are recommended to check whether such intermediary, nominee or custodian is FATCA compliant and any possible FATCA implications.

Prospective investors should consult with their own advisors before deciding to invest in the Fund.

**MANAGEMENT AND ADMINISTRATION** The Manager of the Fund is Schroder Investment Management (Hong Kong) Limited and is licensed by the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. The Manager is not subject to any licensing conditions in respect of its aforementioned licenses for regulated activities pursuant to the Securities and Futures Ordinance.

The Manager undertakes the management and administration of the Fund, including communication with unitholders and conduct of meetings, and in conjunction with the Trustee is responsible for the maintenance of accounts and records in compliance with the Trust Deed and the laws of Hong Kong.

With almost forty years of investment experience in Asia Pacific the Schroder Group is able to offer particular expertise in the management of specialist Asian portfolios and is able to draw on the worldwide resources of the Group with offices and research analysts based throughout the region.

The Manager is adviser to or manager of other Hong Kong authorised unit trusts and investment portfolios of institutional, private and retirement fund clients in Asia and elsewhere. The Schroder Group worldwide manages assets of over US\$662.6 billion as at 31 December 2019 in London, Luxembourg, New York, Zurich, Australia, Hong Kong, Japan and Singapore and other investment centres around the world.

**TRUSTEE** The Trustee of the Fund is HSBC Institutional Trust Services (Asia) Limited which is incorporated with limited liability in Hong Kong on 27 September 1974. It is an indirect wholly-owned subsidiary of HSBC Holdings plc. It is registered as a trust company under the Hong Kong Trustee Ordinance and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance. The Trustee has delegated certain of its functions as registrar to The Hongkong and Shanghai Banking Corporation Limited (the "Service Provider").

Under the Trust Deed and subject to the provisions therein, the Trustee is responsible for the safe-keeping of the assets of the Fund (which shall accordingly be dealt with for the purposes and, where appropriate, insured as the Trustee may think fit) and shall take into custody or under the Trustee's control all property, cash and other assets forming part of the Trust and hold them in trust for the unitholders of the Trust in accordance with the provisions of the Trust Deed. The Trustee shall in respect of any property which by nature cannot be held in custody, maintain a proper record of such property or asset in its books under the name of the Trust.

The Trustee (i) shall exercise reasonable care, skill and diligence in the selection and ongoing monitoring of agents, nominees, delegates, custodian, co-custodian or sub-custodian which are appointed for the custody and/or safekeeping of any property, cash, assets or other property comprised in the Trust (each a “Correspondent”), (ii) shall be satisfied that each Correspondent retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Trust, and (iii) shall, subject to the provisions of the Trust Deed, remain liable for any act or omission of any Correspondent which is a connected person of the Trustee with or to whom or in whose names any investment (including an investment in bearer form) or cash forming part thereof has been lodged, deposited, transferred or registered as if the same were the act or omission of the Trustee, but provided that if the Trustee has discharged its obligations set out in (i) and (ii) hereinabove, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent that is not a connected person of the Trustee. The Trustee may empower any custodian or co-custodian appointed by it to appoint, subject to prior written consent of the Trustee, sub-custodians in accordance with all applicable laws and regulations.

HSBC group has adopted a policy of compliance with the sanctions issued by The Office of Foreign Assets Control of the US Department of the Treasury. The Trustee and its delegates will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control of the US Department of the Treasury.

The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed.

The Trustee is entitled to the fees set out below under the section headed “Charges and Fees” and to be reimbursed for any sub-custodians’ fees and expenses.

If the Trustee or its delegates (which may be affiliates of the Trustee) shall act as banker in respect of Fund then it shall be entitled to retain all normal banking profit and benefits; in the event that the Trustee or its delegates shall act as custodian or broker for the purchase and sale of investments, then it shall be entitled to charge and retain all normal fees and expenses.

The Manager has sole responsibility for making investment decisions in relation to the Fund. Subject to the duty to ensure that investment and borrowing limitations of the Fund are complied with as required by the Code, the Trustee (including its delegate) is not responsible or has any liability for any investment decision made by the Manager. Neither the Trustee, nor its delegate acts as guarantor or offeror of the Units or any underlying investment of the Fund.

**TYPE OF UNITS** There is only one class of units in issue.

**APPLICATION FOR UNITS** To purchase units an investor should: –

- a) complete the application form enclosed with this Explanatory Memorandum and return it to the Manager (details of which as set out in the application form); or
- b) fax an order to the Manager (details of which as set out in the application form).

Fax orders must always be followed by an original completed application form unless the investor already holds units in the Fund or units/shares in other funds managed or distributed by the Manager and has already made arrangements with the Manager to allow orders to be made via facsimile instructions without the same being followed by original orders. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a unitholder or an investor for any loss resulting from non-receipt of any orders sent by facsimile.

Applications may also be sent through an investment adviser.

Units may be acquired on any Valuation Date at the issue price without any initial or dealing charge.

Applications should be made on, and in accordance with the instructions on the application form and be received by the Manager by 12 noon Hong Kong time if they are to take effect on the next business day. The minimum investment for initial or subsequent investments is US\$1,000.

The issue of units is at the discretion of the Manager. Each applicant whose application is accepted will be sent a contract note by the Manager confirming details of the purchase of units.

Payments should be made in US dollars together with the application.

Monies can be paid by telegraphic transfer to the relevant accounts as set out in the application form or may be paid by cheque in accordance with instructions on the application form. It should be noted that there may be delay in receipt of cleared funds if payment is made by cheque or banker’s draft compared to payment by telegraphic transfer. Any costs of transfer of application monies to the Fund will be payable by the applicant.

The applicant should quote the name of the Fund and applicant’s details in the remittance instructions.

No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 regulated activity under Part V of the Securities and Futures Ordinance.

All holdings will be registered but certificates are not issued. Evidence of title will be the entry on the Register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of units correct to the nearest two (2) decimal places will be issued. The Manager reserves the right to reject any application in whole or in part. A maximum of 4 persons may be registered as joint unitholders.

**TIME OF ISSUE OF UNITS** The date of issue of a unit will depend on the time of receipt of the application by the Manager and method of payment.

Applications will generally be accepted only if cleared funds have been received **on or prior** to the Valuation Date on which units are otherwise to be issued.

Payment should be made in US dollars by telegraphic transfer, the units will generally be issued on the first Valuation Date after the Manager receives the application form. If for any reason, delay occurs in receipt of cleared funds then the time of issue of units will be delayed.

Payment in cleared funds is generally due prior to issue of units. However if units are issued without cleared funds having been received and payment in full has not been received within 7 days of the relevant Valuation Date, an application for units may be cancelled and considered void and the Manager may require payment of a cancellation charge and any difference between the value on cancellation and the issue price. Save where the Trust Deed requires cancellation of units, the Manager (at its discretion) may enforce payment of the sum due in respect of an application.

**REDEMPTION OF UNITS** Units may be redeemed on any Valuation Date at their redemption price on application to the Manager. Redemption notices must be received by the Manager by 12 noon Hong Kong time on a Valuation Date to take effect on the next business day. Application should be made on the form available from the Manager by post or by fax to the Manager, or through one of the intermediaries authorised for this purpose. Please see also "Anti-Money Laundering Regulations". Partial redemptions for a minimum of US\$1,000 are allowed provided that the value of such unitholder's remaining holding of units is not less than US\$1,000. There is no redemption charge. Investors should be reminded that if they choose to send notices of redemption by fax, they bear their own risk of the notices not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the notices. Neither the Manager nor the Trustee shall be responsible to a unitholder for any loss resulting from non-receipt of any redemption request sent by facsimile.

Redemption monies are remitted by telegraphic transfer within 6 business days after the relevant Valuation Date and upon receipt of all properly completed documentation. Redemption proceeds will be paid to the registered unitholder requesting such redemption only and will not be paid to third parties.

Arrangements can also be made for unitholders wishing to redeem their units to receive payment in most other major currencies. The cost of currency conversion where payment is to be other than in the currency of denomination of the Fund will be payable by the unitholder. These costs will be deducted from the redemption proceeds and the net sum paid to the unitholder.

If the Manager receives redemption requests on any one Valuation Date in excess of 10% of the units in issue, the Manager may elect to calculate the redemption proceeds by reference to the actual net proceeds of sale of the appropriate proportion of the Fund's assets added to a similar proportion of the cash forming part of the Fund's capital.

The Trust Deed allows the Manager with the approval of the Trustee to give notice to such person requiring him to transfer such units to a person who is not an Unqualified Person (as defined below) or to give a request of redemption of such units within the relevant time specified in the notice and the Trustee shall be entitled to redeem the units in accordance with this Explanatory Memoranda and Trust Deed. The unitholders shall have no claim in respect of the units save the receipt of the proceeds of redemption (without interest). "Unqualified Person" means a person who by virtue of any law or requirement of any country or governmental authority is not qualified to hold a unit or who would be in breach of any such law or regulation in acquiring or holding a unit if, in the opinion of the Manager, the holding of a unit by such person might result in the Fund incurring liability to taxation or suffering a pecuniary disadvantage which the Fund might not otherwise have incurred or suffered, or might result in the Fund, the Manager or any of its connection persons or the Trustee or any of its connected persons being exposed to any liability, penalty or regulatory action.

**SWITCHING BETWEEN FUNDS** The Manager offers a number of other unit trusts and mutual funds with different investment objectives. Unitholders switching from one fund to another will be generally given, at the discretion of the Manager, discounts on the initial charge (currently up to 5% of the switching amount) which may otherwise apply. A switch is an instruction for a redemption of units or shares in a fund and application of the redemption proceeds to purchase units or shares in another fund and therefore the provisions on application and redemption for the relevant funds generally apply. Acceptance of switching instructions will be subject to the availability of the fund to be switched in (the "New Fund") and to the compliance with any eligibility requirements and/or other specific conditions attached to the New Fund such as minimum subscription and holding amounts.

For switches between funds managed or distributed by the Manager and generally available to investors, save for switches into funds dealt with on a cleared fund basis (for example money funds), switches are normally effected by redeeming units or shares in the fund to be switched out (the "Original Fund") on the dealing day on which the redemption would occur and subscribing into units or shares of the New Fund on the same day, provided that the availability of pricing and the applicable dealing days and settlement periods of both funds match. However, if the availability of pricing, dealing days or settlement periods of the Original Fund and the New Fund do not match, subscription to the New Fund may be deferred to align the settlement dates of both funds. In no circumstances the settlement date of the subscription to the New Fund will precede the settlement date of the redemption of the Original Fund.

For switches into a fund dealt with on a cleared fund basis, cleared funds are needed before units or shares will be issued. The time of issue of the units or shares in the fund will thus depend on the time of receipt of the redemption proceeds in cleared funds from the Original Fund.

In the cases where dealing of the Original Fund and/or the New Fund is suspended, the processing of the switch will be held over until the next dealing day where dealing is no longer suspended. The switching procedures described above will continue to apply.

Investors are reminded to read the offering document of the fund into which they wish to switch (available on request from the Manager) before investing.

## CHARGES AND FEES

- a) **Initial Charge** There is currently no initial charge payable on the issue of new units. The Trust Deed permits a charge of 5% of the net asset value but the Manager has currently waived this in full.

The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the initial charge received by it on the value of relevant business introduced to the Fund.

- b) **Manager's Fee** The Manager is paid a fee out of the assets of the Fund, calculated on each Valuation Date which accrues daily and is payable monthly in arrears currently at the rate of 0.25% p.a. of the net asset value of the Fund. The maximum permissible charge under the Trust Deed is 0.75% p.a. of the gross value of the Fund. The fee may be increased by 3 months' notice to unitholders subject to the maximum.

The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the manager's fee received by it on the value of relevant business introduced to the Fund.

- c) **Trustee's Fee.** The Trustee is paid a fee of 0.05% p.a. of the net asset value of the Fund calculated on each Valuation Date which accrues daily, and is payable monthly in arrears, subject to an annual minimum fee of USD 20,000. The Trust Deed permits a maximum charge of 0.25% p.a. of the gross asset value of the Fund. The fee may be increased by 3 months' notice to unitholders (subject to the maximum) and with the consent of the Manager.

The Trustee is also entitled to receive a fee for acting as registrar but at present makes no charge.

**EXPENSES** The costs, charges and expenses borne by the Fund, in addition to the Manager's fee, the Trustee's fee and Registrar's fee are those in connection with the registration of unitholders, investing and realising the assets of the Fund, taxation in respect of income, holdings or dealings of the assets of the Fund, the safe keeping or custody of investments including fees and charges of any custodian or sub-custodian, expenses incurred in the collection of income, any interest payable by the Fund, stamp duty and fiscal charges payable in respect of the Trust Deed, the registrar's costs (including Service Provider's costs currently charged at a rate of 0.02% p.a. of the Fund's net asset value), the costs of publishing unit prices and costs incurred in preparing and publishing reports and other communications to unitholders. The Fund will bear all postage, telex, telephone and facsimile costs incurred by the Manager in obtaining investment advice, the cost of establishing and administering any company which holds assets of the Fund, fees and expenses of any representative in any jurisdiction in which units are distributed appointed to satisfy any regulatory requirement in that jurisdiction and all foreign exchange costs and expenses incurred in connection with the investment of assets of the Fund and the changing and realising thereof. The Fund will bear all fees and expenses charged by any person in connection with the valuation of the Fund or the calculation of issue prices and realisation prices in respect of Units and all transaction and other banking charges (including the cost of cheques and effecting telegraphic transfers) incurred in making payment to and receiving payment from any Unitholder or former Unitholders. The Fund also bears legal expenses incurred by the Manager or the Trustee in connection with any supplemental deed giving effect to an alteration, modification or variation of the Trust Deed necessary to facilitate compliance with any fiscal or other statutory, regulatory or official requirement or in connection with the interpretation or amendment of the Trust Deed, costs of holding unitholders' meeting, the costs and expenses of auditing the Fund and any other administrative costs relating to the Fund. Any other costs, charges and expenses incurred in connection with the management and trusteeship of the Fund are paid on their own account by the Manager or the Trustee. The Manager's and Trustee's fees are calculated and payable in US dollars.

The Manager guarantees in the Trust Deed that the aggregate of all fees and expenses payable out of the Fund accruing on any day will not exceed 1.25% p.a. of the gross value of the Fund on that day unless the excess results from any tax levied (including amounts withheld) in the United States of America or any change in law after the date of the Trust Deed. If the fees/expenses would exceed the limit, the excess is payable by the Manager.

The preliminary expenses in relation to the set up of the Fund have already been fully amortised.

The Fund will generally pay brokerage at customary institutional full service brokerage rates. Transactions of the Fund may be entered into through associates of the Manager. The Manager, the investment delegate (if any) and any associates of them will not receive cash or other rebates from brokers or dealers in respect of transactions from the Fund. The Manager may enter into soft commission arrangements for the provision to the Manager or associates provided that (a) the goods and services are of demonstrable benefit to unitholders, (b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full service brokerage rates; (c) periodic disclosure is made in the Fund's annual report in the form of a statement describing the soft commission policies and practices of the Manager or the investment delegate, including a description of goods and services received by them; and (d) the availability of soft commission arrangements is not the sole or primary purpose to perform or arrange transaction with such person.

**VALUATION AND PRICE CALCULATION** Valuation Dates are normally every day on which the stock exchange and banks in Hong Kong and New York are open for business ("Valuation Date"). On each Valuation Date, the net asset value of the Fund will be calculated. Issue and redemption prices which will be the same as the net asset value per unit in US dollars as at the time at which the Fund is valued on the Valuation Date on which the application or redemption is being effected. The net asset value per unit is rounded to the nearest four (4) decimal places to give unit prices.

In calculating the net asset value of the Fund, money market instruments having a maturity of less than 12 months will be valued during the period for which they are held by the Fund at the value on the date of acquisition calculated on a yield to maturity basis. Generally the face value of deposits is used, deeming interest or similar income to accrue from day to day and taking the mid-market price where available, and if not the last traded price of any quoted investments held by the Fund as at the close of business immediately prior to the time of valuation on the appropriate market. The Manager may, with the prior written consent of the Trustee, permit some other method(s) of valuation to be used if it considers that the use of such other method(s) is required to reflect the fair value of the Fund's assets including where it considers that the existing methods appear impossible or inappropriate due to extraordinary circumstances or events.

Any latest time for receipt of applications and redemption requests may be changed from time to time by the Manager and in the case of Valuation Dates with the approval of the Trustee. The Manager will usually give notice of such changes to the Trustee and Unitholders and will normally give one month's notice if any change in the Valuation Date.

The Manager may deal in units, and subscriptions and redemptions may accordingly at the Manager's discretion be either for direct account of the Fund or sales or purchases by the Manager.

The Manager may, with the prior consent in writing of the Trustee, adjust the value of any investment of the Fund if it considers that such adjustment is required to reflect the fair value thereof and may in making such adjustment have regard to currency, applicable rate of interest, maturity, marketability and other relevant considerations.

**TAXATION** *The below summary is based on the Manager's understanding of the law and practice currently in force as at the date of this Explanatory Memorandum and applies to investors acquiring units in the Fund as an investment. Each prospective unitholder should inform himself of, and where appropriate take professional advice on, the taxes applicable to the acquisition, holding and redemption of units by him under the laws of the places of his citizenship, residence and domicile. Neither the Fund nor any of its respective affiliates accepts any responsibility for providing tax advice to any prospective unitholder.*

Under the prevailing Hong Kong tax legislations and practices: –

**The Fund** The Fund should be exempt from profits tax, in respect of its authorised activities, in Hong Kong upon authorisation as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance.

**Unitholders** Profits arising on the disposal or redemption of any units should only be subject to Hong Kong profits tax for unitholders who carry on a trade or business in Hong Kong where the profits, not being regarded as capital in nature, arise from such trade or business and are sourced in Hong Kong. Unitholders who do not carry on a trade or business in Hong Kong should not be liable to Hong Kong profits tax in respect of any gains from the disposal or redemption of such units.

Distributions received by unitholders from their investments in the units generally should not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise).

There is no withholding tax on dividends and interest in Hong Kong.

Dividends, interest and other income received by the Fund from outside Hong Kong may be subject to withholding taxes in the country from which payment is made. Such taxes will not normally be recoverable by the Fund, though they may be recoverable by individual unitholders who are able to claim the benefit of appropriate double taxation relief.

### Stamp Duty

No Hong Kong stamp duty is payable on the issue and redemption for extinguishment of the units. Hong Kong stamp duty is also not payable if the sale of the units is effected by the Manager, who then either extinguishes the units or re-sells the units to another person within two months thereof. Other types of sales or purchases or transfers of the units by the unitholders will be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and seller) of the higher of the consideration amount or market value.

### US Tax Reporting Obligations under FATCA

The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund.

The Fund intends to comply with the provisions of FATCA under the terms of the inter-governmental agreement ("IGA") Model II that has been entered into between US Treasury and Hong Kong Government on 13 November 2014 and under the terms of the Hong Kong legislation implementing the IGA when introduced rather than under the US Treasury Regulations implementing FATCA. The Manager as the sponsoring entity has included the Fund in the list of funds sponsored by it.

In order to comply with its FATCA obligations, from 1 July 2014 the Fund may be required to obtain certain information from its investors so as to ascertain their US tax status. If the investor is a specified US person under the provisions of FATCA, U.S. owned non-U.S. entity, non-participating FFI or does not provide the requisite documentation, the Fund will need to report information on these investors directly to the IRS. Provided that the Fund acts in accordance with these provisions it will not be subject to withholding tax under FATCA.



## Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The AEOI requires financial institutions ("FI") in Hong Kong to collect information relating to account holders, and to file such information as relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("IRD") who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationship ("Reportable Jurisdictions"); however, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund and/or its agents shall collect and provide to the IRD tax information relating to unitholders and prospective investors.

The AEOI rules as implemented by Hong Kong require the Fund to, amongst other things: (i) register the Fund's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e. unitholders) to identify whether any such accounts are considered "Reportable Accounts" for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant Reportable Jurisdiction(s). Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in Reportable Jurisdiction. Under the Ordinance, details of unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

By investing in the Fund and/or continuing to invest in the Fund, unitholders acknowledge that they may be required to provide additional information to the Fund, the Manager and/or the Fund's agents in order for the Fund to comply with AEOI. The unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

Each unitholder and prospective investor should consult its own professional advisor(s) on the administrative and substantive implications of AEOI on its current or proposed investment in the Fund.

**LIQUIDITY RISK MANAGEMENT** The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Fund and to ensure that the liquidity profile of the investments of the Fund will facilitate compliance with the Fund's obligation to meet redemption requests. Such policy, combined with the liquidity management tools of the Manager, also seeks to achieve fair treatment of unitholders and safeguard the interests of remaining unitholders in case of sizeable redemptions.

The liquidity risk management of the Fund is an integral part of investment management process and is operated under Schroders' investment risk management framework. The oversight of the liquidity risk management function will be performed by the investment risk function which is part of Schroders Group Risk. A liquidity report will be generated by Group Risk monthly. The results of the oversight will be reported to a risk management committee consisting of responsible officers, management and senior staff from Compliance, Investment and Operational and Risk on a regular basis. Exceptions on liquidity risk related issues will be escalated to the risk management committee.

The Manager would regularly assess the liquidity of the Fund's assets under the current and likely future market conditions. The Manager's liquidity policy takes into account the investment strategy; the liquidity profile; the redemption policy; the dealing frequency; the ability to enforce redemption limitations and the fair valuation policies of the Fund. These measures seek to ensure fair treatment and transparency for all investors.

The liquidity management policy involves monitoring the profile of investments held by the Fund on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section headed "REDEMPTION OF UNITS", and will facilitate compliance with the Fund's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of the Fund under normal and exceptional market conditions.

**SUSPENSION OF DEALINGS** The Manager may at any time, with the consent of the Trustee, having regard to the best interests of Unitholders, suspend the right of unitholders to require the redemption of units and will at the same time cease to issue units in any of the following circumstances: -

- a. when any relevant market on which any material part of the Fund's investment are listed, quoted or dealt in is closed other than for ordinary holidays; or
- b. when dealings on any such market are restricted or suspended; or
- c. when a state of affairs exists as a result of which the acquisition or disposal of investments, or the making or uplifting of deposits, for account of the Fund cannot be effected normally or without seriously prejudicing the interests of unitholders; or
- d. when there is a breakdown in the means of communication normally employed in determining the value of the Fund or any material part thereof or when, for any other reason, the value of any of the Fund's investments which represents a significant part of the value of the Fund, or the amount of any significant liability of the Fund, cannot be promptly and accurately ascertained; or



- e. when the realisation of any of the Fund's investments or deposits or the transfer of funds involved in such realisation cannot be effected at normal prices or normal rates of exchange.

Whenever the Manager declares such a suspension it shall immediately notify the SFC of such suspension and shall, immediately following such declaration and at least once a month during the period of such suspension, cause a notice to be published on the Schroders' Internet site ([www.schroders.com.hk](http://www.schroders.com.hk)) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC.

**REPORTS AND ACCOUNTS** The Fund's financial year end is on the 31 December in each year. Audited accounts in US dollars will be made available to unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited semi-annual reports will also be made available within two months after the 30 June in each year. Such reports contain a statement of the net asset value of the Fund and of the investments composing its portfolio.

The Manager will notify unitholders when such accounts (accompanied by the required reports), in printed and electronic forms are available and where such accounts may be obtained. Copies of audited accounts and unaudited semi-annual reports may be obtained free of charge at the registered office of the Manager and from the Schroders' Internet site ([www.schroders.com.hk](http://www.schroders.com.hk)). The website has not been reviewed by the SFC. Copies of the accounts and reports may be posted to investors on request.

**DISTRIBUTION OF INCOME** The income received on the deposits or other assets of the Fund will be accumulated. This income is reflected in the value of units and no distributions will be paid.

**VOTING RIGHTS** Meetings of unitholders may be convened by the Manager or the Trustee, and the unitholders of 10% or more of the units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting.

The powers of such a meeting are to (i) to increase the Manager's and/or Trustee's fees; (ii) to terminate the Fund in certain circumstances and (iii) to sanction a modification, alteration or addition to Trust Deed as approved by the Manager and Trustee.

The quorum for all meetings is unitholders present in person or by proxy holding or representing 10% (or, for the purposes of passing an Extraordinary Resolution 25%) of the units in issue, or (in the case of an adjourned meeting of which separate notice will be given) such unitholders as are present in person or by proxy. On a show of hands, every individual unitholder present personally or by representative has one vote; on a poll every unitholder present in person, by proxy or by representative has one vote for every unit held by him and no vote for a fraction of a unit. In the case of joint unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register. A poll may be demanded by the Chairman or one or more unitholders present in person or by proxy representing 5% of the units in issue.

**PUBLICATION OF PRICES** The net asset value per unit on each Valuation Date at which Units are issued and redeemed are published on the Schroders' Internet site ([www.schroders.com.hk](http://www.schroders.com.hk)) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC. Prices are normally the latest available prices but are indicative only.

**TRUST DEED** The Fund was established under Hong Kong law by a trust deed dated 8 July 1991 (as amended from time to time) and made between Schroders Asia Limited as Manager, Bermuda Trust (Far East) Limited as Trustee and HSBC Bank Bermuda Limited as Alternate Trustee, which has been substituted by a consolidated trust deed dated 15 December 2008 made between Schroder Investment Management (Hong Kong) Limited as Manager, Bank of Bermuda (Cayman) Limited as Trustee and HSBC Bank Bermuda Limited as Alternate Trustee (the "Trust Deed"). Since the Fund was established, the Manager and the Trustee have changed. HSBC Institutional Trust Services (Asia) Limited became the Trustee with effect on 30 June 2014 pursuant to a deed of retirement and appointment dated 1 May 2014, while Schroder Investment Management (Hong Kong) Limited became the Manager with effect on 1 January 1995 pursuant to a supplemental deed dated 28 February 1995. The Alternate Trustee retired pursuant to a deed of variation and retirement of alternate trustee dated 24 October 2019.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. In the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed prevail.

Copies of the Trust Deed as for the time being in force may be obtained from the Manager at a cost of US\$25 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

**TERMINATION OF THE FUND** The Fund may be terminated by the Trustee if within six months of the Manager leaving office no new Manager is appointed or if the Trustee wishes to retire and no replacement is found within six months or if the Manager goes into liquidation. The Trustee may also terminate the Fund if the Trustee is of the opinion that the Manager is incapable of or fails to perform its duties satisfactorily or brings the Fund into disrepute or does anything harmful to the interests of unitholders. The Manager may terminate the Fund if for any six month period the gross asset value of the Fund shall be less than US\$2 million. The party terminating the Trust in the above circumstances shall give notice of at least six months to unitholders. The Manager or the Trustee may terminate the Fund by not less than one year's notice so as to expire at 31 December 2000 or any fifteen years thereafter. The Fund may be terminated at any time after 31 December 2000 or at any time for the purpose of amalgamation if so authorised by unitholders by Extraordinary Resolution. Such termination will take effect from the date on which the Resolution is passed or such later date (if any) as the Resolution may provide.

Any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve months from the date upon which the same were payable, be paid into court subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

**ANTI-MONEY LAUNDERING REGULATIONS** As part of the Trustee and Registrar's responsibility for the prevention of money laundering, the Trustee and Registrar may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where: –

- (a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or
- (b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

The Trustee and Registrar reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and Registrar may refuse to accept the application and the subscription monies relating thereto.

**CONFLICTS OF INTEREST** The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund.

The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest. If such conflicts arise, the Manager and the Trustee will use reasonable endeavours to resolve such conflicts fairly (having regard to its respective obligations and duties) and acts in the best interests of the unitholders. In any event, the Manager shall act in a manner which it believes to be equitable in its allocation of investment opportunities among other funds, other investment vehicles it manages or advises and the accounts of its other clients and ensure that all investment opportunities will be fairly allocated. The Manager will also have regard to its obligations to act in the best interests of the unitholders when undertaking any investments where potential conflicts of interests may arise. The Manager will ensure that all transactions are effected in good faith at arm's length and in the best interests of the Fund on normal commercial terms.

The Manager may enter into trades for the account of the Fund with the accounts of other clients of the Manager or its affiliates ("cross trades"). Such cross trades will only be undertaken where the sale and purchase decisions are in the best interests of both clients and fall within the investment objective, restrictions and policies of both clients, the cross trades are executed on arm's length terms at current market value, and the reasons for such cross trades are documented prior to execution. Cross trades may also be entered into between house accounts (i.e. account owned by the Manager or any of its connected persons over which it can exercise control and influence) and client accounts in accordance with applicable laws and regulations.

In particular, the services of the Trustee, the Registrar and their respective delegates provided to the Fund are not deemed to be exclusive and each of the Trustee, the Registrar and their respective delegates shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other moneys payable thereby and neither of them shall be deemed to be affected with notice of or to be under any duty to disclose to the Fund any fact or thing which comes to the notice of any of them in the course of their rendering similar services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed.

## SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS

The Fund shall be subject to the investment restrictions set out in this Schedule save to the extent that any approval, permission or waiver in respect of any of the below restrictions has been obtained from the SFC or otherwise provided under the Code (as defined below), handbook, code and/or guideline issued by the SFC from time to time.

### Definitions

The following defined terms used in this Schedule 1 have the following meanings:

**"Government and other public securities"** means any investment issued by, or the payment of principal and interest on which is guaranteed by a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.

**"money market instruments"** means securities normally dealt in on the money markets, including without limitation government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances.

**"Qualified Exchange Traded Funds"** means exchange traded funds that are: (a) authorized by the SFC under 8.6 or 8.10 of the Code; or (b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and products features of which are substantially in line with comparable with those set out under 8.10 of the Code.

**"REITS"** means real estate investment trusts.

**"reverse repurchase transactions"** means transactions whereby the Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.

**"sale and repurchase transactions"** means transactions whereby the Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future.

**"securities financing transactions"** means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

**"securities lending transactions"** means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee.

**"substantial financial institution"** means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HKD 2 billion or its equivalent in foreign currency.

## 1. Investment limitations applicable to the Fund

No holding of any security may be acquired for or added to the Fund which would be inconsistent with achieving the investment objective of the Fund or which would result in:

- (a) the aggregate value of the Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available net asset value of the deposited property:
  - (i) investments in securities issued by that entity;
  - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 4.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

- (A) transacted on an exchange where the clearing house performs a central counterparty role; and
- (B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1;

- (b) subject to sub-paragraphs 1(a) and 4.4(c) of this Schedule 1, the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available net asset value of the deposited property:
  - (i) investments in securities issued by those entities;
  - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of sub-paragraphs 1(b) and 1(c) of this Schedule 1, "entities within the same group" means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards.

The requirements under this sub-paragraph 1(b) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1;

- (c) the value of the Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available net asset value of the deposited property provided that the 20% limit may be exceeded in the following circumstances:
  - (i) cash held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested;
  - (ii) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
  - (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

For the purposes of this sub-paragraph 1(c), "cash deposits" generally refer to those that are repayable on demand or have the right to be withdrawn by the Fund and not referable to provision of property or services;

- (d) the Fund's holding of any ordinary shares (when aggregated with all other of the Fund's holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity;

- (e) the value of the Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a recognised market, exceeding 15% of the latest available net asset value of the deposited property;
- (f) the value of the Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available net asset value of the deposited property (save that the Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise; and
- (g) (i) the value of the Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorised by the SFC in aggregate exceeding 10% of its latest available net asset value; and  
 (ii) the value of the Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available net asset value unless the underlying scheme is authorised by the SFC, and the name and key investment information of the underlying scheme are disclosed in the offering document of the Fund,

provided that:

- (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;
- (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;
- (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its connected persons; and
- (E) the Manager or any person acting on behalf of the Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

- (aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by the Fund;
- (bb) the investment by the Fund in a Qualified Exchange Traded Fund will be considered and treated as collective investment schemes for the purposes of and subject to the requirements in sub-paragraphs 1(g)(i) and (ii) and proviso (A) to (C) of sub-paragraph 1(g) of this Schedule 1. Notwithstanding the aforesaid, the investments by the Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) above and the relevant investment limits in Qualified Exchange Traded Funds by the Fund shall be consistently applied;
- (cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively; and
- (dd) where the Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code.

## 2. Investment prohibitions applicable to the Fund

The Manager shall not, unless otherwise specifically provided for in the Code, on behalf of the Fund:

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);
- (c) make short sales. This restriction prevails over the provisions of 7.15 of the Code;

- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the Fund which is unlimited. For the avoidance of doubt, the liability of unitholders of the Fund is limited to their investments in the Fund;
- (g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; and
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Schedule 1.

### 3. Authorised Feeder Funds

The Fund is currently not authorised as a feeder fund.

### 4. Use of financial derivative instruments

- 4.1 The Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 4.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

The Manager, where it deems necessary, shall cause hedging arrangement to be adjusted or re-positioned, with due consideration on the fees, expenses and costs, to enable the Fund to meet its hedging objective in stressed or extreme market conditions.

- 4.2 The Fund will not acquire financial derivative instruments for non-hedging purposes ("investment purposes").
- 4.3 Subject to sub-paragraphs 4.2 and 4.4 of this Schedule 1, the Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.
- 4.4 The financial derivative instruments invested by the Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:
- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;
  - (b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
  - (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, the Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available net asset value provided that the exposure of the Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and

(d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the valuation agent, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative. Further, the valuation agent or fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

4.5 The Fund should at all times be capable of meeting all its payment and delivery obligations incurred under transactions in financial derivative instruments (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in financial derivative instruments in respect of the Fund are adequately covered on an ongoing basis. For the purposes of this sub-paragraph 4.5, assets that are used to cover the Fund's payment and delivery obligations incurred under transactions in financial derivative instruments shall be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.

4.6 Subject to sub-paragraph 4.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Fund shall be covered as follows:

(a) in the case of financial derivative instruments transactions which will, or may at the Fund's discretion, be cash settled, the Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

(b) in the case of financial derivative instruments transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Fund shall hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation provided further that the Fund shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

4.7 The requirements under sub-paragraphs 4.1 to 4.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an **"embedded financial derivative"** is a financial derivative instrument that is embedded in another security.

## 5. Securities financing transactions

5.1 The Fund currently does not intend to engage in securities financing transactions. If this changes and the Fund engages in securities financing transactions, it can only do so if such transactions are in the best interests of unitholders of the Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

5.2 The Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

5.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions, shall be returned to the Fund.

5.4 The Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

## 6. Collateral

In relation to over-the-counter financial derivative instruments as set out in sub-paragraphs 3.4(c) of this Schedule 1, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting. The Fund currently does not intend to engage in securities financing transactions, and accordingly no collateral will be held in the manner described in sub-paragraph 4.2 of this Schedule 1.

However, if the above changes and the Fund receives collateral, in order to limit the exposure to each counterparty as set out in sub-paragraphs 3.4(c) and 4.2 (as applicable) of this Schedule 1, such the collateral must comply with the requirements set out below:

(a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;

- (b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;
- (c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;
- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the Fund shall be subject to the following requirements:
  - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;
  - (ii) non-cash collateral received may not be sold, re-invested or pledged;
  - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in sub-paragraphs 7(b) and 7(j) of this Schedule 1;
  - (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
  - (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

## 7. Authorised Money Market Fund

For so long as the Fund is authorised as a money market fund, the Manager in the exercise of its investment powers shall ensure that the core requirements on investments as set out in paragraphs 1, 2, 4, 5, 6, 8.1 and 8.2 of this Schedule 1, the Explanatory Memorandum and the Trust Deed shall apply with the following modifications, exemptions or additional requirements:

- (a) subject to the provisions set out below, the Fund may only invest in short-term deposits and high quality money market instruments (i.e. securities normally dealt in on the money markets including government bills, certificates of deposit, commercial papers, short-term notes, bankers' acceptances, asset-backed securities such as asset-backed commercial papers), and money market funds that are authorised by the SFC under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC;
- (b) the Fund shall maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days (or two years in the case of Government and other public securities). For the purposes herein;
  - (i) **"weighted average maturity"** is a measure of the average length of time to maturity of all the underlying securities in the Fund weighted to reflect the relative holdings in each instrument; and is used to measure the sensitivity of the Fund to changing money market interest rates; and

- (ii) **"weighted average life"** is the weighted average of the remaining life of each security held in the Fund; and is used to measure the credit risk, as well as the liquidity risk,

provided that the use of interest rate resets in variable-notes or variable-rate notes generally should not be permitted to shorten the maturity of a security for the purpose of calculating weighted average life, but may be permitted for the purpose of calculating weighted average maturity;

- (c) notwithstanding sub-paragraphs 1(a) and 1(c) of this Schedule 1, the aggregate value of the Fund's holding of instruments issued by a single entity, together with any deposits held with that same issuer may not exceed 10% of the latest available net asset value of the Fund except:

- (i) the value of the Fund's holding of instruments and deposits issued by a single entity may be increased to 25% of the latest available net asset value of the Fund if the entity is a substantial financial institution, provided that the total value of such holding does not exceed 10% of the entity's share capital and non-distributable capital reserves;
- (ii) up to 30% of the Fund's latest available net asset value may be invested in Government and other public securities of the same issue; or
- (iii) in respect of any deposit of less than US\$1,000,000 or its equivalent in the base currency of the Fund where the Fund cannot otherwise diversify as a result of its size;

- (d) notwithstanding sub-paragraphs 1(b) and 1(c) of this Schedule 1, the aggregate value of the Fund's investments in entities within the same group through instruments and deposits may not exceed 20% of its latest available net asset value provided that:

- (i) the aforesaid limit will not apply in respect of cash deposit of less than US\$ 1,000,000 or its equivalent in the base currency of the Fund, where it cannot otherwise diversify as a result of its size; and
- (ii) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%;

- (e) the value of the Fund's holding of money market funds that are authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC may not in aggregate exceed 10% of its latest available net asset value;

- (f) the value of the Fund's holding of investments in the form of asset-backed securities may not exceed 15% of its latest available net asset value;

- (g) the currency risk of the Fund shall be appropriately managed and any material currency risk that arises from investments of the Fund that are not denominated in its base currency shall be appropriately hedged; and

- (h) the Fund must hold at least 7.5% of its latest available net asset value in daily liquid assets and at least 15% of its latest available net asset value in weekly liquid assets. For the purposes herein:

- (i) daily liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one business day; and (iii) amount receivable and due unconditionally within one business day on pending sales of portfolio securities; and
- (ii) weekly liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five business days; and (iii) amount receivable and due unconditionally within five business days on pending sales of portfolio securities.

## 8. Name of the Fund

- 8.1 If the name of the Fund indicates a particular objective, investment strategy, geographic region or market, the Fund must, under normal market circumstances, invest at least 70% of its net asset value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Fund represents.

- 8.2 For so long as the Fund is authorised as a money market fund, the name of the Fund must not appear to draw a parallel between the Fund and the placement of cash on deposit.