



SWS STRATEGIC INVESTMENT FUNDS

Shenyin Wanguo China Policy Focus Fund

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EXPLANATORY MEMORANDUM

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December 2019

## IMPORTANT INFORMATION FOR INVESTORS

This Explanatory Memorandum together with the Product Key Facts Statement form part of the offering document and comprises information relating to SWS Strategic Investment Funds, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong by a trust deed dated 6 January 2012 between Shenwan Hongyuan Asset Management (Asia) Limited as manager and Bank of Communications Trustee Limited as trustee.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum and the Product Key Facts Statement 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 and the Product Key Facts Statement misleading. However, neither the delivery of this Explanatory Memorandum / the Product Key Facts Statement nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum or the Product Key Facts Statement is correct as of any time subsequent to such date. This Explanatory Memorandum as well as the Product Key Facts Statement may from time to time be updated. Intending applicants for Units should ask the Manager if any supplements or any later Explanatory Memorandum or Product Key Facts Statement have been issued.

Distribution of this Explanatory Memorandum must be accompanied by a copy of the Product Key Facts Statement of each Sub-Fund and the latest available annual report and accounts of the Fund (if any) and any subsequent interim report. Units are offered on the basis only of the information contained in this Explanatory Memorandum, the Product Key Facts Statement 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 Statement should be regarded as unauthorised and accordingly must not be relied upon.

The Fund and its initial Sub-Fund – Shenyin Wanguo China Policy Focus Fund 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 and the initial Sub-Fund nor does it guarantee the commercial merits of the Fund and the initial Sub-Fund or its performance. It does not mean the Fund or the Initial Sub-Fund is suitable for all investors nor is it an endorsement of its 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 (or the Product Key Facts Statement) in any jurisdiction other than Hong Kong

where action would be required for such purposes. Accordingly, this Explanatory Memorandum and any Product Key Facts Statement 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 objective of the respective Sub-Funds will be achieved. Investors should consider the section headed “Risk Factors”, and the section headed “Specific Risk Factors” (if any) in the relevant Appendix, before making their investment decisions.

Important - If you are in any doubt about the contents of this Explanatory Memorandum and the Product Key Facts Statement, you should seek independent professional financial advice.

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

- By writing to Level 19, 28 Hennessy Road, Hong Kong by the attention of Shenwan Hongyuan Asset Management (Asia) Limited
- By calling the Manager’s hotline at +852 2509 8372

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

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## ADMINISTRATION

### Manager

Shenwan Hongyuan Asset Management  
(Asia) Limited  
Level 19  
28 Hennessy Road  
Hong Kong

### Trustee and Registrar

Bank of Communications Trustee  
Limited  
1/F, Far East Consortium Building  
  
121 Des Voeux Road Central  
Hong Kong

### Auditors

PricewaterhouseCoopers  
21/F, Edinburgh Tower  
15 Queen's Road Central  
Hong Kong

### Solicitors to the Manager

Deacons  
5/F, Alexandra House  
18 Chater Road  
Central  
Hong Kong

### Directors of the Manager

Chen Xiaosheng

Guo Chun

Qiu Yizhou

Xia Mingrui

## DEFINITIONS

The defined terms used in this Explanatory Memorandum and the Product Key Facts Statement have the following meanings:-

“Accounting Date”	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
“Accounting Period”	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
“Authorised Distributor”	Means any person appointed by the Manager to distribute Units of some or all of the Sub-Funds to potential investors
“Business Day”	Means a day (other than a Saturday and a Sunday) 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 determine 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
“China”, “Mainland China” or “PRC”	Means the People’s Republic of China excluding Hong Kong, Macau and Taiwan for the purpose of this Explanatory Memorandum and the Product Key Facts Statement
“China A-Shares”	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 qualified foreign institutional investors (QFII) 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
“China Red Chips”	Means shares issued by companies based in the PRC that is incorporated internationally and listed on the Hong Kong Stock Exchange
“China Securities”	Means China shares (including but not limited to China A-Shares, China B-Shares and China 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)
“Code”	Means the Code on Unit Trusts and Mutual Funds
“connected person”	Means, in relation to the Manager: <ul style="list-style-type: none"> <li>(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</li> <li>(b) any person, company or fund controlled by a person who or which meets one or both of the descriptions given in (a); or</li> <li>(c) any member of the group of which the Manager forms part; or</li> <li>(d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above</li> </ul>

“Dealing Day”	Means such days as described in the Appendix for the relevant Sub-Fund(s)
“Dealing Deadline”	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 Appendix for the relevant Sub-Fund(s)
“Explanatory Memorandum”	Means this Explanatory Memorandum including the Appendices, as each may be amended, updated or supplemented from time to time

“Fund”	Means SWS Strategic Investment Funds
“Government and other public securities”	Means any investment issued by, or the payment of principal and interest on which is guaranteed by, a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies
“Hong Kong”	Means Hong Kong Special Administrative Region of the PRC
“HK\$”	Means Hong Kong Dollars, the lawful currency of Hong Kong
“IPO”	Means initial public offering
“Issue Price”	Means in respect of each Sub-Fund the issue price per Unit as more fully described in the section “Purchase of Units”
“Manager”	Means Shenwan Hongyuan Asset Management (Asia) Limited
“Net Asset Value”	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”
“Qualified Exchange Traded Funds”	Means exchange traded funds that are: <ul style="list-style-type: none"> <li>(a) authorized by the SFC under 8.6 or 8.10 of the Code; or</li> <li>(b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and either (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of the Code</li> </ul>
“QFII”	Means qualified foreign institutional investors approved pursuant to the relevant PRC regulations (as amended from time to time)

“Redemption Price”	Means the price at which Units will be redeemed as more fully described in the section headed “Redemption of Units”
<b>REITs”</b>	Means real estate investment trusts
<b>“reverse repurchase transactions”</b>	Means transactions whereby the Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future
“RMB” or “Renminbi”	Means renminbi, the lawful currency of the PRC
<b>“sale and repurchase transactions”</b>	Means transactions whereby the Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future
<b>“securities financing transactions”</b>	Means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions
<b>“securities lending transactions”</b>	Means transactions whereby the Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee
“SFC”	Means the Securities and Futures Commission of Hong Kong
“SFO”	Means the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571)
“Sub-Fund”	Means a sub-fund of the Fund
<b>“substantial financial institution”</b>	an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK\$2 billion or its equivalent in foreign currency as amended by the Commission's Code on Unit Trusts and Mutual Funds from

time to time

“Trust Deed”	Means the trust deed establishing the Fund as more fully described in the section headed “Trust Deed”
“Trustee”	Means Bank of Communications Trustee Limited in its capacity as trustee of the Fund
“Unit”	Means a unit in a Sub-Fund
“Unitholder”	Means a person registered as a holder of a Unit
“US\$”	Means the lawful currency of the United States of America
“Valuation Day”	Means such days as described in the Appendix for the relevant Sub-Fund
“Valuation Point”	Means such time as described in the Appendix for the relevant Sub-Fund to calculate the Net Asset Value

## THE FUND

SWS Strategic Investment Funds is an open-ended unit trust established as an umbrella fund 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.

The Manager may create further Sub-Funds in the future. Investors should contact the Manager to obtain the latest offering document relating to the available Sub-Fund(s).

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 a Sub-Fund will be invested and administered separately from the assets of the other Sub-Fund(s) issued. 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 relevant Appendix hereto relating to the relevant Sub-Fund.

## MANAGEMENT AND ADMINISTRATION OF THE FUND

### The Manager

The Manager of the Fund is Shenwan Hongyuan Asset Management (Asia) Limited.

The Manager is a limited liability company incorporated in Hong Kong on 19 November 1996 and is an indirect wholly-owned subsidiary of Shenwan Hongyuan (H.K.) Limited, a company listed on The Stock Exchange of Hong Kong Limited. It is currently licensed by the SFC for Type 4 (advising on securities) and Type 9 (asset management) regulated activities under Part V of the SFO with CE number ADU956. The Manager is principally engaged in asset management services. In particular, it specialises in managing investments in Chinese companies. It adopts a highly disciplined medium to long-term stock picking approach in managing clients' investment portfolios and concentrates on identifying under-valued securities in both the primary and secondary markets.

The Manager undertakes the management of the assets of the Fund. The Manager may appoint sub-manager(s) or investment adviser(s) in relation to specific Sub-Fund(s) 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-manager(s) and investment adviser(s) will be borne by the Manager.

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

### **Chen Xiaosheng**

Mr. Chen Xiaosheng was appointed as an Executive Director of Shenwan Hongyuan (H.K.) Limited (“SWHYHK”) on 5 March 2016 and as Chairman of SWHYHK on 10 August 2019. Mr. Chen is also the Assistant to President of Shenwan Hongyuan Securities Co., Ltd., a Director of SWS Research Co., Ltd. as well as a Director of Shenwan Hongyuan (International) Holdings Limited. He also serves as a deputy head of Securities Analysts and Investment Advisers Committee of the Securities Association of China. From 1994 to 2015, Mr. Chen held various positions at Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd.. He has over 20 years of experience in the securities industry. Mr. Chen was accredited as Securities Analyst by the Securities Association of China in 2011. He graduated from Shanghai Jiaotong University with a Master’s Degree in Structural Engineering and also holds an Executive Master of Business Administration Degree from Arizona State University, United States of America.

**Guo Chun**

Mr. Guo Chun was appointed as an Executive Director of Shenwan Hongyuan (H.K.) Limited (“SWHYHK”) in May 2000 and as the Deputy Chairman of the Company on 11 August 2018. He served as Chief Executive Officer of SWHYHK from 9 March 2012 to 10 August 2018. Mr. Guo is also a Director and Deputy General Manager of Shenwan Hongyuan (International) Holdings Limited. He has been working in the securities industry of the People’s Republic of China (the “PRC”) since 1987 and has 31 years’ extensive experience in stockbroking and corporate finance in the PRC. Before joining the former Shanghai Shenyin Securities Co., Ltd. and served as a regional superintendent in Shanghai in 1990, Mr. Guo worked for the Industrial and Commercial Bank of China. Mr. Guo acted as the General Manager of the International Business Division of Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., and Shenwan Hongyuan Securities Co., Ltd. from May 2008 to March 2012 and from February 2014 to June 2019. Mr. Guo holds a Master’s Degree in Business Administration from Murdoch University, Perth, Australia and an Executive Master of Business Administration Degree from Arizona State University, United States of America.

### **Qiu Yizhou**

Mr. Qiu Yizhou was appointed as an Executive Director of Shenwan Hongyuan (H.K.) Limited (“SWHYHK”) on 15 May 2017 and as the Chief Executive Officer of SWHYHK on 11 August 2018. Mr. Qiu previously served as the Deputy General Manager of Strategic Planning Division of Shenwan Hongyuan Securities Co., Ltd.. He joined Shenyin & Wanguo Securities Co., Ltd., the former of Shenwan Hongyuan Group Co., Ltd., in 2004 and has more than 10 years’ experience in corporate finance and management of securities business. Mr. Qiu was graduated from Nanjing University with Bachelor’s Degree in Economics and also holds Master’s Degree in Science from University of Manchester in the United Kingdom.

### **Xia Mingrui**

Mr. Xia Mingrui has been appointed as Assistant General Manager of Shenwan Hongyuan Group in October 2017. Mr. Xia has served as manager of the Market Development Department of International Business Division of Shenwan Hongyuan Securities Co., Ltd. and has more than 25 years of experience in securities business. Mr. Xia graduated from Shanghai Jiaotong University with a major in Finance.

### **The Trustee**

Bank of Communications Trustee Limited is the Trustee of the Fund and is registered as a trust company in Hong Kong. Bank of Communications Trustee Limited is a wholly-owned subsidiary of Bank of Communications Co., Ltd. Bank of Communications Trustee Limited provides a broad range of customised services, including trustee services, retirement services, custodian services, will and estate administration services and other financial services.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the trust fund and shall take into custody or under its control all investments, cash and other assets forming part of the trust fund of the Sub-Fund and hold them in trust for the Unitholders of the Sub-Fund in accordance with the requirements of the Trust Deed, to the extent permitted by law, shall register cash and registrable assets in the name of or to the order of the Trustee and be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereof. The Trustee shall in respect of any investments or other assets of the Sub-Fund, which by nature cannot be held in custody, maintain a proper record of such investments or assets in its books under the name of that Sub-Fund. The Trustee is also responsible for the administration of the Fund and processing dealing requests in respect of Units in the Fund. The Trustee will keep the register of Unitholders of the Fund.

### **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, redemption and/or switching of Units on the Manager's behalf.

## 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 be denominated in a different currency or 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 redemption and switching 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, redemption and switching 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, redemptions or switching 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 the Authorised Distributor(s) may impose an earlier cut-off time before the dealing deadlines for receiving instructions for subscription, redemption or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

## PURCHASE OF UNITS

Units will be issued at the prevailing Issue Price per Unit. The Issue Price on any Dealing Day will be the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the Dealing Day divided by the number of such class of Units then in issue, rounded down 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 so as 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 by the Trustee prior to the Dealing Deadline and accepted 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. The Manager has the discretion to accept applications and/or application moneys received after the Dealing Deadline.

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 the Authorised Distributors (the “**Application Form**”), and return the original Application Form or return the Application Form by facsimile or other electronic means as agreed by the Manager and the Trustee from time to time, together with any further supporting documents (as may be required from time to time) and the application moneys to the Trustee (details of which as set out in the Application Form).

Where application for Units is made through an Authorised Distributor, Units may be registered in the name of a nominee company of the Authorised Distributor through whom the applicant applies for the Units. As a result of this arrangement, the applicant will be dependent on the person in whose name the applicant’s Units are registered to take action on his/her behalf.

Applications will generally be accepted on a Dealing Day only if cleared funds have been received on or prior to 2 Business Days after the Dealing Day on which the Trustee receives the Application Form. Notwithstanding the above and subject to the discretion of the

Manager, a Sub-Fund may rely upon application form received, even prior to receipt of application moneys, and may issue Units to investors according to such application form and invest the expected application amounts. If payment is not cleared within 7 Business Days following the Dealing Day on which the Trustee receives the Application Form (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 and charges.

The Application Form may also be sent to the Trustee by facsimile or any other electronic means as agreed by the Manager and the Trustee from time to time. Investors should be reminded that if they send the Application Forms by facsimile or such other electronic means as agreed by the Manager and the Trustee, 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 nonreceipt or illegibility of any application sent by facsimile or other electronic means, or for any loss caused in respect of any action taken as a consequence of such instructions believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent. Investors should for their own benefit confirm with the Trustee, the Manager or the Authorised Distributors as to the 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 an initial charge of up to 5% on the subscription amount for the issue 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 initial 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 initial charge in whole or in part in relation to any subscription for Units whether generally or in a particular case.

The Manager does not authorise practices connected to market timing and it reserves the right to reject any applications for subscriptions 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 redeems or switches 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.

### Investment Minima

Details of the minimum initial subscription, minimum holding, minimum subsequent subscription and minimum redemption 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 or the class currency of such class of Units as determined by the Manager or the Trustee and as disclosed in the relevant Appendix. Subject to the instruction of 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 direct transfer, telegraphic transfer or banker's draft (or other manner as may be agreed by the Manager). 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.

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 the Unitholders in registered form and no certificates will be 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 down 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 or 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.

## REDEMPTION OF UNITS

### Redemption Procedure

Unitholders who wish to redeem their Units may do so on any Dealing Day by submitting a redemption request to the Trustee and the Manager through the 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, redemption requests received after the Dealing Deadline will be carried forward and dealt with on the next Dealing Day, subject to the Manager's discretion to accept late redemption requests.

Partial redemptions may be effected subject to any minimum redemption 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 redemption 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 redemption request should be given to the Trustee in writing and sent by facsimile or any other electronic means as agreed by the Manager and the Trustee from time to time. Such redemption request must specify (i) the name of the Sub-Fund and the value or number of Units to be redeemed (ii) the relevant class of Units to be redeemed (iii) the name(s) of the registered holder(s) (iv) the payment instructions for the redemption proceeds and (v) the registered account number with the fund. Investors should be reminded that if they send redemption requests by facsimile or such other electronic means as agreed by the Manager and the Trustee, 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 redemption request sent by facsimile or other electronic means, or for any loss caused in respect of any action taken as a consequence of such instructions believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent. Investors should for their own benefit confirm with the Trustee, the Manager or the Authorised Distributors as to the safe receipt of a redemption request.

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

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

With a view to protecting the interests of Unitholders, the Manager is entitled to limit the number of Units of any Sub-Fund redeemed 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 redeem Units of the same Sub-Fund on that Dealing Day will redeem the same proportion of such Units of that Sub-Fund. Any Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, 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 redemption are so carried forward, the Manager will inform the Unitholders concerned within 2 Business Days

of such Dealing Day.

#### Payment of Redemption Proceeds

The Redemption Price on any Dealing Day shall be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the Dealing Day by the number of such class of Units then in issue rounded down 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 and quoted by the Manager in such base currency and in such other currency or currencies at the Manager's discretion (with prior notice to the Trustee) by converting such price to its equivalent in such other currency or currencies at the same rate as the Manager shall apply in calculating the Net Asset Value as at the Valuation Point.

The Manager may at its option impose a redemption charge of up to 5% on the redemption amount in respect of the redemption request of the relevant class of Units to be redeemed. The redemption 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 redemption charge to be imposed (within the permitted limit).

From the time of the calculation of the Redemption Price to the time at which redemption moneys are converted out of any other currency into the base currency of the relevant Sub-Fund, if there is an officially announced devaluation or depreciation of that other currency, the amount which would otherwise be payable to the redeeming Unitholder shall be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation.

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

Redemption proceeds will not be paid to any redeeming Unitholder until (a) unless otherwise agreed by the Trustee, the written redemption request (in the required form) duly signed by the Unitholder has been received and (b) where redemption 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 redemption 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 redemption 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 redeeming 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 redemption of the investments of the relevant Sub-Fund to meet redemption requests, the Manager or the Trustee may delay the payment of the relevant portion of the amount due on the redemption of Units. If the Manager or the Trustee is required by the laws of any relevant jurisdiction to make a withholding from any redemption moneys payable to the holder of a Unit the amount of such withholding shall be deducted from the redemption moneys otherwise payable to such person.

Subject as mentioned above and so long as relevant account details have been provided, redemption proceeds will be paid in the base currency or the class currency of the relevant class of Units by direct transfer or telegraphic transfer, normally within 5 Business Days after the Dealing Day on which the Trustee receives the redemption request (or as otherwise specified in the Appendix of the relevant Sub-Fund) and in any event within one calendar month of the Dealing Day on which the Trustee receives the redemption request or (if later) receipt of a properly documented request for redemption of Units, unless the market(s) in which a substantial portion of investments is made is subject to legal or regulatory requirements (such as foreign currency controls), rendering the payment of the redemption money within the aforesaid time period not practicable. In such case, the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant market(s).

Unless the Manager and the Trustee otherwise agree, redemption proceeds will only be paid to a bank account that bears the name of the redeeming Unitholder. Subject to the agreement of the Manager, redemption proceeds may be paid to the redeeming Unitholder (or, in the case of joint Unitholders, either to all Unitholders or the first-named Unitholder as indicated by the relevant Unitholders on the Application Form) at the Unitholder's risk by cheque, usually in the base currency or the class currency of the relevant class of Units and sent to the redeeming 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.

Subject to applicable limits on foreign exchange and the instruction of the Manager, redemption

proceeds can be paid in a currency other than the base currency or the class currency of a Unit at the request and expense of the Unitholder. In such circumstances, the Trustee 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 redemption proceeds in specie with the consent of the relevant Unitholder.

### SWITCHING BETWEEN CLASSES / SUB-FUNDS

Unitholders have the right (subject to such limitations as the Manager after consulting with the Trustee may impose) to switch all or part of their Units of any class relating to a Sub-Fund (the “Existing Class”) into Units of any other class in the same Sub-Fund or into Units of another Sub-Fund (the “New Class”) available for subscription or switching by giving notice in writing to the Trustee and the Manager through the Authorised Distributors. A request for switching 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 the relevant class or Sub-Fund under, the relevant Appendix. Unless the Manager otherwise agrees, Units of a class can only be switched into Units of the same class of another Sub-Fund.

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

Requests for switching 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 switching or any amendment to a request for switching prior to receipt. Notices to switch may not be withdrawn without the consent of the Manager.

The rate at which the whole or any part of a holding of the Existing Class will be switched to the New Class will be determined in accordance with the following formula:

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

Where:

N is the number of Units of the New Class to be issued.

E is the number of Units of the Existing Class to be switched.

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

R is the Redemption Price per Unit of the Existing Class applicable on the relevant Dealing Day less any Redemption Charge imposed by the Manager.

S is the Issue Price per Unit for the New Class applicable on the Dealing Day of the New Class or immediately following the relevant Dealing Day PROVIDED THAT where the issue of Units of the New Class is subject to the satisfaction of any conditions precedent to such issue then S shall be the Issue Price per Unit of the New Class applicable on the first Dealing Day for the New Class falling on or after the satisfaction of such conditions.

SF is a switching charge (if any).

The Manager has a right to impose a switching charge of up to 1% of the amount being switched out of the Existing Class in relation to the switching of Units and the current rates are set out in the relevant Appendix.

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

If there is, at any time during the period from the time as at which the Redemption Price per Unit of the Existing Class is calculated and the time at which any necessary transfer of funds from the Existing Class to the New Class, a devaluation or depreciation of any currency in which any investment of the Existing Class is denominated or normally traded, the Redemption Price per Unit of the Existing Class shall be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation and the number of Units of the New Class which will arise from that switching shall be recalculated as if that reduced Redemption Price had been the Redemption Price ruling for redemption of Units in the Existing Class on the relevant Dealing Day.

In addition, specific restrictions may apply when a Unitholder intends to switch his Units into another Class or Sub-Fund. The relevant restrictions will be set out in this section or in the Appendix for the relevant Sub-Fund.

The Manager does not authorise practices connected to market timing and it reserves the right to reject any applications for switching 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 redeems or switches 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.

#### Restrictions on subscription, redemption and switching

The Manager may, after consultation with the Trustee, having regard to the best interests of the Unitholders, suspend the subscription, redemption or switching of Units or delay the payment of redemption 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).

### 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 redemption 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 shall, on a regular basis, 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 after consultation with the Trustee, 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.

#### Suspension of Calculation of Net Asset Value

The Manager may, after consultation with the Trustee, having regard to the best interests of Unitholders, 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 Redemption Price per Unit; or
- (b) when a breakdown in the systems and/or means of communication usually employed in ascertaining the value of a substantial portion of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit takes place or when for any other reason the value of a substantial portion of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit cannot in the opinion of the Manager after consultation with the Trustee reasonably or fairly be ascertained or cannot be ascertained in a prompt or accurate manner; or
- (c) circumstances exist as a result of which, in the opinion of the Manager after consultation with the Trustee, 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 materially 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 redemption of Units of the relevant class in the Sub-Fund is delayed or cannot, in the opinion of the Manager after consultation with the Trustee, be carried out promptly at normal rates of exchange; or

- (e) when, in the opinion of the Manager after consultation with the Trustee, such suspension is required by law or applicable legal process; or
- (f) where that Sub-Fund is invested in one or more collective investment schemes and the realisation of interests in a relevant collective investment scheme (representing a substantial portion of the assets of the Investment Fund) is suspended or restricted; or
- (g) 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
- (h) when the Unitholders or the Manager have resolved or given notice to terminate that Sub-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, after giving notice to the Trustee, 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, immediately after any such declaration and at least once a month during the period of such suspension, publish a notice in the Hong Kong Economic Times and the Standard, or such other English language and Chinese language daily newspapers as the Manager may determine and notify the Unitholders.

No Units in the relevant Sub-Fund may be issued, redeemed or switched during such a period of suspension. This applies to subscription, redemption and switching requests received both before and during the period of suspension so long as the Dealing Days to which such requests relate fall within the period of suspension.

## INVESTMENT AND BORROWING RESTRICTIONS

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager and borrowing restrictions. Unless otherwise disclosed in the Appendix for each Sub-Fund, each of the Sub-Fund(s) is subject to the investment restrictions and borrowing restrictions set out in Schedule 1 to this Explanatory Memorandum.

### **Breach of Investment and Borrowing Restrictions**

If the investment and borrowing restrictions for a Sub-Fund are breached, the Manager shall as a priority objective take all steps as are necessary within a reasonable period of time to remedy the situation, taking due account of the interests of the Unitholders of the Sub-Fundu.

### Securities Financing Transactions

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

## 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.

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 – There can be no assurance that a Sub-Fund will achieve its investment objective. Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of the Units of any Sub-Fund and the income

from them may go down as well as up. An investment in a Sub-Fund involves investment risks, including possible loss of the amount invested. Past performance of a Sub-Fund does not indicate the future performance of the relevant Sub-Fund.

- (ii) **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. The risks associated with investments in equity securities may also be higher, because the investment performance of equity securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. 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. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might decrease in value.
- (iii) **PRC market risk** - Investing in the PRC market is subject to the risks of investing in emerging markets generally and the risks specific to the PRC 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 PRC 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, China B-Shares, China H-Shares and China Red Chips. 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.

- (iv) Foreign exchange control risk - The Renminbi is not currently a freely convertible currency and is subject to exchange control imposed by the Chinese government. Such 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.
- (v) Renminbi exchange risk - 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 the PRC 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.

- (vi) Emerging market 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 the PRC 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 such countries or the value of a Sub-Fund's investments, and the risks of investing in countries with smaller capital markets, such as limited liquidity, 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 redeem 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.
- (vii) 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.
- (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) **Currency risk** - Certain Sub-Funds may be invested in part in assets quoted in currencies other than its base currency. The performance of such Sub-Funds will therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the base currency of the Sub-Funds. 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.
- (x) **Interest rate risk** - Changes in interest rates may affect the value of a security as well as the financial markets in general. Certain Sub-Funds may invest in fixed income instruments. Fixed income instruments (such as bonds) are particularly 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.
- (xi) **Credit rating downgrading risk** - Investment grade securities may be subject to the risk of being downgraded to below investment grade securities. 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. In the event of investment grade securities being downgraded to below investment grade securities, the Sub-Fund will also be subject to the below investment grade securities risk outlined in the following paragraph.
- (xii) **Below investment grade and non-rated securities risk** - 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 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 redeemed, or perform badly, investor may suffer substantial losses. The market for these securities may be less active, making it more difficult to sell the securities. 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, lower rated or unrated corporate bonds may decline in market value due to investors' heightened concerns and perceptions over credit quality.

(xiii) 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 issuer of any of the securities in which the assets of a Sub-Fund are invested defaults or suffers insolvency or other financial difficulties, the value of such Sub-Fund will be adversely affected.

(xiv) Over-the-counter market risk - Over-the-counter ("OTC") markets are subject to less governmental regulation and supervision of transactions (in which many different kinds of financial derivatives 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.

(xv) 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 and the number of issuers of securities that the Sub-Fund may invest in, investors should also be aware that 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 limited number of holdings or adverse conditions in their respective countries.

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

- (xvii) Liquidity risk - Some of the 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. 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.
- (xviii) Volatility risk – Prices of securities may be volatile. Price movements of securities are difficult to predict and are influenced by, among other things, changing supply and demand relationships, governmental trade, fiscal, monetary and exchange control policies, national and international political and economic events, and the inherent volatility of the market place. A Sub-Fund's value will be affected by such price movements and could be volatile, especially in the short-term.
- (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, equity swaps 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 the possibility 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-Funds. 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. Also, many derivative and structured products involve an embedded leverage. This is because such instruments provide significantly larger market exposure than the money paid or deposited when the transaction is entered into, so a relatively small adverse market movement could expose the relevant Sub-Funds 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 the PRC) 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) PRC tax considerations – By investing in PRC shares (including China A-, B- and H-Shares, and China Red Chips of companies which have elected to be treated as PRC tax residents), Renminbi denominated corporate and government bonds, securities investment fund and warrants listed on the PRC stock exchanges (together “PRC Securities”), a Sub-Fund may be subject to taxes imposed by the PRC.

#### Corporate Income Tax:

If the Sub-Fund is considered a PRC tax resident, it will be subject to PRC Corporate Income Tax (“CIT”) at 25% on its worldwide taxable income. If the Sub-Fund is considered a non-PRC resident but has a permanent establishment (“PE”) in the PRC, the profits attributable to that PE would be subject to PRC CIT at 25%. If the Sub-Fund is a non PRC tax resident without PE in the PRC, the income derived by it from the investment in PRC Securities would in general be subject to 10% withholding income tax (“WIT”) in the PRC, unless exempt or reduced under specific tax circulars or relevant tax treaty.

#### *Dividend*

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, a 10% PRC WIT is payable on dividends and profit distributions of companies from PRC tax enterprise, including B-Shares and overseas listed shares of PRC tax enterprise (including China H -Shares) and China Red Chips (in case of a China Red Chip company is deemed as a PRC tax resident, then the dividend distributed from the respective Red Chip company will be treated as PRC sourced dividend and thus 10% PRC WIT would apply) derived by the Sub-Fund unless such WIT is subject to reduction or exemption in accordance with an applicable tax treaty signed with the PRC. The entity distributing such dividend is required to withhold such tax.

#### *Capital Gain*

#### B Shares and H Shares

Under current PRC tax regulations, there are no specific rules or regulations governing the taxation of the disposal of these shares. Hence, the tax treatment for investment in

such securities is governed by the general taxing provisions of the CIT Law. Under such general taxing provision, the Sub-Fund could be technically subject to 10% PRC WIT the PRC sourced capital gains, unless exempt or reduced under laws and regulations or relevant double tax treaties.

Having said that, Circular Guoshuihan [2009] No. 698 (“Circular 698”) excludes gains derived by a non-PRC tax resident enterprise (such as the Sub-Fund) from the buying and selling of shares of PRC tax resident enterprise through public stock exchanges from the reporting requirements. In practice, the PRC tax authorities have not actively enforced WIT on gains realized by non-resident enterprises from the disposal of B Shares, H Shares and other overseas listed shares of PRC enterprises whereby both the purchase and sale of such shares are conducted on public stock exchanges.

### Red Chip companies

With respect to Red Chip companies (i.e. non-resident companies that are listed on the Hong Kong Stock Exchange and have substantial business activities in the PRC) which are deemed as PRC tax resident enterprise, capital gains realised by the Sub-Fund from the disposal of such PRC tax resident red-chip companies should technically be subject to PRC WIT at 10%. However, if the Red Chip companies are not deemed as PRC tax resident enterprises, capital gains derived by the Sub-Fund should not be subject to WIT technically.

It is the intention of the Manager to operate the affairs of the Manager and the relevant Sub-Fund such that they are not PRC tax resident enterprises and have no permanent establishment in the PRC for PRC CIT purposes, although this cannot be guaranteed.

The Manager will consider whether it will make provisions in respect of a Sub-Fund for the above tax obligations based on independent tax advice obtained. Even if tax provisions are made, the amount of such provisions may not be sufficient to meet the actual tax liabilities. With the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being imposed retrospectively, any provision for taxation made by the Manager may be excessive or inadequate to meet actual PRC tax liabilities on gains derived from PRC Securities. Consequently, investors may be advantaged or disadvantaged depending upon the final outcome of how such capital gains will be taxed, the level of provision and when they subscribed and/or redeemed their Units in/from the relevant Sub-Fund. In case of any shortfall between the provisions and actual tax liabilities, which will be debited from the Sub-Fund’s assets, the Sub-Fund’s asset value will be adversely affected.

### Value Added Tax (“VAT”)

The MoF and SAT issued the “Notice on the Comprehensive Roll-out of the B2V Transformation Pilot Program (the “B2V Pilot Program”)” Caishui [2016] No.36 (the “Notice 36”) on 23 March 2016 announcing that the B2V Pilot Program will be rolled out to cover all the remaining industries of the program, including financial services. The Notice 36 took effect from 1 May 2016.

The Notice 36 provides that gains derived from the trading of marketable securities in the PRC should be subject to VAT at 6%, unless exempted or reduced under the laws and regulations. In addition, urban maintenance and construction tax, educational surcharge and local educational levy and other applicable local levies (“Local Surcharges”) are imposed based on the VAT liabilities. The amount of Local Surcharges differs from location to location, but would typically amount to as high as 13% of the VAT payable.

Under Notice 36 and the “Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on VAT Policies for Interbank Dealings of Financial Institutions” Caishui [2016] No. 70 (the “Notice 70”), gains realised by QFIIs and RQFIIs from trading of PRC marketable securities are exempt from VAT.

However, the PRC tax authorities have not actively collected VAT from non-PRC tax resident enterprises on gains realized from B-Shares in practice. Where capital gains are derived from trading of H-shares and China Red Chips, VAT in general is not imposed as the purchase and disposal are often concluded and completed outside the PRC.

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

### 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 the PRC of certain documents, including contracts for the sale of China A- and B-Shares traded on the PRC stock exchanges. 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, at the rate of 0.1%.

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in the PRC will

be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the relevant Sub-Fund. 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. Any changes in tax policies may reduce the after-tax profits of the companies in the PRC which a Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

- (xxii) Legal, tax and regulatory risk - Legal, tax and regulatory changes could occur in the future. For example, the regulatory or tax environment for derivative instruments is evolving, and changes in their regulation or taxation may adversely affect the value of derivative instruments. Changes to the current laws and regulations will lead to changes in the legal requirements to which the Fund may be subject, and may adversely affect the Fund and the investors.
- (xxiii) Custodial risk and brokerage 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 certain circumstances a Sub-Fund may take a longer time or may even be unable to recover some of its assets. Such circumstances may include the liquidation, bankruptcy or insolvency of a custodian or sub-custodian, retroactive application of legislation and fraud or improper registration of title. The costs borne by a Sub-Fund in investing and holding investments in such markets will be generally higher than in organised securities markets.
- (xxiv) 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, futures and options. 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. The Sub-Fund may sustain substantial losses as a result. In particular:

Cash and deposits: A Sub-Fund may hold cash and deposits in banks or other financial institutions and the extent of governmental and regulatory supervision may vary. The Sub-Fund might suffer a significant or even total loss in the event of insolvency of the banks or financial institutions.

Debt securities: There is no assurance that losses will not occur with respect to

investment in debt securities. A default on interest or principal by the counterparty may adversely affect the performance of the relevant Sub-Fund.

- (xxv) 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.
- (xxvi) 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.

Securities acquired on behalf of a Sub-Fund may subsequently become illiquid due to events relating to the issuer of the securities, market and economic conditions and regulatory sanctions. In cases where no clear indication of the value of a Sub-Fund’s portfolio securities is available (for example, when the secondary market on which a security is traded has become illiquid) the Manager may apply valuation methods to ascertain the fair value of such securities, pursuant to the Trust Deed.

In the event that adjustments of the net asset value of the Sub-Fund or the Units are made to rectify any pricing errors after the latest available issue and redemption prices for the Sub-Fund have been published, the Manager will notify the affected investors accordingly.

- (xxvii) Risks of investing in initial public offering (“IPO”) of securities - The prices of securities involved in IPOs are often subject to greater and more unpredictable price changes than more established securities. There is the risk that there are inadequate trading opportunities generally or allocations for IPOs which the Manager wishes or is able to participate in. Furthermore, the liquidity and volatility risks associated with investments or potential investments in IPO securities may be difficult to assess, due to the lack of trading history of such IPO securities.

- (xxix) ***US Foreign Account Tax Compliance Act*** - Sections 1471 – 1474 of the US Internal Revenue Code (the “**IRS Code**”) of 1986, as amended (referred to as the Foreign Account

Tax Compliance Act or “**FATCA**”), impose rules with respect to certain payments paid to certain foreign (i.e. non-US) financial institutions (“**FFI**”), 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 FATCA 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 US persons (under the definition in the IRS Code) with direct or indirect interests in such payments. To avoid the 30% withholding tax under FATCA, certain FFIs, such as the Fund and the Sub-Funds (and, generally, other investment funds organised outside the US), generally would be required to register with the IRS directly to obtain a Global Intermediary Identification Number (“**GIIN**”) and enter into an agreement (an “**FFI Agreement**”) with the IRS under which it will agree to identify its direct or indirect account holders who are US persons and report certain information concerning such US account holders to the IRS.

In general, an FFI which does not enter into an FFI Agreement or comply with the relevant FATCA regulations, and is not otherwise exempt may face a 30% withholding tax on “withholdable payments” derived from US source, including dividends, interest, certain derivative payments and certain other fixed, determinable, annual or periodical (“**FDAP**”) income made to such FFI on or after 1 July 2014. In addition, starting from 1 January 2019, gross proceeds from the sale or other disposition of certain property, such as sales proceeds of property and returns of principal derived from stocks and debt obligations generating US source dividends or interest, will also be treated as “withholdable payments.” Moreover, it is expected that a 30% withholding tax on foreign passthru payments will commence at the later of 1 January 2019 or the date of the publication of the relevant regulations defining the term foreign passthru payment.

The Hong Kong government has entered into a Model 2 intergovernmental agreement (“**IGA**”) with the US for the implementation of FATCA. Under such Model 2 IGA, FFIs in Hong Kong (such as the Fund and the Sub-Funds) would be required to register with the IRS and comply with the terms of FFI Agreement. Otherwise they may be subject to a 30% withholding tax on relevant US-sourced payments made to them.

It is expected that FFIs in Hong Kong (such as the Fund and the Sub-Funds) complying with the terms of an FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will generally not be required to withhold tax on payments made to non-consenting US accounts (i.e. certain accounts of which the holders do not consent to FATCA reporting and disclosure to the IRS) or close those non-consenting US accounts (provided that information regarding such account holders is reported to the IRS in aggregate), but may be required to withhold tax on withholdable payments made to

non-participating FFIs.

As at the date hereof, the Manager has registered with the IRS as a sponsoring entity for the Fund and the Sub-Fund(s) with a GIIN of Y6ZYIH.99999.SL.344 and has agreed to perform, on behalf of the sponsored entities, all due diligence, withholding, reporting and other FATCA-related requirements. The Fund and the Sub-Fund(s) are considered as sponsored entities of the Manager and will be regarded as Non-Reporting Hong Kong FFI and treated as a registered deemed-compliant FFI.

The Manager will endeavour to satisfy the requirements imposed under FATCA to avoid any withholding tax. In the event that the Fund and/or any Sub-Fund is not able to comply with the requirements imposed by FATCA and the Fund and/or such Sub-Fund does suffer FATCA withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Fund and/or that Sub-Fund may be adversely affected and the Fund and/or such Sub-Fund may suffer significant loss as a result.

In the event a Unitholder (an account holder) does not provide the requested information and/or documentation, whether or not that actually leads to non-compliance by the Fund and/or the relevant Sub-Fund, or a risk of the Fund and/or the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Fund and/or 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 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 his own tax situation and the potential impact on the Fund and its Sub-Funds.

In view of the above, investment in any Sub-Fund should be regarded as long term in nature. The Sub-Funds are, 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.

## EXPENSES AND CHARGES

### Charges Payable by Investors

Initial Charge, Redemption Charge and Switching Charge may be charged to an investor in his/her purchase, redemption and switching of Units pursuant to the sections headed “Purchase of Units”, “Redemption of Units” and “Switching between Classes / 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-Fund

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

### 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 1.5% per annum.

The Manager shall pay the fees of any sub-manager and investment adviser to which it has appointed. Any such sub-manager and investment adviser will not receive any remuneration directly from any Sub-Fund.

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 the Sub-Fund which is based on the Net Asset Value of the Sub-Fund subject to a maximum rate of 1.0% of the Net Asset Value of the Sub-Fund per annum and a minimum monthly fee of USD2,000 for each class of Units. The Trustee Fee is accrued daily and is payable monthly in arrears. Investors should refer to the Appendix relating to the Sub-Fund for details.

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.

### Establishment Costs

The establishment costs of the Fund and Shenyin Wanguo China Policy Focus Fund have been fully amortised.

The establishment costs and payments incurred in the establishment of subsequent Sub-Funds are to be borne by the Sub-Fund(s) 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).

### 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 redemption 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 registrar, (c) fees charged by the Trustee in connection with calculating the Net Asset Value of the Sub-Fund or any part thereof, calculating the issue and redemption 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 Fund or the relevant 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 Fund or any 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 redemption 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 offering document, and any other expenses, deemed by the Manager, after consulting the Auditors, 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.

#### Transactions with Connected Persons, Cash Rebates and Soft Commissions

Any transaction with a connected person will be conducted in compliance with the requirements under the Code.

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.

The Manager, the investment adviser(s) (if any) and/or any of their connected person reserves the right to effect transactions by or through a broker or dealer with whom the Manager, the investment adviser (if any) and/or any of their connected persons has an arrangement under which that broker or dealer will from time to time provide to or procure for the Manager, the investment adviser (if any) and/or any of their connected persons goods or services for which no direct payment is made by instead the Manager, the investment adviser (if any) and/or any of their connected persons under takes to place business with that broker or dealer. The Manager shall procure that no such arrangements are entered into unless (i) the goods and services to be provided pursuant thereto are of demonstrable benefit to the Unitholders (taken as a body and in their capacity as such) whether by assisting the Manager or the investment adviser (if any) in their ability to manage the relevant Sub-Fund or otherwise; (ii) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) periodic disclosure is made in the annual report of the Fund or the relevant Sub-Fund in the form of a statement describing the soft dollar policies and practices of the Manager or the investment adviser (if any), including a description of goods and services received by them; and (iv) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. Such goods and services may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications. 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.

## TAXATION

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

## Hong Kong

### Profits tax

Profits derived by the Fund and any Sub-Fund will be exempted from Profits Tax in Hong Kong for so long as the Fund and the relevant Sub-Fund are authorised by the SFC as a collective investment scheme under section 104 of the SFO for offer to the retail public in Hong Kong.

### Stamp duty

No Stamp Duty is payable by the Fund on the issue of new units.

### Taxation of Unitholders

Profits arising on the redemption 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 from 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 by the Unitholders in relation to the issue of the Units to them.

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Units. The duty is charged at the rate of 2% of the higher of the consideration paid or the value of the Units transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of the Units.

No Hong Kong stamp duty is payable on purchase of a unit if: 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.

- (a) the sale or purchase is effected by extinguishing such unit;
- (b) the sale or purchase is effected by the Manager and his power to effect such sale or purchase arises from the transfer to them of that or some other unit within the immediately preceding 2 months; and
- (c) the sale or purchase is effected by the Manager and his power to effect such sale or purchase arises otherwise than from a previous transfer to them of that or some other unit.

## The PRC

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.

## Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the “**Ordinance**”) came into force on 30 June 2016. The Ordinance establishes the legislative framework for the implementation of the Standard for Automatic Exchange of Financial Account Information (“**AEOI**”) (or also referred to as the Common Reporting Standard (“**CRS**”). The AEOI requires financial institutions (“**FI**”) in Hong Kong (such as the Fund and the Sub-Funds) to collect information relating to non-Hong Kong tax residents holding financial accounts with FIs, and report such information to the Hong Kong Inland Revenue Department (“**IRD**”). The information will be further exchanged with jurisdiction(s) in which the account holder is tax resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has signed a Competent Authority Agreement (“**CAA**”); however, the Fund, the Sub-Funds and/or its agents may further collect information relating to residents of other jurisdictions. These jurisdictions include all participating jurisdictions listed under Schedule 17E of the Inland Revenue Ordinance which may change from time to time.

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, each Sub-Fund, the Trustee, and/or its agents shall collect the relevant tax information relating to Unitholders and prospective investors and provide such information to the IRD.

The AEOI rules as implemented by Hong Kong require the Fund and each Sub-Fund to, amongst other things: (i) register the Fund 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 certain information of such Reportable Accounts to the IRD. The IRD will then transmit such information to the government authorities of the relevant jurisdictions with which Hong Kong has signed a CAA (i.e. the “**Reportable**

**Jurisdictions**”) on an annual basis. Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax residents in the Reportable Jurisdictions; and (ii) certain entities controlled by individual who is tax resident in the Reportable Jurisdictions. Under the Ordinance, details of Unitholders, including but not limited to their name, date of birth, jurisdiction of birth, address, tax residence, taxpayer identification number (“**TIN**”) account details, account balance/value, and certain income or sale or redemption proceeds, may be reported to the IRD, which are subsequently exchanged with government authorities in the relevant Reportable Jurisdictions.

By investing in the Fund and the relevant Sub-Fund and/or continuing to invest in the Fund and the relevant Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the Fund, the relevant Sub-Fund, the Manager, the Trustee, and/or the Fund’s agents in order for the Fund and the relevant Sub-Fund to comply with AEOI. The Unitholder’s information (and/or information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are natural persons), may be exchanged by the IRD with government authorities in the Reportable Jurisdictions.

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

## REPORTS

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

## DISTRIBUTION POLICY

Unless otherwise described in the relevant Appendix, the Manager does not intend to make any distribution of income and/or capital of a Sub-Fund.

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 maybe.

Any payment of distributions will be made in the base currency or class 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 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.

## PUBLICATION OF PRICES

The Net Asset Value per Unit of each Sub-Fund at each Valuation Day will be published on every Dealing Day in Hong Kong in the Hong Kong Economic Times, The Standard and South China Morning Post.

## 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 duly stamped instrument of transfer, any necessary declarations, other documents that may be required by the Trustee or in consequence of any legislation (including any anti-money laundering legislation) shall be left with the Trustee for registration. 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 (if any) of the relevant class as set out in the relevant Appendix.

## COMPULSORY REDEMPTION OR TRANSFER OF UNITS

The Manager or the Trustee, acting in good faith and on reasonable ground, may require a Unitholder to transfer the Unitholder's Units or may redeem 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 6 January 2012 made between Shenwan Hongyuan Asset Management (Asia) Limited as Manager and Bank of Communications 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 from liability in respect of their fraud, negligence, wilful 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,

- (a) if the Manager goes into liquidation, becomes bankrupt 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 three months of the Trustee giving notice of its desire to retire.

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

- (a) 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
- (b) 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, each of the Sub-Funds 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.

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

#### ANTI-MONEY LAUNDERING REGULATIONS

As part of the Manager's responsibility for the prevention of money laundering, the Manager 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 redemption 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 the Trustee, the investment advisor (if any) and their respective connected persons may from time to time act as trustee, administrator, transfer agent, 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 including those which have similar investment objectives to those of any Sub-Fund or contract with or enter into financial, banking or other transaction with one another or with any investor of the Sub-Funds, or with company or body any of whose shares or securities form part of any Sub-Fund or may be interested in any such contract or transactions. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund and the Sub-Funds. If such conflicts arise, 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 managed and minimized so far as reasonably practicable and that measures are adopted that seek to ensure such conflicts are resolved fairly, taking into account the interests of Unitholders of the Sub-Fund as a whole. 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 interest. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

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

Subject to the restrictions and requirements applicable from time to time, the Manager, any investment advisers as may be appointed by the Manager or any of their respective connected persons may deal with any Sub-Fund as principal provided that dealings are carried out in good faith and effected on best available terms negotiated on an arm’s length basis and in the best interests of the Unitholders of the relevant Sub-Fund. Any transactions between the a Fund and the Manager, the investment adviser as may be appointed by the Manager or any of their connected persons as principal may only be made with the prior written consent of the Trustee. All such transactions must be disclosed in the Sub-Fund’s annual report.

In effecting transactions for the account of any Sub-Fund with brokers or dealers connected to the Manager, the investment adviser of such Sub-Fund or their connected persons, the Manager shall ensure that it complies with the following requirements:

- (a) such transactions should be on arm's length terms;
- (b) the Manager must use due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (c) transaction execution must be consistent with applicable best execution standards;
- (d) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
- (e) the Manager must monitor such transactions to ensure compliance with its obligations; and
- (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the annual report of the Sub-Fund.

## LIQUIDITY RISK MANAGEMENT

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of each Sub-Fund and to ensure that the liquidity profile of the investments of each Sub-Fund will facilitate compliance with the Sub-Fund's obligation to meet redemption requests. Such policy, combined with the liquidity management tools that may be employed by the Manager, also seeks to achieve fair treatment of Unitholders and safeguard the interests of remaining Unitholders in case of sizeable redemptions.

The liquidity risk management of the Sub-Fund is carried out by the Manager's liquidity risk management function which is functionally independent from the portfolio investment function. The oversight of the liquidity risk management function will be performed by a risk management team.

The Manager would regularly assess the liquidity of each Sub-Fund's assets under the current and likely future market conditions. The Manager may also set an internal limit as to each individual investment that may be held by a Sub-Fund.

The Manager will take into account the investment strategy; the dealing frequency; the underlying asset liquidity; the ability to enforce redemption limitations and fair valuation policies of the Sub-Funds. These measures seek to ensure fair treatment and transparency for all investors.

The following tools may be employed by the Manager to manage liquidity risks:

- The Manager may limit the number of Units of any Sub-Fund redeemed 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 in “Redemption Procedure” under the section “Redemption of Units”). If such limitation is imposed, this would restrict the ability of a Unitholder to redeem in full the Units he intends to redeem on a particular Dealing Day;
- The Manager may suspend the determination of the Net Asset Value and redemption under exceptional circumstances as set out under “Suspension of Calculation of Net Asset Value” under the section headed “Valuation”. During such period of suspension, Unitholders would not be able to redeem their investments in the relevant Sub-Fund;
- The Manager may borrow up to 10% of the latest available Net Asset Value of a Sub-Fund to meet redemption requests. For further details, please refer to the section headed “Investment and Borrowing Restrictions”.

Investors should note that there is a risk that the tools may be ineffective to manage liquidity and redemption risks.

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

Each investor (i) shall be required to, upon demand by 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 the 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 in any jurisdiction (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments in a timely manner, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including any law, rule and requirement relating to AEOI), including reporting obligations that may be imposed by future legislation.

#### POWER TO DISCLOSE INFORMATION TO TAX AUTHORITIES

Subject to applicable laws and regulations in Hong Kong, 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 and the IRD), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, tax residency(ies), taxpayer identification number(s) (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 (including any law, rule and requirement relating to AEOI), regulation or agreement under FATCA).

## PERSONAL DATA

Pursuant to the provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong, "PDPO"), the Trustee, the Manager, or any of their respective delegates (each a "Data User") may collect, hold, use personal data of individual investors in the Fund and the Sub-Funds only for the purposes for which such data was collected and shall comply with personal data protection principles and requirements as set out in the PDPO and all other applicable regulations and rules governing personal data use in Hong Kong from time to time. Accordingly, each Data User shall take all practicable steps to ensure that personal data collected, held and processed by them are protected against unauthorized or accidental access, processing, erasure or other use.

## 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:-

- (a) the Trust Deed, and any supplemental deeds;
- (b) all material contracts (if any, as may be specified in the relevant Appendix); and
- (c) the latest financial reports of the Fund.

## APPENDIX I - Shenyin Wanguo China Policy Focus Fund

This Appendix comprises information in relation to Shenyin Wanguo China Policy Focus Fund, a Sub-Fund of the Fund.

### Base Currency

The base currency of the Sub-Fund is HK\$.

### Investment Objective and Policy

#### Investment Objective

The Shenyin Wanguo China Policy Focus Fund seeks to achieve long-term capital appreciation by investing primarily in securities issued by companies operating in sectors and industries that in the Manager's view, are likely to benefit from the macro economic policies of the PRC Government.

In particular, the PRC Government may consider certain sectors, industries and geographic locations as bearing strategic importance to the healthy growth and the stability of the domestic economy as well as the improvement of the welfare of a great proportion of Chinese society according to prevailing market, such other conditions and circumstances which may be reviewed from a policy perspective from time to time. As a result, the PRC Government will seek to enact new economic policies from time to time in order to manage the macro economy of the PRC. These economic policies may be implemented by various means (including, but are not limited to, tax reduction, subsidies, preferential loans and government projects) and may favour the growth and development of certain sectors and industries. The investment of the Sub-Fund will focus on securities issued by companies in these sectors and industries. The Manager will leverage its expertise in relation to Chinese securities and identify undervalued securities belonging to these sectors and industries. At the same time the Manager will seek to capture the long-term growth potential of such investments. The Sub-Fund has a medium to long-term investment horizon and seeks to achieve long-term stability. The Sub-Fund does not intend to focus on investing in a specific sector and industry and the Manager will review the Sub-Fund's investment in various sectors and industries at least on an annual basis.

#### Investment Strategy

The Sub-Fund seeks to achieve its investment objective by investing primarily in listed equities

and equity related securities of China concept companies (i.e. companies with a business exposure to the PRC) listed on international stock exchanges (including but not limited to stock exchanges in the PRC, Hong Kong and the United States). These include, but are not limited to, China B-Shares, shares of PRC enterprises which are listed in Hong Kong (such as China H-Shares), China Red Chips<sup>1</sup>, IPO stocks, ADRs<sup>2</sup> and GDRs<sup>3</sup> listed on international stock exchanges, rights issues and warrants.

Currently the Sub-Fund does not intend to gain any direct or indirect exposure to China A-Shares. The Manager will seek the prior approval of the SFC and provide at least one month's prior notice to Unitholders if the Sub-Fund intends to invest directly or indirectly in China A-Shares in the future.

In addition, it is not currently intended that the Sub-Fund will invest more than 10% of its Net Asset Value in China B-Shares. The Manager will seek the prior approval of the SFC and at least one month's prior notice will be given to all Unitholders if the Sub-Fund's exposure to China B-Shares exceeds 10% of its Net Asset Value in the future. The Explanatory Memorandum and the Product Key Facts Statement will be updated if there are any changes to the investment objective and investment strategy of the Sub-Fund including the Sub-Fund's exposure to China A or B Shares.

#### Other Investment Strategies / Restrictions of the Sub-Fund

The Manager currently does not intend to enter into any securities lending or sale and repurchase or reverse repurchase transactions in respect of the Sub-Fund. The Manager will seek the prior approval of the SFC and provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions.

#### Use of Derivatives

The Sub-Fund may use financial derivative instruments (whether listed on exchanges or traded on over-the-counter markets) such as options, futures or warrants for hedging. The Sub-Fund's net derivative exposure will be up to 50% of its Net Asset Value.

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<sup>1</sup> "China Red Chips" refers to the equity securities issued by a company based in the PRC that is incorporated internationally and listed on the Hong Kong Stock Exchange.

<sup>2</sup> “ADR” is the abbreviation for American Depositary Receipt and it refers to a negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock that is traded on a U.S. exchange.

<sup>3</sup> “GDR” is the abbreviation for Global Depositary Receipt and it refers to a bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank.

## 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 for the Sub-Fund.

1. Investment risk – There can be no assurance that the Sub-Fund will achieve its investment objective. The Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of the Units of the Sub-Fund and the income from it may go down as well as up. An investment in the Sub-Fund involves investment risks, including possible loss of the amount invested. Past performance of the Sub-Fund does not indicate the future performance of the Sub-Fund.
2. Concentration risk - The Sub-Fund invests primarily in The PRC. Although the Sub-Fund's portfolio will be well diversified in terms of the number of holdings and the number of issuers of securities that the Sub-Fund may invest in, investors should also be aware that the Sub-Fund is 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 limited number of holdings or adverse conditions in the PRC.
3. PRC market risk - Investing in the PRC market is subject to the risks of investing in emerging markets generally and the risks specific to the PRC 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 PRC 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 B-Shares, China H-Shares and China Red Chips<sup>4</sup>. 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 Sub-Fund. Laws governing taxation will continue to change and may contain conflicts and ambiguities.

4. Foreign exchange control risk - The Renminbi is not currently a freely convertible currency and is subject to exchange control imposed by the Chinese government. Such 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 the Sub-Fund's assets are invested in the PRC, it will be subject to the risk of the PRC government's policy or imposition of restrictions on the repatriation of funds or other assets out of the country, affecting the ability of the Sub-Fund to satisfy payments to investors.
5. PRC tax considerations – By investing in PRC shares (including China B- and H-Shares, and China Red Chips of companies which have elected to be treated as PRC tax residents), the Sub-Fund may be subject to taxes imposed by the PRC.

#### Corporate Income Tax:

If the Sub-Fund is considered a PRC tax resident, it will be subject to PRC Corporate Income Tax ("CIT") at 25% on its worldwide taxable income. If the Sub-Fund is considered a non-PRC resident but has a permanent establishment ("PE") in the PRC, the profits attributable to that PE would be subject to PRC CIT at 25%. If the Sub-Fund is a non PRC tax resident without PE in the PRC, the income derived by it from the investment in PRC Securities would in general be subject to 10% withholding income tax ("WIT") in the PRC, unless exempt or reduced under specific tax circulars or relevant tax treaty.

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<sup>4</sup> "China Red Chips" refers to the equity securities issued by a company based in the PRC that is incorporated internationally and listed on the Hong Kong Stock Exchange.

### *Dividend*

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, a 10% PRC WIT is payable on dividends and profit distributions of companies from PRC tax enterprise, including B-Shares and overseas listed shares of PRC tax enterprise (including China H-Shares) and China Red Chips (in case of a China Red Chip company is deemed as a PRC tax resident, then the dividend distributed from the respective Red Chip company will be treated as PRC sourced dividend and thus 10% PRC WIT would apply) derived by the Sub-Fund unless such WIT is subject to reduction or exemption in accordance with an applicable tax treaty signed with the PRC. The entity distributing such dividend is required to withhold such tax.

### *Capital Gain*

#### B Shares and H Shares

Under current PRC tax regulations, there are no specific rules or regulations governing the taxation of the disposal of these shares. Hence, the tax treatment for investment in such securities is governed by the general taxing provisions of the CIT Law. Under such general taxing provision, the Sub-Fund could be technically subject to 10% PRC WIT the PRC sourced capital gains, unless exempt or reduced under laws and regulations or relevant double tax treaties.

Having said that, Circular Guoshuihan [2009] No. 698 (“Circular 698”) excludes gains derived by a non-PRC tax resident enterprise (such as the Sub-Fund) from the buying and selling of shares of PRC tax resident enterprise through public stock exchanges from the reporting requirements. In practice, the PRC tax authorities have not actively enforced WIT on gains realized by non-resident enterprises from the disposal of B Shares, H Shares and other overseas listed shares of PRC enterprises whereby both the purchase and sale of such shares are conducted on public stock exchanges.

#### Red Chip companies

With respect to Red Chip companies (i.e. non-resident companies that are listed on the Hong Kong Stock Exchange and have substantial business activities in the PRC) which are deemed as PRC tax resident enterprise, capital gains realised by the Sub-Fund from

the disposal of such PRC tax resident red-chip companies should technically be subject to PRC WIT at 10%. However, if the Red Chip companies are not deemed as PRC tax resident enterprises, capital gains derived by the Sub-Fund should not be subject to WIT technically.

It is the intention of the Manager to operate the affairs of the Manager and the Sub-Fund such that they are not PRC tax resident enterprises and have no permanent establishment in the PRC for PRC CIT purposes, although this cannot be guaranteed.

#### Value Added Tax (“VAT”)

The MoF and SAT issued the “Notice on the Comprehensive Roll-out of the B2V Transformation Pilot Program (the “B2V Pilot Program”)” Caishui [2016] No.36 (the “Notice 36”) on 23 March 2016 announcing that the B2V Pilot Program will be rolled out to cover all the remaining industries of the program, including financial services. The Notice 36 took effect from 1 May 2016.

The Notice 36 provides that gains derived from the trading of marketable securities in the PRC should be subject to VAT at 6%, unless exempted or reduced under the laws and regulations. In addition, urban maintenance and construction tax, educational surcharge and local educational levy and other applicable local levies (“Local Surcharges”) are imposed based on the VAT liabilities. The amount of Local Surcharges differs from location to location, but would typically amount to as high as 13% of the VAT payable.

Under Notice 36 and the “Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on VAT Policies for Interbank Dealings of Financial Institutions” Caishui [2016] No. 70 (the “Notice 70”), gains realised by QFIIs and RQFIIs from trading of PRC marketable securities are exempt from VAT.

However, the PRC tax authorities have not actively collected VAT from non-PRC tax resident enterprises on gains realized from B-Shares in practice. Where capital gains are derived from trading of H-shares and China Red Chips, VAT in general is not imposed as the purchase and disposal are often concluded and completed outside the PRC.

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

#### 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 the PRC of certain documents, including contracts for the sale of China B-Shares traded on the PRC stock exchanges. In the case of contracts for sale of China B-Shares, such stamp duty is currently imposed on the seller but not on the purchaser, at the rate of 0.1%.

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in the PRC will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the Sub-Fund. 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. Any changes in tax policies may reduce the after-tax profits of the companies in the PRC which the Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

#### Tax provisions:

It is not currently intended that the Manager will make any provisions in respect of the Sub-Fund for any tax obligations set out above. Should the Manager decide to make any relevant tax provisions in the future, the Manager will give at least one month's prior notice to Unitholders. Investors should note that even if tax provisions are made, the amount of such provisions may not be sufficient to meet the actual tax liabilities. With the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being imposed retrospectively, any provision for taxation made by the Manager may be excessive or inadequate to meet actual PRC tax liabilities on gains derived from PRC Securities. Consequently, investors may be advantaged or disadvantaged depending upon the final outcome of the tax policy implemented by the PRC tax authorities (including but not limited to how the relevant taxes will be levied), the level of provision and when investors subscribed and/or redeemed their Units in/from the Sub-Fund. In case of any shortfall between the

provisions and actual tax liabilities, which will be debited from the Sub-Fund's assets, the Sub-Fund's asset value will be adversely affected.

#### Available Classes

The following class of Units is available for sale to the retail public in Hong Kong:

<u>Class</u>	<u>Class Currency</u>
Class A	HK\$

The following class of Units is offered to institutional investors:

<u>Class</u>	<u>Class Currency</u>
Class I	HK\$

The Manager accepts payment of subscription moneys in the class currency of the relevant Units.

#### Investment Minima

Minimum Subscription Amount	Class A: HK\$10,000 Class I: HK\$10,000,000
Minimum Subsequent Subscription Amount	Class A: HK\$5,000 (or at multiples of HK\$5,000) Class I: HK\$100,000
Minimum Holding	Class A: Units with aggregate minimum value of HK\$10,000 Class I: Units with aggregate minimum value of HK\$10,000,000
Minimum Redemption Amount	Class A: Not applicable Class I: Not applicable

## Fees

Fees payable by investors	
Initial Charge (% of Subscription Amount)	Class A and Class I Units: up to 5%
Redemption Charge (% of Redemption Amount)	Class A and Class I Units: Nil
Switching Charge (% of the amount being switched out of the existing class)	Class A and Class I Units: up to 1%
Fees payable by the Sub-Fund	
Annual Management Fee (% Net Asset Value of the Sub-Fund)	Class A Units: 1.5% p.a. Class I Units: 1% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	<b>Class A and Class I Units:</b> Up to 1% p.a., subject to a minimum monthly fee of USD2,000 for each class of Units

## Establishment Costs

The costs of establishment of the SWS Strategic Investment Funds and the Shenyin Wanguo China Policy Focus Fund (initial Sub-Fund) have been described in the main part of the Explanatory Memorandum.

## Dealing Day

Dealing Day shall include each Business Day but exclude the 24<sup>th</sup> and 31<sup>st</sup> of December and the Lunar New Year's Eve of each year.

## Dealing Deadline

12:00 p.m. (Hong Kong time) on the relevant Dealing Day. The Authorised Distributor(s) may impose different dealing deadlines for receiving instructions for subscriptions, redemptions or switching. Investors should pay attention to the arrangements of the Authorised Distributor(s) concerned.

## Subscription, Redemption and Switching of Units

For details regarding the procedures for subscription, redemption and switching, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Redemption of Units” and “Switching between Classes / Sub-Funds”.

## Distributions

No distributions will be paid out of income and/or capital of the Sub-Fund.

## Valuation

The Valuation Day in respect of a Dealing Day will be that Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day.

## SCHEDULE 1 - INVESTMENT RESTRICTIONS

### 1. **Investment limitations applicable to each Sub-Fund**

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

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

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

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

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

- (b) subject to sub-paragraphs 1(a) and 4.4(c) of this Schedule 1, the aggregate value of the Sub-Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available Net Asset Value of the relevant Sub-Fund:
  - (i) investments in securities issued by those entities;

- (ii) exposure to those entities through underlying assets of financial derivative instruments; and
- (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

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

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

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

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

- (d) the Sub-Fund’s holding of any ordinary shares (when aggregated with all other Sub-Funds’ holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity.
- (e) the value of the Sub-Fund's investment in securities and other financial products or

instruments that are neither listed, quoted nor dealt in on a Securities Market, exceeding 15% of the latest available Net Asset Value of such Sub-Fund.

- (f) the value of the Sub-Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available Net Asset Value of such Sub-Fund (save that the Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.
- (g)
  - (i) the value of the Sub-Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available Net Asset Value; and
  - (ii) the value of the Sub-Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available Net Asset Value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the Offering Document of that Sub-Fund,

provided that:

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

be waived if the underlying scheme is managed by the Manager or its Connected Persons; and

- (E) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

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

## **2. Investment prohibitions applicable to each Sub-Fund**

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

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;

- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);
- (c) make short sales unless (i) the liability of the relevant Sub-Fund to deliver securities does not exceed 10% of its latest available Net Asset Value; (ii) the security which is to be sold short is actively traded on a Securities Market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;
- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the relevant Sub-Fund which is unlimited. For the avoidance of doubt, the liability of Unitholders of a Sub-Fund is limited to their investments in that Sub-Fund;
- (g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class;
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Sub-Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Schedule 1.

### 3. **Feeder Funds**

A Sub-Fund which is a feeder fund may invest 90% or more of its total Net Asset Value in a single collective investment scheme ("**underlying scheme**") in accordance with the following provisions –

- (a) such underlying scheme ("**master fund**") must be authorised by the SFC;

- (b) no increase in the overall total of initial charges, redemption charges, management fees, or any other costs and charges payable to the Manager or any of its connected persons borne by the Unitholders or by the feeder fund may result, if the master fund in which the feeder fund invests is managed by the Manager or by a connected person of the Manager;
- (c) notwithstanding proviso (C) to sub-paragraph 1(g) of this Schedule 1, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in sub-paragraphs 1(g)(i) and (ii) and proviso (A), (B) and (C) to sub-paragraph 1(g) of this Schedule 1.

#### **4. Use of financial derivative instruments**

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

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

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

4.2 A Sub-Fund may also acquire financial derivative instruments for non-hedging purposes (“**investment purposes**”) subject to the limit that such Sub-Fund’s net exposure relating to these financial derivative instruments (“**net derivative exposure**”) does not exceed 50% of its latest available Net Asset Value provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative

instruments acquired for hedging purposes under sub-paragraph 4.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 4.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

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

engagement of third party service. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Sub-Fund's initiative. Further, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

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

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

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

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

## **5. Securities financing transactions**

- 5.1 A Sub-Fund may engage in securities financing transactions, provided that they are in the best interests of Unitholders of such Sub-Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.
- 5.2 A Sub-Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.
- 5.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions, shall be returned to the Sub-Fund.
- 5.4 A Sub-Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Sub-Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

## **6. Collateral**

In order to limit the exposure to each counterparty as set out in sub-paragraphs 4.4(c) and 5.2 of this Schedule 1, a Sub-Fund may receive collateral from such counterparty, provided that the collateral complies with the requirements set out below:

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

- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. A Sub-Fund’s exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the relevant Sub-Fund shall be subject to the following requirements:
  - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers’ acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;

- (ii) non-cash collateral received may not be sold, re-invested or pledged;
- (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in 8.2(f) and 8.2(n) of the Code;
- (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions;
- (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

## 7. **Borrowing and Leverage**

The expected maximum level of leverage of each Sub-Fund is as follows:

### Cash borrowing

- 7.1 No borrowing shall be made in respect of a Sub-Fund which would result in the principal amount for the time being of all borrowings made for the account of the relevant Sub-Fund exceeding an amount equal to 10% of the latest available Net Asset Value of the relevant Sub-Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 7.1.

### Leverage from the use of financial derivative instruments

- 7.2 A Sub-Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the relevant Appendix.

- 7.3 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the relevant Sub-Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.
- 7.4 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

**8. Name of Sub-Fund**

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