



# **China Southern Dragon Dynamic Fund**

**Société d'Investissement à Capital Variable**

**Audited Annual Report**  
**for the year ended December 31, 2019**

**R.C.S Luxembourg B 157.189**

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# China Southern Dragon Dynamic Fund

Société d'Investissement à Capital Variable

Audited Annual Report for the year ended December 31, 2019

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# China Southern Dragon Dynamic Fund

## General Information

### Registered Office

Atrium Business Park  
31, Z.A. Bourmicht  
L-8070 Bertrange  
Grand Duchy of Luxembourg

### Board of Directors

#### Chairman

Ms. Ka Yan Wong  
CSOP Asset Management Limited  
Suite 2802  
Two Exchange Square  
8 Connaught Place, Central  
Hong Kong S.A.R.

#### Directors

Mr. Dimitri Brunwasser  
Lemanik Asset Management S.A.  
106, route d'Arlon  
L-8210 Mamer  
Grand Duchy of Luxembourg

Mr. Jin Wang  
Independent Director  
EJF Capital  
2107 Wilson Blvd, Suite 410  
Arlington, VA 22201  
United States

### Conducting Persons of the Management Company

Mr. Philippe Meloni  
Mr. Jean Philippe Claessens  
Mr. Alexandre Dumont  
Ms. Sandrine Puccilli (until August 31, 2019)

### Management Company and Global Distributor

Lemanik Asset Management S.A.  
106, route d'Arlon  
L-8210 Mamer  
Grand Duchy of Luxembourg

### Investment Manager

CSOP Asset Management Limited  
Suite 2802  
Two Exchange Square  
8 Connaught Place, Central  
Hong Kong S.A.R.

### Depository, Paying and Domiciliary Agent, Fund Administrator and, Transfer and Registrar Agent

Citibank Europe plc, Luxembourg Branch  
Atrium Business Park  
31, Z.A. Bourmicht  
L-8070 Bertrange  
Grand Duchy of Luxembourg

### Auditor

PricewaterhouseCoopers, Société coopérative  
2, rue Gerhard Mercator, B.P. 1443  
L-1014 Luxembourg  
Grand Duchy of Luxembourg

### Legal Adviser

Elvinger Hoss Prussen, Société anonyme  
2, Place Winston Churchill  
L-1340 Luxembourg  
Grand Duchy of Luxembourg

### Information to Shareholders

Copies of the prospectus and any information relating thereto may be obtained from the registered office of the SICAV at 31, Z.A. Bourmicht, L-8070 Bertrange, Grand Duchy of Luxembourg.

# Investment Manager's report

## China New Balance Opportunity Fund (the "Fund") Manager Report – 2019

### 2019 Market Review:

The Hong Kong market opened initially high while goes low in 2019 with Hang Seng Index rose 9.07%, getting behind 36.07% increase of CSI300 Index. At the beginning of the year, the Hong Kong stock market was ahead of the A-share market in terms of expected liquidity; Since March, the Hong Kong market continued to fall under the effects of both China-US Trade War and Anti-Extradition Law Amendment Bill Movement. Hang Seng Index gave up all gains this year in two months of the second half and then it slowly recovered. The features of structural market in 2019 Hong Kong stock market are strongly defined.

The decline of economic growth in China has now reached a consensus in market, especially the macroeconomic trends in the past two years have made investors more pessimistic about China's economy. However, we believe that China's macroeconomic downturn in the past two years has been related to the natural decline in economic growth after a certain period of economic development, as well as macroeconomic policy adjusted actively by government, especially financial regulator.

### Fund Performance:

The fund's NAV increased by 24.15% (performance of the Class I (USD) Acc) in 2019. Regarding attribution of performance, Consumer Discretionary, Real Estate, Financials, and Information Technology are sectors with the largest positive contribution to the fund's net value. While Consumer Staples, Materials and Industrials are the three major sectors with negative contribution.

### 2020 Market Expectation

The impact of the coronavirus outbreak led to a survey-record slump in activity in China, with steep downturns also seen in other developed market. February PMI and recent jobless claims showed global growth plunging by a record extent, with expansion slowing to the weakest since May 2009. But we believe that with the implementation of a series of economic policies, China's macroeconomic growth is expected to stay stable in 2020. After the macro-structural adjustments over the past three or four years, we have reason to believe that in the next one or two years, China's macro-economy is expected to maintain stable growth, which is conducive to the recovery of domestic enterprises and the performance of stock assets. In fact, PMI data for November and December have shown that macroeconomic environment has been improved. Starting from October, we can see that the first phase of the China-US trade negotiations has made progress. In early 2020, the signing of the first phase of trade agreement will mark the end of the two-year China-US trade conflict. With the gradual decrease of tariffs imposed previously, the recovery of macroeconomic activities will be more significant. Our view has always been that after the globalization process of the past 40 years, it has become difficult to separate global economy regarding the economic and trade fields, which turns out to be the key to China-US trade negotiation. Meanwhile, from China's perceived position of growing economic strength and political standing, it will have different levels of conflict with US, as always, in areas of global governance, ideology, and even military affairs.

## Investment Manager's report (continued)

### China New Balance Opportunity Fund (the “Fund”) Manager Report – 2019 (continued)

At present, China's economy is on a transition stage from old growth model to a new growth model, followed by emergence of new formats, especially in the area of Internet, emerging manufacturing, biomedicine, and consumption. We have seen many changes and we are in time of great change. Our investment preferences are greatly affected by changes in people's lifestyle and consumption trends brought by intergenerational perceptions, as well as production efficiency caused by technology innovation. For example, although ordinary consumption industry such as automobiles and appliances have hit a bottleneck, a large number of new formats have emerged in other consumption areas, such as take-out food, new retail, and characteristic catering. Another example, in brand consumption, we have seen advance by leaps and bounds of domestic brands in various industries over the past two years. We strongly believe that domestic brands will become a non-negligible phenomenon in China's consumer sector in the next ten years. This is closely related to the changes in intergenerational shopping idea and sense of national pride of the consumer class. In the future, in order to get remarkable investment returns, the key is to seize the chance of these changing. Our main investment targets are also concentrated in these developing industries that represent future directions, including industry of Internet, intelligent manufacturing, pharmaceutical, consumer and others. These are industries that we can see huge potentials to grow in the future. If we believe in China's demographic dividend and potential release of system dividend, then industries reflecting these changing cannot be ignored in the future investment. In the long run, macro factors should not be the core factors that to be taken into consideration in terms of market trends and stock performance. Firstly, under most of circumstances, macro factors are stable. Unstable macro environment or crisis will happen in rare cases. Secondly, good industries and companies with excellent performance will continue to improve by positive competition and effective internal management, which is possible to smooth out the fluctuations caused by macro factors.



## **Audit report**

To the Shareholders of  
**China Southern Dragon Dynamic Fund**

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### **Our opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of China Southern Dragon Dynamic Fund (the “Fund”) as at 31 December 2019, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

#### *What we have audited*

The Fund’s financial statements comprise:

- the Statement of Net Assets as at 31 December 2019;
- the Statement of Operations and Changes in Net Assets for the year then ended;
- the Schedule of Investments as at 31 December 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the “Responsibilities of the “Réviseur d’entreprises agréé” for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

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### **Other information**

The Board of Directors of the Fund is responsible for the other information. The other information comprises the information stated in the annual report but does not include the financial statements and our audit report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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**Responsibilities of the Board of Directors of the Fund for the financial statements**

The Board of Directors of the Fund is responsible for the preparation and fair presentation of the financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors of the Fund determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of the Fund is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Fund either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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**Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the financial statements**

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the Fund;



- conclude on the appropriateness of the Board of Directors of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers, Société coopérative  
Represented by

Luxembourg, 7 April 2020

Valérie Arnold



# China Southern Dragon Dynamic Fund

## Statement of Net Assets

as at December 31, 2019

(Expressed in United States dollars)

|   | China New<br>Balance<br>Opportunity<br>Fund |
|---|---|
| <b>Assets</b>   |   |
| Investment portfolio at cost  | 74,333,787                                  |
| Net unrealised appreciation   | 2,995,841                                   |
| Investment portfolio at market value (note 2b)                      | 77,329,628                                  |
| Cash at bank and at broker  | 1,267,972                                   |
| Receivable on securities sold                                       | 3,531,648                                   |
| Receivable on shares purchased                                      | 20,000                                      |
| Other receivables   | 32  |
| <b>Total Assets</b>   | <b>82,149,280</b>                           |
| <b>Liabilities</b>  |   |
| Payable on securities purchased                                     | 4,016,538                                   |
| Payable for shares redeemed   | 1,065,924                                   |
| Management fees payable (note 3)                                    | 273,411                                     |
| Unrealised loss on forward foreign exchange contracts (notes 2i,13) | 43  |
| Other payables  | 91,436                                      |
| <b>Total Liabilities</b>  | <b>5,447,352</b>                            |
| <b>Net Assets</b>   | <b>76,701,928</b>                           |

The accompanying notes form an integral part of these financial statements.

# China Southern Dragon Dynamic Fund

## Statement of Net Assets (continued)

as at December 31, 2019

(Expressed in United States dollars)

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|   | <b>China New<br/>Balance<br/>Opportunity<br/>Fund</b> |
|---|---|
| <hr/>   |   |
| Net Asset Value per share (expressed in share class currency) |   |
| Class A (USD) Acc   | 178.55  |
| Class A (USD) Dis   | 133.92  |
| Class A (HKD) Acc   | 185.86  |
| Class A (HKD) Dis   | 145.61  |
| Class I (USD) Acc   | 216.68  |
| Class I (USD) Dis   | 65.47   |
| Class V (EUR) Hedged Acc                                      | 123.39  |
|   |   |
| Number of outstanding shares                                  |   |
| Class A (USD) Acc   | 126,775.224   |
| Class A (USD) Dis   | 1,183.458   |
| Class A (HKD) Acc   | 907,940.676   |
| Class A (HKD) Dis   | 890,870.731   |
| Class I (USD) Acc   | 50,700.431  |
| Class I (USD) Dis   | 69,894.137  |
| Class V (EUR) Hedged Acc                                      | 110.000   |

The accompanying notes form an integral part of these financial statements.

# China Southern Dragon Dynamic Fund

## Statement of Operations and Changes in Net Assets

### as at December 31, 2019

(Expressed in United States dollars)

|   | China New<br>Balance<br>Opportunity<br>Fund | CSOP<br>RMB High<br>Yield Bond<br>Fund* | Combined            |
|---|---|---|---------------------|
| <b>Net Assets at the beginning of the year / period</b>                         | 94,080,421                                  | 10,875,948                              | 104,956,369         |
| <b>Income</b>   |   |   |                     |
| Dividends (net of withholding tax) (note 2f)                                    | 1,424,114                                   | –                                       | 1,424,114           |
| Interest Income (note 2e)   | 31,617                                      | 129,604                                 | 161,221             |
| Security Lending Income (note 14)   | 40,084                                      | –                                       | 40,084              |
| <b>Total income</b>   | <b>1,495,815</b>                            | <b>129,604</b>                          | <b>1,625,419</b>    |
| <b>Expenses</b>   |   |   |                     |
| Management fees (note 3)  | 1,606,108                                   | 18,009                                  | 1,624,117           |
| Depositary fees (note 7)  | 68,590                                      | 9,537                                   | 78,127              |
| Audit and Legal fees  | 166,187                                     | 40,192                                  | 206,379             |
| Administration and Accounting fees (note 7)                                     | 80,575                                      | 14,400                                  | 94,975              |
| Registrar and Transfer Agent fees (note 7)                                      | 54,793                                      | 4,341                                   | 59,134              |
| Management Company fees (note 4)  | 52,215                                      | 1,223                                   | 53,438              |
| Taxe d'Abonnement (note 6)  | 36,477                                      | 246                                     | 36,723              |
| Publication / Printing fees   | 8,649                                       | 1,237                                   | 9,886               |
| Compliance fees   | 17,100                                      | 3,525                                   | 20,625              |
| Directors fees (note 8)   | 14,237                                      | 1,557                                   | 15,794              |
| Transaction fees (note 12)  | 1,115,069                                   | –                                       | 1,115,069           |
| Sub-fund closing fees   | –   | 22,243                                  | 22,243              |
| Other expenses  | 94,504                                      | 719                                     | 95,223              |
| <b>Total expenses</b>   | <b>3,314,504</b>                            | <b>117,229</b>                          | <b>3,431,733</b>    |
| <b>Net gain / (loss) from investments</b>                                       | <b>(1,818,689)</b>                          | <b>12,375</b>                           | <b>(1,806,314)</b>  |
| Net realised gain / (loss)  |   |   |                     |
| - on investments (note 2g)  | 10,085,618                                  | (114,163)                               | 9,971,455           |
| - on foreign exchange (notes 2c, 2g)  | 12,205                                      | (16,241)                                | (4,036)             |
| - on forward foreign exchange contracts (note 2i)                               | (6,567)                                     | (22,953)                                | (29,520)            |
| Net change in unrealised appreciation   |   |   |                     |
| - on investments  | 11,053,817                                  | 639,334                                 | 11,693,151          |
| - on forward foreign exchange contracts (note 2i)                               | 599   | 16,732                                  | 17,331              |
| <b>Net change in net assets for the year / period as a result of operations</b> | <b>19,326,983</b>                           | <b>515,084</b>                          | <b>19,842,067</b>   |
| Proceeds from subscriptions   | 19,951,741                                  | 1,650                                   | 19,953,391          |
| Payments for redemptions  | (56,657,217)                                | (11,392,682)                            | (68,049,899)        |
| <b>Net proceeds from shares transactions</b>                                    | <b>(36,705,476)</b>                         | <b>(11,391,032)</b>                     | <b>(48,096,508)</b> |
| <b>Net Assets at the end of the year / period</b>                               | <b>76,701,928</b>                           | <b>–</b>                                | <b>76,701,928</b>   |

\* Please refer to note 16.

The accompanying notes form an integral part of these financial statements.

# China Southern Dragon Dynamic Fund

## Net Asset Information as at December 31, 2019

|  | China New<br>Balance<br>Opportunity<br>Fund | CSOP<br>RMB High<br>Yield Bond<br>Fund* |
|--|---|---|
| <b>Total Net Assets (expressed in United States dollars)</b>         |   |   |
| December 31, 2019  | 76,701,928                                  | —                                       |
| December 31, 2018  | 94,080,421                                  | 10,875,948                              |
| December 31, 2017  | 198,732,620                                 | 11,002,922                              |
| <b>Net Asset Value per Share (expressed in share class currency)</b> |   |   |
| <b>Class A (USD) Acc</b>   |   |   |
| December 31, 2019  | 178.55                                      | 106.31*                                 |
| December 31, 2018  | 145.32                                      | 101.05                                  |
| December 31, 2017  | 218.63                                      | —                                       |
| <b>Class A (USD) Dis</b>   |   |   |
| December 31, 2019  | 133.92                                      | 133.21*                                 |
| December 31, 2018  | 109.00                                      | 126.61                                  |
| December 31, 2017  | 163.98                                      | 132.81                                  |
| <b>Class A (EUR) Dis</b>   |   |   |
| December 31, 2019  | —   | —                                       |
| December 31, 2018  | —   | 147.35                                  |
| December 31, 2017  | —   | 147.49                                  |
| <b>Class A (HKD) Acc</b>   |   |   |
| December 31, 2019  | 185.86                                      | —                                       |
| December 31, 2018  | 152.15                                      | —                                       |
| December 31, 2017  | 228.42                                      | —                                       |
| <b>Class A (HKD) Dis</b>   |   |   |
| December 31, 2019  | 145.61                                      | —                                       |
| December 31, 2018  | 119.20                                      | —                                       |
| December 31, 2017  | 178.96                                      | —                                       |
| <b>Class I (USD) Acc</b>   |   |   |
| December 31, 2019  | 216.68                                      | —                                       |
| December 31, 2018  | 174.53                                      | —                                       |
| December 31, 2017  | 260.39                                      | —                                       |
| <b>Class I (USD) Dis</b>   |   |   |
| December 31, 2019  | 65.47                                       | 129.59*                                 |
| December 31, 2018  | 52.73                                       | 123.09                                  |
| December 31, 2017  | 78.39                                       | 128.72                                  |

\* Please refer to note 16. The NAV/shares disclosed are as at the liquidation date.

# China Southern Dragon Dynamic Fund

## Net Asset Information as at December 31, 2019 (continued)

|                          | China New<br>Balance<br>Opportunity<br>Fund | CSOP<br>RMB High<br>Yield Bond<br>Fund* |
|--------------------------|---|---|
| Class I (EUR) Dis        |   |   |
| December 31, 2019        | —   | —                                       |
| December 31, 2018        | —   | 149.34                                  |
| December 31, 2017        | —   | 149.18                                  |
| Class I (HKD) Dis        |   |   |
| December 31, 2019        | —**   | —                                       |
| December 31, 2018        | 112.27                                      | —                                       |
| December 31, 2017        | 166.52                                      | —                                       |
| Class I (RMB) Dis        |   |   |
| December 31, 2019        | —   | —                                       |
| December 31, 2018        | —   | 129.01                                  |
| December 31, 2017        | —   | 127.87                                  |
| Class R (EUR) Hedged Dis |   |   |
| December 31, 2019        | —   | 111.06*                                 |
| December 31, 2018        | —   | 106.50                                  |
| December 31, 2017        | —   | 116.30                                  |
| Class V (EUR) Hedged Acc |   |   |
| December 31, 2019        | 123.39                                      | —                                       |
| December 31, 2018        | 102.53                                      | 98.80                                   |
| December 31, 2017        | 157.43                                      | 107.28                                  |

\* Please refer to note 16. The NAV/shares disclosed are as at the liquidation date.

\*\*The share class was put into dormancy on August 8, 2019.

# China Southern Dragon Dynamic Fund

## Notes to the Financial Statements as at December 31, 2019

### 1. Description of the SICAV

China Southern Dragon Dynamic Fund (the "SICAV") was originally incorporated on December 3, 2010 as a Luxembourg investment company with variable capital – specialised investment fund (société d'investissement à capital variable – fonds d'investissement spécialisé or SICAV-FIS) with multiple sub-funds governed by the provisions of the amended law dated February 13, 2007 on specialised investment funds.

The SICAV has been converted from a specialised investment fund to a UCITS on November 4, 2011 and is governed by the Part I of the Law of December 17, 2010, as amended by the Directive 2014/91 (UCITS V).

The Articles of Incorporation of the SICAV were published in the Mémorial, Recueil des Sociétés et Associations (the "Mémorial") on December 22, 2010. The SICAV is registered at the Luxembourg Register of Commerce under the number B 157.189. The revised articles were published on November 25, 2011.

As at December 31, 2019, the SICAV is comprised of the following sub-fund:

- China New Balance Opportunity Fund

The SICAV may in the future create new sub-funds and new share classes.

### 2. Significant Accounting policies

#### a) Basis of presentation

The financial statements have been prepared in accordance with Luxembourg legal and regulatory requirements relating to investment funds under the going concern basis of accounting.

#### b) Investment Securities

Listed securities and securities dealt in on another regulated market are valued on the basis of their last available market price at the date of these financial statements.

Transferable securities and money market instruments which are quoted, listed or traded on a regulated market or on another regulated market will be valued at last traded market prices, which may be, the closing market price, the mid-market price or the latest market price, as appropriate. Where a security is listed or dealt in on more than one regulated market or on another regulated market, the relevant exchange or market shall be the principal stock exchange or market on which the security is listed or dealt in on. Investments listed or traded on a regulated market or on another regulated market, but acquired or traded at a premium or at a discount outside or off the relevant exchange or market, may be valued taking into account the level of premium or discount as of the valuation day.

The value of any transferable security which is not quoted, listed or dealt in on a regulated market or on another regulated market or which is so quoted, listed or dealt in on but for which no such quotation or value is available or the available quotation or value is not representative, shall be the probable realisation value as estimated with care and good faith by the Directors and approved for the purpose by the Depositary.

Where reliable market quotations are not available for fixed income securities, the value of such securities may be determined using matrix methodology compiled by the Directors.

# China Southern Dragon Dynamic Fund

## Notes to the Financial Statements as at December 31, 2019 (continued)

### 2. Significant Accounting policies (continued)

#### c) Foreign currency translation

The financial statements and accounting records of each sub-fund are expressed in USD.

Amounts included in the Statement of Operations and Changes in Net Assets in foreign currency are translated into USD at the rate of exchange prevailing on the date of the transaction.

Assets and liabilities denominated in other currencies are converted into USD at the exchange rate prevailing at the closing date of the financial statements.

Any resulting gains or losses are recognised in the Statements of Operations and Changes in Net Assets under the heading "Net realised gain/ (loss) on foreign exchange".

Main exchange rates used as of December 31, 2019 are:

1 USD = 6.961994 CNH\*  
1 USD = 0.890670 EUR  
1 USD = 7.786646 HKD

\* The valuation of Renminbi ("RMB") assets, denominated in Chinese Renminbi ("CNY") and traded through Hong Kong or Singapore, is done at the Hong Kong delivered Chinese Renminbi ("CNH") foreign exchange rate.

#### d) Formation Expenses

The formation expenses represent the cost of establishing the SICAV and its sub-funds. The formation costs are amortised on a straight line basis over 5 years from the date on which sub-funds commenced business.

#### e) Interest Income

Interest income includes interest applied to bonds and interest applied to bank accounts. It is accrued on a daily basis.

#### f) Dividend Income

Dividends are accounted for on an "ex-dividend" basis net of any irrecoverable withholding tax.

#### g) Realised Gains or Losses on Sales of Investments and on foreign exchange

Realised gains or losses comprise the profit or loss arising from disposal of securities during the year and differences arising on the revaluation of other assets and liabilities denominated in foreign currencies.

Realised gains or losses are determined on the basis of the weighted average cost of the securities sold.

#### h) Combined Figures

The combined Statement of Operations and Changes in Net Assets is expressed in USD and is presented for information purposes only.

#### i) Forward foreign exchange contracts

The forward foreign exchange contracts are valued on the basis of forward foreign exchange rates prevailing on December 31, 2019. The change in unrealised gain or loss is disclosed in the Statement of Operations and Changes in Net Assets under "net change in unrealised appreciation /(depreciation) on forward foreign exchange contracts". The realised gain / (loss) on forward foreign exchange contracts is disclosed in the Statement of Operations and Changes in Net Assets under "net realised gain/(loss) on forward foreign exchange contracts".

# China Southern Dragon Dynamic Fund

## Notes to the Financial Statements as at December 31, 2019 (continued)

### 2. Significant Accounting policies (continued)

#### j) Futures contracts

The futures contracts are valued at the last available settlement price or the last available market price of the instruments. The change in unrealised gain or loss on futures contracts is disclosed in the Statement of Operations and Changes in Net Assets under "net change in unrealised appreciation /(depreciation) on futures contracts". The realised gain / (loss) on futures contracts is disclosed in the Statement of Operations and Changes in Net Assets under "net realised gain/(loss) on futures contracts".

### 3. Management Fees

The Investment Manager, CSOP Asset Management Limited, will receive from each sub-fund, payable out of the assets attributable to the relevant class of shares, the following management fees calculated and accrued on each valuation day on the basis of the Net Asset Value of the assets attributable to the relevant class of shares and paid out monthly in arrears on the relevant valuation day:

| Sub-Funds                          | Class A    | Class I    | Class V    |
|------------------------------------|------------|------------|------------|
| China New Balance Opportunity Fund | 2.00% p.a. | 1.00% p.a. | 1.00% p.a. |

### 4. Management Company Fees

The Management Company is entitled to receive a management company fee maximum of 0.05% per year, subject to an annual minimum fee of EUR 20,000 for the SICAV. This fee is payable monthly and based on the average net assets of the Sub-Fund during the relevant month.

### 5. Performance Fees

The Investment Manager, CSOP Asset Management Limited, will receive from Class V and I Shares of China New Balance Opportunity Fund a performance fee calculated and accrued on each valuation day on the basis of the increase in the Net Asset Value per Share outstanding. The performance fees are equal to 20% of the increase in the Net Asset Value per Share, with the Hurdle rate of 8% for each performance period. The performance fees are also subject to a High Water Mark ("The High Water Mark" is the greater of: (a) the highest Net Asset Value per Share on the last day of the previous Performance Period; or (b) USD 100 per Share (being the price at which Shares were issued during the Initial Offer Period)).

The performance fee in respect of each performance period is calculated by reference to the Net Asset Value per Share before the deduction of any accrued Performance Fees.

The performance fee is calculated and accrued in a daily basis and payable annually.

The Investment Manager is entitled to be paid a Performance Fee on the Shares outstanding as at the last Valuation Day of each Performance Period and a Performance Fee on the Shares being redeemed or exchanged during a Performance Period.

### 6. Taxation

The SICAV is subject to Luxembourg tax laws. Under current laws and regulations, the SICAV is subject in Luxembourg to the subscription tax (« taxe d'abonnement ») at an annual rate of 0.05% (0.01% for institutional share classes) such tax being payable quarterly and calculated on the basis of the net assets at the end of the relevant quarter. The SICAV is not subject to Corporate Income Tax in Luxembourg. Income received from the SICAV may be subject to withholding taxes in the country of origin of the issuer of the security, in respect of which such income is paid.



# China Southern Dragon Dynamic Fund

## Notes to the Financial Statements as at December 31, 2019 (continued)

### 7. Depositary, Paying and Domiciliary Agent, Fund Administrator, and Transfer and Registrar Agent

The SICAV pays the fees of the Depositary, Paying and Domiciliary Agent, Fund Administrator, and Transfer and Registrar Agent at commercial rates agreed between these parties and the SICAV, in addition to reasonable out-of-pocket expenses properly incurred in the course of carrying out their duties. The maximum fee paid for these services by the SICAV is 0.5% p.a. of its Net Asset Value (excluding reasonable out-of-pocket expenses) and subject to a minimum of USD 35,000 per year.

### 8. Directors fees

The SICAV shall pay to the Directors out of the assets of the SICAV an annual fee, which shall not exceed USD 15,000 per Director, per annum.

For the year ended December 31, 2019, an amount of USD 15,794 has been accrued for the SICAV. The effective invoices for the year amount to USD 15,000.

### 9. Changes in the Investment Portfolio

The details of the changes in investment portfolio composition are held at the disposal of the shareholders at the registered office of the SICAV and are available upon request free of charge.

### 10. Related Party Transactions

All transactions with related parties were entered into the ordinary course of business and under normal commercial terms. The main related party to the SICAV is the Investment Manager, CSOP Asset Management Limited. For the basis of the fees charged by the Investment Manager please refer to note 3 and note 5 above.

### 11. Soft Commission

During the year covered by this financial report, the Investment Manager entered into soft-dollar commissions/arrangements with the following entities:

| Company  | Total Commission Paid                   |
|--|---|
| China International Capital Corporation Hong Kong Securities Limited | HKD 435,123<br>USD 9,540                |
| China Industrial Securities International Brokerage Limited          | HKD 226,800                             |
| China Merchants Securities (HK) Co., Limited                         | HKD 760,485                             |
| Citigroup Global Markets Limited                                     | HKD 493,429<br>CNH 2,748                |
| Credit Suisse (Hong Kong) Limited                                    | HKD 340,984<br>CNH 20,855<br>USD 55,140 |

### 12. Transaction costs

For the year ended December 31, 2019, the SICAV incurred transaction costs related to purchase or sale of financial instruments (securities and derivatives) as follows:

China New Balance Opportunity Fund: USD: 1,115,069

The amount of transaction costs supported by the Fund is included in the Statement of Operations and Changes in Net Assets under the heading "Transaction fees".

The transaction costs mainly relate to brokerage fees.

# China Southern Dragon Dynamic Fund

## Notes to the Financial Statements as at December 31, 2019 (continued)

### 13. Outstanding forward foreign exchange contracts

As at December 31, 2019, the China New Balance Opportunity Fund had the following outstanding forward foreign exchange contracts:

| CCY purchased | Amount bought | CCY sold | Amount sold | Maturity Date     | Counterparty | Unrealised gain / (loss) in USD |
|---------------|---------------|----------|-------------|-------------------|--------------|---------------------------------|
| USD           | 477*          | EUR      | 431         | February 10, 2020 | Citigroup    | (8)                             |
| USD           | 7,784*        | EUR      | 6,990       | February 10, 2020 | Citigroup    | (84)                            |
| USD           | 522*          | EUR      | 470         | February 10, 2020 | Citigroup    | (8)                             |
| USD           | 477*          | EUR      | 430         | February 10, 2020 | Citigroup    | (7)                             |
| USD           | 590*          | EUR      | 530         | February 10, 2020 | Citigroup    | (6)                             |
| EUR           | 341*          | USD      | 377         | February 10, 2020 | Citigroup    | 6                               |
| EUR           | 405*          | USD      | 454         | February 10, 2020 | Citigroup    | 1                               |
| EUR           | 100*          | USD      | 112         | February 10, 2020 | Citigroup    | 1                               |
| EUR           | 20,702*       | USD      | 23,252      | February 10, 2020 | Citigroup    | 52                              |
| EUR           | 300*          | USD      | 334         | February 10, 2020 | Citigroup    | 4                               |
| EUR           | 510*          | USD      | 568         | February 10, 2020 | Citigroup    | 6                               |
|               |               |          |             |                   |              | <b>(43)</b>                     |

\* The purpose of these forward foreign exchange contracts is to hedge the currency exposure of the Class V (EUR) Hedged Acc.

Total commitment on open forward foreign exchange contracts at year-end before netting and hedging arrangements amounts to USD 34,951.

As at December 31, 2019, there is no collateral related to the forward foreign exchange contracts.

### 14. Securities Lending

In accordance with the provisions set forth in the CSSF Circular 08/356, the SICAV may enter into securities lending in respect of securities held within the portfolio of a Sub-Fund in order to generate capital or additional income and to reduce costs or risk.

The SICAV may only lend securities through a standardised system organised by a recognised clearing institution or through a first class financial institution subject to prudential supervision rules considered by the CSSF as equivalent to those prescribed by Community law and specialized in this type of transactions. As part of and during the lifetime of the lending transactions, the SICAV must in principle receive a guarantee, the value of which must be at least equivalent to 90% of the global valuation of the securities lent. This guarantee must be given in the form of liquid assets and/or in the form of securities, and may be reinvested under the conditions set out in CSSF Circular 08/356. The SICAV must ensure that the volume of the Securities Lending transactions is kept at an appropriate level or that it is entitled at any time under the terms of the agreement to request the return of the securities lent or to terminate the agreement.

As at 31 December 2019, the China New Balance Opportunity Fund had the following securities on loan:

| Counterparty               | Market Value of Securities on Loan | Type of Collateral | Amount of Collateral Received |
|----------------------------|------------------------------------|--------------------|-------------------------------|
| J.P. MORGAN SECURITIES PLC | 831,530                            | Bond               | 896,852                       |
| MACQUARIE BANK LIMITED     | 1,296,178                          | Bond               | 1,345,469                     |
|                            | <b>2,127,708</b>                   |                    | <b>2,242,321</b>              |

For the year ended 31 December 2019, the amounts of income received by the China New Balance Opportunity Fund from securities lending are as follows (in USD):

|  |               |
|--|---------------|
| Gross Amount of Securities Lending Income      | 57,263        |
| Direct and Indirect Costs and Fees             | 17,179        |
| <b>Net Amount of Securities Lending Income</b> | <b>40,084</b> |

# **China Southern Dragon Dynamic Fund**

## **Notes to the Financial Statements as at December 31, 2019 (continued)**

### **15. Dividend paid**

No dividend was paid during the year ended December 31, 2019.

### **16. Other important information**

On March 15, 2019, the Board resolved to liquidate the CSOP RMB High Yield Bond Fund with effect on March 29, 2019. As at December 31, 2019 there is cash remaining for an amount of USD 40,165, held to pay the pending invoices and to be then distributed to the last shareholder of the sub-fund. Final payment to shareholders has been processed on March 23, 2020.

### **17. Subsequent event**

The Investment Manager is closely monitoring and responding to developments concerning the outbreak of COVID-19. The Investment Manager, the Administrator and the Custodian have all deployed business continuity arrangements to minimise interruption to business in respect of the COVID-19 pandemic. At the time of signing these financial statements there remains uncertainty regarding the full impact of COVID-19. The Fund Board, the Investment Manager and the other key service providers will continue to monitor developments and respond as appropriate.

# China Southern Dragon Dynamic Fund

## Schedule of Investments (expressed in United States dollars)

As at December 31, 2019

### China New Balance Opportunity Fund

| Quantity   | Description   | Market Value      | % NAV         |
|--|---|-------------------|---------------|
| <b>Transferable securities and money market instruments admitted to an official exchange listing</b>       |   |                   |               |
| <b>CNY Equities</b>  |   |                   |               |
| 20,000   | Kweichow Moutai Company Limited - A                         | 3,398,451         | 4.43          |
| <b>Total CNY Equities</b>  |   | <b>3,398,451</b>  | <b>4.43</b>   |
| <b>HKD Equities</b>  |   |                   |               |
| 600,000  | AIA Group Limited   | 6,303,100         | 8.23          |
| 270,000  | Alibaba Group Holding Limited                               | 7,184,608         | 9.37          |
| 480,000  | A-Living Services Company Limited - H                       | 1,658,224         | 2.16          |
| 4,000,000  | Anton Oilfield Services Group                               | 457,193           | 0.60          |
| 240,000  | ASM Pacific Technology Limited                              | 3,331,858         | 4.34          |
| 150,000  | Cansino Biologics Inc. - H                                  | 1,135,598         | 1.48          |
| 3,000,000  | China Animal Healthcare Limited*                            | —                 | —             |
| 200,000  | China Conch Venture Holdings                                | 873,290           | 1.14          |
| 900,000  | China Gas Holdings Limited                                  | 3,375,009         | 4.40          |
| 1,600,000  | China International Capital Corporation                     | 3,086,310         | 4.02          |
| 1,100,000  | China Life Insurance Company Limited - H                    | 3,058,441         | 3.99          |
| 3,600,000  | CSC Financial Company Limited - H                           | 3,106,857         | 4.05          |
| 1,025,200  | Guangzhou R&f Properties Company Limited                    | 1,893,290         | 2.47          |
| 7,600,000  | Haitong International Securities Group Limited              | 2,313,191         | 3.02          |
| 157,000  | Hong Kong Exchanges and Clearing Limited                    | 5,101,170         | 6.65          |
| 7,000,000  | Honghua Group Limited                                       | 476,457           | 0.62          |
| 3,300,000  | Kingdee International Software Group Company Limited        | 3,301,421         | 4.30          |
| 1,800,000  | KWG Property Holding Limited                                | 2,524,321         | 3.29          |
| 750,000  | Li Ning Company Limited                                     | 2,249,043         | 2.93          |
| 900,000  | Melco International Development Limited                     | 2,531,257         | 3.30          |
| 250,000  | New China Life Insurance Company - H                        | 1,075,559         | 1.40          |
| 700,000  | Sands China Limited   | 3,744,231         | 4.88          |
| 200,000  | Shenzhou International Group Holdings Limited               | 2,925,522         | 3.81          |
| 200,000  | Sichuan Languang Justbon Services Group Company Limited - H | 1,276,545         | 1.66          |
| 2,600,000  | Sound Global Limited*                                       | —                 | —             |
| 300,000  | Sunac China Holdings Limited                                | 1,793,454         | 2.34          |
| 156,700  | Tencent Holdings Limited                                    | 7,558,648         | 9.86          |
| 800,000  | Times Property Holdings Limited                             | 1,596,580         | 2.08          |
| <b>Total HKD Equities</b>  |   | <b>73,931,177</b> | <b>96.39</b>  |
| <b>Total Transferable securities and money market instruments admitted to an official exchange listing</b> |   | <b>77,329,628</b> | <b>100.82</b> |
| <b>Total Investments in Securities</b>   |   | <b>77,329,628</b> | <b>100.82</b> |
| <b>Other Net Liabilities</b>   |   | <b>(627,700)</b>  | <b>(0.82)</b> |
| <b>Total Net Assets</b>  |   | <b>76,701,928</b> | <b>100.00</b> |

\* Illiquid security

The accompanying notes form an integral part of these financial statements.

# China Southern Dragon Dynamic Fund

## Economic and Geographical Classification

As at December 31, 2019

### China New Balance Opportunity Fund

#### Economic Classification as at December 31, 2019

| <b>Sector</b>                          | <b>% NAV</b>  |
|--|---------------|
| Internet software and services         | 19.23         |
| Insurance                              | 13.62         |
| Financial services                     | 9.67          |
| Investment companies                   | 8.07          |
| Real estate                            | 7.92          |
| Real estate investment trust           | 6.08          |
| Oil and gas services                   | 5.62          |
| Leisure and entertainment              | 4.88          |
| Beverages                              | 4.43          |
| Semiconductors                         | 4.34          |
| Software                               | 4.30          |
| Apparel                                | 3.81          |
| Diversified companies                  | 3.30          |
| Retail                                 | 2.93          |
| Biotechnology                          | 1.48          |
| Commercial services                    | 1.14          |
| <b>Total Investments in Securities</b> | <b>100.82</b> |
| <b>Other Net Liabilities</b>           | <b>(0.82)</b> |
| <b>Total Net Assets</b>                | <b>100.00</b> |

#### Geographical Classification as at December 31, 2019

| <b>Country</b>                         | <b>% NAV</b>  |
|--|---------------|
| Cayman Islands                         | 40.21         |
| China                                  | 26.62         |
| Hong Kong                              | 26.57         |
| Bermuda                                | 7.42          |
| <b>Total Investments in Securities</b> | <b>100.82</b> |
| <b>Other Net Liabilities</b>           | <b>(0.82)</b> |
| <b>Total Net Assets</b>                | <b>100.00</b> |

# China Southern Dragon Dynamic Fund

## Unaudited Supplementary Information

### Global Exposure

The SICAV uses a risk-management process that enables to monitor and measure at any time the risk of the Sub-Funds' portfolio positions and their contribution to the overall risk profile of the SICAV.

The Commitment Approach is used for the sub-fund.

Global Exposure is measured with the Commitment Approach calculated along the guidelines of ESMA 10-788.

### European Regulation (EU) 2015/2365 on the transparency of financial transactions in securities and reuse of collateral (Securities Financing Transactions or SFTR)

The SICAV engages in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, Securities Financing Transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-sell back transactions or sell-buy back transactions and margin lending transactions) through its exposure on securities lending transactions during the year. In accordance with Article 13 of the Regulation, the information on securities lending transactions is detailed below:

#### a) Global Data

##### *Amount of assets engaged in securities lending transactions*

The following table represents the value of assets engaged in securities lending transactions as a proportion of the Sub-Fund's total lendable assets as at 31 December 2019. Total lendable assets represents the aggregate value of asset types forming part of the Sub-Funds' securities lending program.

| <b>Market Value of loaned securities (in USD)</b> | <b>% of Total lendable assets</b> | <b>% of Total Net Asset Value</b> |
|---|-----------------------------------|-----------------------------------|
| 2,127,708   | 3.13%                             | 2.77%                             |

#### b) Concentration data

##### *Ten largest collateral issuers*

| <b>Issuer</b>              | <b>Type of collateral</b> | <b>Market Value of Collateral (in USD)</b> |
|----------------------------|---------------------------|--|
| French Republic Government | Government Bond           | 896,852                                    |
| Japan Government           | Government Bond           | 1,345,469                                  |

##### *Top ten counterparties*

| <b>Counterparty</b>      | <b>Country of Incorporation</b> | <b>Market Value of Collateral (in USD)</b> |
|--------------------------|---------------------------------|--|
| JP Morgan Securities PLC | United Kingdom                  | 896,852                                    |
| Macquarie Bank Limited   | United Kingdom                  | 1,345,469                                  |

# China Southern Dragon Dynamic Fund

## Unaudited Supplementary Information

### c) Aggregate Transaction data

#### *Type and quality of collateral*

|                    |                  | Market Value of Collateral |
|--------------------|------------------|----------------------------|
| Type of collateral | Quality          | (in USD)                   |
| Government Bond    | Investment Grade | 2,242,321                  |

#### *Maturity tenor of collateral*

|                           |           |
|---------------------------|-----------|
| Less than one day         | -         |
| One day to one week       | -         |
| One week to one month     | -         |
| One month to three months | -         |
| Three months to one year  | -         |
| Above one year            | 2,242,321 |
| Open transactions         | -         |

#### *Currency of collateral*

| Currency | Market Value of Collateral (in USD) |
|----------|-------------------------------------|
| EUR      | 896,852                             |
| JPY      | 1,345,469                           |

#### *Maturity tenor of securities lending transactions*

|                           |           |
|---------------------------|-----------|
| Less than one day         | -         |
| One day to one week       | -         |
| One week to one month     | -         |
| One month to three months | -         |
| Three months to one year  | -         |
| Above one year            | -         |
| Open transactions         | 2,127,708 |

#### *Country in which counterparties are established*

The country in which counterparties are established is disclosed under the section "Top Ten Counterparties" above.

#### *Settlement and clearing*

The Sub-Fund's securities lending transactions, including related collateral, are settled and cleared on a tri-party basis.

### d) Safekeeping of collateral

#### *Collateral received*

The financial guarantees received by the Sub-Fund will be kept by the Depositary or, failing that, by any third party depositary (such as Euroclear Bank SA/NV) which is subject to a prudential supervision and that has no link with the guarantee provider.

#### *Collateral granted*

There is no collateral granted in respect of securities lending transactions.

# China Southern Dragon Dynamic Fund

## Unaudited Supplementary Information

### e) Reuse of collateral

Non-cash collateral received in relation to securities lending transactions cannot be sold, reinvested or pledged.

### f) Return and cost

The total income earned from securities lending transactions is split between the Sub-Fund and the securities lending agent. Details of this split are disclosed in the below table:

|                                      | <b>in Percentage</b> |
|--------------------------------------|----------------------|
| Lending income (Gross)               | 100%                 |
| Lending Agent Fees (in Percentage)   | 30%                  |
| Lending Income (Net) (in Percentage) | 70%                  |

## Remuneration policies and practices

The Management Company has established and applies a remuneration policy and practices that are consistent with, and promote, sound and effective risk management and that neither encourage risk taking which is inconsistent with the risk profiles, rules, the Prospectus or the Articles of Incorporation nor impair compliance with the Management Company's obligation to act in the best interest of the SICAV (the Remuneration Policy).

The Remuneration Policy includes fixed and variable components of salaries and applies to those categories of staff, including senior management, risk takers, control functions and any employee receiving total remuneration that falls within the remuneration bracket of senior management and risk takers whose professional activities have a material impact on the risk profiles of the Management Company, the SICAV or the Sub-Funds. Within the Management Company, these categories of staff represent 22 persons.

The Remuneration Policy is in line with the business strategy, objectives, values and interests of the Management Company, the SICAV and the Shareholders and includes measures to avoid conflicts of interest.

In particular, the Remuneration Policy will ensure that:

- a) the staff engaged in control functions are compensated in accordance with the achievement of the objectives linked to their functions, independently of the performance of the business areas that they control;
- b) the fixed and variable components of total remuneration are appropriately balanced and the fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility to pay no variable remuneration component;
- c) the measurement of performance used to calculate variable remuneration components or pools of variable remuneration components includes a comprehensive adjustment mechanism to integrate all relevant types of current and future risks.

The following table shows the fixed and variable remuneration in 2019 for the Identified Staff (22 persons), who is fully or partly involved in the activities of all the funds managed by the Management Company. For the purposes of the below disclosures, where portfolio management activities have been formally delegated to another entity, the remuneration of the relevant identified staff of the delegate has been excluded, as it is not paid out by the Management Company or by the SICAV.



# China Southern Dragon Dynamic Fund

## Unaudited Supplementary Information (continued)

### Remuneration policies and practices (continued)

Staff expenses split into fixed and variable remuneration

Wages and salaries

- a. Fixed
- b. Variable

Staff expenses broken down by categories of staff subject to UCITS V pay rules (in EUR):

| Staff code | Fixed remuneration | Variable Remuneration | Total        |
|------------|--------------------|-----------------------|--------------|
| S          | 1,809,599.25       | 327,500.00            | 2,137,099.25 |
| R          | 713,989.33         | 41,000.00             | 754,989.33   |
| C          | 538,324.58         | 50,500.00             | 588,824.58   |
| O          | 0                  | 0                     | 0            |

S = Senior Management

R = Risk takers, which includes staff members whose professional activities can exert material influence on UCITS or AIFs managed by Lemanik Asset Management S.A. ("LAM").

C = Staff engaged in control functions (other than senior management) responsible for risk management, compliance, internal audit and similar functions

O = Any other staff member receiving total remuneration that takes them into the same remuneration bracket as senior management and risk-takers, whose professional activities have a material impact on LAM's risk profile.

A paper copy of the summarised Remuneration Policy is available free of charge to the Shareholders upon request.

No material changes have been made to the remuneration policy.



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