

## **CHINA UNIVERSAL INTERNATIONAL SERIES**

- *CUAM RMB Bondplus Fund*
- *CUAM China-Hong Kong Strategy Fund*
- *CUAM Hong Kong Dollar Bond Fund*
- *CUAM Select US Dollar Bond Fund*

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## **EXPLANATORY MEMORANDUM**

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December 2018

## **IMPORTANT INFORMATION FOR INVESTORS**

This Explanatory Memorandum comprises information relating to China Universal International Series, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong by a trust deed dated 29 December 2011 between China Universal Asset Management (Hong Kong) Company Limited as manager and BOCI-Prudential Trustee Limited as trustee.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum at the date of publication, and confirms, 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 in this Explanatory Memorandum misleading. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to such date. This Explanatory Memorandum may from time to time be updated. Any supplements to this Explanatory Memorandum or any later Explanatory Memorandum will be available to the intending applicants for Units.

Distribution of this Explanatory Memorandum must be accompanied by the Product Key Facts Statements of the Sub-Funds and the latest available annual report and accounts of the Fund (if any) and any subsequent interim reports. Units are offered on the basis only of the information contained in this Explanatory Memorandum, the Product Key Facts Statements and (where applicable) the above mentioned annual reports and accounts and interim reports. Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum or the Product Key Facts Statements should be regarded as unauthorised and accordingly must not be relied upon.

The Fund and the Sub-Funds have been authorised by the SFC pursuant to section 104 of the SFO. The SFC's authorisation is not a recommendation or endorsement of the Fund / the Sub-Funds nor does it guarantee the commercial merits of the Fund and the Sub-Funds or their performance. It does not mean the Fund / the Sub-Funds is / are suitable for all investors nor is it an endorsement of their suitability for any particular investor or class of investors.

No action has been taken to permit an offering of Units or the 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.

In particular:-

- (a) the Units have not been registered under the United States Securities Act of 1933 (as amended) and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a US Person (as defined in Regulation S under such Act); and
- (b) the Fund has not been and will not be registered under the United States Investment Company Act of 1940 as amended.

Potential applicants for Units should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their incorporation, citizenship, residence or domicile and which might be relevant to the subscription, holding or disposal of Units.

**Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objectives of the Sub-Funds will be achieved. Investors should read the Explanatory Memorandum, particularly the section headed “Risk Factors” and the section headed “Specific Risk Factors” in the relevant Appendix, before making their investment decisions.**

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

### **Enquiries and complaints**

Investors may contact the Manager by the following means if they have any enquiries, feedback or complaints in relation to any Sub-Fund:-

- In writing to Room 3710-3711, 37/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
- By calling the investor hotline of the Manager at (852)3983 5600

The Manager will handle or channel to the relevant party any enquiries, feedback or complaints from investors and revert to the investors accordingly.

December 2018

## INTRODUCTION

- This Explanatory Memorandum and the Product Key Facts Statements together form part of the offering document of China Universal International Series (the “Fund”) and its Sub-Funds, CUAM RMB Bond*plus* Fund, CUAM China-Hong Kong Strategy Fund, CUAM Hong Kong Dollar Bond Fund and CUAM Select US Dollar Bond Fund.
- CUAM RMB Bond*plus* Fund seeks consistent investment return as well as long term capital growth in RMB terms by investing in a portfolio consisting of RMB-denominated fixed income instruments (fixed rate or floating rate), cash and equity instruments within China. Exposures to RMB-denominated fixed income and equity instruments are expected to be at least 80% and up to 20% of its assets, respectively.
- CUAM RMB Bond*plus* Fund is denominated in RMB, and subscription moneys and redemption proceeds must be paid in RMB.
- CUAM China-Hong Kong Strategy Fund seeks to achieve medium to long-term capital growth through investing primarily in securities issued by companies which are established in Greater China or having their income, revenue, assets, economic activities, business or operations associated with Greater China.
- CUAM China-Hong Kong Strategy Fund is denominated in Hong Kong Dollars.
- CUAM Hong Kong Dollar Bond Fund seeks to provide investors with a stable and consistent investment return over medium to long term by investing primarily in Hong Kong Dollar denominated debt securities instruments. The Sub-Fund will invest more than 70% of its assets in Hong Kong Dollar denominated debt securities and certificates of deposits, and not more than 30% of its assets in other currency denominated debt securities.
- CUAM Hong Kong Dollar Bond Fund is denominated in Hong Kong Dollars.
- CUAM Select US Dollar Bond Fund seeks to provide investors with a stable and consistent investment return over medium to long term by investing primarily in USD denominated debt securities instruments.
- CUAM Select US Dollar Bond Fund is denominated in USD.
- Information relating to the Sub-Funds are set out in the Appendices to this Explanatory Memorandum. Investors should refer to the relevant risks under the section headed

“Specific Risk Factors” in the Appendices and the section headed “Risk Factors” in the main part of this Explanatory Memorandum before making any investment decisions.

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## **ADMINISTRATION**

### **Manager**

China Universal Asset Management (Hong Kong) Company Limited

匯添富資產管理（香港）有限公司

Room 3710-3711, 37/F, Two International Finance Centre

8 Finance Street

Central

Hong Kong

### **Trustee and Registrar**

BOCI-Prudential Trustee Limited

12/F & 25/F, Citicorp Centre

18 Whitfield Road

Causeway Bay

Hong Kong

### **Directors of the Manager**

LI Wen

WAN Qing

ZHANG Hui

### **Custodian**

Bank of China (Hong Kong) Limited

14/F., Bank of China Tower, 1 Garden Road

Hong Kong

### **RQFII Custodian**

Bank of China Limited

No. 1, Fuxingmen Nei Dajie

Beijing 100818

China

### **Auditors**

Ernst & Young

22th Floor, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

### **Solicitors to the Manager**

Deacons

5/F, Alexandra House

18 Chater Road

Central

Hong Kong



## DEFINITIONS

The defined terms used in this Explanatory Memorandum have the following meanings:-

<b>“Accounting Date”</b>	Means 31 December in each year or such other date or dates in each year as the Manager may from time to time specify in respect of any Sub-Fund and notify to the Trustee and the Unitholders of such Sub-Fund
<b>“Accounting Period”</b>	Means a period commencing on the date of establishment of the relevant Sub-Fund or on the date next following an Accounting Date of the relevant Sub-Fund and ending on the next succeeding Accounting Date for such Sub-Fund
<b>“Authorised Distributor”</b>	Means any person appointed by the Manager to distribute Units of some or all of the Sub-Funds to potential investors
<b>“Bond Connect”</b>	Bond Connect is a new initiative launched in July 2017 for mutual bond market access between Hong Kong and mainland China established by China Foreign Exchange Trade System & National Interbank Funding Centre, China Central Depository & Clearing Co., Ltd, Shanghai Clearing House, and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit
<b>“Business Day”</b>	Means a day (other than a Saturday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise
<b>“China”, “mainland China” or “PRC”</b>	Means the People’s Republic of China excluding Hong Kong, Macau and Taiwan for purpose of this document
<b>“China A-Shares”</b>	Means shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in Renminbi

and available for investment by domestic (Chinese) investors, holders of the renminbi qualified foreign institutional investors (“**RQFII**”) status and foreign strategic investors approved by the China Securities Regulatory Commission

**“China B-Shares”**

Means shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currencies and available for investment by domestic (Chinese) investors and foreign investors

**“China H-Shares”**

Means shares issued by companies incorporated in the PRC and listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars

**“CIBM”**

China interbank bond market is the over-the-counter market for bonds issued and traded in the PRC. A new scheme was launched in 2016 to open up CIBM to eligible foreign institutional investors to access onshore bonds directly (“**CIBM Initiative**”). Under this scheme, foreign institutions can trade bonds directly through onshore settlement agents (i.e. banks) in the PRC. There are no specific quota limits imposed on the foreign institutional investor

**“connected person”**

Means, in relation to the Manager:

- (a) any person, company or fund beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of the Manager or being able to exercise, directly or indirectly, 20% or more of the total votes in the Manager; or
- (b) any person, company or fund controlled by a person who or which meets one or both of the descriptions given in (a); or
- (c) any member of the group of which the Manager forms part; or
- (d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above

<b>“Custodian”</b>	Means Bank of China (Hong Kong) Limited
<b>“Dealing Day”</b>	Means such days as described in the Appendices for the relevant Sub-Funds
<b>“Dealing Deadline”</b>	Means such time on the relevant Dealing Day or on such other Business Day as the Manager may from time to time with the approval of the Trustee determine, as described in the Appendices for the relevant Sub-Funds
<b>“Explanatory Memorandum”</b>	Means this Explanatory Memorandum including the Appendices, as each may be amended, updated or supplemented from time to time
<b>“Fund”</b>	Means China Universal International Series
<b>“Greater China”</b>	Means the PRC, Hong Kong, Macau and Taiwan
<b>“Hong Kong”</b>	Means Hong Kong Special Administrative Region of the PRC
<b>“HK\$” or “HKD”</b>	Means Hong Kong Dollars, the lawful currency of Hong Kong
<b>“Issue Price”</b>	Means in respect of each Sub-Fund the issue price per Unit as more fully described in the section “Purchase of Units”
<b>“Manager”</b>	Means China Universal Asset Management (Hong Kong) Company Limited
<b>“Net Asset Value”</b>	Means the net asset value of the Fund or a Sub-Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed “Valuation”
<b>“PRC Securities”</b>	Means PRC shares (including China A-, B- and H-Shares), Renminbi denominated corporate and government bonds, securities investment fund and warrants listed on any stock exchanges (including but not limited to stock exchanges in the PRC, Hong Kong, Singapore, London and the United States)

<b>“Realisation Price”</b>	Means the price at which Units will be realised as more fully described in the section headed “Realisation of Units”
<b>“Registrar”</b>	Means BOCI-Prudential Trustee Limited in its capacity as registrar of the Fund
<b>“RMB” or “Renminbi”</b>	Means renminbi, the lawful currency of the PRC
<b>“SFC”</b>	Means the Securities and Futures Commission of Hong Kong
<b>“SFO”</b>	Means the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571)
<b>“Stock Connect”</b>	Means each of the Shanghai-Hong Kong Stock Connect and the Shenzhen-HongKong Stock Connect, and collectively the <b>“Stock Connects”</b>
<b>“Sub-Fund”</b>	Means a sub-fund of the Fund
<b>“Trust Deed”</b>	Means the trust deed establishing the Fund as more fully described in the section headed “Trust Deed”
<b>“Trustee”</b>	Means BOCI-Prudential Trustee Limited in its capacity as trustee of the Fund
<b>“Unit”</b>	Means a unit in a Sub-Fund
<b>“Unitholder”</b>	Means a person registered as a holder of a Unit
<b>“US\$” or “USD”</b>	Means the lawful currency of the United States of America
<b>“Valuation Day”</b>	Means each Dealing Day or such other day as the Manager may from time to time determine as described in the Appendix for the relevant Sub-Fund(s)
<b>“Valuation Point”</b>	Means such time as described in the Appendix for the relevant Sub-Fund to calculate the Net Asset Value

## **INTRODUCTION**

China Universal International Series is a unit trust established pursuant to the Trust Deed and governed by the laws of Hong Kong. All Unitholders are entitled to the benefit of, are bound by and deemed to have notice of the provisions of the Trust Deed.

China Universal International Series is an umbrella unit trust currently offering 4 Sub-Funds. The Manager may create further Sub-Funds in the future. Investors should contact the Authorised Distributor or Manager to obtain the latest offering document relating to the available Sub-Funds.

Multiple classes of Units may be issued in respect of each Sub-Fund and the Manager may create additional classes of Units for any Sub-Fund(s) in its sole discretion in the future. The assets of each Sub-Fund will be invested and administered separately from the assets of the other Sub-Fund(s). The details of the Sub-Fund(s) and/or the new class or classes of Units related thereto that are on offer are set out in the Appendices to this Explanatory Memorandum.

## **INVESTMENT OBJECTIVE**

The investment objective and policy of each Sub-Fund, as well as other important details, are set forth in the Appendix hereto relating to the relevant Sub-Fund.

## **MANAGEMENT AND ADMINISTRATION OF THE FUND**

### **The Manager**

The Manager of the Fund is China Universal Asset Management (Hong Kong) Company Limited.

The Manager is an asset management company registered in Hong Kong on 3 November 2009. The Manager is licensed to carry on Types 1 (Dealing in Securities), 4 (Advising on Securities) and 9 (Asset Management) Regulated Activities under Part V of the SFO. The Manager's SFC Type 1 licence is subject to the condition that "[t]he licensee shall only carry on the business of dealing in collective investment schemes. The terms "collective investment scheme" and "dealing" are as defined under the Securities and Futures Ordinance."

The Manager is a wholly owned subsidiary of the Shanghai-based China Universal Asset Management Company Limited.

The Manager undertakes the management of the assets of the Fund. The Manager may appoint sub-managers or investment advisers in relation to specific Sub-Funds subject to prior SFC

approval. Details of such appointment are set out in the Appendix relating to the relevant Sub-Fund. The remuneration of such sub-managers and investment advisers will be borne by the Manager.

Details of the directors of the Manager are as follows:-

### **LI Wen**

Mr. Li joined China Universal Asset Management Co., Ltd. (“CUAM”) in 2004 and acted as the Chief Compliance Officer. Currently, Mr. Li is the Chairman of the Board of CUAM and China Universal Asset Management (Hong Kong) Company Limited, and the Chairman of Compliance and Risk Management Professional Committee of the Asset Management Association of China (中國證券投資基金業協會合規與風險管理專業委員會).

Prior to joining CUAM, Mr. Li worked as the Head of Audit Department in the People’s Bank of China, Xiamen City Branch, the Deputy Governor of the People’s Bank of China, Xinlin Sub-branch, the Deputy Administrator of the State Administration of Foreign Exchange, Xinlin Branch, the Deputy Director of Banking Supervisory I Division and Banking Supervisory II Division in the People’s Bank of China, Xiamen City Central Branch, the Deputy General Manager of the Capital Finance Management Department and the General Manager of the Audit Department in Orient Securities Company Limited. He also worked as the General Manager of Capital Finance Management Department in Orient Securities Company Limited.

Mr. Li holds a Doctoral Degree in Management.

### **WAN Qing**

Mr. Wan is currently the Director, Chief Executive Officer and Chief Investment Officer of China Universal Asset Management (Hong Kong) Company Limited.

Prior to joining China Universal Asset Management (Hong Kong) Company Limited, Mr. Wan was the Deputy CEO of GF Holdings (Hong Kong) Corporation Limited and the Chief Investment Officer and Executive Director of GF Asset Management (Hong Kong) Limited.

Mr. Wan has many years of experience in financial and securities industry and is familiar with the securities markets in the Greater China region, Australia and New Zealand. Mr. Wan holds a MBA degree and is also a Chartered Financial Analyst (CFA).

## **ZHANG Hui**

Mr. Zhang joined CUAM in 2005 and took the positions of the Deputy General Manager / Chief Investment Officer / Deputy President of Investment Decision Committee. He took over the role of General Manager of CUAM in June 2015. Mr. Zhang has been the responsible officer of China Universal Asset Management (Hong Kong) Company Limited since March 2013. He has also been the Director of China Universal Asset Management (Hong Kong) Company Limited since November 2013.

Mr. Zhang has many years of experience in asset management industry. Prior to joining CUAM, Mr. Zhang worked in SWS Research as the Senior Analyst. He also acted as the Senior Analyst, Head of Research and Fund Manager of Fullgoal Fund Management Co., Ltd. Mr. Zhang was a member of the 10th and 11th Issuance Examination Committee of China Securities Regulatory Commission.

Mr. Zhang holds a Master of Economics degree.

### **The Trustee and the Registrar**

BOCI-Prudential Trustee Limited, which is a registered trust company in Hong Kong, has been appointed as Trustee and Registrar of the Fund. The Trustee is a joint venture founded by BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited. BOC Group Trustee Company Limited is owned by Bank of China (Hong Kong) Limited and BOC International Holdings Limited, which are subsidiaries of Bank of China Limited.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Fund and monitoring the compliance by the Manager with the requirements of the Trust Deed. As the Registrar of the Fund, BOCI-Prudential Trustee Limited will be responsible for maintaining the register of Unitholders. The register of Unitholders will be kept at the registered office of the Registrar in Hong Kong.

In respect of the CUAM RMB Bond*plus* Fund and CUAM China-Hong Kong Strategy Fund, the Trustee has put in place proper arrangements to ensure that:

- the Trustee takes into its custody or under its control the assets of the Sub-Funds, including assets deposited in the securities and cash accounts with the RQFII Custodian, and holds the same in trust for the holders of the Sub-Funds;
- the Trustee registers the assets of the Sub-Funds, including assets deposited in the securities and cash accounts with the RQFII Custodian, to the order of the Trustee; and

- the RQFII Custodian will look to the Trustee for instructions (through the Custodian) and solely act in accordance with the Trustee's instructions (through the Custodian).

## **The Custodian**

The Custodian of the Fund is Bank of China (Hong Kong) Limited ("BOCHK").

The Custodian was incorporated in Hong Kong on 16 October 1964. As a locally incorporated licensed bank, it was re-structured to the present form since 1 October 2001 by combining the businesses of ten of the twelve banks in Hong Kong originally belonging to the Bank of China Group. In addition, it holds shares in Nanyang Commercial Bank Limited and Chiyu Banking Corporation Limited, both of which are incorporated in Hong Kong, as well as BOC Credit Card (International) Limited.

BOC Hong Kong (Holdings) Limited was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in BOCHK, its principal operating subsidiary. After a successful global IPO, BOC Hong Kong (Holdings) Limited began trading on the Main Board of the Stock Exchange of Hong Kong Limited on 25 July 2002 with stock code "2388" and became a Hang Seng Index constituent stock on 2 December 2002.

With a network of over 280 branches, servicing more than 600,000 corporates and 2 million retail customers, the Custodian is the second largest banking group in Hong Kong. It offers a full range of banking services, including global custody and also fund services for institutional clients.

Pursuant to the custody agreement, the Custodian will act as the custodian of the Fund's assets, which will be held directly by the Custodian or through its agents, sub-custodians, or delegates pursuant to the custody agreement.

## **The RQFII Custodian**

For Sub-Fund(s) that invest in debt instruments issued within mainland China, China A-Shares or other permissible investments in the PRC through renminbi qualified foreign institutional investors (RQFII), the relevant RQFII is required to appoint a custodian in the PRC for the custody of assets, pursuant to relevant laws and regulations. Bank of China Limited has been appointed as the RQFII Custodian in respect of the investments held by the relevant Sub-Fund(s).

Bank of China was founded in February 1912 following the approval of Dr. Sun Yat-sen. Until the founding of the People's Republic of China in 1949, the Bank served as the central bank, international exchange bank and specialized foreign trade bank of the country. In 1994, Bank



of China was transformed into a state-owned commercial bank. It was then selected as a pilot bank for the joint stock reforms of state-owned commercial banks in 2003, so it was incorporated in August 2004 and got listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first A and H dual listed Chinese commercial bank.

Bank of China Limited engages in full-scaled commercial banking business, including a wide spectrum of corporate and retail services, treasury functions and institutional banking. The latter refers to services offered to banks, brokerage houses, fund companies, and insurance companies worldwide, ranging from clearing and inter-bank lending to agency and custody services etc. The Bank has been providing custody services since 1998 as one of the first qualified custodians in the China market. During the past decade, the Bank has been playing a leading role in the domestic custodian industry in terms of research capabilities, service standards, internal controls and IT constructions. At the end of 2011, the Bank served thousands of custody accounts for more than twenty different categories of investment products or schemes for different kinds of clients or investors, with around 3 trillion RMB of total assets under custody within the Bank of China Group world-wide. Its Custody and Investor Services Department has over 130 professional staff. Fund houses, insurance companies, securities firms, trust companies, commercial banks, National Council for Social Security, pensions, private equity companies, and individual clients are all well served by the Bank. In addition, the Bank has been maintaining a close relationship with various regulatory authorities to enable effective communication and better services.

### **The Authorised Distributor**

The Manager may appoint one or more Authorised Distributor(s) to distribute Units of one or more Sub-Funds, and to receive applications for subscription, realisation and/or conversion of Units on the Manager's behalf.

### **The Auditors**

Ernst & Young has been appointed to act as auditors to the Fund and the Sub-Funds.

It is expected that the engagement letter to be entered into between the Fund, the Sub-Funds and Ernst & Young will contain provisions limiting the liability of Ernst & Young arising out of or in connection with the engagement to an amount equal to one times the fees paid except to the extent finally determined to have resulted from the wilful or intentional neglect or misconduct or fraudulent behaviour of Ernst & Young.

Other release and indemnity provisions are also likely to be contained in the engagement letter relating to consequential loss, third party claims and fraudulent acts or omissions,

misrepresentations or wilful default on the part of the Fund, the Sub-Funds, its Trustee, employees or agents. The engagement letter is also expected to require that the Fund and Sub-Funds make any claim arising in connection with the engagement be brought against Ernst & Young no later than six years of the act or omission alleged to have caused the loss in question.

## **CLASSES OF UNITS**

Different classes of Units may be offered for each Sub-Fund. Although the assets attributable to each class of Units of a Sub-Fund will form one single pool, each class of Units may have a different charging structure with the result that the net asset value attributable to each class of Units of a Sub-Fund may differ. In addition, each class of Units may be subject to different minimum initial and subsequent subscription amounts and holding amounts, and minimum realisation and conversion amounts. Investors should refer to the relevant Appendix for the available classes of Units and the applicable minimum amounts. The Manager may in its discretion agree to accept applications for subscription, realisation and conversion of certain classes below the applicable minimum amounts.

## **DEALING DAY AND DEALING DEADLINE**

The Manager may from time to time with the approval of the Trustee determine generally or in relation to any particular jurisdiction the time on such Dealing Day or on such other Business Day (on which Units may from time to time be sold) prior to which instructions for subscriptions, realisations or conversions are to be received in order to be dealt with on a particular Dealing Day. The Dealing Day and the relevant Dealing Deadline for each Sub-Fund are set out in the relevant Appendix.

Investors should note that subscription, realisation or conversion of Units may be placed through Authorised Distributors or through other authorised and/or electronic means as from time to time determined by the Manager. The Authorised Distributor(s), other authorised and/or electronic means may impose different dealing procedures and/or an earlier cut-off time before the Dealing Deadlines for receiving instructions for subscription, realisation or conversion. Investors should confirm the arrangements with the Authorised Distributor(s) concerned on the arrangements and dealing procedures.

## **PURCHASE OF UNITS**

### **Initial Offer**

Details of the initial offer of Units are set forth in the Appendix relating to the relevant Sub-Fund.

### **Subsequent Subscription**

Following the close of the initial offer period, Units will be issued at the prevailing Issue Price. The Issue Price on any Dealing Day will be the Net Asset Value of the relevant Sub-Fund as at the Valuation Point in respect of the Dealing Day divided by the number of Units then in issue, rounded to 3 decimal places. Any rounding adjustment shall be retained for the benefit of the relevant Sub-Fund. In calculating the Issue Price, the Manager may impose surcharges to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the total cost of acquiring such assets including other relevant expenses such as taxes, governmental charges, brokerages, etc.

Unless otherwise disclosed in the Appendix of a Sub-Fund, applications for subscription of any class of Units in a Sub-Fund (together with application moneys in cleared funds), if received prior to the Dealing Deadline by the Manager, will be dealt with on that Dealing Day. Applications received after the Dealing Deadline in relation to a Dealing Day will be held over until the next Dealing Day.

Units may not be issued during the period of any suspension of the determination of the Net Asset Value relating to such class of Units of a Sub-Fund (for details see the section below headed "Suspension of Calculation of Net Asset Value").

### **Application Procedure**

To purchase Units an investor should complete the application form, which may be obtained from the Manager or Authorised Distributors (the “**Application Form**”), and return the original Application Form (if original is required by the Manager or the Trustee) to the Manager or Authorised Distributors (details of which as set out in the Application Form). There may be other means (including electronic applications) by which investors may apply for Units. Investors should enquire the availability of these alternative means with the Manager or Authorised Distributor.

Applications will generally be accepted on a Dealing Day only if cleared funds have been received on or prior to such Dealing Day in relation to which Units are to be issued. Notwithstanding the above and subject to the discretion of the Manager, a Sub-Fund may rely

upon application orders received, even prior to receipt of application moneys, and may issue Units to investors according to such orders and invest the expected application amounts. If payment is not cleared within 7 Business Days following the relevant Dealing Day (or such other date as the Manager shall determine and notify the relevant applicant at the time of receipt of the application), the Manager reserves the right to cancel the transaction. In such circumstances, an investor may be required to settle the difference between the prices at issue and at cancellation of the Units concerned and in addition the appropriate cancellation fees representing the administrative costs in processing the application of the relevant investor.

The Application Form, unless the original is required by the Manager or the Trustee, may also be sent by facsimile or other means determined by the Manager or the Trustee from time to time. Investors should be reminded that if they choose to send the Application Forms by facsimile or other means, they bear their own risk of such applications not being received. Investors should note that the Fund, the Sub-Funds, the Manager, the Trustee and their respective agents and delegates accept no responsibility for any loss caused as a result of non-receipt or illegibility of any application sent by facsimile or for any loss caused in respect of any action taken as a consequence of such facsimile instructions believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a facsimile transmission report produced by the originator of such transmission discloses that such transmission was sent. Investors should therefore for their own benefit confirm with the Manager safe receipt of an application.

Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of Units but no certificates will be issued.

The Manager, at its discretion, is entitled to impose a preliminary charge of up to 5.00% on the Issue Price of each Unit, and the current rates are described in the relevant Appendix for each Sub-Fund. The Manager may retain the benefit of such charge or may re-allow or pay all or part of the preliminary charge (and any other fees received) to intermediaries or such other persons as the Manager may at its absolute discretion determine. The Manager also has discretion to waive the preliminary charge in whole or in part in relation to any subscription for Units whether generally or in a particular case.

### **Investment Minima**

Details of the minimum initial subscription, minimum holding, minimum subsequent subscription and minimum realisation amounts applicable to each class of Units in each Sub-Fund are set out in the relevant Appendix.

The Manager has the discretion to waive, change or accept an amount lower than the above amounts, whether generally or in a particular case.

## **Payment Procedure**

Subscription moneys should normally be paid in the relevant base currency as disclosed in the relevant Appendix. Subject to the agreement of the Trustee or the Manager and to applicable limits on foreign exchange, and unless otherwise specified in relevant Appendix, arrangements can be made for applicants to pay for Units in most other major currencies and in such cases, the cost of currency conversion will be borne by the applicant.

All payments should be made by cheque, direct transfer, telegraphic transfer or banker's draft (or other manner as may be agreed by the Manager). Cheques and banker's drafts should be crossed "a/c payee only, not negotiable" and made payable to "BOCI-Prudential Trustee Limited", stating the name of the relevant Sub-Fund to be subscribed, and sent with the Application Form. Payment by cheque is likely to cause delay in receipt of cleared funds and Units generally will not be issued until the cheque is cleared. Any costs of transfer of application moneys to a Sub-Fund will be payable by the applicant.

Details of payments by telegraphic transfer are set out in the Application Form.

All application moneys must originate from an account held in the name of the applicant. No third party payments shall be accepted. The applicant is responsible for providing the evidence of its source of application moneys.

**No money should be paid to any intermediary in Hong Kong who is not licensed by or registered with the SFC to conduct Type 1 (Dealing in Securities) regulated activity under Part V of the SFO.**

## **General**

All holdings will be held for investors in registered form and 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 and the Trustee are informed of any change to the registered details.

Fractions of Units may be issued rounded to the nearest 3 decimal places. Application moneys representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. The

Manager reserves the right to reject any application in whole or in part. In the event that an application is rejected, application moneys will be returned without interest by cheque through the post, by telegraphic transfer to the bank account from which the moneys originated at the risk and expense of the applicants, or in such other manner determined by the Manager. A maximum of 4 persons may be registered as joint Unitholders.

## **REALISATION OF UNITS**

### **Realisation Procedure**

Unitholders who wish to realise their Units may do so on any Dealing Day by submitting a realisation request to the Manager or Authorised Distributors before the Dealing Deadline for the relevant Sub-Fund, as defined in the relevant Appendix. Unless otherwise stated in the Appendix of the relevant Sub-Fund, realisation requests received after the Dealing Deadline will be carried forward and dealt with on the next Dealing Day.

Partial realisations may be effected subject to any minimum realisation amount for each class of Units of a Sub-Fund as disclosed in the relevant Appendix or as the Manager may determine from time to time whether generally or in a particular case.

If a request for realisation will result in a Unitholder holding Units in a class to the value of less than the minimum holding amount of that class as set out in the relevant Appendix of a Sub-Fund, the Manager may deem such request to have been made in respect of all the Units of that class held by that Unitholder. The Manager has the discretion to waive the requirement for a minimum holding of Units, whether generally or in a particular case.

A realisation request, unless the original is required by the Manager or the Trustee, may be sent by facsimile or other means, and must specify (i) the name of the Sub-Fund and the value or number of Units to be realised; (ii) the relevant class of Units to be realised (iii) the name(s) of the registered holder(s); and (iv) the payment instructions for the realisation proceeds. Investors should be reminded that if they choose to send realisation requests by facsimile, they bear their own risk of the requests not being received or illegible. Investors should note that the Fund, the Sub-Funds, the Manager, the Trustee and their respective agents and delegates accept no responsibility for any loss caused as a result of non-receipt or illegibility of any realisation request sent by facsimile and other means or for any loss caused in respect of any action taken as a consequence of such facsimile instructions believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a facsimile transmission report produced by the originator of such transmission discloses that such transmission was sent. Investors should therefore for their own benefit confirm with the Manager safe receipt of a request.

A request for realisation once given cannot be revoked without the consent of the Manager.

### **Payment of Realisation Proceeds**

The Realisation Price on any Dealing Day shall be the price per Unit ascertained by dividing the Net Asset Value of the relevant Sub-Fund as at the Valuation Point in respect of the Dealing Day by the number of Units then in issue rounded to 3 decimal places. Any rounding adjustment shall be retained by the relevant Sub-Fund. Such price shall be calculated in the base currency of the relevant Sub-Fund. In calculating the Realisation Price, the Manager may impose deductions to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the net proceeds which would be received on sale of such assets and for the relevant expenses such as taxes, governmental charges, brokerages, etc.

The Manager may at its option impose a realisation charge of up to 5% of the Realisation Price of the relevant class of Units to be realised. The realisation charge, if any, is described in the relevant Appendix. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the realisation charge to be imposed (within the permitted limit).

The amount due to a Unitholder on the realisation of a Unit pursuant to the paragraphs above shall be the Realisation Price, less any realisation charge and any rounding adjustment in respect thereof. The rounding adjustment aforesaid in relation to the realisation of any Units shall be retained as part of the relevant Sub-Fund. The realisation charge shall be retained by the Manager for its own use and benefit.

Realisation proceeds will not be paid to any realising Unitholder until (a) unless otherwise agreed by the Trustee, the written original of the realisation request (in the required form) duly signed by the Unitholder has been received and (b) where realisation proceeds are to be paid by telegraphic transfer, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee.

The Manager or the Trustee, as the case may be, may, in its absolute discretion, refuse to make a realisation payment to a Unitholder if (i) the Manager or the Trustee, as the case may be, suspects or is advised that the payment of any realisation proceeds to such Unitholder may result in a breach or violation of any anti-money laundering law by any person in any relevant jurisdiction or other laws or regulations by any person in any relevant jurisdiction, or such refusal is considered necessary or appropriate to ensure the compliance by the Fund, the

Manager, the Trustee or its other service providers with any such laws or regulations in any relevant jurisdiction; or (ii) there is a delay or failure by the realising Unitholder in producing any information or documentation required by the Trustee and/or the Manager or their respective duly authorised agent for the purpose of verification of identity.

In the event that there is a delay in receipt by the Manager or the Trustee of the proceeds of realisation of the investments of the relevant Sub-Fund to meet realisation requests, the Manager or the Trustee may delay the payment of the relevant portion of the amount due on the realisation of Units. If the Manager or the Trustee is required by the laws of any relevant jurisdiction to make a withholding from any realisation moneys payable to the holder of a Unit the amount of such withholding shall be deducted from the realisation moneys otherwise payable to such person.

Subject as specified in the Appendix of the relevant Sub-Fund and so long as relevant account details have been provided, realisation proceeds will be paid in the base currency of the relevant Sub-Fund by direct transfer or telegraphic transfer, normally within 7 Business Days after the relevant Dealing Day (or as otherwise specified in the Appendix of the relevant Sub-Fund) and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for realisation of Units. Unless the Manager and the Trustee otherwise agree, realisation proceeds will only be paid to a bank account that bears the name of the realising Unitholder. Subject to the agreement of the Manager, realisation proceeds may be paid to the realising Unitholder (or to all joint Unitholders) at the Unitholder's risk by cheque, usually in the base currency of the relevant Sub-Fund and sent to the realising Unitholder at the last known address (in the case of joint Unitholders, at the last known address of the first-named joint Unitholder) held in the records of the register of Unitholders.

Unless otherwise specified in the relevant Appendix relation to a Sub-Fund and subject to the agreement of the Trustee or the Manager, and to applicable limits on foreign exchange, realisation proceeds can be paid in a currency other than the base currency of a Unit at the request and expense of the Unitholder. In such circumstances, the Trustee or the Manager shall use such currency exchange rates as it may from time to time determine. None of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder for any loss suffered by any person arising from the said currency conversion.

The Trust Deed also provides for payment of realisation proceeds in specie with the consent of the relevant Unitholder.

## **CONVERSION BETWEEN SUB-FUNDS**

Unitholders have the right (subject to such limitations as the Manager after consulting with the Trustee may impose) to convert all or part of their Units of any class relating to a Sub-Fund into



Units relating to another Sub-Fund by giving notice in writing to the Manager or Authorised Distributors. A request for conversion will not be effected if as a result the relevant holder would hold less than the minimum holding of Units of the relevant class prescribed by, or is prohibited from holding Units of that Sub-Fund under, the relevant Appendix. Unless the Manager otherwise agrees, no conversion may be made between Units denominated in RMB and Units denominated in another currency. Units of a class of a Sub-Fund can only be switched into Units of the same class of another Sub-Fund.

Units shall not be converted during any period when the determination of the Net Asset Value of any relevant Sub-Fund is suspended.

Requests for conversion received prior to the Dealing Deadline for a Dealing Day will be dealt with on that Dealing Day. Neither the Manager nor the Trustee shall be responsible to any Unitholder for any loss resulting from the non-receipt of a request for conversion or any amendment to a request for conversion prior to receipt. Notices to convert may not be withdrawn without the consent of the Manager.

The rate at which the whole or any part of a holding of Units relating to a Sub-Fund (the “**Existing Sub-Fund**”) will be converted to Units relating to another Sub-Fund (the “**New Sub-Fund**”) will be determined in accordance with the following formula:

$$N = \frac{(E \times R \times F)}{S + SF}$$

Where:

N is the number of Units of the relevant class of the New Sub-Fund to be issued.

E is the number of Units of the relevant class of the Existing Sub-Fund to be converted.

F is the currency conversion factor determined by the Manager for the relevant Dealing Day as representing the effective rate of exchange between the base currency of the relevant class of Units of the Existing Sub-Fund and the base currency of the relevant class of Units of the New Sub-Fund.

R is the Realisation Price of the relevant class of the Existing Sub-Fund applicable on the relevant Dealing Day less any Realisation Charge imposed by the Manager.

S is the Issue Price for the relevant class of the New Sub-Fund applicable on the Dealing Day of the New Sub-Fund or immediately following the relevant Dealing Day

PROVIDED THAT where the issue of Units of the New Sub-Fund is subject to the satisfaction of any conditions precedent to such issue then S shall be the Issue Price of the relevant class of the New Sub-Fund applicable on the first Dealing Day for the New Sub-Fund falling on or after the satisfaction of such conditions.

SF is a conversion charge per Unit (if any).

The Manager has a right to impose a conversion charge of up to 1.00% of the Issue Price of the Units of the New Sub-Fund in relation to the conversion of Units and the current rates are set out in the relevant Appendix.

Depending on the Valuation Point of the Sub-Fund and the time required to remit the conversion money, the day on which investments are converted into the New Sub-Fund may be later than the day on which investments in the Existing Sub-Fund are switched out or the day on which the instruction to convert is given.

### **Restrictions on realisation and conversion**

The Manager may suspend the realisation or conversion of Units or delay the payment of realisation proceeds during any periods in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below).

Any Unitholder may at any time after such a suspension has been declared and before lifting of such suspension withdraw any request for the realisation of Units of such class by notice in writing to the Manager or Authorised Distributors.

With a view to protecting the interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of Units of any Sub-Fund realised on any Dealing Day (whether by sale to the Manager or by cancellation of Units) to 10% of the total number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Sub-Fund who have validly requested to realise Units of the same Sub-Fund on that Dealing Day will realise the same proportion of such Units of that Sub-Fund provided that any holdings so requested to be realised being in aggregate of not more than 1% of the total number of Units of any Sub-Fund in issue may be realised in full if in the opinion of the Manager with the Trustee’s approval the application of such limitation would be unduly onerous or unfair to the Unitholder or Unitholders concerned. Any Units not realised (but which would otherwise have been realised) will be carried forward for realisation, subject to the same limitation, and will have priority on the next succeeding Dealing Day and all following Dealing Days (in relation to which the Manager has the same power) until the

original request has been satisfied in full. If requests for realisation are so carried forward, the Manager will inform the Unitholders concerned within 7 days of such Dealing Day.

The Manager does not authorise practices connected to market timing and it reserves the right to reject any applications for subscriptions or conversions of Units from a Unitholder which it suspects to use such practices and take, the case be, the necessary measures to protect the Unitholders of the Sub-Funds.

Market timing is to be understood as an arbitrage method through which a Unitholder systematically subscribes and realises or converts Units within a short time period, by taking advantage of time differences and/or imperfections or deficiencies in the method of determination of the Net Asset Value of the concerned Sub-Funds.

## VALUATION

The value of the net assets of each Sub-Fund will be determined as at each Valuation Point in accordance with the Trust Deed. The Trust Deed provides (inter alia) that:-

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies or a commodity, and subject as provided in paragraph (f) below, all calculations based on the value of investments quoted, listed or dealt in on any stock exchange, over-the-counter (“**OTC**”) market or securities market (“**Securities Market**”) shall be made by reference to the last traded price on the principal Securities Market for such investments, at or immediately preceding the Valuation Point, provided that if the Manager in its discretion considers that the prices ruling on a Securities Market other than the principal Securities Market provide in all the circumstances a fairer criterion of value in relation to any such investment, it may adopt such prices; and in determining such prices the Manager and the Trustee shall be entitled to use and rely on without verification electronic price feeds from such source or sources as they may from time to time determine notwithstanding the prices used are not the last traded prices;
- (b) subject as provided in paragraphs (c) and (f) below, the value of each interest in any collective investment scheme shall be the net asset value per unit or share as at the same day, or if such collective investment scheme is not valued as at the same day, the last published net asset value per unit or share in such collective investment scheme (where available) or (if the same is not available) the last published realisation or bid price for such Unit or share at or immediately preceding the Valuation Point;

- (c) if no net asset value, bid and offer prices or price quotations are available as provided in paragraph (b) above, the value of the relevant investment shall be determined from time to time in such manner as the Manager shall determine with the approval of the Trustee;
- (d) the value of any investment which is not quoted, listed or normally dealt in on a market shall be the initial value thereof equal to the amount expended out of the Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investment;
- (e) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the value thereof;
- (f) notwithstanding the foregoing, the Manager may with the consent of the Trustee adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment or use of such other method is required to reflect the fair value of the investment; and
- (g) the value (whether of a borrowing, other liability, investment or cash) otherwise than in the base currency of a Sub-Fund shall be converted into the base currency at the rate (whether official or otherwise) which the Manager or the Trustee shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

Investors should note that under Hong Kong Financial Reporting Standards (“**HKFRS**”), investments should be valued at fair value and also that, under HKFRS, closing bid (for long positions) and closing offer (for short positions) pricing is considered to be representative of fair value for listed investments. However, under the valuation basis described above, listed investments are expected to be valued at the last traded price instead of closing bid and closing offer pricing as required under HKFRS which may lead to a different valuation had the valuation be performed in accordance with HKFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and net asset value of a Sub-Fund materially. To the extent that the valuation basis adopted by a Sub-Fund deviates from HKFRS, the Manager may make necessary adjustment in the accounts of the Sub-Fund for the accounts to be in compliance with HKFRS and include a reconciliation note in the annual accounts of the Sub-Fund to reconcile values arrived at by applying the Sub-Fund’s valuation rules. If the net asset value of the Sub-Fund is not adjusted in

preparation of the annual accounts, non-compliance with HKFRS may result in the auditors qualifying their opinion on those annual accounts depending on the nature and level of materiality of the non-compliance.

### **Suspension of Calculation of Net Asset Value**

The Manager may, after giving notice to the Trustee, declare a suspension of the determination of the Net Asset Value of a Sub-Fund for the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any commodities market or securities market on which a substantial part of the investments of the relevant Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager or the Trustee (as the case may be) in ascertaining the prices of investments or the Net Asset Value of the relevant Sub-Fund or the Issue Price or Realisation Price; or
- (b) for any other reason the prices of investments held or contracted for by the Manager for the account of that Sub-Fund (representing a substantial portion of the assets of the Sub-Fund) cannot, in the opinion of the Manager, reasonably, promptly or fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments held or contracted for the account of that Sub-Fund or it is not possible to do so without seriously prejudicing the interests of Unitholders of the relevant class; or
- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of that Sub-Fund or the issue or realisation of Units of the relevant class in the Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (e) when a breakdown in the systems and/or means of communication usually employed in ascertaining the value of any of the investments or other assets of that Sub-Fund (representing a substantial portion of the assets of the Sub-Fund) or the Net Asset Value of that Sub-Fund or the Issue Price or Realisation Price takes place or when for any other reason the value of any of the investments or other assets of that Sub-Fund (representing a substantial portion of the assets of the Sub-Fund) or the Net Asset Value of that Sub-Fund or the Issue Price or Realisation Price cannot in the opinion of the

Manager reasonably or fairly be ascertained or cannot be ascertained in a prompt or accurate manner; or

- (f) when, in the opinion of the Manager, such suspension is required by law or applicable legal process; or
- (g) where that Sub-Fund is invested in one or more collective investment schemes and the redemption of interests in a relevant collective investment scheme (representing a substantial portion of the assets of the Sub-Fund) is suspended or restricted; or
- (h) when the business operations of the Manager, the Trustee or any of their delegates in relation to the operations of that Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God; or
- (i) when the Unitholders or the Manager have resolved or given notice to terminate that Sub-Fund; or
- (j) during any period when in the opinion of the Manager and the Trustee, there exist circumstances outside the control of the Manager and the Trustee where it would be impracticable or unfair towards the Unitholders to continue dealing in Units of any Sub-Fund of the Fund.

Such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value of the relevant Sub-Fund until the Manager shall declare the suspension at an end, except that the suspension shall terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension shall have ceased to exist and (ii) no other condition under which suspension is authorised shall exist.

Whenever the Manager declares such a suspension it shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice in the South China Morning Post and the Hong Kong Economic Times.

No Units in the relevant Sub-Fund may be issued, realised or converted during such a period of suspension. For the avoidance of doubt, the issuance, realisation and conversion of Units in respect of any requests accepted and processed by the Manager prior to the suspension period will not be affected by the suspension.

## INVESTMENT AND BORROWING RESTRICTIONS

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager. Unless otherwise disclosed in the Appendix for each Sub-Fund and agreed by the SFC, each of the Sub-Fund(s) is subject to the following principal investment restrictions:-

- (a) not more than 10% of the Net Asset Value of a Sub-Fund may consist of securities (other than Government and other public securities) issued by a single issuer;
- (b) a Sub-Fund may not hold more than 10% (when aggregated with the holdings of all the other Sub-Funds) of any ordinary shares issued by any single issuer;
- (c) not more than 15% of the Net Asset Value of a Sub-Fund may consist of securities of any company not listed, quoted or dealt in on a stock exchange, over-the-counter market or other organised securities market;
- (d) not invest in warrants and options not held for hedging purposes in term of total amount of premium paid exceeding 15% of the Net Asset Value of a Sub-Fund;
- (e) (i) not more than 10% of the Net Asset Value of a Sub-Fund may consist of shares or units in other open ended unit trusts or mutual funds (“**managed funds**”) which are non-recognised jurisdiction schemes (as permitted under the Code on Unit Trusts and Mutual Funds, or the “**Code**”) and not authorised by the SFC; (ii) not more than 30% of the Net Asset Value of a Sub-Fund may consist of shares or units in a managed fund which is a recognised jurisdiction scheme (as defined under the Code) or an SFC-authorised scheme; provided that:-
  - (1) no investment may be made in a managed fund the investment objective of which is to invest in any investment prohibited under this section;
  - (2) where the investment objective of such managed fund is to invest primarily in investments restricted under this section, such holdings may not be in contravention of the relevant limitation;
  - (3) all initial charges on the managed fund must be waived if the managed fund is managed by the Manager or any of its connected persons; and
  - (4) the Manager may not obtain a rebate on any fees or charges levied by such managed fund or its manager.

- (f) not more than 20% of the Net Asset Value of a Sub-Fund may consist of physical commodities (including gold, silver, platinum or other bullion) and commodity based investments (other than shares in companies engaged in producing, processing or trading in commodities);
- (g) the net aggregate value of futures contract prices, whether payable to or by a Sub-Fund (other than futures contracts entered into for hedging purposes), together with the aggregate value of investments falling within paragraph (f) above held by that Sub-Fund, may not exceed 20% of the Net Asset Value of that Sub-Fund;
- (h) not more than 30% of the Net Asset Value of a Sub-Fund may consist of Government and other public securities of a single issue;
- (i) subject to paragraph (h) above, a Sub-Fund may be fully invested in Government and other public securities issued by a single issuer provided that it holds Government and other public securities of at least six different issues; and
- (j) if the name of a Sub-Fund indicates a particular objective, geographic region or market, the Sub-Fund will invest at least 70% of its non-cash assets in securities and other investments to reflect the particular objective or geographic region or market which the Sub-Fund represents.

For the purpose of this section, “Government and other public securities” means any investment issued by, or the payment of principal and interest on, which is guaranteed by the government of any member state of the Organisation for Economic Co-operation and Development (“OECD”) or any fixed interest investment issued in any OECD country by a public or local authority or nationalised industry of any OECD country or anywhere in the world by any other body which is, in the opinion of the Trustee, of similar standing.

The Manager shall not on behalf of any Sub-Fund(s):-

- (i) invest in a security of any class in any company or body if any director and officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or collectively own more than 5% of those securities;
- (ii) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies or interests in REITs);



- (iii) make short sales if as a consequence the liability of such Sub-Fund to deliver securities would exceed 10% of the Net Asset Value of such Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);
- (iv) write uncovered options;
- (v) write a call option if the aggregate of the exercise prices of all call options written on behalf of the relevant Sub-Fund would exceed 25% of the Net Asset Value of that Sub-Fund;
- (vi) make a loan out of that Sub-Fund without the prior written consent of the Trustee except to the extent that the acquisition of an investment or the making of a deposit might constitute a loan;
- (vii) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person without the prior written consent of the Trustee;
- (viii) enter into any obligation on behalf of a Sub-Fund or acquire any asset for the account of that Sub-Fund which involves the assumption of any liability which is unlimited; or
- (ix) apply any part of a Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made unless such call could be met in full out of cash or near cash forming part of such Sub-Fund which has not been appropriated and set aside for any other purposes and shall not be entitled without the consent of the Trustee to apply any part of the relevant Sub-Fund in the acquisition of any other investment which is in the opinion of the Trustee likely to involve the Trustee in any liability (contingent or otherwise).

### **Borrowing Restrictions**

Unless otherwise disclosed below or in the relevant Appendix, the Manager may borrow up to 25% of the latest available Net Asset Value of a Sub-Fund to acquire investments, to realise Units or to pay expenses relating to the relevant Sub-Fund. For this purpose, back-to-back loans do not count as borrowing. The assets of a Sub-Fund may be charged or pledged as security for any such borrowings.

If the investment and borrowing restrictions set out above are breached, the Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Unitholders.

### **Securities Lending and Repurchase Transactions**

The Manager does not currently intend to enter into securities lending transactions or repurchase and reverse repurchase transactions for any of the Sub-Funds. Prior approval will be sought from the SFC and at least one month prior notice will be given to Unitholders should there be a change in such intention. The Explanatory Memorandum will be updated accordingly.

## **RISK FACTORS**

Investors should consider the following risks and any additional risk(s) relating to any specific Sub-Fund, contained in the relevant Appendix, before investing in any of the Sub-Funds. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not a Sub-Fund is suitable for them, they should obtain independent professional advice.

There is no assurance that the investment objective of the respective Sub-Fund will be achieved. Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of any Sub-Fund and the income from them may go down as well as up.

- (i) Investment risk - The instruments invested by the Sub-Fund may fall in value due to any of the key risk factors below and therefore your investment in the Sub-Fund may suffer losses. There is no guarantee of the repayment of principal.
- (ii) Equity market risk - Certain Sub-Funds' investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.
- (iii) Market risk - The value of investments and the income derived from such investments may fall as well as rise and investors may not recoup the original amount invested in the Sub-Funds. In particular, the value of investments may be affected by uncertainties such as international, political and economic developments or changes in government policies. In falling equity markets there may be increased volatility. Market prices in such circumstances may defy rational analysis or expectation for prolonged periods of

time, and can be influenced by movements of large funds as a result of short-term factors, counter-speculative measures or other reasons.

- (iv) China market risk - Investing in the China market is subject to the risks of investing in emerging markets generally and the risks specific to the China market.

Since 1978, the PRC government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the Chinese economy, moving from the previous planned economy system. However, many of the economic measures are experimental or unprecedented and may be subject to adjustment and modification. Any significant change in PRC's political, social or economic policies may have a negative impact on investments in the China market.

The regulatory and legal framework for capital markets and joint stock companies in the PRC may not be as well developed as those of developed countries. Chinese accounting standards and practices may deviate significantly from international accounting standards. The settlement and clearing systems of the Chinese securities markets may not be well tested and may be subject to increased risks of error or inefficiency.

Investments in equity interests of Chinese companies may be made through China A-Shares, B-Shares and H-Shares (i.e. shares issued by companies incorporated in the PRC and listed on the Stock Exchange of Hong Kong and traded in Hong Kong dollars). Investment in RMB denominated bonds may be made in or outside the PRC. As the number of these securities and their combined total market value are relatively small compared to more developed markets, investments in these securities may be subject to increased price volatility and lower liquidity.

Investors should also be aware that changes in the PRC taxation legislation could affect the amount of income which may be derived, and the amount of capital returned, from the investments of the relevant Sub-Fund. Laws governing taxation will continue to change and may contain conflicts and ambiguities.

- (v) Foreign exchange control risk - The Renminbi is not currently a freely convertible currency and is subject to exchange control imposed by the Chinese government. The Chinese government's control of currency conversion and movements in the Renminbi exchange rates may adversely affect the operations and financial results of companies in the PRC. Insofar as a Sub-Fund's assets are invested in the PRC, it will be subject to the risk of the PRC government's imposition of restrictions on the repatriation of funds

or other assets out of the country, limiting the ability of the relevant Sub-Fund to satisfy payments to investors.

- (vi) Risks associated with Renminbi - Starting from 2005, the exchange rate of the Renminbi is no longer pegged to the US dollar. The Renminbi has now moved to a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. The daily trading price of the Renminbi against other major currencies in the inter-bank foreign exchange market would be allowed to float within a narrow band around the central parity published by the People's Bank of China. As the exchange rates are based primarily on market forces, the exchange rates for Renminbi against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. It should be noted that the Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of the Chinese government. The possibility that the appreciation of Renminbi will be accelerated cannot be excluded. On the other hand, there can be no assurance that the Renminbi will not be subject to devaluation. Any devaluation of the Renminbi could adversely affect the value of investors' investments in the relevant Sub-Fund. Investors whose base currency is not the Renminbi may be adversely affected by changes in the exchange rates of the Renminbi. Further, the PRC government's imposition of restrictions on the repatriation of Renminbi out of China may limit the depth of the Renminbi market in Hong Kong and reduce the liquidity of the relevant Sub-Fund. The Chinese government's policies on exchange control and repatriation restrictions are subject to change, and the Sub-Fund's or the investors' position may be adversely affected.
- (vii) Emerging markets risk - Various countries in which a Sub-Fund may invest are considered as emerging markets. Prospective investors should note that investment in emerging markets such as China and other countries involve special considerations and risks. These include a possibility of nationalisation, expropriation or confiscatory taxation, foreign exchange control, political and legal changes, government regulation, social instability or diplomatic developments which could affect adversely the economies of emerging markets or the value of a Sub-Fund's investments, and the risks of investing in countries with smaller capital markets, such as limited liquidity, higher price volatility, restrictions on foreign investment and repatriation of capital, and the risks associated with emerging economies, including high inflation and interest rates and political and social uncertainties. In addition, it may be difficult to obtain and enforce a judgement in a court in an emerging country. Underlying investments of emerging market funds may also become illiquid which may constrain the Manager's ability to realise some or all of the portfolio. Accounting, auditing and financial reporting standards, practices and disclosure requirements applicable to some countries

in which a Sub-Fund may invest may differ from those applicable in developed countries, for example, less information is available to investors and such information may be out of date.

High market volatility and potential settlement difficulties in the emerging markets may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of a Sub-Fund.

Securities exchange in emerging markets typically have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on a Sub-Fund.

- (viii) Settlement risk - Settlement procedures in emerging countries are frequently less developed and less reliable and may involve the Sub-Fund's delivery of securities, or transfer of title to securities, before receipt of payment for their sale. A Sub-Fund may be subject to a risk of substantial loss if a securities firm defaults in the performance of its responsibilities. The Sub-Fund may incur substantial losses if its counterparty fails to pay for securities the Sub-Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Sub-Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays could result in substantial losses for a Sub-Fund if investment opportunities are missed or if a Sub-Fund is unable to acquire or dispose of a security as a result.
- (ix) Risk relating to small- and mid-capped companies - Certain Sub-Funds may invest in the securities of small- and/or mid-capped companies. Investing in these securities may expose the Sub-Fund to risks such as greater market price volatility, less publicly available information, and greater vulnerability to fluctuations in the economic cycle.
- (x) Currency risk - Certain Sub-Funds may be invested in part in assets quoted in currencies other than its base currency. Also, a class of units may be designated in a currency other than the base currency of a Sub-Fund. The performance and the Net Asset Value of such Sub-Funds will therefore be affected unfavourably by movements in the exchange rates between these currencies and the base currency of the Sub-Funds and by changes in exchange rate controls. Since the Manager aims to maximise returns for such Sub-Funds in terms of their base currency, investors in these Sub-Funds may be exposed to additional currency risk.
- (xi) Interest rates risk - Changes in interest rates may affect the value of a security as well as the financial markets in general. Fixed income instruments (such as bonds) are more

susceptible to fluctuation in interest rates and may fall in value if interest rates change. Generally, the prices of fixed income instruments rise when interest rates fall, whilst their prices fall when interest rates rise. Longer term fixed income instruments are usually more sensitive to interest rate changes. Changes in macro-economic policies of Mainland China (i.e. monetary policy, fiscal policy, etc.) may have an influence over capital markets affecting the pricing of the fixed income instruments and this, the return of the Sub-Fund.

- (xii) Risk relating to credit rating - The credit ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. For example, the rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is often a time lag in updating the credit ratings in response to recent credit events.

A Sub-Fund may invest in securities which are below investment grade or which are non-rated. Investors should note that such securities would generally be considered to have lower liquidity, a higher degree of counterparty risk, credit risk, higher volatility risk, greater risk of loss of principal and interest and increased fluctuation in value than securities with higher grade. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. The market for these securities may be less active, making it more difficult to sell the security. Valuation of these securities is more difficult and thus the relevant Sub-Fund's prices may be more volatile.

In particular, the value of lower-rated or unrated corporate bonds is affected by investors' perceptions. When economic conditions appear to be deteriorating, or where an adverse event happens to the issuer (e.g. credit rating downgrading), lower rated or unrated corporate bonds may decline in market value due to changing market conditions or investors' heightened concerns and perceptions over credit quality.

- (xiii) Downgrading risk - Investment grade securities or the credit rating of the issuer may be subject to the risk of being downgraded to below investment grade or unrated. In the event of downgrading in the credit ratings of a security or an issuer relating to a security, a Sub-Fund's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities, subject to the investment objectives of the relevant Sub-Fund.

(xiv) Credit risk - An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security or its issuer may also affect the security's liquidity, making it more difficult to sell. A Sub-Fund's investment is also subject to the risk that issuers may not make payments on the securities they issue. If the issuers of any of the securities in which a Sub-Fund's assets are invested default, the performance of that Sub-Fund will be adversely affected.

(xv) Over-the-counter markets risk - OTC markets are subject to less governmental regulation and supervision of transactions (in which many different kinds of financial derivative instruments and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets. Therefore, a Sub-Fund entering into transactions on OTC markets will be subject to the risk that its direct counterparty will not perform its obligations under the transactions and that a Sub-Fund will sustain losses.

In addition, certain instruments traded on the OTC markets (such as customised financial derivatives and structured products) can be illiquid. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments.

(xvi) Concentration risk - Certain Sub-Funds may invest only in a specific country/region/sector. Although each Sub-Fund's portfolio will be well diversified in terms of the number of holdings, investors should be aware that the value of such Sub-Funds are likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as they are more susceptible to fluctuations in value resulting from adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the respective countries/regions/sectors.

(xvii) Hedging transactions risk - The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market risks. There is no guarantee that hedging techniques will achieve their desired result.

(xviii) Liquidity and volatility risk - Some of the markets (e.g. emerging markets) in which a Sub-Fund invests may be less liquid and more volatile than the world's leading stock markets and this may result in the fluctuation in the price of securities traded on such markets. The bid and offer spreads of the price of such securities may be large and a

Sub-Fund may suffer significant trading costs. Certain securities may be difficult or impossible to sell, and this would affect the Sub-Fund's ability to acquire or dispose of such securities at their intrinsic value.

- (xix) **Derivative and structured product risk** - The Sub-Funds may invest in derivatives such as options, futures and convertible securities, and in depositary receipts, participation rights and potentially through other instruments which are linked to the performance of securities or indices such as participation notes and equity linked notes, which are sometimes referred to as "structured products". Investment in these instruments can be illiquid, if there is no active market in these instruments. Such instruments are complex in nature. Therefore there are risks of mispricing or improper valuation and possibilities that these instruments do not always perfectly track the value of the securities, rates or indices they are designed to track. Improper valuations can result in increased payments to counterparties or a loss in the value of the relevant Sub-Fund. The instruments will also be subject to insolvency or default risk of the issuers or counterparties. In addition, investment through structured products may lead to a dilution of performance of such Sub-Funds when compared to a fund investing directly in similar assets. Besides, many derivatives and structured products involve an embedded leverage. This is because such instruments provide significantly larger market exposure than the money paid or deposited by the Sub-Fund, so a relatively small adverse market movement could expose the relevant Sub-Fund to the possibility of a loss exceeding the original amount invested.
- (xx) **Restricted markets risk** - The Sub-Funds may invest in securities in jurisdictions (including China) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the Sub-Funds may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.
- (xxi) **RQFII risk** - RQFII regime is governed by (a) the "Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investor which are Asset Management Companies or Securities Companies" (基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法) issued by the CSRC, the PBOC and SAFE and effective from 16 December 2011; (b) the "Implementation Rules for the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investor which are Asset Management Companies or Securities Companies" (關於實施《基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法》的規定) issued by the CSRC and effective from 16 December 2011; (c) the



“Circular on Issues Related to the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investor which are Asset Management Companies or Securities Companies”, Huifa 2011 No. 50 (國家外匯管理局關於基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點有關問題的通知，匯發【2011】50號) issued by SAFE and effective from 20 December 2011; and (d) any other applicable regulations promulgated by the relevant authorities (collectively, the “RQFII Regulations”). Certain of the Sub-Funds may obtain access to China equities, Renminbi denominated debt securities or other permissible investments directly using RQFII quotas of a RQFII. The Sub-Fund may invest directly in RQFII eligible securities investment via the RQFII status of the Manager. Further details relating to RQFII arrangements of the relevant Sub-Fund are set out in the Appendix relating to such Sub-Fund.

Investors should note that RQFII status could be suspended or revoked, which may have an adverse effect on a Sub-Fund’s performance as the Sub-Fund may be required to dispose of its securities holdings. In addition, certain restrictions imposed by the Chinese government on RQFIIs may have an adverse effect on such Sub-Fund’s liquidity and performance. RQFIIs are subject to restrictions on the maximum stake which can be held in any one listed company.

The State Administration of Foreign Exchange (“SAFE”) regulates and monitors the remittance and repatriation of funds out of the PRC by the RQFII pursuant to the “Circular on Issues Related to the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investor which are Asset Management Companies or Securities Companies”, Huifa 2011 No. 50 (“RQFII Circular”). Repatriation by RQFIIs in respect of an open-ended RQFII fund (such as the Sub-Fund) conducted in RMB are not subject to any restrictions, lock-up periods or prior approval, although an authenticity and compliance review will be conducted by the RQFII Custodian on each time of repatriation and a monthly breakdown of remittances and repatriations will be submitted to SAFE by the RQFII Custodian. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund’s ability to meet redemption requests from the Unitholders. Furthermore, as the RQFII Custodian will review the authenticity and the compliance of each repatriation, the repatriation may be delayed or even rejected by the RQFII Custodian if it reasonably believes that the repatriation is unauthentic or non-compliant with the RQFII rules and regulations. In such case, it is expected that redemption proceeds will be paid to the redeeming Unitholder as soon as practicable and in any event within 7 Business Days after the completion of the repatriation of funds

concerned. It should be noted that the actual time required for the completion of the relevant repatriation will be beyond the Manager's control.

RQFII quotas are generally granted to a RQFII. The rules and restrictions under RQFII regulations, including rules on remittance of principal and investment restrictions, generally apply to the RQFII as a whole and not simply to the investments made by a Sub-Fund. It is provided in the RQFII Circular that the size of the RQFII quota may be reduced or cancelled by the SAFE if the RQFII is unable to use its RQFII quota effectively within one year since the quota is granted. If SAFE reduces the RQFII's quota, it may affect the Manager's ability to effectively pursue the investment strategy of the Sub-Fund. On the other hand, the SAFE is vested with the power to impose regulatory sanctions if the RQFII or the RQFII Custodian violates any provision of the RQFII Circular. Any violations could result in the revocation of or other regulatory sanctions and may adversely impact on the portion of the RQFII quota made available for investment by the Sub-Fund.

Investors should note that there can be no assurance that a RQFII will continue to maintain its RQFII status or to make available its RQFII quota, or a Sub-Fund will be allocated a sufficient portion of RQFII quotas from a RQFII to meet all applications for subscription to the Sub-Fund, or that realisation requests can be processed in a timely manner due to adverse changes in relevant laws or regulations.

A Sub-Fund may not have exclusive use of the entire RQFII quota granted by SAFE to the Manager (as RQFII holder), as the RQFII may in its discretion allocate RQFII quota which may otherwise be available to the relevant Sub-Fund to other public funds managed by the Manager (as RQFII Holder). There can be no assurance that the RQFII can allocate sufficient RQFII quota to a Sub-Fund to meet all applications for subscription of Units in the relevant Sub-Fund. The aforementioned restrictions may result in a rejection of subscription applications. Furthermore, a Sub-Fund may not be able to fully implement or pursue its investment objective or strategy, due to insufficiency of RQFII quota and RQFII investment restrictions.

Besides, a Sub-Fund may incur significant losses due to limited investment capabilities, RQFII investment restrictions, illiquidity of the Chinese domestic securities market, and/or delay or disruption in execution of trades or in settlement of trades.

It is required by the PRC authorities that, during the pilot period of RQFII regime, the exposures to RMB-denominated fixed income instruments should be at least 80% of the Sub-Fund's assets and the exposures to equity instruments should be no more than 20% of the Sub-Fund's assets. Frequent securities market fluctuation may make the Sub-Fund's

investments in securities unable to satisfy the above investment ratio requirements. Such violation will be required to be rectified promptly by the PRC authorities, namely increasing the holdings of RMB-denominated fixed income instruments for the under-investment case or decreasing the holdings of equity instruments for the over-investment case. Such compulsory purchase or disposal of securities may incur certain loss to the Sub-Fund.

Any China A-Shares, Renminbi denominated debt securities or other permissible securities acquired by a Sub-Fund through RQFII will be maintained by its RQFII custodian via a securities account in such name as may be permitted or required in accordance with the PRC laws. The securities account and the cash account for a Sub-Fund in the PRC may be required to be maintained in the joint names of the RQFII and the Sub-Fund.

According to the PRC Administrative Measures on the Takeover of Listed Companies (“Takeover Measures”), the investor and its concerted parties (if any) who hold more than 5% (inclusive) of the total outstanding shares of a PRC listed company are required to disclose their interests in the company. Both the RQFII and its underlying foreign investors (including the relevant Sub-Funds which invest in shares of PRC listed companies) are required to comply with this disclosure requirement. Failure to comply with such disclosure requirement may negatively affect the RQFII and its underlying investors, including the relevant Sub-Funds.

In relation to the assets of the Sub-Fund held in the accounts maintained by the PRC Custodian, the Manager has obtained an opinion from PRC legal counsel to the effect that, as a matter of PRC laws:

- (a) a securities account and a RMB cash account with the RQFII Custodian (respectively, the “securities account” and the “cash account”) have been opened in the joint names of the Manager (as the RQFII holder) and the Sub-Fund in accordance with all applicable laws and regulations of the PRC and with approval from all competent authorities in the PRC;
- (b) the assets held or credited in the securities account (i) belong to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII holder), the RQFII Custodian and any broker appointed to execute transactions for the Sub-Fund in the PRC markets (a “PRC Broker”), and from the assets of other clients of the Manager (as the RQFII holder), the RQFII Custodian and any PRC Broker;

- (c) the assets held/credited in the cash account (i) becomes an unsecured debt owing from the RQFII Custodian to the Sub-Fund, and (ii) is segregated and independent from the proprietary assets of the Manager (as RQFII holder) and any PRC Broker, and from the assets of other clients of the Manager (as RQFII holder) and any PRC Broker;
- (d) the Trustee for and on behalf of the Sub-Fund is the only entity which has a valid claim of ownership over the assets in the securities account and the debt in the amount deposited in the cash account of the Sub-Fund;
- (e) if the Manager or the PRC Broker is liquidated, the assets contained in the securities account and cash account of the Sub-Fund will not form part of the liquidation assets of the Manager or such PRC Broker in liquidation in the PRC; and
- (f) if the RQFII Custodian is liquidated, (i) the assets contained in the securities account of the Sub-Fund will not form part of the liquidation assets of the RQFII Custodian in liquidation in the PRC, and (ii) the assets contained in the cash account of the Sub-Fund will form part of the liquidation assets of the RQFII Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the cash account.

Investors should note that cash deposited in the cash account of the Sub-Fund with the RQFII Custodian will not be segregated but will be a debt owing from the RQFII Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash belong to other clients of the RQFII Custodian. In the event of bankruptcy or liquidation of the RQFII Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash account, and the Sub-Fund will become an unsecured creditor, ranking *pari passu* with all other unsecured creditors (other than those unsecured creditors who have a compulsory priority under the PRC law), of the RQFII Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer losses.

Repatriations in RMB conducted by the Manager as RQFII on behalf of the Sub-Fund are not subject to any restrictions, lock-up periods or prior approval.

The current RQFII laws, rules and regulations are subject to change, which may take retrospective effect. In addition, there can be no assurance that the RQFII laws, rules and regulations will not be abolished. A Sub-Fund investing in the PRC markets through a RQFII may be adversely affected as a result of such changes.

(xxii) Risks associated with CIBM

Overview

Participation in CIBM by foreign institutional investors (where such is mentioned in the investment principles of the relevant Sub-Fund) via CIBM Initiative is governed by rules and regulations as promulgated by the Mainland Chinese authorities, i.e., the People's Bank of China ("**PBOC**") and the SAFE. Such rules and regulations may be amended from time to time and include (but are not limited to):

- (i) the "Announcement (2016) No 3" issued by the PBOC on 24 February 2016;
- (ii) the "Implementation Rules for Filing by Foreign Institutional Investors for Investment in Interbank Bond Markets" issued by the Shanghai Head Office of PBOC on 27 May 2016;
- (iii) the "Circular concerning the Foreign Institutional Investors' Investment in Interbank bond market in relation to foreign currency control" issued by SAFE on 27 May 2016; and
- (iv) any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in Mainland China, foreign institutional investors who wish to invest directly in CIBM may do so via an onshore settlement agent, who will be responsible for making the relevant filings and account opening with the relevant authorities. There is no quota limitation but filing with the Shanghai Head Office of PBOC in respect of an investor's anticipated investment size has to be made. In terms of fund remittance and repatriation, foreign investors (such as the Fund and the relevant Sub-Funds) may remit investment principal in RMB or foreign currency into Mainland China for investing in the CIBM. An investor will need to remit investment principal matching at least 50% of its anticipated investment size within nine months after the completion of filing with the Shanghai Head Office of PBOC, or else an updated filing will need to be made through the onshore settlement agent. Where the Fund or the relevant Sub-Fund repatriates funds out of Mainland China, the ratio of RMB to foreign currency ("**Currency Ratio**") should generally match the original Currency Ratio when the investment principal was remitted into Mainland China, with a maximum permissible deviation of 10%.

Risks associated with CIBM

Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the CIBM may result in prices of certain debt securities traded on such market fluctuating significantly. The relevant Sub-Fund investing in such market is therefore subject to liquidity and volatility risks. The bid and offer spreads of the

prices of such securities may be large, and the relevant Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

To the extent that the relevant Sub-Fund transacts in the CIBM, the relevant Sub-Fund may also be exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the relevant Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

Since the relevant filings and account opening for investment in the CIBM market have to be carried out via an onshore settlement agent, the relevant Sub-Fund is subject to the risks of default or errors on the part of the onshore settlement agent.

Investing in the CIBM is also subject to certain restrictions imposed by the mainland Chinese authorities on fund remittance and repatriation which may potentially affect the relevant Sub-Fund's performance and liquidity. Any non-compliance with or failure to meet the fund remittance and repatriation requirements may result in regulatory sanctions which in turn may have an adverse impact on the portion of the Sub-Fund's investment via the CIBM Initiative. Further, there is no assurance that the fund remittance and repatriation requirements in relation to investment in CIBM will not be changed as a result of change in government policies or foreign exchange control policies. The Sub-Fund may incur loss in the event such change in the fund remittance and repatriation requirements in relation to investment in CIBM occurs.

In addition, investors should note that cash deposited in the cash account of the relevant Sub-Fund with the relevant onshore settlement agent may not be segregated. In the event of the bankruptcy or liquidation of the onshore settlement agent, the Sub-Fund may not have any proprietary rights to the cash deposited in such cash account and may face difficulty and/or encounter delays in recovering such assets, or may not be able to recover it in full or at all, in which case the Sub-Fund may suffer losses.

The CIBM is also subject to regulatory risks. The relevant rules and regulations on investment in the CIBM, whether through the CIBM initiative or any other means, are subject to change which may have potential retrospective effect. In the event that the relevant Chinese authorities suspend account opening or trading on the CIBM via these means, the relevant Sub-Fund's ability to invest in CIBM will be limited and, after exhausting other trading alternatives, the relevant Sub-Fund may suffer

substantial losses as a result. Any changes to the relevant rules and regulations may also have an adverse impact on investors' investment in the relevant Sub-Fund.

(xxiii) PRC tax considerations - The Sub-Funds may be subject to taxation in the PRC. This will vary depending on the investment strategy of the Sub-Funds. There are risks and uncertainties associated with the current PRC tax law, regulations and practice via RQFII quota, Stock Connects, CIBM, or access products on the relevant Sub-Fund's investments in the PRC (which may have retrospective effect). The interpretation and applicability of the tax laws and regulations by tax authorities are not as consistent and transparent as those of more developed nations, and may vary from location to location. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. The value of the relevant Sub-Funds' value, investments in the PRC and the amount of their income and gains could be adversely affected by an increase in tax rates, liabilities or change in the taxation basis.

(i) Corporate Income Tax (“**CIT**”):

If the Fund or a Sub-Fund is considered as a PRC tax resident, it will be subject to PRC CIT at 25% on its worldwide income; if the Fund or a Sub-Fund is considered a non-PRC resident but has an establishment or place of business (“**PE**”) in the PRC, the profits attributable to that PE would be subject to PRC CIT at 25%. If the Fund or a Sub-Fund is a non-PRC resident and has no PE in the PRC, or in the case of having PE in the PRC, but the profits are not substantially related to the PE, by investing in securities in the PRC, a Sub-Fund may generally be subject to withholding income tax (“**WIT**”) imposed in the PRC, unless exempt or reduced under specific tax circulars or relevant tax treaties. It is the intention of the Manager to operate the affairs of the Manager (as a RQFII) and the relevant Sub-Fund such that it is not a PRC tax resident enterprise and has no PE in the PRC for PRC CIT purposes, although this cannot be guaranteed.

*Dividend income and interest income*

Currently, unless a specific exemption or reduction is applicable under current PRC tax laws and regulations or specific tax circulars or relevant tax treaties, for recipients that are treated as non-PRC tax residents without PE in the PRC under the PRC CIT Law, PRC WIT will be levied on the payment of interests on debt instruments issued by PRC tax residents, including bonds issued by enterprises established within mainland China, and dividend income from investment in the securities issued by PRC tax residents. The general PRC WIT rate applicable is 10%. The entity distributing such interests or dividends is required to withhold such tax. On the other hand, interests derived from

government bonds issued by the Ministry of Finance, or bonds issued by local government of a province, autonomous regions, municipalities directly under the Central Government or municipalities separately listed on the state plan, as approved by the State Council (“PRC Government Bonds”), shall be exempt from PRC tax.

#### Investment in PRC securities via RQFII

Where a Sub-Fund invest in PRC securities via a RQFII, PRC taxes may be imposed on the Sub-Fund under the name of the relevant RQFII. However, under the terms of the arrangement between the relevant RQFII and the Sub-Fund, the relevant RQFII will pass on any tax liability to the Sub-Fund. As such, the relevant Sub-Fund is the ultimate party which bears the risks relating to any PRC taxes which are so levied by the relevant PRC tax authorities.

However, if the RQFII or foreign corporate is a tax resident of a tax treaty country, it may apply for the reduced PRC WIT rate under the relevant tax treaty. Under the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the “**China-HK Arrangement**”), Hong Kong tax residents will be subject to PRC WIT at 7% for interests if they are the beneficial owner of the interest income. It is uncertain whether the relevant Sub-Fund can obtain approval from the PRC tax authorities for this preferential rate. If the relevant approval is not obtained, the general rate of 10% will be applicable to the relevant Sub-Fund on the interest income.

Also, pursuant to the China-HK Arrangement, the tax charged on dividends received by the non-tax resident holders of shares issued by PRC companies will be 5% of the gross amount of the dividends, if Hong Kong tax residents are the beneficial owners and directly hold at least 25% of the equity of the company paying the dividends. Due to the investment restrictions, the relevant Sub-Fund will not hold more than 10% of any ordinary shares issued by any single issuer. In this connection, dividends derived from China A-Shares via RQFII will not be able to benefit from the reduced tax rate of 5% and the general tax rate of 10% will be applicable to the relevant Sub-Fund.

#### Investment in China A-Shares via the Stock Connects

Circular Caishui (2014) No.81 (“**Circular 81**”) and Circular Caishui (2016) No.127 (“**Circular 127**”) provided that dividends received by foreign investors (including the relevant Sub-Fund) from investment in China A-Shares via the Stock Connects (as further described in the section headed “Stock Connects”) is subject to 10% WIT which will be withheld by the PRC companies distributing the dividends, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.



## *Capital gains*

### Investment in PRC securities via RQFII and CIBM

Circular Caishui (2014) No.79 (“**Circular 79**”) states that RQFIIs without a PE in the PRC or RQFIIs with a PE in the PRC but the income so derived in the PRC is not effectively connected with their PE are exempt from PRC WIT on capital gains derived from investment in China A-Shares effective from 17 November 2014. Circular 79 also states that RQFIIs are subject to PRC WIT on capital gains from investment in China A-Shares before 17 November 2014. Specific rules governing taxes on capital gains derived from the investment in securities in the PRC other than China A-Shares have yet to be announced. In the absence of such specific rules, the PRC CIT treatment should be governed by the general tax provisions of the PRC CIT Law and would be subject to the interpretation of the PRC tax authorities. Based on the current interpretation of the State Administration of Taxation (“**SAT**”) and the local tax authorities, gains derived from investment in fixed income instruments (including those derived by RQFIIs and traded via the CIBM) should not be treated as PRC sourced income thus should not be subject to PRC WIT. If the relevant interpretation changes in the future, the relevant Sub-Fund may still turn to certain treaty relief applicable to Hong Kong tax residents.

Having taken and considered independent professional tax advice on the application of the China-HK Arrangement and acting in accordance with such advice, the Manager considers that, under the China-HK Arrangement, capital gains derived by a Hong Kong tax resident from investment in PRC fixed income instruments should not be subject to PRC WIT.

Pursuant to the relevant PRC tax regulations, to enjoy the tax treaty relief under the China-HK Arrangement, a Hong Kong tax resident should submit to the relevant PRC tax authorities with application documents (including a Hong Kong Tax Resident Certificate (“**HKTRC**”) issued by the Inland Revenue Department of Hong Kong (the “**IRD**”)) for assessment.

### Investment in China A-Shares via the Stock Connects

Under Circular 81 and Circular 127, CIT is temporarily exempted on capital gains derived by foreign investors (including the relevant Sub-Fund) from investment in China A-Shares via the Stock Connects.

Although a notice by the SAT confirmed the applicability of tax to dividends, profit distribution and interest paid to investors, at present, there are no specific PRC tax regulations addressing the WIT treatment on capital gains derived from the disposal of China B-Shares. In the absence of such rules, the general tax law provisions apply. At this point of time in practice, the PRC tax authorities have not strictly enforced collection of WIT on gains derived by overseas investors (including the Fund/Sub-Fund(s)) from investment in China B-Shares via stock exchange. The position in practice may change if the SAT expresses another view and/or that new official tax circulars are issued to provide further guidance.

#### Investment in onshore bond market

Pursuant to the "Circular on the Corporate Income Tax and Value-Added Tax Policy for Foreign Institutions to Invest in the Onshore Bond Market" (Caishui [2018] No.108) ("**Circular 108**") jointly issued by the Ministry of Finance ("**MoF**") and the SAT of the PRC on 22 November 2018, bond interest income derived by foreign institutions from investing in the onshore bond market is temporarily exempted from CIT for the period from 7 November 2018 to 6 November 2021.

The tax exemptions granted under Circular 79, Circular 81, Circular 127 and Circular 108 are only temporary. It is possible that the applicable tax law, regulations and practice may change from time to time and taxes being applied retrospectively. In light of the uncertainty on the income tax treatment on capital gains and in order to meet any potential tax liability for capital gains, the Manager reserves the right to provide for PRC WIT on such gains or income and withhold the tax for the account of a Sub-Fund and will notify the Unitholders should the Manager decide to exercise such right. The Manager's current policy on the tax provisions is set out in the section headed "**PRC Tax Provisions**" in the relevant Appendix. Where any provision is made, the amount of actual provision will be disclosed in the financial statements of the relevant Sub-Fund.

(ii) Value Added Tax ("VAT") and other surtaxes:

The MoF and the SAT issued Caishui [2016] No. 36 (the "**Notice 36**") on 23 March 2016 announcing that the VAT reform coming into effect on 1 May 2016. The Notice 36 provides that from 1 May 2016 VAT has replaced PRC Business Tax ("**BT**") to cover all sectors that used to fall under the PRC BT. The Notice 36 provides that VAT at 6% shall be levied on the difference between the selling and buying prices of those marketable securities unless special VAT exemption applies.

The Notice 36 also provides that gains derived by QFIIs from trading of marketable securities are exempt from VAT since 1 May 2016. Pursuant to the "Supplementary

Notice on the VAT Policy on Interbank Transactions and Other Financial Institutions” (Caishui [2016] No. 70) jointly issued by MoF and SAT on 30 June 2016 and which took effect retrospectively on 1 May 2016 (“**Notice 70**”), income derived by RQFIIs from the purchase and sale of marketable securities are also exempt from VAT. For China A-Shares traded via the Stock Connects, Circular 81 and Circular 127 state that gains derived by foreign investors trading through such platforms are temporarily exempt from VAT. However, there is no clear rule on whether there is VAT exemption if a Sub-Fund invests in China B-Shares. Thus, there may be VAT imposed on a Sub-Fund for trading of China B-Shares. The China H-Share transaction, red-chip company transaction and other kinds of offshore shares transaction should not be subject to VAT.

PRC sourced interest income derived by foreign investors shall be subject to 6% VAT unless special exemption applies. According to the Notice 36, deposit interest income is not subject to VAT and interest income earned on PRC Government Bonds is exempted from VAT.

Pursuant to Circular 108 jointly issued by the MoF and the SAT on 22 November 2018, the bond interest income derived by foreign institutions investing in the onshore bond market is temporarily exempted from VAT for the period from 7 November 2018 to 6 November 2021.

Dividends or profit distributions on equity investment derived from China are not included in the taxable scope of VAT.

Where VAT is applicable, there are also other local surtaxes imposed based on the VAT liabilities, including urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), education surcharge (currently at the rate of 3%) and local education surcharge (currently at the rate of 2%).

(iii) Stamp duty:

Stamp duty under the PRC laws generally applies to the execution and receipt of all taxable documents listed in the PRC’s Provisional Rules on Stamp Duty.

Stamp duty is levied on the execution or receipt in China of certain documents, including contracts for the sale of China A- and B-Shares traded on the PRC stock exchanges or via the Stock Connects, at the rate of 0.1%. In the case of contracts for sale of China A- and B-Shares, such stamp duty is currently imposed on the seller but not on the purchaser. It is unclear whether PRC stamp duty that is imposed on the transfer to shares of PRC companies under the Stamp Duty Regulations would similarly apply to

the acquisition and disposal of China H-Shares by non-PRC investors outside the PRC. That said, PRC stamp duty is generally not imposed for investment in China H-Shares in practice.

No PRC stamp duty is expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or upon a subsequent transfer of such bonds.

It should be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively. In view of the above uncertainties, investors should note that the level of provision (if any) may be excessive or inadequate to meet the actual PRC tax liabilities on investments made by the Sub-Funds. Any shortfall between the provision and the actual tax liabilities, which will be debited from the relevant Sub-Fund's assets, will adversely affect the relevant Sub-Fund's Net Asset Value. The actual tax liabilities may be lower than the tax provision made. Depending on the final tax liabilities, the level of provision and the timing of their subscriptions and/or redemptions, investors may be disadvantaged as a result of any shortfall of tax provision and will not have the right to claim any part of the overprovision (as the case may be).

- (xxiv) Custodial risk - Custodians or sub-custodians may be appointed in local markets for purpose of safekeeping assets in those markets. Where a Sub-Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Sub-Fund may be exposed to custodial risk. In the case of the liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Sub-Fund may take a longer time to recover its assets. In other circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Sub-Fund may even be unable to recover all of its assets. The costs borne by a Sub-Fund in investing and holding investments in such markets will be generally higher than in organised securities markets.
- (xxv) Counterparty risk - Counterparty risk involves the risk that a counterparty or third party will not fulfil its obligations to a Sub-Fund. A Sub-Fund may be exposed to the risk of a counterparty through investments such as bonds, options and futures. To the extent that a counterparty defaults on its obligations and a Sub-Fund is prevented from exercising its rights with respect to the investment in its portfolio, a Sub-Fund may experience a decline in the value and incur costs associated with its rights attached to the security.
- (xxvi) Sovereign risk – Certain developing countries are especially large debtors to commercial banks and foreign governments. Investment in debt obligations (“Sovereign Debt”) issued or guaranteed by developing countries governments or their agencies (“governmental entities”) involves a high degree of risk such as political, social and

economic risk. The governmental entity that controls the repayment of Sovereign Debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject.

Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearage on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its debt on a timely basis. Consequently, governmental entities may default on their Sovereign Debt. Holders of Sovereign Debt, including a Sub-Fund, may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. There is no bankruptcy proceeding by which Sovereign Debt on which a governmental entity has defaulted may be collected in whole or in part. A Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

- (xxvii) Risk of termination - a Sub-Fund may be terminated in certain circumstances which are summarised under the section "Termination of the Fund or any Sub-Fund". In the event of the termination of a Sub-Fund, such Sub-Fund would have to distribute to the Unitholders their pro rata interest in the assets of the Sub-Fund. It is possible that at the time of such sale or distribution, certain investments held by the relevant Sub-Fund will be worth less than the initial cost of acquiring such investments, resulting in a loss to the Unitholders. Moreover, any organisational expenses (such as establishment costs) with regard to the relevant Sub-Fund that had not yet been fully amortised would be debited against the Sub-Fund's assets at that time.
- (xxviii) Valuation risk - Valuation of a Sub-Fund's investments may involve uncertainties and judgmental determinations, and independent pricing information may not at times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected. In the event of changing market conditions or any

credit downgrading of the corporate bonds and short-term financing bills, the valuation of the corporate bonds and short-term financing bills may deteriorate quickly.

(xxix) ***Foreign Account Tax Compliance Act***

Sections 1471 – 1474 (referred to as “**FATCA**”) of the US Internal Revenue Code of 1986, as amended (“**IRS Code**”) will impose new rules with respect to certain payments to non-United States persons, such as the Fund and the Sub-Funds, including interest and dividends from securities of US issuers and gross proceeds from the sale of such securities. All such payments may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service (“**IRS**”) to identify United States persons (within the meaning of the IRS Code) with interests in such payments. To avoid such withholding on payments made to it, a foreign financial institution (an “**FFI**”), such as the Fund and the Sub-Funds (and, generally, other investment funds organised outside the US), generally will be required to enter into an agreement (an “**FFI Agreement**”) with the US IRS under which it will agree to identify its direct or indirect owners who are United States persons and report certain information concerning such United States person owners to the US IRS.

In general, an FFI which does not sign an FFI Agreement or is not otherwise exempt will face a punitive 30% withholding tax on all “withholdable payments” derived from US sources, including dividends, interest and certain derivative payments made on or after 1 July 2014. In addition, starting no earlier than 1 January 2019, gross proceeds such as sales proceeds and returns of principal derived from stocks and debt obligations generating US source dividends or interest will be treated as “withholdable payments”. It is expected that certain non-US sourced payments attributable to amounts that would be subject to FATCA withholding (referred to as “passthru payments”) will also be subject to FATCA withholding, though the definition of “passthru payment” in US Treasury Regulations is currently pending.

On 13 November 2014, Hong Kong has signed an intergovernmental agreement with the US (“**IGA**”) for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under this “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Fund and the Sub-Funds) would be required to register with the US IRS and agree to comply with the terms of the FFI Agreement. Otherwise they will be subject to a 30% withholding tax on relevant US-sourced payments to them.

Under the IGA, FFIs in Hong Kong (such as the Fund and the Sub-Funds) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments to recalcitrant accounts (i.e. accounts of which the holders do not consent to FATCA reporting and

disclosure to the US IRS) or close those recalcitrant accounts (provided that information regarding such recalcitrant account holders is reported to the US IRS), but may be required to withhold tax on payments made to non-compliant FFIs.

As of the date hereof, the Fund and each Sub-Fund established as at the date hereof has already registered with the US IRS and agreed to comply with the requirements of the FFI Agreement. An officer of the Manager is acting as the Responsible Officer for the Fund and the Sub-Funds.

<b>Name of Fund and Sub-Funds</b>	<b>GIIN</b>
China Universal International Series	74X8RR.99999.SL.344
CUAM RMB Bond <i>plus</i> Fund	E1VD5H.99999.SL.344
CUAM China-Hong Kong Strategy Fund	CJQ8W6.99999.SL.344
CUAM Hong Kong Dollar Bond Fund	G3YCY1.99999.SL.344
CUAM Select US Dollar Bond Fund	68I5Y3.99999.SL.344

The Fund and each Sub-Fund will endeavour to satisfy the requirements imposed under FATCA and the FFI Agreement to avoid any withholding tax but no assurance can be given that the Fund and the Sub-Funds will be able to satisfy all these obligations. In the event that the Fund or any Sub-Fund is not able to comply with the requirements imposed by FATCA or the FFI Agreement and the Fund or such Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Fund or that Sub-Fund may be adversely affected and the Fund or such Sub-Fund may suffer significant loss as a result.

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Fund or the relevant Sub-Fund, or a risk of the Fund or the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Fund and each of such relevant Sub-Fund reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, (i) reporting the relevant information of such Unitholder to the US IRS; (ii) withholding or deducting from such Unitholder's redemption proceeds or distributions to the extent permitted by applicable laws and regulations; and/or (iii) deeming such Unitholder to have given notice to redeem all his Units in the relevant Sub-Fund. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds.

Each Unitholder and prospective investor should consult with his own tax advisor as to the potential impact of FATCA in its own tax situation.

In view of the above, investment in any Sub-Fund should be regarded as long term in nature. The Sub-Fund is, therefore, only suitable for investors who can afford the risks involved.

Investors should refer to the relevant Appendix for details of any additional risks specific to a Sub-Fund.



## **LIQUIDITY RISK MANAGEMENT**

The Manager has established a liquidity risk management policy which seeks to identify, monitor and manage the liquidity risks of the Sub-Funds and to ensure that the liquidity profile of the investments of each of the Sub-Funds will facilitate compliance with the Sub-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. Investors should be reminded that there is no assurance that the Manager's liquidity risk management policies and tools detailed hereunder will fully mitigate the liquidity risks of the Sub-Funds.

The Manager's liquidity policy takes into account, including without limitation, the investment strategy, the liquidity profile, the redemption policy, the dealing frequency and the ability to enforce redemption limitations of the Sub-Funds. These measures seek to ensure fair treatment and transparency for all investors.

The liquidity management policy involves monitoring the profile of investments held by Sub-Fund on an on-going basis aiming to ensure that such investments are appropriate to the redemption policy as stated under the section headed "Realisation of Units", and will facilitate compliance with each Sub-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 Sub-Funds under normal and exceptional market conditions.

The liquidity risk management tools adopted by the Manager may include, without limitation, limiting the number of Units of any Sub-Fund realised on any Dealing Day to 10% of the total number of Units of the relevant Sub-Fund in issue (subject to the conditions set out under the section headed "Restrictions on realisation and conversion" under the section headed "Conversion between Sub-Funds").

## **LEVERAGE**

The expected maximum level of leverage of each of the Sub-Funds will be available from the Manager upon request on or around 17 November 2018.

## **EXPENSES AND CHARGES**

### **Charges Payable by Investors**

Preliminary Charge, Realisation Charge and Conversion Charge may be charged to an investor in his/her purchase, realisation and conversion of Units pursuant to the sections headed “Purchase of Units”, “Realisation of Units” and “Conversion between Sub-Funds” above. The applicable rates of such charges in respect of a Sub-Fund are set out in the Appendix for the relevant Sub-Fund.

### **Expenses and Charges Payable by the Sub-Funds**

The following expenses, charges and fees are payable by the Sub-Funds.

#### *Management Fee*

The Manager is entitled to receive a management fee accrued daily and payable monthly in arrears out of each Sub-Fund as a percentage of the Net Asset Value of each class of Unit in a Sub-Fund as at each Valuation Day at the rates set out in the Appendix for the relevant Sub-Fund subject to a maximum fee of 3% per annum.

Unitholders shall be given not less than one month’s prior notice should there be any increase of the management fee from the current level to the maximum level.

#### *Trustee Fee*

The Trustee is entitled to a Trustee Fee, payable out of the assets of each Sub-Fund is based on the Net Asset Value of the relevant Sub-Fund at the rate set out in relevant Appendix for the Sub-Fund subject to a maximum fee of 0.5% per annum. The Trustee Fee is accrued daily and is payable monthly in arrears.

The Trustee also acts as the Registrar of the Fund.

Unitholders shall be given not less than one month’s prior notice should there be any increase of the Trustee Fee from the current level up to the maximum level.

#### *Custodian Fee*

The Custodian is entitled to, among others, transaction charges at customary market rates and a Custody Fee at different rates, largely depending on the markets where the Custodian is

required to hold the Sub-Fund's assets. The maximum rate of the Custody Fee is set out in the Appendix for the relevant Sub-Fund. Such fee is calculated monthly and is payable monthly in arrears. The Custodian will also be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of its duties. The fees payable to the RQFII Custodian (if applicable) will be borne by the Custodian while any out-of-pocket expenses will be expended as incurred.

#### *Establishment Costs*

The establishment costs of the Fund and CUAM RMB Bond*plus* Fund (being the initial Sub-Fund) have been fully amortised.

Where subsequent Sub-Funds are established in the future, the Manager and the Trustee may in their discretion determine that the unamortised establishment costs of the Fund or a part thereof may be re-allocated to such subsequent Sub-Funds.

The establishment costs and payments incurred in the establishment of other Sub-Funds are set out in the relevant Appendices and will be borne by the relevant Sub-Fund to which such costs and payments relate and amortised over a period of five Accounting Periods (or such other period as determined by the Manager with the approval of the Auditors).

Investors should note that, under HKFRS, the establishment costs should be expensed as incurred. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and the net asset values of the initial Sub-Fund materially. To the extent that the accounting basis adopted by the Fund deviates from HKFRS, the Manager may make necessary adjustment in the accounts of the Sub-Fund for the accounts to be in compliance with HKFRS and include a reconciliation note in the annual accounts of the Sub-Fund to reconcile values arrived at by applying the Sub-Fund's accounting rules. If the net asset value of the Sub-Fund is not adjusted in preparation of the annual accounts, non-compliance with HKFRS may result in the auditors qualifying their opinion on those annual accounts depending on the nature and level of materiality of the non-compliance.

#### *General*

Each Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, such costs will be allocated amongst the Sub-Funds in proportion to the respective Net Asset Value of all the Sub-Funds.

Each Sub-Fund will bear the cost of (a) all stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and

expenses, registration fees and expenses, transaction fees of the Trustee, custodian or sub-custodian and proxy fees and expenses, collection fees and expenses, insurance and security costs, and any other costs, charges or expenses payable in respect of the acquisition, holding and realisation of any investment or other property or any cash, deposit or loan (including the claiming or collection of income or other rights in respect thereof and including any fees or expenses charged or incurred by the Trustee or the Manager or any connected person in the event of the Trustee or the Manager or such connected person rendering services or effecting transactions giving rise to such fees or expenses), (b) the fees and expenses of the Auditors and the Registrar, (c) fees charged by the Trustee in connection with valuing the assets of the Sub-Fund or any part thereof, calculating the issue and realisation prices of Units of the Sub-Fund and preparing financial statements, (d) all legal charges incurred by the Manager or the Trustee in connection with the Sub-Fund, (e) out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties, (f) the expenses of or incidental to the preparation of deeds supplemental to the Trust Deed, (g) the expenses of holding meetings of Unitholders and of giving notices to Unitholders, (h) the costs and expenses of obtaining and maintaining a listing for the Units of the Sub-Fund on any stock exchange or exchanges selected by the Manager and approved by the Trustee and/or in obtaining and maintaining any approval or authorisation of the Sub-Fund or in complying with any undertaking given, or agreement entered into in connection with, or any rules governing such listing, approval or authorisation, and (i) without prejudice to the generality of the foregoing, all costs incurred in publishing the issue and realisation prices of Units of the Sub-Fund, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deed (including the Auditors' fees and Trustee's fee), the expenses of preparing and printing any explanatory memorandum, and any other expenses, deemed by the Manager, after consulting the Trustee, to have been incurred in compliance with or in connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts.

For so long as the Fund and such Sub-Funds are authorised by the SFC, no advertising or promotional expenses shall be charged to the Sub-Funds so authorised.

### **Cash Rebates and Soft Commissions**

Neither the Manager nor any of its connected persons will retain cash or other rebates from brokers or dealers in consideration of directing transactions for a Sub-Fund to such brokers or dealers, save that goods and services (soft commissions) may be retained if, such goods and services are of demonstrable benefit to the Unitholders, and the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates. Any such cash commission or rebates received from any such brokers or dealers shall be for the account of the relevant Sub-Fund. Details of any

such commissions will be disclosed in the annual and semi-annual report and accounts of the relevant Sub-Fund.

The Manager and/or any of its connected person reserves the right to effect transactions by or through the agency of another person with whom the Manager and/or any of its connected person has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any of its connected person goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the relevant Sub-Fund as a whole and may contribute to an improvement in the performance of the relevant Sub-Fund or of the Manager and/or any of its connected person in providing services to the relevant Sub-Fund and for which no direct payment is made but instead the Manager and/or any of its connected person undertakes to place business with that party. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

If cash forming part of the relevant Sub-Fund's assets is deposited with the Trustee / Custodian, the Manager or with any connected person of these companies (being an institution licensed to accept deposits), interest must be received on the deposit at a rate not lower than the prevailing commercial rate for a deposit of that size and term.

Where the relevant Sub-Fund borrows funds from the Trustee, the Custodian, the Manager or any connected persons of these companies in accordance with the borrowing restrictions set out in the section headed "Borrowing Restrictions", the interest charged and fees levied in connection with the borrowed funds must not be higher than the prevailing commercial rate for a similar loan.

## **TAXATION**

### **Hong Kong**

#### **Taxation of the Fund**

For so long as the Fund and any of its Sub-Funds that are authorised by the SFC as a collective investment scheme pursuant to section 104 of the SFO for offer to the retail public in Hong Kong, they will be exempted from Profits Tax in Hong Kong.

#### **Taxation of Unitholders**

Profits arising on the realisation of an investment in the Units will only be subject to 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 are not acquiring the Units as part of a trade or business that they carry on in Hong Kong will not be liable to Profits Tax in respect of any gains from the disposal/redemption of such Units.

Distributions received by Unitholders from their investments in the Units would not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise) under current law and practice.

#### **Stamp Duty**

No Hong Kong stamp duty is payable where the sale or transfer of the Units is effected by extinguishing the Units or the sale or transfer is to the Manager who subsequently re-sells the Units within two months thereof.

Other types of sales or purchases or transfers of Units by Unitholders would be liable to Hong Kong stamp duty at 0.1% on the higher of the consideration or market value, payable by both the buyer and the seller (i.e. a total of 0.2%).

Each prospective Unitholder should inform himself of, and, where appropriate take advice on the taxes applicable to the acquisition and realisation by him of Units under the laws of the places of his citizenship, residence and domicile.

## 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 non-Hong Kong tax residents holding accounts with FIs, and to file such information 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 a Competent Authority Agreement (“**CAA**”); however, the Fund, the Sub-Funds, the Manager and/or their agents may further collect information relating to residents of other jurisdictions.

The Fund and each Sub-Fund are required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund, the Sub-Funds, the Manager and/or their 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 and/or each Sub-Fund to, amongst other things: (i) register its 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 jurisdictions with which Hong Kong has signed a CAA. 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 such other 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 jurisdictions of tax residence.

By investing in the relevant Sub-Fund and/or continuing to invest in the relevant Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the Fund and/or the relevant Sub-Fund, the Manager and/or the Fund’s or the relevant Sub-Fund’s agents in order for the Fund and/or the relevant Sub-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. The failure of a Unitholder to provide any requested information, may result in the Fund, the Sub-Funds, the



Manager and/or other agents of the Fund and the Sub-Funds taking any action and/or pursue remedies at their disposal including, without limitation, mandatory redemption or withdrawal of the Unitholder concerned.

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 relevant Sub-Fund.

## **China**

Investors should also refer to the “PRC tax considerations” under the section headed “Risk Factors” to inform themselves of possible tax consequences under PRC laws.

## **REPORTS AND ACCOUNTS**

The Fund's financial year end is on 31 December in each year, with the first financial year ending on 31 December 2012. The annual report and audited accounts of the Fund will be prepared in accordance with HKFRS. The Manager will notify Unitholders where the annual report and audited accounts (in English) can be obtained (in printed and electronic forms) within four months after the end of the financial year, and where the unaudited semi-annual reports (in English) can be obtained (in printed and electronic forms) within two months after 30 June in each year.

## **DISTRIBUTION OF INCOME**

Unless otherwise described in the relevant Appendix, the Manager does not intend to make any distribution of income.

Distributions (if any) declared in respect of an interim accounting period or an Accounting Period, as described in the relevant Appendix, shall be distributed among the Unitholders of the relevant classes of Units rateably in accordance with the number of Units held by them on the record date in respect of such interim accounting period or Accounting Period, as the case may be. For the avoidance of doubt, only Unitholders whose names are entered on the register of Unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding interim accounting period or Accounting Period, as the case may be.

Any payment of distributions will be made in the base currency of the relevant classes by direct transfer into the appropriate bank account or by cheque at the risk of the Unitholders (or in such other manner as may be agreed with the Manager). Any distribution which is not claimed for six years will be forfeited and become part of the assets of the relevant Sub-Fund.

## **VOTING RIGHTS**

Meetings of Unitholders may be convened by the Manager or the Trustee, and the Unitholders of 10% or more in value 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 quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution shall be Unitholders present in person or by proxy representing 25% or more of the Units in issue. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting should be adjourned for not less than 15 days. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. On a show of hands, every individual Unitholder present in person 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 of which he is the holder. 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 of Unitholders. A poll may be demanded by the Chairman or one or more Unitholders present in person or by proxy.

## **PUBLICATION OF PRICES**

The Net Asset Value per Unit of each Sub-Fund at each Valuation Day will be published daily in the Manager's website at [www.99fund.com.hk](http://www.99fund.com.hk). Please note that this website has not been reviewed by the SFC and may contain information of funds not authorised by the SFC.

## **TRANSFER OF UNITS**

Subject as provided below, Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee. The instrument in writing should be properly stamped with the adequate stamp duty before it is submitted to the Registrar. The transferor will be deemed to remain the holder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of such Units.

Each instrument of transfer must relate to a single class of Units only. No Units may be transferred if, as a result, either the transferor or the transferee would hold Units having a value less than the minimum holding amount (if any) of the relevant class as set out in the relevant Appendix.

## **COMPULSORY REALISATION OR TRANSFER OF UNITS**

The Manager or the Trustee may require a Unitholder to transfer the Unitholder's Units or may realise such units in accordance with the Trust Deed if it shall come to the notice of the Manager or the Trustee that the Unitholder holds such Units (a) in breach of the law or requirements of any country, any governmental authority or any stock exchange on which such Units are listed or (b) in circumstances (whether directly or indirectly affecting such Unitholder and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager or the Trustee to be relevant) which, in the opinion of the Manager or the Trustee, might result in the Fund and/or any Sub-Fund in relation to such class of Units incurring any liability to taxation or suffering any other pecuniary disadvantage which the Fund or the Sub-Fund might not otherwise have incurred or suffered.

## **TRUST DEED**

The Fund was established under the laws of Hong Kong by a Trust Deed dated 29 December 2011 made between China Universal Asset Management (Hong Kong) Company Limited as Manager and BOCI-Prudential Trustee Limited as Trustee.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. However, the Trustee and the Manager shall not be exempted/indemnified from liability in respect of their negligence, fraud, default or breach of duty or trust, as provided in the Trust Deed. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

Copies of the Trust Deed (together with any supplemental deeds) may be obtained from the Manager on payment of a reasonable fee and may be inspected during normal working hours at the offices of the Manager free of charge.

## **TERMINATION OF THE FUND OR ANY SUB-FUND**

The Fund shall continue for a period of 80 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Fund may be terminated by the Trustee on notice in writing, provided that the Trustee shall certify that in its opinion the proposed termination is in the interest of Unitholders,

- (a) if the Manager goes into liquidation or if a receiver is appointed over any of their assets and not discharged within 60 days; or

- (b) if in the opinion of the Trustee, the Manager is incapable of performing or fails to perform its duties satisfactorily or shall do any other thing which in the opinion of the Trustee is calculated to bring the Fund into disrepute or to be harmful to the interests of the Unitholders; or
- (c) if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund; or
- (d) within 30 days of the Manager leaving office, no new manager is appointed; or
- (e) no new trustee is appointed within six months of the Trustee giving notice of its desire to retire.

The Fund and/or any of the Sub-Funds or the class of Units of a Sub-Fund may be terminated by the Manager on notice in writing if:

- (a) on any date, in relation to the Fund, the aggregate Net Asset Value of all Units outstanding thereunder shall be less than RMB 30 million or in relation to a Sub-Fund, the aggregate Net Asset Value of the Units of the relevant class outstanding thereunder shall be less than RMB 30 million (or other amounts disclosed in the Appendix); or
- (b) in the opinion of the Manager, it is impracticable or inadvisable to continue a Sub-Fund and/or any class of Units of a Sub-Fund (as the case may be) (including without limitation, a situation where it is no longer economically viable to operate the Sub-Fund); or
- (c) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund or a Sub-Fund.

In cases of termination on notice, no less than one month's notice will be given to Unitholders.

Further, the Sub-Fund or a class or classes of the Sub-Fund may be terminated by an extraordinary resolution of the Unitholders of the Sub-Fund or the Unitholders of the relevant class or classes (as the case may be) on such date as the extraordinary resolution may provide.

## **ANTI-MONEY LAUNDERING REGULATIONS**

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering, the Manager and the Trustee may require a detailed verification of an investor's identity and the source of payment of application moneys. 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 Manager and the Trustee nevertheless 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 Manager or the Trustee may refuse to accept the application and the subscription moneys relating thereto and refuse to pay any realisation proceeds if an applicant for Units delays in producing or fails to produce any information required for the purposes of verification of identity or source of fund.

## **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 any Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund. Each will, at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are resolved fairly and taking into account investors' interests. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated. Compliance procedures and measures such as segregation of duties and responsibilities together with different reporting lines and "Chinese walls" have been put in place to minimise potential conflicts of interests.

## **CERTIFICATION FOR COMPLIANCE WITH FATCA OR OTHER APPLICABLE LAWS**

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Fund or a Sub-Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Fund or the relevant Sub-Fund receives payments and/or (B) to satisfy reporting or other obligations under IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction, including reporting obligations that may be imposed by future legislation.

### **POWER TO DISCLOSE INFORMATION TO TAX AUTHORITIES**

Subject to applicable laws and regulations, the Fund, the relevant Sub-Fund, the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the US IRS), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder's holdings, to enable the Fund or the relevant Sub-Fund to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under FATCA).

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal working hours at the offices of the Manager free of charge and copies thereof may be obtained from the Manager upon payment of a reasonable fee (except for the documents in (c) the copies of which are available from the Manager free of charge):-

- (a) the Trust Deed, and any supplemental deeds;
- (b) all material contracts (as specified in the relevant Appendix); and

(c) the latest financial reports of the Fund.

## **APPENDIX I - CUAM RMB BONDPLUS FUND**

This Appendix comprises information in relation to CUAM RMB Bondplus Fund, a Sub-Fund of the Fund.

### **Definition**

For this Sub-Fund, “HK & PRC Business Day” shall mean a day (other than a Saturday) on which banks and stock exchanges in Hong Kong and PRC are open for normal business or such other day or days as the Manager and the Trustee may agree from time to time.

### **Offering**

Units will be issued in respect of applications received by the Manager prior to 5:00 p.m. (Hong Kong time) based on the price at the Valuation Point on the Dealing Day. If applications are received after 5:00 p.m. (Hong Kong time), such applications shall be processed on the next Dealing Day and Units will be issued based on the price at the relevant Valuation Point on that Dealing Day.

The Manager intend to receive subscription monies for investment in the Renminbi denominated debt securities market, amongst others, through the RQFII status of the Manager, up to the RQFII quota allocated to the Sub-Fund.

The Manager (as the RQFII holder) may from time to time make available RQFII quota for the purpose of the Sub-Fund’s direct investment into the PRC. Under the SAFE’s RQFII quota administration policy, the Manager (as the RQFII holder) has the flexibility to allocate its RQFII quota across different public fund products, or, subject to SAFE’s approval, to products and/or accounts that are not public funds. The Manager (as the RQFII holder) may therefore allocate additional RQFII quota to the Sub-Fund, or allocate RQFII quota which may otherwise be available to the Sub-Fund to other products and/or accounts. The Manager (as the RQFII holder) may also apply to SAFE for additional RQFII quota which may be utilised by the Sub-Fund, other clients of the Manager or other products managed by the Manager. However, a Sub-Fund may not have exclusive use of the entire RQFII quota granted by SAFE to the Manager, as the Manager may in its discretion allocate RQFII quota which may otherwise be available to the relevant Sub-Fund to other products. There can be no assurance that the Manager can allocate sufficient RQFII quota to a Sub-Fund to meet all applications for subscription of Units in the relevant Sub-Fund. The aforementioned restrictions may respectively result in a rejection of applications or a suspension of dealings of a Sub-Fund. Also, there is no assurance that the Manager will make available RQFII quota that is sufficient for a Sub-Fund’s investment at all times.



## **Application Moneys / Realisation Proceeds**

Applicants for Units should note that application moneys for this Sub-Fund must be paid in RMB. Where Unitholders realise their Units, realisation proceeds will be paid to the relevant Unitholders in RMB only.

The payment of the redemption money to the holder may be delayed due to a substantial portion of investments is made in the Mainland China market and subject to legal or regulatory requirements (such as foreign currency controls). Therefore, the extended time frame for the payment of redemption money shall reflect the additional time needed in light of the specific circumstances in the Mainland China market. As disclosed under the section headed “RQFII risk”, repatriations by RQFIIs in respect of an open-ended RQFII fund (such as the Sub-Fund) conducted in RMB are not subject to any restrictions, lock-up periods or prior approval, although an authenticity and compliance review will be conducted by the RQFII Custodian on each time of repatriation and a monthly breakdown of remittances and repatriations will be submitted to SAFE by the RQFII Custodian. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund’s ability to meet redemption requests from the Unitholders. Furthermore, as the RQFII Custodian will review the authenticity and the compliance of each repatriation, the repatriation may be delayed or even rejected by the RQFII Custodian if it reasonably believes that the repatriation is unauthentic or incompliant with the RQFII rules and regulations. In such case, it is expected that redemption proceeds will be paid to the redeeming Unitholder as soon as practicable and in any event within 7 Business Days after the completion of the repatriation of funds concerned. It should be noted that the actual time required for the completion of the relevant repatriation will be beyond the Manager’s control.

## **Base Currency**

The base currency of the Sub-Fund is RMB.

## **Investment Objective**

CUAM RMB Bond*plus* Fund seeks consistent investment return as well as long term capital growth in RMB terms by investing in a portfolio consisting of RMB-denominated and RMB settled fixed income instruments (fixed rate or floating rate), cash (including money market funds authorised by the CSRC for offering to the public in the PRC) and equity instruments within Mainland China. Exposures to RMB-denominated fixed income and equity instruments are expected to be at least 80% and up to 20% of the Sub-Fund’s assets, respectively.

The fixed income instruments in which the Sub-Fund may invest include sovereign bonds, local government bonds, urban investment bonds (城投債), bonds issued by banks or other financial institutions, corporate/ company bonds regulated by the PRC National Development and Reform Commission and/or the China Securities Regulatory Commission, convertible bonds, central bank bills, medium term notes, short-term financing bills and fixed income funds authorised by the CSRC for offering to the public in the PRC. These fixed income instruments also include other fixed income instruments which is permitted by the China Securities Regulatory Commission. These instruments may be traded or dealt in the mainland exchange market or interbank bond market.

The equity instruments in which the Sub-Fund may invest include equities acquired from initial public offering in the primary market of China, equities converted from convertible bonds, equities acquired in secondary markets, equity funds authorised by the CSRC for offering to the public in the PRC and other equity instruments which is permitted by the China Securities Regulatory Commission.

Investment in money market funds, fixed income funds and equity funds authorised by the CSRC for offering to the public in the PRC will not in aggregate exceed 10% of the net asset value of the Sub-Fund.

### **Investment Policy**

The Manager seeks to achieve investment returns through active management of the risks associated with RMB-denominated fixed income instruments (fixed rate or floating rate) and equity instruments. Over 80% of the assets of the Sub-Fund would be invested in the RMB-denominated fixed income instruments issued within Mainland China. The Manager will select various RMB-denominated fixed income instruments and determine their allocation ratios in the portfolio in light of macro economic analysis, research on the benchmark yields of bonds, research on credit ratings of bonds, and research on levels of bond spread of China.

In particular, the Sub-Fund may invest up to 80% of its Net Asset Value in urban investment bonds (城投債) (i.e. debt instruments issued by local government financing vehicles (“LGFVs”) in the PRC exchange-traded bond markets and inter-bank bond market). These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for local development, public welfare investment and infrastructure projects.

No more than 20% of the assets of the Sub-Fund would be invested in RMB equity instruments within Mainland China including listed securities in recognised stock exchange within China as permitted by the China Securities Regulatory Commission.

While there are no minimum credit rating requirements for the Sub-Fund, the Sub-Fund will not invest more than 20% of its Net Asset Value in fixed income instruments which (i) has credit rating of BB+ or below as rated by PRC local rating agencies; or (ii) is unrated, which means neither the fixed income instrument itself nor its issuer has a credit rating. The Manager will first consider the credit rating of the fixed income instrument itself and only if it is not available, the Manager will then consider the credit rating of the issuer of the fixed income instrument, which will become the implied credit rating of the fixed income instrument.

The Sub-Fund may also invest up to 20% of its Net Asset Value in asset backed securities (including asset backed commercial papers).

The Sub-Fund will not invest in any structured deposits or structured products or financial derivative instruments.

The Sub-Fund will not engage in securities lending transactions or repurchase and reverse repurchase transactions. Prior approval will be sought from the SFC and at least one month prior notice will be given to Unitholders should there be a change in such intention. The Explanatory Memorandum will be updated accordingly.

Investors may note that the Sub-Fund's investments are acquired under the RQFII scheme. In addition, the Sub-Fund may invest less than 70% of its Net Asset Value in RMB-denominated fixed income instruments issued within Mainland China via the CIBM Initiative or such other means as may be permitted under applicable laws and regulations from time to time. Investors please pay attention to the relevant risk factors as mentioned in the Risk Factors section.

### **Overview of the Mainland bond market**

The Mainland bond market consists of three markets: (i) the interbank bond market regulated by the People's Bank of China which functions as a wholesale market for institutional investors; (ii) the exchange bond market regulated by the China Securities Regulatory Commission; and (iii) the bank over-the-counter market regulated by the People's Bank of China which is an extended market of the interbank bond market. The current size and trading volume of the bank over-the-counter market is much smaller than the interbank bond market and the exchange bond market.

In respect of the interbank bond market and the exchange bond market, the table below summarises their respective key features:

	<b>Interbank bond market</b>	<b>Exchange bond market</b>
Size	As at 31 December 2016, the current size of the interbank bond market is RMB 56.80 trillion. (Data source: Wind, data as of 31 December 2016)	As at 31 December 2016, the current size of the exchange bond market is RMB 25.77 trillion. (Data source: Wind, data as of 31 December 2016)
Major types of products being trade	<ul style="list-style-type: none"> <li>• Sovereign bonds;</li> <li>• Local government bonds;</li> <li>• Bonds issued by banks or other financial institutions;</li> <li>• Enterprise bonds ;</li> <li>• Central bank bills;</li> <li>• Commercial papers;</li> <li>• Medium term notes;</li> <li>• Panda bonds (i.e. RMB-denominated bonds issued by international financial institutions within the boundaries of China);</li> <li>• Asset backed securities.</li> </ul>	<ul style="list-style-type: none"> <li>• Sovereign bonds;</li> <li>• Local government bonds;</li> <li>• Enterprise bonds ;</li> <li>• Listed company bonds;</li> <li>• Convertible bonds; and</li> <li>• Asset backed securities.</li> </ul>
Key market participants	<ul style="list-style-type: none"> <li>• Commercial banks</li> <li>• Insurance companies</li> <li>• Securities companies</li> <li>• Fund management companies</li> <li>• RQFII</li> </ul>	<ul style="list-style-type: none"> <li>• Insurance companies</li> <li>• Securities companies</li> <li>• Fund management companies</li> <li>• Individuals</li> <li>• Qualified Foreign Institutional Investors (“QFIIs”)</li> <li>• RQFII</li> </ul>
Trading & settlement mechanism	Enquiry trading system and details of the terms and settlement cycle are negotiated between the counterparties on each trade; common settlement cycle: T+0 and T+1	Centralised trade matching with netting settlement; settlement cycle: T+0 for security while T+1 for cash

Regulator	People's Bank of China	China Securities Regulatory Commission
Counterparty with whom the Sub-Fund will trade	Trading counterparties, mainly financial institutions	China Securities Depository and Clearing Corporation Limited ("CSDCCL") acting as the central counterparty to all securities transactions on the Shanghai and Shenzhen Stock Exchange
Central Clearing House	China Central Depository & Clearing Co., Ltd. or Shanghai Clearing House depending on the type of instruments	China Securities Depository and Clearing Corporation Limited
Liquidity	Relatively high	Relatively medium to low
Associated risks	<p>List of associated risks including but not limited to the following:</p> <ul style="list-style-type: none"> <li>• Credit risk of issuers or counterparties</li> <li>• Liquidity risk</li> </ul>	<p>List of associated risks including but not limited to the following:</p> <ul style="list-style-type: none"> <li>• Potential default risk of CSDCCL</li> <li>• Liquidity risk</li> <li>• Limited pool of investments</li> </ul>
Minimum rating requirements	None	<p>For listing on Shanghai Stock Exchange:</p> <ul style="list-style-type: none"> <li>• None for bonds traded on Integrated Electronic Platform for Fixed Income Securities</li> <li>• AA on bond issuer for bonds traded on Centralised bidding system</li> </ul> <p>For listing on Shenzhen Stock Exchange:</p> <ul style="list-style-type: none"> <li>• None for bonds traded on Intergrated platform for negotiated trading</li> <li>• AA for bonds traded on Centralised bidding system</li> </ul>

*Fixed income instruments commonly seen and their issuers*

Common debt instruments	Issuer
Sovereign bonds and local government bonds (collectively “government bonds”)	Ministry of Finance and local government bodies
Policy bank bonds	Policy banks (i.e. China Development Bank, Agricultural Development Bank of China and The Export-Import Bank of China)
Bonds issued by banks or other financial institutions	Commercial banks or other non-bank financial institutions
Central bank notes/bills	PBOC
Enterprise bonds (企業債券)	Enterprises (mostly state-owned enterprises)
Corporate/Company bonds (公司債券)	Companies
Short-term financing bills & medium-term notes	Non-financial corporations/enterprises

The yield of the major RMB denominated instruments in the PRC was in the range of 2.65% to 3.44 % for government bonds and 3.91% to 6.65 % for corporate bonds, as at 31 December 2016. (Source: Wind, data as of 31 December 2016)

However, investors should note that this is not an indication of the expected return of the Sub-Fund. There is no assurance that the Sub-Fund’s return will be correlated with the expected yield of its underlying investments.

*PRC Credit Rating Agencies*

Major credit rating agency	<ul style="list-style-type: none"> <li>• China Cheng Xin International Credit Rating Co.,Ltd</li> <li>• Dagong Global Credit Rating Co., Ltd</li> <li>• China Lianhe Credit Rating Co., Ltd</li> <li>• Shanghai Brilliance Credit Rating &amp; Investor Service Co., Ltd</li> <li>• Pengyuan Credit Rating Co., Ltd</li> </ul>
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Regulator	• Competent Mainland authorities
Difference in methodology compared to international peers	The methodology of China's credit rating is similar to international peers but the emphasis is different. China's credit rating companies emphasize the background of shareholders or the support from the government but the international rating companies emphasize the issuers' section and operation status.
The way to access the rating information	There are three ways: (1) rating report provided by underwriters (2) rating report disclosed by the issuer's public notice (3) rating report disclosed at rating company's website

### Specific Risk Factors

Investors should refer to the relevant risks under the section headed "Risk Factors" in the main part of the Explanatory Memorandum, in particular, the "Risks associated with CIBM", and the following specific risk factors in respect of the Sub-Fund:-

**Investment risk** - The Sub-Fund is not principal guaranteed and the purchase of its Units is not the same as investing directly in RMB-fixed income instruments or placing RMB funds on deposit with a bank. There is also no guarantee of dividend or distribution payments during the period an investor holds Units in the Sub-Fund.

**China market risk / Single country investment risk** – Insofar as the Sub-Fund invests substantially in securities issued in Mainland China, it will be subject to risks inherent in the Mainland China market and additional concentration risks. Please refer to the risk factors headed "China market risk" and "Concentration risk" in the main part of the Explanatory Memorandum.

**Renminbi currency risk** – RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. Such policies may change in future. Depending on the nature of the change and other factors such as the prevailing economic conditions, RMB may depreciate and the Sub-Fund's or the investors' position may be adversely affected.

Investors must subscribe for Units of the Sub-Fund and will receive redemption proceeds in RMB. There is no assurance that RMB will not be subject to devaluation, in which case the value of their investments will be adversely affected. If investors convert Hong Kong Dollar or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the

RMB redemption proceeds back into Hong Kong Dollar or any other currency, they may suffer a loss if RMB depreciates against Hong Kong Dollar or other currency.

***Credit risk of issuers or counterparties*** – Investment in RMB-denominated fixed income instruments is subject to the credit risk of issuers / counterparties which may be unable or unwilling to make timely payments on principal and/or interest. The financial market of mainland China is at an early stage of development, and most of the RMB-denominated fixed income instruments that the Sub-Fund invests in are and will be unrated. In general, fixed income instruments that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. Please refer to the risk factor headed “Risk relating to credit rating” in the main part of the Explanatory Memorandum. In the event of a default or credit rating downgrading of the issuers of the RMB-denominated fixed income instruments, the Sub-Fund’s value will be adversely affected and investors may suffer a substantial loss as a result.

Investors should note the limitations of credit ratings set out under the risk factors headed “Risk relating to credit rating” in the main part of the Explanatory Memorandum. In addition, the Sub-Fund may invest in securities the credit ratings of which are assigned by the Chinese local credit rating agencies. However, the rating criteria and methodology used by such agencies may be different from those adopted by most of the established international credit rating agencies. Therefore, such rating system may not provide an equivalent standard for comparison with securities rated by international credit rating agencies.

Certain RMB-denominated fixed income instruments are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer’s assets will be paid to holders of RMB-denominated fixed income instruments only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

***Counterparty and settlement risk*** – Exchange traded fixed income instruments may be subject to potential default risk of CSDCCL and counterparty risk, although such risk is mitigated by a centralised clearing system. While the degree of counterparty risk may be higher in the interbank bond market as it’s a quote-driven over-the-counter (OTC) market, where deals are negotiated between two counterparties through a trading system. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

There are various transaction settlement methods in the interbank bond market, such as the delivery of security by the counterparty after receipt of payment by the Sub-Fund; payment by



the Sub-Fund after delivery of security by the counterparty; or simultaneous delivery of security and payment by each party. Although the Manager may endeavour to negotiate terms which are favourable to the Sub-Fund (e.g. requiring simultaneous delivery of security and payment), there is no assurance that counterparty default risks can be eliminated. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund will sustain losses.

***Risk related to convertible bonds*** – This Sub-Fund may invest in convertible bonds, which shares similar characteristics and nature of debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. Convertible bonds are subject to the credit, interest rate and market risks stated above associated with both debt securities and equity securities and any risk specific to convertible bonds. Convertible bonds may also be subject to lower liquidity than the underlying equities. Therefore, investors should be prepared for greater volatility than straight bond investments, with an increased risk of capital loss, but with the potential of higher returns.

***RQFII Risk*** - Currently it is intended that the Sub-Fund will obtain exposure to RMB-denominated fixed income instruments issued or distributed within mainland China and China equity instruments by using, amongst others, the RQFII quotas of the Manager, which has obtained RQFII status in China.

The Manager in its capacity as a RQFII together with the Custodian have appointed Bank of China Limited as the RQFII Custodian in respect of the RQFII's assets, pursuant to relevant laws and regulations.

Investors should pay attention to the sections headed “RQFII risk” and “Custodial risk” under the “Risk Factors” section.

The Manager will assume dual roles as the Manager of the Sub-Fund and the holder of RQFII quotas for the Sub-Fund. The Manager will be responsible for ensuring that all transactions and dealings will be dealt with in compliance with the Trust Deed (where applicable) as well as the relevant laws and regulations applicable to the Manager as a RQFII. If any conflicts of interest arise, the Manager will have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly and in the best interest of the Unitholders.

***Application of RQFII rules*** - The RQFII rules described under “RQFII risk” in the section headed “Risk Factors” have been recently announced by the CSRC, and enables Renminbi to be remitted into and repatriated out of the PRC. The rules are novel in nature and their application may depend on the interpretation given by the relevant Chinese authorities.

Investment products (such as the Sub-Fund) which make investments pursuant such RQFII rules are among the first of its kind. Any changes to the relevant rules may have an adverse impact on investors' investment in the Sub-Fund. In the worst scenario, the Manager may determine that the Sub-Fund shall be terminated if it is not legal or viable to operate the Sub-Fund because of changes to the application of the relevant rules.

***Liquidity risk*** - The Mainland China bond market is at a developing stage and the market capitalisation and trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated debt securities market may result in prices of debt securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

Certain RMB-denominated fixed income instruments in which the Sub-Fund invests are currently not listed on a stock exchange or a securities market where trading is conducted on a regular basis. There is also no guarantee that market making arrangements will be in place to make a market and quote a price for all RMB-denominated fixed income instruments. In the absence of an active secondary market, the Sub-Fund may need to hold the RMB-denominated fixed income instruments until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such instruments. Even if a secondary market is developed, the price at which such RMB-denominated fixed income instruments are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates.

Further, the bid and offer spread of the price of certain RMB-denominated fixed income instruments may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments. The Manager seeks to control the liquidity risk of the investment portfolio by a series of internal management measures in order to meet Unitholders' redemption requests.

***Risk of potential delay in the redemption payment*** – Substantial portion of the Sub-Fund's investments in the Mainland is subject to the relevant legal or regulatory requirements (such as foreign currency controls). Such requirements may render delay in receipt of the redemption payment, but the extended time frame for payment should reflect the additional time needed in light of the specific circumstances accordingly. As disclosed under the section headed "RQFII risk", repatriations by RQFIIs in respect of an open-ended RQFII fund (such as the Sub-Fund) conducted in RMB are not subject to any restrictions, lock-up periods or prior approval, although an authenticity and compliance review will be conducted by the RQFII Custodian on each time of repatriation and a monthly breakdown of remittances and repatriations will be

submitted to SAFE by the RQFII Custodian. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests from the Unitholders.

***PRC brokerage risk*** – The execution and settlement of transactions or the transfer of any funds or securities may be conducted by brokers (“PRC Brokers”) appointed by the RQFII. There is a risk that the Sub-Fund may suffer losses from the default, bankruptcy or disqualification of the PRC Brokers. In such event, the Sub-Fund may be adversely affected in the execution or settlement of any transaction or in the transfer of any funds or securities.

In selection of PRC Brokers, the RQFII will have regard to factors such as the competitiveness of commission rates, size of the relevant orders and execution standards. If the RQFII considers appropriate, it is possible that a single PRC Broker will be appointed and the Sub-Fund may not necessarily pay the lowest commission available in the market.

***Risk of investing in urban investment bonds*** - In view of limitations on directly raising funds, local governments in the PRC have set up numerous entities known as “Local Government Financing Vehicles” (LGFVs) to borrow and fund local development, public welfare investment and infrastructure projects. Urban investment bonds are issued by LGFVs. Local governments may be seen to be closely connected to urban investment bonds, as they are shareholders of the LGFVs issuing such bonds. However, urban investment bonds are typically not guaranteed by the relevant local governments or the central government of the PRC. As such, local governments or the central government of the PRC are not obligated to support any LGFVs in default. The LGFVs' ability to repay debts depends on various factors, including the nature of the business of such LGFVs, the financial strength of such LGFVs and the extent to which the relevant local governments are prepared to support such LGFVs. Slower revenue growth at some local governments may constrain their capacity to provide support, while regulatory constraints may also limit local governments' ability to inject land reserves into LGFVs. Further, local governments have taken on debt in various other forms, and recent analyses show that increased financing activities have posed a risk to local government finances. If a LGFV encounters financial difficulties, without the local government's support, there is a risk of possible defaults on payment of principal or interest of urban investment bonds issued by the LGFV. This could result in substantial losses in the Sub-Fund's investments in debts issued by such LGFV, and as a result, the Sub-Fund's Net Asset Value will be adversely affected.

***Risk of investing in asset backed securities (including asset backed commercial papers)*** - The Sub-Fund may invest in asset backed securities (including asset backed commercial papers), which is a kind of structured debt instruments, provide exposure, synthetically or otherwise, to

underlying assets and the risk/return profile is determined by the cash flows derived from such assets. Some of such instruments involve multiple instruments and cash flow profiles such that it is not possible to predict with certainty the outcome from all market scenarios. Also, the price of such an investment could be contingent on, or highly sensitive to, changes in the underlying components of the structured debt instrument. The underlying assets can take many forms including, but not limited to, credit card receivables, corporate loans, or any type of receivables from a company or structured vehicle that has regular cash flows from its customers.

Investments in asset backed securities (including asset backed commercial papers) may be less liquid than other securities. The lack of liquidity may cause the current market price of assets to become disconnected from the underlying assets' value and consequently the Sub-Fund investing in asset backed securities (including asset backed commercial papers) may be more susceptible to liquidity risk. The liquidity of an asset backed securities (including asset backed commercial papers) can be less than a regular bond or debt instrument and this may adversely affect either the ability to sell the position or the price at which such a sale is transacted.

In addition, asset backed securities (including asset backed commercial papers) are subject to prepayment risk. The assets underlying asset backed securities (including asset backed commercial papers) may generally be prepaid at any time by the related borrowers. The prepayments may be used to prepay all or partial of the principal balance. As a result, the yield to maturity and market value of some of the asset backed securities (including asset backed commercial papers) are affected, to varying degrees, by the rate of prepayments of the underlying assets. Some of the asset backed securities (including asset backed commercial papers) that the Sub-Fund invests in are particularly sensitive to prepayment rates and, as a result, their yields to maturity and market values are expected to be highly volatile. Asset backed securities (including asset backed commercial papers) are also subject to credit risk and valuation risk. The Sub-Fund may therefore suffer substantial loss and the net asset value of the Sub-Fund could be adversely affected.

***Other risks*** – The Chinese government's macro-economic policies and controls (including its monetary and fiscal policies) will have significant influence over the capital markets in China. Changes in fiscal policies, such as interest rates policies, may have an adverse impact on the pricing of debt securities held by the Sub-Fund. The return of the Sub-Fund will be adversely affected as a result.

## **PRC Tax Provisions**

The Sub-Fund currently invests in RMB-denominated fixed income instruments issued or distributed in the PRC and China A-Shares by using the RQFII quotas of the Manager or via the CIBM Initiative or such other means as may be permitted under applicable laws and

regulations from time to time. For further details relating to PRC taxes and the associated risks, please refer to the risk factor headed “**PRC tax considerations**” under the “**Risk Factors**” section.

Having taken and considered independent professional tax advice regarding the Sub-Fund’s eligibility for treaty relief under the China-HK Arrangement and acting in accordance with such advice, the Manager considers that the Sub-Fund should qualify as a Hong Kong tax resident and it should be able to enjoy treaty relief based on the China-HK Arrangement. The Manager has determined, having taken and considered independent professional tax advice and acting in accordance with such advice, that no PRC WIT provision will be made on the gross realised and unrealised gains derived from investment in the PRC fixed income instruments; and the Manager has made a 10% PRC WIT tax provision on interests received from debt instruments issued or distributed in the PRC if such WIT is not withheld at source, unless otherwise exempted.

Pursuant to Circular 108 jointly issued by the MoF and the SAT on 22 November 2018, bond interest income derived by foreign institutions investing in the onshore bond market is temporarily exempted from CIT for the period from 7 November 2018 to 6 November 2021. In light of this and having taken and considered independent professional tax advice and acting in accordance with such advice, the Manager has on 27 December 2018 reversed the 10% PRC WIT provision on interests income derived from debt instruments issued or distributed in the PRC, that have been made since 7 November 2018. Further, no PRC WIT provision will be made on interest income from the foregoing instruments until 6 November 2021.

Pursuant to Circular 79, the Sub-Fund is temporarily exempt from PRC WIT on capital gains derived from investment in China A-Shares via RQFII effective from 17 November 2014, but those capital gains derived before that date should be subject to PRC WIT. In spite of the Circular 79 announcement, the Manager has determined, having taken and considered independent professional tax advice and acting in accordance with such advice, that no WIT provision will be made for gross realised or unrealised gains derived from investment in China A-Shares from 17 November 2014 onwards.

The tax exemptions granted under Circular 79, and 81 and Circular 108 are only temporary. It is possible that the applicable tax law, regulations and practice may be changed. In such cases, the Sub-Fund may have tax liabilities in the PRC which it has not provided for. Such tax liabilities will be deducted from the Sub-Fund's assets, and will cause the Sub-Fund's Net Asset Value to be adversely affected. In this case, existing and subsequent investors will be disadvantaged as they will bear for a disproportionately higher amount of tax liabilities as compared to the liability at the time of investment in the Sub-Fund.

The prevailing VAT regulations do not specifically exempt VAT on interest income received by QFIIs, RQFIIs and CIBM investor from investment in PRC debt securities. Having taken independent professional tax advice, interest income received by QFIIs, RQFIIs and CIBM investors from investments in PRC debt securities shall be subject to 6% VAT unless special exemption applies. According to the Notice 36, deposit interest income is not subject to VAT and interest income earned on PRC Government Bonds is exempted from VAT.

Where VAT is applicable, there are also other local surtaxes imposed based on the VAT liabilities, including urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), education surcharge (currently at the rate of 3%) and local education surcharge (currently at the rate of 2%).

In light of the above, the Manager has determined, having taken and considered independent professional tax advice and acting in accordance with such advice, to make a provision in an amount equal to the total of (i) for VAT, 6% of the interest income derived from PRC debt securities (except PRC Government Bonds) received/receivable by the Sub-Fund; plus (ii) for the potential local surtaxes on VAT, 12% of the VAT amount stated in (i) from 1 May 2016 onwards.

Pursuant to Circular 108 jointly issued by the MoF and the SAT on 22 November 2018, bond interest income derived by foreign institutions investing in the onshore bond market is temporarily exempted from VAT for the period from 7 November 2018 to 6 November 2021. In light of this and having taken and considered independent professional tax advice and acting in accordance with such advice, the Manager has on 27 December 2018 reversed the provision for VAT on the interest income derived from PRC debt securities received/receivable by the Sub-Fund and for the potential local surtaxes on VAT, that have been made since 7 November 2018. Further, no VAT provision or provision for local surtaxes imposed based on the VAT liabilities will be made on interest income from the foregoing instruments until 6 November 2021.

It should be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively. In view of the above uncertainties, investors should note that the level of provision may be inadequate to meet actual PRC tax liabilities on investments made by the Sub-Fund.

If the actual tax levied by relevant PRC tax authorities is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Sub-Fund will be adversely affected, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund.

On the other hand, the actual tax liabilities may be lower than the tax provision made, in which case those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision. As a result, investors may be disadvantaged depending on the final rules of the relevant PRC tax authorities, the level of provision and when they subscribed and/or redeemed their Units. Upon any future resolution of the above-mentioned tax exemption or further changes to tax law or policies, the Manager, will as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

### **Available Classes**

Class A Units are available for sale to the retail public in Hong Kong.

Class I Units are offered to institutional investors or other investors determined by the Manager.

### **Investment Minima**

Minimum Subscription Amount	<b>Class A:</b> RMB 10,000 <b>Class I:</b> RMB 3,000,000
Minimum Subsequent Subscription Amount	<b>Class A:</b> RMB 1,000 <b>Class I:</b> RMB 500,000
Minimum Holding	<b>Class A:</b> RMB 10,000 <b>Class I:</b> RMB 1,000,000

Minimum Realisation Amount	<b>Class A:</b> RMB 1,000 <b>Class I:</b> RMB 100,000
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## Fees

Preliminary Charge (% of Issue Price)	<b>Class A &amp; Class I:</b> up to 5.00%
Realisation Charge (% of Realisation Price)	<b>Class A &amp; Class I:</b> Nil
Conversion Charge	<b>Class A &amp; Class I :</b> up to 1.00%
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A:</b> 1.5% p.a. <b>Class I:</b> 0.75% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	<b>Class A &amp; Class I:</b> up to 0.175% p.a., subject to a minimum monthly fee of RMB 40,000
Custody Fee (including RQFII custody fee) (% Net Asset Value of the Sub-Fund)	<b>Class A &amp; Class I:</b> up to 0.1% p.a.

## Certain Charges, Fees and Expenses to be borne by the Manager

In general, the Sub-Fund bears the charges, fees and expenses which are directly attributable to it in accordance with the Trust Deed (including but not limited to the Management Fee, Trustee Fee and Custody Fee). However, the Manager may at its discretion decide to bear certain charges, fees and expenses which are attributable to the Sub-Fund, until a future date as notified by the Manager. The portion of the charges, fees and expenses to be borne by the Manager may vary from year to year. The Sub-Fund will bear all other charges, fees and expenses in accordance with the Trust Deed (including but not limited to the Management Fee, Trust Fee and Custody Fee) which have not been borne by the Manager.

At least one month notice will be given to Unitholders before the Manager ceases to bear the aforementioned charges, fees and expenses attributable to the Sub-Fund and this Explanatory Memorandum will be updated accordingly.



## **Ongoing Charges**

The ongoing charges figure over a year of the relevant class of Units of the Sub-Fund represents the ongoing expenses chargeable to the relevant class of Units of the Sub-Fund expressed as a percentage of the average Net Asset Value of the relevant class of Units of the Sub-Fund over the same period. The ongoing charges figure may vary from year to year.

With effect from 8 December 2017, certain ongoing charges of the Sub-Fund will be borne by the Manager and it will not be charged to the Sub-Fund, and the ongoing charges in respect of each class of Units of the Sub-Fund will be capped at 3% of the average Net Asset Value of the relevant class of Units of the Sub-Fund. This capped figure will be reviewed annually, and if this capped figure is lowered, investors will be notified as soon as practicable. If this capped figure is increased or if the cap is removed (subject to the SFC's prior approval), the Manager will give no less than one month's prior notice (or such other notice as may be approved by the SFC) to Unitholders.

## **Establishment Costs**

The costs of establishment of China Universal International Series and the initial Sub-Fund have been described in the main part of the Explanatory Memorandum.

## **Dealing Day**

Dealings in Units of the Sub-Fund will be on a *daily* basis, with the Dealing Day being each HK & PRC Business Day.

## **Dealing Deadline**

5:00 p.m. (Hong Kong time) on the relevant Dealing Day

## **Subscription, Realisation and Conversion of Units**

For details regarding the procedures for subscription, realisation and conversion, see the main part of the Explanatory Memorandum under "Purchase of Units", "Realisation of Units" and "Conversion between Sub-Funds". No conversion may be made between Units denominated in RMB and Units denominated in another currency. As such, no conversion may be made in respect of Units of the CUAM RMB Bond *plus* Fund.

## **Distributions**

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distribution will be made on a quarterly basis (i.e. March, June, September and December each year) in RMB. There is no guarantee of regular distribution and if distribution is made the amount being distributed. It is the current intention of the Manager that only the net income (the income net of expenses) for the Sub-Fund may be distributed. No distribution will be paid out of the Sub-Fund's capital.

## **Valuation**

The Valuation Point is the close of business in the last relevant market to close on each Dealing Day.

## **Documents Available for Inspection**

Please refer to the section headed "Documents Available for Inspection" in the main part of the Explanatory Memorandum and the following are the material contracts in respect of this Sub-Fund:

- (i) the Tri-party Custody Agreement among the Manager, the Custodian and the RQFII Custodian.

## **APPENDIX II – CUAM CHINA-HONG KONG STRATEGY FUND**

This Appendix comprises information in relation to CUAM China-Hong Kong Strategy Fund, a Sub-Fund of the Fund.

### **Definition**

For this Sub-Fund, “HK Business Day” shall mean a day (other than a Saturday) on which banks and stock exchanges in Hong Kong are open for normal business or such other day or days as the Manager and the Trustee may agree from time to time.

### **Offering**

Units will be issued in respect of applications (together with application moneys in cleared funds) received prior to 4 p.m. (Hong Kong time) and accepted by the Manager (or such later time as the Manager may agree) based on the price at the Valuation Point on the Dealing Day. If applications are received after that time, such applications shall be processed on the next Dealing Day based on the price at the relevant Valuation Point on that Dealing Day.

### **Application Moneys / Realisation Proceeds**

Application moneys for this Sub-Fund should be made in the relevant class currency. Arrangements can also be made for applicants to pay for Units in most other major currencies and in such cases, the cost of currency conversion will be borne by the applicant. Please refer to the relevant sections of the Explanatory Memorandum, i.e. “Payment Procedures” of “Purchase of Units” and “Payment of Realisation Proceeds” of “Realisation of Units” for further details.

### **Base Currency**

The base currency of the Sub-Fund is HKD.

### **Investment Objective**

CUAM China-Hong Kong Strategy Fund seeks to achieve medium to long-term capital growth through investing primarily in securities of companies which are established in Greater China or having their income, revenue, assets, economic activities, business or operations associated with Greater China.

## Investment Policy

At least 70% of the Sub-Fund's Net Asset Value will be invested in a portfolio of (a) equity securities (including but not limited to ordinary shares, preferred shares, American Depositary Receipts, Global Depositary Receipts) of companies which are established in mainland China or Hong Kong or having their income, revenue, assets, economic activities, business or operations associated with mainland China and/or Hong Kong ("China-Hong Kong Companies"); and (b) debt securities instruments (including but not limited to long-term bonds, medium-term notes, bills and convertible bonds) issued by China-Hong Kong Companies and governments, government agencies and supra-national issuers in mainland China or Hong Kong. The Sub-Fund will not focus its investment in any specific industries or sectors although the allocation in certain industry or sector may be relatively significant, depending on the Manager's assessment at different times.

The Sub-Fund may invest:

- Up to 100% of the Sub-Fund's Net Asset Value in equity securities of China-Hong Kong Companies;
- Not more than 30% of the Sub-Fund's Net Asset Value in debt securities instruments issued by China-Hong Kong Companies and governments, government agencies and supra-national issuers in mainland China or Hong Kong.

## Indicative Asset Allocation

The following is an indication of the asset allocation of the Sub-Fund:

Asset Type	Indicative Percentage of the Sub-Fund's Net Asset Value
Equity securities	40-100%
Debt securities instruments	<60%
Collective investment schemes, cash and cash equivalents	<30%

In addition, the Sub-Fund may invest on an ancillary basis less than 30% of its Net Asset Value in (1) equity securities of non-China-Hong Kong Companies, (2) debt securities instruments issued by non-China-Hong Kong Companies, and governments, government agencies and supra-national issuers outside mainland China or Hong Kong, and (3) collective investment schemes, subject to the investment and borrowing restrictions in the Explanatory Memorandum and Chapter 7 of the Code.

The Sub-Fund may invest less than 60% of its Net Asset Value in debt securities instruments which are below investment grade or unrated. The Sub-Fund does not have requirement on the minimum credit rating of the debt securities instruments it may hold. "Investment grade" means a rating of BBB- or above from Standard & Poor's and Fitch, Baa3 or above from

Moody's or an equivalent rating from any internationally recognized credit rating agency. For this purpose, if the relevant security does not itself have a credit rating, then reference can be made to the credit rating of the issuer of the security. "Unrated debt securities" means a debt security which neither the security itself nor its issuer has a credit rating. The Sub-Fund does not have any limitation on the maturity of the debt securities instruments. The debt securities instruments the Sub-Fund will invest in are traded in the global debt securities markets such as but not limited to Hong Kong, US and China.

The Sub-Fund may invest not more than 30% of its Net Asset Value in convertible bonds.

The Sub-Fund may invest not more than 20% of its Net Asset Value in onshore mainland China market through various means, including but without limitation, using RQFII quota of the Manager (as RQFII holder), or through investment in other collective investment schemes, or through the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect or such other means as may be permitted under applicable laws and regulations from time to time.

The Sub-Fund will not invest more than 10% of its Net Asset Value in debt securities issued by and/or guaranteed by any single sovereign issuer (including its government, a public or local authority of that country) with a credit rating below investment grade as rated by any international credit rating agency (such as Standard & Poor's, Moody's and Fitch). Also, the Sub-Fund will not invest in collateralised and/or securitised products such as asset backed securities and mortgage backed securities (including asset backed commercial papers).

The Sub-Fund may hold less than 30% of its Net Asset Value in cash and cash equivalents, which may include cash, deposits and money market instruments for liquidity and cash management purposes. The Sub-Fund may hold temporarily up to 100% of its Net Asset Value in cash or cash equivalents under exceptional circumstances, such as (i) market crash, or major crisis, (ii) attempts to mitigate the risk of potential sharp reversals and fall in the equity or bond markets, (iii) attempts to mitigate downside risks during uncertainties or (iv) maintain liquidity for the Sub-Fund.

The Sub-Fund will invest in financial derivative instruments (by engaging in foreign currency transaction, including but not limited to currency forward contracts) for hedging purposes only.

The Sub-Fund will not engage in securities lending transactions or repurchase and reverse repurchase transactions or similar over-the-counter transaction. Prior approval will be sought from the SFC and at least one month's prior notice will be given to Unitholders should there be a change in such intention. The Explanatory Memorandum will be updated accordingly.

The asset allocation of the Sub-Fund may change taking into account different factors including but not limited to the Manager's views of fundamental economic and market conditions and investment trends across the globe, liquidity, costs, timing of execution, relative attractiveness of individual securities and issuers available in the market.

## **Stock Connects**

The Shanghai-Hong Kong Stock Connect is a securities trading and clearing linked programme developed by the Stock Exchange of Hong Kong Limited (“**SEHK**”), Shanghai Stock Exchange (“**SSE**”), China Securities Depository and Clearing Corporation Limited (“**ChinaClear**”) and Hong Kong Securities Clearing Company Limited (“**HKSCC**”). The Shenzhen-Hong Kong Stock Connect is a securities trading and clearing linked programme developed by the SEHK, Shenzhen Stock Exchange (“**SZSE**”), ChinaClear and HKSCC. The aim of Stock Connects is to achieve mutual stock market access between mainland China and Hong Kong.

The Shanghai-Hong Kong Stock Connect comprises a Northbound Shanghai Trading Link and a Southbound Hong Kong Trading Link. Under the Northbound Shanghai Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and a securities trading service company to be established by the SEHK, may be able to trade eligible China A-Shares listed on SSE by routing orders to SSE.

The Shenzhen-Hong Kong Stock Connect comprises a Northbound Shenzhen Trading Link and a Southbound Hong Kong Trading Link. Under the Northbound Shenzhen Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and a securities trading service company to be established by the SEHK, may be able to trade eligible China A-Shares listed on SZSE by routing orders to SZSE.

### ***Eligible securities***

#### **Shanghai-Hong Kong Stock Connect**

Hong Kong and overseas investors will be able to trade certain stocks listed on the SSE market (i.e. “**SSE Securities**”). These include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed China A-Shares that are not included as constituent stocks of these indices but which have corresponding China H-Shares listed on the Hong Kong Stock Exchange, except the following:

- SSE-listed shares which are not traded in RMB; and
- SSE-listed shares which are included in the “risk alert board”.

It is expected that the list of eligible securities will be subject to review from time to time.

### Shenzhen-Hong Kong Stock Connect

Hong Kong and overseas investors will be able to trade certain stocks listed on the SZSE market (i.e. “**SZSE Securities**”). These include any constituent stock of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index which has a market capitalisation of RMB6 billion or above and all SZSE-listed shares of companies which have issued both China A-Shares and China H-Shares except for the following.

- SZSE-listed shares which are not traded in RMB; and
- SZSE-listed shares which are included in the “risk alert board”.

At the initial stage of the Northbound Shenzhen Trading Link, investors eligible to trade shares that are listed on the ChiNext Board of SZSE under the Northbound Shenzhen Trading Link will be limited to institutional professional investors as defined in the relevant Hong Kong rules and regulations.

It is expected that the list of eligible securities will be subject to review from time to time.

### ***Trading quota***

Trading under the Stock Connects will be subject to a daily quota.

### ***Settlement and custody***

The China A-Shares traded through Stock Connects are issued in scripless form, so investors will not hold any physical China A-Shares. Hong Kong and overseas investors who have acquired SSE Securities and SZSE Securities should maintain the SSE Securities and SZSE Securities with their brokers’ or custodians’ stock accounts with CCASS (the Central Clearing and Settlement System operated by HKSCC for the clearing securities listed or traded on the Hong Kong Stock Exchange).

### ***Investor compensation***

The Sub-Fund’s investment in China A-Shares via the Stock Connects will neither be covered by Hong Kong’s Investor Compensation Fund nor the China Securities Investor Protection Fund (中國投資者保護基金) in the PRC.

Further information about the Stock Connects is available online at the website:

<http://www.hkex.com.hk/chinaconnect>

## **Investment Restrictions**

Investors should refer to the relevant investment restrictions under the section headed “Investment and Borrowing Restrictions” in the main part of the Explanatory Memorandum and the following specific investment restrictions in respect of the Sub-Fund:-

- (a) the Sub-Fund may engage in foreign currency transactions, including but not limited to currency forward contracts, for hedging purposes only.

## **Specific Risk Factors**

Investors should refer to the following specific risk factors in respect of the Sub-Fund:-

***Greater China market risk / Single region investment risk*** – Insofar as the Sub-Fund invests substantially in the equity securities of China-Hong Kong Companies, its investment is not as diversified as global equity funds. It will be subject to risks inherent in the Greater China market and additional concentration risks. It will tend to be more volatile than other funds and its portfolio value can be exposed to country specific risks. Please refer to the risk factors headed “China market risk” and “Concentration risk” in the main part of the Explanatory Memorandum.

## ***RQFII Risk***

The Manager (as the RQFII holder) may from time to time make available RQFII quota to the Sub-Fund for investment in China A-Shares. Under the SAFE’s RQFII quota administration policy, the Manager (as the RQFII holder) has the flexibility to allocate its RQFII quota across different public fund products, or, subject to SAFE’s approval, to products and/or accounts that are not public funds. The Manager (as the RQFII holder) may therefore allocate additional RQFII quota to the Sub-Fund, or allocate RQFII quota which may otherwise be available to the Sub-Fund to other products and/or accounts. The Manager (as the RQFII holder) may also apply to SAFE for additional RQFII quota which may be utilised by the Sub-Fund, other clients of the Manager or other products managed by the Manager. However, a Sub-Fund may not have exclusive use of the entire RQFII quota granted by SAFE to the Manager, as the Manager may in its discretion allocate RQFII quota which may otherwise be available to the relevant Sub-Fund to other products. There is no assurance that the Manager will make available RQFII quota that is sufficient for the Sub-Fund’s investment at all times.

The Manager in its capacity as a RQFII holder together with the Custodian has appointed Bank of China Limited as the RQFII Custodian in respect of the RQFII’s assets, pursuant to relevant laws and regulations.



Investors should pay attention to the risk factors headed “**RQFII risk**” and “**Custodial risk**” under the section headed “**Risk Factors**” .

The Manager will assume dual roles as the Manager of the Sub-Fund and the holder of RQFII quotas for the Sub-Fund. The Manager will be responsible for ensuring that all transactions and dealings will be dealt with in compliance with the Trust Deed (where applicable) as well as the relevant laws and regulations applicable to the Manager as a RQFII. If any conflicts of interest arise, the Manager will have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly and in the best interest of the Unitholders.

Application of RQFII rules may depend on the interpretation given by the relevant Chinese authorities. Any changes to the relevant rules may have an adverse impact on investors’ investment in the Sub-Fund.

#### ***Risk associated with the Stock Connect***

The Stock Connect is a programme novel in nature. Investment in China A-Shares by the Sub-Fund via the Stock Connects may expose the Sub-Fund to the following additional risks:

*Quota limitations* - The Stock Connects are subject to quota limitations. Once the daily quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). Therefore, quota limitations may restrict the Sub-Fund’s ability to invest in China A-Shares through the relevant Stock Connect on a timely basis in order to pursue its investment strategies effectively.

*Suspension risk* - Each of the Hong Kong Stock Exchange, SSE and SZSE may suspend Northbound and/or Southbound trading in light of the market situation, subject to prior consent from the relevant regulators. Where a suspension in the Northbound trading through the Stock Connects is effected, the Sub-Fund’s ability to access the PRC market will be adversely affected.

*Operational risk* - The Stock Connects provide a new channel for investors from Hong Kong and overseas to access the China stock market directly.

The Stock Connects are premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house.

It should be appreciated that the securities regimes and legal systems of the two markets differ significantly and in order for the trial programme to operate, market participants may need to address issues arising from the differences on an on-going basis.

Further, the “connectivity” in the Stock Connects requires routing of orders across the border. This requires the development of new information technology systems on the part of the Hong Kong Stock Exchange and exchange participants (i.e. a new order routing system (“**China Stock Connect System**”) to be set up by the Hong Kong Stock Exchange to which exchange participants need to connect). There is no assurance that the systems of the Hong Kong Stock Exchange and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted. The Sub-Fund’s ability to access the China A-Shares market (and hence to pursue its investment strategy) will be adversely affected.

*Restrictions on selling imposed by front-end monitoring* - PRC regulations require that before an investor sells any share, there should be sufficient shares in the account; otherwise SSE or SZSE will reject the sell order concerned. The Hong Kong Stock Exchange will carry out pre-trade checking on China A-Shares sell orders of its participants (i.e. the stock brokers) to ensure there is no over-selling.

If the Sub-Fund desires to sell certain China A-Shares it holds, it must transfer those China A-Shares to the respective accounts of its brokers before the market opens on the day of selling (“**trading day**”). If it fails to meet this deadline, it will not be able to sell those shares on the trading day. Because of this requirement, the Sub-Fund may not be able to dispose of holdings of China A-Shares in a timely manner.

*Recalling of eligible stocks* - When a stock is recalled from the scope of eligible stocks for trading via the Stock Connects, the stock can only be sold but restricted from being bought. This may affect the investment portfolio or strategies of the Sub-Fund, for example, when the Manager wishes to purchase a stock which is recalled from the scope of eligible stocks.

*Clearing and settlement risk* - The HKSCC and ChinaClear will establish the clearing links and each will become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For crossboundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house.

Should the remote event of ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against ChinaClear. HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear's liquidation. In that event, the Sub-Fund may suffer delay in the recovery process or may not be able to fully recover its losses from ChinaClear.

*Participation in corporate actions and shareholders' meetings* - The HKSCC will keep CCASS participants informed of corporate actions of SSE Securities and SZSE Securities. Hong Kong and overseas investors (including the Sub-Fund) will need to comply with the arrangement and deadline specified by their respective brokers or custodians (i.e. CCASS participants). The time for them to take actions for some types of corporate actions of SSE Securities and SZSE Securities may be as short as one business day only. Therefore, the Sub-Fund may not be able to participate in some corporate actions in a timely manner.

Hong Kong and overseas investors (including the Sub-Fund) are holding SSE Securities and SZSE Securities traded via the Stock Connects through their brokers or custodians. According to existing mainland China practice, multiple proxies are not available. Therefore, the Sub-Fund may not be able to appoint proxies to attend or participate in shareholders' meetings in respect of the SSE Securities and SZSE Securities.

*No Protection by Investor Compensation Fund* - Investment through the Stock Connects are conducted through broker(s), and is subject to the risks of default by such brokers' in their obligations. As disclosed in the section under the heading "**Stock Connects**", the Sub-Fund's investments through Northbound trading under the Stock Connects are not covered by the Hong Kong's Investor Compensation Fund or the China Securities Investor Protection Fund. Therefore, the Sub-Fund is exposed to the risks of default of the broker(s) it engages in its trading in China A-Shares through the programme.

*Regulatory risk* - The Stock Connect is novel in nature, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connects.

It should be noted that the regulations are untested and there is no certainty as to how they will be applied. Moreover, the current regulations are subject to change which may have potential retrospective effects. There can be no assurance that the Stock Connects will not be abolished.

The Sub-Fund, which may invest in the PRC markets through the Stock Connects, may be adversely affected as a result of such changes.

*Risks associated with the Small and Medium Enterprise Board and/or ChiNext Board* - The Sub-Fund may invest in the Small and Medium Enterprise Board of the SZSE (“**SME Board**”) and/or the ChiNext Board of the SZSE (“**ChiNext Board**”). Investments in the SME Board and/or ChiNext Board may result in significant losses for the Sub-Fund and its investors. The following additional risks apply:

- Higher Fluctuation on Stock Prices

Listed companies on the SME Board and/or ChiNext Board are usually of emerging nature with smaller operating scale. Hence, they are subject to higher fluctuation in stock prices and liquidity and have higher risks and turnover ratios than companies listed on the Main Board of the SZSE (“**Main Board**”).

- Valuation / Over-Valuation Risk

Stocks listed on the SME Board and/or ChiNext Board may be difficult to value and/or overvalued. Exceptionally high valuation resulting from over-valuation may not be sustainable. Also, stock price may be more susceptible to manipulation due to fewer circulating shares.

- Differences in Regulations

The rules and regulations regarding companies listed on ChiNext Board are less stringent in terms of profitability and share capital than those in the Main Board and SME Board.

- Delisting Risk

It may be more common and faster for companies listed on the SME Board and/or ChiNext Board to delist. This may have an adverse impact on the relevant Sub-Fund if the companies that it invests in are delisted.

- Risk associated with Small-Capitalisation / Mid-Capitalisation Companies

The stocks of small-capitalisation / mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general.

### *Liquidity risk of investing in China A-Shares and China B-Shares*

China A-Shares and China B-Shares may be subject to trading bands which restrict increases and decreases in the trading price. The Sub-Fund when investing through the Stock Connect will be prevented from trading China A-Shares once they hit the “trading band limit”. If this happens on a particular trading day, the Sub-Fund may be unable to trade China A-Shares. When the Manager trades China B-Shares for the account of the Sub-Fund, the Manager may

also be unable to trade China B-Shares due to the “trading bank limit”. As a result, the liquidity of the China A-Shares and China B-Shares may be adversely affected which in turn may affect the value of the Sub-Funds’ investments.

***Risk of investing in other collective investment schemes***

The Sub-Fund may invest not more than 10% of its Net Asset Value in other collective investment schemes which may not be regulated by the SFC. In addition to the fees and expenses charged by the Sub-Fund, investors should note that there are additional fees involved when investing in these underlying collective investment schemes, including fees and expenses charged by the investment managers of these underlying collective investment schemes as well as fees payable by the Sub-Fund during its subscription to and redemption from these underlying collective investment schemes. Furthermore, there can be no assurance that the liquidity of these underlying collective investment schemes will always be sufficient to meet redemption request as and when made. Besides, investment decisions of these underlying collective investment schemes will be made independently of the Manager. There is no assurance that the investment objective and strategy of these underlying collective investment schemes will be achieved despite the selection and monitoring process undertaken by the Manager. If the Sub-Fund invests in other collective investment schemes managed by the Manager or its connected persons, all initial charges on these underlying collective investment schemes must be waived, and the Manager must not obtain rebate of any fees or charges levied by these underlying collective investment schemes. In case any conflict of interest may still arise out of such investments, the Manager will use its best endeavours to resolve it fairly.

***Risks relating to convertible bonds*** - This Sub-Fund may invest in convertible bonds, which are a hybrid between debt and equity, permitting holders to convert into shares in the company issuing the bond at a specific future date. As such, convertible bonds will be exposed to equity movement and greater volatility than straight bond investments. Investment in convertible bonds are subject to the same credit risk, interest rate risk, liquidity risk and prepayment risks associated with comparable straight bond investments. Convertibles bonds will also be exposed to market risks related to both debt securities and equity securities and any risk specific to convertible bonds. Convertible bonds may also be subject to lower liquidity than the underlying equities. Therefore, investors should be prepared for greater volatility than normal bond investments, with an increased risk of capital loss.

***Risks relating to Exchange-traded funds (ETFs)*** - The trading prices of units/shares in an ETF may be at a discount or premium to the net asset value of the units/shares of such ETF due to various factors such as supply and demand forces in the secondary trading market for such units/shares in the ETF. This price discrepancy may be particularly likely to emerge during periods of high market volatility and uncertainty. Valuation of units/shares in an ETF will primarily be made by reference to the last traded price. Where the Sub-Fund buys at a

premium, it may suffer losses even if the net asset value is higher when it sells the relevant share/units in the ETF, and it may not fully recover its investment in the event of termination of the ETF.

In addition, an ETF may not be able to perfectly track the index it is designed to track, because of fees and expenses, imperfect correlation between the ETF's assets and the underlying securities within the relevant tracking index, adjustments to the tracking index and regulatory policies. The return from investing in an ETF may therefore deviate from the return of its tracking index.

An ETF which is designed to track a market index is not “actively managed”, therefore when there is a decline in the relevant index, the ETF will also decrease in value. The ETF may not adopt any temporary defensive position against market downturns. The Sub-Fund may lose part or all of its investment in the ETF.

There can be no assurance that an active trading market will exist or be maintained for units/shares of an ETF on any securities exchange on which units/shares of an ETF may be traded.

The Sub-Fund is subject to the risks of the underlying ETFs that it invests in and will bear its portion of the management fees and other fees / expenses of the underlying ETFs along with other investors in the underlying ETFs. Investors of the Sub-Fund will bear two layers of costs, including the costs of the underlying ETFs.

***Risks of using financial derivative instruments*** - The use of financial derivatives instruments may expose the Sub-Fund to risks including market volatility risk, credit risk, counterparty risk and liquidity risk, valuation risk, over-the-counter transaction risk. The leverage element/component of a financial derivatives instrument can result in a loss significantly greater than the amount invested in the financial derivatives instrument by the Sub-Fund. In adverse situation, the use of financial derivative instruments for hedging purposes may become ineffective and the Sub-Fund may suffer significant losses.

***Renminbi currency and conversion risk*** - RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. Such policies may change in future. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (e.g. HKD) will not depreciate. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors. Depending on the nature of the change and other factors such as the prevailing economic conditions, RMB may depreciate and the Sub-Fund's or the investors' position may be adversely affected. Under exceptional

circumstances, payment of redemptions in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

***RMB classes related risk*** - The prices of Units in the RMB classes are denominated in RMB, but the Sub-Fund will have limited RMB-denominated underlying investments and its base currency is HKD. As such, even if the prices of underlying investments and/or value of the base currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the base currency more than the increase in the value of the underlying investments and/or the base currency. Furthermore, if RMB appreciates against the currencies of the underlying investments and/or the base currency, and the value of the underlying investments decreased, the value of investors' investments in RMB classes may suffer additional losses.

Investors investing in RMB classes must subscribe for Units and will normally receive redemption proceeds in RMB. Due to the exchange controls and restrictions applicable to RMB, the Sub-Fund may not be able to get sufficient amounts of RMB in a timely manner to meet redemption requests of RMB classes and/or pay dividends (if any) if all or a substantial portion of its underlying investments are non-RMB denominated. Therefore, even if the Sub-Fund aims to pay redemption proceeds and/or dividends to investors of RMB classes in RMB, investors may not receive RMB upon redemption of investments or receive dividend payments (if any) in RMB. There is also a risk that payment of investors' redemption proceeds in RMB may be delayed when there is not sufficient RMB for currency conversion for settlement of the redemption proceeds. In any event, redemption monies will be paid within one calendar month upon receipt of a properly documented request.

When calculating the value of the RMB classes, the offshore RMB in Hong Kong (the “**CNH**”) will be used. The CNH rate may be at a premium or discount to the exchange rate for onshore RMB in China (the “**CNY**”) and there may be significant bid and offer spreads. While CNH and CNY represent the same currency, they are traded in different and separate markets which operate independently. As such, CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY.

The value of the RMB classes thus calculated will be subject to fluctuation. The exchange rate of RMB may rise or fall. There can be no assurance that RMB will not be subject to devaluation. Any devaluation of RMB could adversely affect the value of investors' investments in the RMB classes of the Sub-Fund. Non-RMB based (e.g. Hong Kong) investors may have to convert HKD or other currencies into RMB when investing in the RMB classes. Subsequently, investors may also have to convert the RMB redemption proceeds (received when selling the units) back to HKD or other currencies. During these processes, investors will incur currency conversion costs and may suffer losses in the event that RMB depreciates against HKD or such other currencies upon receipt of the RMB redemption proceeds.

***Risk relating to dynamic asset allocation strategy*** - The dynamic asset allocation of the Sub-Fund may not achieve the desired results under all circumstances and market conditions. The investments of the Sub-Fund may be periodically rebalanced and therefore the Sub-Fund may incur greater transaction costs than a Sub-Fund with static allocation strategy.

***Eurozone risk*** - In light of ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, the Sub-Fund's investments in the region may be subject to higher volatility, liquidity, currency and default risks. Any adverse events, such as credit downgrade of a sovereign or exit of EU members from the Eurozone, may have a negative impact on the value of the Sub-Fund.

***Risk relating to depositary receipts*** - Exposure to depositary receipts may generate additional risks compare to direct exposure to the corresponding underlying stocks. There could be a risk that underlying shares would not be attributed to holders of depositary receipts in case of bankruptcy of the depositary bank. There are fees related to depositary receipts which may impact the performance of the depositary receipts. Also, holders of depositary receipts are not direct shareholder rights as shareholders do. The Sub-Fund may also be subject to liquidity risk.

***Risk relating to preferred shares*** - An investment in preferred shares involves additional risks that are not typically associated with an investment in ordinary shares. In certain circumstances, an issuer of preferred shares may redeem the shares prior to a specified date. A special redemption by the issuer may negatively impact the return of the shares held by the Sub-Fund. Preferred shares are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments and therefore will be subject to greater credit risk than those debt instruments. Preferred shares may be



substantially less liquid than many other securities, including ordinary shares. The value and performance of the Sub-Fund may be adversely affected as a result.

However, investors should also refer to the relevant risks under the section headed “Risk Factors” in the main part of the Explanatory Memorandum, including but not limited to “Investment Risk”, “Equity market risk”, “Market Risk”, “Currency Risk”, “Concentration Risk”, “China market risk”, “Restricted market risk”, “Emerging market risk”, “Interest rate risk”, “Risk relating to credit rating”, “Downgrading risk”, “Liquidity and volatility risk”, “Credit risk”, “Counterparty risk”, “Sovereign risk”, “Valuation risk”, etc.

### **PRC Tax Provisions**

As set out above, the Sub-Fund may invest up to 20% of its net assets in China A-Shares and China B-Shares. For further details relating to PRC taxes and the associated risks in relation to such investments in the PRC, please refer to the risk factor headed “**PRC tax consideration**” under the “**Risk Factors**” section.

After seeking independent professional tax advice, it is noted that there are uncertainties as to whether PRC withholding income tax (“**WIT**”) will be imposed on capital gains derived from trading of China B-Shares. In practice, the PRC tax authorities have not enforced collection of WIT on capital gains derived by non-tax residents from trading of China B-Shares where both the purchase and sales of China B-Shares are conducted via stock exchange. The Manager currently has no intention to make provision in respect of such potential tax liability of the Sub-Fund, as the possibility of the imposition of such tax liability is considered remote. However, this approach may be changed if, in the opinion of the Manager, a provision is warranted. Investors should note that, in the event that actual tax is collected by the State Administration of Taxation (“**SAT**”) and the Sub-Fund is required to make payments reflecting tax liabilities for which no provisions has been made, the Net Asset Value of the Sub-Fund may be adversely affected, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund.

Given that the Sub-Fund may invest in China A-Shares after 17 November 2014 through either

RQFII or the Stock Connects, the Sub-Fund is temporarily exempt from PRC WIT on the capital gains according to Circulars 79, 81 and 127, no PRC tax provision will be made in this regard.

The tax exemptions granted under Circular 79, 81 and 127 are only temporary. It is possible that the applicable tax law, regulations and practice may be changed. In such cases, the Sub-Fund may have tax liabilities in the PRC which it has not provided for. Such tax liabilities will be deducted from the Sub-Fund's assets, and will cause the Sub-Fund's Net Asset Value to be adversely affected. In this case, existing and subsequent investors will be disadvantaged as they will bear for a disproportionately higher amount of tax liabilities as compared to the liability at the time of investment in the Sub-Fund.

### Available Classes

Class A HKD Units, Class A RMB Units and Class A USD Units are available for sale to the retail public in Hong Kong.

Class I HKD Units, Class I RMB Units and Class I USD Units are offered to institutional investors or other investors determined by the Manager.

### Investment Minima

Minimum Subscription Amount	<b>Class A HKD Units</b> : HK\$ 10,000 <b>Class A RMB Units</b> : RMB 10,000 <b>Class A USD Units</b> : USD 1,000 <b>Class I HKD Units</b> : HK\$ 3,000,000 <b>Class I RMB Units</b> : RMB 3,000,000 <b>Class I USD Units</b> : USD 300,000
Minimum Subsequent Subscription Amount	<b>Class A HKD Units</b> : HK\$ 1,000 <b>Class A RMB Units</b> : RMB 1,000 <b>Class A USD Units</b> : USD 1,000 <b>Class I HKD Units</b> : HK\$ 500,000 <b>Class I RMB Units</b> : RMB 500,000 <b>Class I USD Units</b> : USD 50,000
Minimum Holding	<b>Class A HKD Units</b> : HK\$ 10,000 <b>Class A RMB Units</b> : RMB 10,000 <b>Class A USD Units</b> : USD 1,000 <b>Class I HKD Units</b> : HK\$ 1,000,000 <b>Class I RMB Units</b> : RMB 1,000,000 <b>Class I USD Units</b> : USD 100,000

Minimum Realisation Amount	<b>Class A HKD Units</b> : HK\$ 1,000 <b>Class A RMB Units</b> : RMB 1,000 <b>Class A USD Units</b> : USD 1,000 <b>Class I HKD Units</b> : HK\$ 100,000 <b>Class I RMB Units</b> : RMB 100,000 <b>Class I USD Units</b> : USD 10,000
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## Fees

Preliminary Charge (% of Issue Price)	<b>Class A &amp; Class I</b> : up to 5.00%
Realisation Charge (% of Realisation Price)	<b>Class A &amp; Class I</b> : Nil
Conversion Charge	<b>Class A &amp; Class I</b> : up to 1.00%
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A</b> : 1.25% p.a. <b>Class I</b> : 0.75% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	<b>Class A &amp; Class I</b> : up to 0.15% p.a., subject to a minimum monthly fee of HK\$ 35,000
Custody Fee (% Net Asset Value of the Sub-Fund)	<b>Class A &amp; Class I</b> : up to 0.1% p.a.

## Certain Charges, Fees and Expenses to be borne by the Manager

In general, the Sub-Fund bears the charges, fees and expenses which are directly attributable to it in accordance with the Trust Deed (including but not limited to the Management Fee, Trustee Fee and Custody Fee).

However, the Manager may at its discretion decide to bear certain charges, fees and expenses which are attributable to the Sub-Fund starting from 1 January 2014 until a future date as notified by the Manager. The portion of the charges, fees and expenses to be borne by the Manager may vary from year to year. The Sub-Fund will bear all other charges, fees and expenses in accordance with the Trust Deed (including but not limited to the Management Fee, Trustee Fee and Custody Fee) which have not been borne by the Manager.

At least one month notice will be given to Unitholders before the Manager ceases to bear the aforementioned charges, fees and expenses attributable to the Sub-Fund and this Explanatory Memorandum will be updated accordingly.

**Establishment Costs**

The establishment costs of the CUAM China-Hong Kong Strategy Fund amount to approximately HK\$500,000 and will be borne by the Manager.

**Dealing Day**

Dealings in Units of the Sub-Fund will be on a daily basis, with the Dealing Day being each HK Business Day.

**Dealing Deadline**

4:00 p.m. (Hong Kong time) on the relevant Dealing Day

**Subscription, Realisation and Conversion of Units**

For details regarding the procedures for subscription, realisation and conversion, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Realisation of Units” and “Conversion between Sub-Funds”.

**Distributions**

The Manager does not intend to make any distribution of income in respect of the Sub-Fund.

**Valuation**

The Valuation Point is the close of business in the last relevant market to close on each Dealing Day.

## **APPENDIX III – CUAM HONG KONG DOLLAR BOND FUND**

This Appendix comprises information in relation to CUAM Hong Kong Dollar Bond Fund, a Sub-Fund of the Fund.

### **Definition**

For this Sub-Fund, “HK Business Day” shall mean a day (other than a Saturday) on which banks and stock exchanges in Hong Kong are open for normal business or such other day or days as the Manager and the Trustee may agree from time to time.

### **Initial Offer**

Units will be issued in respect of applications (together with application moneys in cleared funds) received prior to 4 p.m. (Hong Kong time) and accepted by the Manager (or such later time as the Manager may agree) based on the price at the Valuation Point on the Dealing Day. If applications are received after that time, such applications shall be processed on the next Dealing Day based on the price at the relevant Valuation Point on that Dealing Day.

### **Application Moneys / Realisation Proceeds**

Application moneys for this Sub-Fund should be made in the relevant class currency.. Arrangements can also be made for applicants to pay for Units in most other major currencies and in such cases, the cost of currency conversion will be borne by the applicant. Please refer to the relevant sections of the Explanatory Memorandum, i.e. “Payment Procedures” of “Purchase of Units” and “Payment of Realisation Proceeds” of “Realisation of Units” for further details.

### **Base Currency**

The base currency of the Sub-Fund is HKD.

### **Investment Objective**

CUAM Hong Kong Dollar Bond Fund seeks to provide investors with a stable and consistent investment return over medium to long term by investing primarily in Hong Kong Dollar denominated debt securities instruments. The Sub-Fund will invest more than 70% of its assets in Hong Kong Dollar denominated debt securities and certificates of deposits, and not more than 30% of its assets in other currency denominated debt securities.

## **Investment Policy**

CUAM Hong Kong Dollar Bond Fund mainly invests in debt securities issued or fully guaranteed by governments, government agencies, supranational and corporate. The debt securities instruments in which the Sub-Fund may invest include (but not limited to) long-term bonds, medium-term notes, bills, convertible bonds, subordinated debt, asset-backed debt securities, certificate of deposits and commercial papers.

The Sub-Fund intends to invest in debt securities for medium to long term. However, the actual holding period may vary subject to market conditions.

The Manager will adopt a “top down-bottom up” approach to manage the Sub-Fund. The Manager will utilize “top down” approach to analyse economy and capital market conditions to determine the portfolio duration, average yield, rating allocations, sector allocations, cash weighting and other investment decisions. The Manager will then utilize “bottom up” approach to select individual debt securities, analysis will be conducted on the fundamentals of debt securities’ issuers and/or guarantors, the structure and terms of the debt securities, valuation of the debt securities, and other factors which may affect the Manager’s investment view.

The Sub-Fund will not buy equity securities. However, depending on the market conditions, there may be possibility that the Manager will convert the invested convertible bonds to equities to realize the profits. In this case, the equities will be sold as soon as possible considering the market conditions. The Sub-Fund will not invest in exchange-traded funds (“ETFs”) and/or real estate investment trusts (“REITS”).

There is no minimum credit rating requirement for the Sub-Fund.

The Sub-Fund will not invest more than 10% of its Net Asset Value in securities issued by or guaranteed by any single country (including its government, a public or local authority of that country) with a credit rating below investment grade.

The Sub-Fund may employ financial derivative instruments such as future and forwards for hedging purposes only and will not invest in financial derivative instruments for investment purposes. The Sub-Fund will not invest in any structured deposits or structured products.

The Sub-Fund will not engage in securities lending transactions or repurchase and reverse repurchase transactions. Prior approval will be sought from the SFC and at least one month’s prior notice will be given to Unitholders should there be a change in such intention. The Explanatory Memorandum will be updated accordingly.

## **Investment Restrictions**

Investors should refer to the relevant investment restrictions under the section headed “Investment and Borrowing Restrictions” in the main part of the Explanatory Memorandum.

## **Specific Risk Factors**

Investors should refer to the relevant risks under the section headed “Risk Factors” in the main part of the Explanatory Memorandum and the following specific risk factors in respect of the Sub-Fund:-

***Risk relating to convertible bonds*** – This Sub-Fund may invest in convertible bonds, which shares similar characteristics and nature of debt and equity, permitting holders to convert into shares in the company issuing the bond at a specific future date. Convertible bonds are subject to the credit, interest rate and market risks with both debt securities and equity securities and any risk specific to convertible bonds. Convertible bonds may also be subject to lower liquidity than the underlying equities. Therefore, investors should be prepared for greater volatility than normal bond investments, with an increased risk of capital loss.

***Risk relating to below investment grade and unrated securities*** – This Sub-Fund may invest in securities which are below investment grade or which are non-rated. Investors should note that such securities would generally be considered to have a higher credit risk and a greater possibility of default than more highly rated securities. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. In addition, the market for securities which are non-rated or rated below investment grade and/or have a lower credit rating generally is of lower liquidity and less active than that for higher rated securities and the Sub-Fund’s ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by factors such as adverse publicity and investor perception.

***Risk relating to equities*** - The Sub-Fund may hold equities in the event that the Manager converts the invested convertible bonds to equities. The value of such investments may be affected by uncertainties such as international, political and economic developments or changes in government policies. In falling equity markets there may be increased volatility. Market prices in such circumstances may defy rational analysis or expectation for prolonged periods of time, and can be influenced by movements of large funds as a result of short-term factors, counter-speculative measures or other reasons.

***Hedging transaction risk*** - The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market risks. There is no guarantee that hedging techniques will achieve their desired result.

***Risk of using financial derivative instruments*** - The use of financial derivatives instruments may expose the Sub-Fund to risks including market volatility risk, credit risk, counterparty risk, liquidity risk, non-redeemable risk and issuer's defaults risk. In adverse situations, the use of financial derivative instruments for hedging purposes may become ineffective and the Sub-Fund may suffer significant losses.

***Renminbi currency risk*** - RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. Such policies may change in future. Depending on the nature of the change and other factors such as the prevailing economic conditions, RMB may depreciate and the Sub-Fund's or the investors' position may be adversely affected.

***RMB classes related risk*** - The prices of Units in the RMB classes are denominated in RMB, but the Sub-Fund will have limited RMB-denominated underlying investments and its base currency is HKD. As such, even if the prices of underlying investments and/or value of the base currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the base currency more than the increase in the value of the underlying investments and/or the base currency. Furthermore, if RMB appreciates against the currencies of the underlying investments and/or the base currency, and the value of the underlying investments decreased, the value of investors' investments in RMB classes may suffer additional losses.

Investors investing in RMB classes must subscribe for Units and will normally receive redemption proceeds in RMB. Due to the exchange controls and restrictions applicable to RMB, the Sub-Fund may not be able to get sufficient amounts of RMB in a timely manner to meet redemption requests of RMB classes and/or pay dividends (if any) if all or a substantial portion of its underlying investments are non-RMB denominated. Therefore, even if the Sub-Fund aims to pay redemption proceeds and/or dividends to investors of RMB classes in RMB, investors may not receive RMB upon redemption of investments or receive dividend payments (if any) in RMB. There is also a risk that payment of investors' redemption proceeds in RMB may be delayed when there is not sufficient RMB for currency conversion for settlement of the redemption proceeds.



When calculating the value of the RMB classes, the offshore RMB in Hong Kong (the “**CNH**”) will be used. The CNH rate may be at a premium or discount to the exchange rate for onshore RMB in China (the “**CNY**”) and there may be significant bid and offer spreads. While CNH and CNY represent the same currency, they are traded in different and separate markets which operate independently. As such, CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY.

The value of the RMB classes thus calculated will be subject to fluctuation. The exchange rate of RMB may rise or fall. There can be no assurance that RMB will not be subject to devaluation. Any devaluation of RMB could adversely affect the value of investors’ investments in the RMB classes of the Sub-Fund. Non-RMB based (e.g. Hong Kong) investors may have to convert HKD or other currencies into RMB when investing in the RMB classes. Subsequently, investors may also have to convert the RMB redemption proceeds (received when selling the units) back to HKD or other currencies. During these processes, investors will incur currency conversion costs and may suffer losses in the event that RMB depreciates against HKD or such other currencies upon receipt of the RMB redemption proceeds.

***Risks associated with distributions out of / effectively out of capital*** - The Manager may at its discretion make distributions from capital or gross income while charging/paying all or part of the Sub-Fund’s fees and expenses to/out of the Sub-Fund’s capital. Unitholders should note that the distributions paid out of capital or effectively out of capital amount to a return or withdrawal of part of a Unitholder’s original investment or from any capital gains attributable to that original investment. Any distributions involving payment of distributions out of the Sub-Fund’s capital or payment of distributions effectively out of the Sub-Fund’s capital (as the case may be) will result in an immediate reduction of the Net Asset Value per Unit and will reduce the capital that the Sub-Fund has available for investment in future and may constrain capital growth.

### **Available Classes**

Class A HKD Units, Class A RMB Units and Class A USD Units are available for sale to the retail public in Hong Kong.

Class I HKD Units, Class I RMB Units and Class I USD Units are offered to institutional investors or other investors determined by the Manager.

## Investment Minima

Minimum Subscription Amount	<b>Class A HKD Units:</b> HK\$ 10,000 <b>Class A RMB Units:</b> RMB 10,000 <b>Class A USD Units:</b> USD 1,000 <b>Class I HKD Units:</b> HK\$ 3,000,000 <b>Class I RMB Units:</b> RMB 3,000,000 <b>Class I USD Units:</b> USD 300,000
Minimum Subsequent Subscription Amount	<b>Class A HKD Units:</b> HK\$ 1,000 <b>Class A RMB Units:</b> RMB 1,000 <b>Class A USD Units:</b> USD 1,000 <b>Class I HKD Units:</b> HK\$ 500,000 <b>Class I RMB Units:</b> RMB 500,000 <b>Class I USD Units:</b> USD 50,000
Minimum Holding	<b>Class A HKD Units:</b> HK\$ 10,000 <b>Class A RMB Units:</b> RMB 10,000 <b>Class A USD Units:</b> USD 1,000 <b>Class I HKD Units:</b> HK\$ 1,000,000 <b>Class I RMB Units:</b> RMB 1,000,000 <b>Class I USD Units:</b> USD 100,000
Minimum Realisation Amount	<b>Class A HKD Units:</b> HK\$ 1,000 <b>Class A RMB Units:</b> RMB 1,000 <b>Class A USD Units:</b> USD 1,000 <b>Class I HKD Units:</b> HK\$ 100,000 <b>Class I RMB Units:</b> RMB 100,000 <b>Class I USD Units:</b> USD 10,000

## Fees

Preliminary Charge (% of Issue Price)	<b>Class A &amp; Class I:</b> up to 5.00%
Realisation Charge (% of Realisation Price)	<b>Class A &amp; Class I:</b> Nil
Conversion Charge (% of the Issue Price of the Units of the new Sub-Fund in relation to the conversion of Units)	<b>Class A &amp; Class I:</b> up to 1.00%
Management Fee (% Net Asset Value of the Sub-Fund)	Current rate: <b>Class A:</b> 0.75% p.a. <b>Class I:</b> 0.50% p.a.

Trustee Fee (% Net Asset Value of the Sub-Fund)	Current rate: <b>Class A &amp; Class I:</b> Currently up to 0.15% p.a., subject to a minimum monthly fee of HK\$ 35,000
Custody Fee (% Net Asset Value of the Sub-Fund)	<b>Class A &amp; Class I:</b> up to 0.10% p.a.

#### Certain Charges, Fees and Expenses to be borne by the Manager

In general, the Sub-Fund bears the charges, fees and expenses which are directly attributable to it in accordance with the Trust Deed (including but not limited to the Management Fee, Trustee Fee and Custody Fee).

However, the Manager may at its discretion decide to bear certain charges, fees and expenses which are attributable to the Sub-Fund starting from 1 January 2014 until a future date as notified by the Manager. The portion of the charges, fees and expenses to be borne by the Manager may vary from year to year. The Sub-Fund will bear all other charges, fees and expenses in accordance with the Trust Deed (including but not limited to the Management Fee, Trustee Fee and Custody Fee) which have not been borne by the Manager.

At least one month notice will be given to Unitholders before the Manager ceases to bear the aforementioned charges, fees and expenses attributable to the Sub-Fund and this Explanatory Memorandum will be updated accordingly.

#### **Establishment Costs**

The establishment costs of CUAM Hong Kong Dollar Bond Fund amount to approximately HK\$500,000 and will be borne by the Manager.

#### **Dealing Day**

Dealings in Units of the Sub-Fund will be on a daily basis, with the Dealing Day being each HK Business Day.

#### **Dealing Deadline**

4:00 p.m. (Hong Kong time) on the relevant Dealing Day.

## **Subscription, Realisation and Conversion of Units**

For details regarding the procedures for subscription, realisation and conversion, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Realisation of Units” and “Conversion between Sub-Funds”.

## **Distributions**

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distribution will be made on a semi-annual basis (i.e. June and December each year) payable in the base currency or class currency of the relevant classes. There is no guarantee of regular distribution and if distribution is made the amount being distributed.

The Manager may at its discretion pay distributions out of the Sub-Fund’s net distributable income and/or capital if the net distributable income is insufficient to pay distributions as declared, or pay distributions out of gross income while charging/paying all or part of the fees and expenses to/out of the Sub-Fund’s capital. Where distributions are paid out of gross income while charging/paying all or part of the fees and expenses to/out of the capital of the Sub-Fund, this will result in an increase in distributable income for the payment of distributions by the Sub-Fund and therefore, the Sub-Fund will effectively pay distributions out of capital. This will reduce the capital that the Sub-Fund has available for investment in future and may constrain capital growth. In the event the net distributable income and/or capital of the Sub-Fund are insufficient to pay distributions, the Manager may at its discretion not to make any distributions.

Compositions of the distributions (if any) (i.e. the relative amounts paid out of (i) net distributable income; and (ii) capital) for the last 12 months would be made available by the Manager on request and also on the Manager’s website ([www.99fund.com.hk](http://www.99fund.com.hk)). Please note that this website has not been reviewed by the SFC.

Unitholders should be aware of the effects of making distributions out of capital and pay attention to the relevant risk disclosures as set out under the risk factor headed **“Risks associated with distributions out of / effectively out of capital”** under the section headed **“Specific Risk Factors”**.

The Manager may amend the distribution policy subject to SFC's prior approval and by giving not less than one month's prior notice to Unitholders.

### **Valuation**

The Valuation Point is the close of business in the last relevant market to close on each Dealing Day.

## **APPENDIX IV– CUAM SELECT US DOLLAR BOND FUND**

This Appendix comprises information in relation to CUAM Select US Dollar Bond Fund, a Sub-Fund of the Fund.

### **Definition**

For this Sub-Fund, “HK Business Day” shall mean a day (other than a Saturday) on which banks and stock exchanges in Hong Kong are open for normal business or such other day or days as the Manager and the Trustee may agree from time to time, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a HK Business Day unless the Manager and the Trustee determine otherwise.

### **Initial Offer**

Units will be issued in respect of applications (together with application moneys in cleared funds) received prior to 4 p.m. (Hong Kong time) and accepted by the Manager (or such later time as the Manager may agree) based on the price at the Valuation Point on the Dealing Day. If applications are received after that time, such applications shall be processed on the next Dealing Day based on the price at the relevant Valuation Point on that Dealing Day.

### **Application Moneys / Realisation Proceeds**

Application moneys for this Sub-Fund should be made in the relevant class currency. Arrangements can also be made for applicants to pay for Units in most other major currencies and in such cases, the cost of currency conversion will be borne by the applicant. Please refer to the relevant sections of the Explanatory Memorandum, i.e. “Payment Procedures” of “Purchase of Units” and “Payment of Realisation Proceeds” of “Realisation of Units” for further details.

### **Base Currency**

The base currency of the Sub-Fund is USD.

## **Investment Objective**

The investment objective of the Sub-Fund is to seek to provide investors with a stable and consistent investment return over medium to long term by investing primarily in USD denominated debt securities instruments.

## **Investment Policy**

CUAM Select US Dollar Bond Fund mainly invests in debt securities instruments including (but not limited to) long-term bonds, medium-term notes, bills, convertible bonds, contingent convertible bonds, subordinated debt, Dim Sum bonds, asset-backed debt securities, mortgage-backed securities, asset-backed commercial paper, certificate of deposits and commercial papers.

The Sub-Fund will primarily invest at least 70% of its Net Asset Value in USD denominated debt securities instruments. The Sub-Fund may invest less than 30% of its Net Asset Value in other debt securities instruments which are denominated in non-USD currencies.

The Sub-Fund may invest in debt securities instruments which are rated investment grade or below investment grade as well as unrated (which in the opinion of the Manager are suitable for achieving the investment objective of the Sub-Fund). The Sub-Fund may at times invest up to 100% of its Net Asset Value in below investment grade or unrated debt securities instruments. “Investment grade” means a rating of BBB- or above from Standard & Poor’s and Fitch, Baa3 or above from Moody’s or an equivalent rating from any internationally recognized credit rating agency. For this purpose, if the relevant security does not itself have a credit rating, then reference can be made to the credit rating of the issuer of the security. “Unrated debt securities” means a debt security which neither the security itself nor its issuer has a credit rating.

The Sub-Fund is not subject to any limitation on the portion of its Net Asset Value that may be invested in any one country or region, and the weight in one country may go up to 100% of the Sub-Fund’s Net Asset Value. The countries and regions in which the Sub-Fund may invest include, but are not limited to: US and European countries. The Sub-Fund may invest up to 20% of its Net Asset Value in onshore mainland China debt securities market (including urban investment bonds) (via the China Interbank Bond Market or using the RQFII quota of the Manager (as RQFII holder) or through investment in other collective investment schemes or such other means as may be permitted under applicable laws and regulations from time to time). The Sub-Fund will not focus its investment in any specific industries or sectors although the allocation in certain industry or sector may be relatively significant, depending on the Manager’s assessment at different times.

The Sub-Fund may invest up to 100% of its Net Asset Value in asset-backed debt securities, mortgage-backed securities and asset-backed commercial papers.

The Sub-Fund may invest less than 30% of its Net Asset Value in contingent convertible bonds. These bonds may have non-viability and/or loss absorption convertible features and may be subject to compulsory conversion by the issuer into ordinary shares upon the occurrence of a trigger event (which may be out of the issuer's control, for example when the tier 1 capital adequacy ratio of an issuer (which is a bank) falls below a certain level and the Sub-Fund may hold such ordinary shares as a result. The Sub-Fund will dispose of such ordinary shares as soon as possible taking into account the market conditions at that time.

The Sub-Fund will not invest more than 10% of its Net Asset Value in securities issued by and/or guaranteed by any single sovereign issuer (including its government, a public or local authority of that country) with a credit rating below investment grade or unrated.

The Sub-Fund will not buy equity securities. However, depending on the market conditions, there may be a possibility that the Manager will convert the invested convertible bonds to equities to realize the profits. In this case, the equities will be sold as soon as possible taking into account the market conditions at that time. The Sub-Fund's aggregate exposure to such equities will be less than 30% of the Sub-Fund's Net Asset Value.

The Sub-Fund may invest up to 30% of its Net Asset Value in other collective investment schemes which are authorized by the SFC or recognized jurisdiction schemes (except that not more than 10% of the Sub-Fund's Net Asset Value may be invested in other collective investment schemes which are non-recognized jurisdiction schemes and not authorized by the SFC). The Sub-Fund will not invest in exchange-traded funds ("ETFs") and/or real estate investment trusts ("REITS").

Under exceptional circumstances (e.g. market crash or major crisis), the Sub-Fund may invest temporarily up to 100% of its Net Asset Value in cash or cash equivalents for cash flow management.

The Sub-Fund may employ financial derivative instruments such as future and forwards for hedging purposes only and will not invest in financial derivative instruments for investment purposes. The Sub-Fund will not invest in any structured deposits or structured products.

The Sub-Fund will not engage in securities lending transactions or repurchase or reverse repurchase transactions or similar over-the-counter transactions in respect of the Sub-Fund. Prior approval will be sought from the SFC and at least one month's prior notice will be given to unitholders should there be a change in such intention.



The asset allocation of the Sub-Fund may change taking into account different factors including but not limited to the Manager's views of the fundamental economic and market conditions, investment trends across the globe, the duration and yield of the debt securities, the credit rating of the debt securities and their issuers.

### **Investment Restrictions**

Investors should refer to the relevant investment restrictions under the section headed **"Investment and Borrowing Restrictions"** in the main part of the Explanatory Memorandum.

### **Specific Risk Factors**

Investors should refer to the relevant risks under the section headed **"Risk Factors"** in the main part of the Explanatory Memorandum, in particular, "Emerging market risk", "Interest rates risk", "Credit risk", "Counterparty risk", "Valuation risk", "Settlement risk", "China market risk", "Over-the-countermarkets risk", "Hedging transactions risk", "Restricted markets risk", "RQFII risk", "PRC tax considerations", "Custodial risk", "Risk of termination" and "Foreign Account Tax Compliance Act" and the following specific risk factors in respect of the Sub-Fund:-

***Investment risk*** - The instruments invested by the Sub-Fund may fall in value due to any of the key risk factors below and therefore your investment in the Sub-Fund may suffer losses. There is no guarantee of dividend or distribution payments during the period an investor holds units in the Sub-Fund. There is no guarantee of the repayment of principal.

***Concentration risk*** - The Sub-Fund may invest only in a specific country/region. Although the Sub-Fund's portfolio will be well diversified in terms of the number of holdings, investors should be aware that the value of the Sub-Fund is likely to be more volatile than that of a broad-based fund, such as a global or regional equity fund, as they are more susceptible to fluctuations in value resulting from adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the respective countries/regions.

***Eurozone risk*** - In light of ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, the Sub-Fund's investments in the region may be subject to higher volatility, liquidity, currency and default risks. Any adverse events, such as credit downgrade of a sovereign or exit of EU members from the Eurozone, may have a negative impact on the value of the Sub-Fund.

***Currency risk*** - The Sub-Fund may be invested in part in assets quoted in currencies other than its base currency. Also, a class of units may be designated in a currency other than the base currency of the Sub-Fund. The performance and the Net Asset Value of the Sub-Fund will therefore be affected unfavourably by movements in the exchange rate between the currencies in which the assets are held and the base currency of the Sub-Fund and by changes in exchange rate controls. Since the Manager aims to maximise returns for the Sub-Fund in terms of its base currency, investors in the Sub-Fund may be exposed to additional currency risk.

***Risk relating to credit rating*** - The credit ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. For example, the rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is often a time lag in updating the credit ratings in response to recent credit events.

***Downgrading risk*** - Investment grade securities or the credit rating of the issuer may be subject to the risk of being downgraded to below investment grade or unrated. In the event of downgrading in the credit ratings of a security or an issuer relating to a security, the Sub-Fund's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities, subject to the investment objectives of the Sub-Fund.

***Liquidity and volatility risk*** - Some of the markets (e.g. emerging markets) in which a Sub-Fund invests may be less liquid and more volatile than the world's leading stock markets and this may result in the fluctuation in the price of securities traded on such markets. The bid and offer spreads of the price of such securities may be large and the Sub-Fund may suffer significant trading costs. Certain securities may be difficult or impossible to sell, and this would affect the Sub-Fund's ability to acquire or dispose of such securities at their intrinsic value.

***Risk relating to convertible bonds*** - This Sub-Fund may invest up to 100% in convertible bonds, which shares similar characteristics and nature of debt and equity, permitting holders to convert into shares in the company issuing the bond at a specific future date. Convertible bonds will be exposed to equity movement and greater volatility than straight bond investments. Investment in convertible bonds are subject to the same credit, interest rate, liquidity and prepayment risks associated with comparable straight bond investments and market risks with both debt securities and equity securities and any risk specific to convertible bonds. Convertible bonds may also be subject to lower liquidity than the underlying equities. Therefore, investors should be prepared for greater volatility than normal bond investments, with an increased risk of capital loss.

***Risks associated with investment in instruments with non-viability / loss absorption convertible features*** - Contingent convertible bonds are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), contingent convertible bonds will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. Contingent convertible bonds are risky and highly complex instruments. Coupon payments on contingent convertible bonds are discretionary and may at times also be ceased or deferred by the issuer. Trigger events can vary but these could include the capital ratio of the issuing company falling below a certain level, or the share price of the issuer falling to a particular level for a certain period of time.

Contingent convertible bonds are also subject to additional risks specific to their structure including:

(i) Trigger level risk

Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager of the Sub-Fund invested in contingent convertible bonds to anticipate the trigger events that would require the debt to convert into equity or the write down to zero of principal investment and/or accrued interest. Trigger events may include: (i) a reduction in the issuing bank's Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios, (ii) a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

(ii) Coupon cancellation

Coupon payments on some contingent convertible bonds are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time.

The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, contingent convertible bonds may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

(iii) Capital structure inversion risk

Contrary to the classic capital hierarchy, investors in contingent convertible bonds may suffer a loss of capital when equity holders do not, for example when the loss absorption mechanism of a high trigger/write down of a contingent convertible bond is activated. This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

(iv) Call extension risk

Some contingent convertible bonds are issued as perpetual instruments and only callable at predetermined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual contingent convertible bonds will be called on a call date. Contingent convertible bonds are a form of permanent capital. The investor may not receive return of principal as expected on call date or indeed at any date.

(v) Conversion risk

Trigger levels differ between specific contingent convertible bonds and determine exposure to conversion risk. It might be difficult at times for the Manager of the Sub-Fund to assess how the contingent convertible bonds will behave upon conversion. In case of conversion into equity, the Manager might be forced to sell these new equity shares subject to the investment policy of the Sub-Fund. Given the trigger event is likely to be some event depressing the value of the issuer's common equity, this forced sale may result in the Sub-Fund experiencing some loss.

(vi) Valuation and write-down risk

Contingent convertible bonds often offer attractive yield which may be viewed as a complexity premium. The value of contingent convertible bonds may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

(vii) Market value fluctuations due to unpredictable factors

The value of contingent convertible bonds is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the contingent convertible bonds; (iii) general market conditions and available liquidity and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

(viii) Liquidity risk

In certain circumstances finding a buyer ready to invest in contingent convertible bonds may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

(ix) Sector concentration risk

Contingent convertible bonds are issued by banking and insurance institutions. Investment in contingent convertible bonds may lead to an increased sector concentration risk. The performance of the Sub-Fund which invests in contingent convertible bonds will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.

(x) Subordinated instruments

Contingent convertible bonds will, in the majority of circumstances, be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of the contingent convertible bonds, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the contingent convertible bonds shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

(xi) Novelty and untested nature

The structure of contingent convertible bonds is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

***Risk relating to below investment grade and unrated securities*** - This Sub-Fund may invest up to 100% of its Net Asset Value in securities which are below investment grade or which are unrated. Investors should note that such securities would generally be considered to have a higher credit risk and volatility risk and a greater possibility of default and greater risk of loss of principal and interest than more highly rated securities. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. In addition, the market for securities which are unrated or rated below investment grade and/or have a lower credit rating generally is of lower liquidity and less active than that for higher rated securities and the Sub-Fund's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by factors such as adverse publicity and investor perception.

***Credit rating agency risk*** - The credit appraisal system in the Mainland and the rating methodologies employed in the Mainland may be different from those employed in other

markets. Credit ratings given by Mainland rating agencies may therefore not be directly comparable with those given by other international rating agencies.

***Sovereign debt risk*** - Certain developing countries are especially large debtors to commercial banks and foreign governments. Investment in debt obligations (“**Sovereign Debt**”) issued or guaranteed by developing countries governments or their agencies (“**governmental entities**”) involves a high degree of risk such as political, social and economic risk. The governmental entity that controls the repayment of Sovereign Debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A governmental entity’s willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity’s policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject.

Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearage on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity’s implementation of economic reforms and/or economic performance and the timely service of such debtor’s obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties’ commitments to lend funds to the governmental entity, which may further impair such debtor’s ability or willingness to service its debt on a timely basis. Consequently, governmental entities may default on their Sovereign Debt. Holders of Sovereign Debt, including the Sub-Fund, may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. There is no bankruptcy proceeding by which Sovereign Debt on which a governmental entity has defaulted may be collected in whole or in part. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

***Risk relating to equities*** - The Sub-Fund may hold equities in the event that the Manager converts the invested convertible bonds to equities. The Sub-Fund’s investment in equity securities is subject to general market risks. The value of such investments may be affected by uncertainties such as investment sentiment, international, political and economic developments issuer-specific factors or changes in government policies. In falling equity markets there may be increased volatility. Market prices in such circumstances may defy rational analysis or expectation for prolonged periods of time, and can be influenced by movements of large funds as a result of short-term factors, counter-speculative measures or other reasons.

***Risk of using financial derivative instruments*** - The use of financial derivatives instruments may expose the Sub-Fund to risks including market volatility risk, credit risk, counterparty risk, liquidity risk, non-redeemable risk, valuation risk, over-the-counter transaction risk and issuer's defaults risk. In adverse situations, the use of financial derivative instruments for hedging purposes may become ineffective and the Sub-Fund may suffer significant losses.

***Risk of investing in asset-backed securities, mortgage-backed securities and asset-backed commercial papers*** - The Sub-Fund may invest up to 100% in asset-backed securities, mortgage-backed securities and asset-backed commercial papers, which are a kind of structured debt instruments, provide exposure, synthetically or otherwise, to underlying assets and the risk/ return profile is determined by the cash flows derived from such assets. Some of such instruments involve multiple instruments and cash flow profiles such that it is not possible to predict with certainty the outcome from all market scenarios. Also, the price of such an investment could be contingent on, or highly sensitive to, changes in the underlying components of the structured debt instrument. The underlying assets can take many forms including, but not limited to, credit card receivables, corporate loans, or any type of receivables from a company or structured vehicle that has regular cash flows from its customers.

These instruments may be highly illiquid and prone to substantial price volatility. The lack of liquidity may cause the current market price of assets to become disconnected from the underlying assets' value and consequently the Sub-Fund investing in these instruments may be more susceptible to liquidity risk. The liquidity, credit and interest rate risks of these instruments can be higher than a regular bond or debt instrument and this may adversely affect either the ability to sell the position or the price at which such a sale is transacted.

In addition, these instruments are subject to extension and prepayment risk and risks that the payment obligations relating to the underlying assets are not met. The assets underlying these instruments may generally be prepaid at any time by the related borrowers. The prepayments may be used to prepay all or partial of the principal balance. As a result, the yield to maturity and market value of some of these instruments may be adversely affected by the rate of prepayments of the underlying assets. Some of these instruments that the Sub-Fund invests in are particularly sensitive to prepayment rates and, as a result, their yields to maturity and market values are expected to be highly volatile. These instruments are also subject to credit risk and valuation risk. The Sub-Fund may therefore suffer substantial loss and the Net Asset Value of the Sub-Fund could be adversely affected.

***Risk of investing in other collective investment schemes*** - The Sub-Fund may invest in other collective investment schemes which may not be regulated by the SFC or are non-recognized jurisdiction schemes. In addition to the fees and expenses charged by the Sub-Fund, investors should note that there are additional fees involved when investing in these underlying

collective investment schemes, including fees and expenses charged by the investment managers of these underlying collective investment schemes as well as fees payable by the Sub-Fund during its subscription to and redemption from these underlying collective investment schemes. Furthermore, there can be no assurance that the liquidity of these underlying collective investment schemes will always be sufficient to meet redemption request as and when made. Besides, investment decisions of these underlying collective investment schemes will be made independently of the Manager. There is no assurance that the investment objective and strategy of these underlying collective investment schemes will be achieved despite the selection and monitoring process undertaken by the Manager. If the Sub-Fund invests in other collective investment schemes managed by the Manager or its connected persons, all initial charges on these underlying collective investment schemes must be waived, and the Manager must not obtain rebate of any fees or charges levied by these underlying collective investment schemes. In case any conflict of interest may still arise out of such investments, the Manager will use its best endeavours to resolve it fairly.

***Risks associated with China interbank bond market*** - Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the China interbank bond market may result in prices of certain debt securities traded on such market fluctuating significantly. The Sub-Fund investing in such market is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

To the extent that the Sub-Fund transacts in the China interbank bond market, the Sub-Fund may also be exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

Since the relevant filings and account opening for investment in the China interbank bond market have to be carried out via an onshore settlement agent, the Sub-Fund is subject to the risks of default or errors on the part of the onshore settlement agent.

The China interbank bond market is also subject to regulatory risks. The relevant rules and regulations on investment in the China interbank bond market is subject to change which may have potential retrospective effect. In the event that the relevant Chinese authorities suspend account opening or trading on the China interbank bond market, the Sub-Fund's ability to invest in the China interbank bond market will be limited and, after exhausting other trading alternatives, the Sub-Fund may suffer substantial losses as a result.



***Renminbi currency and conversion risk*** - RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. Such policies may change in future. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (e.g. HKD) will not depreciate. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors. Depending on the nature of the change and other factors such as the prevailing economic conditions, RMB may depreciate and the Sub-Fund's or the investors' position may be adversely affected. Under exceptional circumstances, payment of redemptions in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

***RMB classes related risk*** - The prices of Units in the RMB classes are denominated in RMB, but the Sub-Fund will have limited RMB-denominated underlying investments and its base currency is USD. As such, even if the prices of underlying investments and/or value of the base currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the base currency more than the increase in the value of the underlying investments and/or the base currency. Furthermore, if RMB appreciates against the currencies of the underlying investments and/or the base currency, and the value of the underlying investments decreased, the value of investors' investments in RMB classes may suffer additional losses.

Investors investing in RMB classes must subscribe for Units and will normally receive redemption proceeds in RMB. Due to the exchange controls and restrictions applicable to RMB, the Sub-Fund may not be able to get sufficient amounts of RMB in a timely manner to meet redemption requests of RMB classes and/or pay dividends (if any) if all or a substantial portion of its underlying investments are non- RMB denominated. Therefore, even if the Sub-Fund aims to pay redemption proceeds and/or dividends to investors of RMB classes in RMB, investors may not receive RMB upon redemption of investments or receive dividend payments (if any) in RMB. There is also a risk that payment of investors' redemption proceeds in RMB may be delayed when there is not sufficient RMB for currency conversion for settlement of the redemption proceeds.

When calculating the value of the RMB classes, the offshore RMB in Hong Kong (the "CNH") will be used. The CNH rate may be at a premium or discount to the exchange rate for onshore RMB in China (the "CNY") and there may be significant bid and offer spreads. While CNH and CNY represent the same currency, they are traded in different and separate markets which operate independently. As such, CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY.

The value of the RMB classes thus calculated will be subject to fluctuation. The exchange rate of RMB may rise or fall. There can be no assurance that RMB will not be subject to devaluation. Any devaluation of RMB could adversely affect the value of investors' investments in the RMB classes of the Sub-Fund. Non-RMB based (e.g. Hong Kong) investors may have to convert HKD or other currencies into RMB when investing in the RMB classes. Subsequently, investors may also have to convert the RMB redemption proceeds (received when selling the units) back to HKD or other currencies. During these processes, investors will incur currency conversion costs and may suffer losses in the event that RMB depreciates against HKD or such other currencies upon receipt of the RMB redemption proceeds.

***Risk of investing in urban investment bonds*** - In view of limitations on directly raising funds, local governments in the PRC have set up numerous entities known as “Local Government Financing Vehicles” (LGFVs) to borrow and fund local development, public welfare investment and infrastructure projects. Urban investment bonds are issued by LGFVs. Local governments may be seen to be closely connected to urban investment bonds, as they are shareholders of the LGFVs issuing such bonds. However, urban investment bonds are typically not guaranteed by the relevant local governments or the central government of the PRC.

As such, local governments or the central government of the PRC are not obligated to support any LGFVs in default. The LGFVs' ability to repay debts depends on various factors, including the nature of the business of such LGFVs, the financial strength of such LGFVs and the extent to which the relevant local governments are prepared to support such LGFVs. Slower revenue growth at some local governments may constrain their capacity to provide support, while regulatory constraints may also limit local governments' ability to inject land reserves into LGFVs. Further, local governments have taken on debt in various other forms, and recent analyses show that increased financing activities have posed a risk to local government finances. If a LGFV encounters financial difficulties, without the local government's support, there is a risk of possible defaults on payment of principal or interest of urban investment bonds issued by the LGFV. This could result in substantial losses in the Sub-Fund's investments in debts issued by such LGFV, and as a result, the Sub-Fund's Net Asset Value will be adversely affected.

***“Dim Sum” bond (i.e. bonds issued outside of Mainland China but denominated in RMB) market risks*** - The “Dim Sum” bond market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the “Dim Sum” bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulator(s).

***Risks associated with distributions out of / effectively out of capital*** - The Manager may at its discretion make distributions from capital or gross income while charging/paying all or part of the Sub-Fund's fees and expenses to/out of the Sub-Fund's capital. Unitholders should note that the distributions paid out of capital or effectively out of capital amount to a return or withdrawal of part of a Unitholder's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of distributions out of the Sub-Fund's capital or payment of distributions effectively out of the Sub-Fund's capital (as the case may be) will result in an immediate reduction of the Net Asset Value per Unit and will reduce the capital that the Sub-Fund has available for investment in future and may constrain capital growth.

### **Available Classes**

Class A HKD Units, Class A RMB Units and Class A USD Units are available for sale to the retail public in Hong Kong.

Class I HKD Units, Class I RMB Units and Class I USD Units are offered to institutional investors or other investors determined by the Manager.

### **Investment Minima**

Minimum Subscription Amount	<b>Class A HKD Units:</b> HKD 8,000 <b>Class A RMB Units:</b> RMB 8,000 <b>Class A USD Units:</b> USD 1,000 <b>Class I HKD Units:</b> HKD 4,000,000 <b>Class I RMB Units:</b> RMB 4,000,000 <b>Class I USD Units:</b> USD 500,000
Minimum Subsequent Subscription Amount	<b>Class A HKD Units:</b> HKD 8,000 <b>Class A RMB Units:</b> RMB 8,000 <b>Class A USD Units:</b> USD 1,000 <b>Class I HKD Units:</b> HKD 4,000,000 <b>Class I RMB Units:</b> RMB 4,000,000 <b>Class I USD Units:</b> USD 500,000
Minimum Holding	<b>Class A HKD Units:</b> HKD 8,000 <b>Class A RMB Units:</b> RMB 8,000 <b>Class A USD Units:</b> USD 1,000 <b>Class I HKD Units:</b> HKD 4,000,000 <b>Class I RMB Units:</b> RMB 4,000,000 <b>Class I USD Units:</b> USD 500,000
Minimum Realisation Amount	<b>Class A HKD Units:</b> HKD 8,000 <b>Class A RMB Units:</b> RMB 8,000 <b>Class A USD Units:</b> USD 1,000

	<b>Class I HKD Units:</b> HKD 4,000,000 <b>Class I RMB Units:</b> RMB 4,000,000 <b>Class I USD Units:</b> USD 500,000
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### **Fees**

Preliminary Charge (% of Issue Price)	<b>Class A &amp; Class I: Up to 5%</b>
Realisation Charge (% of Realisation Price)	<b>Class A &amp; Class I: Nil</b>
Conversion Charge (% of the Issue Price of the Units of the new Sub-Fund in relation to the conversion of Units)	<b>Class A &amp; Class I: Up to 1%</b>
Management Fee (% Net Asset Value of the Sub-Fund)	Up to 3% p.a.  Current rate*: <b>Class A:</b> 0.75% p.a. <b>Class I:</b> 0.5% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	Up to 0.5% p.a.  Current rate*: Class A & Class I: Currently up to 0.15% p.a., subject to a minimum monthly fee of USD 5,000 which is waived for the first year of the initial launch of the Sub-Fund
Custody Fee (% Net Asset Value of the Sub-Fund)	<b>Class A &amp; Class I: up to 0.1% p.a.</b>

*\* The current annual rate may be increased up to the specified permitted maximum level as set out in the Explanatory Memorandum by giving not less than one month's prior notice to the investors.*

### **Certain Charges, Fees and Expenses to be borne by the Manager**

In general, the Sub-Fund bears the charges, fees and expenses which are directly attributable to it in accordance with the Trust Deed (including but not limited to the Management Fee, Trustee Fee and Custody Fee). However, the Manager may at its discretion decide to bear certain charges, fees and expenses which are attributable to the Sub-Fund, starting from the launch date of the Sub-Fund until a future date as notified by the Manager. The portion of the charges, fees and expenses to be borne by the Manager may vary from year to year. The Sub-Fund will bear all other charges, fees and expenses in accordance with the Trust Deed (including but not

limited to the Management Fee, Trust Fee and Custody Fee) which have not been borne by the Manager.

At least one month notice will be given to Unitholders before the Manager ceases to bear the aforementioned charges, fees and expenses attributable to the Sub-Fund and this Explanatory Memorandum will be updated accordingly.

### **Establishment Costs**

The establishment costs of CUAM Select US Dollar Bond Fund amount to approximately USD75,000 and will be borne by the Manager.

### **Dealing Day**

Dealings in Units of the Sub-Fund will be on a daily basis, with the Dealing Day being each HK Business Day.

### **Dealing Deadline**

4:00 p.m. (Hong Kong time) on the relevant Dealing Day.

### **Subscription, Realisation and Conversion of Units**

For details regarding the procedures for subscription, realisation and conversion, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Realisation of Units” and “Conversion between Sub-Funds”.

### **Distributions**

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distribution will be made on a quarterly basis (i.e. March, June, September and December each year) payable in the base currency or class currency of the relevant classes. There is no guarantee of regular distribution and if distribution is made the amount being distributed.

The Manager may at its discretion pay distributions out of the Sub-Fund’s net distributable income and/or capital if the net distributable income is insufficient to pay distributions as declared or pay distributions out of gross income while charging/paying all or part of the fees and expenses to/out of the Sub-Fund’s capital. Where distributions are paid out of gross income while charging/paying all or part of the fees and expenses to/out of the capital of the Sub-Fund, this will result in an increase in distributable income for the payment of distributions by the Sub-Fund and therefore, the Sub-Fund will effectively pay distributions out of capital. This will reduce the capital that the Sub-Fund has available for investment in future and may constrain capital growth.

In the event the net distributable income and/or capital of the Sub-Fund are insufficient to pay distributions, the Manager may at its discretion not to make any distributions.

Compositions of the distributions (if any) (i.e. the relative amounts paid out of (i) net distributable income; and (ii) capital) for the last 12 months would be made available by the Manager on request and also on the Manager's website ([www.99fund.com.hk](http://www.99fund.com.hk)). Please note that this website has not been reviewed by the SFC.

Unitholders should be aware of the effects of making distributions out of capital and pay attention to the relevant risk disclosures as set out under the risk factor headed **“Risks associated with distributions out of / effectively out of capital”** under the section headed **“Specific Risk Factors”**.

The Manager may amend the distribution policy subject to SFC's prior approval and by giving not less than one month's prior notice to Unitholders.”

### **Valuation**

The Valuation Point is the close of business in the last relevant market to close on each Dealing Day.

### **Termination**

The Sub-Fund may be terminated by the Manager on notice in writing if on any date, the aggregate Net Asset Value of the Units of the relevant class outstanding thereunder shall be less than RMB 50 million or equivalent.

### **Accounts**

The first annual report and audited accounts for the Sub-Fund will cover the period up to 31 December 2017.