



**SWS STRATEGIC INVESTMENT FUNDS**  
**Shenyin Wanguo RMB Mainland Investment Fund**

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**EXPLANATORY MEMORANDUM**

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February 2023

## **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 Sub-Funds – Shenyin Wanguo China Policy Focus Fund, Shenyin Wanguo RMB Mainland Investment Fund and Shenyin Wanguo RQFII A Share Strategy 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 Sub-Funds nor does it guarantee the commercial merits of the Fund and the Sub-Funds or their performance. It does not mean the Fund or the Sub-Funds are suitable for all investors nor is it an endorsement of their suitability for any particular investor or class of investors.

No action has been taken to permit an offering of Units or the distribution of this Explanatory Memorandum (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.

## TABLE OF CONTENTS

<u>Heading</u>	<u>Page Number</u>
ADMINISTRATION.....	1
DEFINITIONS .....	2
INTRODUCTION.....	8
INVESTMENT OBJECTIVE.....	8
MANAGEMENT AND ADMINISTRATION OF THE FUND .....	8
CLASSES OF UNITS.....	11
DEALING DAY AND DEALING DEADLINE.....	11
PURCHASE OF UNITS.....	11
REDEMPTION OF UNITS .....	15
SWITCHING BETWEEN CLASSES / SUB-FUNDS .....	19
VALUATION .....	21
INVESTMENT AND BORROWING RESTRICTIONS .....	25
RISK FACTORS.....	25
EXPENSES AND CHARGES.....	43
TAXATION.....	47
REPORTS .....	49
DISTRIBUTION POLICY .....	50
VOTING RIGHTS .....	50
PUBLICATION OF PRICES.....	51
TRANSFER OF UNITS.....	51
COMPULSORY REDEMPTION OR TRANSFER OF UNITS .....	52
TRUST DEED .....	52
TERMINATION OF THE FUND OR ANY SUB-FUND.....	52
ANTI-MONEY LAUNDERING REGULATIONS .....	54
CONFLICTS OF INTEREST.....	54
LIQUIDITY RISK MANAGEMENT.....	56
CERTIFICATION FOR COMPLIANCE WITH FATCA OR OTHER APPLICABLE LAWS.....	57
POWER TO DISCLOSE INFORMATION TO TAX AUTHORITIES .....	57
PERSONAL DATA.....	58
DOCUMENTS AVAILABLE FOR INSPECTION.....	58
APPENDIX I - SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND .....	59
SCHEDULE 1 - INVESTMENT RESTRICTIONS .....	85

## **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

### **QFI Custodian**

Bank of Communications Co., Ltd.  
188 Yin Cheng Zhong Road  
Shanghai 200120  
The People's Republic of China

### **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**

Liang Jun  
Shen Chong  
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
- “Bond Connect”** as defined in the joint announcement of the People’s Bank of China and the Hong Kong Monetary Authority dated 16 May 2017, means an arrangement that establishes mutual bond market access between Hong Kong and Mainland China. Eligible foreign investors can invest in the China interbank bond market through Northbound Trading of the Bond Connect
- “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

<b>“China”, “Mainland China” or “PRC”</b>	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
<b>“China A-Shares”</b>	Means shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in Renminbi and available for investment by domestic (Chinese) investors, holders of the qualified foreign investors (QFI) status and foreign strategic investors approved by the China Securities Regulatory Commission
<b>“China B-Shares”</b>	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
<b>“China H-Shares”</b>	Means shares issued by companies incorporated in the PRC and listed on the Hong Kong Stock Exchange
<b>“China Red Chips”</b>	Means shares issued by companies based in the PRC which is incorporated internationally and listed on the Hong Kong Stock Exchange
<b>“China Securities”</b>	Means PRC 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)
<b>“Code”</b>	Means the Code on Unit Trusts and Mutual Funds
<b>“connected person”</b>	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</li> </ul>



capital of the Manager or being able to exercise, directly or indirectly, 20% or more of the total votes in the Manager; or

- (b) any person, company or fund controlled by a person who or which meets one or both of the descriptions given in (a); or
- (c) any member of the group of which the Manager forms part; or
- (d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above

**“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

<b>“Investment Delegate”</b>	Means an entity that has been delegated the investment management function of all or part of the assets of a Sub-Fund, the details of which are as specified in the relevant Appendix (if applicable)
<b>“Issue Price”</b>	Means in respect of each Sub-Fund the issue price per Unit as more fully described in the section “Purchase of Units”
<b>“Manager”</b>	Means Shenwan Hongyuan Asset Management (Asia) Limited
<b>“Net Asset Value”</b>	Means the net asset value of the Fund or a Sub-Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed “Valuation”
<b>“QFI”</b>	Means qualified foreign investors (including, if applicable, qualified foreign institutional investors (“ <b>QFII</b> ”) and Renminbi qualified foreign institutional investors (“ <b>RQFII</b> ”)) approved pursuant to the relevant PRC regulations (as amended from time to time)
<b>“QFI Holder”</b>	Means Shenwan Hongyuan (International) Holdings Limited in its capacity as a QFI holder
<b>“Qualified Exchange Traded Funds”</b>	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>

<b>“Redemption Price”</b>	Means the price at which Units will be redeemed as more fully described in the section headed “Redemption of Units”
<b>“REIT”</b>	Means real estate investment trusts
<b>“reverse repurchase transactions”</b>	Means transactions whereby a 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
<b>“RMB” or “Renminbi”</b>	Means renminbi, the lawful currency of the PRC
<b>“sale and repurchase transactions”</b>	Means transactions whereby a 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 a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee
<b>“SFC”</b>	Means the Securities and Futures Commission of Hong Kong
<b>“SFO”</b>	Means the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571)
<b>“Sub-Fund”</b>	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

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

## **INTRODUCTION**

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), Investment Delegate(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), Investment Delegate(s) and investment adviser(s) will be borne by the Manager.

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

### **LIANG Jun**

Mr. Liang Jun has been appointed as the Executive Director and Chief Executive Officer of Shenwan Hongyuan (Hong Kong) Co., Ltd. since June 12, 2021. Mr. Liang joined Shenwan Hongyuan Group in June 2019 and was appointed as the deputy general manager of the group and the head of the global capital market business line in February 2021. Mr. Liang used to work in the Risk Management Department, General Manager Office and Fixed Income Department of CITIC Securities Co., Ltd., and the Equity Capital Market Department of CITIC Securities Co., Ltd., and has accumulated nearly 15 years of working experience in the securities business field. Mr. Liang holds a master's degree in finance from Nankai University, and is also a Chartered Financial Analyst (CFA) and a Financial Risk Manager (FRM).

### **SHEN Chong**

Mr. Shen Chong has been appointed Chief Executive Officer of Shenwan Hongyuan Asset Management (Asia) Ltd. and Head of Asset Management Division of Shenwan Hongyuan (Hong Kong) since March 2020. Mr. Shen has previous work experience at Credit Suisse (Hong Kong) Ltd., and Bank of China International (Asia) Ltd., He was also appointed Deputy General Manager of Ping An of China Securities (Hong Kong) Company Ltd. and served as head of Asset Management department and Investment Banking Division. Mr Shen has in-depth experience and understanding of both banking and asset management industry. Mr. Shen received his Master's degree with a major in Finance from Northumbria University in the UK and his bachelor's degree in business administration from Euro Business College in Germany.

### **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 a Sub-Fund and hold them in trust for the Unitholders of the relevant 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 a 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 QFI Custodian**

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

Bank of Communications Co., Ltd. (“BoComm”), founded in 1908, is one of the oldest banks in China as well as one of the note-issuing banks in modern China. BoComm was listed on the Hong Kong Stock Exchange Limited in June 2005 and on the Shanghai Stock Exchange in May 2007. BoComm currently has 138 domestic branches (including Head Office). BoComm has set up various overseas institutions, comprising of branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau and Ho Chi Ming City and Sydney, Bank of Communications (UK) Co., Ltd., a wholly-owned subsidiary in London and representative office in Taipei.

BoComm has profound experience in custody of different kinds of financial products, and being the primary and/or secondary custodian for various big securities firm and fund houses in China or overseas.

### **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 at a rate of not exceeding 5% of the Issue Price of the relevant Units.

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 non-receipt 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 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, and subject to prior approval of the SFC, payment of redemption proceeds may be deferred, but 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 Holders, 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, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice on the Manager's website: <http://www.swwhyhk.com/>. Please note that this website has not been reviewed by the SFC.

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 to the interests of the Unitholders of the relevant Sub-Fund.

#### **Securities Lending, Sale and Repurchase 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. Investments in emerging markets will be sensitive to any change in political, social or economic development in the region. Many emerging countries have historically been subject to political instability which may affect the value of securities in emerging markets to a significant extent. As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The securities markets of some of the emerging countries in which a Sub-Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. The securities markets of developing countries are not as large as the more established securities markets and have a substantially lower trading volume. Investment in such markets will be subject to risks such as market suspension, restrictions on foreign investment and control on repatriation of capital.

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. Interest rates may be affected by various factors such as the PRC monetary policy. For instance, at times of economic downturn, a loose monetary policy may be employed in lowering interest rates and generating further economic activity. Conversely, during times of rising inflation, tight monetary policy may be implemented by increasing interest rates. These changes in interest rates will in turn affect the value of the fixed income instruments which the Sub-Fund invests.

- (xi) ***Credit rating downgrading risk*** - The credit ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations. For example, the rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is often a time lag in updating the credit ratings in response to recent credit events.

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 unrated securities risk*** - A Sub-Fund may invest in securities which are below investment grade or which are unrated. Investors should note that such securities would generally be considered to have a higher credit risk, liquidity risk and a greater possibility of default than more highly rated securities. The ability of the issuer to make timely interest and principal payments will be especially susceptible to uncertainties and adverse changes in its financial conditions. If the issuer of securities defaults, or such securities cannot be redeemed, or perform badly, investor may suffer substantial losses. Further, the market for these securities may be less active, making it more difficult to sell the securities at a price or time that the Sub-Fund wishes to do so. Valuation of these securities is more difficult. The values of these securities tend to be more volatile and sensitive to individual issuer developments and general economic conditions than the values of higher rated securities. As a result, the relevant Sub-Fund's prices may be more volatile.

In particular, the value of lower-rated or unrated corporate bonds is affected by investors' perceptions. When economic conditions appear to be deteriorating, or where an adverse event happens to the issuer (e.g. credit rating downgrading), lower rated or unrated corporate bonds may decline in market value due to investors' heightened concerns and perceptions over credit quality." 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 China A-Shares, Renminbi denominated corporate and government bonds issued by PRC tax resident enterprises (together “PRC Securities”), a Sub-Fund may be subject to taxes imposed by the PRC.

#### Corporate Income Tax (“CIT”):

If the Sub-Fund is considered a PRC tax resident, it will be subject to PRC CIT at 25% on its worldwide taxable income. If the Sub-Fund is considered a non-PRC tax 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.

It is the intention of the Manager to manage and operate the affairs of the Manager as a RQFII and the relevant Sub-Fund such that they would not be treated as PRC tax resident enterprise or non-PRC tax resident enterprise with a PE in the PRC for PRC CIT purpose, although this cannot be guaranteed. Any PRC WIT imposed on a RQFII in respect of the PRC securities invested by the relevant Sub-Fund will be passed on to the Sub-Fund and the asset value of the Sub-Fund will be reduced accordingly.

#### *Interest*

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 interests derived from RMB denominated corporate bonds issued by PRC tax residents by a foreign investor which is a non-tax resident enterprise without a PE in China for PRC CIT purposes. The entity distributing such interests is required to withhold WIT. Under the PRC CIT Law, interests derived from PRC government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council are exempt from PRC CIT. Further, under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the

"China-HK Arrangement"), the WIT charged on interests received by the non-resident holders of debt instruments (including enterprises and individuals) will be 7% of the gross amount of the interests, if the Hong Kong tax residents are beneficial owners under the China-HK Arrangement and other relevant conditions are satisfied. In practice, due to the practical difficulties in demonstrating that the relevant Sub-Fund is the beneficial owner of the interest income received, the Sub-Fund is generally not entitled to the reduced WIT rate of 7%. In general, the prevailing WIT rate of 10% should be applicable to the relevant Sub-Fund.

On 7 November 2018, the Ministry of Finance of the PRC ("MOF") and the PRC State Taxation Administration ("STA") jointly issued Caishui [2018] No.108 ("Notice 108") to stipulate that foreign institutional investors are temporarily exempt from PRC WIT with respect to bond interest income received from 7 November 2018 to 31 December 2025 from investments in China bond market. As this exemption granted under Notice 108 is temporary, it is uncertain whether such exemption policy would be extended after 31 December 2025.

#### *Dividend*

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, non-PRC tax resident enterprises without a PE in the PRC are subject to WIT, generally at a rate of 10% on dividend income arising from investments in the PRC securities. The entity distributing such dividends is required to withhold WIT on behalf of the recipients. The Sub-Fund is subject to WIT at 10% on dividends received from China A-Shares.

#### *Capital Gain*

##### Trading of China A-Shares

The MOF, STA and the China Securities Regulatory Commission (the "CSRC") issued the "Notice on the temporary exemption of Corporate Income Tax on capital gains derived from the transfer of PRC equity investment assets such as PRC domestic stocks by QFII and RQFII" Caishui [2014] No.79 on 14 November 2014 (the "Notice No. 79").

Notice No. 79 states that (a) PRC corporate income tax will be imposed on gains obtained by QFIIs and RQFIIs from the transfer of PRC equity investment assets

(including China A-Shares) derived prior to 17 November 2014 in accordance with laws, and (b) QFIIs and RQFIIs, which do not have an establishment or place of business in the PRC or have an establishment or place of business in the PRC but the income so derived in China is not effectively connected with such establishment, will be temporarily exempt from PRC CIT on gains derived from the trading of PRC equity investment (including China A-Shares) effective from 17 November 2014. As the exemption granted under Notice 79 is temporary, it is uncertain how long the temporary exemption will last.

#### Trading of PRC debt securities

Under current PRC tax law, there are no specific rules or regulations governing the taxation on capital gains derived by foreign investors from trading of PRC debt securities.

In the absence of specific taxation rule, the tax treatment for investment in these securities is governed by the general taxing provisions of the PRC CIT Law. Under such general taxing provision, for an enterprise that is not a tax resident enterprise and has no PE in the PRC for CIT purpose, a 10% PRC WIT would potentially apply to its PRC-sourced capital gains derived from the disposal of these securities.

Pursuant to Article 7 of the Detailed Implementation Regulations of PRC CIT Law, where the property concerned is a movable property, the source shall be determined according to the location of the enterprise, establishment or place which transfers the property. The PRC tax authorities have verbally indicated that debt instruments issued by PRC tax resident enterprises are movable property. In this case, the source shall be determined based on the location of the transferor. As the Sub-Fund is located outside the PRC, gains derived by the Sub-Fund from Renminbi denominated debt instruments issued by PRC tax resident enterprises could be argued as offshore source and thus not subject to PRC WIT. However, there is no written confirmation issued by the PRC tax authorities that the debt instruments issued by PRC tax resident enterprises are movable property.

In addition to the verbal comments, Article 13.6 of the China-HK Arrangement provides that gains derived by a Hong Kong tax resident from transfer of PRC properties that are not referred to in Articles 13.1 to 13.5 of the China-HK Arrangement shall be taxable only in Hong Kong. As the debt instruments issued by the PRC tax resident enterprises



are not referred to in Articles 13.1 to 13.5 of the China-HK Arrangement, capital gains derived by the Hong Kong tax resident from the disposal of debt instruments issued by the PRC tax resident enterprises shall technically be exempt from PRC WIT provided that all the other relevant treaty conditions are satisfied, subject to the agreement by the PRC tax authorities. In order to qualify for this preferential treatment, the Manager will further assess and seek agreement from the PRC tax authorities in relation to the relevant Sub-Fund, although this cannot be guaranteed.

However, as a matter of practice, the 10% WIT has not been strictly enforced by local tax bureau on capital gains derived by non-PRC tax resident enterprises from the trading of these securities.

#### Value Added Tax (“VAT”) and other surtaxes

The MOF and STA 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 VAT at 6% shall be levied on the difference between the selling and buying prices of those marketable securities, e.g. China A-Shares, unless there is specific exemption. In addition, if VAT is applicable, there are also other local surtaxes (including Urban Maintenance and Construction Tax, Educational Surcharge and Local Educational Surcharge) that could amount to as high as 13% of the VAT payable.

Under Notice 36 and the “Supplementary Notice Jointly issued by the MOF and STA on VAT Policies for Inter-bank Financial Transactions by 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.

Pursuant to Notice 36, interest income derived from bonds issued by PRC tax resident enterprise should be subject to 6% VAT plus local surtaxes, unless specifically exempted. Interest income received from PRC government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council are exempted from VAT.

Notice 36 and Notice 70 do not specifically exempt VAT on interest income earned by QFIIs / RQFIIs or foreign investors. Hence, interest on non-government bonds (including corporate bonds) technically should be subject to 6% VAT. According to Notice 108, foreign institutional investors are temporarily exempt from PRC VAT with respect to bond interest income received from 7 November 2018 to 31 December 2025 from investments in the China bond market. As this exemption granted under Notice 108 is temporary, it is uncertain whether such exemption policy would be extended after 31 December 2025.

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

#### General:

The Manager's current policy on tax provisions is set out in the Appendix for the relevant Sub-Fund.

It should be noted that the prevailing PRC regulations specified the tax exemption on capital gains derived from the trading of China A-Shares from 17 November 2014 onwards as well as the tax exemption on bond interest derived from China bond market is temporary. The potential application of tax treaties is uncertain.

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.

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. If the actual tax levied by the PRC tax authorities is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the relevant Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund. On the other hand, the actual tax liabilities may be lower than the tax provision made, in which case only the then existing Unitholders will benefit from a return of the extra tax provision. Those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision.

Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units in/from the relevant Sub-Fund.

The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the withholding policy of the Sub-Fund accordingly.

Unitholders should seek their own advice on their tax position with regards to their investment in any Sub-Fund.

(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**– 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) **Distribution out of Capital** – Under the Trust Deed, distributions of the Sub-Fund may be paid from income and/or capital of the Sub-Fund. The Sub-Fund or the Manager may at its discretion pay dividend out of the capital of the Sub-Fund. Investors should note

that the payment of dividends out of capital represents and amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the Sub-Fund's capital may result in an immediate reduction of the Net Asset Value per Unit. The Sub-Fund or the Manager may amend the Sub-Fund's distribution policy with respect to payment of dividend out of the capital of the Sub-Fund subject to the SFC's prior approval and by giving not less than one month's prior notice to investors.

(xxvi) **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.

(xxvii) **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.

(xxviii) *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 1GEDFG.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, Investment Delegate(s) and investment adviser to which it has appointed. Any such sub-manager, Investment Delegate(s) 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 each Sub-Fund which is based on the Net Asset Value of the relevant Sub-Fund subject to a maximum rate of 1.0% of the Net Asset Value of the relevant Sub-Fund per annum and a minimum monthly fee of USD4,000 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 relevant 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.

#### Custodian Fee

The QFI Custodian is entitled to (among others) transaction charges at customary market rates and a Custodian Fee at the rate set out in the Appendix for the relevant Sub-Fund. Such fees will be calculated monthly and will be paid monthly in arrears, out of the assets of each Sub-Fund. The QFI Custodian will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of its duties.

The maximum Custodian Fee (excluding the transaction charges) is 0.5% of the Net Asset Value of the relevant Sub-Fund per annum. The QFI Custodian will also be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of its duties wholly and exclusively in respect of the Fund and/or the Sub-Fund(s). Any increase in this fee will only be implemented after giving one month's notice (or such longer period of notice as the SFC may require) to the affected Unitholders.

#### Establishment Costs

The establishment costs of the Shenying Wanguo RMB Mainland Investment 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 SFC's Code on Unit Trusts and Mutual Funds.

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 Delegate (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 Delegate (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 Delegate (if any) and/or any of their connected persons goods or services for which no direct payment is made but instead the Manager, the Investment Delegate (if any) and/or any of their connected persons undertakes 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; (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 Delegate (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 may 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 the 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**

Whether distribution of dividends will be made in respect of a Sub-Fund is set out in the Appendix of the relevant Sub-Fund.

Investors should note that dividends, if declared, may be paid from income and/or capital of the Sub-Fund. Please refer to the “Distribution out of Capital” sub-section in the section headed “Risk Factors” for details of the risks associated with distribution of dividends out of capital.

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 on the Manager's website: <http://www.swhyhk.com/>. Please note that this website has not been reviewed by the SFC.

### **TRANSFER OF UNITS**

Subject as provided below, Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee.

The 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 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 Delegate (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 relevant 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, the Investment Delegate (if any) 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 a Sub-Fund and the Manager, the Investment Delegate (if any) 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 transacting with brokers or dealers connected to the Manager, the Investment Delegate (if any), the Trustee or any of their connected persons, the Manager must ensure that it complies with the following obligations:

- (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 relevant 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 RMB Mainland Investment Fund**

This Appendix comprises information in relation to Shenyin Wanguo RMB Mainland Investment Fund, a Sub-Fund of the Fund.

### **Definitions**

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

### **Application Moneys**

Applicants for Units should note that application moneys for this Sub-Fund must be paid in RMB.

### **Base Currency**

The base currency of the Sub-Fund is RMB.

### **Investment Objective and Policy**

#### Investment Objective

The investment objective of the Sub-Fund is to provide medium to long term capital appreciation by investing primarily in RMB-denominated and settled debt securities issued in the PRC through Bond Connect and the QFI status of the QFI Holder.

#### Investment Strategy

The Sub-Fund will invest not less than 80% of its Net Asset Value in (A) RMB- denominated and settled debt securities issued in the PRC which include, but are not limited to government treasury, local government bond, financial bond, central bank paper, enterprise bond, listed company bond, medium term note, commercial paper and convertible bonds and (B) fixed income funds which are authorised by the China Securities Regulatory Commission (“CSRC”) for offer to the retail public in the PRC.



In addition, the Sub-Fund may invest up to 20% of its Net Asset Value in (A) RMB denominated and settled equity securities (i.e. China A-Shares) which are listed on the Beijing, Shanghai or Shenzhen Stock Exchanges or other eligible mainland China onshore markets through the QFI status of the QFI Holder and (B) equity funds which are authorised by the CSRC for offer to the retail public in the PRC. In particular, the Sub-Fund may invest in the ChiNext Board of the Shenzhen Stock Exchange and the Science and Technology Innovation Board of the Shanghai Stock Exchange.

Notwithstanding the above, the Sub-Fund's investment in both fixed income funds and equity funds which are authorised by the CSRC for offer to the retail public in the PRC will not in aggregate exceed 10% of the Net Asset Value of the Sub-Fund.

The debt securities in which the Sub-Fund may invest include those which are issued by the PRC Central Government, local governments of the PRC, local government financing vehicles, financial issuers and corporate issuers. These debt securities may comprise of bonds which are traded on the PRC interbank bond market and/or the PRC exchange bond market.

Where appropriate, the Sub-Fund may invest up to 100% of the Sub-Fund's Net Asset Value in urban investment bonds (城投債) (i.e. debt instruments issued by local government financing vehicles ("LGFVs") in China and traded on the exchange bond market and interbank bond market). These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for local development, public welfare investment and infrastructure projects.

There is no minimum credit rating requirement in respect of the debt securities that the Sub-Fund may invest. Depending on the Manager's discretion, the Sub-Fund may invest in below investment grade or unrated bonds. For the purpose of the Sub-Fund, investment grade bonds are bonds rated BBB- or above while below investment grade bonds are bonds rated BB+ or below. The rating should be carried out by any credit rating agencies that have been recognised or permitted by the PRC authorised authority in conducting credit rating activities. When investing in bonds, the Manager will first consider the credit rating of the bond itself and only if such credit rating is not available, the Manager will then consider the credit rating of its issuer as the implied credit rating of the bond. If neither the bond nor its issuer has a credit rating, the bond would be classified as unrated. The exposure to bonds rated below investment grade or unrated bonds can be up to 100% of the Sub-Fund's Net Asset Value. Below investment grade or unrated bonds are subjected to greater risk because of generally lower credit worthiness and

liquidity, greater fluctuation in value and higher chance of default than investment grade bonds. For details, please refer to the risk factor headed “Below investment grade and unrated securities risk” in the main part of the Explanatory Memorandum.

The Sub-Fund will not invest in debt securities issued outside PRC. The Sub-Fund will not invest in derivative instruments, structured products, structured deposits or asset backed securities (including asset backed commercial papers) for hedging or non-hedging purposes.

The Sub-Fund’s fundamental investment strategy is value-oriented, counter-balanced with prudent reward-risk portfolio management.

In the initial strategic asset allocation stage, the Manager will adopt a top-down approach in deciding the Sub-Fund’s allocation for each asset class (e.g. bond, equities and cash). Depending on asset allocation, bond weights will range from 80% to 100%, whilst equity and cash weights will range from 0% to 20%. This approach is premised on fundamental factors such as value, current prices, potential worth, economic cycle, liquidity, bond-equity yield gap, monetary and fiscal conditions, government policy and risk factors. The Manager will also consider the weightings of the Sub-Fund exposure to diverse industries on both the aggregate bond and equity levels.

In addition, the Manager will adopt a bottom-up approach in security selection level. The Manager will consider both the upside potential as well as downside risk of intended investments in securities. In instances where the rewards out-weigh the risks, the security will then be invested. Selected securities will be aggregated together at the portfolio level to examine the correlation with the other securities as well as assessing the overall portfolio’s characteristics, volatility, tracking error against any benchmark index and under different market conditions.

In the selection of debt securities (e.g. bonds), the following are important considerations for investment decisions: macroeconomic cycle, interest rate trends, currency outlook, current and expected inflation, monetary and fiscal policy, liquidity, yield, credit risk of downgrading or default, duration, term structure and sector allocation. The Sub-Fund may invest in the debt securities with different maturity dates ranging from less than a year to above 10 years. For example, during a foreseeable rising interest rate environment, the debt strategy will adopt a relatively shorter duration (i.e. investing in bonds with shorter remaining tenure), so as to re-set quickly and regularly to higher yields. During a foreseeable declining interest rate environment, the debt strategy would focus on a relatively longer duration (i.e. by investing in

bonds with longer remaining tenure). In a sustainable healthy business up cycle, with little risk of credit downgrade or default, strategy would be to shift to lower quality credit issues to maximize yield pick-up (a strategy known as flight from safety). In a difficult challenging business environment with heightened risk of credit downgrade or default, the prudent debt strategy would be to invest in higher credit safer names (a strategy known as flight to safety).

Whilst on the equities portion, important strategies employed by the Manager can be capital biased, income (dividend) biased, tactical biased etc. Investment decisions can be influenced by: growth potential, mis-pricing, potential for corporate action (merger, acquisition, takeover), higher cashflow generation, high dividend payout and merger arbitrage etc.

#### *Indicative Asset Allocation of the Portfolio of the Sub-Fund*

The indicative allocation of the non-cash assets of the portfolio is as follows (as a percentage of the net assets of the Sub-Fund):

- (i) Debt securities and fixed income funds - 80% - 100%
- (ii) Equity securities and equity funds – 0 - 20%

#### *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.

### **Overview of the PRC Debt Securities Market**

The PRC bond market consists of three markets: (i) the interbank bond market regulated by the People's Bank of China and functions as a wholesale market for institutional investors; (ii) the exchange bond market regulated by the China Securities Regulatory Commission ("CSRC") and targets non-bank institutions and individuals investors; and (iii) the bank over-the-counter market regulated by the People's Bank of China ("PBOC") and targets non-financial institutions and individual investors. However, the current size and trading volume of the bank

over-the-counter market is much smaller than the interbank bond market and the exchange bond market.

The China Central Depository and Clearing Co. Ltd (“**CDC**”) acts as the central custodian of all marketable RMB bonds. For the exchange bond market, it adopts a two-level custody system, with the CDC acting as the primary custodian and the China Securities Depository and Clearing Corporation Limited (“**CSDCCL**”) acting as the secondary custodian.

The main features of the different PRC bond markets are set out in the table below.

	<b>Interbank Bond Market</b>	<b>Exchange Bond Market</b>
Size	In 2018, 96% of all bond transactions (Data source: www.chinabond.cn; www.sse.com.cn; www.szse.com.cn)	In 2018, 4% of all bond transactions (Data source: www.chinabond.cn; www.sse.com.cn; www.szse.com.cn)
Major types of products being traded	Government bonds, central bank bills, financial bonds, enterprise bonds, commercial papers, mid-term notes, asset backed securities, panda bonds (i.e. RMB-denominated bonds issued by international financial institutions within the boundaries of China)	Government bonds, listed company bonds, enterprise bonds, convertible bonds, asset backed securities
Key market participants	Institutional investors (such as commercial banks, securities firms, funds and trust investment companies), QFIs	Individuals and non-bank institutions (such as insurance companies and funds), QFIs
Trading and settlement mechanism	Trades through bilateral negotiation and settle trade-for-trade; settlement cycle: T+0 or T+1	Centralised trade matching with netting settlement; settlement cycle: T+1
Regulator(s)	People’s Bank of China	China Securities Regulatory Commission
Counterparty	The trading counterparty	China Securities Depository and Clearing Corporation Limited acting as the central counterparty to all

		securities transactions on the Shanghai and Shenzhen Stock Exchanges
Central Clearing Entity (if any)	The China Central Depository and Clearing Co. Ltd or Shanghai Clearing House, depending on the type of securities	China Securities Depository Clearing Corporation Limited
Liquidity of Market	High	Medium to low
Associated Risks	Counterparty risk Credit risk of bond issuers Liquidity risk	Counterparty risk Credit risk of bond issuers Liquidity risk
Minimum rating requirements (if any)	No minimum rating requirement	AA for the exchange trading platform which is accessible by QFIs; no minimum rating requirement for the electronic trading platform

The common types of debt securities and their issuers are set out below.

<b>Debt Securities</b>	<b>Issuer</b>
Central Bank Notes/Bills	People's Bank of China
Government Bonds, Treasury Bonds	Ministry of Finance
Policy Bank Bonds	three policy banks (China Development Bank, Agriculture Development Bank of China, and The Export-Import Bank of China)
Enterprise Bonds (企業債)	enterprises (mostly state-owned)
Commercial Paper (短期融資券) / Medium-Term Notes (中期票據)	non-financial enterprises
Corporate Bonds (公司債)	corporations

The yield of the major RMB denominated instruments issued in the PRC was in the range of 2.00% to 2.78% as at 31 December 2021 (Source: [www.chinabond.com.cn](http://www.chinabond.com.cn)). However, investors should note that this is not an indication of the expected return of the Sub-Fund. There

is no assurance that the Sub-Fund's return will be correlated with the expected yield of its underlying investments.

### **PRC Credit Rating Agencies**

Some global rating agencies (such as Moody's, Standard & Poor's and Fitch) assign ratings to Chinese treasury bonds and non-treasury bonds denominated in foreign currencies.

The major domestic credit rating agencies in China include:

- Dagong Global Credit Rating Co., Ltd;
- China Chengxin International Credit Rating Co., Ltd (in partnership with Moody's);
- China Chengxin Security Rating Co., Ltd;
- China Lianhe Credit Rating Co., Ltd (in partnership with Fitch Ratings);
- Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.

The domestic ratings agencies mainly provide credit ratings to publicly listed and interbank market bonds. The definition and methodology of ratings vary among domestic credit agencies.

As with other global rating agencies, they apply quantitative method and qualitative methods in their rating. Such credit ratings are subject to the credit rating agency's evaluation of the likelihood that the issuer will fulfil its repayment obligations. In contrast with international rating agencies, domestic credit rating agencies may take into account additional factors such as the importance of the corporate to the PRC central and local government and the potential support from the government. Rating information and reports are available on the websites of the relevant credit rating agencies and other financial data providers.

### **Qualified Foreign Investors ("QFI")**

Currently it is intended that the Sub-Fund will obtain exposure to China A-Shares, Renminbi denominated debt securities or other permissible investments primarily by using the QFI status of Shenwan Hongyuan (International) Holdings Limited as the QFI Holder, which has obtained the QFI status in the PRC. The QFI Holder is the holding company of the Manager. The Sub-Fund will invest through the QFI status of the QFI Holder, acting through the Manager as its asset management arm.

The Trustee has appointed Bank of Communications Co., Ltd. as the QFI Custodian in respect of the QFI assets, pursuant to relevant laws and regulations. Please refer to the section headed “Management and Administration of the Fund – The QFI Custodian” for details of the QFI Custodian.

Securities including China A-Shares, Renminbi denominated debt securities or other PRC Securities will be maintained by the QFI Custodian pursuant to PRC regulations through securities account(s) with the China Securities Depository and Clearing Corporation Limited in such name as may be permitted or required in accordance with PRC law.

Investors should pay attention to the sections headed “Custodial risk” under the “Risk Factors” section and “QFI risk”, “Custodial risk” and “PRC brokerage risk” under the “Specific Risk Factors” section.

The Manager has obtained an opinion from PRC legal counsel in respect of investment via the RQFII regime to the effect that, as a matter of PRC laws:

- (a) securities account(s) and RMB cash accounts with the QFI Custodian (respectively, the “securities account(s)” and the “cash accounts”) shall be opened for the sole benefit and use of the Sub-Fund in accordance with all applicable laws and regulations of the PRC and with approval from all competent authorities in the PRC;
- (b) the assets held or credited in the securities account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager, the QFI Holder, the QFI Custodian, any PRC Broker(s), and from the assets of other clients of the Manager, the QFI Holder, the QFI Custodian and any PRC Broker(s);
- (c) the assets held or credited in the cash accounts (i) become an unsecured debt owing from the QFI Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager, the QFI holder and any PRC broker(s), and from the assets of other clients of the Manager, the QFI holder and any PRC Broker(s);
- (d) the Trustee for and on behalf of the Sub-Fund is the only entity which has a valid claim over the assets in the securities account(s) and the debt in the amount deposited in the cash accounts of the Sub-Fund;

- (e) if any of the Manager, the QFI Holder or the PRC Broker(s) is liquidated, the assets contained in the securities account(s) and cash accounts of the Sub-Fund will not form part of the liquidation assets of the Manager, the QFI Holder or such PRC Broker(s) in liquidation in the PRC; and
- (f) if the QFI Custodian is liquidated, (i) the assets contained in the securities account(s) of the Sub-Fund will not form part of the liquidation assets of the QFI Custodian in liquidation in the PRC, and (ii) the assets contained in the cash accounts of the Sub-Fund will form part of the liquidation assets of the QFI Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the cash accounts.

Further, the Trustee has put in place proper arrangements to ensure that:

- (i) the Trustee takes into its custody or under its control the assets of the Sub-Fund, including assets deposited in the securities and cash accounts with the QFI Custodian, and holds the same in trust for the Unitholders;
- (ii) the Trustee registers the assets of the Sub-Fund, including assets deposited in the securities account(s) and cash accounts with the QFI Custodian, to the order of the Trustee; and
- (iii) the QFI Custodian will look to the Trustee for instructions and solely act in accordance with such instructions, save as otherwise required under applicable regulations.

Although the Manager is not the holder of QFI licence, the QFI Holder is the holding company of the Manager. The Manager will be responsible for ensuring that all transactions and dealings will be dealt with in compliance with the Trust Deed (where applicable) as well as the relevant laws and regulations applicable to the QFI Holder. If any conflicts of interest arise, the Manager will have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly.

## **Bond Connect**



Currently it is intended that the Sub-Fund will obtain exposure to debt securities traded in the Mainland China interbank bond market (“China Interbank Bond Market”) via Bond Connect.

Foreign institutional investors (such as the Sub-Fund) can invest in the China Interbank Bond Market via the Bond Connect. Bond Connect was launched in July 2017 for mutual bond market access between Hong Kong and Mainland China (“Bond Connect”) established by China Foreign Exchange Trade System & National Interbank Funding Centre (“CFETS”), China Central Depository and Clearing Co., Ltd, Shanghai Clearing House, and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit.

Bond Connect is governed by rules and regulations as promulgated by the Mainland Chinese authorities. Such rules and regulations may be amended from time to time and include (but are not limited to):

- (i) the “Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong (Decree No.1 [2017])” (內地與香港債券市場互聯互通合作管理暫行辦法(中國人民銀行令[2017]第 1 號)) issued by the PBOC on 21 June 2017;
- (ii) the “Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect” (中國人民銀行上海總部“債券通”北向通境外投資者准入備案業務指引) issued by the Shanghai Head Office of PBOC on 22 June 2017; and
- (iii) any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in Mainland China, eligible foreign investors will be allowed to invest in the bonds circulated in the China Interbank Bond Market through the northbound trading of Bond Connect (“Northbound Trading Link”). There will be no investment quota for Northbound Trading Link.

Under the Northbound Trading Link, eligible foreign investors are required to appoint the CFETS or other institutions recognised by the PBOC as registration agents to apply for registration with the PBOC.

Pursuant to the prevailing regulations in Mainland China, an offshore custody agent recognised by the Hong Kong Monetary Authority (currently, the Central Moneymarkets Unit) shall open omnibus nominee accounts with the onshore custody agent recognised by the PBOC (currently, the China Central Depository & Clearing Co., Ltd and Shanghai Clearing House). All bonds

traded by eligible foreign investors will be registered in the name of Central Moneymarkets Unit, which will hold such bonds as a nominee owner.

Investors should pay attention to the sections headed “Risks associated with Bond Connect” under the “Specific Risk Factors” section.

### **PRC Tax Provisions**

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

The Manager assesses the WIT provisioning of the Sub-Fund on an on-going basis. In order to meet the potential tax liability on investment income arising from investment in PRC securities, the Sub-Fund reserves the right to provide for PRC WIT on investment income and withhold the tax for the account of the Sub-Fund.

In light of the foregoing, Notice 36, Notice 70, Notice 79, Notice 108 and other PRC tax laws, regulations and practices, the Manager will at present implement the following PRC tax provisioning policy:

1. The Sub-Fund will not make WIT provision for gross realised and unrealised capital gains from trading of PRC equity investment assets (including China A-Shares) on or after 17 November 2014.
2. The Sub-Fund will not make WIT provision for gross realised and unrealised capital gains derived from trading of PRC debt securities.
3. The Sub-Fund will make a WIT provision of 10% on interests received from RMB denominated debt instruments issued by PRC tax resident enterprises if the relevant tax is not withheld at source, except (i) PRC government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council and (ii) interest income from investments in PRC onshore bonds received for the period from 7 November 2018 to 31 December 2025.
4. The Sub-Fund will make a WIT provision of 10% on dividends derived from China A-Shares if the relevant tax is not withheld at source.

5. The Sub-Fund will make a provision of 6.72% on interests from RMB denominated debt instruments issued by PRC tax residents for VAT and local surtaxes if the relevant tax is not withheld at source, except (i) PRC government bonds which are issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council and (ii) interest income from investment in PRC onshore bonds received for the period from 7 November 2018 to 31 December 2025.

It should be noted that the corporate income tax exemption under Notice 79 and the WIT and VAT exemption on bond interest under Notice 108 is temporary. As such, as when the PRC tax authorities announce the expiry date of the exemption, the Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value of the Sub-Fund.

For the above reasons, any PRC WIT provision made by the Manager in respect of the Sub-Fund may be less than the Sub-Fund's actual tax liabilities. It should also be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively. In view of the above uncertainties, investors should note that the level of provision may be inadequate to meet actual PRC tax liabilities on investments made by the Sub-Fund.

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

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

The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the withholding policy of the Sub-Fund accordingly.

Unitholders should seek their own tax advice on their tax position with regard to their investments in the Sub-Fund.

### **Use of Derivatives**

The Sub-Fund will not use financial derivative for any purposes.

### **Specific Risk Factors**

Investors should refer to the relevant risks under the section headed “Risk Factors” in the main part of the Explanatory Memorandum, including “Interest rate risk”, “Settlement risk”, “Custodial risk”, “Risks of investing in IPO of securities”, “PRC market risk”, “Concentration risk”, “Risk of termination”, “Below investment grade and unrated securities risk”, “PRC tax considerations”, “Renminbi exchange risk”, “Emerging market risk”, “Restricted market risk” and “Valuation risk” and the following specific risk factors for the Sub-Fund:

1. ***Investment risk*** - The Sub-Fund mainly invests in RMB denominated debt securities and these instruments may fall in value. Investors may suffer losses as a result. The Sub-Fund is not principal guaranteed and the purchase of its Units is not the same as investing directly in the relevant RMB-denominated debt securities or placing RMB funds on deposit with a bank. There is also no guarantee of dividend or distribution payments during the period an investor holds the Units of the Sub-Fund.
2. ***China market / Single country investment*** – Insofar as the Sub-Fund invests substantially in securities issued in mainland China, it will be subject to risks inherent in the China market and additional concentration risks. Please refer to the risk factors headed “PRC market risk” and “Concentration risk” in the main part of the Explanatory Memorandum.
3. ***Renminbi currency risk*** – Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub-Fund’s or the investors’ position may be adversely affected.

Investors subscribe for Units and receive redemption proceeds in RMB. There is no assurance that RMB will not be subject to devaluation due to change in Renminbi policies described above or other factors, in which case the value of their investments will be adversely affected. If investors convert Hong Kong Dollar or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into Hong Kong Dollar or any other currency, they may suffer a loss if RMB depreciates against Hong Kong Dollar or such other currency.

4. ***QFI risk*** - The Sub-Fund is not a QFI but it may obtain access to China A-Shares, Renminbi denominated debt securities or other permissible investments directly through a QFI. The Sub-Funds may invest directly in QFI eligible securities investment via the QFI status of Shenwan Hongyuan (International) Holdings Limited (the “QFI Holder”), which is the holding company of the Manager. The following risks are relevant to the QFI regime:

*Risks regarding QFI status*

Investors should note that QFI status could be suspended or revoked, which may have an adverse effect on the Sub-Fund’s performance as the Sub-Fund may be required to dispose of its securities holdings.

Investors should also note that there can be no assurance that a QFI will continue to maintain its QFI status, or that redemption requests can be processed in a timely manner due to regulations on repatriation or adverse changes in relevant laws or regulations. Such restrictions may respectively result in a rejection of applications and a suspension of dealings of the Sub-Fund. In extreme circumstances, the Sub-Fund may incur significant losses due to limited investment capabilities, or may not be able to fully implement or pursue its investment objective or strategy, due to QFI investment restrictions, illiquidity of the Mainland China domestic securities market, and/or delay or disruption in execution of trades or in settlement of trades.

The rules and restrictions under QFI regulations generally apply to the QFI as a whole and not simply to the investments made by the Sub-Fund. Relevant Mainland China regulators are vested with the power to impose regulatory sanctions if the QFI or the QFI Custodian violates any provision of the QFI rules. Any violations could result in the revocation of the QFI’s licence or other regulatory sanctions and may adversely impact on the investment by the Sub-Fund.

### *Repatriation and liquidity risks*

In addition, certain restrictions imposed by the Chinese government on QFIs may have an adverse effect on such Sub-Fund's liquidity and performance. The PBOC and the State Administration of Foreign Exchange ("SAFE") regulate and monitor the remittance and repatriation of funds out of the PRC by the QFI pursuant to relevant regulations governing QFI. Repatriation by QFIs in respect of the Sub-Fund are not subject to any restrictions, lock-up periods or prior approval, although an authenticity and compliance review will be conducted by the QFI Custodian on each time of repatriation and a monthly breakdown of remittances and repatriations will be submitted to SAFE by the QFI Custodian. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may adversely impact on the Sub-Fund's ability to meet redemption requests from the Unitholders. Furthermore, as the QFI Custodian will review the authenticity and the compliance of each repatriation, the repatriation may be delayed or even rejected by the QFI Custodian if it reasonably believes that the repatriation is unauthentic or incompliant with the QFI rules and regulations. In such case, it is expected that redemption proceeds will be paid to the redeeming Unitholder as soon as practicable after the completion of the repatriation of funds concerned. It should be noted that the actual time required for the completion of the relevant repatriation will be beyond the Manager's control.

5. ***Securities and Cash deposited with the QFI Custodian*** - Investing in the PRC through a QFI will be subject to custodial risk of the QFI Custodian appointed for purpose of safekeeping assets in the PRC. The Sub-Fund may incur losses due to defaults, acts or omissions of the QFI Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities. Investors should note that cash deposited in the cash accounts of the Sub-Fund with the QFI Custodian will not be segregated but will be a debt owing from the QFI Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash that belongs to other clients or creditors of the QFI Custodian. In the event of bankruptcy or liquidation of the QFI Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash accounts, and the Sub-Fund will become an unsecured creditor, ranking *pari passu* with all other unsecured creditors, of the QFI Custodian. The Sub-Fund may face difficulty and/or encounter delays in

recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer losses.

6. ***Application of QFI rules*** - The QFI rules are subject to frequent changes which may have potential retrospective effect and their application may depend on the interpretation given by the relevant Chinese authorities. In addition, there can be no assurance that the QFI laws, rules and regulations will not be abolished. Investment products (such as the Sub-Fund) which make investments pursuant such QFI rules are among the first of its kind. Any changes to the relevant rules may have an adverse impact on investors' investment in the Sub-Fund. In the worst scenario, the Manager may determine that the Sub-Fund shall be terminated if it is not legal or viable to operate the Sub-Fund because of changes to the application of the relevant rules.
7. ***Credit risk of issuers / counterparties*** – Investment in RMB denominated debt securities is subject to the counterparty risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. RMB denominated debt securities are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of the debt securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

Some of the RMB denominated debt securities that the Sub-Fund invests may be unrated. In general, debt securities that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. Please refer to the risk factor headed "Below investment grade and unrated securities risk" in the main part of the Explanatory Memorandum. In the event of a default or credit rating downgrading of the issuers, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against such issuers as they may be incorporated outside Hong Kong and subject to foreign laws.

In addition, the Sub-Fund may invest in securities the credit ratings of which are assigned by the PRC local credit rating agencies. However, the rating criteria and methodology used by such agencies may be different from those adopted by most of the established international credit rating agencies. Therefore, such rating system may not

provide an equivalent standard for comparison with securities rated by international credit rating agencies.

8. ***The interbank bond market*** – The interbank bond market is a quote-driven over-the-counter (OTC) market, where deals are negotiated between two counterparties through a trading system. It will be subject to risks associated with OTC markets, including counterparty default risks. For example, the counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

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

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

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

For investments via the Bond Connect, the relevant filings, registration with PBOC and account opening have to be carried out via an onshore settlement agent, offshore custody agent, registration agent or other third parties (as the case may be). As such, the Sub-Fund is subject to the risks of default or errors on the part of such third parties.

Investing in the China Interbank Bond Market via Bond Connect is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant



Mainland Chinese authorities suspend account opening or trading on the China Interbank Bond Market, the Sub-Fund's ability to invest in the China Interbank Bond Market will be adversely affected. In such event, the Sub-Fund's ability to achieve its investment objective will be negatively affected.

Trading through Bond Connect is performed through newly developed trading platforms and operational systems. There is no assurance that such systems will function properly or will continue to be adapted to changes and developments in the market. In the event that the relevant systems fails to function properly, trading through Bond Connect may be disrupted. The Sub-Fund's ability to trade through Bond Connect (and hence to pursue its investment strategy) may therefore be adversely affected. In addition, where the Sub-Fund invests in the China Interbank Bond Market through Bond Connect, it may be subject to risks of delays inherent in the order placing and/or settlement systems.

There are risks and uncertainties associated with the current mainland China tax laws, regulations and practice in respect of investing in the China Interbank Bond Market via Bond Connect on the Sub-Fund's investments in the Mainland China (which may have retrospective effect). Any increased tax liabilities on the Sub-Fund may adversely affect the Sub-Fund's value.

10. ***Risk related to convertible bonds*** – This Sub-Fund may invest in convertible bonds, which shares similar characteristics and nature of debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. Convertible bonds are subject to the credit, interest rate and market risks stated above associated with both debt and equity securities and any risk specific to convertible bonds, Convertible bonds may also be subject to lower liquidity than the underlying equities. Therefore, investors should be prepared for greater volatility than straight bond investments, with an increased risk of capital loss, but with the potential of higher returns.
11. ***Credit rating downgrading risk*** – There is no minimum credit rating requirement in respect of the debt securities that the Sub-Fund may invest in. Investors should note that the debt securities invested by the Sub-Fund may subsequently be downgraded after acquisition and the Manager may or may not dispose of the securities. In the event of downgrading in the credit ratings of a security, the Sub-Fund may be subject to higher credit, liquidity and volatility risks. In addition, the Sub-Fund's investment value in such security may be adversely affected.

12. ***Risk associated with urban investment bonds*** – In view of limitations on directly raising funds, local governments in the PRC have set up numerous entities known as “Local Government Financing Vehicles” (LGFVs) to borrow and fund local development, public welfare investment and infrastructure projects. Urban investment bonds are issued by LGFVs. Local governments may be seen to be closely connected to urban investment bonds, as they are shareholders of the LGFVs issuing such bonds. However, urban investment bonds are typically not guaranteed by the relevant local governments or the central government of the PRC. As such, local governments or the central government of the PRC are not obliged to support any LGFVs in default. The LGFVs’ ability to repay debts depends on various factors, including the nature of the business of such LGFVs, the financial strength of such LGFVs and the extent to which the relevant local governments are prepared to support such LGFVs. Slower revenue growth at some local governments may constrain their capacity to provide support, while regulatory constraints may also limit local governments' ability to inject land reserves into LGFVs. Further, local governments have taken on debt in various other forms, and recent analyses show that increased financing activities have posed a risk to local government finances. If a LGFV encounters financial difficulties, without the local government’s support, there is a risk of possible defaults by the LGFV. This could result in substantial losses in the Sub-Fund’s investments in debts issued by such LGFV, and as a result, the Sub-Fund’s Net Asset Value will be adversely affected.
13. ***Liquidity risk*** - The RMB denominated debt securities in which the Sub-Fund invests may not be listed on a stock exchange or a securities market where trading is conducted on a regular basis. Even if the RMB denominated debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such securities.

The price at which the debt securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. Further, the bid and offer spread of the price of debt securities in which the Sub-Fund invests may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments.

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

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

15. **Custodial risk**– Where a Sub-Fund invests in China A-Shares, Renminbi denominated debt securities or other QFI eligible securities through the QFI status of a QFI, such securities will be maintained by a custodian bank (“QFI Custodian”) appointed by the QFI pursuant to PRC regulations through a securities account with the China Securities Depository and Clearing Corporation Limited in the joint names of the QFI and the Sub-Fund. If the QFI Custodian default, or suffer insolvency or are disqualified by the relevant PRC authorities, the Sub-Fund may suffer a substantial or even a total loss.

16. **China A-Share market risks** – The China A-Share markets are undergoing developments. The existence of a liquid trading market for China A-Shares may depend on whether there is supply of, and demand for, such China A-Shares. The price at which securities may be purchased or sold by the Sub-Fund and the Net Asset Value of the Sub-Fund may be adversely affected if trading markets for China A-Shares are limited or absent. The China A-Share market may be more volatile and unstable (for example, due to the risk of suspension of a particular stock or government intervention). Market volatility and settlement difficulties in the China A-Share markets may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Sub-Fund.

Securities exchanges in China typically have the right to suspend or limit trading in any security traded on the relevant exchange. In particular, trading band limits are imposed by the stock exchanges in China on China A-Shares. Trading in any China A-Share security on the relevant stock exchange may be suspended if the trading price of the security has increased or decreased to the extent beyond the trading band limit. A

suspension will render it impossible for the Manager to liquidate positions and can thereby expose the Sub-Fund to significant losses. Further, when the suspension is subsequently lifted, it may not be possible for the Manager to liquidate positions at a favourable price. The suspension in the China A-Share markets may also affect the dealings in the Sub-Fund and cause delay in payment of redemption proceeds to investors. Where the Sub-Fund invests in such China A-Share security, this may adversely impact the performance of the Sub-Fund and investors may suffer substantial losses.

It is part of the Sub-Fund's investment strategy that the Manager may make a relatively large number of smaller trades in the China A-Share markets. Given the same-day turnaround trades in the China A-Share markets are not permitted, there is no assurance that the Manager may implement this investment strategy to its fullest extent and this may unfavourably affect the performance of the Sub-Fund.

- 17. Risks associated with the Beijing Stock Exchange, the ChiNext market and/or the STAR Board** – Investments in the Beijing Stock Exchange, the ChiNext market and/or the STAR Board may result in significant losses for the Sub-Fund and its investors. Such investments are subject to the following risks:

*Higher fluctuation on stock prices and liquidity risk:* Listed companies on the Beijing Stock Exchange, the ChiNext market and/or STAR Board are usually innovative and growth enterprises of emerging nature with smaller operating scale. Listed companies on the Beijing Stock Exchange, ChiNext market and STAR Board are subject to wider price fluctuation limits, and due to higher entry thresholds for investors may have limited liquidity, compared to other boards. Hence, companies listed on the Beijing Stock Exchange, ChiNext market and STAR Board are subject to higher fluctuation in stock prices and liquidity risks and have higher risks and turnover ratios than companies listed on the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Due to different trading rules, daily price movements shall be limited to 30% on the Beijing Stock Exchange and 20% on the ChiNext market and the STAR Board. Therefore the securities traded on these markets may be subject to a higher volatility risk than securities of relevant sectors traded in the other China A-share markets.

*Over-valuation risk:* Stocks listed on the Beijing Stock Exchange, ChiNext market and/or STAR Board may be overvalued and such exceptionally high valuation may not be sustainable. Stock price may be more susceptible to manipulation due to fewer circulating shares.

*Differences in regulation applicable to the Beijing Stock Exchange, ChiNext market and STAR Board:* The rules and regulations regarding companies listed on the Beijing Stock Exchange, ChiNext market and STAR Board are less stringent in terms of profitability and share capital than those in the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

*Delisting risk:* It may be more common and faster for companies listed on the Beijing Stock Exchange, ChiNext market and/or STAR Board to delist. Beijing Stock Exchange, ChiNext market and STAR Board have stricter criteria for companies to maintain their listing status compared to the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange. This may have an adverse impact on the Sub-Fund if the companies that it invests in are delisted.

*Concentration risk applicable to the Beijing Stock Exchange and STAR Board:* The Beijing Stock Exchange and STAR Board are newly established and may have a limited number of listed companies during the initial stage. Investments in the Beijing Stock Exchange and STAR Board may be concentrated in a small number of stocks and subject the Sub-Fund to higher concentration risk.

18. ***Risk of investing in collective investment schemes*** - Whilst the Sub-Fund may invest in funds approved by the CSRC and offered to the public in the PRC, these are not regulated by the SFC. In addition to the Expenses and Charges charged by the Sub-Fund, investor should note that there are additional fees involved when investing into these underlying funds, including fees and expenses charged by investment manager of these underlying funds as well as fees payable by the Sub-Fund during its subscription to or redemption from these underlying funds. Furthermore, there can be no assurance that 1) the liquidity of the underlying funds will always be sufficient to meet redemption request as and when made; and 2) investment objective and strategy will be successfully achieved despite the due diligence procedures undertaken by the Manager and the selection and monitoring of the underlying funds. If the Sub-Fund invests in an underlying fund managed by the Manager or Connected Person of the Manager, potential conflict of interest may arise. Please refer to the section headed "Conflicts of Interest" for details under the circumstances.
  
19. ***Other risks*** - Investors should note the relevant PRC tax considerations that apply to the Sub-Fund. Investors should also refer to the relevant risk factors in the main part of the

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

### Available Classes

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

<b>Class</b>	<b>Class Currency</b>
Class A	RMB

The following class of Units is offered to institutional investors:

<b>Class</b>	<b>Class Currency</b>
Class I	RMB

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

### Investment Minima

Minimum Subscription Amount	<b>Class A:</b> RMB10,000 <b>Class I:</b> RMB10,000,000
Minimum Subsequent Subscription Amount	<b>Class A:</b> RMB5,000 (or at multiples of RMB5,000) <b>Class I:</b> RMB100,000
Minimum Holding	<b>Class A:</b> Units with aggregate minimum value of RMB10,000 <b>Class I:</b> Units with aggregate minimum value of RMB10,000,000
Minimum Redemption Amount	<b>Class A:</b> Not applicable <b>Class I:</b> Not applicable

## Fees

<b><i>Fees payable by investors</i></b>	
Initial Charge (% of Subscription Amount)	<b>Class A and Class I Units:</b> up to 5%
Redemption Charge (% of Redemption Amount)	<b>Class A and Class I Units:</b> Nil
Switching Charge (% of the amount being switched out of the existing class)	<b>Class A and Class I Units:</b> up to 1%
<b><i>Fees payable by the Sub-Fund</i></b>	
Annual Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A Units:</b> 1.2% p.a. <b>Class I Units:</b> 0.5% 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 USD4,000 for each class of Units
Custodian Fee (% Net Asset Value of the Sub-Fund)	Up to 0.5% p.a. (excluding transaction charges)

## Establishment Costs

The costs of establishment of the Sub-Fund have been described in the main part of the Explanatory Memorandum.

## Dealing Day

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

## Dealing Deadline

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**

The Manager may declare dividends on a quarterly basis in March, June, September and December each year (or at more frequent intervals at the discretion of the Manager) in respect of the Sub-Fund. The Manager may at its discretion pay dividends out of capital of the Sub-Fund.

Investors should note that payment of dividends out of capital amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the Sub-Fund’s capital may result in an immediate reduction of the Net Asset Value per Unit. Please refer to the “Distribution out of Capital” sub-section in the section headed “Risk Factors” for details of the risks associated with distribution of dividends out of capital.

The compositions of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months are available from the Manager upon request and on the website of the Manager at <http://www.swhyhk.com/>. Please note that the aforesaid website has not been reviewed by the SFC.

The Sub-Fund or the Manager may amend the Sub-Fund’s distribution policy set out above with respect to payment of dividends out of the capital of the Sub-Fund subject to the SFC’s prior approval and by giving not less than one month’s prior notice to investors.

### **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.

### **Documents Available for Inspection**

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

- (i) the RQFII Custodian Agreement between the QFI Holder and the QFI Custodian; and
- (ii) the Participation Agreement between the QFI Holder, the Manager, the Trustee and the QFI Custodian.

## **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. Subject to the foregoing statement, 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.

C2; Note to 7.30(b)
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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.