

**ChinaAMC Mackenzie Global Strategic Income Fund**

a Sub-Fund of

**ChinaAMC Investment Trust**

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**EXPLANATORY MEMORANDUM**

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December 2019

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## **IMPORTANT INFORMATION FOR INVESTORS**

Important: If you are in any doubt about the contents of this Explanatory Memorandum, you should consult your stockbroker, bank manager, accountant, solicitor or other independent financial adviser.

ChinaAMC Investment Trust (the “Trust”) is an umbrella unit trust established by a trust deed dated 7 October 2010 between Citigroup First Investment Management Limited (as the previous manager) and Cititrust (Cayman) Limited (as the previous trustee), as amended from time to time, including by (i) a Deed of Retirement and Appointment of the Manager (as defined below), (ii) a Deed of Retirement and Appointment of the Trustee (as defined below), (iii) an amended and restated trust deed dated 28 July 2017 amending and restating the trust deed (the “2017 Amended and Restated Trust Deed”), and (iv) an amended and restated trust deed dated 6 December 2019 amending and restating the trust deed (the “2019 Amended and Restated Trust Deed”) (collectively the “Trust Deed”).

By way of an eighth supplemental deed relating to the retirement and appointment of manager, Citigroup First Investment Management Limited retired as manager of the Trust and China Asset Management (Hong Kong) Limited (the “Manager”) was appointed as manager of the Trust, both with effect from 28 July 2017 (the “Deed of Retirement and Appointment of the Manager”). By way of a separate ninth supplemental deed relating to the retirement and appointment of trustee and the removal of the Trust from the Cayman Islands to Hong Kong, Cititrust (Cayman) Limited retired as trustee of the Trust and Cititrust Limited (the “Trustee”) was appointed as trustee of the Trust, both with effect from 28 July 2017 (the “Deed of Retirement and Appointment of the Trustee”). The Trust was initially established as an exempted trust under the laws of the Cayman Islands, and the Trustee declared in the Deed of Retirement and Appointment of the Trustee, that with effect from 28 July 2017, the Trust shall take effect in accordance with the laws of Hong Kong and the laws of Hong Kong shall be the governing law of the Trust. This Explanatory Memorandum comprises information relating to the ChinaAMC Mackenzie Global Strategic Income Fund, a Sub-Fund of the Trust, established pursuant to a tenth supplemental deed dated 28 September 2018 between the Manager and the Trustee.

The Manager and its directors accept full responsibility for the information contained in this Explanatory Memorandum as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information misleading. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to the date of its publication. This Explanatory Memorandum may from time to time be updated.

Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum should be regarded as unauthorised and accordingly must not be relied upon.

The Manager of the Trust and the Fund is China Asset Management (Hong Kong) Limited, a company incorporated in Hong Kong. China Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong (the “SFC”). The SFC can be contacted at 35/F, Cheung Kong Center, 2 Queen’s Road, Central, Hong Kong.

The Trustee of the Trust and the Fund is Cititrust Limited, a company incorporated with limited liability in Hong Kong.

This Explanatory Memorandum may refer to information and materials included in websites. Such information and materials do not form part of this Explanatory Memorandum and they have not been reviewed by the SFC.

Any investor enquiries or complaints should be submitted in writing to the Manager's office (37/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong) and the Manager will issue a response within 14 Business Days of receipt of the enquiry or complaint.

#### Distribution and selling restrictions

Hong Kong: ChinaAMC Mackenzie Global Strategic Income Fund (the "Fund") has been authorised by the SFC under Section 104 of the Securities and Futures Ordinance of Hong Kong. SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Singapore: The offer or invitation of the Units in the Fund, which is the subject of this Explanatory Memorandum, does not relate to a collective investment scheme which is authorised under section 286 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA" or the "Act") or recognised under section 287 of the SFA. The scheme is not authorised or recognised by the Authority and Units are not allowed to be offered to the retail public. This Explanatory Memorandum and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the Act and, accordingly, statutory liability under the Act in relation to the content of prospectuses does not apply, and the offeree should consider carefully whether the investment is suitable for him.

This Explanatory Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore (as used in the paragraph above, the "Authority"). Accordingly, this Explanatory Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Units may not be circulated or distributed, nor may Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under section 304 of the SFA, (ii) to a relevant person pursuant to section 305(1) of the SFA or any person pursuant to section 305(2) of the SFA, and in accordance with the conditions specified in section 305 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of any other applicable provision of the SFA.

Where Units are subscribed or purchased under section 305 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Units pursuant to an offer made under section 305 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in section 305(5) of the SFA, or to any person pursuant to an offer referred to in section 275(1A) or section 305A(3)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;

- (4) as specified in section 305A(5) of the SFA; or
- (5) as specified in Regulation 36 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

Investment products are not deposits and are not subject to the provision of the “Deposit Insurance and Policy Owners’ Protection Schemes Act 2011 (Cap 77B)” of the republic of Singapore nor eligible for deposit insurance coverage under the deposit insurance scheme.

General: No action has been taken in any jurisdiction (other than Hong Kong and Singapore) that would permit an offering of the Units or the possession, circulation or distribution of this Explanatory Memorandum or any other offering or publicity material relating to the offering of Units in any other country or jurisdiction where action for the purpose is required. This Explanatory Memorandum does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation.

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 U.S. Person (defined as (i) an individual who is a United States citizen, a US green card holder, or a resident of the United States for U.S. federal income tax purposes, (ii) a corporation or partnership organised under the laws of the United States or any political subdivision thereof, or (iii) an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source);
- (b) Units will not be issued to a person who is a U.S. Person (as defined above) for U.S. federal income tax purposes and Unitholders will be required to notify the Trustee within 60 days of any change of status; and
- (c) the Fund has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

Prospective applicants for the Units should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

## **DIRECTORY**

|                                     |  |
|-------------------------------------|--|
| <b>Manager</b>                      | China Asset Management (Hong Kong) Limited<br>37/F, Bank of China Tower<br>1 Garden Road<br>Central, Hong Kong<br><br>Telephone No.: +852 3406 8688<br>Fax No.: +852 3406 8500 |
| <b>Directors of the Manager</b>     | YANG Minghui<br>ZHANG Xiaoling<br>GAN Tian<br>LI Min<br>LI Yimei   |
| <b>Investment Adviser</b>           | Mackenzie Financial Corporation<br>180 Queen Street West<br>Toronto, Ontario<br>M5V-3K1<br>Canada  |
| <b>Trustee</b>                      | Cititrust Limited<br>50/F, Champion Tower<br>Three Garden Road<br>Central, Hong Kong   |
| <b>Transfer Agent</b>               | Citicorp Financial Services Limited<br>9/F, Citi Tower<br>One Bay East<br>83 Hoi Bun Road<br>Kwun Tong<br>Kowloon, Hong Kong   |
| <b>Custodian and Administrator</b>  | Citibank, N.A. Hong Kong Branch<br>50/F, Champion Tower<br>Three Garden Road<br>Central, Hong Kong   |
| <b>Legal Counsel to the Manager</b> | Simmons & Simmons<br>30/F One Taikoo Place<br>979 King's Road<br>Hong Kong   |
| <b>Auditors</b>                     | PricewaterhouseCoopers<br>22/F, Prince's Building<br>Central<br>Hong Kong  |

## **DEFINITIONS**

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

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| <b>“A Shares”</b>         | means shares issued by companies incorporated in the PRC and listed on the SSE or the SZSE, traded in RMB;   |
| <b>“Administrator”</b>    | means Citibank, N.A. Hong Kong Branch;   |
| <b>“Base Currency”</b>    | means, in respect of the Fund, the US Dollar;  |
| <b>“Business Day”</b>     | means a day (other than a Saturday or 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 agree from time to time, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day will not be a Business Day unless the Manager and the Trustee determine otherwise;  |
| <b>“China” or “PRC”</b>   | means the People’s Republic of China, excluding for the purposes of interpretation only, Hong Kong and Taiwan;   |
| <b>“Class”</b>            | means each class of Units within the Fund;   |
| <b>“Connected Person”</b> | <p>in relation to a company means:</p> <ul style="list-style-type: none"><li>(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or</li><li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or</li><li>(c) any member of the group of which that company forms part; or</li><li>(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c);</li></ul> |
| <b>“CSDCC”</b>            | means the China Securities Depository and Clearing Co., Ltd (中國證券登記結算有限公司) of the PRC;   |
| <b>“CSRC”</b>             | means the China Securities Regulatory Commission;  |
| <b>“Custodian”</b>        | means Citibank, N.A. Hong Kong Branch;   |
| <b>“Dealing Day”</b>      | <p>means:</p> <ul style="list-style-type: none"><li>(a) each Business Day, except any Business Day, determined at the Manager’s discretion, on which any exchange or market on which a substantial portion of the Fund’s investments is traded is closed or on which dealings are restricted or suspended; or</li><li>(b) such other day as the Manager may determine from time to time with</li></ul>   |

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the approval of the Trustee;

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| <b>“Dealing Deadline”</b>                       | means 4:00 pm (Hong Kong time) on the relevant Dealing Day;   |
| <b>“entities within the same group”</b>         | means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.  |
| <b>“FDI”</b>                                    | means financial derivative instrument;  |
| <b>“Fund”</b>                                   | means ChinaAMC Mackenzie Global Strategic Income Fund, a Sub-Fund of the Trust;   |
| <b>“Government and other Public Securities”</b> | has the meaning as set out in the Code.   |
| <b>“HKD Units”</b>                              | means Units comprising the Class(es) which is/are denominated in Hong Kong Dollars;   |
| <b>“HKEx”</b>                                   | means Hong Kong Exchanges and Clearing Limited or its successors;   |
| <b>“HKSCC”</b>                                  | means the Hong Kong Securities Clearing Company Limited or its successors;  |
| <b>“Hong Kong”</b>                              | means the Hong Kong Special Administrative Region of the People’s Republic of China;  |
| <b>“Hong Kong Dollars” or “HKD” or “HK\$”</b>   | means the currency of Hong Kong;  |
| <b>“IFRS”</b>                                   | International Financial Reporting Standards issued by the International Accounting Standards Board;   |
| <b>“Initial Offer Period”</b>                   | means the period from 9:00 a.m. (Hong Kong time) on 29 October 2018 to 4:00 p.m. (Hong Kong time) on 6 November 2018, or such other dates or times as the Manager may determine;  |
| <b>“Investment Adviser”</b>                     | means Mackenzie Financial Corporation, or such other person or persons for the time being duly appointed as investment delegate or investment delegates of the Fund in succession thereto that has been delegated the investment management function of the Fund; |
| <b>“Manager”</b>                                | means China Asset Management (Hong Kong) Limited;   |
| <b>“Net Asset Value”</b>                        | means the net asset value of the Fund, of a Class or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised under the section headed “Valuation” below;  |
| <b>“QFII”</b>                                   | means a qualified foreign institutional investor approved pursuant to the relevant PRC regulations as amended from time to time;  |
| <b>“reverse repurchase transactions”</b>        | means transactions whereby the Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future;  |



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| <b>“RMB”</b>                               | means Renminbi Yuan, the currency of the PRC;   |
| <b>“RMB Units”</b>                         | means Units comprising the Class(es) which is/are denominated in RMB;   |
| <b>“RQFII”</b>                             | means a Renminbi qualified foreign institutional investor approved pursuant to the relevant PRC regulations as amended from time to time;   |
| <b>“SAFE”</b>                              | means the State Administration of Foreign Exchange of the PRC;  |
| <b>“sale and repurchase transactions”</b>  | means transactions whereby the Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future;  |
| <b>“securities lending transactions”</b>   | means, collectively, securities lending transactions, sale and repurchase transactions and reverse repurchase transactions;   |
| <b>“securities financing transactions”</b> | means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee;  |
| <b>“SEHK”</b>                              | means The Stock Exchange of Hong Kong Limited or its successors;  |
| <b>“SFC”</b>                               | means the Securities and Futures Commission of Hong Kong;   |
| <b>“SFO”</b>                               | means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;   |
| <b>“SSE”</b>                               | means the Shanghai Stock Exchange;  |
| <b>“Sub-Fund”</b>                          | means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed;  |
| <b>“Subscription Price”</b>                | means the price at which Units may be issued as described in the section headed “Purchase of Units” below;  |
| <b>“SZSE”</b>                              | means the Shenzhen Stock Exchange;  |
| <b>“Transfer Agent”</b>                    | means Citicorp Financial Services Limited;  |
| <b>“Trust”</b>                             | means ChinaAMC Investment Trust;  |
| <b>“Trust Deed”</b>                        | means the trust deed establishing the Trust entered into by Citigroup First Investment Management Limited (as the previous manager) and Cititrust (Cayman) Limited (as the previous trustee), as amended from time to time, including by the Deed of Retirement and Appointment of the Trustee, the Deed of Retirement and Appointment of the Manager, the 2017 Amended and Restated Trust Deed and the 2019 Amended and Restated Trust Deed; |
| <b>“Trustee”</b>                           | means Cititrust Limited;  |
| <b>“Unit”</b>                              | means a unit in a Class representing a certain number or fraction of undivided shares in the Fund, and, except where used in relation to a particular Class, a reference to Units means and includes Units of all Classes. The number of undivided shares represented by each Class is adjusted to take account of the different terms of issue of the different  |

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|                                 | Classes;  |    |
| <b>“Unitholder”</b>             | means a person registered as a holder of a Unit;  |    |
| <b>“Unit Realisation Price”</b> | means the price at which Units may be realised as described in the section headed “Payment of Realisation Proceeds” below;  |    |
| <b>“US Dollars” or “USD”</b>    | means the currency of the United States of America;   |    |
| <b>“USD Units”</b>              | means Units comprising the Class(es) which is/are denominated in US Dollars;  |    |
| <b>“Valuation Day”</b>          | means each Dealing Day; and   | C7 |
| <b>“Valuation Point”</b>        | means such time on the relevant Valuation Day as the Manager with the approval of the Trustee may from time to time determine as at which to calculate the Net Asset Value. |    |

## **INTRODUCTION**

ChinaAMC Investment Trust is an umbrella unit trust established by the Trust Deed. With effect from 28 July 2017, the Trust takes effect in accordance with the laws of Hong Kong and the laws of Hong Kong shall be the governing law of the Trust. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed. c1

The Trust has been established as an umbrella fund and the assets of the Trust are separated into different Sub-Funds. Each Sub-Fund has its own investment objective and policies. More than one class of units may be offered in relation to a particular Sub-Fund, which may have different terms, including different currencies of denomination. A separate portfolio of assets is not maintained for each class. All classes of units relating to the same Sub-Fund are commonly invested in accordance with such Sub-Fund's investment objective.

A separate Net Asset Value per Unit is calculated for each Class. Additional Classes within the Fund and/or additional Sub-Funds may be created in the future.

Information relating to the Fund, including the latest versions of the Fund's offering documentation, circulars, notices, announcements, financial reports, information of past performance of the Fund and the latest available Net Asset Value will be available on the website [www.chinaamc.com.hk](http://www.chinaamc.com.hk)<sup>1</sup>.

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

## **MANAGEMENT OF THE FUND**

### **The Manager**

The Manager is licensed by the SFC for type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

The Manager is a wholly-owned subsidiary of China Asset Management Co., Ltd. ("ChinaAMC"). Established on 9 April 1998 with approval from the China Securities Regulatory Commission (CSRC), ChinaAMC is one of the first nation-wide fund management firms in China and is currently one of the largest fund management company in China in terms of mutual fund assets under management (RMB 1006.6 billion as of 31 December 2018).

The Manager was established in September 2008 as ChinaAMC's first venture in expanding its overseas activities. The Manager is incorporated in Hong Kong. The Manager is now an integral part and extension of ChinaAMC's overseas investment and research team, providing international clients with investment products and services.

Under the Trust Deed, the Manager is responsible for the management of the assets of the Trust and each Sub-Fund. The Manager is also responsible, in conjunction with the Trustee, for the maintenance of the accounts and records of the Trust as well as certain other administrative matters relating to the Trust.

The Manager has delegated to the Investment Adviser the discretionary power in the management of the Fund. The Manager will conduct on-going supervision and regular monitoring of the competence of the Investment Adviser to ensure that the Manager's accountability to investors is not diminished, and although the investment management role of the Manager is sub-contracted to the Investment Adviser, the responsibilities and obligations of the Manager may not be delegated. The remuneration of the Investment Adviser will be borne by the Manager.

### **The Directors of the Manager**

The Directors of the Manager are:

**Mr. YANG Minghui** is currently the Chairman of the Manager and ChinaAMC. He currently also serves as General Manager and an Executive Director of CITIC Securities Co. Ltd. Mr. Yang's previous experiences include Engineer and Deputy Division Head of Beijing Textile Machinery Research Institute; Project Manager of Textile Division in CITIC Industrial Investment Trust Co.; Project Manager of Securities Department of China International Trust & Investment Corporation; Vice General Manager of CITIC Securities Beijing Branch; Director, Assistant General Manager, Vice President of CITIC Securities Ltd; Director and Executive Vice President of CITIC Holdings Ltd.; Director of CITIC Trust Co., Ltd.; Chairman of CITIC-Prudential Fund Management Co., Ltd.; and Executive Director, President, Vice Secretary of Party Committee of China Jianyin Investment Securities Co., Ltd. Mr. Yang received a Master's degree from East China Institute of Textile Science and Technology.

**Mr. ZHANG Xiaoling** is currently the Chief Executive Officer of the Manager and the Deputy Chief Executive Officer of ChinaAMC. Before joining the Manager, Mr. Zhang worked as the Deputy Director-General of Banking Supervision Department III at China Banking Regulatory Commission (CBRC) and a senior risk manager at Morgan Stanley in New York, and an economist at Federal Reserve Board in Washington D.C.. Mr. Zhang holds a Ph.D. in Finance and a Master of Arts degree in Economics, both from University of Maryland College Park in the United States, and a Bachelor degree in Engineering Mechanics from Tsinghua University, PRC.

**Mr. GAN Tian** is currently a Managing Director and Chief Investment Officer of the Manager. Mr. Gan joined ChinaAMC in 2008 as a portfolio manager. Before joining ChinaAMC, Mr Gan has worked in GuotaiJunAn Securities and GuotaiJunan Assets (Asia) Ltd. Mr. Gan holds Master degrees from University of Reading and University of Leicester in the United Kingdom. He also holds a Bachelor's degree from Sichuan University in China.

**Mr. LI Min** is currently a Managing Director and the Chairman of Investment Committee of the Manager. He has close to 25 years of working experience in China securities industry. Before joining the Manager in 2012, Mr. Li

worked as a Managing Director, Head of China Research, Chief China Strategist and Head of Asian Autos and Auto Parts Research of JP Morgan Securities (Asia Pacific) Limited. Prior to that, He has also worked in Indosuez W. I. Carr Securities and China Guotai Securities. Mr. Li holds a Master of Arts degree from Shanghai University of International Business and Economics, and a Bachelor degree in Economics from Jiangsu University of Technology.

**Ms. LI Yimei** is currently the General Manager of China Asset Management Co., Ltd. and a Director of China Asset Management (Hong Kong) Limited, and she also acts as a Director of E-Capital Transfer Co., Ltd concurrently. Ms. LI previously worked as the Deputy General Manager, General Manager of Fund Marketing Department, Director of Sales and Director of Marketing of China Asset Management Co., Ltd. and the Executive Director and General Manager of Shanghai China Wealth Management Company Limited. Ms. Li holds a Bachelor of Economics from Renmin University of China, a Master of Economics from Renmin University of China and a Master in Public Policy from Harvard University.

### **The Investment Adviser**

The Manager has appointed Mackenzie Financial Corporation as investment adviser of the Fund. The Manager has delegated its investment management duties to the Investment Adviser and the Investment Adviser is responsible for the selection and ongoing monitoring of the Fund's investments. The Investment Adviser is registered as (i) Investment Fund Manager in Ontario, Newfoundland and Labrador, and Quebec; (ii) Exempt Market Dealer in all provinces and territories of Canada; (iii) Portfolio Manager in all provinces and territories of Canada; (iv) Commodity Trading Manager in Ontario; (v) Adviser in Manitoba; (vi) Investment Adviser with the U.S. Securities and Exchange Commission.

Mackenzie Financial Corporation is a wholly owned subsidiary of IGM Financial Inc. (TSX:IGM), which is listed at the Toronto Stock Exchange. The Investment Adviser has around CAD 67.81 billion mutual fund assets under management and around CAD 2.9 billion ETF assets under management. It has 14 investment teams with 65 investment professionals to cover mutual funds, ETFs, private wealth solutions and symmetry portfolios. The Investment Adviser tapped into China market by becoming one of the shareholders of ChinaAMC in 2016.

The Investment Adviser was appointed pursuant to an investment advisory management agreement entered into between the Manager and the Investment Adviser. The Investment Adviser's fees will be payable out of the Manager's management fee.

### **The Trustee**

The Trustee of the Trust is Cititrust Limited, which is a registered trust company in Hong Kong. Cititrust Limited is a wholly-owned subsidiary of Citigroup Inc. ("Citigroup"). As a global financial services group, Citigroup and its subsidiaries provide a broad range of financial products and services, including consumer banking, corporate and investment banking, securities brokerage and wealth management to consumers, corporations, governments and institutions.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Trust and the Fund, subject to the provisions of the Trust Deed.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its Connected Persons) to hold as custodian, nominee, agent or delegate all or any of the investments, assets or other property comprised in any Sub-Fund and may empower any such custodian, nominee or agent to appoint, with no objection in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, nominee, agent, co-custodian and sub-custodian a "custodian"). The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and monitoring of such custodians and (b) be responsible during the term of appointment of any custodian for satisfying itself as to the ongoing suitability of such custodian to provide services to the Trust, having regard to the market or markets for which such custodian is appointed. The Trustee shall remain liable for any act or omission of any custodian that is a Connected Person of the Trustee, as if the same were the act or omission of the Trustee, however if the Trustee has discharged its obligations set out in (a) and (b) above, the Trustee shall not be liable for any act or omission of any custodian

that is not a Connected Person of the Trustee. The Trustee has appointed Citibank, N.A. Hong Kong Branch (which also acts as the Trust's Administrator) as the Custodian of the Trust and the Fund. Citibank, N.A. Hong Kong Branch is a Connected Person of the Trustee.

The Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of Euro-clear Clearing System Limited or Clearstream Banking S.A. or any other recognised depository or clearing system which may from time to time be approved by the Trustee and the Manager.

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Fund in respect of all liabilities and expenses incurred in relation to the Fund and against all actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted to be done in any way relating to the Fund, including without limitation, any actions of the Manager, except to the extent that such liability, expense, action, proceeding, cost, claim or demand arises out of the fraud, negligence or wilful default of the Trustee or its officers, employees, agents or delegates.

The Trustee has no duties or functions in relation to the investment of the Fund including, without limitation, the duty to monitor investment performance and ascertain the suitability of investments for Unitholders.

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

The Trustee is entitled to the fees set out below under the section on "Fees payable by the Fund" and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

### **The Custodian**

The Trustee has appointed Citibank, N.A. ("Citibank"), acting through its Hong Kong Branch, as Custodian of the assets of the Trust and the Fund. Citibank is a wholly-owned subsidiary of Citigroup.

Citibank has been a provider of custodial and settlement services to domestic and international clients since its establishment in the United States of America in 1814. Citibank's global custodial network covers all mature and major emerging markets. Citibank began offering securities services in Hong Kong in the mid-1970's and developed a full-blown capability by the mid-1980's. Today, Citibank's Securities and Funds Services business has a global client base of premier banks, fund managers, broker dealers, insurance companies and government entities.

Citibank is licensed by the SFC for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.

### **The Administrator**

The Manager has appointed Citibank as Administrator of the Trust and the Fund. In its capacity as Administrator, Citibank is responsible for certain financial, administrative and other services in relation to the Trust and the Fund, including:

- determining the Net Asset Value and the Net Asset Value per Unit;
- preparing and maintaining the Trust and the Fund's financial and accounting records and statements; and
- assisting in preparing the financial statements of the Trust and the Fund.

### **The Transfer Agent**

C3(g)

The Manager has appointed Citicorp Financial Services Limited as Transfer Agent of the Fund, in which capacity it is responsible for maintaining the register of Unitholders and for processing subscriptions and realisations of Units.

The Transfer Agent will be reimbursed out of the administration fee paid to the Administrator.

## **INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS**

### **Investment objective**

The investment objective of the Fund is to seek income with the potential for long-term capital growth by investing primarily in fixed-income and/or income-oriented equity securities anywhere in the world.

### **Investment strategy**

#### *General*

The Fund will pursue a flexible approach to investing in fixed-income and/or equity asset classes anywhere in the world. The Fund will generally invest 40% to 60% of its Net Asset Value in fixed income securities and 40% to 60% of its Net Asset Value in equity investments. Allocations between asset classes are based on economic conditions and/or the Investment Adviser's assessment of relative valuations.

The investment approach follows a fundamental analysis to identify, select and monitor investments, by performing industry analysis and specific company analysis, including reviewing financial statements and other relevant factors. The Fund does not have a geographical focus, but its investments may from time to time be concentrated in a jurisdiction or region, for example North America. The Fund may invest an aggregate limit of 20% of the Net Asset Value in all onshore Mainland China securities (including equity and fixed income).

#### *Fixed income investments*

Fixed income investments may include, but are not limited to, fixed income securities, corporate bonds, convertible bonds, leveraged loans, preferred shares, and/or government bonds. The Fund does not have a requirement on the credit rating of the underlying fixed income securities. Leveraged loans are loans to companies with below investment grade credit ratings and generally have elevated debt levels. Leveraged loans are typically secured with a lien on the company's assets and are generally senior to the company's other debt. The Fund may invest up to 10% of its Net Asset Value in leveraged loans. The Fund may invest an aggregate limit of 20% of the Net Asset value in non-investment-grade fixed income instruments.

The Fund will access the Mainland China fixed income markets via Bond Connect, the Foreign Access Regime, QFII or RQFII.

The Fund will not invest more than 10% of its Net Asset Value in fixed income investments issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade and/or unrated.

#### *Equity investments*

Income-oriented equity securities in which the Fund may invest may include, but are not limited to, dividend-paying common shares, preferred shares and convertible preferred shares. The Fund will access the Mainland equity markets via Stock Connect, QFII or RQFII.

#### *Others*

The Fund will make use of FDIs for hedging purposes only. The Fund will not invest in collateralised and/or securitised products (such as asset backed securities, mortgage backed securities and asset backed commercial papers). The Fund will not enter into any securities financing transactions or similar over-the-counter transactions. The Fund will not write options. The Fund will not invest in urban investment bonds. Should the Manager and the Investment Adviser decide to enter into such arrangements in the future, this Explanatory Memorandum will be amended to provide details of the arrangements and Unitholders will be provided with not less than one month's prior written notice of the amendment.



## *Stock Connect*

The “Stock Connect” is a securities trading and clearing linked programme developed by the HKEx, the SSE, the SZSE and the CSDCC, with an aim to achieve mutual stock market access between Mainland China and Hong Kong. It comprises the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

The Stock Connect comprises a Northbound Trading Link and a Southbound Trading Link. Under the Northbound Trading Link, Hong Kong and overseas investors (including the Fund), through their Hong Kong brokers and securities trading service companies established by the SEHK and the HKSCC (in Shanghai and Qianhai Shenzhen respectively), are able to trade eligible shares listed on the SSE and the SZSE by routing orders to the SSE and the SZSE (as the case may be). Under the Southbound Trading Link, eligible investors, through PRC securities firms and securities trading service companies established by the SSE and the SZSE respectively, are able to trade eligible shares listed on the SEHK by routing orders to the SEHK.

Eligible securities – Initially, Hong Kong and overseas investors are only able to trade certain stocks listed on the SSE market (the “SSE Securities”) and the SZSE market (the “SZSE Securities”).

SSE Securities include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed A Shares that are not included as constituent stocks of the relevant indices but which have corresponding H Shares listed on the SEHK, except the following:

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

SZSE Securities will include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalisation of not less than RMB 6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except the following:

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

At the initial stage of Shenzhen-Hong Kong Stock Connect, shares listed on the ChiNext Board of SZSE under Northbound Trading Link will be limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares.

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

*Trading day* – Investors (including the Fund) will only be allowed to trade on the other market on days where both markets are open for trading, and banking services are available in both markets on the corresponding settlement days.

*Trading quota* – Trading under the Stock Connect will be subject to a daily quota (“Daily Quota”), which will be separate for Northbound and Southbound trading. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Stock Connect each day. The quotas do not belong to the Fund and are utilised on a first-come-first-serve basis. The SEHK will monitor the quota and publish the remaining balance of the Northbound Daily Quota at scheduled times on the HKEx’s website. The Daily Quota may change in future. The Manager will not notify investors in case of a change of quota.

*Settlement and Custody* – The HKSCC is responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors.

*Corporate actions and shareholders’ meetings* – Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in

respect of such SSE Securities. The HKSCC will monitor the corporate actions affecting SSE Securities and keep the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them. The same arrangement is applicable to SZSE Securities.

*Currency* – Hong Kong and overseas investors (including the Fund) trade and settle SSE Securities and SZSE Securities in RMB only.

Further information about the Stock Connect is available at the website: <http://www.hkex.com.hk/eng/csm/index.htm>.

### *Bond Connect*

Bond Connect is a new initiative 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"), CCDCC, Shanghai Clearing House ("SHCH"), and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit.

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

- 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;
- 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
- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank 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 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 CSDCC and Interbank Clearing Company Limited). 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.

### *Foreign Access Regime*

Pursuant to the "Announcement (2016) No 3" issued by the PBOC (中國人民銀行公告 [2016]第3號) on 24 February 2016, foreign institutional investors can invest in the PRC inter-bank bond market ("Foreign Access Regime") subject to other rules and regulations as promulgated by the Mainland Chinese authorities, i.e., PBOC and the SAFE. Such rules and regulations may be amended from time to time and include (but are not limited to):

- the "Implementation Rules for Filing by Foreign Institutional Investors for Investment in Interbank Bond Markets" (境外機構投資者投資銀行間債券市場備案管理實施細則) issued by the Shanghai Head Office of

PBOC on 27 May 2016;

- the “Circular concerning the Foreign Institutional Investors’ Investment in Interbank bond market in relation to foreign currency control” (國家外匯管理局關於境外機構投資者投資銀行間債券市場有關外匯管理問題的通知) issued by SAFE on 27 May 2016; and
- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in China, foreign institutional investors who wish to invest directly in the PRC inter-bank bond market may do so via an onshore settlement agent, who will be responsible for making the relevant filings and account opening with the relevant authorities. There is no quota limitation. The onshore settlement agent may provide foreign institutional investors with services including custody of assets, accounting and valuation, and reporting. The role of an onshore settlement agent under the Foreign Access Regime is similar to the role of a PRC custodian under the RQFII regime.

In terms of fund remittance, foreign investors (such as the Fund) may remit investment principal in RMB or foreign currency into China for investing in the PRC inter-bank bond market. An investor will need to remit investment principal matching at least 50% of its anticipated investment size within nine months after the completion of the filing with the Shanghai Head Office of PBOC, or else an updated filing will need to be made through the onshore settlement agent. For repatriation, where the Fund repatriates funds out of Mainland China, the ratio of RMB to foreign currency (“Currency Ratio”) should generally match the original Currency Ratio when the investment principal was remitted into Mainland China, with a maximum permissible deviation of 10%.

#### *RQFII Regime and QFII Regime*

Under current regulations in the PRC, foreign investors can invest in the domestic securities market through certain foreign institutional investors that have obtained status as a QFII or a RQFII from the CSRC and have been granted quota by the SAFE to remit foreign freely convertible currencies (in the case of a QFII) and RMB (in the case of a RQFII) into the PRC for the purpose of investing in the PRC’s domestic securities markets. The Fund may invest in China via the QFII or RQFII quota granted to the Manager.

The QFII regime is governed by (i) the “Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors” issued by CSRC, People’s Bank of China and SAFE on 24 August 2006, effective 1 September 2006; (ii) the “Provisions on Relevant Matters Concerning the Implementation of Measures for the Administration of Securities Investment within the Borders of China by Qualified Foreign Institutional Investors (QFIIs)” promulgated by CSRC on 27 July 2012 and came into effect on 27 July 2012; (iii) the “Provisions on the Foreign Exchange Administration of the Securities Investment by Qualified Foreign Institutional Investors in the PRC” promulgated by SAFE and effective as of 3 February 2016; (iv) “Detailed Implementing Rules for Registration and Settlement of Securities Investments by Qualified Foreign Institutional Investors in the PRC” issued by CSDCC and effective on 1 December 2002, and amended on 20 February 2013; (v) “Shanghai Stock Exchange Implementing Rules on Securities Transactions by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors” issued by the SSE and made effective on 19 March 2014; (vi) “Shenzhen Stock Exchange Implementing Rules on Securities Transactions by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors” issued by the SZSE and made effective on 24 April 2014, each as amended from time to time, and (vii) any other applicable regulations promulgated by the relevant authorities (collectively, the “QFII Regulations”).

The RQFII regime was introduced on 16 December 2011 by the “Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors which are Asset Management Companies or Securities Companies” (基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法) issued by the CSRC, the PBOC and the SAFE, which was repealed effective 1 March 2013.

The RQFII regime is currently governed by (i) the “Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors” issued by the CSRC, the PBOC and the SAFE and effective from 1 March 2013 (人民幣合格境外機構投資者境內證券投資試點辦法); (ii) the “Implementation Rules for the

Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors” issued by the CSRC and effective from 6 March 2013 (關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》的規定); (iii) the “Circular on Issues Related to the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors”, Huifa 2013 No. 42 (國家外匯管理局關於人民幣合格境外機構投資者境內證券投資試點有關問題的通知, 匯發[2013]42號) issued by SAFE and effective from 21 March 2013; (iv) the “Notice of the People’s Bank of China on the Relevant Matters concerning the Implementation of the Pilot Measures for Domestic Securities Investment Made by the RMB Qualified Foreign Institutional Investors”, issued by the PBOC and effective from 2 May 2013 (中國人民銀行關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》有關事項的通知); and (v) any other applicable regulations promulgated by the relevant authorities (collectively, the “RQFII Regulations”).

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

### **Investment and borrowing restrictions**

The Fund is subject to the following principal investment restrictions:

- (a) the aggregate value of the Fund’s investments in, or exposure to, any single entity (other than Government or other Public Securities) through the following may not exceed 10% of the total Net Asset Value of the Fund, save as permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the Code;
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entity arising from transactions of over the-counter FDIs,

for the avoidance of doubt, the restrictions and limitations on counterparty as set out in sub-paragraphs (a) and (b) and Chapter 7.28(c) of the Code will not apply to FDIs that are: (i) transacted on an exchange where the clearing house performs a central counterparty role; and (ii) marked-to-market daily in the valuation of their FDI positions and subject to margining requirements at least on a daily basis;
- (b) subject to (a) above and Chapter 7.28(c) of the Code, the aggregate value of the Fund’s investments in, or exposure to entities within the same group through the following may not exceed 20% of the total Net Asset Value of the Fund;
  - (1) investments in Securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
- (c) the value of the Fund’s cash deposits made with the same entity or entities within the same group may not exceed 20% of the total Net Asset Value of the Fund, unless:
  - (1) the cash is held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions may not be in the best interest of investors; or
  - (3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various

financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

For the purpose of this paragraph, cash deposits generally refer to those that are repayable on demand or have the right to be withdrawn by the Fund and not referable to provision of property or services.

- (d) ordinary shares issued by a single entity (other than Government and other Public Securities) held for the account of the Fund, when aggregated with other holdings of ordinary shares issued by the same entity held for the account of all other Sub-Funds under the Trust collectively may not exceed 10% of the nominal amount of the ordinary shares issued by the entity;
- (e) not more than 15% of the total Net Asset Value of the Fund may be invested in Securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such Securities are regularly traded;
- (f) notwithstanding (a), (b), (d) and (e) above, where direct investment by the Fund in a market is not in the best interests of investors, the Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
  - (1) the underlying investments of the subsidiary, together with the direct investments made by the Fund, must in aggregate comply with the requirements of Chapter 7 of the Code;
  - (2) any increase in the overall fees and charges directly or indirectly borne by the Holders or the Fund as a result must be clearly disclosed in the Explanatory Memorandum; and
  - (3) the Fund must produce the reports required by Chapter 5.10(b) of the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the Fund.
- (g) notwithstanding (a), (b) and (d) above, not more than 30% of the total Net Asset Value of the Fund may be invested in Government and other Public Securities of the same issue, except for a Sub-Fund which has been authorised by the SFC as an index fund, this limit may be exceeded with the approval of the SFC;
- (h) subject to (g) above, the Fund may fully invest in Government and other Public Securities in at least six different issues, and subject to the approval of the SFC, a Sub-Fund which has been authorised by the SFC as an index fund may invest all of its assets in Government and other Public Securities in any number of different issues;
- (i) unless otherwise approved by the SFC, the Fund may not invest in physical commodities;
- (j) for the avoidance of doubt, exchange traded funds that are:
  - (1) authorised by the SFC under Chapter 8.6 or 8.10 of the Code; or
  - (2) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (a) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under Chapter 8.6 of the Code; or (b) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

may either be considered and treated as (i) listed Securities for the purposes of and subject to the requirements in (a), (b) and (d) above; or (ii) collective investment schemes for the purposes of and subject to the requirements in (k) below. However, the investments in exchange traded funds shall be

subject to (e) above and the relevant investment limits in exchange traded funds by the Fund should be consistently applied and clearly disclosed in the Explanatory Memorandum;

(k) where the Fund invests in units or shares of other collective investment schemes ("underlying schemes"),

- (1) the value of the Fund's investment in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC may not in aggregate exceed 10% of the total Net Asset Value of the Fund; and
- (2) the Fund may invest in one or more underlying schemes which are either schemes authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the Fund's investment in units or shares in each such underlying scheme may not exceed 30% of the total Net Asset Value of the Fund, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in the Explanatory Memorandum,

provided that in respect of (1) and (2) above:

- (A) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that 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 prescribed by Chapter 7 of the Code. For the avoidance of doubt, the Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure does not exceed 100% of its total Net Asset Value, and exchange traded funds satisfying the requirements in (j) above in compliance with (1) and (2) above;
  - (B) where the underlying schemes are managed by the Manager, or by other companies within the same group that the Manager belongs to, then (a), (b), (d) and (e) are also applicable to the investments of the underlying scheme; and
  - (C) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
  - (3) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and
  - (4) the Manager or any person acting on behalf of the Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the manager of an underlying scheme or any quantifiable monetary benefits in connection with investments in any underlying scheme;
- (l) the Fund may invest 90% or more of its total Net Asset Value in a single collective investment scheme and will be authorised as a feeder fund by the SFC. In this case,
- (1) the underlying scheme ("master fund") must be authorised by the SFC;
  - (2) the Explanatory Memorandum must state that:
    - i. the Fund is a feeder fund into the master fund;
    - ii. for the purpose of complying with the investment restrictions, the Fund (i.e. feeder fund) and its master fund will be deemed a single entity;
    - iii. the Fund (i.e. feeder fund)'s annual report must include the investment portfolio of the master fund as at the financial year-end date; and

- iv. the aggregate amount of all the fees and charges of the Fund (i.e. feeder fund) and its master fund must be clearly disclosed;
- (3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, Manager's annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Holders or by the Fund (i.e. feeder fund) may result, if the master fund in which the Fund (i.e. feeder fund) invests is managed by the same Manager or by its Connected Person;
- (4) notwithstanding paragraph (k)(2)(c) above, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in paragraph (k); and
- (m) if the name of the Fund indicates a particular objective, investment strategy, geographic region or market, the Fund should, under normal market circumstances, invest at least 70% of its total Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Fund represents.

The Fund shall not:

- (1) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or the directors and officers of the Manager collectively own more than 5% of those securities;
- (2) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs)). In the case of investments in such shares and REITs, they shall comply with the investment restrictions and limitations set out in paragraphs (a), (b), (d), (e) and (k) above, where applicable. For the avoidance of doubt, where investments are made in listed REITs, paragraphs (a), (b) and (d) apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then paragraphs (e) and (k) apply respectively;
- (3) make short sales if as a result the Fund would be required to deliver securities exceeding 10% of the total Net Asset Value of the Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted). For the avoidance of doubt, the Fund is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations;
- (4) subject to paragraph (e) above, lend or make a loan out of the assets of the Fund except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan, or assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (5) enter into any obligation on behalf of the Fund or acquire any asset or engage in any transaction for the account of the Fund which involves the assumption of any liability which is unlimited; or;
- (6) apply any part of the Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in FDIs for the purposes of the Chapter 7.29 and 7.30 of the Code.

### **Borrowing restrictions**

The Manager may cause to borrow up to 10% of the total Net Asset Value of the Fund, provided always that back to back borrowings shall not be taken into account when determining whether or not these limits have been breached by the Fund. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in Chapters 7.32 to 7.35 of the Code are not subject to the limitations in this paragraph.

### **Financial derivative instruments**

Subject to the Code and the provisions of the Trust Deed, the Manager shall have the power on behalf of the Fund to agree and to enter into any FDI, for hedging or non-hedging (investment) purposes, provided that the exposure to the underlying assets of the FDIs, together with other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets as set out in Chapters 7.1, 7.1A, 7.1B, 7.4, 7.5, 7.11, 7.11A, 7.11B and 7.14 of the Code.

#### *Hedging Purposes*

The Fund may acquire FDIs for hedging purpose provided that such FDIs shall meet all of 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 of 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 should exhibit price movements with high negative correlation with the investments being hedged under normal market conditions. Hedging arrangement should be adjusted or re-positioned, where necessary and with due consideration on the fees, expenses and costs, to enable the Fund to meet its hedging objective in stressed or extreme market conditions.

#### *Non-hedging (investment) purposes*

The Fund may acquire FDIs for non-hedging purposes ("investment purposes"), subject to the limit that the Fund's net exposure relating to these FDIs ("net derivative exposure") does not exceed 50% of its total Net Asset Value, except this limit may be exceeded for Sub-Funds approved by the SFC under Chapter 8.8 (structured funds) or 8.9 (funds that invest extensively in financial derivative instruments) of the Code.

For the avoidance of doubt:

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by the Fund for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions;
- (b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and
- (c) FDIs acquired for hedging purposes will not be counted towards the 50% limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

#### *Restrictions applicable to FDIs*

The FDIs invested by the Fund should be either listed or 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 or currencies or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies. Where the Fund invests in Index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions or limitations set out in paragraphs (a), (b), (c) and (g) under the section headed “Investment and borrowing restrictions” above provided that the relevant Index is in compliance with Chapter 8.6(e) of the Code;
- (b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC on a case-by-case basis;
- (c) subject to paragraphs (a) and (b) under the section headed “Investment and borrowing restrictions” above, the Fund’s net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the total Net Asset Value of the Fund. The exposure of the Fund to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
- (d) the valuation of the FDIs 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) independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Fund. Further, the calculation agent/fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

The Fund shall at all times be capable of meeting all its payment and delivery obligations incurred under transactions in FDIs (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in FDIs are adequately covered on an ongoing basis. For such purposes, assets that are used to cover the Fund’s payment and delivery obligations incurred under transactions in FDIs should 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.

A transaction in FDIs which gives rise to a future commitment or contingent commitment of a scheme shall be covered as follows:

- (a) in the case of FDIs transactions which will, or may at the discretion of the Trustee or the Manager, be cash settled, the Fund should 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 FDIs transactions which will, or may at the counterparty’s discretion, require physical delivery of the underlying assets, the Fund should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation. In the case of holding alternative assets as cover, the Fund should apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

Where a financial instrument embeds a FDI, the requirements under “Financial Derivative Instruments” above will also apply to the embedded financial derivative. For such purposes, an “embedded financial derivative” is a FDI that is embedded in another security, namely the host contract.

## **Securities Financing Transactions**

The Trustee may, at the request of the Manager, enter into securities financing transactions in respect of the Fund, provided that:

- (a) they are in the best interests of the Holders;
- (b) the associated risks have been properly mitigated and addressed; and
- (c) the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

Please refer to the “Investment Strategy” section in each relevant Appendix for the policy regarding such arrangements for the Fund.

A Sub-Funds which engages in securities financing transactions is subject to the following requirements:

- it shall have at least 100% collateralisation in respect of the securities financing transactions into which it enters to ensure there is no uncollateralised counterparty risk exposure arising from these transactions;
- 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 to the extent permitted by applicable legal and regulatory requirements, shall be returned to the Sub-Funds;
- it shall ensure that it is able to at any time to recall the securities or the full amount of cash / collateral (as the case may be) subject to the securities financing transactions or terminate the securities financing transactions into which it has entered.

There is no current intention for the Sub-Fund to engage in securities financing transactions, but this may change in light of market circumstances and where the Sub-Fund intends to engage in these types of transactions, prior approval shall be obtained from the SFC (if required) and no less than one month's prior notice will be given to the Unitholders. The details of the policy in relation to securities financing transactions will be disclosed in the Prospectus in accordance with the Code.

## **Collateral**

A Sub-Fund may receive collateral from a counterparty to over-the-counter FDI transactions and securities financing transactions. A Sub-Fund may receive collateral from each counterparty provided that the collateral complies with the requirements set out below:

- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price<sup>7</sup> that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as 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;
- Haircut – collateral should be subject to prudent haircut policy which should be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and

volatile markets. The price volatility of the asset used as collateral should be taken into account when devising the haircut policy;

- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the Sub-Fund's exposure to issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in Chapters 7.1, 7.1A, 7.1B, 7.4, 7.5, 7.11, 7.11A, 7.11B and 7.14 of the Code;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions to the extent that it would undermine the effectiveness of the collateral. 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;
- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee of the relevant Sub-Fund;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee of the Sub-Fund without further recourse to the issuer of the FDIs, or the counterparty of the securities financing transactions;
- Re-investment of collateral – cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. Non-cash collateral received may not be sold, re-invested or pledged;

For the purpose herein, “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. Any re-investment of cash collateral shall be subject to the following further restrictions and limitations:

- (i) 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;
  - (ii) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
  - (iii) 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.
- collateral should be free of prior encumbrances; and
  - Collateral generally should not include (i) structured products whose payouts rely on embedded FDIs 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.

There is no current intention for the Sub-Fund to receive any collateral in view of the current strategy, but where a Sub-Fund intends to receive collateral, prior approval shall be obtained from the SFC and no less than one month's prior notice will be given to the Unitholders. The details of the policy in relation to the collateral and criteria will be disclosed in the Prospectus in accordance with the Code.

A description of holdings of collateral (including but not limited to a description of the nature of collateral, identity of the counterparty providing the collateral, value of the fund (by percentage) secured/ covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the Sub-Fund's annual and interim reports for the relevant period as required under Appendix E of the Code.

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

## **PURCHASE OF UNITS**

### **Classes of Units**

As at the date of this Explanatory Memorandum, Units in the following Classes are available in relation to the Fund:

- Class A USD Units
- Class A RMB Units
- Class A HKD Units
- Class I USD Units
- Class I RMB Units
- Class I HKD Units

The Manager may in future determine to issue additional Classes.

### **Initial issue of Units**

Units are being offered to investors during the Initial Offer Period at an initial issue price of USD10 per Unit for USD Units, RMB100 per Unit for RMB Units and HKD100 per Unit for HKD Units.

Units will be issued on the Business Day following the close of the Initial Offer Period or such other Business Day as the Manager may determine. Dealing of the Units will commence on the Dealing Day immediately following the closure of the Initial Offer Period.

### **Subsequent issue of Units**

Following the close of the Initial Offer Period, Units will be available for issue on each Dealing Day at the relevant Subscription Price.

In relation to a particular Class, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant Class as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such Class then in issue and rounded to 3 decimal places (0.0005 being rounded up) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the Fund. The Subscription Price will be calculated and quoted in the currency of denomination of the relevant Class.

In determining the Subscription Price, in certain extraordinary scenarios such as where there is a large subscription by a single investor, the Manager is entitled to add an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred in investing a sum equal to the application monies. Any such additional amount will be paid to the Trustee and will form part of the assets of the relevant Class.

The Manager is entitled to impose a preliminary charge on the Subscription Price of each Unit. The Manager may retain the benefit of such preliminary charge or may pay all or part of the preliminary charge (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine. Details of the preliminary charge are set out in the section headed "Expenses and Charges" below.

## Minimum subscription and minimum holding

The minimum subscription and minimum holding amount for each Class is as follows:

|                                      | Class A Units<br>(USD) | Class I Units<br>(USD) | Class A Units<br>(RMB) | Class I Units<br>(RMB) | Class A Units<br>(HKD) | Class I Units<br>(HKD) |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| <i>Minimum initial investment</i>    | USD2,000               | USD1,000,000           | RMB10,000              | RMB5,000,000           | HKD10,000              | HKD5,000,000           |
| <i>Minimum subsequent investment</i> | USD2,000               | USD1,000,000           | RMB10,000              | RMB5,000,000           | HKD10,000              | HKD5,000,000           |
| <i>Minimum holding</i>               | USD2,000               | USD1,000,000           | RMB10,000              | RMB5,000,000           | HKD10,000              | HKD5,000,000           |

## Application procedure

To purchase Units an applicant should complete the application form supplied with this Explanatory Memorandum and return the original form, together with the required supporting documents, to the Transfer Agent.

Applications for Units during the Initial Offer Period, together with cleared funds, must be received by no later than 4:00 p.m. (Hong Kong time) on the last day of the Initial Offer Period. After the Initial Offer Period, unless otherwise agreed by the Manager, applications for Units and cleared funds must be received by the Dealing Deadline.

Unless otherwise agreed by the Manager and the Trustee, application forms that are faxed to the Transfer Agent must always be followed by their original. Applicants who choose to send an application form by fax, bear the risk of the form not being received by the Transfer Agent. Applicants should therefore, for their own benefit, confirm with the Transfer Agent safe receipt of an application form. None of the Manager, Trustee nor the Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by facsimile.

Unless the Trustee and the Manager otherwise agree, payment for Units shall be due in cleared funds in the relevant currency prior to the relevant Dealing Deadline. If payment in cleared funds is not received prior to such time as may be agreed by the Manager and the Trustee, the application may, at the discretion of the Manager, be considered void and cancelled. In such event the Manager may require the applicant to pay to the Trustee, for the account of the Fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Date exceeds the applicable Unit Realisation Price on the date of cancellation.

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

Applicants may apply for Units through a distributor appointed by the Manager. Distributors may have different dealing procedures, including earlier cut-off times for receipt of applications and/or cleared funds (in particular, distributors may impose a cut-off time that is earlier than the Dealing Deadline). Applicants who intend to apply for Units through a distributor should therefore consult the distributor for details of the relevant dealing procedures.

Where an applicant applies for Units through a distributor, the Manager, the Trustee and the Transfer Agent will treat the distributor (or its nominee) as the applicant. The distributor (or its nominee) will be registered as holder of the relevant Units. The Manager, the Trustee and the Transfer Agent will treat the distributor (or its nominee) as the Unitholder and shall not be responsible for any arrangements between the relevant applicant and the distributor regarding the subscription, holding and realisation of Units and any related matters, as well as any

costs or losses that may arise therefrom. The Manager will, however, take all reasonable care in the selection and appointment of distributors.

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

The Manager may, and at the request of the Trustee shall, reject in whole or in part any application for Units. In the event that an application is rejected, application monies will be returned without interest by cheque through the post or by telegraphic transfer at the risk of the applicant.

No applications for Units will be dealt with during any periods in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

### **Payment procedure**

Subscription monies should be paid in the currency in which the relevant Class is denominated, being US Dollars for USD Units, RMB for RMB Units and Hong Kong Dollars for HKD Units. Payment details are set out in the application form.

### **General**

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Transfer Agent is informed of any change to the registered details. Fractions of Units may be issued calculated to 3 decimal places. Subscription monies representing smaller fractions of a Unit will be retained by the relevant Fund. A maximum of 4 persons may be registered as joint Unitholders.

## **REALISATION OF UNITS**

### **Realisation procedure**

Unitholders who wish to realise their Units in the Fund may do so on any Dealing Day by submitting a realisation request to the Transfer Agent. Unless otherwise agreed by the Manager and the Trustee, any realisation request must be received by the Transfer Agent before the Dealing Deadline. Investors realising Units through a distributor or a nominee should submit their realisation requests to the distributor or nominee in such manner as directed by the distributor or nominee. Distributors and nominees may have different dealing procedures, including earlier cut-off times for receipt of realisation requests. Where an investor holds its investment in Units through a nominee, the investor wishing to realise Units must ensure that the nominee, as the registered Unitholder, submits the relevant realisation request by the Dealing Deadline. Unless otherwise agreed by the Manager and the Trustee, realisation requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

A realisation request must be given in writing or by facsimile and must specify the name of the Fund, the Class and the value or number of Units to be realised, the name(s) of the registered holder(s) and give payment instructions for the realisation proceeds. Unless otherwise agreed by the Trustee, the original of any realisation request given by facsimile should be forwarded to the Transfer Agent. None of the Manager, the Trustee or the Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any realisation request sent by facsimile or for any loss caused in respect of any action taken as a consequence of such facsimile believed in good faith to have originated from properly authorised persons.

Partial realisation of a holding of Units in by a Unitholder may be effected, provided that such realisation will not result in the Unitholder holding Units in a class less than the minimum holding for that class specified in the section "Purchase of Units". In the event that, for whatever reason, a Unitholder's holding of Units in a class is less than such minimum holding for that class, the Manager may give notice requiring such Unitholder to submit a realisation request in respect of all the Units of that class held by that Unitholder.

### **Payment of realisation proceeds**

In relation to a particular Class, the Unit Realisation Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant Class as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such Class then in issue and rounded to 3 decimal places (0.0005 being rounded up) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the Fund. The Unit Realisation Price will be calculated and quoted in the currency of denomination of the relevant Class.

In determining the Unit Realisation Price, in certain extraordinary scenarios such as where there is a large realisation request by a single investor, the Administrator is entitled to deduct an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred by the Fund. Any such deducted amount will be retained by the Fund and will form part of the assets of the relevant Class.

The Manager may at its option impose a redemption fee (i.e. realisation charge) in respect of the Units to be realised as described in the section headed "Expenses and Charges" below. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the realisation charge to be imposed (within the permitted limit provided in the Trust Deed) on each Unitholder.

The amount due to a Unitholder on the realisation of a Unit will be the Unit Realisation Price, less any realisation charge. The realisation charge will be retained by the Manager.

Realisation proceeds will not be paid to any realising Unitholder until (a) unless otherwise agreed in writing by the Transfer Agent on behalf of the Trustee, the written original of the realisation request duly signed by the



Unitholder has been received by the Transfer Agent and (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Transfer Agent on behalf of the Trustee.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, realisation proceeds will normally be paid in the currency of denomination of the Units realised by telegraphic transfer, within 10 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for realisation of Units (unless the markets in which a substantial portion of the Fund's investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of the realisation proceeds within the aforesaid time period not practicable, but in such a case the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant markets). Any bank charges associated with the payment of realisation proceeds will be borne by the Fund.

Payment will only be made to a bank account in the name of the Unitholder. No third party payments will be made.

Realisation proceeds will be paid in the currency in which the relevant Class is denominated, being US Dollars for USD Units, Hong Kong Dollars for HKD Units and RMB for RMB Units. Realisation proceeds can be paid in a currency other than the currency of denomination of the Units realised at the request and expense of the Unitholder. In such circumstances, the Transfer Agent on behalf of the Trustee will use such currency exchange rates as it may from time to time determine.

The Trust Deed provides that realisations may be made in specie at the discretion of the Manager. However, the Manager does not intend to exercise this discretion in respect of the Fund. In any event, realisations may only be made in specie with the consent of the Unitholder requesting the realisation.

### **Restrictions on realisation**

The Manager may suspend the realisation of Units, or delay the payment of realisation proceeds in respect of any realisation request received, during any periods in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

With a view to protecting the interests of Unitholders, the Manager is entitled, with the written approval of the Trustee, to limit the number of Units of the Fund realised on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 15% of the total number of Units of the Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Class or Classes wishing to realise Units of the Fund on that Dealing Day will realise the same proportion of such Units, and Units not realised (but which would otherwise have been realised) will be carried forward for realisation based on the Unit Realisation Price as at the relevant Dealing Day, subject to the same limitation, and will have priority on the next Dealing Day over subsequent realisation requests received in respect of such subsequent Dealing Day. If requests for realisation are so carried forward, the Manager will promptly inform the Unitholders concerned.

### **Compulsory realisation**

If it shall come to the notice of the Trustee or the Manager that any Units are owned directly, indirectly or beneficially (i) by a U.S. Person; (ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager, the Trustee or the Fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee or the Fund to any additional regulation to which the Manager, the Trustee or the Fund might not otherwise have incurred or suffered or been subject; or (iii) in breach of any applicable law or applicable requirements of any country or governmental authority, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the realisation of such Units in accordance with the terms of the Trust Deed. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or realise such Units as aforesaid or establish to the satisfaction of the Trustee or the Manager (whose judgment shall be

final and binding) that such Units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30 day period to have given a request in writing for the realisation of all such Units.

## **CONVERSION**

The Manager may from time to time permit Unitholders to convert some or all of their Units of any Class (the “Existing Class”) into Units of any other class whether in respect of the Fund or any other Sub-Fund which has been authorised by the SFC (the “New Class”). Unitholders may request such a conversion by giving notice in writing or by facsimile to the Transfer Agent. None of the Manager, the Trustee or the Transfer Agent (nor any of their respective officers, employees, agents or delegates) shall be responsible to any Unitholder for any loss resulting from the non-receipt, duplication or illegibility of a request for conversion transmitted by facsimile, or for any loss caused in respect of any action taken as a consequence of instructions believed in good faith to have originated from the Unitholder. A request for the conversion of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding specified for the New Class (if applicable).

Where a request for conversion is received by the Transfer Agent prior to the Dealing Deadline, or such later time as the Manager and the Trustee may agree, in respect of a Dealing Day, conversion will be effected as follows:

- realisation of the Units of the Existing Class will be dealt with by reference to the Unit Realisation Price on that Dealing Day (the “Conversion Realisation Day”);
- where the Existing Class and the New Class have different currencies of denomination, the realisation proceeds of Units of the Existing Class, after deduction of any switching fee, shall be converted into the currency of denomination of the New Class; and
- the resulting amount will be used to subscribe for units of the New Class at the relevant subscription price on the dealing day for such New Class next following receipt of cleared funds in the relevant currency are received by the Transfer Agent (the “Conversion Subscription Day”).

Subject to the time required to remit Realisation Proceeds in respect of the units of the Existing Class, the Conversion Subscription Day may be later than the Conversion Realisation Day.

The Manager is entitled to impose a switching fee on the conversion of Units of up to 2% of the Unit Realisation Price of each Unit converted. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager.

The Manager may suspend the conversion of Units during any period in which the determination of the Net Asset Value of the Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below).

## VALUATION

### **Valuation rules**

The Net Asset Value of the Fund is calculated by valuing the assets of the Fund and deducting the liabilities attributable to the Fund. These liabilities include, without limitation, any management fee or trustee fee, any taxes, any borrowings and the amount of any interest and expenses thereon, any other costs or expenses expressly authorised by the Trust Deed, and an appropriate allowance for any contingent liabilities.

To ascertain the Net Asset Value of a Class, a separate Class account (a "Class Account") will be established in the books of the Fund in respect of each Class. An amount equal to the proceeds of issue of each Unit will be credited to the relevant Class Account. Any increase or decrease in the Net Asset Value of the Fund (disregarding for these purposes any increase in the Net Asset Value due to new subscriptions or decreases due to realisations or any designated Class Adjustments (as defined below)) will be allocated to the relevant Class Account on a pro-rata basis based on the previous Net Asset Value of each such Class Account. There will then be allocated to each Class Account the "designated Class Adjustments" being those costs, pre-paid expenses, losses, dividends, profits, gains and income which the Manager determines relate to a single Class.

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

- (a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market (including listed financial derivative instruments) will be valued by the Sub- Administrator by reference to the last traded price or "exchange close" price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed or normally dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Trustee, the Administrator and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;
- (b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed or ordinarily dealt in on any securities market (including unlisted financial derivative instruments) shall initially be the value equal to the amount expended on behalf of the Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Administrator on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Manager considers appropriate, quoted by a person, firm or institution making a market in such investments or otherwise approved by the Trustee as qualified to value such investments;
- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest);
- (d) the value of any commodity or futures contract shall be ascertained by the Administrator in accordance with the following:
  - (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager shall consider appropriate;

- (ii) if any such price as referred to in (i) is not ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;
- (iii) the value of any futures contract (the "relevant Contract"), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Fund in order to close the relevant Contract and the amount expended by the Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended by the Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
- (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity or futures contract, then the value shall be determined in accordance with (b) above as if such commodity or futures contract were an unquoted investment;
- (e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day, or if such collective investment scheme is not valued as at the same day as the Fund, shall be the last published net asset value per unit share or other interest in such collective investment scheme;
- (f) notwithstanding paragraphs (a) to (e) above, the Manager may, in consultation with 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 is required to fairly reflect the value of the investment; and
- (g) the value of any investment (whether of a borrowing or other liability or cash) in a currency other than the Base Currency of the Fund or the currency of denomination of the relevant Class will be converted into the Base Currency or the currency of denomination of such Class (as the case may be) at the spot rate or on such other basis as the Manager may from time to time determine.

### **Suspension of calculation of Net Asset Value**

The Manager may, after consultation with the Trustee and having regard to the best interests of Unitholders, declare a suspension of the determination of the Net Asset Value of the Fund in exceptional circumstances, being 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 any securities market on which a substantial part of the investments of the Fund is normally traded or a breakdown in any of the means normally employed in ascertaining the prices of investments of the Fund; or
- (b) for any other reason the prices of investments of the Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) there is a breakdown in the systems and/or means of communication usually employed to determine the Net Asset Value of the Fund or the Net Asset Value per Unit in the Fund or the Subscription Price and

Unit Realisation Price or when for any other reason the Net Asset Value or the Subscription Price and Unit Realisation Price cannot be ascertained in a prompt or accurate manner; or

- (d) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of the Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders; or
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the Fund or the issue or realisation of Units in the Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (f) the business operations of the Manager, the Investment Adviser, the Trustee or the Administrator in respect of the 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
- (g) the issue, realisation or transfer of Units would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

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

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 website [www.chinaamc.com.hk](http://www.chinaamc.com.hk)<sup>2</sup>.

No Units in the Fund may be issued, converted or realised during such a period of suspension.

### **Publication of Net Asset Value**

The latest Subscription Price and Unit Realisation Price in respect of Units of each Class or the Net Asset Value per Unit of each Class will be published on each Dealing Day on the website [www.chinaamc.com.hk](http://www.chinaamc.com.hk)<sup>3</sup>.

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<sup>2</sup> This website has not been reviewed by the SFC.

<sup>3</sup> This website has not been reviewed by the SFC.

## **EXPENSES AND CHARGES**

### **Fees payable by Unitholders**

The following fees and charges are payable by Unitholders:

#### **Preliminary Charge**

The Manager is entitled to impose a preliminary charge on the issue of units of any Sub-Fund of up to 5% of the subscription price of such units.

In relation to the Fund, the Manager imposes a preliminary charge of up to 5% of the applicable Subscription Price in respect of each Unit. The preliminary charge is payable in addition to the Subscription Price per Unit and will be retained by or paid to the Manager. The Manager may pay to approved distributors a proportion of this preliminary charge, based on the value of the relevant business introduced to the Fund.

The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the preliminary charge.

#### **Redemption fee (i.e. Realisation Charge)**

The Manager is entitled to impose a realisation charge on the realisation of units of any Sub-Fund of up to 5% of the unit realisation price of each unit realised. However, in relation to the Fund, the Manager does not intend to impose any realisation charge.

#### **Switching fee**

The Manager is entitled to impose a switching fee on the conversion of units of any Sub-Fund of up to 5% of the unit realisation price of each unit converted.

In relation to the Fund, where Unitholders request a conversion of Units, the Manager imposes a switching fee of up to 2% of the Unit Realisation Price of each Unit converted. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager.

### **Fees payable by the Fund**

The following fees and charges are payable out of the assets of the Fund:

#### **Fees payable to the Manager**

##### *Management fee*

The Trust Deed provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages, the maximum amount of which is equal to 5% per annum of the Net Asset Value of the relevant Sub-Fund.

In relation to the Fund, the Manager charges a management fee of 1.5% per annum of the Net Asset Value of Class A Units, and 1.0% per annum of the Net Asset Value of Class I Units, payable monthly in arrears. Any increase in these rates of management fee will only be implemented after giving one month's notice to the affected Unitholders. No increase beyond the maximum management fee stated in the Trust Deed may occur without Unitholder approval. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

The fees of the Investment Adviser will be paid by the Manager.

The Manager may share any fees, charges or amounts it is entitled to receive as Manager of a Sub-Fund with any persons who distribute or otherwise procure subscriptions to that Sub-Fund.

#### Fees payable to the Trustee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund, the maximum amount of which is equal to 1% per annum of the Net Asset Value of the relevant Sub-Fund.

The current Trustee's fee is calculated as a percentage per annum of the Net Asset Value of the Fund at a rate of 0.10% per annum for the first USD 200 million of the Net Asset Value, 0.09% per annum for the second USD 400 million of the Net Asset Value, and 0.07% for the remaining balance, accrued daily and calculated as at each Dealing Day and payable monthly in arrears, subject to a monthly minimum of USD 6,000.

The fees payable to the Administrator and Custodian are included in the Trustee's fee.

Any increase in this fee will only be implemented after giving one month's notice (or such period of notice as may be approved by the SFC) to the affected Unitholders. No increase beyond the maximum trustee fee stated in the Trust Deed may occur without Unitholder approval.

#### Other charges and expenses

Each Sub-Fund bears 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, each Sub-Fund bears such costs in proportion to its respective Net Asset Value immediately following the preceding Valuation Point. Such costs include but are not limited to the costs of investing and realising the investments of the Sub-Fund, the fees and expenses of safekeeping of the assets of the Trust, any fees, charges or expenses (including without limitation, stamp duty) incurred in connection with counterparty risk management procedures, the fees and expenses of the administrators, auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation and printing of any explanatory memorandum and preparation and printing of any financial statements.

Expenses arising out of any advertising or promotional activities in connection with the Trust or a Sub-Fund are not charged to the Trust or any Sub-Fund.

The costs of establishing the Fund are estimated to be approximately USD55,000. These costs will be charged to the Fund and amortised over the 5 years period from the inception of the Fund.

It should be noted that amortising establishment costs over 5 years is not in accordance with the requirements of IFRS, under which establishment costs should have been expensed at the point of commencement of the Fund's operations. The Manager believes that such treatment is more equitable to the initial Unitholders than expensing the entire amounts as they are incurred and is of the opinion that the departure is unlikely to be material to the Fund's overall financial statements. However, if the amounts involved are material to the audit of the Fund's financial statements the Manager may be required to make adjustments in the annual financial statements of the Fund in order to comply with IFRS, and if relevant will include a reconciliation note in the annual accounts of the Fund to reconcile amounts shown in the annual financial statements determined under IFRS to those arrived at by applying the amortisation basis to the Fund's establishment costs.

#### **Cash rebates and soft commissions**

Neither the Manager nor the Investment Adviser currently receives any cash commissions or other rebates from brokers or dealers in respect of transactions for the account of any Sub-Fund. However, the Manager, the Investment Adviser and/or any company associated with either of them reserve the right to effect transactions by or through the agency of another person (the "Agent") with whom the Manager, the Investment Adviser and/or any company associated with either of them has such an arrangement.

The Manager, the Investment Adviser and/or any company associated with either of them may effect transactions



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

## **RISK FACTORS**

*The nature of the Fund's investments involves certain risks. An investment in Units therefore carries risk and is suitable only for persons which can assume the risk of losing their investment. Prospective investors should consider the following factors, as well as the information in this Explanatory Memorandum, and should consult their financial advisers before making any investment in the Fund:*

### **Investment and market risk**

Investors should be aware that investment in the Fund is subject to market fluctuations and other risks inherent in the underlying assets into which the Fund may invest. There can be no assurance that any appreciation in the value of the Fund's investments will occur. As a result, the price of Units may go down as well as up.

### **Investment objective and strategy risk**

In constructing the Fund's portfolio, the Investment Adviser will select companies with strong earnings growth potential, profit generating capability, experienced management and favourable valuation. However, the Investment Adviser may not be successful in selecting the best-performing securities or investment techniques, and there can be no assurance that the companies selected will continue to perform an on-going basis through different economic cycles. Past performance is not indicative of future performance.

There is no assurance that the investment objectives of the Fund will actually be achieved, notwithstanding the efforts of the Investment Adviser since changes in political, financial, economic, social and/or legal conditions are not within the control of the Investment Adviser. Accordingly, there is a risk that investors may not recoup the original amount invested in the Fund or may lose a substantial part or all of their initial investment.

### **Currency risk**

The Fund will hold investments denominated in currencies different to the Base Currency of the Fund, meaning the Fund's assets will be at risk to adverse movements in the foreign currency rates. The value of the Fund's assets, and therefore the Net Asset Value of the Units, will be affected by, amongst other factors, the relative exchange rates of the Base Currency and the currency in which the assets of the Fund are denominated. In addition, any Class not denominated in the Base Currency will be exposed to possible adverse currency fluctuations between its currency of denomination and the Base Currency.

### **Equity risk**

The Fund is subject to the risks generally associated with equity investment, namely, the market value of the stocks may go down as well as up. Investors may not be able to get back their original investments. Factors affecting the stock values are numerous, including but are not limited to changes in investment sentiments, political environment, economic environment, business and social conditions in local and global marketplace. Securities exchanges normally have the right to suspend or limit trading in any securities traded on the relevant exchanges under certain circumstances. A suspension or limitation on trading means liquidation of such securities is impossible and the Fund may be subject to losses.

### **Risk of investing in debt securities**

*Interest rate risk:* The Fund is subject to interest rate risk. Generally, the value of debt securities will change inversely with changes in interest rates. As interest rates rise, market value of debt securities tends to fall. Long-term debt securities in general are subject to higher interest rate risk than short-term debt securities.

*Credit risk:* Investment in debt securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. 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. In the event of a default or credit rating downgrading of the issuers of the debt securities held by the Fund, the Fund's Net Asset Value will be adversely affected and investors may suffer a substantial loss as a result.

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

*Below investment grade, unrated debt securities risk:* The Fund may invest in debt securities which are below investment grade or which are unrated. As mentioned above, such instruments are generally subject to higher default risk and more susceptible to the credit risk of the issuers, and as a result such investments assume greater risks because of generally reduced liquidity and greater fluctuation in value. The valuation of these instruments may also be more difficult and thus the Fund's prices may be more volatile.

*Sovereign debt risk:* The Fund's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuer may not be able or willing to repay the principal and/or interest when due or may request the Fund to participate in restructuring such debts. The Fund may suffer significant losses when the sovereign debt issuer defaults.

*Risks of credit rating downgrades:* Credit rating of debt securities or that of their issuers may be downgraded, thus adversely affecting the value and performance of the Fund holding such investments.

#### Risks of investing in leveraged loans

The Fund may invest in leveraged loans, which are fixed and floating rate loans to companies with below investment grade credit ratings and generally already have elevated debt levels. Leveraged loans are typically secured with a lien on the company's assets and are generally senior to the company's other debt. Leveraged loans are not derivative instruments. The Fund may invest in leveraged loans by way of (i) assignment/transfer of; or (ii) participation in the whole or part of the loan amount outstanding. The risk of depreciation and realization of capital losses on leveraged loan investments will be significantly higher than on investment grade corporate bonds and high-rated debt instruments. Further, they are often subject to a higher risk of issuer default. The vulnerability to economic cycles is also higher as during economic downturns, these investments are more volatile than investment grade debt investments as investors become more risk averse and default risk rises. Borrower default risk is when a borrower is unable to make interest or principal payments to holders of its loan. Liquidity risk is when an investment cannot be sold, or can only be sold at a depressed price because of insufficient demand. Whilst in normal market conditions loans can be readily sold, liquidity on the secondary market can become impaired.

Participations typically will result in the Fund having a contractual relationship only with a lender as grantor of the participation but not with the borrower. The Fund acquires a participation interest only if the lender(s) interpositioned between the Fund and the borrower is determined by the Investment Adviser to be creditworthy. When purchasing loan participations, the Fund assumes the economic risk associated with the corporate borrower and the credit risk associated with an interposed bank or other financial intermediary. Loan assignments typically involve a transfer of debt from a lender to a third party. When purchasing loan assignments, the Fund assumes the credit risk associated with the corporate borrower only. Such loans may be secured or unsecured. Loans that are fully secured offer the Fund more protection than an unsecured loan in the event of non-payment of scheduled interest or principal. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the corporate borrower's obligation. In addition, investments in loans through a direct assignment include the risk that if a loan is terminated, the Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. Loan participations typically represent indirect participation in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. A loan is often administered by an agent bank acting as agent for all holders. Unless, under the terms of the loan or other indebtedness, the Fund has direct recourse against the corporate borrower, the Fund may have to rely on the agent bank or other financial intermediary to apply appropriate credit remedies against a corporate borrower. The loan participations or assignments in which the Fund intends to invest may not be rated by any internationally recognized rating service.

#### Risks of investing in convertible bonds

Convertible bonds are a hybrid between debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. As such, convertibles will be exposed to equity movement and greater volatility than straight bond investments. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments.

#### Emerging market risk

Investing in emerging markets subjects the Fund to a higher level of market risk than investments in a developed country. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, settlement risk, greater risk of market shut down and more governmental limitations on foreign investment than those typically found in developed markets.

#### Concentration risk

Although the Fund does not have a geographical focus, its investment may from time to time be concentrated in a jurisdiction or region. If the Fund's investment is concentrated, the value of the Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

#### Credit risk

The Fund is subject to the risk of the inability of any counterparty to perform with respect to any investments or contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganisation proceeding. The Fund is likely to be an unsecured creditor in any such proceeding and may obtain only a limited recovery or may obtain no recovery in such circumstances.

The Fund also faces the risk that an issuer of a security in which the Fund has invested will default on its obligations due to insolvency or financial distress, resulting in an adverse effect on the value of the Fund's investments.

#### Risks in the A Share market

Securities markets in the PRC may be less liquid than other leading stock markets. The Fund may suffer substantial losses if it is not able to dispose of investments at a time it desires. The A-Share market may also be more volatile with potential settlement difficulties, which 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 Fund.

PRC securities exchanges typically have the right to suspend or limit trading in any security traded on the relevant exchange. A-Shares are also subject to trading band limits, which means that the prices of stocks may not necessarily reflect their underlying value. A suspension will also render it impossible for the Investment Adviser to liquidate positions and can thereby expose the Fund to significant losses. The government or the regulators may also implement policies that may affect the financial markets. Such factors may affect the performance of the Fund, and the subscription and redemption of Units may also be disrupted.

Stocks listed on the PRC stock exchanges may have a high price-earnings ratio. Such high valuation may not be sustainable. Investment in the Fund may be subject to higher risk of over-valuation of A-Shares.

#### Risks associated with the Stock Connect

The Fund's investments through the Stock Connect may be subject to the following risks. In the event that the Fund's ability to invest in A Shares through the Stock Connect on a timely basis is adversely affected, the Fund will seek to rely on other channels to achieve its investment objective.

*Quota limitations:* The Stock Connect is subject to quota limitations. In particular, once the remaining balance of the Northbound Daily Quota drops to zero or the Northbound Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). The Fund's ability to invest in A Shares through the Stock Connect may be

affected.

*Suspension risk:* It is contemplated that the SEHK, the SSE and the SZSE would reserve the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading is effected, the Fund's ability to access the A Share market through the Stock Connect will be adversely affected.

*Differences in trading day:* The Stock Connect only operates on days when both the PRC and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the PRC market but Hong Kong investors (such as the Fund) cannot carry out any A Shares trading.

*Operational risk:* The Stock Connect provides a new channel for investors from Hong Kong and overseas to access the China stock market directly. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. Market participants may need to address issues arising from the differences on an on-going basis.

Further, the "connectivity" in the Stock Connect requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted.

*Recalling of eligible stocks:* If a stock is recalled from the scope of eligible stocks for trading via the Stock Connect, the stock can only be sold and cannot be bought. This may affect the Fund's ability to invest in A Shares through the Stock Connect.

*Clearing and settlement risk:* The HKSCC and CSDCC establish clearing links and each has become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house. Should the remote event of CSDCC default occur and the CSDCC be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against the CSDCC. HKSCC will in good faith seek recovery of the outstanding stocks and monies from the CSDCC through available legal channels or through the CSDCC's liquidation. In that event, the Fund may suffer delay in the recovery process or may not be able to fully recover its losses from the CSDCC.

*Regulatory risk:* The Stock Connect is novel in nature, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect. The regulations are untested and there is no certainty as to how they will be applied, and are subject to change. There can be no assurance that the Stock Connect will not be abolished.

*No Protection by Investor Compensation Fund:* The Fund's investments through the Stock Connect will not be covered by Hong Kong's Investor Compensation Fund. Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Since default matters in Northbound trading via the Stock Connect do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Investor Compensation Fund. On the other hand, since the Fund is carrying out Northbound trading through securities brokers in Hong Kong but not PRC brokers, they are not protected by the China Securities Investor Protection Fund (中國投資者保護基金) in the PRC. Therefore the Fund is exposed to the risks of default of the broker(s) it engages in its trading in A Shares through the programme.

## QFII and RQFII risks

*QFII system general risk:* The QFII system was introduced in 2002. Although the CSRC may in due course relax QFII eligibility requirements, making investment in A Shares easier and more widespread, this cannot be guaranteed. It is not possible to predict the future development of the QFII system and the CSRC may even impose restrictions on QFII's operations. Further, since the Manager directly holds A Shares through the Manager's QFII license, any change in the QFII system generally may affect its ability to invest in A Shares directly including the possibility of the Manager losing its QFII status or if the Manager is replaced or removed.

*RQFII system general risk:* The RQFII system was introduced in 2011. The application and interpretation of such investment regulations are relatively untested and there is no certainty as to how they will be applied as the PRC authorities and regulators have been given wide discretion in such investment regulations and there is no precedent or certainty as to how such discretion may be exercised now or in the future. Similar to QFII, it is not possible to predict the future development of the RQFII system. Any change in the RQFII system generally, including the possibility of the Manager losing its RQFII status, may affect the Fund's ability to invest in A Shares directly through RQFII. Moreover, transaction sizes for RQFIIs are relatively large, which means there is a corresponding heightened risk of exposure to decreased market liquidity and significant price volatility, leading to possible adverse effects on the timing and pricing of acquisition or disposal of securities.

Mainland China securities acquired by a RQFII for the account of the Fund are registered in the joint names of the Manager (as the RQFII holder) and the Fund in accordance with the relevant rules and regulations, and maintained in electronic form via a securities account with the CSDCC. The account is required to bear the name of the Manager as this is the name under which the RQFII is approved by the relevant regulator. The RQFII selects a Mainland China broker (the "Mainland China Broker") to act on its behalf in each of the two securities markets in Mainland China as well as the RQFII Custodian to maintain its assets in custody.

In the event of any default of either the relevant Mainland China Broker or the RQFII custodian in the execution or settlement of any transaction or in the transfer of any funds or securities in Mainland China, the Fund may encounter delays in recovering its assets which may in turn adversely impact the Net Asset Value of the Fund.

*QFII quota and RQFII quota risk:* Under the QFII system and the RQFII system, a QFII or RQFII (including the Manager) must apply to SAFE to increase its QFII quota or RQFII quota. In the event that any QFII or RQFII including the Manager wishes to increase its respective QFII quota and/or RQFII quota from time to time, such increase may take time to obtain through SAFE's application process. There can be no assurance that additional QFII quota and/or RQFII quota can be obtained. Moreover, the Manager has the flexibility to allocate their respective RQFII quota across different public fund products from time to time. As such, the Fund will not have exclusive use of a specified amount of RQFII quota and will rely on the Manager's management and allocation of such quota between different public fund products.

Where insufficient QFII quota and/or RQFII quota is available for use by the Fund, it restricts the ability of the Fund to hold A Shares directly. Once the Manager has fully utilised its existing QFII quota granted to it for use by the Fund and RQFII quota granted to it and allocated for use of the Fund, the Manager may seek to increase its reliance on the Stock Connect.

*QFII and RQFII regulation risk:* The QFII and RQFII policy and rules are subject to change and any such change could adversely impact the Fund. In the worst case scenario, this could lead to an inability of the Manager to acquire A Shares.

*Repatriation risk:* Repatriations by RQFIIs in respect of a fund such as the Fund conducted in RMB are permitted daily and are not subject to any lock-up periods or prior approval. There is no assurance, however, that Mainland China rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any new restrictions on repatriation of the invested capital and net profits may impact on the Fund's ability to meet redemption requests.

## Risk associated with PRC onshore bonds

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

The Fund is also exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the 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 Foreign Access Regime and/or Bond Connect, the relevant filings, registration with the 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 Fund is subject to the risks of default or errors on the part of such third parties.

Investing in the PRC inter-bank bond market via Foreign Access Regime and/or 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 PRC inter-bank bond market, the Fund's ability to invest in the PRC inter-bank bond market will be adversely affected. In such event, the Fund's ability to achieve its investment objective will be negatively affected.

*Risks associated with Bond Connect:* The relevant rules and regulations on Bond Connect are subject to change which may have potential retrospective effect. Where a suspension in the trading through Bond Connect is effected, the Fund's ability to invest in onshore bonds will be adversely affected.

#### Derivatives risk

The Fund may utilise FDIs for hedging purposes. The use of FDIs exposes the Fund to additional risks, including: (a) volatility risk (FDIs can be highly volatile and expose investors to a high risk of loss); (b) leverage risk (as the low initial margin deposits normally required to establish a position in FDIs permits a high degree of leverage, there is risk that a relatively small movement in the price of a contract could result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin); (c) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of FDIs and transactions in over-the-counter FDIs may involve additional risk as there is no exchange market on which to close out an open position); (d) correlation risk (when used for hedging purposes there may be an imperfect correlation between the FDIs and the investments or market sectors being hedged); (e) counterparty risk (the Fund is exposed to the risk of loss resulting from a counterparty's failure to meet its financial obligations); (f) valuation risks (the pricing relationships between FDIs and the underlying instruments on which they are based may not conform to anticipated or historical correlation patterns; it may also be difficult to value FDIs, especially over-the-counter FDIs, so their prices may be volatile); (g) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the FDI unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (h) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of the Fund. There is also no guarantee that the use of FDIs for hedging purposes will be effective and the Fund may therefore be subject to substantial loss.

#### RMB currency risk, RMB denominated classes risk and non-hedged RMB denominated classes risk

RMB is currently not freely convertible and is subject to exchange controls and restrictions. Investors may be adversely affected by movements of the exchange rates between RMB and other currencies. Currency conversion is also subject to the Fund's ability to convert the proceeds into RMB (due to exchange controls and restrictions applicable to RMB) which may also affect the Fund's ability to meet redemption requests from Unitholders in RMB denominated classes of units, and may delay the payment of redemption proceeds under

exceptional circumstances.

Non-RMB based investors who invest in RMB denominated classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the RMB denominated classes of units. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

As the RMB denominated classes may not be hedged against RMB risks, depending on the exchange rate movements of RMB relative to the base currency of the Fund and/or other currency(ies) of the non-RMB denominated underlying investment of the Funds, you may still suffer losses even if there are gains or no losses in the value of the non-RMB denominated underlying investments.

#### Hedging risk

The Investment Adviser is permitted, but not obliged, to use hedging techniques to attempt to offset market risks. There is no guarantee that the desired hedging instruments will be available or hedging techniques will achieve their desired result.

#### Legal and compliance risk

Domestic and/or international laws or regulations may change in a way that adversely affects the Fund. Differences in laws between countries or jurisdictions may make it difficult for the Trustee or Manager to enforce legal agreements entered into in respect of the Fund. The Trustee and the Manager reserve the right to take steps to limit or prevent any adverse effects from changes to laws or their interpretation, including altering investments of the Fund or restructuring the Fund.

#### Risk of early termination of the Trust and/or the Fund

The Fund may be terminated by the Manager or the Trustee under certain conditions and in the manner as specified in "Termination of the Trust or any Sub-Fund" in the section headed "General" in this Explanatory Memorandum and the Trust Deed. It is possible that, in the event of such termination, the Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will not be able to receive an amount equal to their capital originally invested.

#### Suspension risk

Under the terms of the Trust Deed, in certain circumstances, the Manager may suspend the calculation of the Net Asset Value of Units in the Fund as well as suspend subscriptions and realisations for Units in the Fund. Investors may not be able to subscribe or realise when such a suspension is invoked. Investors may not be able to obtain a market value of their investment if the unit price is suspended.

Please refer to the section headed "Suspension of calculation of Net Asset Value" for further information in this regard.

#### FATCA related risk

As discussed in detail under the "Taxation" section, FATCA imposes new rules with respect to certain payments to the Fund. The Fund will endeavour to satisfy the requirements imposed under FATCA and the terms of the FFI Agreement to avoid any withholding tax. The Fund has agreed to be subject to the terms of an FFI Agreement and have registered with the US Internal Revenue Service ("IRS") to be treated as "reporting financial institutions under a Model 2 IGA". The Fund will register with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number.

Nevertheless, in the event that the Fund is not able to comply with the requirements imposed by FATCA or the terms of an FFI Agreement and the Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Fund may be adversely affected and the Trust and the Fund may suffer



significant loss as a result.

In the event a Unitholder does not provide the requested information and/or documentation related to FATCA, whether or not that actually leads to FATCA compliance failures by the Fund, or a risk of the relevant Fund being subject to withholding tax under FATCA, the Manager on behalf of the Trust and the Fund reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, (i) reporting the relevant information of such Unitholder to the US IRS (subject to applicable laws or regulations in Hong Kong); (ii) withholding or deducting any reasonable amount from such Unitholder's redemption proceeds or other distribution proceeds to the extent permitted by applicable laws and regulations; (iii) deeming such Unitholder to have given notice to redeem all his Units in the Fund; and/or (iv) bringing legal action against such Unitholder for losses suffered by the Trust or the Fund as a result of such withholding tax. The Manager and/or Trustee in taking any such action or pursuing any such remedy must act in good faith and on reasonable grounds and in accordance with all applicable laws and regulations.

In cases where Unitholders invest in the Fund through an intermediary, Unitholders are reminded to check whether such intermediary is FATCA compliant and in accordance with all applicable laws and regulations. Each Unitholder and prospective investor should consult with his own tax advisor regarding FATCA, including the effects of FATCA on them under their particular circumstances and on the Fund.

## **TAXATION**

Prospective Unitholders should consult their professional advisers on the consequences to them of acquiring, holding, redeeming, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors, will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances. The following statements regarding taxation are based on advice received by the Manager regarding the law and practice in force in Hong Kong and the PRC and at the date of this Explanatory Memorandum.

### **Hong Kong taxation**

#### **Profits Tax**

During such period as the Fund is authorised by the SFC pursuant to Section 104 of the SFO, under present law and practice:

- (a) The Fund is not expected to be subject to Hong Kong profits tax in respect of any of its investment activities;
- (b) No profits tax will be payable by Unitholders in Hong Kong in respect of income distributions from the Fund or in respect of any capital gains arising on a sale, realisation or other disposal of Units, except that Hong Kong profits tax may arise where such gains, not being regarded as capital in nature, arise in or are derived from a trade, profession or business carried on by a Unitholder in Hong Kong and are sourced in Hong Kong.

#### **Stamp Duty**

Hong Kong stamp duty is payable on the transfer of Hong Kong stock. "Hong Kong stock" is defined as "stock" the transfer of which is required to be registered in Hong Kong. The Units fall within the definition of "Hong Kong stock" in the Stamp Duty Ordinance (Cap.117) of Hong Kong (the "Stamp Duty Ordinance").

No Hong Kong ad valorem stamp duty is payable on the issue of Units or on the redemption of Units.

No Hong Kong stamp duty is payable where the sale or transfer of the Units is effected by the Manager who then either extinguishes the Units or re-sells the Units to another person within two months thereof.

Other types of sales or purchases or transfers of the Units by the Unitholders should be liable to Hong Kong stamp duty of 0.1% (borne by each of the buyer and seller) on the higher of the consideration amount or market value. In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of Units.

### **FATCA and AEOI**

#### **FATCA**

The United States Foreign Account Tax Compliance Act ("FATCA") and any associated legislation, regulations or guidance issued thereunder impose withholding taxes on certain types of payments made to "foreign financial institutions" ("FFI") such as the Fund, including interest and dividends from securities of US issuers and gross proceeds from the sale of such securities unless the FFIs comply with FATCA. All such payments may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies registration, due diligence, information reporting and other requirements intended to enable the US Internal Revenue Service ("US IRS") to identify certain United States persons (within the meaning of the US Internal Revenue Code of 1986, as amended "US Code") that own, directly or indirectly, Units in the Fund. To avoid such withholding on payments made to it, a FFI such as the Fund (and, generally, other investment funds organised outside the US), generally will be required to enter into an agreement (an "FFI Agreement") with the US IRS under which it will agree to identify its direct or

indirect owners who are United States persons and report certain information concerning such United States person owners to the US IRS.

In general, an FFI which does not sign an FFI Agreement and is not otherwise exempt will face a 30% withholding tax on “withholdable payments”, including dividends, interest and certain derivative payments derived from US sources. In addition, starting from 1 January 2019, certain payments of gross proceeds such as sales proceeds and return of principal derived from stocks and debt obligations generating US source dividends or interest will be treated as “withholdable payments.” It is possible that certain non-U.S. source payments attributable to amounts that would be subject to FATCA withholding (referred to as “foreign passthru payments”) may also be subject to FATCA withholding starting from 1 January 2019, though the US tax rules on “foreign passthru payments” are currently pending.

As part of the process of implementing FATCA, the United States government has been negotiating intergovernmental agreements with certain foreign jurisdictions, which agreements are intended to streamline the reporting and compliance requirements for entities organized in those foreign jurisdictions and subject to FATCA. The Hong Kong government has entered into an intergovernmental agreement with the US on 13 November 2014 (“IGA”) for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under these “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Fund) would be subject to the terms of an FFI Agreement with the US IRS, register with the US IRS and comply with the terms of an FFI Agreement. Otherwise they will be subject to a 30% withholding tax on relevant US-sourced payments and other “withholdable payments” paid to them.

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

The Fund will endeavour to satisfy the requirements imposed under FATCA and the terms of the FFI Agreement to avoid any withholding tax. The Fund has agreed to be subject to the terms of an FFI Agreement and have registered with the US IRS to be treated as “reporting financial institutions under a Model 2 IGA”.

#### Provision by Unitholders of documentation under FATCA or other applicable laws

Each Unitholder (i) will be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Trust or the Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding (or mitigate backup withholding) in any jurisdiction from or through which the Trust or the Fund receives payments and/or (B) to satisfy reporting or other obligations under US Code and the United States Treasury Regulations promulgated under the US 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 or when such form, certification or other information is no longer accurate, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction, including reporting obligations that may be imposed by future legislation or future applicable laws.

#### Power to disclose information to tax authorities

Subject to applicable laws and regulations in Hong Kong, the Trust, the Fund, the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the US IRS), certain information in relation to a Unitholder, including but not limited to the Unitholder’s name, address, taxpayer identification number (if any), and certain information relating to the Unitholder’s holdings, to enable the Trust or the Fund to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under FATCA). Investors should also refer to “FATCA related risks” in the section headed “Risk Factors”.

### Hong Kong requirements regarding tax reporting

The Organization for Economic Cooperation and Development (OECD) promulgated a new international standard for automatic exchange of financial account information in tax matters ("AEOI") in July 2014. In this regard, the Inland Revenue (Amendment) (No.3) Ordinance 2016 (the "Ordinance") came into force on 30 June 2016. This provides the legislative framework for the implementation in Hong Kong of the Standard for AEOI. The Ordinance requires Financial Institutions ("FI") in Hong Kong to collect Unitholders' information from 1 January 2017 and to file such information of Unitholders residing in jurisdictions which signed a Competent Authority Agreement ("CAA") with Hong Kong (collectively "Reportable Jurisdictions") with the Hong Kong Inland Revenue Department ("IRD") annually commencing from the year 2018. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a CAA; however, the Fund and/or its agents may further collect information and/or documentation relating to the tax residents of other jurisdictions.

The Trust is a collective investment scheme within the definition set out in the Securities and Futures Ordinance that is resident in Hong Kong, and is accordingly an investment entity with obligations to comply with the requirements of the Ordinance. This means that the Trust and/or its agents shall collect and provide to the IRD tax information relating to Unitholders and prospective investors.

The Ordinance requires the Trust to, amongst other things: (i) register the Trust's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts to identify whether any such accounts are considered "Reportable Accounts" under the Ordinance; and (iii) report to the IRD the required information on such Reportable Accounts. The IRD is expected to transmit the information reported to it annually on an automatic basis to the government authorities of the Reportable Jurisdictions. Broadly, the Ordinance contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident(s) in a Reportable Jurisdiction(s); and (ii) certain entities controlled by individuals who are tax resident(s) in the Reportable Jurisdictions. Under the Ordinance, details of Unitholders, including but not limited to their name, date of birth, place of birth (optional), mailing and permanent address, tax residence(s), tax identification number(s) (if any), account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities of the Reportable Jurisdictions.

By investing in the Fund and/or continuing to invest in the Fund, Unitholders acknowledge that they may be required to provide additional information to the Trust, the Manager and/or the Trust's agents in order for the Trust to comply with the Ordinance. The Unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), may be communicated by the IRD to government authorities of the Reportable Jurisdictions. The failure of a Unitholder to provide any requested information, may result in the Trust, the Manager and/or other agents of the Trust taking any action and/or pursue remedies at their disposal including, without limitation, compulsory realisation of Units held by the Unitholder concerned in accordance with applicable laws and regulations, exercised by the Manager acting in good faith and on reasonable grounds.

Each Unitholder and prospective investor should consult its own tax advisor(s) regarding the administrative and substantive implications of the Ordinance, including the effects on them under their particular circumstances and on the Fund.

## **GENERAL**

### **Financial reports**

The Trust's financial year end is on 31 December in each year. An annual financial report with audited accounts in US Dollars will be prepared for each financial year. The first audited financial report for the Fund covered the period beginning on the date of inception to 31 December 2019. Unaudited semi-annual financial reports will also be prepared. Such reports will contain a statement of the Net Asset Value of the Fund and of the investments comprising its portfolio.

Annual and semi-annual financial reports and financial statements will be available in English only.

Once financial reports are issued, Unitholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Unitholders on or before the issue date of the relevant financial reports, which will be within four months after the end of the financial year in the case of annual reports and audited financial statements, and within two months after 30 June in each year in the case of unaudited semi-annual financial reports. Once issued the annual and semi-annual financial reports will be available in softcopy from the website [www.chinaamc.com.hk](http://www.chinaamc.com.hk)<sup>4</sup> and in hardcopy for inspection at the Manager's office free of charge during normal working hours.

### **Distribution policy**

Monthly, subject to the Manager's discretion. The Manager intends to distribute income to Unitholders having regard to the Fund's net income after fees and costs. Distributions will only be paid from net income after deduction of all fees and costs and no distributions will be paid out of or effectively out of the capital of the Fund. All Units will receive distributions in USD only.

### **Meetings of Unitholders**

Meetings of Unitholders may be convened by the Manager or the Trustee. Unitholders holding 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 at which an Extraordinary Resolution is proposed and not less than 14 days' notice for every other 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 (as defined below). The quorum for passing an Extraordinary Resolution is Unitholders present in person or by proxy representing 25% or more of the Units in issue ("Extraordinary Resolution"). 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. Every individual 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.

The Trust Deed contains provisions for the holding of separate meetings of Unitholders holding Units of different Classes where only the interests of Unitholders of such Class are affected.

### **Transfer of Units**

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 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. The Transfer Agent on behalf of the Trustee is entitled to require from the transferor and/or the transferee, the payment to it of a fee (the maximum amount of which shall be agreed by the Trustee and the

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<sup>4</sup> This website has not been reviewed by the SFC.

Manager from time to time), together with a sum equal to any expenses incurred by the Transfer Agent in connection therewith.

The Manager or the Transfer Agent on behalf of the Trustee may refuse to enter the name of a transferee in the Register or recognise a transfer of any Units if either of them believe that such will result in or is likely to result in the contravention of any applicable laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed.

### **Trust Deed**

The Trust was established under the laws of the Cayman Islands by a Trust Deed dated 7 October 2010 made between the Manager and the Trustee with an initial trust fund of USD10. By the Deed of Retirement and Appointment of the Trustee, the Trustee declared that with effect from 28 July 2017, the Trust shall take effect in accordance with the laws of Hong Kong and the laws of Hong Kong shall be the governing law of the Trust.

In accordance with the terms of the Trust Deed, the Manager has full power to deal in any way with or dispose of the assets of any Fund provided that the Manager shall comply at all times with the investment objectives and policies and investment restrictions and guidelines contained in the constitutive documents of the Trust and this Explanatory Memorandum.

Under the Trust Deed, the Trustee may remove the Manager if: (a) the Manager goes into liquidation, (b) the Trustee is of the opinion that a change in manager of the Trust is desirable in the interests of the Unitholders and (c) the Unitholders representing not less than 50% by value of all Units outstanding deliver a notice to the Trustee to do so. The Manager may also retire on a voluntary basis under certain other circumstances specified in the Trust Deed.

Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

### **Auditors**

The Manager, with the prior approval of the Trustee, shall from time to time appoint to be the auditors of the Trust an accountant or accountants being qualified to act as an auditor or auditors (the "Auditors"). Any such Auditors so appointed will be independent of the Trustee and the Manager. The Auditors may voluntarily retire by notice in writing to the Manager, upon which the Manager shall appoint another qualified auditor or auditors in their stead.

PricewaterhouseCoopers has been appointed by the Manager as the auditors of the Trust.

### **Termination of the Trust or any Sub-Fund**

The Trust shall continue from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Trust may be terminated on the occurrence of any of the following events: (a) any law shall be passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the Trust; (b) the Trustee shall be unable to find a person acceptable to the Trustee to act as the new Manager within 30 days after the removal or retirement of the Manager; (c) the Trustee shall have decided to retire but within three months from the date of the Trustee giving its written notice to retire as the Trustee, the Manager shall be unable to find a suitable person who is willing to act as trustee; (d) if the Trustee and the Manager agree that it is undesirable to continue the Trust and the unitholders of the Trust sanction the termination by way of Extraordinary Resolution; or (e) the unitholders of the Trust determine, by Extraordinary Resolution, that the Trust should be terminated (in which case, such termination shall take effect from the date on which such Extraordinary Resolution is passed or such later date (if any) as the Extraordinary Resolution may provide).

Any Sub-Fund may be terminated on the occurrence of any of the following events: (a) the Trust is terminated; (b) the Net Asset Value of the relevant Sub-Fund is less than USD5 million and the Manager by notice in writing to the Trustee directs that the relevant Sub-Fund be terminated; any law is passed which renders it illegal or, in

the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the relevant Sub-Fund; (d) in the case of a Sub-Fund the sole investment objective of which is to track the performance of an index or rules based investment strategy, the relevant index or strategy becomes unavailable for any reason whatsoever and no suitable replacement index or strategy can be identified by the Manager, such that, in the opinion of the Manager, the investment objective of the relevant Sub-Fund can no longer be achieved; (e) if the Trustee and the Manager agree that it is undesirable to continue the relevant Sub-Fund and the holders of units of the relevant Sub-Fund sanction the termination by way of Extraordinary Resolution; or (f) the holders of units of the relevant Sub-Fund determine, by Extraordinary Resolution, that the Sub-Fund should be terminated (in which case, such termination shall take effect from the date on which such Extraordinary Resolution is passed or such later date (if any) as the Extraordinary Resolution may provide).

Upon termination of the Trust or a Sub-Fund, the Trustee and the Manager will arrange for the sale of all investments remaining as part of the assets and discharging all liabilities of the Trust or the relevant Sub-Fund (as the case may be). Thereafter, the Trustee will distribute to the unitholders, in proportion to the units held by them, any net cash proceeds derived from the realisation of the assets and available for the purposes of such distribution, provided that the Trustee may retain out of any moneys as part of the assets full provisions for all costs, charges, expenses, claims and demands properly incurred, made or apprehended by the Trustee or the Manager. Any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve months from the date upon which the same were payable be paid into court subject to the right of the Trustee to deduct there from any expenses it may incur in making such payment. Please refer to the Trust Deed for further details. Please refer to the Trust Deed for further details.

### **Documents available for inspection**

Copies of the Trust Deed, this Explanatory Memorandum and the latest annual and semi-annual financial reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager at 37/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong. Copies of the Trust Deed can be purchased from the Manager at a nominal amount.

### **Anti-Money Laundering Regulations**

The Transfer Agent on behalf of the Trustee and/or the Manager, and/or their respective delegates or agents may require detailed verification of a prospective investor's identity and the source of the payment of application monies. Depending on the circumstances of each application, a detailed verification may not be required where: (a) the prospective investor makes payment from an account in the prospective investor's name at a recognised financial institution; (b) the prospective investor is regulated by a recognised regulatory authority; or (c) the application is made through a recognised financial intermediary. The exceptions will only apply if the financial institution, regulatory authority or intermediary referred to above is within a country recognised by Hong Kong as having sufficient anti-money laundering regulations.

The Trustee, the Manager and their respective delegates and agents each reserves the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee, the Manager or any of their respective delegates or agents may refuse to accept the application and return the application monies relating to such application.

The Trustee, the Manager and their respective delegates and agents each also reserves the right to refuse to make any redemption payment to a Unitholder if the Trustee, the Manager and/or any of their respective delegates and agents suspect or are advised that the payment of redemption proceeds to such Unitholder might result in a breach of applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or if such refusal is considered necessary or appropriate to ensure the compliance by the Trust or the relevant Sub-Fund(s) or the Trustee or the Manager with any such laws or regulations in any applicable jurisdiction.

None of the Trustee, the Manager or their respective delegates or agents shall be liable to the prospective investor or Unitholder for any loss suffered by such party as a result of the rejection or delay of any subscription

application or payment of realisation proceeds.

### **Conflicts of Interest**

The Manager, the Investment Adviser and the Trustee (and any of their affiliates) may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Trust or the Fund. Each will, at all times, have regard in such event to its obligations to the Trust and will endeavour to ensure that such conflicts are resolved fairly. In any event, the Manager and the Investment Adviser will ensure that all investment opportunities will be fairly allocated.

It is expected that transactions for the Fund may be carried out with or through Connected Persons of the Manager. There is no limit on the volume of transactions which may be conducted with or through such Connected Persons but the Manager will use due care in the selection of such Connected Persons to ensure that they are suitably qualified in the circumstances, and will ensure that all such transactions are conducted on an arm's length basis and are consistent with best execution standards, and will monitor such transactions to ensure compliance with the Manager's obligations. The fees or commissions payable to any such Connected Persons will not be greater than those which are payable at the prevailing market rate for such transactions. All such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the Fund's annual financial report.

### **Liquidity Risk Management**

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

The Manager's liquidity policy takes into account the investment strategy, the liquidity profile, the redemption policy, the dealing frequency, the ability to enforce redemption limitations and the fair valuation policies of the Sub-Funds. These measures seek to ensure fair treatment and transparency for all investors.

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

As a liquidity risk management tool, the Manager may limit the number of Units of the Fund redeemed on any Dealing Day to Units representing 15% of the total number of Units in the Fund then in issue (subject to the conditions under the section headed "Restrictions on realisation").