Schroders

Schroder Unit Trusts

Explanatory Memoranda

October 2020 Edition

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IMPORTANT: This letter is important and requires your attention. If you have any questions about the content of this letter, you should seek independent professional advice. Schroder Investment Management (Hong Kong) Limited being the manager of the relevant funds accepts full responsibility for the accuracy of the information contained in this letter and confirms, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement misleading.

19 June 2020

Dear Unitholder,

Important changes to our fund administration activities

We refer to our letter to you dated 1 July 2019 notifying you of the delegation of registrar's functions by HSBC Institutional Trust Services (Asia) Limited ("**HTHK**"), the trustee of the funds (as listed in the Appendix) in which you are invested, to HSBC France, Luxembourg Branch ("**HSBC Lux**") on 1 July 2019.

We have been informed by HTHK, that the HSBC group is restructuring how they provide services to our funds in Asia. Consequently, with effect from 1 July 2020, HTHK will instead delegate the registrar's functions to The Hongkong and Shanghai Banking Corporation Limited ("**HBAP**").

This delegation does not affect the investment management of the funds you are invested in, their fee structure or your ownership of units, therefore the purpose of this letter is informational only. You are not required to take any action in response to this letter. The costs of making this change, including regulatory and unitholder communication costs, will not be borne by investors.

The contact details you use are unchanged.

There will be no other changes to existing communication or electronic trading channels due to this change.

If you have any questions or would like more information, please contact your usual professional advisor or Schroder Investment Management (Hong Kong) Limited at Level 33, Two Pacific Place, 88 Queensway, Hong Kong or calling the Schroders Investor Hotline on (+852) 2869 6968.

Yours faithfully,
For and on behalf of
Schroder Investment Management (Hong Kong) Limited

Amy Cho
Chief Executive Officer, Hong Kong

Appendix

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About Schroder Investment Management (Hong Kong) Limited Schroder Investment Management (Hong Kong) Limited manages a wide range of unit trusts investing in markets worldwide, but with a concentration on South East Asia. The Manager is one of the leading investors on behalf of pension funds, institutional funds and private client portfolios for Hong Kong and international clients.

The ultimate holding company of the Manager is Schroders plc, an international investment group based in London and established in 1804. The Schroder Group worldwide as at 31 December 2019 manages assets of more than US$662.6 billion.

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ADMINISTRATION

Manager
Schroder Investment Management (Hong Kong) Limited
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Directors of the Manager
Ms. Amy Cho (Chief Executive Officer and Chairman)
Mr. Steve R. Bryant
Ms. Rena B.L. Tsang
Ms. Louisa W.L. Lo
Ms. Susan S.Y. Soh

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October 2020

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

In particular, nationals or residents of, or persons domiciled in, countries other than Hong Kong should consult their financial advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to acquire units and as to any taxation effects, foreign exchange restrictions or exchange control requirements applicable.

No action has been taken to permit an offering of units of Schroder Balanced Investment Fund (formerly Schroder Asia Balanced Investment Fund) (the “Fund”) or distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong, where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, units in the Fund may be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised.

Receipt of any document about the Fund does not constitute an offer of units in those jurisdictions in which it is illegal to make such an offer.

Units of the Fund have not been and will not be registered under the United States Investment Company Act of 1940 as amended (the “Investment Company Act”). The units have not been and will not be registered under the United States Securities Act of 1933 as amended (the “Securities Act”) or under the securities laws of any state of the United States of America (“US”) and such units may be offered, sold or otherwise transferred only in compliance with the Securities Act and such state or other securities laws. The units may not be offered or sold within the US or to or for the account, of any US Person. For these purposes, “US Person” is as defined in Rule 902 of Regulation S under the Securities Act or the Internal Revenue Code of 1986, as amended including to reflect the provisions of FATCA (the “IR Code”).

Rule 902 of Regulation S under the Securities Act defines “US Person” to include inter alia any natural person resident of the US and with regards to investors other than individuals, (i) a corporation or partnership organised or incorporated under the laws of the US or any state thereof; (ii) a trust: (a) of which any trustee is a US Person except if such trustee is a professional fiduciary and a co-trustee who is not a US Person has sole or shared investment discretion with regard to trust assets and no beneficiary of the trust (and no settlor if the trust is revocable) is a US Person or (b) where a court is able to exercise primary jurisdiction over the trust and one or more US fiduciaries have the authority to control all substantial decisions of the trust and (iii) an estate (a) which is subject to US tax on its worldwide income from all sources; or (b) for which any US Person is executor or administrator except if an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with regard to the assets of the estate and the estate is governed by foreign law.

The term “US Person” also means any entity organised principally for passive investment (such as a commodity pool, investment company or other similar entity) that was formed: (a) for the purpose of facilitating investment by a US Person in a commodity pool with respect to which the operator is exempt from certain requirements of Part 4 of the regulations promulgated by the United States Commodity Futures Trading Commission by virtue of its participants being non-US Persons or (b) by US Persons principally for the purpose of investing in securities not registered under the Securities Act, unless it is formed and owned by “accredited investors” (as defined in Rule 501 (a) under the Securities Act) who are not natural persons, estates or trusts.

Pursuant to the IR Code, the term “US Person” means (i) a citizen or resident of the US, (ii) a partnership or other entity treated as a partnership for US federal income tax organized under the laws of the US or any political subdivision thereof, (iii) a corporation or other entity treated as a corporation for US federal income tax purposes organized under the laws of the US or any political subdivision thereof, (iv) an estate the income of which is subject to US federal income tax without regard to its source or (v) a trust, if, either (a) a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to be treated as a US person.

The Fund is not authorised under the United Kingdom Financial Services and Markets Act 2000 (the “FSMA”) in the United Kingdom and accordingly this Explanatory Memorandum must not be distributed in the United Kingdom other than to certain categories of person as specified in regulations made under the FSMA. Such categories include certain persons with sufficient expertise such as authorised persons, who understand the risks involved.

Distribution of this Explanatory Memorandum in Hong Kong must be accompanied by the Product Key Facts Statements of the Fund, a copy of the latest available annual report and accounts of the Fund, any subsequent interim report. Units issued after the date of this Explanatory Memorandum are offered on the basis only of the information contained in this Explanatory Memorandum. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorised and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of the units shall not in any way constitute a representation that the information and representations given herein or in such documents are correct as at any time subsequent to the date of this Explanatory Memorandum or such documents.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong (the “SFC”). The 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. The Manager accepts full responsibility for the accuracy, as at the date of this Explanatory Memorandum, of the information contained in this Explanatory Memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

Enquiries and Complaints

Enquiries and complaints concerning the Fund (including information concerning subscription and redemption procedures and the current net asset value of the Fund) should be directed to the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong or by electronic mail at schroders@schroders.com.hk or by phone at +852 2869 6968.

SUMMARY

Principal Features of the Schroder Balanced Investment Fund

- Investment in quoted securities, and fixed income securities, other asset classes and money market instruments and cash worldwide directly or through investment in funds investing in the foregoing investments.
- Active investment management to achieve long term capital growth.
- Access to the specialist investment management expertise of Schroder Group.
- Minimum investment of HK$5,000 or US$1,000.
- Daily valuations and dealing.
- A fund authorised in Hong Kong; denominated in HK dollars.

INVESTMENT POLICY

Investment Objective and Policy

The Fund's investment objective is capital growth in HK dollars through investing in quoted equities, and fixed income securities, other asset classes and money market instruments and cash in any part of the world directly or through investment in funds (including qualified exchange traded funds) ("Underlying Schemes") investing in the foregoing investments. The Fund may directly invest up to 90% of its net asset value in quoted equities and up to 50% of its net asset value in fixed income securities. The Fund's investment is not subject to any prescribed limit on the region, country, industry, credit rating or market capitalisation of the investment.

Up to 100% of the Fund's net asset value may be invested in Underlying Schemes. The Fund will only invest in other funds authorized by the Securities and Futures Commission (the "SFC") (except for hedge funds under 8.7 of the Code on Unit Trusts and Mutual Funds ("UT Code")) or in eligible schemes[Note] domiciled in jurisdictions recognized by the SFC (whether authorized by the SFC or not), except that not more than 10% of the Fund's net asset value may be invested in non-eligible schemes not authorized by the SFC.

The Fund may, if the Manager considers fit, seek exposure of not more than 15% of its net asset value to other asset classes including but not limited to commodities (including energy, metals and agricultural commodities) indirectly through Underlying Schemes.

The Fund will actively allocate between different asset classes including equities, fixed income securities, other asset classes, money market instruments and cash to achieve the Fund's objectives. The Fund will also make changes to the regional allocation within each of the asset class. The Fund uses a risk-premia approach to analyse different asset classes to identify the driving forces behind the risks and returns of asset classes. The analysis is based on a combination of fundamental and quantitative factors such as asset class valuation, macroeconomic data and liquidity. Money market instruments and cash will be treated as a separate asset class and will be deployed if necessary to limit downside risk during adverse market conditions.

In addition to active asset allocation, the Fund also aims to achieve its investment objectives through investment in the Underlying Schemes, which perform active security selection. The allocation to the Underlying Schemes is actively managed based on the Underlying Schemes' investment universes, investment strategies, risk and return profiles and the prevailing market conditions.

The Fund's expected asset allocation ranges for each asset class, either directly or through investment in Underlying Schemes, is expected to be the following:

Equities: 50 – 90%
Fixed income: 10 – 50%
Other asset classes: 0 – 15%
Money market instruments and cash: 0-30%

The Fund may acquire financial derivative instruments for hedging and non-hedging purposes.

The Fund may invest in Underlying Schemes of which the net derivative exposure is more than 50% of the Underlying Scheme's latest available net asset value. Investment in any single Underlying Scheme with a net derivative exposure exceeding 50% of its net asset value, which is (i) an SFC authorized fund (except for hedge funds under 8.7 of the UT Code) or (ii) an eligible scheme[Note] which is not authorized by the SFC, will not be more than 30% of the Fund's net asset value.

Note: "Eligible schemes" refer to UCITS schemes domiciled in Ireland, Luxembourg or the United Kingdom and, in accordance with their home regulation, such UCITS schemes may adopt the commitment approach or value at risk approach in monitoring the derivative exposure or risk of the UCITS schemes.

Borrowing and Leverage

The Trust Deed permits borrowing to be used to purchase or facilitate the purchase of investments for the Fund to provide monies to meet redemption requests and to pay operation expenses. The Manager intends to use this power to borrow but it is not however intended that gearing will form part of the investment policy.

Please refer to Schedule 1 for further details on the borrowing restrictions of the Fund.

Use of Derivatives

The Fund's net derivative exposure may be up to 50% of the Fund's latest available net asset value.

In relation to over-the-counter derivative transactions, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting.

Securities Financing Transactions

The Manager currently does not intend to enter into any securities financing transactions in respect of the Fund.

Change of Investment Policy

The Manager has power to change the investment policy from time to time within the investment restrictions contained in the Trust Deed.

INVESTMENT AND BORROWING RESTRICTIONS The Trust Deed sets out the investment and borrowing restrictions of the Fund, and a summary thereof are set out in Schedule 1.

RISK FACTORS

General risks

– The prices of units depend on the market values of the Fund's investments and such prices as well as the income from units can go down as well as up. Past performance of the Fund does not indicate the future performance. The Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment and are prepared for medium to high levels of risk.

– The Fund may invest in other funds. The Fund's performance will be affected by the performance of the Underlying Schemes and is subject to all the risks associated with the Underlying Schemes' investments and cash exposure including, among others, market, interest rate, currency, exchange rate, economic, credit, liquidity, counterparty, foreign securities and political risks. The Fund does not have control of the investments of the Underlying Schemes and there can be no assurance that the Underlying Schemes' objectives will be achieved. The Underlying Schemes in which the fund may invest may not be regulated by the SFC. Investors will bear the recurring expenses of the Fund in addition to the expenses of the Underlying Schemes, and therefore, the returns that they may obtain may not reflect the returns that they obtained by investing directly in the Underlying Schemes. There is also no guarantee that the Underlying Schemes will always have sufficient liquidity to meet the fund's redemption requests as and when made.

– Investment in the Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account.

– Investment decisions of the Underlying Schemes are made at the level of such Underlying Schemes and it is possible that the managers of such Underlying Schemes will take positions or engage in transactions in the same securities or in issues of the same asset class, industry or country or currency at the same time. Consequently there is concentration risk.

– The Fund may invest in a number of Underlying Schemes, which employ different strategies and objectives and invest in different types of securities and markets. Each type of security and market bears certain kinds of risks that may or may not be unique to the type of security and market. There is no assurance that the risks involved in different types of securities and markets are uncorrelated or independent and that diversification requirements will remove risks.

Market risk

– Investors should be aware that the value of securities in which the Fund or the Underlying Schemes invest, and the return derived from it can fluctuate. The Fund or the Underlying Schemes invest in and actively trade securities utilising strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the fixed income and equity and the risks associated with the use of derivative transactions, short sale positions, leverage and foreign securities. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as actions by various governmental agencies and domestic or international economic and political developments, may cause sharp market fluctuations, which could significantly and adversely affect the results of the Fund or the Underlying Schemes and hence the Fund's activities and the value of its investments. In addition, the value of the Fund's portfolio may fluctuate as the general level of interest rates fluctuates.

Currency and Exchange risk

– The investments (including the Underlying Schemes and their investments) acquired by the Fund may be denominated in a wide range of currencies different from the base currency of the Fund. This exposes the Fund to exchange rate fluctuations and currency risk.

Equity investment risk

– The Fund and the Underlying Scheme's investment in equity securities is subject to the risk that the market value of the stocks may go down as well as up due to numerous factors such as changes in investment sentiment, political environment, economic environment, issuer-specific factors, regional or global economic instability, currency and interest rate fluctuations. If the market value of the stocks go down the net asset value of the Fund and the Underlying Scheme may be adversely affected.

Risks relating to investment grade, below investment grade and unrated debt securities

– "Investment grade" debt securities generally have a high capacity to pay interest and repay principal when compared to lower-rated bonds and notes. However, there are no assurances that losses will not occur with respect to these investments. The principal factors that may affect the value of the Fund's and the Underlying Scheme's securities holdings include: (i) changes in interest rates, (ii) the credit worthiness of the issuers of securities held by the Fund or the Underlying Scheme, (iii) unanticipated prepayment, and (iv) the decline of the relevant bond market. Further, there is risk that investment grade securities may be downgraded due to adverse market conditions. In the event of a down-grading of the credit rating of a security or an issuer relating to a security that the Fund or the Underlying Schemes invest in, the value of the Fund or the Underlying Schemes (as the case may be) may be adversely affected. The Manager or the manager of the Underlying Schemes may or may not be able to dispose of the debt instruments that are being downgraded.

– The Fund and/or the Underlying Schemes may invest in debt securities which are below investment grade which are generally accompanied by lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities, a higher degree of counterparty risk, credit risk than higher rated, lower yielding securities. Such debt securities are considered to have a higher risk exposure than securities which are investment grade with respect to payment of interest and the return of principal. Low rated debt securities generally offer a higher current yield than higher grade issues. However, low rated debt securities involve higher risks and are more sensitive to adverse changes in general economic conditions and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers and changes in interest rates. Additionally, the market for lower rated debt securities generally is less active than that for higher quality securities and the Fund's or an Underlying Scheme's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions.

– The Fund and/or the Underlying Schemes may invest in securities which are unrated. Investment in such securities may be subject to risks similar to those outlined above for below investment grade securities.

Interest Rates risk

– Changes in market interest rates will affect the value of debt securities held by the Fund or the Underlying Schemes. Generally, the market value decreases when interest rates rise and increases when interest rates fall. Long-term debt securities are generally more sensitive to changes in interest rates and, therefore, are subject to a greater degree of market price volatility. To the extent the Fund or the Underlying Schemes hold long-term fixed income securities, their net asset values will be subject to a greater degree of fluctuation than if they held fixed income securities of a shorter duration.

Credit risk

– The Fund's or an Underlying Scheme's investments may be subject to credit risk. Bonds or other debt securities involve credit risk to the issuer which may be evidenced by the issuer's credit rating. Securities which are subordinated and/or have a lower credit rating are generally considered to have a higher credit risk and a greater possibility of default than more highly rated securities. In the event that any issuer of bonds or other debt securities experiences financial or economic difficulties, this may affect the value of the relevant securities (which may be zero) and any amounts paid on such securities (which may be zero). This may in turn affect the net asset value of the Fund or the prices of the Underlying Schemes and in turn affect the net asset value per unit of the Fund.

– Many emerging market countries have accumulated substantial debt service obligations. This may adversely affect their ability to service their debts and increase the likelihood of their defaulting on their obligations. It should also be noted that investment of the Fund or any Underlying Scheme in securities issued by corporations may represent a higher credit risk than investment in securities issued by governments.

– The ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint. The rating on an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time the rating is assigned and the time it is updated. In addition, there may be varying degrees of difference in credit risk of securities within each rating category.

Valuation risk

– Valuation of the Fund's or Underlying Scheme's investments in fixed income securities may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the net asset value calculation of the Fund and/or Underlying Scheme.

Sovereign debt risk

– The fund's or an Underlying Scheme's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the fund or the Underlying Scheme to participate in restructuring such debts. The fund may suffer significant losses when there is a default of sovereign debt issuers.

Counterparty, Custody and Settlement risk

– The Fund and the Underlying Schemes may be exposed to a credit risk on counterparties with whom they trade securities, and may also bear the risk of settlement default. As the Fund and/or the Underlying Schemes may also directly or indirectly invest in securities in emerging markets where settlement mechanisms are generally less developed and reliable than those in more developed countries. This therefore increases the risk of settlement default which could result in substantial losses for the Fund or the Underlying Scheme in respect of investments in emerging markets.

– The Fund and/or the Underlying Schemes may invest in markets where custodial and/or settlement systems are not fully developed. The assets of the Fund and/or the Underlying Schemes that are traded in such markets and which have been entrusted to such sub-custodians may be exposed to risk in circumstances where the custodian will have no liability. The Fund's and the Underlying Schemes' cash account will usually be maintained on the custodian's records, but the balances may be held by a sub-custodian which poses an additional risk. In addition, in case of liquidation, bankruptcy or insolvency of such sub-custodians, the Fund or the Underlying Schemes (as the case may be) may take a longer time to recover their assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Fund or the Underlying Schemes (as the case may be) may even be unable to recover all of its/their assets. The costs borne by the Fund and the Underlying Schemes investing and holding investments in such markets will be generally higher than in organised securities markets.

– The Fund and/or the Underlying Schemes may be also exposed to credit risk on the counterparties with which they trade in relation to options, futures, contracts and other derivative financial instruments that are not traded on internationally recognised exchanges. The Fund and the Underlying Schemes will be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which the Fund or the Underlying Schemes trade such instruments, which could result in substantial losses to the Fund.

Liquidity risk

– Not all securities or investments held by the Fund or the Underlying Schemes will be listed or rated or actively traded and consequently liquidity may be low. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at unfavourable prices. The Fund or the Underlying Schemes may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity. Moreover, there is no assurance that the liquidity of the Fund or the Underlying Schemes will always be sufficient to meet redemption requests as and when made.

– Liquidity risk also exists if sizeable redemption requests are received as the Fund may need to liquidate its underlying investments including investments in Underlying Schemes, which in turn may need to liquidate their investments at a substantial discount, in order to satisfy such requests and the Fund may suffer losses in liquidating such investments.

Risks associated with derivatives

– Derivatives include instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Derivatives may allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index. Therefore, many of the risks applicable to trading the assets of the Fund and the Underlying Schemes are also applicable to derivatives trading. Risks associated with derivatives include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. However, there are a number of other risks associated with derivatives trading. The leverage element/component of a derivative can result in a loss significantly greater than the amount invested in the derivative. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose the Fund to the possibility of a significant loss exceeding the original amount invested.

Funds investing in mortgage related and other asset backed securities

– Mortgage related and other asset backed securities may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities. They are often exposed to extension and prepayment risks (as further discussed below), and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

– The yield and maturity characteristics of mortgage-related and other asset backed securities differ from traditional debt securities. A major difference is that the principal amount of the obligations may normally be prepaid at any time because the underlying assets (i.e. loans) generally may be prepaid at any time. In calculating the average weighted maturity of such a portfolio, the maturity of mortgage-related and other asset backed securities held will be based on estimates of average life which take prepayments into account. The average life of a mortgage-related instrument, in particular, is likely to be substantially less than the original maturity of the mortgage pools underlying the securities as the result of scheduled principal payments and mortgage prepayments. In general, the collateral supporting non-mortgage asset backed securities is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments.

– The relationship between prepayments and interest rates may give some high-yielding asset backed securities less potential for growth in value than conventional bonds with comparable maturities. In addition, in periods of falling interest rates, the rate of prepayments tends to increase. During such periods, the reinvestment of prepayment proceeds by the Fund or the Underlying Scheme will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. Because of these and other reasons, an asset backed security's total return and maturity may be difficult to predict precisely. To the extent that the Fund or the Underlying Scheme purchases asset backed securities at a premium, prepayments (which may be made without penalty) may result in loss of the Fund or the Underlying Scheme's principal investment to the extent of premium paid.

– In addition, to the extent that they are not guaranteed, each type of asset backed securities entails specific credit risks depending on the type of assets involved and the legal structure used.

Investor risk

– Substantial redemptions of units (which are more likely to occur in adverse economic or market conditions) could require the Manager to liquidate investments of the Fund more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions and to achieve a position appropriately reflecting the smaller equity base. This could adversely affect the net asset value of both units being redeemed and of existing units.

– The Manager is entitled under certain circumstances specified in the Trust Deed to suspend dealings in the units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the units during the period up to the redemption of the units is borne by the redeeming unitholders.

– If, in the opinion of the Manager or the Trustee, units held by any unitholder is in contravention of any laws or regulations or under such other circumstances specified in the Trust Deed, the Manager is entitled to compulsorily redeem all or a portion of the unitholder's units in the Fund. Such compulsory redemption may create adverse tax and/or economic consequences to the unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon any termination of the Fund, compulsory redemption or otherwise.

Risk of termination of the Fund

– In the event of the early termination of the Fund, the Fund would have to distribute to the unitholders their pro rata interest in the assets of the Fund. It is possible that at the time of such sale or distribution, certain investments held by the Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the unitholders. Moreover, any organisational expenses with regard to the units that had not yet become fully amortised would be debited against Fund's capital at that time.

Emerging Markets

– Investments in emerging and less developed markets may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Emerging or developing countries may have relatively unstable governments, economies based on a less diversified industrial base and securities markets that trade a smaller number of securities. Companies in emerging markets may generally be smaller, less experienced and more recently organised than many companies in more developed markets. Prices of securities traded in the securities markets of emerging or developing countries tend to be volatile. Furthermore, foreign investors are often subject to restrictions in emerging or developing countries. These restrictions may require, among other things, governmental approval prior to making investments or repatriating income or capital, or may impose limits on the amount or type of securities held by foreigners or on the companies in which the foreigners may invest.

– The economies of individual emerging countries may differ favourably or unfavourably from developed economies in such respects as growth of gross domestic product, rates of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payment position and may be based on a substantially less diversified industrial base. Further, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been, and may continue to be, adversely affected by economic conditions in the countries with which they trade.

Risk relating to exchange traded funds

– The Fund or an Underlying Scheme may invest in exchange traded funds ("ETFs"). ETFs generally are passively managed and may not be able to adapt to market changes. ETFs may be subject to tracking error risk, which is the risk that its performance may not track that of the index exactly. The trading price of units of ETFs is driven by market factors such as demand and supply of the units, and units may trade at a substantial premium or discount to net asset value. Where the Fund or an Underlying Scheme invests in synthetic ETFs, such investments are susceptible to more significant price fluctuations and higher volatility, and are exposed to risk of fall in collateral value and risk of default of counterparties.

Risk relating to small- and mid-capped companies

– The Fund and some of the Underlying Schemes may invest in the securities of small- and/or mid-capped companies. Investing in these securities may expose the Fund or the Underlying Schemes to risks such as greater market price volatility, less publicly available information, and greater vulnerability to fluctuations in the economic cycle.

Risks relating to investment in commodities

– Underlying Schemes may invest in commodities and commodities-related investments and therefore may be exposed to commodity markets risks, which are generally greater than risks in other markets. It is a feature of that generally commodities prices are subject to rapid changes and the risks involved in investing in commodities may change relatively quickly. Commodity prices are determined by forces of supply and demand which are influenced by, without limitation, macroeconomic factors, consumer pattern, trade, fiscal, monetary and exchange policies and controls of governments and other unforeseeable events.

Foreign Account Tax Compliance Act ("FATCA") related risks

– The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund. Provided that the Fund acts in accordance with the provisions it will not be subject to withholding tax under FATCA.

– Although the Manager will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA penalty withholding on the Fund, no assurance can be given that the Manager will be able to achieve this and/or satisfy such FATCA obligations. If the Fund becomes subject to a FATCA penalty withholding as a result of the FATCA regime, the value of the units held by unitholders may be adversely affected and unitholders may suffer material losses.

– Unitholders should seek independent professional advice regarding the FATCA requirements with respect to their own situation. In particular, where investors invest in or held units of the Fund through an intermediary, nominee or custodian, investors are recommended to check whether such intermediary, nominee or custodian is FATCA compliant and any possible FATCA implications.

Risks relating to distribution

– In respect of Income Units, the Manager will declare and pay distributions on a regular basis. However, the distribution rate is not guaranteed. The Manager has the sole and absolute discretion to vary the frequency of distributions, subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

– Where the income and/or capital gain generated by the Fund is insufficient to pay a distribution as the Fund declares, the Manager may at its discretion make such distributions out of the capital of the Fund.

– **You should note that in the circumstances where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount you originally invested or capital gains attributable to that and may result in an immediate decrease in the value of units of the relevant Income Units.**

– Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of the Classes of Income Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site (www.schroders.com.hk). The website has not been reviewed by the SFC.

Prospective investors should consult with their own advisors before deciding to invest in the Fund.

MANAGEMENT AND ADMINISTRATION The Manager of the Fund is Schroder Investment Management (Hong Kong) Limited and is licensed by the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. The Manager is not subject to any licensing conditions in respect of its aforementioned licenses for regulated activities pursuant to the Securities and Futures Ordinance.

The Manager undertakes the management and administration of the Fund, including communication with unitholders and conduct of meetings, and in conjunction with the Trustee is responsible for the maintenance of accounts and records in compliance with the Trust Deed and the laws of Hong Kong.

With almost forty years of investment experience in Asia Pacific the Schroder Group is able to offer particular expertise in the management of specialist Asian portfolios and is able to draw on the worldwide resources of the Group with offices and research analysts based throughout the region.

The Manager is adviser to or manager of other Hong Kong authorised unit trusts and investment portfolios of institutional, private and retirement fund clients in Asia and elsewhere. The Schroder Group worldwide manages assets of over US$662.6 billion as at 31 December 2019 in London, Luxembourg, New York, Zurich, Australia, Hong Kong, Japan and Singapore and other investment centres around the world.

TRUSTEE AND ALTERNATE TRUSTEE The Trustee of the Fund is HSBC Institutional Trust Services (Asia) Limited which is incorporated with limited liability in Hong Kong on 27 September 1974. It is an indirect wholly-owned subsidiary of HSBC Holdings plc. It is registered as a trust company under the Hong Kong Trustee Ordinance and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance. The Trustee has delegated certain of its functions as registrar to The Hongkong and Shanghai Banking Corporation Limited (the "Service Provider").

Under the Trust Deed, all cash and other property which ought in accordance with the provisions of the Trust Deed to form part of the Fund's property shall be paid or transferred to the Trustee or as it may direct and be held by or under the control of the Trustee accordingly. The Trustee shall be responsible for the safe-keeping of the Fund's property including where appropriate the insurance thereof as the Trustee may think fit and shall take into custody or under its control all the investments, cash and other assets forming part of the Fund's property and hold them in trust for the unitholders in accordance with the provisions of the Trust Deed. The Trustee shall in respect of any investments or other assets of the Fund which by nature cannot be held in custody, maintain a proper record of such investments or assets in its books under the name of the Fund.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself, the Alternate Trustee or any associate of either of them) as custodian or co-custodian or sub-custodian of the investments and/or deposits comprised in the Fund's property. The Trustee may empower any such custodian or co-custodian or sub-custodian to appoint, with the prior consent in writing of the Trustee, sub-custodians. The fees and expenses of such custodian, co-custodians and sub-custodians shall be paid out of the Fund's property. The Trustee (a) shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of agents, nominees, delegates, custodian, co-custodian or sub-custodian which are appointed for the custody and/or safe keeping of any Trust property, cash or other assets forming part of the Fund's property (each a "**Correspondent**"); (b) shall be satisfied that each such Correspondents retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Trust; and (c) shall remain liable for any act or omission of any Correspondent which are connected persons as if the same were the act or omission of the Trustee provided however that if the Trustee has discharged its obligations set out in (a) and (b) above, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent that is not a connected person of the Trustee.

The Alternate Trustee is HSBC Institutional Trust Services (Singapore) Limited. Arrangements have been made whereby the functions of the Manager and the Trustee including the redemption of units may be undertaken by or by appointees of the Alternate Trustee if, in its opinion, under the special circumstances set out in the Trust Deed, the interests of the unitholders justify such action. The Alternate Trustee also has power to change the law governing the Trust Deed.

HSBC group has adopted a policy of compliance with the sanctions issued by The Office of Foreign Assets Control of the US Department of the Treasury. The Trustee and its delegates will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control of the US Department of the Treasury.

The appointment of the Trustee and the Alternate 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 headed "Charges and Fees" and to be reimbursed for any sub-custodians' fees and expenses.

If the Trustee, the Alternate Trustee or their respective delegates (which may be affiliates of the Trustee or the Alternate Trustee (as the case may be)) shall act as banker in respect of Fund then it shall be entitled to retain all normal banking profit and benefits; in the event that the Trustee, the Alternate Trustee or their respective delegates shall act as custodian or broker for the purchase and sale of investments, then it shall be entitled to charge and retain all normal fees and expenses.

The Manager has sole responsibility for making investment decisions in relation to the Fund. Subject to the duty to ensure that investment and borrowing limitations of the Fund are complied with as required by the Code on Unit Trusts and Mutual Funds, the Trustee (including its delegate) is not responsible or has any liability for any investment decision made by the Manager. Neither the Trustee, the Alternate Trustee nor any of their respective delegate acts as guarantor or offeror of the Units or any underlying investment of the Fund.

TYPES OF UNITS The Manager intends to offer A Class (the "A Class"), C Class (the "C Class") and I Class (the "I Class") which may be denominated in HK dollar ("HK$"), US dollar ("US$") or such other currencies as may be determined by the Manager from time to time, and designated as Accumulation Units or Income Units. HK dollar and US dollar refer to Hong Kong dollar and United States dollar respectively. The Manager may in future determine to offer other class(es) of Units pursuant to the provisions of the Trust Deed. The Manager will provide a full list of classes of units with currency denomination that are available for sale to the public in Hong Kong, upon request of an investor. The list is also available online at www.schroders.com.hk. The website has not been reviewed by the SFC.

A Class will initially only be available to investors of certain distributors appointed specifically for the purpose of distributing the A Class Units whilst C Class Units will generally be available to investors who are considered to be institutional investors by the Manager. I Class is designed to accommodate an alternative charging structure whereby the investors are clients of the Manager or its associates and are charged management fees directly by the Manager or its associates.

APPLICATION FOR UNITS To purchase units an investor should:–

a) complete the application form enclosed with this Explanatory Memorandum and return it to the Manager (details of which as set out in the application form); or

b) fax an order to the Manager (details of which as set out in the application form).

Fax orders must always be followed by a completed application form unless the investor already holds units in this Fund or another fund managed or distributed by the Manager and has already made arrangements with the Manager to allow orders to be made via facsimile instructions and without the same being followed by original orders. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a unitholder or an investor for any loss resulting from non-receipt of any orders sent by facsimile.

Applications may also be sent through an investment adviser.

Units may be acquired on any Valuation Date – see "Valuation and Price Calculation".

Applications should be made on, and in accordance with the instructions on the application form and be received by the Manager by 5 p.m. Hong Kong time if they are to take effect at the relevant net asset value per unit (plus any applicable initial charge) on the next business day. Payment of the amount due on application should normally be made no later than four (4) business days after the application is accepted. If timely settlement is not made the relevant allotment of units may be cancelled in accordance with the Trust Deed.

The minimum investment for initial or subsequent investments is HK$5,000 for units denominated in HK dollars and US$1,000 for Accumulation Units denominated in US dollars or such other amount as may from time to time be determined by the Manager generally or for a particular investor. The minimum amounts include any initial charge which is payable by the applicant.

The issue of units is at the discretion of the Manager. Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of units.

Payments should normally be made in HK dollars for units denominated in HK dollars and US dollars for units denominated in US dollars. If an investor selects a currency other than the currency of the relevant class of unit for any payments to or from the Fund, this will be deemed to be a request by the investor to the Service Provider to provide a foreign exchange service to the investor in respect of such payment. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant investor. Neither the Trustee nor the Service Provider nor the Manager takes any responsibility for the rate of exchange obtained. Changes in the rate of exchange between the currency of denomination and the currency of an investor's subscription monies may cause the value of an investor's investment to diminish or increase.

Monies can be paid either by telegraphic transfer to the relevant accounts as set out in the application form or may be paid by cheque in accordance with instructions on the application form. It should be note that there may be delay in receipt of cleared funds if payment is made by cheque or banker's draft compared to payment by telegraphic transfer. Any costs of transfer of application monies to the Fund will be payable by the applicant.

The applicant should quote the name of the Fund in the remittance instructions.

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

All holdings will be registered but certificates are not issued. Evidence of title will be the entry on the Register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of units correct to the nearest two (2) decimal places will be issued. The Manager reserves the right to reject any application in whole or in part. A maximum of 4 persons may be registered as joint unitholders.

REDEMPTION OF UNITS Units may be redeemed on any Valuation Date at their net asset value per unit less any applicable deductions (there is currently no deduction) on application to the Manager as applicable to the relevant class and denomination of units. Redemption notices must be received by the Manager by 5 p.m. Hong Kong time on a Valuation Date to take effect on the next business day. Application should be made on the form available from the Manager by post or by fax to the Manager, or through one of the intermediaries authorised for this purpose. Please see also "Anti-Money Laundering Regulations". Partial redemptions for a minimum of HK$2,500 (HK dollar denominated units) or US$500 (US dollar denominated units), unless otherwise waived by the Manager at its discretion, are allowed provided that the value of such unitholder's remaining holding of units is not less than HK$5,000 or US$1,000 (as applicable) or such lower amount as may from time to time be determined by the Manager generally or for a particular investor. There is no redemption charge.

Investors should be reminded that if they choose to send notices of redemption by fax, they bear their own risk of the notices not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the notices. Neither the Manager nor the Trustee shall be responsible to a unitholder for any loss resulting from non-receipt of any redemption request sent by facsimile.

Redemption monies are normally remitted by telegraphic transfer within ten (10) business days after the relevant Valuation Date and at most within 28 days upon receipt of all properly completed documentation. Redemption proceeds will be paid to the registered unitholder requesting such redemption only and will not be paid to third parties.

Redemption monies will normally be paid in the currency of the relevant class of units. However, at the request of the unitholder, a currency exchange service for redemptions is provided to the unitholder by the Service Provider. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant unitholder.

The Trust Deed gives the Manager power to redeem compulsorily units in certain circumstances, in the event of adverse tax or other consequences for the Fund, the Manager, the Trustee or their associates.

In the event of redemption requests being received on any one day for units in excess of 10% of the units in issue the Manager may sell a proportion of the Fund's assets corresponding to the proportion the units to be redeemed bear to the total number in issue and calculate the relevant net asset value per unit based on the proceeds of the investments sold. Alternatively the Manager may limit the number of units to be redeemed on any one Valuation Date to 10% of the units in issue (with redemption requests reduced pro rata) and any excess redemption requests are then carried forward to the next Valuation Date.

Payment of redemption monies in US dollars may result in the Fund benefiting from or bearing the costs of any fluctuations in the exchange rate between HK dollars and US dollars for the period between the date of redemption of US dollar units and the date of payment of US dollar redemption monies. Due to the peg of the currencies, and the fact that the current investment policy includes the holding of assets denominated in US dollars sufficient to cover likely redemptions of units denominated in US dollars, variations are expected to be small. The position will be actively monitored by the Manager.

CONVERSION OF UNITS Units cannot be converted to other units denominated in a different currency by the unitholder. The Manager has power, with the consent of the Trustee to compulsorily re-designate the currency of a Class of Units to such other currencies by one month's notice to unitholders if in the Manager's opinion it is in the interests of unitholders to do so.

SWITCHING BETWEEN FUNDS The Manager offers a number of other unit trusts and mutual funds with different investment objectives. Unitholders switching from one fund to another will be generally given, at the discretion of the Manager, discounts on the initial charge (currently up to 5% of the switching amount) which may otherwise apply. A switch is an instruction for a redemption of units or shares in a fund and application of the redemption proceeds to purchase units or shares in another fund and therefore the provisions on application and redemption for the relevant funds generally apply. Acceptance of switching instructions will be subject to the availability of the fund to be switched in (the "New Fund") and to the compliance with any eligibility requirements and/or other specific conditions attached to the New Fund such as minimum subscription and holding amounts.

For switches between funds managed or distributed by the Manager and generally available to investors, save for switches into funds dealt with on a cleared fund basis (for example money funds), switches are normally effected by redeeming units or shares in the fund to be switched out (the "Original Fund") on the dealing day on which the redemption would occur and subscribing into units or shares of the New Fund on the same day, provided that the availability of pricing and the applicable dealing days and settlement periods of both funds match. However, if the availability of pricing, dealing days or settlement periods of the Original Fund and the New Fund do not match, subscription to the New Fund may be deferred to align the settlement dates of both funds. In no circumstances the settlement date of the subscription to the New Fund will precede the settlement date of the redemption of the Original Fund.

For switches into a fund dealt with on a cleared fund basis, cleared funds are needed before units or shares will be issued. The time of issue of the units or shares in the fund will thus depend on the time of receipt of the redemption proceeds in cleared funds from the Original Fund.

In the cases where dealing of the Original Fund and/or the New Fund is suspended, the processing of the switch will be held over until the next dealing day where dealing is no longer suspended. The switching procedures described above will continue to apply.

Instructions to switch units between classes of units denominated in different currencies will be accepted. A currency exchange service for such switches is provided by the Service Provider. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant unitholder.

Investors are reminded to read the offering documents of the funds into which they wish to switch (available on request from the Manager) before investing.

CHARGES AND FEES Units are purchased at their relevant net asset value per unit plus any applicable initial charge. On redemption, units are purchased back by the Manager at their relevant net asset value per unit without redemption charge.

a) **Initial Charge** On the issue of new units, the Manager is entitled to charge an amount not exceeding 5% of the gross investment amount. The initial charge is accordingly payable by the applicant and retained by the Manager for its own use and benefit.

   The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the initial charge received by it on the value of relevant business introduced to the Fund.

b) **Manager's Fee** The Manager is paid a fee out of the assets of the Fund, calculated on each Valuation Date which accrues daily and is payable monthly in arrears currently at the following rate of the net asset value of the relevant class of the Fund, subject to a maximum of 1.5% p.a. The fee may be increased by 3 months' notice to unitholders subject to the maximum.

A Class	1.2%
C Class	0.625%

   As I Class is designed to accommodate an alternative charging structure whereby the investors are clients of the Manager or its associates and are charged management fees directly by the Manager or its associates, no management fees will be payable in respect of units in I Class out of the net assets of the Fund.

   The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the manager's fee received by it on the value of relevant business introduced to the Fund.

c) **Trustee's Fee.** The Trustee is paid a fee of 0.04% p.a of the net asset value of the Fund calculated on each Valuation Date which accrues daily, and is payable monthly in arrears.

EXPENSES The costs, charges and expenses borne by the Fund, in addition to the Manager's fee and the Trustee's fee are those in connection with investing and realising the assets of the Fund, the safe keeping or custody of investments including fees and charges of any custodian or sub-custodian, fiscal charges payable in respect of the Fund, the registrar's costs (including Service Provider's costs which vary from class to class within a range between 0.02% and 0.1% p.a. of the Fund's net asset value), the costs of publishing unit prices and costs incurred in preparing and publishing reports and other communications to unitholders. The Fund also bears legal expenses incurred by the Manager or the Trustee in enabling the Fund to conform to new legislation or in connection with any supplemental deed giving effect to an alteration, modification or variation of the Trust Deed, the costs and expenses of auditing the Fund, the costs of obtaining or maintaining the approval of any regulatory authority for the Fund and the Manager's and Trustee's costs and expenses including legal fees properly incurred in performance of their duties under the Trust Deed for the benefit of the Fund. Any other costs, charges and expenses incurred in connection with the management and trusteeship of the Fund are paid on their own account by the Manager or the Trustee.

The Manager's and Trustee's fees are calculated and payable in HK dollars.

The preliminary expenses in relation to the set up of the Fund have already been fully amortised.

The Fund will generally pay brokerage at customary institutional full service brokerage rates. Transactions of the Fund may be entered into through associates of the Manager. The Manager, the investment delegate (if any) and any associates will not receive cash or other rebates from brokers or dealers in respect of transactions from the Fund. The Manager may enter into soft commission arrangements for the provision to the Manager or associates of goods and services which (a) are of demonstrable benefit to unitholders; (b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full service brokerage rates; (c) periodic disclosure is made in the Fund's annual report in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegate, including a description of goods and services received by them; and (d) the availability of soft commission arrangements is not the sole or primary purpose to perform or arrange transaction with such person.

As the Fund invests in the Underlying Schemes, it will also indirectly bear a proportionate share of the management and trustee fees, operating expenses and charges, where permitted by the Trust Deed of the Fund, incurred by the Underlying Schemes. An Underlying Scheme may also charge an initial charge when an investment is made by the Fund in the Underlying Scheme. The foregoing is in addition to the initial charge payable by investors of the Fund, and fees and expenses payable by the Fund to the Manager. The Manager will not retain any rebate on any fees or charges levied by an Underlying Scheme or its management company. Please note however, that the Manager will waive all front-end charges, redemption charges and management fees for investment in any Underlying Schemes managed by the Manager or its associates.

VALUATION AND PRICE CALCULATION Valuation Dates are normally every business day in Hong Kong on which securities markets of all or substantial part of investments of the Fund are open for trading and settlement or such other day(s) as the Manager with the approval of the Trustee may determine from time to time. A business day in Hong Kong is a day on which banks in Hong Kong are normally open for business except Saturdays and Sundays, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a business day in Hong Kong unless the Manager otherwise determine.

The relevant net asset value per unit in HK dollars is calculated as at the time at which the Fund is valued on the Valuation Date on which the application or redemption is being effected. The net asset value per unit of each class is adjusted to the nearest two (2) decimal places. Units denominated in HK dollars will be redeemed at the relevant net asset value per unit less any applicable deductions for that class.

Where units are denominated in US dollars, the relevant net asset value per unit calculated as set out above are converted to US dollars from HK dollars at the exchange rate applied by the Trustee for the valuation of the assets of the Fund. The relevant net asset value per unit in US dollars is calculated correct to the nearest two (2) decimal places.

The net asset value per unit so determined may be subject to "dilution adjustment", as described in the section titled "DILUTION AND DILUTION ADJUSTMENT" below.

The net asset value of the Fund is generally determined by valuing the assets of the Fund in accordance with the provisions of the Trust Deed and deducting the liabilities attributable to the Fund in accordance with the provisions of the Trust Deed. The Trust Deed provides among others that:

(a) the Manager shall value investments and deposits to determine the gross asset value as follows:

   (i) investments for which prices are quoted on a market shall be valued at the mid-market price where bid and offer prices are quoted and in other cases, at the last traded price of the relevant investment on the relevant market and in either case, as at the close of business of such market at or immediately preceding the valuation point; and

   (ii) deposits shall be valued at face value;

(b) interest, discount and similar income and returns shall be deemed to accrue from day to day. Dividends shall be deemed to be received on the date on which the relevant investment is first quoted ex the dividend or interest payment in question. The value of any accounts receivable, prepaid expenses, and cash dividends and interest declared or accrued and receivable but not yet received shall be deemed to be the full amount thereof unless the Manager shall determine that less than the full amount is likely to be received. In such case, the Manager shall determine the reasonable value thereof;

(c) the value of any investment which may not be determined in accordance with the provisions of the Trust Deed whether because the relevant prices are not generally available on a market or not available on a particular Valuation Date or where the Manager or the Trustee (as they may between themselves decide) considers the method of valuation inappropriate, shall be determined by (i) the Manager or the Trustee (as they may between themselves decide) after consultation with the Auditors and if determined by the Manager, with the prior consent in writing of the Trustee; or (ii) by some other person appropriately qualified and approved by the Manager or the Trustee (as they may between themselves decide). Notwithstanding any other provisions of the Trust Deed, the Manager may, with the prior consent in writing of the Trustee, adjust the value of any cash, deposits and/or investment or permit some other method of valuation to be used if it considers that such adjustment or use of such other method is required to reflect the fair value thereof.

Valuation Dates, the time as at which valuations are made and any latest time for receipt of applications and redemption requests may be changed from time to time by the Manager. The Manager will usually give notice of such changes to the Trustee and Unitholders and, in the case of changes to the Valuation Date, must give one month's prior notice.

The Manager may deal in units, and subscriptions and redemptions may accordingly at the Manager's discretion be either for direct account of the Fund or sales or purchases by the Manager.

The Manager may, with the prior consent in writing of the Trustee, adjust the value of any investment of the Fund if it considers that such adjustment is required to reflect the fair value thereof and may in making such adjustment have regard to currency, applicable rate of interest, maturity, marketability and other relevant considerations.

DILUTION AND DILUTION ADJUSTMENT The Fund is single priced and may suffer a reduction in value as a result of the transaction costs incurred in the purchase and sale of its underlying investments and the spread between the buying and selling prices of such investments caused by subscriptions, redemptions and/or switching in and out of the Fund. This is known as "dilution". In order to counter this and to protect unitholders' interests, the Manager will apply "dilution adjustment" as part of its daily valuation policy. This will mean that in certain circumstances the Manager (if in its opinion in good faith it is in the interest of Unitholders to do so) will make adjustments in the calculations of the net asset value per unit, to counter the impact of dealing and other costs on occasions when these are deemed to be significant, as further described below.

In the usual course of business the application of a dilution adjustment will be triggered mechanically and on a consistent basis.

The need to make a dilution adjustment will depend upon the net value of subscriptions, switching and redemptions received by the Fund for each dealing day. The Manager therefore reserves the right to make a dilution adjustment where the Fund experiences a net cash movement which exceeds a threshold set by the Manager from time to time of the previous dealing day's total net asset value.

The Manager may also make a discretionary dilution adjustment if, in its opinion, it is in the interest of existing unitholders to do so.

Where a dilution adjustment is made, it will increase the net asset value per unit when there are net inflows into the Fund and decrease the net asset value per unit when there are net outflows. The net asset value per unit of each unit class in the Fund will be calculated separately but any dilution adjustment will, in percentage terms, affect the net asset value per unit of each unit class identically.

As dilution is related to the inflows and outflows of money from the Fund, it is not possible to accurately predict whether dilution will occur at any future point in time. Consequently it is also not possible to accurately predict how frequently the Manager will need to make such dilution adjustments.

Because the dilution adjustment for the Fund will be calculated by reference to the costs of dealing in the underlying investments of the Fund, including any dealing spreads, which can vary with market conditions, this means that the amount of the dilution adjustment can vary over time but will not exceed 2% of the net asset value per unit on the relevant Valuation Date.

TAXATION ***The below summary is based on the Manager's understanding of the law and practice currently in force as at the date of this Explanatory Memorandum and applies to investors acquiring units in the Fund as an investment. Each prospective unitholder should inform himself of, and where appropriate take professional advice on, the taxes applicable to the acquisition, holding and redemption of units by him under the laws of the places of his citizenship, residence and domicile. Neither the Fund nor any of its respective affiliates accepts any responsibility for providing tax advice to any prospective unitholder.***

Under the prevailing Hong Kong tax legislations and practices:–

The Fund The Fund should be exempt from profits tax, in respect of its authorised activities, in Hong Kong upon authorisation as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance.

Unitholders Profits arising on the disposal or redemption of any units should only be subject to Hong Kong profits tax for unitholders who carry on a trade or business in Hong Kong where the profits, not being regarded as capital in nature, arise from such trade or business and are sourced in Hong Kong. Unitholders who do not carry on a trade or business in Hong Kong should not be liable to Hong Kong profits tax in respect of any gains from the disposal or redemption of such units.

Distributions received by unitholders from their investments in the units generally should not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise).

There is no withholding tax on dividends and interest in Hong Kong.

Dividends, interest and other income received by the Fund from outside Hong Kong may be subject to withholding taxes in the country from which payment is made. Such taxes will not normally be recoverable by the Fund, though they may be recoverable by individual unitholders who are able to claim the benefit of appropriate double taxation relief.

Stamp Duty

No Hong Kong stamp duty is payable on the issue and redemption for extinguishment of the units. Hong Kong stamp duty is also not payable if the sale 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 will be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and seller) of the higher of the consideration amount or market value.

US Tax Reporting Obligations under FATCA

The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund.

The Fund intends to comply with the provisions of FATCA under the terms of the inter-governmental agreement ("IGA") Model II that has been entered into between US Treasury and Hong Kong Government on 13 November 2014 and under the terms of the Hong Kong legislation implementing the IGA when introduced rather than under the US Treasury Regulations implementing FATCA. The Manager as the sponsoring entity has included the Fund in the list of funds sponsored by it.

In order to comply with its FATCA obligations, from 1 July 2014 the Fund may be required to obtain certain information from its investors so as to ascertain their US tax status. If the investor is a specified US person under the provisions of FATCA, U.S. owned non-U.S. entity, non-participating FFI or does not provide the requisite documentation, the Fund will need to report information on these investors directly to the IRS. Provided that the Fund acts in accordance with these provisions it will not be subject to withholding tax under FATCA.

Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The AEOI requires financial institutions ("FI") in Hong Kong to collect information relating to account holders, and to file such information as relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("IRD") who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships ("Reportable Jurisdictions"); however, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund and/or its agents shall collect and provide to the IRD tax information relating to unitholders and prospective investors.

The AEOI rules as implemented by Hong Kong require the Fund to, amongst other things: (i) register the Fund's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e. unitholders) to identify whether any such accounts are considered "Reportable Accounts" for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant Reportable Jurisdiction(s). Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in a Reportable Jurisdiction. Under the Ordinance, details of unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

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 Fund, the Manager and/or the Fund's agents in order for the Fund to comply with AEOI. The unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

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

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 liquidity risk management of the Fund is an integral part of investment management process and is operated under Schroders' investment risk management framework. The oversight of the liquidity risk management function will be performed by the investment risk function which is part of Schroders Group Risk. A liquidity report will be generated by Group Risk monthly. The results of the oversight will be reported to a risk management committee consisting of responsible officers, management and senior staff from Compliance, Investment and Operational and Risk on a regular basis. Exceptions on liquidity risk related issues will be escalated to the risk management committee.

The Manager would regularly assess the liquidity of the Fund's assets under the current and likely future market conditions. 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 Fund. 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 as stated under the section headed "REDEMPTION OF UNITS", 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.

To manage liquidity risks, the Manager may limit the number of units to be redeemed on any one Valuation Date to 10% of the units in issue (subject to the conditions set out in the section headed "REDEMPTION OF UNITS").

SUSPENSION OF DEALINGS The Manager, after consultation with the Trustee, having regard to the best interests of Unitholders, may at any time, suspend the right of unitholders to require the redemption of units and will at the same time cease to issue units and thus conversion of units will cease in any of the following circumstances:–

a. when any relevant market on which any material part of the Fund's investment are listed, quoted or dealt in is closed other than for ordinary holidays; or

b. when dealings on any such market are restricted or suspended; or

c. when a state of affairs exists as a result of which the acquisition or disposal of investments, or the making or uplifting of deposits, for account of the Fund cannot be effected normally or without seriously prejudicing the interests of unitholders; or

d. when there is a breakdown in the means of communication normally employed in determining the value of the Fund or any material part thereof or when, for any other reason, the value of any of the Fund's investments which represents a significant part of the value of the Fund, or the amount of any significant liability of the Fund, cannot be promptly and accurately ascertained; or

e. when the realisation of any of the Fund's investments or deposits or the transfer of funds involved in such realisation cannot be effected at normal prices or normal rates of exchange; or

f. if the remittance of monies involved in the subscription or redemption of units cannot be carried out without undue delay and at normal rates of exchange.

Where the Manager declares a suspension, a notification will be published (a) immediately after any such declaration and (b) at least once a month during the period of such suspension, on the Schroders' Internet site (www.schroders.com.hk) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC.

REPORTS AND ACCOUNTS The Fund's financial year end is on the 30 September in each year. Audited accounts in HK dollars will be made available to unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited semi-annual reports will also be made available within two months after the 31 March in each year. Such reports contain a statement of the net asset value of the Fund and of the investments composing its portfolio.

The Manager will notify unitholders when such accounts (accompanied by the required reports), in printed and electronic forms are available and where such accounts may be obtained. Copies of audited accounts and unaudited semi-annual reports may be obtained free of charge at the registered office of the Manager and from the Schroders' Internet site (www.schroders.com.hk). Copies of the accounts and reports may be posted to investors on request. The website has not been reviewed by the SFC and is not approved by the SFC and may contain information in relation to funds that are not authorised by the SFC and may not be offered to the retail public in Hong Kong.

DISTRIBUTION

Accumulation Units In respect of Accumulation Units, the Manager shall not make any distributions of income or net capital gains realised on the sale of investments. Income, if any, and the net capital gains, if any, in respect of the Fund shall be accumulated and capitalised.

Income Units In respect of Income Units, the Manager will declare and pay yearly distributions on such date as may be determined by the Manager. However, the distribution rate is not guaranteed.

In the event that the income generated from the Fund's investments attributable to the relevant Class of the Income Units during the relevant period is insufficient to pay distributions as declared, the Manager may in its discretion determine such distributions be paid from capital. **Investors should note that where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount originally invested or capital gains attributable to that, and may result in an immediate decrease in the value of the units of the relevant Income Units.**

Notwithstanding the abovementioned, in respect of any Class of Income Units created on or before 29 September 2015, distribution will be made out of income only and not from capital. If the Manager intends to introduce the flexibility to pay distributions out of the capital of the Fund in respect of such Class(es), the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

The Manager will periodically review Income Units and reserve the right to make changes to the distribution policies of the Income Units. Any change to the frequency of distributions is subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

Distributions of a Class of Income Units declared, if any, shall be distributed among the unitholders of the relevant Class of Income Units ratably in accordance with the number of Units held by them on the record date as determined by the Manager in respect of the corresponding distribution. For the avoidance of doubt, only unitholders whose names are entered on the register of unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding distribution. Any payment of distributions will be made in the currency of the relevant Class of Income Units.

Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of these Classes of Income Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site (www.schroders.com.hk). The website has not been reviewed by the SFC.

VOTING RIGHTS Meetings of unitholders may be convened by the Manager or the Trustee, and the unitholders of 10% or more 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 of any meeting at which an Ordinary Resolution is proposed.

The powers of such a meeting are (i) to sanction a modification to the Trust Deed as approved by the Manager and the Trustee, (ii) to sanction the removal of the Trustee, (iii) to terminate the Fund; (iv) to elect a Chairman of the meeting; (v) to adjourn the meeting and (vi) to approve further unrestricted investments. These powers save (iv), (v) and (vi) are exercisable by Extraordinary Resolution, that is a 75% majority of the votes cast for and against the relevant proposal. The other powers are exercisable by Ordinary Resolution that is by simple majority of the votes cast for and against the relevant proposal.

The quorum for all meetings is unitholders present in person or by proxy representing 25% of the units in issue on the day immediately preceding the date of the meeting, or (in the case of an adjourned meeting of which separate notice will be given) such unitholders as are present in person or by proxy. On a show of hands, every individual unitholder present personally or by representative has one vote; on a poll every unitholder present in person, by proxy or by representative has one vote for every undivided share in the Trust Property represented by the unit held by him and no vote for a fraction of an undivided share. The number of undivided shares which an Accumulation Unit represents will increase when a distribution of income is made. 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. A poll may be demanded by the Chairman or one or more unitholders present in person or by proxy representing 5% of the units in issue.

A Unit carries the same voting rights whether denominated in HK dollars or US dollars.

PUBLICATION OF PRICES The relevant net asset value per unit in HK dollars and for US dollar Accumulation Units, in US dollars at each Valuation Date are published on the Schroders' Internet site (www.schroders.com.hk) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC. Prices are normally the latest available prices but are indicative only.

TRUST DEED The Fund was established under Hong Kong law by a trust deed dated 23 December 1988 (as amended from time to time) and made between Schroders Asia Limited as Manager, Standard Chartered Bank Hong Kong Trustee Limited as Trustee and Standard Chartered Trust Company Limited as Alternate Trustee, which has been substituted by a consolidated trust deed dated 15 December 2008 made between Schroder Investment Management (Hong Kong) Limited as Manager, Bank of Bermuda (Cayman) Limited as Trustee and HSBC Bank Bermuda Limited as Alternate Trustee (the "Trust Deed"). Since the Fund was established, the Manager, the Trustee and the Alternate Trustee have changed. HSBC Institutional Trust Services (Asia) Limited became the Trustee with effect on 30 September 2014 pursuant to a deed of retirement and appointment dated 1 May 2014, Schroder Investment Management (Hong Kong) Limited became the Manager with effect on 1 January 1995 pursuant to a supplemental deed dated 28 February 1995, HSBC Bank Bermuda Limited became the Alternate Trustee with effect on 15 July 1994 pursuant to a supplemental deed dated 24 May 1994, and HSBC Institutional Trust Services (Singapore) Limited became the Alternate Trustee with effect from 1 July 2020 pursuant to a deed of retirement and appointment of alternate trustee and variation dated 24 October 2019.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. In the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed prevail.

Copies of the Trust Deed as for the time being in force may be obtained from the Manager at a cost of HK$250 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

TERMINATION OF THE FUND The Fund may be terminated by the Trustee if within 6 months of the Manager leaving office, no new manager is appointed or if the Trustee wishes to retire and no replacement is found within 6 months or if the Manager goes into liquidation. If the unitholders authorise termination of the Fund by Extraordinary Resolution, the Trustee will terminate it by 3 months' notice. The Manager may terminate the Fund or any Class of Unit launched after 15 December 2008 if for any 3 month period, the net asset value of the Fund or of the relevant Class of Unit (as the case may be) shall be less than HK$20 million. The Trustee or the Manager may also terminate the Fund if any law shall be passed which renders it illegal or in their opinion impracticable or inadvisable to continue the Fund. Three months' notice will always be given to unitholders unless earlier termination is desirable by reason of the Fund being or being expected to become illegal.

Any unclaimed net proceeds or other cash held by the Trustee may at any time after the expiration of six (6) years from the date on which the same were payable, be paid to the Manager for its account subject to the right of the Trustee to deduct therefrom any expenses it may incur in carrying out this provision.

ANTI-MONEY LAUNDERING REGULATIONS As part of the Trustee and Registrar's responsibility for the prevention of money laundering, the Trustee and Registrar may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:–

(a) the applicant makes the payment from an account held in the applicant's name at arecognised financial institution; or

(b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

The Trustee and Registrar reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and Registrar may refuse to accept the application and the subscription monies relating thereto.

CONFLICTS OF INTEREST The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund.

The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest. If such conflicts arise, the Manager and the Trustee will use reasonable endeavours to resolve such conflicts fairly (having regard to its respective obligations and duties) and acts in the best interests of the unitholders. In any event, the Manager shall act in a manner which it believes to be equitable in its allocation of investment opportunities among other funds, other investment vehicles it manages or advises and the accounts of its other clients and ensure that all investment opportunities will be fairly allocated. The Manager will also have regard to its obligations to act in the best interests of the unitholders when undertaking any investments where potential conflicts of interests may arise. The Manager will ensure that all transactions are effected in good faith at arm's length and in the best interests of the Fund on normal commercial terms.

In particular, the services of the Trustee, the Registrar and their respective delegates provided to the Fund are not deemed to be exclusive and each of the Trustee, the Registrar and their respective delegates shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other moneys payable thereby and neither of them shall be deemed to be affected with notice of or to be under any duty to disclose to the Fund any fact or thing which comes to the notice of any of them in the course of their rendering similar services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed.

SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS The Fund shall be subject to the investment restrictions set out in this Schedule save to the extent that any approval, permission or waiver in respect of any of the below restrictions has been obtained from the SFC or otherwise provided under the Code (as defined below), handbook, code and/or guideline issued by the SFC from time to time.

Definitions

The following defined terms used in this Schedule 1 have the following meanings:–

"**Code**" means the Overarching Principles Section and Section II- Code on Unit Trusts and Mutual Funds of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products or any handbook, guideline and code issued by the SFC, as may be amended from time to time.

"**Government and other public securities**" means any investment issued by, or the payment of principal and interest on which is guaranteed by a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.

"**Qualified Exchange Traded Funds**" means exchange traded funds that are: (AA) authorized by the SFC under 8.6 or 8.10 of the Code; or (BB) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (I) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (II) the investment objective, policy, underlying investments and products features of which are substantially in line with comparable with those set out under 8.10 of the Code.

"**REITs**" means real estate investment trusts.

"**reverse repurchase transactions**" 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.

"**sale and repurchase transactions**" 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.

"**securities financing transactions**" means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

"**securities lending transactions**" means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee.

"**substantial financial institution**" means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HKD 2 billion or its equivalent in foreign currency.

1. Investment limitations applicable to the Fund

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

(a) the aggregate value of the Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the Fund:

(i) investments in securities issued by that entity;

(ii) exposure to that entity through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 3.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

(A) transacted on an exchange where the clearing house performs a central counterparty role; and

(B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 5(e) and (j) of this Schedule 1.

(b) subject to sub-paragraphs 1(a) and 3.4(c) of this Schedule 1, the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available net asset value of the Fund:

(i) investments in securities issued by those entities;

(ii) exposure to those entities through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

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

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

(c) the value of the Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available net asset value of the Fund provided that the 20% limit may be exceeded in the following circumstances:

(i) cash held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested;

(ii) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or

(iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

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

(d) the Fund's holding of any ordinary shares (when aggregated with all other Fund's holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity;

(e) the value of the Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a market (i.e. any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded), exceeding 15% of the latest available net asset value of the Fund;

(f) the value of the Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available net asset value of the Fund (save that the Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise;

(g) (i) the value of the Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available net asset value; and

(ii) the value of the Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available net asset value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the offering document of the Fund, provided that:

(A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;

(B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;

(C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);

(D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its associates;

(E) 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 its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme; and

(F) the value of the Fund's holding of investment of any one collective investment scheme would not exceed 70% (or such lower percentage as required by the SFC) of its latest net asset value.

For the avoidance of doubt:

(aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by the Fund;

(bb) unless otherwise disclosed in this Explanatory Memorandum, the investment by the Fund in a Qualified Exchange Traded Fund will be considered and treated as collective investment schemes for the purposes of and subject to the requirements in sub-paragraphs 1(g)(i) and (ii) and proviso (A) to (C) of sub-paragraph 1(g) of this Schedule 1. Notwithstanding the aforesaid, the investments by the Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by the Fund shall be consistently applied;

(cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively;

(dd) where the Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code;

2. Investment prohibitions applicable to the Fund

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

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

(b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);

(c) make short sales unless (i) the liability of the Fund to deliver securities does not exceed 10% of its latest available net asset value; (ii) the security which is to be sold short is actively traded on a securities market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;

(d) carry out any naked or uncovered short sale of securities;

(e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);

(f) acquire any asset or engage in any transaction which involves the assumption of any liability by the Fund which is unlimited. For the avoidance of doubt, the liability of unitholders of the Fund is limited to their investments in the Fund;

(g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; and

(h) invest in any security which are for the time being nil paid or partly paid in respect of which a call is to due to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 3.5 and 3.6 of this Schedule 1.

3. Use of Financial derivative instruments

3.1 The Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 3.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

(a) they are not aimed at generating any investment return;

(b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;

(c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and

(d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

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

3.2 The Fund may also acquire financial derivative instruments for non-hedging purposes ("**investment purposes**") subject to the limit that the Fund's net exposure relating to these financial derivative instruments ("**net derivative exposure**") does not exceed 50% of its latest available Net Asset Value, provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 3.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 3.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

3.3 Subject to sub-paragraphs 3.2 and 3.4 of this Schedule 1, the Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.

3.4 The financial derivative instruments invested by the Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:

(a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;

(b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;

(c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, the Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Fund to a counterparty of over-the-counter financial derivative instruments 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 financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative. 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 financial derivative instruments on a regular basis.

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

3.6 Subject to sub-paragraph 3.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Fund shall be covered as follows:

(a) in the case of financial derivative instruments transactions which will, or may at the Fund's discretion, be cash settled, the Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

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

3.7 The requirements under sub-paragraphs 3.1 to 3.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an "**embedded financial derivative**" is a financial derivative instrument that is embedded in another security.

4. Securities financing transactions

4.1 The Fund currently does not intend to engage in securities financing transactions. If this changes and the Fund engages in securities financing transactions, it can only do so if such transactions are in the best interests of unitholders of the Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

4.2 The Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

4.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions shall be returned to the Fund.

4.4 The Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

5. Collateral

In relation to over-the-counter financial derivative instruments as set out in sub-paragraphs 3.4(c) of this Schedule 1, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting. The Fund currently does not intend to engage in securities financing transactions, and accordingly no collateral will be held in the manner described in sub-paragraph 4.2 of this Schedule 1.

However, if the above changes and the Fund receives collateral, in order to limit the exposure to each counterparty as set out in sub-paragraphs 3.4(c) and 4.2 (as applicable) of this Schedule 1, such collateral must comply with the requirements set out below:

(a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;

(b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;

(c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;

(d) Haircut – the collateral is subject to a prudent haircut policy;

(e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;

(f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;

(g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;

(h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;

(i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;

(j) Re-investment of collateral – any re-investment of collateral received for the account of the Fund shall be subject to the following requirements:

   (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;

   (ii) non-cash collateral received may not be sold, re-invested or pledged;

   (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in 8.2(f) and 8.2(n) of the Code;

   (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions; and

   (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;

(k) the collateral is free of prior encumbrances; and

(l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

6. Borrowing and Leverage

The expected maximum level of leverage of the Fund is as follows:

Cash borrowing

6.1 No borrowing shall be made in respect of the Fund which would result in the principal amount for the time being of all borrowings made for the account of the Fund exceeding an amount equal to 10% of the latest available net asset value of the Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 6.1.

Leverage from the use of financial derivative instruments

6.2 The Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the Explanatory Memorandum under the section headed "Use of Derivatives".

6.3 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.

6.4 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

7. Name of the Fund

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

8. Investment via Subsidiary

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 subject to the requirements of the Code.

About Schroder Investment Management (Hong Kong) Limited Schroder Investment Management (Hong Kong) Limited manages a wide range of unit trusts investing in markets worldwide, but with a concentration on South East Asia. The Manager is one of the leading investors on behalf of pension funds, institutional funds and private client portfolios for Hong Kong and international clients.

The ultimate holding company of the Manager is Schroders plc, an international investment group based in London and established in 1804. The Schroder Group worldwide as at 31 December 2019 manages assets of more than US$662.6 billion.

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ADMINISTRATION

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Ms. Louisa W.L. Lo

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Hong Kong

October 2020

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

In particular, nationals or residents of, or persons domiciled in, countries other than Hong Kong should consult their financial advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to acquire units and as to any taxation effects, foreign exchange restrictions or exchange control requirements applicable.

No action has been taken to permit an offering of units of Schroder Capital Stable Fund (the "Fund") or distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong, where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, units in the Fund may be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised.

Receipt of any document about the Fund does not constitute an offer of units in those jurisdictions in which it is illegal to make such an offer.

Units of the Fund have not been and will not be registered under the United States Investment Company Act of 1940 as amended (the "Investment Company Act"). The units have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") or under the securities laws of any state of the United States of America ("US") and such units may be offered, sold or otherwise transferred only in compliance with the Securities Act and such state or other securities laws. The units may not be offered or sold within the US or to or for the account, of any US Person. For these purposes, "US Person" is as defined in Rule 902 of Regulation S under the Securities Act or the Internal Revenue Code of 1986, as amended including to reflect the provisions of FATCA (the "IR Code").

Rule 902 of Regulation S under the Securities Act defines "US Person" to include inter alia any natural person resident of the US and with regards to investors other than individuals, (i) a corporation or partnership organised or incorporated under the laws of the US or any state thereof; (ii) a trust: (a) of which any trustee is a US Person except if such trustee is a professional fiduciary and a co-trustee who is not a US Person has sole or shared investment discretion with regard to trust assets and no beneficiary of the trust (and no settlor if the trust is revocable) is a US Person or (b) where a court is able to exercise primary jurisdiction over the trust and one or more US fiduciaries have the authority to control all substantial decisions of the trust and (iii) an estate (a) which is subject to US tax on its worldwide income from all sources; or (b) for which any US Person is executor or administrator except if an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with regard to the assets of the estate and the estate is governed by foreign law.

The term "US Person" also means any entity organised principally for passive investment (such as a commodity pool, investment company or other similar entity) that was formed: (a) for the purpose of facilitating investment by a US Person in a commodity pool with respect to which the operator is exempt from certain requirements of Part 4 of the regulations promulgated by the United States Commodity Futures Trading Commission by virtue of its participants being non-US Persons or (b) by US Persons principally for the purpose of investing in securities not registered under the Securities Act, unless it is formed and owned by "accredited investors" (as defined in Rule 501 (a) under the Securities Act) who are not natural persons, estates or trusts.

Pursuant to the IR Code, the term "US Person" means (i) a citizen or resident of the US, (ii) a partnership or other entity treated as a partnership for US federal income tax organized under the laws of the US or any political subdivision thereof, (iii) a corporation or other entity treated as a corporation for US federal income tax purposes organized under the laws of the US or any political subdivision thereof, (iv) an estate the income of which is subject to US federal income tax without regard to its source or (v) a trust, if, either (a) a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to be treated as a US person.

The Fund is not authorised under the United Kingdom Financial Services and Markets Act 2000 (the "FSMA") in the United Kingdom and accordingly this Explanatory Memorandum must not be distributed in the United Kingdom other than to certain categories of person as specified in regulations made under the FSMA. Such categories include certain persons with sufficient expertise such as authorised persons, who understand the risks involved.

Distribution of this Explanatory Memorandum in Hong Kong must be accompanied by the Product Key Facts Statements of the Fund, a copy of the latest available annual report and accounts of the Fund, any subsequent interim report. Units issued after the date of this Explanatory Memorandum are offered on the basis only of the information contained in this Explanatory Memorandum. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorised and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of the units shall not in any way constitute a representation that the information and representations given herein or in such documents are correct as at any time subsequent to the date of this Explanatory Memorandum or such documents.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong (the "SFC"). The 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. The Manager accepts full responsibility for the accuracy, as at the date of this Explanatory Memorandum, of the information contained in this Explanatory Memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

Enquiries and Complaints

Enquiries and complaints concerning the Fund (including information concerning subscription and redemption procedures and the current net asset value of the Fund) should be directed to the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong or by electronic mail at schroders@schroders.com.hk or by phone at +852 2869 6968.

SUMMARY

Principal Features of the Schroder Capital Stable Fund

- Investment in fixed income securities, other asset classes, money market instruments and cash, and quoted equities worldwide directly or through investment in funds investing in the foregoing investments.
- Active investment management to achieve long term capital growth.
- Access to the specialist investment management expertise of Schroder Group.
- Minimum investment of HK$5,000 or US$1,000.
- Daily valuations and dealing.
- A fund authorised in Hong Kong; denominated in HK dollars.

INVESTMENT POLICY

Investment Objective and Policy

The Fund's investment objective is capital preservation combined with steady capital appreciation in HK dollars over the long term. The Fund will invest in fixed income securities, other asset classes, money market instruments and cash and in quoted equities in any part of the world directly or through investment in funds (including qualified exchange traded funds) ("Underlying Schemes") investing in the foregoing investments. The Fund may directly invest up to 50% of its net asset value in quoted equities and up to 90% of its net asset value in fixed income securities. The Fund's investment is not subject to any prescribed limit on the region, country, industry, credit rating or market capitalisation of the investment.

Up to 100% of the Fund's net asset value may be invested in Underlying Schemes. The Fund will only invest in other funds authorized by the Securities and Futures Commission (the "SFC") (except for hedge funds under 8.7 of the Code on Unit Trusts and Mutual Funds ("UT Code")) or in eligible schemes[Note] domiciled in jurisdictions recognized by the SFC (whether authorized by the SFC or not), except that not more than 10% of the Fund's net asset value may be invested in non-eligible schemes not authorized by the SFC.

The Fund may, if the Manager considers fit, seek exposure of not more than 15% of its net asset value to other asset classes including but not limited to commodities (including energy, metals and agricultural commodities) indirectly through Underlying Schemes.

The Fund will actively allocate between different asset classes including equities, fixed income securities, other asset classes, money market instruments and cash to achieve the Fund's objectives. The Fund will also make changes to the regional allocation within each of the asset class. The Fund uses a risk-premia approach to analyse different asset classes to identify the driving forces behind the risks and returns of asset classes. The analysis is based on a combination of fundamental and quantitative factors such as asset class valuation, macroeconomic data and liquidity. Money market instruments and cash will be treated as a separate asset class and will be deployed if necessary to limit downside risk during adverse market conditions.

In addition to active asset allocation, the Fund also aims to achieve its investment objectives through investment in the Underlying Schemes, which perform active security selection. The allocation to the Underlying Schemes is actively managed based on the Underlying Schemes' investment universes, investment strategies, risk and return profiles and the prevailing market conditions.

The Fund's expected asset allocation ranges for each asset class, either directly or through investment in Underlying Schemes, is expected to be the following:

Equities: 10 – 50%
Fixed income: 40 – 90%
Other asset classes: 0 – 15%
Money market instruments and cash: 0 – 30%

The Fund may acquire financial derivative instruments for hedging and non-hedging purposes.

The Fund may invest in Underlying Schemes of which the net derivative exposure is more than 50% of the Underlying Scheme's latest available net asset value. Investment in any single Underlying Scheme with a net derivative exposure exceeding 50% of its net asset value, which is (i) an SFC authorized fund (except for hedge funds under 8.7 of the UT Code) or (ii) an eligible scheme[Note] which is not authorized by the SFC, will not be more than 30% of the Fund's net asset value.

Note: "Eligible schemes" refer to UCITS schemes domiciled in Ireland, Luxembourg or the United Kingdom and, in accordance with their home regulation, such UCITS schemes may adopt the commitment approach or value at risk approach in monitoring the derivative exposure or risk of the UCITS schemes.

Borrowing and Leverage

The Trust Deed permits borrowing to be used to purchase or facilitate the purchase of investments for the Fund to provide monies to meet redemption requests and to pay operation expenses. The Manager intends to use this power to borrow but does not intend to gear the Fund.

Please refer to Schedule 1 for further details on the borrowing restrictions of the Fund.

Use of Derivatives

The Fund's net derivative exposure may be up to 50% of the Fund's latest available net asset value.

In relation to over-the-counter derivative transactions, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting.

Securities Financing Transactions

The Manager currently does not intend to enter into any securities financing transactions in respect of the Fund.

Change of Investment Policy

The Manager has power to change the investment policy from time to time within the investment restrictions contained in the Trust Deed.

INVESTMENT AND BORROWING RESTRICTIONS The Trust Deed sets out the investment and borrowing restrictions of the Fund, and a summary thereof are set out in Schedule 1.

RISK FACTORS

General risks

– The prices of units depend on the market values of the Fund's investments and such prices as well as the income from units can go down as well as up. Past performance of the Fund does not indicate the future performance. The Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment and are prepared for medium to high levels of risk.

– The Fund may invest in other funds. The Fund's performance will be affected by the performance of the Underlying Schemes and is subject to all the risks associated with the Underlying Schemes' investments and cash exposure including, among others, market, interest rate, currency, exchange rate, economic, credit, liquidity, counterparty, foreign securities and political risks. The Fund does not have control of the investments of the Underlying Schemes and there can be no assurance that the Underlying Schemes' objectives will be achieved. The Underlying Schemes in which the Fund may invest may not be regulated by the SFC. Investors will bear the recurring expenses of the Fund in addition to the expenses of the Underlying Schemes, and therefore, the returns that they may obtain may not reflect the returns that they obtained by investing directly in the Underlying Schemes. There is also no guarantee that the Underlying Schemes will always have sufficient liquidity to meet the Fund's redemption requests as and when made.

– Investment in the Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account.

– Investment decisions of the Underlying Schemes are made at the level of such Underlying Schemes and it is possible that the managers of such Underlying Schemes will take positions or engage in transactions in the same securities or in issues of the same asset class, industry or country or currency at the same time. Consequently there is concentration risk.

– The Fund may invest in a number of Underlying Schemes, which employ different strategies and objectives and invest in different types of securities and markets. Each type of security and market bears certain kinds of risks that may or may not be unique to the type of security and market. There is no assurance that the risks involved in different types of securities and markets are uncorrelated or independent and that diversification requirements will remove risks.

Market risk

– Investors should be aware that the value of securities in which the Fund or the Underlying Schemes invest, and the return derived from it can fluctuate. The Fund or the Underlying Schemes invest in and actively trade securities utilising strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the fixed income and equity and the risks associated with the use of derivative transactions, short sale positions, leverage and foreign securities. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as actions by various governmental agencies and domestic or international economic and political developments, may cause sharp market fluctuations, which could significantly and adversely affect the results of the Fund or the Underlying Schemes and hence the Fund's activities and the value of its investments. In addition, the value of the Fund's portfolio may fluctuate as the general level of interest rates fluctuates.

Currency and Exchange risk

– The investments (including the Underlying Schemes and their investments) acquired by the Fund may be denominated in a wide range of currencies different from the base currency of the Fund. This exposes the Fund to exchange rate fluctuations and currency risk.

Equity investment risk

– The Fund and the Underlying Scheme's investment in equity securities is subject to the risk that the market value of the stocks may go down as well as up due to numerous factors such as changes in investment sentiment, political environment, economic environment, issuer-specific factors, regional or global economic instability, currency and interest rate fluctuations. If the market value of the stocks go down the net asset value of the Fund and the Underlying Scheme may be adversely affected.

Risks relating to investment grade, below investment grade and unrated debt securities

– "Investment grade" debt securities generally have a high capacity to pay interest and repay principal when compared to lower-rated bonds and notes. However, there are no assurances that losses will not occur with respect to these investments. The principal factors that may affect the value of the Fund's and the Underlying Scheme's securities holdings include: (i) changes in interest rates, (ii) the credit worthiness of the issuers of securities held by the Fund or the Underlying Scheme, (iii) unanticipated prepayment, and (iv) the decline of the relevant bond market. Further, there is risk that investment grade securities may be downgraded due to adverse market conditions. In the event of a down-grading of the credit rating of a security or an issuer relating to a security that the Fund or the Underlying Schemes invest in, the value of the Fund or the Underlying Schemes (as the case may be) may be adversely affected. The Manager or the manager of the Underlying Schemes may or may not be able to dispose of the debt instruments that are being downgraded.

– The Fund and/or the Underlying Schemes may invest in debt securities which are below investment grade which are generally accompanied by lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities, a higher degree of counterparty risk, credit risk than higher rated, lower yielding securities. Such debt securities are considered to have a higher risk exposure than securities which are investment grade with respect to payment of interest and the return of principal. Low rated debt securities generally offer a higher current yield than higher grade issues. However, low rated debt securities involve higher risks and are more sensitive to adverse changes in general economic conditions and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers and changes in interest rates. Additionally, the market for lower rated debt securities generally is less active than that for higher quality securities and the Fund's or an Underlying Scheme's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions.

– The Fund and/or the Underlying Schemes may invest in securities which are unrated. Investment in such securities may be subject to risks similar to those outlined above for below investment grade securities.

Interest Rates risk

– Changes in market interest rates will affect the value of debt securities held by the Fund or the Underlying Schemes. Generally, the market value decreases when interest rates rise and increases when interest rates fall. Long-term debt securities are generally more sensitive to changes in interest rates and, therefore, are subject to a greater degree of market price volatility. To the extent the Fund or the Underlying Schemes hold long-term fixed income securities, their net asset values will be subject to a greater degree of fluctuation than if they held fixed income securities of a shorter duration.

Credit risk

– The Fund's or an Underlying Scheme's investments may be subject to credit risk. Bonds or other debt securities involve credit risk to the issuer which may be evidenced by the issuer's credit rating. Securities which are subordinated and/or have a lower credit rating are generally considered to have a higher credit risk and a greater possibility of default than more highly rated securities. In the event that any issuer of bonds or other debt securities experiences financial or economic difficulties, this may affect the value of the relevant securities (which may be zero) and any amounts paid on such securities (which may be zero). This may in turn affect the net asset value of the Fund or the prices of the Underlying Schemes and in turn affect the net asset value per unit of the Fund.

– Many emerging market countries have accumulated substantial debt service obligations. This may adversely affect their ability to service their debts and increase the likelihood of their defaulting on their obligations. It should also be noted that investment of the Fund or any Underlying Scheme in securities issued by corporations may represent a higher credit risk than investment in securities issued by governments.

– The ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint. The rating on an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time the rating is assigned and the time it is updated. In addition, there may be varying degrees of difference in credit risk of securities within each rating category.

Valuation risk

– Valuation of the Fund's or Underlying Scheme's investments in fixed income securities may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the net asset value calculation of the Fund and/or Underlying Scheme.

Sovereign debt risk

– The Fund's or an Underlying Scheme's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Fund or the Underlying Scheme to participate in restructuring such debts. The Fund may suffer significant losses when there is a default of sovereign debt issuers.

Counterparty, Custody and Settlement risk

– The Fund and the Underlying Schemes may be exposed to a credit risk on counterparties with whom they trade securities, and may also bear the risk of settlement default. As the Fund and/or the Underlying Schemes may also directly or indirectly invest in securities in emerging markets where settlement mechanisms are generally less developed and reliable than those in more developed countries. This therefore increases the risk of settlement default which could result in substantial losses for the Fund or the Underlying Scheme in respect of investments in emerging markets.

– The Fund and/or the Underlying Schemes may invest in markets where custodial and/or settlement systems are not fully developed. The assets of the Fund and/or the Underlying Schemes that are traded in such markets and which have been entrusted to such sub-custodians may be exposed to risk in circumstances where the custodian will have no liability. The Fund's and the Underlying Schemes' cash account will usually be maintained on the custodian's records, but the balances may be held by a sub-custodian which poses an additional risk. In addition, in case of liquidation, bankruptcy or insolvency of such sub-custodians, the Fund or the Underlying Schemes (as the case may be) may take a longer time to recover their assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Fund or the Underlying Schemes (as the case may be) may even be unable to recover all of its/their assets. The costs borne by the Fund and the Underlying Schemes investing and holding investments in such markets will be generally higher than in organised securities markets.

– The Fund and/or the Underlying Schemes may be also exposed to credit risk on the counterparties with which they trade in relation to options, futures, contracts and other derivative financial instruments that are not traded on internationally recognised exchanges. The Fund and the Underlying Schemes will be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which the Fund or the Underlying Schemes trade such instruments, which could result in substantial losses to the Fund.

Liquidity risk

– Not all securities or investments held by the Fund or the Underlying Schemes will be listed or rated or actively traded and consequently liquidity may be low. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at unfavourable prices. The Fund or the Underlying Schemes may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity. Moreover, there is no assurance that the liquidity of the Fund or the Underlying Schemes will always be sufficient to meet redemption requests as and when made.

– Liquidity risk also exists if sizeable redemption requests are received as the Fund may need to liquidate its underlying investments including investments in Underlying Schemes, which in turn may need to liquidate their investments at a substantial discount, in order to satisfy such requests and the Fund may suffer losses in liquidating such investments.

Risks associated with derivatives

– Derivatives include instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Derivatives may allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index. Therefore, many of the risks applicable to trading the assets of the Fund and the Underlying Schemes are also applicable to derivatives trading. Risks associated with derivatives include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. However, there are a number of other risks associated with derivatives trading. The leverage element/component of a derivative can result in a loss significantly greater than the amount invested in the derivative. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose the Fund to the possibility of a significant loss exceeding the original amount invested.

Funds investing in mortgage related and other asset backed securities

– Mortgage related and other asset backed securities may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities. They are often exposed to extension and prepayment risks (as further discussed below), and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

– The yield and maturity characteristics of mortgage-related and other asset backed securities differ from traditional debt securities. A major difference is that the principal amount of the obligations may normally be prepaid at any time because the underlying assets (i.e. loans) generally may be prepaid at any time. In calculating the average weighted maturity of such a portfolio, the maturity of mortgage-related and other asset backed securities held will be based on estimates of average life which take prepayments into account. The average life of a mortgage-related instrument, in particular, is likely to be substantially less than the original maturity of the mortgage pools underlying the securities as the result of scheduled principal payments and mortgage prepayments. In general, the collateral supporting non-mortgage asset backed securities is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments.

– The relationship between prepayments and interest rates may give some high-yielding asset backed securities less potential for growth in value than conventional bonds with comparable maturities. In addition, in periods of falling interest rates, the rate of prepayments tends to increase. During such periods, the reinvestment of prepayment proceeds by the Fund or the Underlying Scheme will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. Because of these and other reasons, an asset backed security's total return and maturity may be difficult to predict precisely. To the extent that the Fund or the Underlying Scheme purchases asset backed securities at a premium, prepayments (which may be made without penalty) may result in loss of the Fund or the Underlying Scheme's principal investment to the extent of premium paid.

– In addition, to the extent that they are not guaranteed, each type of asset backed securities entails specific credit risks depending on the type of assets involved and the legal structure used.

Investor risk

– Substantial redemptions of units (which are more likely to occur in adverse economic or market conditions) could require the Manager to liquidate investments of the Fund more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions and to achieve a position appropriately reflecting the smaller equity base. This could adversely affect the net asset value of both units being redeemed and of existing units.

– The Manager is entitled under certain circumstances specified in the Trust Deed to suspend dealings in the units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the units during the period up to the redemption of the units is borne by the redeeming unitholders.

– If, in the opinion of the Manager or the Trustee, units held by any unitholder is in contravention of any laws or regulations or under such other circumstances specified in the Trust Deed, the Manager is entitled to compulsorily redeem all or a portion of the unitholder's units in the Fund. Such compulsory redemption may create adverse tax and/or economic consequences to the unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon any termination of the Fund, compulsory redemption or otherwise.

Risk of termination of the Fund

– In the event of the early termination of the Fund, the Fund would have to distribute to the unitholders their pro rata interest in the assets of the Fund. It is possible that at the time of such sale or distribution, certain investments held by the Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the unitholders. Moreover, any organisational expenses with regard to the units that had not yet become fully amortised would be debited against Fund's capital at that time.

Emerging Markets

– Investments in emerging and less developed markets may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Emerging or developing countries may have relatively unstable governments, economies based on a less diversified industrial base and securities markets that trade a smaller number of securities. Companies in emerging markets may generally be smaller, less experienced and more recently organised than many companies in more developed markets. Prices of securities traded in the securities markets of emerging or developing countries tend to be volatile. Furthermore, foreign investors are often subject to restrictions in emerging or developing countries. These restrictions may require, among other things, governmental approval prior to making investments or repatriating income or capital, or may impose limits on the amount or type of securities held by foreigners or on the companies in which the foreigners may invest.

– The economies of individual emerging countries may differ favourably or unfavourably from developed economies in such respects as growth of gross domestic product, rates of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payment position and may be based on a substantially less diversified industrial base. Further, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been, and may continue to be, adversely affected by economic conditions in the countries with which they trade.

Risk relating to exchange traded funds

– The Fund or an Underlying Scheme may invest in exchange traded funds ("ETFs"). ETFs generally are passively managed and may not be able to adapt to market changes. ETFs may be subject to tracking error risk, which is the risk that its performance may not track that of the index exactly. The trading price of units of ETFs is driven by market factors such as demand and supply of the units, and units may trade at a substantial premium or discount to net asset value. Where the Fund or an Underlying Scheme invests in synthetic ETFs, such investments are susceptible to more significant price fluctuations and higher volatility, and are exposed to risk of fall in collateral value and risk of default of counterparties.

Risk relating to small- and mid-capped companies

– The Fund and some of the Underlying Schemes may invest in the securities of small- and/or mid-capped companies. Investing in these securities may expose the Fund or the Underlying Schemes to risks such as greater market price volatility, less publicly available information, and greater vulnerability to fluctuations in the economic cycle.

Risks relating to investment in commodities

– Underlying Schemes may invest in commodities and commodities-related investments and therefore may be exposed to commodity markets risks, which are generally greater than risks in other markets. It is a feature of that generally commodities prices are subject to rapid changes and the risks involved in investing in commodities may change relatively quickly. Commodity prices are determined by forces of supply and demand which are influenced by, without limitation, macroeconomic factors, consumer pattern, trade, fiscal, monetary and exchange policies and controls of governments and other unforeseeable events.

Foreign Account Tax Compliance Act ("FATCA") related risks

– The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund. Provided that the Fund acts in accordance with the provisions it will not be subject to withholding tax under FATCA.

– Although the Manager will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA penalty withholding on the Fund, no assurance can be given that the Manager will be able to achieve this and/or satisfy such FATCA obligations. If the Fund becomes subject to a FATCA penalty withholding as a result of the FATCA regime, the value of the units held by unitholders may be adversely affected and unitholders may suffer material losses.

– Unitholders should seek independent professional advice regarding the FATCA requirements with respect to their own situation. In particular, where investors invest in or held units of the Fund through an intermediary, nominee or custodian, investors are recommended to check whether such intermediary, nominee or custodian is FATCA compliant and any possible FATCA implications.

Risks relating to distribution

– In respect of Income Units, the Manager will declare and pay distributions on a regular basis. However, the distribution rate is not guaranteed. The Manager has the sole and absolute discretion to vary the frequency of distributions, subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

– Where the income and/or capital gain generated by the Fund is insufficient to pay a distribution as the Fund declares, the Manager may at its discretion make such distributions out of the capital of the Fund.

– **You should note that in the circumstances where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount you originally invested or capital gains attributable to that and may result in an immediate decrease in the value of units of the relevant Income Units.**

Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of the Classes of Income Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site (www.schroders.com.hk). The website has not been reviewed by the SFC.

Prospective investors should consult with their own advisors before deciding to invest in the Fund.

MANAGEMENT AND ADMINISTRATION The Manager of the Fund is Schroder Investment Management (Hong Kong) Limited and is licensed by the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. The Manager is not subject to any licensing conditions in respect of its aforementioned licenses for regulated activities pursuant to the Securities and Futures Ordinance.

The Manager undertakes the management and administration of the Fund, including communication with unitholders and conduct of meetings, and in conjunction with the Trustee is responsible for the maintenance of accounts and records in compliance with the Trust Deed and the laws of Hong Kong.

With almost forty years of investment experience in Asia Pacific the Schroder Group is able to offer particular expertise in the management of specialist Asian portfolios and is able to draw on the worldwide resources of the Group with offices and research analysts based throughout the region.

The Manager is adviser to or manager of other Hong Kong authorised unit trusts and investment portfolios of institutional, private and retirement fund clients in Asia and elsewhere. The Schroder Group worldwide manages assets of over US$662.6 billion as at 31 December 2019 in London, Luxembourg, New York, Zurich, Australia, Hong Kong, Japan and Singapore and other investment centres around the world.

TRUSTEE The Trustee of the Fund is HSBC Institutional Trust Services (Asia) Limited which is incorporated with limited liability in Hong Kong on 27 September 1974. It is an indirect wholly-owned subsidiary of HSBC Holdings plc. It is registered as a trust company under Section 77 of the Hong Kong Trustee Ordinance and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance. The Trustee has delegated certain of its functions as registrar to HSBC France, Luxembourg Branch (the "Service Provider").

Under the Trust Deed and subject to the provisions therein, all cash and other property which ought in accordance with the provisions of the Trust Deed to form part of the Fund's property shall be paid or transferred to the Trustee or as it may direct and be held by or under the control of the Trustee accordingly. The Trustee shall be responsible for the safe-keeping of the Fund's property including where appropriate the insurance thereof as the Trustee may think fit and shall take into custody or under its control all the investments, cash and other assets forming part of the Fund's property and hold them in trust for the unitholders in accordance with the provisions of the Trust Deed. The Trustee shall in respect of any investments or other assets of the Fund which by nature cannot be held in custody, maintain a proper record of such investments or assets in its books under the name of the Fund.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself, or any associate) as custodian or co-custodian or sub-custodian of the investments and/or deposits comprised in the Fund's property. The Trustee may empower any such custodian or co-custodian or sub-custodian to appoint, with the prior consent in writing of the Trustee, sub-custodians. The fees and expenses of such custodian, co-custodians and sub-custodians shall be paid out of the Fund's property. The Trustee (a) shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of agents, nominees, delegates, custodian, co-custodian or sub-custodian which are appointed for the custody and/or safe keeping of any Trust property, cash or other assets forming part of the Fund's property (each a "**Correspondent**"); (b) shall be satisfied that each such Correspondents retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Trust; and (c) shall remain liable for any act or omission of any Correspondent which are connected persons as if the same were the act or omission of the Trustee provided however that if the Trustee has discharged its obligations set out in (a) and (b) above, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent that is not a connected person of the Trustee.

HSBC group has adopted a policy of compliance with the sanctions issued by The Office of Foreign Assets Control of the US Department of the Treasury. The Trustee and its delegates will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control of the US Department of the Treasury.

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 headed "Charges and Fees" and to be reimbursed for any sub-custodians' fees and expenses.

If the Trustee or its delegates (which may be affiliates of the Trustee) shall act as banker in respect of Fund then it shall be entitled to retain all normal banking profit and benefits; in the event that the Trustee or its delegates shall act as custodian or broker for the purchase and sale of investments, then it shall be entitled to charge and retain all normal fees and expenses.

The Manager has sole responsibility for making investment decisions in relation to the Fund. Subject to the duty to ensure that investment and borrowing limitations of the Fund are complied with as required by the Code on Unit Trusts and Mutual Funds, the Trustee (including its delegate) is not responsible or has any liability for any investment decision made by the Manager. Neither the Trustee, nor its delegate acts as guarantor or offeror of the Units or any underlying investment of the Fund.

TYPES OF UNITS The Manager intends to offer A Class (the "A Class"), C Class (the "C Class") and I Class (the "I Class") which may be denominated in HK dollar ("HK$"), US dollar ("US$") or such other currencies as may be determined by the Manager from time to time, and designated as Accumulation Units or Income Units. HK dollar and US dollar refer to Hong Kong dollar and United States dollar respectively. The Manager may in future determine to offer other class(es) of Units pursuant to the provisions of the Trust Deed. The Manager will provide a full list of classes of units with currency denomination that are available for sale to the public in Hong Kong, upon request of an investor. The list is also available online at www.schroders.com.hk. The website has not been reviewed by the SFC.

A Class will initially only be available to investors of certain distributors appointed specifically for the purpose of distributing the A Class Units whilst C Class Units will generally be available to investors who are considered to be institutional investors by the Manager. I Class is designed to accommodate an alternative charging structure whereby the investors are clients of the Manager or its associates and are charged management fees directly by the Manager or its associates.

APPLICATION FOR UNITS To purchase units an investor should:–

a) complete the application form enclosed with this Explanatory Memorandum and return it to the Manager (details of which as set out in the application form); or

b) fax an order to the Manager (details of which as set out in the application form).

Fax orders must always be followed by a completed application form unless the investor already holds units in this Fund or another fund managed or distributed by the Manager and has already made arrangements with the Manager to allow orders to be made via facsimile instructions and without the same being followed by original orders. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a unitholder or an investor for any loss resulting from non-receipt of any orders sent by facsimile.

Applications may also be sent through an investment adviser.

Units may be acquired on any Valuation Date see – "Valuation and Price Calculation".

Applications should be made on, and in accordance with the instructions on the application form and be received by the Manager by 5 p.m. Hong Kong time if they are to take effect at the relevant net asset value per unit (plus any applicable initial charge) on the next business day. Payment of the amount due on application should normally be made no later than four (4) business days after the application is accepted. If timely settlement is not made the relevant allotment of units may be cancelled in accordance with the Trust Deed.

The minimum investment for initial or subsequent investments is HK$5,000 for units denominated in HK dollars and US$1,000 for Accumulation Units denominated in US dollars or such other amount as may from time to time be determined by the Manager generally or for a particular investor. The minimum amounts include any initial charge which is payable by the applicant.

The issue of units is at the discretion of the Manager. Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of units.

Payments should normally be made in HK dollars for units denominated in HK dollars and US dollars for units denominated in US dollars. If an investor selects a currency other than the currency of the relevant class of unit for any payments to or from the Fund, this will be deemed to be a request by the investor to the Service Provider to provide a foreign exchange service to the investor in respect of such payment. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant investor. Neither the Trustee nor the Service Provider nor the Manager takes any responsibility for the rate of exchange obtained. Changes in the rate of exchange between the currency of denomination and the currency of an investor's subscription monies may cause the value of an investor's investment to diminish or increase.

Monies can be paid either by telegraphic transfer to the relevant accounts as set out in the application form or may be paid by cheque in accordance with instructions on the application form. It should be note that there may be delay in receipt of cleared funds if payment is made by cheque or banker's draft compared to payment by telegraphic transfer. Any costs of transfer of application monies to the Fund will be payable by the applicant.

The applicant should quote the name of the Fund in the remittance instructions.

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

All holdings will be registered but certificates are not issued. Evidence of title will be the entry on the Register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of units correct to the nearest two (2) decimal places will be issued. The Manager reserves the right to reject any application in whole or in part. A maximum of 4 persons may be registered as joint unitholders.

REDEMPTION OF UNITS Units may be redeemed on any Valuation Date at their net asset value per unit less any applicable deductions (there is currently no deduction) on application to the Manager as applicable to the relevant class and denomination of units. Redemption notices must be received by the Manager by 5 p.m. Hong Kong time on a Valuation Date to take effect on the next business day. Application should be made on the form available from the Manager by post or by fax to the Manager, or through one of the intermediaries authorised for this purpose. Please see also "Anti-Money Laundering Regulations". Partial redemptions for a minimum of HK$2,500 (HK dollar denominated units) or US$500 (US dollar denominated units), unless otherwise waived by the Manager at its discretion, are allowed provided that the value of such unitholder's remaining holding of units is not less than HK$5,000 or US$1,000 (as applicable) or such lower amount as may from time to time be determined by the Manager generally or for a particular investor. There is no redemption charge.

Investors should be reminded that if they choose to send notices of redemption by fax, they bear their own risk of the notices not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the notices. Neither the Manager nor the Trustee shall be responsible to a unitholder for any loss resulting from non-receipt of any redemption request sent by facsimile.

Redemption monies are normally remitted by telegraphic transfer within ten (10) business days after the relevant Valuation Date and at most within 28 days upon receipt of all properly completed documentation. Redemption proceeds will be paid to the registered unitholder requesting such redemption only and will not be paid to third parties.

Redemption monies will normally be paid in the currency of the relevant class of units. However, at the request of the unitholder, a currency exchange service for redemptions is provided to the unitholder by the Service Provider. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant unitholder.

The Trust Deed gives the Manager power to redeem compulsorily units in certain circumstances, in the event of adverse tax or other consequences for the Fund, the Manager, the Trustee or their associates.

In the event of redemption requests being received on any one day for units in excess of 10% of the units in issue the Manager may sell a proportion of the Fund's assets corresponding to the proportion the units to be redeemed bear to the total number in issue and calculate the relevant net asset value per unit based on the proceeds of the investments sold. Alternatively the Manager may limit the number of units to be redeemed on any one Valuation Date to 10% of the units in issue (with redemption requests reduced pro rata) and any excess redemption requests are then carried forward to the next Valuation Date.

Payment of redemption monies in US dollars may result in the Fund benefiting from or bearing the costs of any fluctuations in the exchange rate between HK dollars and US dollars for the period between the date of redemption of US dollar units and the date of payment of US dollar redemption monies. Due to the peg of the currencies, and the fact that the current investment policy includes the holding of assets denominated in US dollars sufficient to cover likely redemptions of units denominated in US dollars, variations are expected to be small. The position will be actively monitored by the Manager.

CONVERSION OF UNITS Units cannot be converted to other units denominated in a different currency by the unitholder. The Manager has power, with the consent of the Trustee to compulsorily re-designate the currency of a Class of Units to such other currencies by one month's notice to unitholders if in the Manager's opinion it is in the interests of unitholders to do so.

SWITCHING BETWEEN FUNDS The Manager offers a number of other unit trusts and mutual funds with different investment objectives. Unitholders switching from one fund to another will be generally given, at the discretion of the Manager, discounts on the initial charge (currently up to 5% of the switching amount) which may otherwise apply. A switch is an instruction for a redemption of units or shares in a fund and application of the redemption proceeds to purchase units or shares in another fund and therefore the provisions on application and redemption for the relevant funds generally apply. Acceptance of switching instructions will be subject to the availability of the fund to be switched in (the "New Fund") and to the compliance with any eligibility requirements and/or other specific conditions attached to the New Fund such as minimum subscription and holding amounts.

For switches between funds managed or distributed by the Manager and generally available to investors, save for switches into funds dealt with on a cleared fund basis (for example money funds), switches are normally effected by redeeming units or shares in the fund to be switched out (the "Original Fund") on the dealing day on which the redemption would occur and subscribing into units or shares of the New Fund on the same day, provided that the availability of pricing and the applicable dealing days and settlement periods of both funds match. However, if the availability of pricing, dealing days or settlement periods of the Original Fund and the New Fund do not match, subscription to the New Fund may be deferred to align the settlement dates of both funds. In no circumstances the settlement date of the subscription to the New Fund will precede the settlement date of the redemption of the Original Fund.

For switches into a fund dealt with on a cleared fund basis, cleared funds are needed before units or shares will be issued. The time of issue of the units or shares in the fund will thus depend on the time of receipt of the redemption proceeds in cleared funds from the Original Fund.

In the cases where dealing of the Original Fund and/or the New Fund is suspended, the processing of the switch will be held over until the next dealing day where the dealings are no longer suspended. The switching procedures described above will continue to apply.

Instructions to switch units between classes of units denominated in different currencies will be accepted. A currency exchange service for such switches is provided by the Service Provider. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant unitholder.

Investors are reminded to read the offering documents of the funds into which they wish to switch (available on request from the Manager) before investing.

CHARGES AND FEES Units are purchased at their relevant net asset value per unit plus any applicable initial charge. On redemption, units are purchased back by the Manager at their relevant net asset value per unit without redemption charge.

a) **Initial Charge** On the issue of new units, the Manager is entitled to charge an amount not exceeding 5% of the gross investment amount. The initial charge is accordingly payable by the applicant and retained by the Manager for its own use and benefit.

   The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the initial charge received by it on the value of relevant business introduced to the Fund.

b) **Manager's Fee** The Manager is paid a fee out of the assets of the Fund, calculated on each Valuation Date which accrues daily and is payable monthly in arrears currently at the following rate of the net asset value of the relevant class of the Fund, subject to a maximum of 1.5% p.a. The fee may be increased by 3 months' notice to unitholders subject to the maximum.

A Class	0.9%
C Class	0.625%

   As I Class is designed to accommodate an alternative charging structure whereby the investors are clients of the Manager or its associates and are charged management fees directly by the Manager or its associates, no management fees will be payable in respect of units in I Class out of the net assets of the Fund.

   The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the manager's fee received by it on the value of relevant business introduced to the Fund.

c) **Trustee fee.** The Trustee is entitled to receive a fee of 0.04% p.a. of the net asset value of the Fund calculated on each Valuation Date and is payable monthly in arrears. The Trust Deed permits a maximum charge of 0.5% p.a. of the Fund's net asset value. The fee may be increased by 3 months' notice to unit holders (subject to the maximum) and with the consent of the Manager.

EXPENSES The costs, charges and expenses borne by the Fund, in addition to the Manager's fee and the Trustee's fee are those in connection with the establishment and authorization of the Fund, investing and realising the assets of the Fund, the safe keeping or custody of investments including fees and charges of any custodian or sub-custodian, fiscal charges payable in respect of the Fund, the registrar's costs (including Service Provider's costs which vary from class to class within a range between 0.02% and 0.1% p.a. of the Fund's net asset value), any valuation fee payable to the Trustee for calculation of the net asset value, the costs of publishing unit prices and costs incurred in preparing and publishing reports and other communications to unitholders. The Fund also bears legal expenses incurred by the Manager or the Trustee in enabling the Fund to conform to new legislation or in connection with any supplemental deed giving effect to an alteration, modification or variation of the Trust Deed, the costs and expenses of auditing the Fund, the costs of obtaining or maintaining the approval of any regulatory authority for the Fund and the Manager's and Trustee's costs and expenses including legal fees properly incurred in performance of their duties under the Trust Deed for the benefit of the Fund. Any other costs, charges and expenses incurred in connection with the management and trusteeship of the Fund are paid on their own account by the Manager or the Trustee.

The Manager's and Trustee's fees are calculated and payable in HK dollars.

The preliminary expenses in relation to the set up of the Fund have already been fully amortised.

The Fund will generally pay brokerage at customary institutional full service brokerage rates. Transactions of the Fund may be entered into through associates of the Manager. The Manager, the investment delegate (if any) and any associates will not receive cash or other rebates from brokers or dealers in respect of transactions from the Fund. The Manager may enter into soft commission arrangements for the provision to the Manager or associates of goods and services which (a) are of demonstrable benefit to unitholders, (b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary, institutional full service brokerage rates; (c) periodic disclosure is made in the Fund's annual report in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegate, including a description of goods and services received by them; and (d) the availability of soft commission arrangements is not the sole or primary purpose to perform or arrange transaction with such person.

As the Fund invests in the Underlying Schemes, it will also indirectly bear a proportionate share of the management and trustee fees, operating expenses and charges, where permitted by the Trust Deed of the Fund, incurred by the Underlying Schemes. An Underlying Scheme may also charge an initial charge when an investment is made by the Fund in the Underlying Scheme. The foregoing is in addition to the initial charge payable by investors of the Fund, and fees and expenses payable by the Fund to the Manager. The Manager will not retain any rebate on any fees or charges levied by an Underlying Scheme or its management company. Please note however, that the Manager will waive all front-end charges, redemption charges and management fees for investment in any Underlying Schemes managed by the Manager or its associates.

VALUATION AND PRICE CALCULATION Valuation Dates are normally every business day in Hong Kong on which securities markets of all or substantial part of investments of the Fund are open for trading and settlement or such other day(s) as the Manager with the approval of the Trustee may determine from time to time. A business day in Hong Kong is a day on which banks in Hong Kong are normally open for business except Saturdays and Sundays, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a business day in Hong Kong unless the Manager otherwise determine.

The relevant net asset value per unit in HK dollars is calculated as at the time at which the Fund is valued on the Valuation Date on which the application or redemption is being effected. The net asset value per unit of each class is adjusted to the nearest two (2) decimal places. Units denominated in HK dollars will be redeemed at the relevant net asset value per unit less any applicable deductions for that class. The net asset value per unit so determined may be subject to "dilution adjustment", as described in the section titled "DILUTION AND DILUTION ADJUSTMENT" below.

Where units are denominated in US dollars, the relevant net asset value per unit calculated as set out above are converted to US dollars from HK dollars at the exchange rate applied by the Trustee for the valuation of the assets of the Fund. The relevant net asset value per unit in US dollars is calculated correct to the nearest two (2) decimal places.

The net asset value of the Fund is generally determined by valuing the assets of the Fund in accordance with the provisions of the Trust Deed and deducting the liabilities attributable to the Fund in accordance with the provisions of the Trust Deed. The Trust Deed provides among others that:

(a) the Manager shall value investments and deposits to determine the gross asset value as follows:

   (i) investments for which prices are quoted on a market shall be valued at the mid-market price where bid and offer prices are quoted and in other cases, at the last traded price of the relevant investment on the relevant market and in either case, as at the close of business of such market at or immediately preceding the valuation point; and

   (ii) deposits shall be valued at face value;

(b) interest, discount and similar income and returns shall be deemed to accrue from day to day. Dividends shall be deemed to be received on the date on which the relevant investment is first quoted ex the dividend or interest payment in question. The value of any accounts receivable, prepaid expenses, and cash dividends and interest declared or accrued and receivable but not yet received shall be deemed to be the full amount thereof unless the Manager shall determine that less than the full amount is likely to be received. In such case, the Manager shall determine the reasonable value thereof;

(c) the value of any investment which may not be determined in accordance with the provisions of the Trust Deed whether because the relevant prices are not generally available on a market or not available on a particular Valuation Date or where the Manager or the Trustee (as they may between themselves decide) considers the method of valuation inappropriate, shall be determined by (i) the Manager or the Trustee (as they may between themselves decide) after consultation with the Auditors and if determined by the Manager, with the prior consent in writing of the Trustee; or (ii) by some other person appropriately qualified and approved by the Manager or the Trustee (as they may between themselves decide). Notwithstanding any other provisions of the Trust Deed, the Manager may, with the prior consent in writing of the Trustee, adjust the value of any cash, deposits and/or investment or permit some other method of valuation to be used if it considers that such adjustment or use of such other method is required to reflect the fair value thereof.

Valuation Dates, the time as at which valuations are made and any latest time for receipt of applications and redemption requests may be changed from time to time by the Manager. The Manager will usually give notice of such changes to the Trustee and Unitholders and, in the case of changes to the Valuation Date, must give one month's prior notice.

The Manager may deal in units, and subscriptions and redemptions may accordingly at the Manager's discretion be either for direct account of the Fund or sales or purchases by the Manager.

The Manager may, with the prior consent in writing of the Trustee, adjust the value of any investment of the Fund if it considers that such adjustment is required to reflect the fair value thereof and may in making such adjustment have regard to currency, applicable rate of interest, maturity, marketability and other relevant considerations.

DILUTION AND DILUTION ADJUSTMENT The Fund is single priced and may suffer a reduction in value as a result of the transaction costs incurred in the purchase and sale of its underlying investments and the spread between the buying and selling prices of such investments caused by subscriptions, redemptions and/or switching in and out of the Fund. This is known as "dilution". In order to counter this and to protect unitholders' interests, the Manager will apply "dilution adjustment" as part of its daily valuation policy. This will mean that in certain circumstances the Manager (if in its opinion in good faith it is in the interest of Unitholders to do so) will make adjustments in the calculations of the net asset value per unit, to counter the impact of dealing and other costs on occasions when these are deemed to be significant, as further described below.

In the usual course of business the application of a dilution adjustment will be triggered mechanically and on a consistent basis.

The need to make a dilution adjustment will depend upon the net value of subscriptions, switching and redemptions received by the Fund for each dealing day. The Manager therefore reserves the right to make a dilution adjustment where the Fund experiences a net cash movement which exceeds a threshold set by the Manager from time to time of the previous dealing day's total net asset value.

The Manager may also make a discretionary dilution adjustment if, in its opinion, it is in the interest of existing unitholders to do so.

Where a dilution adjustment is made, it will increase the net asset value per unit when there are net inflows into the Fund and decrease the net asset value per unit when there are net outflows. The net asset value per unit of each unit class in the Fund will be calculated separately but any dilution adjustment will, in percentage terms, affect the net asset value per unit of each unit class identically.

As dilution is related to the inflows and outflows of money from the Fund, it is not possible to accurately predict whether dilution will occur at any future point in time. Consequently it is also not possible to accurately predict how frequently the Manager will need to make such dilution adjustments.

Because the dilution adjustment for the Fund will be calculated by reference to the costs of dealing in the underlying investments of the Fund, including any dealing spreads, which can vary with market conditions, this means that the amount of the dilution adjustment can vary over time but will not exceed 2% of the net asset value per unit on the relevant Valuation Date.

TAXATION ***The below summary is based on the Manager's understanding of the law and practice currently in force as at the date of this Explanatory Memorandum and applies to investors acquiring units in the Fund as an investment. Each prospective unitholder should inform himself of, and where appropriate take professional advice on, the taxes applicable to the acquisition, holding and redemption of units by him under the laws of the places of his citizenship, residence and domicile. Neither the Fund nor any of its respective affiliates accepts any responsibility for providing tax advice to any prospective unitholder.***

Under the prevailing Hong Kong tax legislations and practices:–

The Fund

The Fund should be exempt from profits tax, in respect of its authorised activities, in Hong Kong upon authorisation as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance.

Unitholders

Profits arising on the disposal or redemption of any units should only be subject to Hong Kong profits tax for unitholders who carry on a trade or business in Hong Kong where the profits, not being regarded as capital in nature, arise from such trade or business and are sourced in Hong Kong. Unitholders who do not carry on a trade or business in Hong Kong should not be liable to Hong Kong profits tax in respect of any gains from the disposal or redemption of such units.

Distributions received by unitholders from their investments in the units generally should not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise).

There is no withholding tax on dividends and interest in Hong Kong.

Dividends, interest and other income received by the Fund from outside Hong Kong may be subject to withholding taxes in the country from which payment is made. Such taxes will not normally be recoverable by the Fund, though they may be recoverable by individual unitholders who are able to claim the benefit of appropriate double taxation relief.

Stamp Duty

No Hong Kong stamp duty is payable on the issue and redemption for extinguishment of the units. Hong Kong stamp duty is also not payable if the sale 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 will be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and seller) of the higher of the consideration amount or market value.

US Tax Reporting Obligations under FATCA

The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund.

The Fund intends to comply with the provisions of FATCA under the terms of the inter-governmental agreement ("IGA") Model II that has been entered into between US Treasury and Hong Kong Government on 13 November 2014 and under the terms of the Hong Kong legislation implementing the IGA when introduced rather than under the US Treasury Regulations implementing FATCA. The Manager as the sponsoring entity has included the Fund in the list of funds sponsored by it.

In order to comply with its FATCA obligations, from 1 July 2014 the Fund may be required to obtain certain information from its investors so as to ascertain their US tax status. If the investor is a specified US person under the provisions of FATCA, U.S. owned non-U.S. entity, non-participating FFI or does not provide the requisite documentation, the Fund will need to report information on these investors directly to the IRS. Provided that the Fund acts in accordance with these provisions it will not be subject to withholding tax under FATCA.

Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The AEOI requires financial institutions ("FI") in Hong Kong to collect information relating to account holders, and to file such information as relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("IRD") who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships ("Reportable Jurisdictions"); however, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund and/or its agents shall collect and provide to the IRD tax information relating to unitholders and prospective investors.

The AEOI rules as implemented by Hong Kong require the Fund to, amongst other things: (i) register the Fund's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e. unitholders) to identify whether any such accounts are considered "Reportable Accounts" for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant Reportable Jurisdiction(s). Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in a Reportable Jurisdiction. Under the Ordinance, details of unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

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 Fund, the Manager and/or the Fund's agents in order for the Fund to comply with AEOI. The unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

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

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 liquidity risk management of the Fund is an integral part of investment management process and is operated under Schroders' investment risk management framework. The oversight of the liquidity risk management function will be performed by the investment risk function which is part of Schroders Group Risk. A liquidity report will be generated by Group Risk monthly. The results of the oversight will be reported to a risk management committee consisting of responsible officers, management and senior staff from Compliance, Investment and Operational and Risk on a regular basis. Exceptions on liquidity risk related issues will be escalated to the risk management committee.

The Manager would regularly assess the liquidity of the Fund's assets under the current and likely future market conditions. 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 Fund. 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 as stated under the section headed "REDEMPTION OF UNITS", 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.

To manage liquidity risks, the Manager may limit the number of units to be redeemed on any one Valuation Date to 10% of the units in issue (subject to the conditions set out in the section headed "REDEMPTION OF UNITS").

SUSPENSION OF DEALINGS The Manager, after consultation with the Trustee, having regard to the best interests of Unitholders, may at any time, suspend the right of unitholders to require the redemption of units and will at the same time cease to issue units and thus conversion of units will cease in any of the following circumstances:–

a. when any relevant market on which any material part of the Fund's investment are listed, quoted or dealt in is closed other than for ordinary holidays; or

b. when dealings on any such market are restricted or suspended; or

c. when a state of affairs exists as a result of which the acquisition or disposal of investments, or the making or uplifting of deposits, for account of the Fund cannot be effected normally or without seriously prejudicing the interests of unitholders; or

d. when there is a breakdown in the means of communication normally employed in determining the value of the Fund or any material part thereof or when, for any other reason, the value of any of the Fund's investments which represents a significant part of the value of the Fund, or the amount of any significant liability of the Fund, cannot be promptly and accurately ascertained; or

e. when the realisation of any of the Fund's investments or deposits or the transfer of funds involved in such realisation cannot be effected at normal prices or normal rates of exchange; or

f. if the remittance of monies involved in the subscription or redemption of units cannot be carried out without undue delay and at normal rates of exchange.

Where the Manager declares a suspension, a notification will be published (a) immediately after any such declaration and (b) at least once a month during the period of such suspension, on the Schroders' Internet site (www.schroders.com.hk) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC.

REPORTS AND ACCOUNTS The Fund's financial year end is on the 30 September in each year. Audited accounts in HK dollars will be made available to unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited semi-annual reports will also be made available within two months after the 31 March in each year. Such reports contain a statement of the net asset value of the Fund and of the investments composing its portfolio.

The Manager will notify unitholders when such accounts (accompanied by the required reports), in printed and electronic forms are available and where such accounts may be obtained. Copies of audited accounts and unaudited semi-annual reports may be obtained free of charge at the registered office of the Manager and from the Schroders' Internet site (www.schroders.com.hk). Copies of the accounts and reports may be posted to investors on request. The website has not been reviewed by the SFC and is not approved by the SFC and may contain information in relation to funds that are not authorised by the SFC and may not be offered to the retail public in Hong Kong.

DISTRIBUTION

Accumulation Units In respect of Accumulation Units, the Manager shall not make any distributions of income or net capital gains realised on the sale of investments. Income, if any, and the net capital gains, if any, in respect of the Fund shall be accumulated and capitalised.

Income Units In respect of Income Units, the Manager will declare and pay yearly distributions on such date as may be determined by the Manager. However, the distribution rate is not guaranteed.

In the event that the income generated from the Fund's investments attributable to the relevant Class of the Income Units during the relevant period is insufficient to pay distributions as declared, the Manager may in its discretion determine such distributions be paid from capital. **Investors should note that where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount originally invested or capital gains attributable to that, and may result in an immediate decrease in the value of the units of the relevant Income Units.**

The Manager will periodically review Income Units and reserve the right to make changes to the distribution policies of the Income Units. Any change to the frequency of distributions is subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

Distributions of a Class of Income Units declared, if any, shall be distributed among the unitholders of the relevant Class of Income Units ratably in accordance with the number of Units held by them on the record date as determined by the Manager in respect of the corresponding distribution. For the avoidance of doubt, only unitholders whose names are entered on the register of unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding distribution. Any payment of distributions will be made in the currency of the relevant Class of Income Units.

Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of these Classes of Income Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site (www.schroders.com.hk). The website has not been reviewed by the SFC.

VOTING RIGHTS Meetings of unitholders may be convened by the Manager or the Trustee, and the unitholders of 10% or more 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 of any meeting at which an Ordinary Resolution is proposed.

The powers of such a meeting are (i) to sanction a modification to the Trust Deed as approved by the Manager and the Trustee, (ii) to sanction the removal of the Trustee, (iii) to terminate the Fund; (iv) to elect a Chairman of the meeting; (v) to adjourn the meeting and (vi) to approve further unrestricted investments. These powers save (iv), (v) and (vi) are exercisable by Extraordinary Resolution, that is a 75% majority of the votes cast for and against the relevant proposal. The other powers are exercisable by Ordinary Resolution that is by simple majority of the votes cast for and against the relevant proposal.

The quorum for all meetings is unitholders present in person or by proxy representing 25% of the units in issue on the day immediately preceding the date of the meeting, or (in the case of an adjourned meeting of which separate notice will be given) such unitholders as are present in person or by proxy. On a show of hands, every individual unitholder present personally or by representative has one vote; on a poll every unitholder present in person, by proxy or by representative has one vote for every undivided share in the Trust Property represented by the unit held by him and no vote for a fraction of an undivided share. The number of undivided shares which an Accumulation Unit represents will increase when a distribution of income is made. 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. A poll may be demanded by the Chairman or one or more unitholders present in person or by proxy representing 5% of the units in issue.

A Unit carries the same voting rights whether denominated in HK dollars or US dollars.

PUBLICATION OF PRICES The relevant net asset value per unit in HK dollars and for US dollar Accumulation Units, in US dollars (except I Class, the relevant net asset value per unit is available from the Manager) at each Valuation Date are published on the Schroders' Internet site (www.schroders.com.hk) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC. Prices are normally the latest available prices but are indicative only.

TRUST DEED The Fund was established under Hong Kong law by a trust deed dated 15 September 1995 (as amended from time to time) and made between Schroder Investment Management (Hong Kong) Limited as Manager and Bank of Bermuda (Cayman) Limited as Trustee, which has been substituted by a consolidated trust deed dated 15 December 2008 made between Schroder Investment Management (Hong Kong) Limited as Manager and Bank of Bermuda (Cayman) Limited as Trustee (the "Trust Deed"). Since the Fund was established, the Trustee has changed. HSBC Institutional Trust Services (Asia) Limited became the Trustee with effect on 30 September 2014 pursuant to a deed of retirement and appointment dated 1 May 2014.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. In the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed prevail.

Copies of the Trust Deed as for the time being in force may be obtained from the Manager at a cost of HK$1,000 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

TERMINATION OF THE FUND The Fund may be terminated by the Trustee if within 6 months of the Manager leaving office, no new manager is appointed or if the Trustee wishes to retire and no replacement is found within 6 months or if the Manager goes into liquidation. Further if at any time after the expiry of five years from the date of establishment of the Trust, the unitholders authorise termination of the Fund by Extraordinary Resolution, the Trustee will terminate it by 3 months' notice. The Manager may terminate the Fund or any Class of Unit launched after 15 December 2008 if for any 3 month period, the net asset value of the Fund or of the relevant Class of Unit (as the case may be) shall be less than HK$35 million. The Trustee or the Manager may also terminate the Fund if any law shall be passed which renders it illegal or in their opinion impracticable or inadvisable to continue the Fund. Three months' notice will always be given to unitholders unless earlier termination is desirable by reason of the Fund being or being expected to become illegal.

Any unclaimed net proceeds or other cash held by the Trustee may at any time after the expiration of six (6) years from the date on which the same were payable, be paid to the Manager for its account subject to the right of the Trustee to deduct therefrom any expenses it may incur in carrying out this provision.

ANTI-MONEY LAUNDERING REGULATIONS As part of the Trustee and Registrar's responsibility for the prevention of money laundering, the Trustee and Registrar may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:–

(a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or

(b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

The Trustee and Registrar reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and Registrar may refuse to accept the application and the subscription monies relating thereto.

CONFLICTS OF INTEREST The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund.

The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest. If such conflicts arise, the Manager and the Trustee will use reasonable endeavours to resolve such conflicts fairly (having regard to its respective obligations and duties) and acts in the best interests of the unitholders. In any event, the Manager shall act in a manner which it believes to be equitable in its allocation of investment opportunities among other funds, other investment vehicles it manages or advises and the accounts of its other clients and ensure that all investment opportunities will be fairly allocated. The Manager will also have regard to its obligations to act in the best interests of the unitholders when undertaking any investments where potential conflicts of interests may arise. The Manager will ensure that all transactions are effected in good faith at arm's length and in the best interests of the Fund on normal commercial terms.

In particular, the services of the Trustee, the Registrar and their respective delegates provided to the Fund are not deemed to be exclusive and each of the Trustee, the Registrar and their respective delegates shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other moneys payable thereby and neither of them shall be deemed to be affected with notice of or to be under any duty to disclose to the Fund any fact or thing which comes to the notice of any of them in the course of their rendering similar services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed.

SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS

The Fund shall be subject to the investment restrictions set out in this Schedule save to the extent that any approval, permission or waiver in respect of any of the below restrictions has been obtained from the SFC or otherwise provided under the Code (as defined below), handbook, code and/or guideline issued by the SFC from time to time.

Definitions

The following defined terms used in this Schedule 1 have the following meanings:–

"**Code**" means the Overarching Principles Section and Section II- Code on Unit Trusts and Mutual Funds of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products or any handbook, guideline and code issued by the SFC, as may be amended from time to time.

"**Government and other public securities**" means any investment issued by, or the payment of principal and interest on which is guaranteed by a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.

"**Qualified Exchange Traded Funds**" means exchange traded funds that are: (AA) authorized by the SFC under 8.6 or 8.10 of the Code; or (BB) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (I) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (II) the investment objective, policy, underlying investments and products features of which are substantially in line with comparable with those set out under 8.10 of the Code.

"**REITs**" means real estate investment trusts.

"**reverse repurchase transactions**" 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.

"**sale and repurchase transactions**" 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.

"**securities financing transactions**" means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

"**securities lending transactions**" means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee.

"**substantial financial institution**" means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HKD 2 billion or its equivalent in foreign currency.

1. Investment limitations applicable to the Fund

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

(a) the aggregate value of the Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the Fund:

(i) investments in securities issued by that entity;

(ii) exposure to that entity through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 3.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

(A) transacted on an exchange where the clearing house performs a central counterparty role; and

(B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 5(e) and (j) of this Schedule 1.

(b) subject to sub-paragraphs 1(a) and 3.4(c) of this Schedule 1, the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available net asset value of the Fund:

(i) investments in securities issued by those entities;

(ii) exposure to those entities through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

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

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

(c) the value of the Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available net asset value of the Fund provided that the 20% limit may be exceeded in the following circumstances:

(i) cash held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested;

(ii) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or

(iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

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

(d) the Fund's holding of any ordinary shares (when aggregated with all other Fund's holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity;

(e) the value of the Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a market (i.e. any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded), exceeding 15% of the latest available net asset value of the Fund;

(f) the value of the Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available net asset value of the Fund (save that the Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise;

(g) (i) the value of the Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available net asset value; and

(ii) the value of the Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available net asset value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the offering document of the Fund,

provided that:

(A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;

(B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;

(C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);

(D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its associates;

(E) 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 its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme; and

(F) the value of the Fund's holding of investment of any one collective investment scheme would not exceed 70% (or such lower percentage as required by the SFC) of its latest net asset value.

For the avoidance of doubt:

(aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by the Fund;

(bb) unless otherwise disclosed in this Explanatory Memorandum, the investment by the Fund in a Qualified Exchange Traded Fund will be considered and treated as collective investment schemes for the purposes of and subject to the requirements in sub-paragraphs 1(g)(i) and (ii) and proviso (A) to (C) of sub-paragraph 1(g) of this Schedule 1. Notwithstanding the aforesaid, the investments by the Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by the Fund shall be consistently applied;

(cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively;

(dd) where the Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code;

2. Investment prohibitions applicable to the Fund

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

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

(b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);

(c) make short sales unless (i) the liability of the Fund to deliver securities does not exceed 10% of its latest available net asset value; (ii) the security which is to be sold short is actively traded on a securities market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;

(d) carry out any naked or uncovered short sale of securities;

(e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);

(f) acquire any asset or engage in any transaction which involves the assumption of any liability by the Fund which is unlimited. For the avoidance of doubt, the liability of unitholders of the Fund is limited to their investments in the Fund;

(g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; and

(h) invest in any security which are for the time being nil paid or partly paid in respect of which a call is to due to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 3.5 and 3.6 of this Schedule 1.

3. Use of Financial derivative instruments

3.1 The Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 3.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

(a) they are not aimed at generating any investment return;

(b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;

(c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and

(d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

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

3.2 The Fund may also acquire financial derivative instruments for non-hedging purposes ("**investment purposes**") subject to the limit that the Fund's net exposure relating to these financial derivative instruments ("**net derivative exposure**") does not exceed 50% of its latest available Net Asset Value, provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 3.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 3.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

3.3 Subject to sub-paragraphs 3.2 and 3.4 of this Schedule 1, the Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.

3.4 The financial derivative instruments invested by the Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:

(a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;

(b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;

(c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, the Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Fund to a counterparty of over-the-counter financial derivative instruments 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 financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative. 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 financial derivative instruments on a regular basis.

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

3.6 Subject to sub-paragraph 3.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Fund shall be covered as follows:

(a) in the case of financial derivative instruments transactions which will, or may at the Fund's discretion, be cash settled, the Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

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

3.7 The requirements under sub-paragraphs 3.1 to 3.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an "**embedded financial derivative**" is a financial derivative instrument that is embedded in another security.

4. Securities financing transactions

4.1 The Fund currently does not intend to engage in securities financing transactions. If this changes and the Fund engages in securities financing transactions, it can only do so if such transactions are in the best interests of unitholders of the Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

4.2 The Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

4.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions shall be returned to the Fund.

4.4 The Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

5. Collateral

In relation to over-the-counter financial derivative instruments as set out in sub-paragraphs 3.4(c) of this Schedule 1, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting. The Fund currently does not intend to engage in securities financing transactions, and accordingly no collateral will be held in the manner described in sub-paragraph 4.2 of this Schedule 1.

However, if the above changes and the Fund receives collateral, in order to limit the exposure to each counterparty as set out in sub-paragraphs 3.4(c) and 4.2 (as applicable) of this Schedule 1, such collateral must comply with the requirements set out below:

(a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;

(b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;

(c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;

(d) Haircut – the collateral is subject to a prudent haircut policy;

(e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;

(f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;

(g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;

(h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;

(i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;

(j) Re-investment of collateral – any re-investment of collateral received for the account of the Fund shall be subject to the following requirements:

(i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;

(ii) non-cash collateral received may not be sold, re-invested or pledged;

(iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in 8.2(f) and 8.2(n) of the Code;

(iv) cash collateral received is not allowed to be further engaged in any securities financing transactions; and

(v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;

(k) the collateral is free of prior encumbrances; and

(l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

6. Borrowing and Leverage

The expected maximum level of leverage of the Fund is as follows:

Cash borrowing

6.1 No borrowing shall be made in respect of the Fund which would result in the principal amount for the time being of all borrowings made for the account of the Fund exceeding an amount equal to 10% of the latest available net asset value of the Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 6.1.

Leverage from the use of financial derivative instruments

6.2 The Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the Explanatory Memorandum under the section headed "Use of Derivatives".

6.3 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.

6.4 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

7. Name of the Fund

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

8. Investment via Subsidiary

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 subject to the requirements of the Code.

About Schroder Investment Management (Hong Kong) Limited Schroder Investment Management (Hong Kong) Limited manages a wide range of unit trusts investing in markets worldwide, but with a concentration on South East Asia. The Manager is one of the leading investors on behalf of pension funds, institutional funds and private client portfolios for Hong Kong and international clients.

The ultimate holding company of the Manager is Schroders plc, an international investment group based in London and established in 1804. The Schroder Group worldwide as at 31 December 2019 manages assets of more than US$662.6 billion.

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ADMINISTRATION

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Directors of the Manager
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Ms. Amy Cho (Chief Executive Officer)
Mr. Steve R. Bryant
Ms. Rena B.L. Tsang
Ms. Louisa W.L. Lo

Trustee and Registrar
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Solicitors to the Manager
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18 Chater Road, Central
Hong Kong

October 2020

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

In particular, nationals or residents of, or persons domiciled in, countries other than Hong Kong should consult their financial advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to acquire units and as to any taxation effects, foreign exchange restrictions or exchange control requirements applicable.

No action has been taken to permit an offering of units of Schroder Growth Fund (the "Fund") or distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong, where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, units in the Fund may be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised.

Receipt of any document about the Fund does not constitute an offer of units in those jurisdictions in which it is illegal to make such an offer.

Units of the Fund have not been and will not be registered under the United States Investment Company Act of 1940 as amended (the "Investment Company Act"). The units have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") or under the securities laws of any state of the United States of America ("US") and such units may be offered, sold or otherwise transferred only in compliance with the Securities Act and such state or other securities laws. The units may not be offered or sold within the US or to or for the account, of any US Person. For these purposes, "US Person" is as defined in Rule 902 of Regulation S under the Securities Act or the Internal Revenue Code of 1986, as amended including to reflect the provisions of FATCA (the "IR Code").

Rule 902 of Regulation S under the Securities Act defines "US Person" to include inter alia any natural person resident of the US and with regards to investors other than individuals, (i) a corporation or partnership organised or incorporated under the laws of the US or any state thereof; (ii) a trust: (a) of which any trustee is a US Person except if such trustee is a professional fiduciary and a co-trustee who is not a US Person has sole or shared investment discretion with regard to trust assets and no beneficiary of the trust (and no settlor if the trust is revocable) is a US Person or (b) where a court is able to exercise primary jurisdiction over the trust and one or more US fiduciaries have the authority to control all substantial decisions of the trust and (iii) an estate (a) which is subject to US tax on its worldwide income from all sources; or (b) for which any US Person is executor or administrator except if an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with regard to the assets of the estate and the estate is governed by foreign law.

The term "US Person" also means any entity organised principally for passive investment (such as a commodity pool, investment company or other similar entity) that was formed: (a) for the purpose of facilitating investment by a US Person in a commodity pool with respect to which the operator is exempt from certain requirements of Part 4 of the regulations promulgated by the United States Commodity Futures Trading Commission by virtue of its participants being non-US Persons or (b) by US Persons principally for the purpose of investing in securities not registered under the Securities Act, unless it is formed and owned by "accredited investors" (as defined in Rule 501 (a) under the Securities Act) who are not natural persons, estates or trusts.

Pursuant to the IR Code, the term "US Person" means (i) a citizen or resident of the US, (ii) a partnership or other entity treated as a partnership for US federal income tax organized under the laws of the US or any political subdivision thereof, (iii) a corporation or other entity treated as a corporation for US federal income tax purposes organized under the laws of the US or any political subdivision thereof, (iv) an estate the income of which is subject to US federal income tax without regard to its source or (v) a trust, if, either (a) a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to be treated as a US person.

The Fund is not authorised under the United Kingdom Financial Services and Markets Act 2000 (the "FSMA") in the United Kingdom and accordingly this Explanatory Memorandum must not be distributed in the United Kingdom other than to certain categories of person as specified in regulations made under the FSMA. Such categories include certain persons with sufficient expertise such as authorised persons, who understand the risks involved.

Distribution of this Explanatory Memorandum in Hong Kong must be accompanied by the Product Key Facts Statements of the Fund, a copy of the latest available annual report and accounts of the Fund, any subsequent interim report. Units issued after the date of this Explanatory Memorandum are offered on the basis only of the information contained in this Explanatory Memorandum. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorised and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of the units shall not in any way constitute a representation that the information and representations given herein or in such documents are correct as at any time subsequent to the date of this Explanatory Memorandum or such documents.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong (the "SFC"). The 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. The Manager accepts full responsibility for the accuracy, as at the date of this Explanatory Memorandum, of the information contained in this Explanatory Memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

Enquiries and Complaints

Enquiries and complaints concerning the Fund (including information concerning subscription and redemption procedures and the current net asset value of the Fund) should be directed to the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong or by electronic mail at schroders@schroders.com.hk or by phone at +852 2869 6968.

SUMMARY

Principal Features of the Schroder Growth Fund

- Investment primarily in quoted equities in any part of the world directly or through investment in funds investing in quoted equities.
- Active investment management to achieve long term capital growth.
- Access to the specialist investment management expertise of Schroder Group.
- Minimum investment of HK$5,000 or US$1,000.
- Daily valuations and dealing.
- A fund authorised in Hong Kong; denominated in HK dollars.

INVESTMENT POLICY

Investment Objective and Policy

The Fund will invest primarily in quoted equities on a global basis directly or through investment in funds (including qualified exchange traded funds) ("Underlying Schemes") investing in quoted equities, with the investment objective of achieving long term capital growth in HK dollars. The Fund may also invest in fixed income securities, other asset classes and money market instruments and cash in any part of the world directly or through investment in Underlying Schemes investing in the foregoing investments. The Fund may directly invest up to 100% of its net asset value in quoted equities and up to 30% of its net asset value in fixed income securities. The Fund's investment is not subject to any prescribed limit on the region, country, industry, credit rating or market capitalisation of the investment.

Up to 100% of the Fund's net asset value may be invested in Underlying Schemes. The Fund will only invest in other funds authorized by the Securities and Futures Commission (the "SFC") (except for hedge funds under 8.7 of the Code on Unit Trusts and Mutual Funds ("UT Code")) or in eligible schemes[Note] domiciled in jurisdictions recognized by the SFC (whether authorized by the SFC or not), except that not more than 10% of the Fund's net asset value may be invested in non-eligible schemes not authorized by the SFC.

The Fund may, if the Manager considers fit, seek exposure of not more than 15% of its net asset value to other asset classes including but not limited to commodities (including energy, metals and agricultural commodities) indirectly through Underlying Schemes.

The Fund will actively allocate between different asset classes including equities, fixed income securities, other asset classes, money market instruments and cash to achieve the Fund's objectives. The Fund will also make changes to the regional allocation within each of the asset class. The Fund uses a risk-premia approach to analyse different asset classes to identify the driving forces behind the risks and returns of asset classes. The analysis is based on a combination of fundamental and quantitative factors such as asset class valuation, macroeconomic data and liquidity. Money market instruments and cash will be treated as a separate asset class and will be deployed if necessary to limit downside risk during adverse market conditions.

In addition to active asset allocation, the Fund also aims to achieve its investment objectives through investment in the Underlying Schemes, which perform active security selection. The allocation to the Underlying Schemes is actively managed based on the Underlying Schemes' investment universes, investment strategies, risk and return profiles and the prevailing market conditions.

The Fund's expected asset allocation ranges for each asset class, either directly or through investment in Underlying Schemes, is expected to be the following:

Equities: 70 – 100%
Fixed income: 0 – 30%
Other asset classes: 0 – 15%
Money market instruments and cash: 0 – 30%

The Fund may acquire financial derivative instruments for hedging and non-hedging purposes.

The Fund may invest in Underlying Schemes of which the net derivative exposure is more than 50% of the Underlying Scheme's latest available net asset value. Investment in any single Underlying Scheme with a net derivative exposure exceeding 50% of its net asset value, which is (i) an SFC authorized fund (except for hedge funds under 8.7 of the UT Code) or (ii) an eligible scheme[Note] which is not authorized by the SFC, will not be more than 30% of the Fund's net asset value.

Note: "Eligible schemes" refer to UCITS schemes domiciled in Ireland, Luxembourg or the United Kingdom and, in accordance with their home regulation, such UCITS schemes may adopt the commitment approach or value at risk approach in monitoring the derivative exposure or risk of the UCITS schemes.

Borrowing and Leverage

The Trust Deed permits borrowing to be used to purchase or facilitate the purchase of investments for the Fund, meet redemption requests or pay operating expenses. The Manager intends to use the power to borrow for these purposes which may result in the Fund being geared.

Please refer to Schedule 1 for further details on the borrowing restrictions of the Fund.

Use of Derivatives

The Fund's net derivative exposure may be up to 50% of the Fund's latest available net asset value.

In relation to over-the-counter derivative transactions, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting.

Securities Financing Transactions

The Manager currently does not intend to enter into any securities financing transactions in respect of the Fund.

Change of Investment Policy

The Manager has power to change the investment policy from time to time within the investment restrictions contained in the Trust Deed.

INVESTMENT AND BORROWING RESTRICTIONS The Trust Deed sets out the investment and borrowing restrictions of the Fund, and a summary thereof are set out in Schedule 1.

RISK FACTORS

General risks

– The prices of units depend on the market values of the Fund's investments and such prices as well as the income from units can go down as well as up. Past performance of the Fund does not indicate the future performance. The Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment and are prepared for medium to high levels of risk.

– The Fund may invest in other funds. The Fund's performance will be affected by the performance of the Underlying Schemes and is subject to all the risks associated with the Underlying Schemes' investments and cash exposure including, among others, market, interest rate, currency, exchange rate, economic, credit, liquidity, counterparty, foreign securities and political risks. The Fund does not have control of the investments of the Underlying Schemes and there can be no assurance that the Underlying Schemes' objectives will be achieved. The Underlying Schemes in which the Fund may invest may not be regulated by the SFC. Investors will bear the recurring expenses of the Fund in addition to the expenses of the Underlying Schemes, and therefore, the returns that they may obtain may not reflect the returns that they obtained by investing directly in the Underlying Schemes. There is also no guarantee that the Underlying Schemes will always have sufficient liquidity to meet the Fund's redemption requests as and when made.

– Investment in the Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account.

– Investment decisions of the Underlying Schemes are made at the level of such Underlying Schemes and it is possible that the managers of such Underlying Schemes will take positions or engage in transactions in the same securities or in issues of the same asset class, industry or country or currency at the same time. Consequently there is concentration risk.

– The Fund may invest in a number of Underlying Schemes, which employ different strategies and objectives and invest in different types of securities and markets. Each type of security and market bears certain kinds of risks that may or may not be unique to the type of security and market. There is no assurance that the risks involved in different types of securities and markets are uncorrelated or independent and that diversification requirements will remove risks.

Market risk

– Investors should be aware that the value of securities in which the Fund or the Underlying Schemes invest, and the return derived from it can fluctuate. The Fund or the Underlying Schemes invest in and actively trade securities utilising strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the fixed income and equity and the risks associated with the use of derivative transactions, short sale positions, leverage and foreign securities. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as actions by various governmental agencies and domestic or international economic and political developments, may cause sharp market fluctuations, which could significantly and adversely affect the results of the Fund or the Underlying Schemes and hence the Fund's activities and the value of its investments. In addition, the value of the Fund's portfolio may fluctuate as the general level of interest rates fluctuates.

Currency and Exchange risk

– The investments (including the Underlying Schemes and their investments) acquired by the Fund may be denominated in a wide range of currencies different from the base currency of the Fund. This exposes the Fund to exchange rate fluctuations and currency risk.

Equity investment risk

– The Fund and the Underlying Scheme's investment in equity securities is subject to the risk that the market value of the stocks may go down as well as up due to numerous factors such as changes in investment sentiment, political environment, economic environment, issuer-specific factors, regional or global economic instability, currency and interest rate fluctuations. If the market value of the stocks go down the net asset value of the Fund and the Underlying Scheme may be adversely affected.

Risks relating to investment grade, below investment grade and unrated debt securities

– "Investment grade" debt securities generally have a high capacity to pay interest and repay principal when compared to lower-rated bonds and notes. However, there are no assurances that losses will not occur with respect to these investments. The principal factors that may affect the value of the Fund's and the Underlying Scheme's securities holdings include: (i) changes in interest rates, (ii) the credit worthiness of the issuers of securities held by the Fund or the Underlying Scheme, (iii) unanticipated prepayment, and (iv) the decline of the relevant bond market. Further, there is risk that investment grade securities may be downgraded due to adverse market conditions. In the event of a down-grading of the credit rating of a security or an issuer relating to a security that the Fund or the Underlying Schemes invest in, the value of the Fund or the Underlying Schemes (as the case may be) may be adversely affected. The Manager or the manager of the Underlying Schemes may or may not be able to dispose of the debt instruments that are being downgraded.

– The Fund and/or the Underlying Schemes may invest in debt securities which are below investment grade which are generally accompanied by lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities, a higher degree of counterparty risk, credit risk than higher rated, lower yielding securities. Such debt securities are considered to have a higher risk exposure than securities which are investment grade with respect to payment of interest and the return of principal. Low rated debt securities generally offer a higher current yield than higher grade issues. However, low rated debt securities involve higher risks and are more sensitive to adverse changes in general economic conditions and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers and changes in interest rates. Additionally, the market for lower rated debt securities generally is less active than that for higher quality securities and the Fund's or an Underlying Scheme's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions.

– The Fund and/or the Underlying Schemes may invest in securities which are unrated. Investment in such securities may be subject to risks similar to those outlined above for below investment grade securities.

Interest Rates risk

– Changes in market interest rates will affect the value of debt securities held by the Fund or the Underlying Schemes. Generally, the market value decreases when interest rates rise and increases when interest rates fall. Long-term debt securities are generally more sensitive to changes in interest rates and, therefore, are subject to a greater degree of market price volatility. To the extent the Fund or the Underlying Schemes hold long-term fixed income securities, their net asset values will be subject to a greater degree of fluctuation than if they held fixed income securities of a shorter duration.

Credit risk

– The Fund's or an Underlying Scheme's investments may be subject to credit risk. Bonds or other debt securities involve credit risk to the issuer which may be evidenced by the issuer's credit rating. Securities which are subordinated and/or have a lower credit rating are generally considered to have a higher credit risk and a greater possibility of default than more highly rated securities. In the event that any issuer of bonds or other debt securities experiences financial or economic difficulties, this may affect the value of the relevant securities (which may be zero) and any amounts paid on such securities (which may be zero). This may in turn affect the net asset value of the Fund or the prices of the Underlying Schemes and in turn affect the net asset value per unit of the Fund.

– Many emerging market countries have accumulated substantial debt service obligations. This may adversely affect their ability to service their debts and increase the likelihood of their defaulting on their obligations. It should also be noted that investment of the Fund or any Underlying Scheme in securities issued by corporations may represent a higher credit risk than investment in securities issued by governments.

– The ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint. The rating on an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time the rating is assigned and the time it is updated. In addition, there may be varying degrees of difference in credit risk of securities within each rating category.

Valuation risk

– Valuation of the Fund's or Underlying Scheme's investments in fixed income securities may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the net asset value calculation of the Fund and/or Underlying Scheme.

Sovereign debt risk

– The Fund's or an Underlying Scheme's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Fund or the Underlying Scheme to participate in restructuring such debts. The Fund may suffer significant losses when there is a default of sovereign debt issuers.

Counterparty, Custody and Settlement risk

– The Fund and the Underlying Schemes may be exposed to a credit risk on counterparties with whom they trade securities, and may also bear the risk of settlement default. As the Fund and/or the Underlying Schemes may also directly or indirectly invest in securities in emerging markets where settlement mechanisms are generally less developed and reliable than those in more developed countries. This therefore increases the risk of settlement default which could result in substantial losses for the Fund or the Underlying Scheme in respect of investments in emerging markets.

– The Fund and/or the Underlying Schemes may invest in markets where custodial and/or settlement systems are not fully developed. The assets of the Fund and/or the Underlying Schemes that are traded in such markets and which have been entrusted to such sub-custodians may be exposed to risk in circumstances where the custodian will have no liability. The Fund's and the Underlying Schemes' cash account will usually be maintained on the custodian's records, but the balances may be held by a sub-custodian which poses an additional risk. In addition, in case of liquidation, bankruptcy or insolvency of such sub-custodians, the Fund or the Underlying Schemes (as the case may be) may take a longer time to recover their assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Fund or the Underlying Schemes (as the case may be) may even be unable to recover all of its/their assets. The costs borne by the Fund and the Underlying Schemes investing and holding investments in such markets will be generally higher than in organised securities markets.

– The Fund and/or the Underlying Schemes may be also exposed to credit risk on the counterparties with which they trade in relation to options, futures, contracts and other derivative financial instruments that are not traded on internationally recognised exchanges. The Fund and the Underlying Schemes will be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which the Fund or the Underlying Schemes trade such instruments, which could result in substantial losses to the Fund.

Liquidity risk

– Not all securities or investments held by the Fund or the Underlying Schemes will be listed or rated or actively traded and consequently liquidity may be low. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at unfavourable prices. The Fund or the Underlying Schemes may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity. Moreover, there is no assurance that the liquidity of the Fund or the Underlying Schemes will always be sufficient to meet redemption requests as and when made.

– Liquidity risk also exists if sizeable redemption requests are received as the Fund may need to liquidate its underlying investments including investments in Underlying Schemes, which in turn may need to liquidate their investments at a substantial discount, in order to satisfy such requests and the Fund may suffer losses in liquidating such investments.

Risks associated with derivatives

– Derivatives include instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Derivatives may allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index. Therefore, many of the risks applicable to trading the assets of the Fund and the Underlying Schemes are also applicable to derivatives trading. Risks associated with derivatives include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. However, there are a number of other risks associated with derivatives trading. The leverage element/component of a derivative can result in a loss significantly greater than the amount invested in the derivative. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose the Fund to the possibility of a significant loss exceeding the original amount invested.

Funds investing in mortgage related and other asset backed securities

– Mortgage related and other asset backed securities may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities. They are often exposed to extension and prepayment risks (as further discussed below), and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

– The yield and maturity characteristics of mortgage-related and other asset backed securities differ from traditional debt securities. A major difference is that the principal amount of the obligations may normally be prepaid at any time because the underlying assets (i.e. loans) generally may be prepaid at any time. In calculating the average weighted maturity of such a portfolio, the maturity of mortgage-related and other asset backed securities held will be based on estimates of average life which take prepayments into account. The average life of a mortgage-related instrument, in particular, is likely to be substantially less than the original maturity of the mortgage pools underlying the securities as the result of scheduled principal payments and mortgage prepayments. In general, the collateral supporting non-mortgage asset backed securities is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments.

– The relationship between prepayments and interest rates may give some high-yielding asset backed securities less potential for growth in value than conventional bonds with comparable maturities. In addition, in periods of falling interest rates, the rate of prepayments tends to increase. During such periods, the reinvestment of prepayment proceeds by the Fund or the Underlying Scheme will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. Because of these and other reasons, an asset backed security's total return and maturity may be difficult to predict precisely. To the extent that the Fund or the Underlying Scheme purchases asset backed securities at a premium, prepayments (which may be made without penalty) may result in loss of the Fund or the Underlying Scheme's principal investment to the extent of premium paid.

– In addition, to the extent that they are not guaranteed, each type of asset backed securities entails specific credit risks depending on the type of assets involved and the legal structure used.

Investor risk

– Substantial redemptions of units (which are more likely to occur in adverse economic or market conditions) could require the Manager to liquidate investments of the Fund more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions and to achieve a position appropriately reflecting the smaller equity base. This could adversely affect the net asset value of both units being redeemed and of existing units.

– The Manager is entitled under certain circumstances specified in the Trust Deed to suspend dealings in the units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the units during the period up to the redemption of the units is borne by the redeeming unitholders.

– If, in the opinion of the Manager or the Trustee, units held by any unitholder is in contravention of any laws or regulations or under such other circumstances specified in the Trust Deed, the Manager is entitled to compulsorily redeem all or a portion of the unitholder's units in the Fund. Such compulsory redemption may create adverse tax and/or economic consequences to the unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon any termination of the Fund, compulsory redemption or otherwise.

Risk of termination of the Fund

– In the event of the early termination of the Fund, the Fund would have to distribute to the unitholders their pro rata interest in the assets of the Fund. It is possible that at the time of such sale or distribution, certain investments held by the Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the unitholders. Moreover, any organisational expenses with regard to the units that had not yet become fully amortised would be debited against Fund's capital at that time.

Emerging Markets

– Investments in emerging and less developed markets may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Emerging or developing countries may have relatively unstable governments, economies based on a less diversified industrial base and securities markets that trade a smaller number of securities. Companies in emerging markets may generally be smaller, less experienced and more recently organised than many companies in more developed markets. Prices of securities traded in the securities markets of emerging or developing countries tend to be volatile. Furthermore, foreign investors are often subject to restrictions in emerging or developing countries. These restrictions may require, among other things, governmental approval prior to making investments or repatriating income or capital, or may impose limits on the amount or type of securities held by foreigners or on the companies in which the foreigners may invest.

– The economies of individual emerging countries may differ favourably or unfavourably from developed economies in such respects as growth of gross domestic product, rates of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payment position and may be based on a substantially less diversified industrial base. Further, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been, and may continue to be, adversely affected by economic conditions in the countries with which they trade.

Risk relating to exchange traded funds

– The Fund or an Underlying Scheme may invest in exchange traded funds ("ETFs"). ETFs generally are passively managed and may not be able to adapt to market changes. ETFs may be subject to tracking error risk, which is the risk that its performance may not track that of the index exactly. The trading price of units of ETFs is driven by market factors such as demand and supply of the units, and units may trade at a substantial premium or discount to net asset value. Where the Fund or an Underlying Scheme invests in synthetic ETFs, such investments are susceptible to more significant price fluctuations and higher volatility, and are exposed to risk of fall in collateral value and risk of default of counterparties.

Risk relating to small- and mid-capped companies

– The Fund and some of the Underlying Schemes may invest in the securities of small- and/or mid-capped companies. Investing in these securities may expose the Fund or the Underlying Schemes to risks such as greater market price volatility, less publicly available information, and greater vulnerability to fluctuations in the economic cycle.

Risks relating to investment in commodities

– Underlying Schemes may invest in commodities and commodities-related investments and therefore may be exposed to commodity markets risks, which are generally greater than risks in other markets. It is a feature of that generally commodities prices are subject to rapid changes and the risks involved in investing in commodities may change relatively quickly. Commodity prices are determined by forces of supply and demand which are influenced by, without limitation, macroeconomic factors, consumer pattern, trade, fiscal, monetary and exchange policies and controls of governments and other unforeseeable events.

Foreign Account Tax Compliance Act ("FATCA") related risks

– The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund. Provided that the Fund acts in accordance with the provisions it will not be subject to withholding tax under FATCA.

– Although the Manager will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA penalty withholding on the Fund, no assurance can be given that the Manager will be able to achieve this and/or satisfy such FATCA obligations. If the Fund becomes subject to a FATCA penalty withholding as a result of the FATCA regime, the value of the units held by unitholders may be adversely affected and unitholders may suffer material losses.

– Unitholders should seek independent professional advice regarding the FATCA requirements with respect to their own situation. In particular, where investors invest in or held units of the Fund through an intermediary, nominee or custodian, investors are recommended to check whether such intermediary, nominee or custodian is FATCA compliant and any possible FATCA implications.

Risks relating to distribution

– In respect of Income Units, the Manager will declare and pay distributions on a regular basis. However, the distribution rate is not guaranteed. The Manager has the sole and absolute discretion to vary the frequency of distributions, subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

– Where the income and/or capital gain generated by the Fund is insufficient to pay a distribution as the Fund declares, the Manager may at its discretion make such distributions out of the capital of the Fund.

– **You should note that in the circumstances where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount you originally invested or capital gains attributable to that and may result in an immediate decrease in the value of units of the relevant Income Units.**

Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of the Classes of Income Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site (www.schroders.com.hk). The website has not been reviewed by the SFC.

Prospective investors should consult with their own advisors before deciding to invest in the Fund.

MANAGEMENT AND ADMINISTRATION The Manager of the Fund is Schroder Investment Management (Hong Kong) Limited and is licensed by the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. The Manager is not subject to any licensing conditions in respect of its aforementioned licenses for regulated activities pursuant to the Securities and Futures Ordinance.

The Manager undertakes the management and administration of the Fund, including communication with unitholders and conduct of meetings, and in conjunction with the Trustee is responsible for the maintenance of accounts and records in compliance with the Trust Deed and the laws of Hong Kong.

With almost forty years of investment experience in Asia Pacific the Schroder Group is able to offer particular expertise in the management of specialist Asian portfolios and is able to draw on the worldwide resources of the Group with offices and research analysts based throughout the region.

The Manager is adviser to or manager of other Hong Kong authorised unit trusts and investment portfolios of institutional, private and retirement fund clients in Asia and elsewhere. The Schroder Group worldwide manages assets of over US$662.6 billion as at 31 December 2019 in London, Luxembourg, New York, Zurich, Australia, Hong Kong, Japan and Singapore and other investment centres around the world.

TRUSTEE The Trustee of the Fund is HSBC Institutional Trust Services (Asia) Limited which is incorporated with limited liability in Hong Kong on 27 September 1974. It is an indirect wholly-owned subsidiary of HSBC Holdings plc. It is registered as a trust company under Section 77 of the Hong Kong Trustee Ordinance and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance. The Trustee has delegated certain of its functions as registrar to HSBC France, Luxembourg Branch (the "Service Provider").

Under the Trust Deed and subject to the provisions therein, all cash and other property which ought in accordance with the provisions of the Trust Deed to form part of the Fund's property shall be paid or transferred to the Trustee or as it may direct and be held by or under the control of the Trustee accordingly. The Trustee shall be responsible for the safe-keeping of the Fund's property including where appropriate the insurance thereof as the Trustee may think fit and shall take into custody or under its control all the investments, cash and other assets forming part of the Fund's property and hold them in trust for the unitholders in accordance with the provisions of the Trust Deed. The Trustee shall in respect of any investments or other assets of the Fund which by nature cannot be held in custody, maintain a proper record of such investments or assets in its books under the name of the Fund.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself or any associate) as custodian or co-custodian or sub-custodian of the investments and/or deposits comprised in the Fund's property. The Trustee may empower any such custodian or co-custodian or sub-custodian to appoint, with the prior consent in writing of the Trustee, sub-custodians. The fees and expenses of such custodian, co-custodians and sub-custodians shall be paid out of the Fund's property. The Trustee (a) shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of agents, nominees, delegates, custodian, co-custodian or sub-custodian which are appointed for the custody and/or safe keeping of any Trust property, cash or other assets forming part of the Fund's property (each a "**Correspondent**"); (b) shall be satisfied that each such Correspondent retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Trust; and (c) shall remain liable for any act or omission of any Correspondent which are connected persons as if the same were the act or omission of the Trustee provided however that if the Trustee has discharged its obligations set out in (a) and (b) above, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent that is not a connected person of the Trustee.

HSBC group has adopted a policy of compliance with the sanctions issued by The Office of Foreign Assets Control of the US Department of the Treasury. The Trustee and its delegates will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control of the US Department of the Treasury.

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 headed "Charges and Fees" and to be reimbursed for any sub-custodians' fees and expenses.

If the Trustee or its delegates (which may be affiliates of the Trustee) shall act as banker in respect of Fund then it shall be entitled to retain all normal banking profit and benefits; in the event that the Trustee or its delegates shall act as custodian or broker for the purchase and sale of investments, then it shall be entitled to charge and retain all normal fees and expenses.

The Manager has sole responsibility for making investment decisions in relation to the Fund. Subject to the duty to ensure that investment and borrowing limitations of the Fund are complied with as required by the Code on Unit Trusts and Mutual Funds, the Trustee (including its delegate) is not responsible or has any liability for any investment decision made by the Manager. Neither the Trustee, nor its delegate acts as guarantor or offeror of the Units or any underlying investment of the Fund.

TYPES OF UNITS The Manager intends to offer A Class (the "A Class"), C Class (the "C Class") and I Class (the "I Class") which may be denominated in HK dollar ("HK$"), US dollar ("US$") or such other currencies as may be determined by the Manager from time to time, and designated as Accumulation Units or Income Units. HK dollar and US dollar refer to Hong Kong dollar and United States dollar respectively. The Manager may in future determine to offer other class(es) of Units pursuant to the provisions of the Trust Deed. The Manager will provide a full list of classes of units with currency denomination that are available for sale to the public in Hong Kong, upon request of an investor. The list is also available online at www.schroders.com.hk. The website has not been reviewed by the SFC.

A Class will initially only be available to investors of certain distributors appointed specifically for the purpose of distributing the A Class Units whilst C Class Units will generally be available to investors who are considered to be institutional investors by the Manager. I Class is designed to accommodate an alternative charging structure whereby the investors are clients of the Manager or its associates and are charged management fees directly by the Manager or its associates.

APPLICATION FOR UNITS To purchase units an investor should:–

a) complete the application form enclosed with this Explanatory Memorandum and return it to the Manager (details of which as set out in the application form); or

b) fax an order to the Manager (details of which as set out in the application form).

Fax orders must always be followed by a completed application form unless the investor already holds units in this Fund or another fund managed or distributed by the Manager and has already made arrangements with the Manager to allow orders to be made via facsimile instructions and without the same being followed by original orders. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a unitholder or an investor for any loss resulting from non-receipt of any orders sent by facsimile.

Applications may also be sent through an investment adviser.

Units may be acquired on any Valuation Date – see "Valuation and Price Calculation".

Applications should be made on, and in accordance with the instructions on the application form and be received by the Manager by 5 p.m. Hong Kong time if they are to take effect at the relevant net asset value per unit (plus any applicable initial charge) on the next business day. Payment of the amount due on application should normally be made no later than four (4) business days after the application is accepted. If timely settlement is not made the relevant allotment of units may be cancelled in accordance with the Trust Deed.

The minimum investment for initial or subsequent investments is HK$5,000 for units denominated in HK dollars and US$1,000 for Accumulation Units denominated in US dollars or such other amount as may from time to time be determined by the Manager generally or for a particular investor. The minimum amounts include any initial charge which is payable by the applicant.

The issue of units is at the discretion of the Manager. Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of units.

Payments should normally be made in HK dollars for units denominated in HK dollars and US dollars for units denominated in US dollars. If an investor selects a currency other than the currency of the relevant class of unit for any payments to or from the Fund, this will be deemed to be a request by the investor to the Service Provider to provide a foreign exchange service to the investor in respect of such payment. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant investor. Neither the Trustee nor the Service Provider nor the Manager takes any responsibility for the rate of exchange obtained. Changes in the rate of exchange between the currency of denomination and the currency of an investor's subscription monies may cause the value of an investor's investment to diminish or increase.

Monies can be paid either by telegraphic transfer to the relevant accounts as set out in the application form or may be paid by cheque in accordance with instructions on the application form. It should be note that there may be delay in receipt of cleared funds if payment is made by cheque or banker's draft compared to payment by telegraphic transfer. Any costs of transfer of application monies to the Fund will be payable by the applicant.

The applicant should quote the name of the Fund in the remittance instructions.

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

All holdings will be registered but certificates are not issued. Evidence of title will be the entry on the Register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of units correct to the nearest two (2) decimal places will be issued. The Manager reserves the right to reject any application in whole or in part. A maximum of 4 persons may be registered as joint unitholders.

REDEMPTION OF UNITS Units may be redeemed on any Valuation Date at their net asset value per unit less any applicable deductions (there is currently no deduction) on application to the Manager as applicable to the relevant class and denomination of units. Redemption notices must be received by the Manager by 5 p.m. Hong Kong time on a Valuation Date to take effect on the next business day. Application should be made on the form available from the Manager by post or by fax to the Manager, or through one of the intermediaries authorised for this purpose. Please see also "Anti-Money Laundering Regulations". Partial redemptions for a minimum of HK$2,500 (HK dollar denominated units) or US$500 (US dollar denominated units), unless otherwise waived by the Manager at its discretion, are allowed provided that the value of such unitholder's remaining holding of units is not less than HK$5,000 or US$1,000 (as applicable) or such lower amount as may from time to time be determined by the Manager generally or for a particular investor. There is no redemption charge.

Investors should be reminded that if they choose to send notices of redemption by fax, they bear their own risk of the notices not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the notices. Neither the Manager nor the Trustee shall be responsible to a unitholder for any loss resulting from non-receipt of any redemption request sent by facsimile.

Redemption monies are normally remitted by telegraphic transfer within ten (10) business days after the relevant Valuation Date and at most within 28 days upon receipt of all properly completed documentation. Redemption proceeds will be paid to the registered unitholder requesting such redemption only and will not be paid to third parties.

Redemption monies will normally be paid in the currency of the relevant class of units. However, at the request of the unitholder, a currency exchange service for redemptions is provided to the unitholder by the Service Provider. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant unitholder.

The Trust Deed gives the Manager power to redeem compulsorily units in certain circumstances, in the event of adverse tax or other consequences for the Fund, the Manager, the Trustee or their associates.

In the event of redemption requests being received on any one day for units in excess of 10% of the units in issue the Manager may sell a proportion of the Fund's assets corresponding to the proportion the units to be redeemed bear to the total number in issue and calculate the relevant net asset value per unit based on the proceeds of the investments sold. Alternatively the Manager may limit the number of units to be redeemed on any one Valuation Date to 10% of the units in issue (with redemption requests reduced pro rata) and any excess redemption requests are then carried forward to the next Valuation Date.

Payment of redemption monies in US dollars may result in the Fund benefiting from or bearing the costs of any fluctuations in the exchange rate between HK dollars and US dollars for the period between the date of redemption of US dollar units and the date of payment of US dollar redemption monies. Due to the peg of the currencies, and the fact that the current investment policy includes the holding of assets denominated in US dollars sufficient to cover likely redemptions of units denominated in US dollars, variations are expected to be small. The position will be actively monitored by the Manager.

CONVERSION OF UNITS Units cannot be converted to other units denominated in a different currency by the unitholder. The Manager has power, with the consent of the Trustee to compulsorily re-designate the currency of a Class of Units to such other currencies by one month's notice to unitholders if in the Manager's opinion it is in the interests of unitholders to do so.

SWITCHING BETWEEN FUNDS The Manager offers a number of other unit trusts and mutual funds with different investment objectives. Unitholders switching from one fund to another will be generally given, at the discretion of the Manager, discounts on the initial charge (currently up to 5% of the switching amount) which may otherwise apply. A switch is an instruction for a redemption of units or shares in a fund and application of the redemption proceeds to purchase units or shares in another fund and therefore the provisions on application and redemption for the relevant funds generally apply. Acceptance of switching instructions will be subject to the availability of the fund to be switched in (the "New Fund") and to the compliance with any eligibility requirements and/or other specific conditions attached to the New Fund such as minimum subscription and holding amounts.

For switches between funds managed or distributed by the Manager and generally available to investors, save for switches into funds dealt with on a cleared fund basis for example money funds, switches are normally effected by redeeming units or shares in the fund to be switched out (the "Original Fund") on the dealing day on which the redemption would occur and subscribing into units or shares of the New Fund on the same day, provided that the availability of pricing and the applicable dealing days and settlement periods of both funds match. However, if the availability of pricing, dealing days or settlement periods of the Original Fund and the New Fund do not match, subscription to the New Fund may be deferred to align the settlement dates of both funds. In no circumstances the settlement date of the subscription to the New Fund will precede the settlement date of the redemption of the Original Fund.

For switches into a fund dealt with on a cleared fund basis, cleared funds are needed before units or shares will be issued. The time of issue of the units or shares in the fund will thus depend on the time of receipt of the redemption proceeds in cleared funds from the Original Fund.

In the cases where dealing of the Original Fund and/or the New Fund is suspended, the processing of the switch will be held over until the next dealing day where the dealings are no longer suspended. The switching procedures described above will continue to apply.

Instructions to switch units between classes of units denominated in different currencies will be accepted. A currency exchange service for such switches is provided by the Service Provider. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant unitholder.

Investors are reminded to read the offering documents of the funds into which they wish to switch (available on request from the Manager) before investing.

CHARGES AND FEES Units are purchased at their relevant net asset value per unit plus any applicable initial charge. On redemption, units are purchased back by the Manager at their relevant net asset value per unit without redemption charge.

a) **Initial Charge** On the issue of new units, the Manager is entitled to charge an amount not exceeding 5% of the gross investment amount. The initial charge is accordingly payable by the applicant and retained by the Manager for its own use and benefit.

   The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the initial charge received by it on the value of relevant business introduced to the Fund.

b) **Manager's Fee** The Manager is paid a fee out of the assets of the Fund, calculated on each Valuation Date which accrues daily and is payable monthly in arrears currently at the following rate of the net asset value of the relevant class of the Fund, subject to a maximum of 1.5% p.a. The fee may be increased by 3 months' notice to unitholders subject to the maximum.

A Class	1.4%
C Class	0.625%

   As I Class is designed to accommodate an alternative charging structure whereby the investors are clients of the Manager or its associates and are charged management fees directly by the Manager or its associates, no management fees will be payable in respect of units in I Class out of the net assets of the Fund.

   The Manager may, at its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the manager's fee received by it on the value of relevant business introduced to the Fund.

c) **Trustee fee.** The Trustee is entitled to receive a fee of 0.04% p.a. of the net asset value of the Fund calculated on each Valuation Date and is payable monthly in arrears. The Trust Deed permits a maximum charge of 0.5% p.a. of the Fund's net asset value. The fee may be increased by 3 months' notice to unit holders (subject to the maximum) and with the consent of the Manager.

EXPENSES The costs, charges and expenses borne by the Fund, in addition to the Manager's fee and the Trustee's fee are those in connection with the establishment and authorization of the Fund, investing and realising the assets of the Fund, the safe keeping or custody of investments including fees and charges of any custodian or sub-custodian, fiscal charges payable in respect of the Fund, the registrar's costs (including Service Provider's costs which vary from class to class within a range between 0.02% and 0.1% p.a. of the Fund's net asset value), any valuation fee payable to the Trustee for calculation of the net asset value of the Fund, the costs of publishing unit prices and costs incurred in preparing and publishing reports and other communications to unitholders. The Fund also bears legal expenses incurred by the Manager or the Trustee in enabling the Fund to conform to new legislation or in connection with any supplemental deed giving effect to an alteration, modification or variation of the Trust Deed, the costs and expenses of auditing the Fund, the costs of obtaining or maintaining the approval of any regulatory authority for the Fund and the Manager's and Trustee's costs and expenses including legal fees properly incurred in performance of their duties under the Trust Deed for the benefit of the Fund. Any other costs, charges and expenses incurred in connection with the management and trusteeship of the Fund are paid on their own account by the Manager or the Trustee.

The Manager's and Trustee's fees are calculated and payable in HK dollars.

The preliminary expenses in relation to the set up of the Fund have already been fully amortised.

The Fund will generally pay brokerage at customary institutional full service brokerage rates. Transactions of the Fund may be entered into through associates of the Manager. The Manager, the investment delegate (if any) and any associates will not receive cash or other rebates from brokers or dealers in respect of transactions from the Fund. The Manager may enter into soft commission arrangements for the provision to the Manager or associates of goods and services which (a) are of demonstrable benefit to unitholders, (b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary, institutional full service brokerage rates; (c) periodic disclosure is made in the Fund's annual report in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegate, including a description of goods and services received by them; and (d) the availability of soft commission arrangements is not the sole or primary purpose to perform or arrange transaction with such person.

As the Fund invests in the Underlying Schemes, it will also indirectly bear a proportionate share of the management and trustee fees, operating expenses and charges, where permitted by the Trust Deed of the Fund, incurred by the Underlying Schemes. An Underlying Scheme may also charge an initial charge when an investment is made by the Fund in the Underlying Scheme. The foregoing is in addition to the initial charge payable by investors of the Fund, and fees and expenses payable by the Fund to the Manager. The Manager will not retain any rebate on any fees or charges levied by an Underlying Scheme or its management company. Please note however, that the Manager will waive all front-end charges, redemption charges and management fees for investment in any Underlying Schemes managed by the Manager or its associates.

VALUATION AND PRICE CALCULATION Valuation Dates are normally every business day in Hong Kong on which securities markets of all or substantial part of investments of the Fund are open for trading and settlement or such other day(s) as the Manager with the approval of the Trustee may determine from time to time. A business day in Hong Kong is a day on which banks in Hong Kong are normally open for business except Saturdays and Sundays, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a business day in Hong Kong unless the Manager otherwise determine.

The relevant net asset value per unit in HK dollars is calculated as at the time at which the Fund is valued on the Valuation Date on which the application or redemption is being effected. The net asset value per unit of each class is adjusted to the nearest two (2) decimal places. Units denominated in HK dollars will be redeemed at the relevant net asset value per unit less any applicable deductions for that class.

Where units are denominated in US dollars, the relevant net asset value per unit calculated as set out above are converted to US dollars from HK dollars at the exchange rate applied by the Trustee for the valuation of the assets of the Fund. The relevant net asset value per unit in US dollars is calculated correct to the nearest two (2) decimal places.

The net asset value per unit so determined may be subject to "dilution adjustment", as described in the section titled "DILUTION AND DILUTION ADJUSTMENT" below.

The net asset value of the Fund is generally determined by valuing the assets of the Fund in accordance with the provisions of the Trust Deed and deducting the liabilities attributable to the Fund in accordance with the provisions of the Trust Deed. The Trust Deed provides among others that:

(a) the Manager shall value investments and deposits to determine the gross asset value as follows:

    (i) investments for which prices are quoted on a market shall be valued at the mid-market price where bid and offer prices are quoted and in other cases, at the last traded price of the relevant investment on the relevant market and in either case, as at the close of business of such market at or immediately preceding the valuation point; and

    (ii) deposits shall be valued at face value;

(b) interest, discount and similar income and returns shall be deemed to accrue from day to day. Dividends shall be deemed to be received on the date on which the relevant investment is first quoted ex the dividend or interest payment in question. The value of any accounts receivable, prepaid expenses, and cash dividends and interest declared or accrued and receivable but not yet received shall be deemed to be the full amount thereof unless the Manager shall determine that less than the full amount is likely to be received. In such case, the Manager shall determine the reasonable value thereof;

(c) the value of any investment which may not be determined in accordance with the provisions of the Trust Deed whether because the relevant prices are not generally available on a market or not available on a particular Valuation Date or where the Manager or the Trustee (as they may between themselves decide) considers the method of valuation inappropriate, shall be determined by (i) the Manager or the Trustee (as they may between themselves decide) after consultation with the Auditors and if determined by the Manager, with the prior consent in writing of the Trustee; or (ii) by some other person appropriately qualified and approved by the Manager or the Trustee (as they may between themselves decide). Notwithstanding any other provisions of the Trust Deed, the Manager may, with the prior consent in writing of the Trustee, adjust the value of any cash, deposits and/or investment or permit some other method of valuation to be used if it considers that such adjustment or use of such other method is required to reflect the fair value thereof.

Valuation Dates, the time as at which valuations are made and any latest time for receipt of applications and redemption requests may be changed from time to time by the Manager. The Manager will usually give notice of such changes to the Trustee and Unitholders and, in the case of changes to the Valuation Date, must give one month's prior notice.

The Manager may deal in units, and subscriptions and redemptions may accordingly at the Manager's discretion be either for direct account of the Fund or sales or purchases by the Manager.

The Manager may, with the prior consent in writing of the Trustee adjust the value of any investment of the Fund if it considers that such adjustment is required to reflect the fair value thereof and may in making such adjustment have regard to currency, applicable rate of interest, maturity, marketability and other relevant considerations.

DILUTION AND DILUTION ADJUSTMENT The Fund is single priced and may suffer a reduction in value as a result of the transaction costs incurred in the purchase and sale of its underlying investments and the spread between the buying and selling prices of such investments caused by subscriptions, redemptions and/or switching in and out of the Fund. This is known as "dilution". In order to counter this and to protect unitholders' interests, the Manager will apply "dilution adjustment" as part of its daily valuation policy. This will mean that in certain circumstances the Manager (if in its opinion in good faith it is in the interest of Unitholders to do so) will make adjustments in the calculations of the net asset value per unit, to counter the impact of dealing and other costs on occasions when these are deemed to be significant, as further described below.

In the usual course of business the application of a dilution adjustment will be triggered mechanically and on a consistent basis.

The need to make a dilution adjustment will depend upon the net value of subscriptions, switching and redemptions received by the Fund for each dealing day. The Manager therefore reserves the right to make a dilution adjustment where the Fund experiences a net cash movement which exceeds a threshold set by the Manager from time to time of the previous dealing day's total net asset value.

The Manager may also make a discretionary dilution adjustment if, in its opinion, it is in the interest of existing unitholders to do so.

Where a dilution adjustment is made, it will increase the net asset value per unit when there are net inflows into the Fund and decrease the net asset value per unit when there are net outflows. The net asset value per unit of each unit class in the Fund will be calculated separately but any dilution adjustment will, in percentage terms, affect the net asset value per unit of each unit class identically.

As dilution is related to the inflows and outflows of money from the Fund, it is not possible to accurately predict whether dilution will occur at any future point in time. Consequently it is also not possible to accurately predict how frequently the Manager will need to make such dilution adjustments.

Because the dilution adjustment for the Fund will be calculated by reference to the costs of dealing in the underlying investments of the Fund, including any dealing spreads, which can vary with market conditions, this means that the amount of the dilution adjustment can vary over time but will not exceed 2% of the net asset value per unit on the relevant Valuation Date.

TAXATION ***The below summary is based on the Manager's understanding of the law and practice currently in force as at the date of this Explanatory Memorandum and applies to investors acquiring units in the Fund as an investment. Each prospective unitholder should inform himself of, and where appropriate take professional advice on, the taxes applicable to the acquisition, holding and redemption of units by him under the laws of the places of his citizenship, residence and domicile. Neither the Fund nor any of its respective affiliates accepts any responsibility for providing tax advice to any prospective unitholder.***

Under the prevailing Hong Kong tax legislations and practices:–

The Fund

The Fund should be exempt from profits tax, in respect of its authorised activities, in Hong Kong upon authorisation as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance.

Unitholders

Profits arising on the disposal or redemption of any units should only be subject to Hong Kong profits tax for unitholders who carry on a trade or business in Hong Kong where the profits, not being regarded as capital in nature, arise from such trade or business and are sourced in Hong Kong. Unitholders who do not carry on a trade or business in Hong Kong should not be liable to Hong Kong profits tax in respect of any gains from the disposal or redemption of such units.

Distributions received by unitholders from their investments in the units generally should not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise).

There is no withholding tax on dividends and interest in Hong Kong.

Dividends, interest and other income received by the Fund from outside Hong Kong may be subject to withholding taxes in the country from which payment is made. Such taxes will not normally be recoverable by the Fund, though they may be recoverable by individual unitholders who are able to claim the benefit of appropriate double taxation relief.

Stamp Duty

No Hong Kong stamp duty is payable on the issue and redemption for extinguishment of the units. Hong Kong stamp duty is also not payable if the sale 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 will be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and seller) of the higher of the consideration amount or market value.

US Tax Reporting Obligations under FATCA

The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund.

The Fund intends to comply with the provisions of FATCA under the terms of the inter-governmental agreement ("IGA") Model II that has been entered into between US Treasury and Hong Kong Government on 13 November 2014 and under the terms of the Hong Kong legislation implementing the IGA when introduced rather than under the US Treasury Regulations implementing FATCA. The Manager as the sponsoring entity has included the Fund in the list of funds sponsored by it.

In order to comply with its FATCA obligations, from 1 July 2014 the Fund may be required to obtain certain information from its investors so as to ascertain their US tax status. If the investor is a specified US person under the provisions of FATCA, U.S. owned non-U.S. entity, non-participating FFI or does not provide the requisite documentation, the Fund will need to report information on these investors directly to the IRS. Provided that the Fund acts in accordance with these provisions it will not be subject to withholding tax under FATCA.

Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The AEOI requires financial institutions ("FI") in Hong Kong to collect information relating to account holders, and to file such information as relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("IRD") who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships ("Reportable Jurisdictions"); however, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund and/or its agents shall collect and provide to the IRD tax information relating to unitholders and prospective investors.

The AEOI rules as implemented by Hong Kong require the Fund to, amongst other things: (i) register the Fund's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e. unitholders) to identify whether any such accounts are considered "Reportable Accounts" for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant Reportable Jurisdiction(s). Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in a Reportable Jurisdiction. Under the Ordinance, details of unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

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 Fund, the Manager and/or the Fund's agents in order for the Fund to comply with AEOI. The unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

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

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 liquidity risk management of the Fund is an integral part of investment management process and is operated under Schroders' investment risk management framework. The oversight of the liquidity risk management function will be performed by the investment risk function which is part of Schroders Group Risk. A liquidity report will be generated by Group Risk monthly. The results of the oversight will be reported to a risk management committee consisting of responsible officers, management and senior staff from Compliance, Investment and Operational and Risk on a regular basis. Exceptions on liquidity risk related issues will be escalated to the risk management committee.

The Manager would regularly assess the liquidity of the Fund's assets under the current and likely future market conditions. 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 Fund. 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 as stated under the section headed "REDEMPTION OF UNITS", 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.

To manage liquidity risks, the Manager may limit the number of units to be redeemed on any one Valuation Date to 10% of the units in issue (subject to the conditions set out in the section headed "REDEMPTION OF UNITS").

SUSPENSION OF DEALINGS The Manager, after consultation with the Trustee, having regard to the best interests of Unitholders, may at any time, suspend the right of unitholders to require the redemption of units and will at the same time cease to issue units and thus conversion of units will cease in any of the following circumstances:–

a. when any relevant market on which any material part of the Fund's investment are listed, quoted or dealt in is closed other than for ordinary holidays; or

b. when dealings on any such market are restricted or suspended; or

c. when a state of affairs exists as a result of which the acquisition or disposal of investments, or the making or uplifting of deposits, for account of the Fund cannot be effected normally or without seriously prejudicing the interests of unitholders; or

d. when there is a breakdown in the means of communication normally employed in determining the value of the Fund or any material part thereof or when, for any other reason, the value of any of the Fund's investments which represents a significant part of the value of the Fund, or the amount of any significant liability of the Fund, cannot be promptly and accurately ascertained; or

e. when the realisation of any of the Fund's investments or deposits or the transfer of funds involved in such realisation cannot be effected at normal prices or normal rates of exchange; or

f. if the remittance of monies involved in the subscription or redemption of units cannot be carried out without undue delay and at normal rates of exchange.

Where the Manager declares a suspension, a notification will be published (a) immediately after any such declaration and (b) at least once a month during the period of such suspension, on the Schroders' Internet site (www.schroders.com.hk) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC.

REPORTS AND ACCOUNTS The Fund's financial year end is on the 30 September in each year. Audited accounts in HK dollars will be made available to unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited semi-annual reports will also be made available within two months after the 31 March in each year. Such reports contain a statement of the net asset value of the Fund and of the investments composing its portfolio.

The Manager will notify unitholders when such accounts (accompanied by the required reports), in printed and electronic forms are available and where such accounts may be obtained. Copies of audited accounts and unaudited semi-annual reports may be obtained free of charge at the registered office of the Manager and from the Schroders' Internet site (www.schroders.com.hk). Copies of the accounts and reports may be posted to investors on request. The website has not been reviewed by the SFC and is not approved by the SFC and may contain information in relation to funds that are not authorised by the SFC and may not be offered to the retail public in Hong Kong.

DISTRIBUTION

Accumulation Units In respect of Accumulation Units, the Manager shall not make any distributions of income or net capital gains realised on the sale of investments. Income, if any, and the net capital gains, if any, in respect of the Fund shall be accumulated and capitalised.

Income Units In respect of Income Units, the Manager will declare and pay yearly distributions on such date as may be determined by the Manager. However, the distribution rate is not guaranteed.

In the event that the income generated from the Fund's investments attributable to the relevant Class of the Income Units during the relevant period is insufficient to pay distributions as declared, the Manager may in its discretion determine such distributions be paid from capital. **Investors should note that where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount originally invested or capital gains attributable to that, and may result in an immediate decrease in the value of the units of the relevant Income Units.**

The Manager will periodically review Income Units and reserve the right to make changes to the distribution policies of the Income Units. Any change to the frequency of distributions is subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

Distributions of a Class of Income Units declared, if any, shall be distributed among the unitholders of the relevant Class of Income Units ratably in accordance with the number of Units held by them on the record date as determined by the Manager in respect of the corresponding distribution. For the avoidance of doubt, only unitholders whose names are entered on the register of unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding distribution. Any payment of distributions will be made in the currency of the relevant Class of Income Units.

Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of these Classes of Income Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site (www.schroders.com.hk). The website has not been reviewed by the SFC.

VOTING RIGHTS Meetings of unitholders may be convened by the Manager or the Trustee, and the unitholders of 10% or more 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 of any meeting at which an Ordinary Resolution is proposed.

The powers of such a meeting are (i) to sanction a modification to the Trust Deed as approved by the Manager and the Trustee, (ii) to sanction the removal of the Trustee, (iii) to terminate the Fund; (iv) to elect a Chairman of the meeting; (v) to adjourn the meeting and (vi) to approve further unrestricted investments. These powers save (iv), (v) and (vi) are exercisable by Extraordinary Resolution, that is a 75% majority of the votes cast for and against the relevant proposal. The other powers are exercisable by Ordinary Resolution that is by simple majority of the votes cast for and against the relevant proposal.

The quorum for all meetings is unitholders present in person or by proxy representing 25% of the units in issue on the day immediately preceding the date of the meeting, or (in the case of an adjourned meeting of which separate notice will be given) such unitholders as are present in person or by proxy. On a show of hands, every individual unitholder present personally or by representative has one vote; on a poll every unitholder present in person, by proxy or by representative has one vote for every undivided share in the Trust Property represented by the unit held by him and no vote for a fraction of an undivided share. The number of undivided shares which an Accumulation Unit represents will increase when a distribution of income is made. 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. A poll may be demanded by the Chairman or one or more unitholders present in person or by proxy representing 5% of the units in issue.

A Unit carries the same voting rights whether denominated in HK dollars or US dollars.

PUBLICATION OF PRICES The relevant net asset value per unit in HK dollars and for US dollar Accumulation Units, in US dollars (except I Class, the relevant net asset value per unit is available from the Manager) at each Valuation Date are published on the Schroders' Internet site (www.schroders.com.hk) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC. Prices are normally the latest available prices but are indicative only.

TRUST DEED The Fund was established under Hong Kong law by a trust deed dated 19 August 1997 (as amended from time to time) and made between Schroder Investment Management (Hong Kong) Limited as Manager and Bank of Bermuda (Cayman) Limited as Trustee, which has been substituted by a consolidated trust deed dated 15 December 2008 made between Schroder Investment Management (Hong Kong) Limited as Manager and Bank of Bermuda (Cayman) Limited as Trustee (the "Trust Deed"). Since the Fund was established, the Trustee has changed. HSBC Institutional Trust Services (Asia) Limited became the Trustee with effect on 30 September 2014 pursuant to a deed of retirement and appointment dated 1 May 2014.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. In the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed prevail.

Copies of the Trust Deed as for the time being in force may be obtained from the Manager at a cost of HK$300 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

TERMINATION OF THE FUND The Fund may be terminated by the Trustee if within 6 months of the Manager leaving office, no new manager is appointed or if the Trustee wishes to retire and no replacement is found within 6 months or if the Manager goes into liquidation. Further if at any time after the expiry of five years from the date of establishment of the Trust, the unitholders authorise termination of the Fund by Extraordinary Resolution, the Trustee will terminate it by 3 months' notice. The Manager may terminate the Fund or any Class of Unit launched after 15 December 2008 if for any 3 month period, the net asset value of the Fund or of the relevant Class of Units (as the case may be) shall be less than HK$20 million. The Trustee or the Manager may also terminate the Fund if any law shall be passed which renders it illegal or in their opinion impracticable or inadvisable to continue the Fund. Three months' notice will always be given to unitholders unless earlier termination is desirable by reason of the Fund being or being expected to become illegal.

Any unclaimed net proceeds or other cash held by the Trustee may at any time after the expiration of six (6) years from the date on which the same were payable, be paid to the Manager for its account subject to the right of the Trustee to deduct therefrom any expenses it may incur in carrying out this provision.

ANTI-MONEY LAUNDERING REGULATIONS As part of the Trustee and Registrar's responsibility for the prevention of money laundering, the Trustee and Registrar may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:–

(a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or

(b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

The Trustee and Registrar reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and Registrar may refuse to accept the application and the subscription monies relating thereto.

CONFLICTS OF INTEREST The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund.

The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest. If such conflicts arise, the Manager and the Trustee will use reasonable endeavours to resolve such conflicts fairly (having regard to its respective obligations and duties) and acts in the best interests of the unitholders. In any event, the Manager shall act in a manner which it believes to be equitable in its allocation of investment opportunities among other funds, other investment vehicles it manages or advises and the accounts of its other clients and ensure that all investment opportunities will be fairly allocated. The Manager will also have regard to its obligations to act in the best interests of the unitholders when undertaking any investments where potential conflicts of interests may arise. The Manager will ensure that all transactions are effected in good faith at arm's length and in the best interests of the Fund on normal commercial terms.

In particular, the services of the Trustee, the Registrar and their respective delegates provided to the Fund are not deemed to be exclusive and each of the Trustee, the Registrar and their respective delegates shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other moneys payable thereby and neither of them shall be deemed to be affected with notice of or to be under any duty to disclose to the Fund any fact or thing which comes to the notice of any of them in the course of their rendering similar services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed.

SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS The Fund shall be subject to the investment restrictions set out in this Schedule save to the extent that any approval, permission or waiver in respect of any of the below restrictions has been obtained from the SFC or otherwise provided under the Code (as defined below), handbook, code and/or guideline issued by the SFC from time to time.

Definitions

The following defined terms used in this Schedule 1 have the following meanings:–

"**Code**" means the Overarching Principles Section and Section II- Code on Unit Trusts and Mutual Funds of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products or any handbook, guideline and code issued by the SFC, as may be amended from time to time.

"**Government and other public securities**" means any investment issued by, or the payment of principal and interest on which is guaranteed by a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.

"**Qualified Exchange Traded Funds**" means exchange traded funds that are: (AA) authorized by the SFC under 8.6 or 8.10 of the Code; or (BB) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (I) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (II) the investment objective, policy, underlying investments and products features of which are substantially in line with comparable with those set out under 8.10 of the Code.

"**REITs**" means real estate investment trusts.

"**reverse repurchase transactions**" 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.

"**sale and repurchase transactions**" 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.

"**securities financing transactions**" means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

"**securities lending transactions**" means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee.

"**substantial financial institution**" means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HKD 2 billion or its equivalent in foreign currency.

1. Investment limitations applicable to the Fund

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

(a) the aggregate value of the Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the Fund:

(i) investments in securities issued by that entity;

(ii) exposure to that entity through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 3.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

(A) transacted on an exchange where the clearing house performs a central counterparty role; and

(B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 5(e) and (j) of this Schedule 1.

(b) subject to sub-paragraphs 1(a) and 3.4(c) of this Schedule 1, the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available net asset value of the Fund:

  (i) investments in securities issued by those entities;

  (ii) exposure to those entities through underlying assets of financial derivative instruments; and

  (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

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

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

(c) the value of the Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available net asset value of the Fund provided that the 20% limit may be exceeded in the following circumstances:

  (i) cash held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested;

  (ii) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or

  (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

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

(d) the Fund's holding of any ordinary shares (when aggregated with all other Fund's holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity;

(e) the value of the Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a market (i.e. any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded), exceeding 15% of the latest available net asset value of the Fund;

(f) the value of the Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available net asset value of the Fund (save that the Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise;

(g) (i) the value of the Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available net asset value; and

  (ii) the value of the Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available net asset value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the offering document of the Fund,

  provided that:

    (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;

    (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;

    (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);

(D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its associates;

(E) 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 its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme; and

(F) the value of the Fund's holding of investment of any one collective investment scheme would not exceed 70% (or such lower percentage as required by the SFC) of its latest net asset value.

For the avoidance of doubt:

(aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by the Fund;

(bb) unless otherwise disclosed in this Explanatory Memorandum, the investment by the Fund in a Qualified Exchange Traded Fund will be considered and treated as collective investment schemes for the purposes of and subject to the requirements in sub-paragraphs 1(g)(i) and (ii) and proviso (A) to (C) of sub-paragraph 1(g) of this Schedule 1. Notwithstanding the aforesaid, the investments by the Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by the Fund shall be consistently applied;

(cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively;

(dd) where the Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code;

2. Investment prohibitions applicable to the Fund

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

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

(b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);

(c) make short sales unless (i) the liability of the Fund to deliver securities does not exceed 10% of its latest available net asset value; (ii) the security which is to be sold short is actively traded on a securities market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;

(d) carry out any naked or uncovered short sale of securities;

(e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);

(f) acquire any asset or engage in any transaction which involves the assumption of any liability by the Fund which is unlimited. For the avoidance of doubt, the liability of unitholders of the Fund is limited to their investments in the Fund;

(g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; and

(h) invest in any security which are for the time being nil paid or partly paid in respect of which a call is to due to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 3.5 and 3.6 of this Schedule 1.

3. Use of Financial derivative instruments

3.1 The Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 3.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

(a) they are not aimed at generating any investment return;

(b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;

(c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and

(d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

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

3.2 The Fund may also acquire financial derivative instruments for non-hedging purposes ("**investment purposes**") subject to the limit that the Fund's net exposure relating to these financial derivative instruments ("**net derivative exposure**") does not exceed 50% of its latest available Net Asset Value, provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 3.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 3.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

3.3 Subject to sub-paragraphs 3.2 and 3.4 of this Schedule 1, the Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.

3.4 The financial derivative instruments invested by the Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:

(a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;

(b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;

(c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, the Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Fund to a counterparty of over-the-counter financial derivative instruments 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 financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative. 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 financial derivative instruments on a regular basis.

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

3.6 Subject to sub-paragraph 3.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Fund shall be covered as follows:

(a) in the case of financial derivative instruments transactions which will, or may at the Fund's discretion, be cash settled, the Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

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

3.7 The requirements under sub-paragraphs 3.1 to 3.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an "**embedded financial derivative**" is a financial derivative instrument that is embedded in another security.

4. Securities financing transactions

4.1 The Fund currently does not intend to engage in securities financing transactions. If this changes and the Fund engages in securities financing transactions, it can only do so if such transactions are in the best interests of unitholders of the Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

4.2 The Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

4.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions shall be returned to the Fund.

4.4 The Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

5. Collateral

In relation to over-the-counter financial derivative instruments as set out in sub-paragraphs 3.4(c) of this Schedule 1, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting. The Fund currently does not intend to engage in securities financing transactions, and accordingly no collateral will be held in the manner described in sub-paragraph 4.2 of this Schedule 1.

However, if the above changes and the Fund receives collateral, in order to limit the exposure to each counterparty as set out in sub-paragraphs 3.4(c) and 4.2 (as applicable) of this Schedule 1, such collateral must comply with the requirements set out below:

(a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;

(b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;

(c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;

(d) Haircut – the collateral is subject to a prudent haircut policy;

(e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;

(f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;

(g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;

(h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;

(i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;

(j) Re-investment of collateral – any re-investment of collateral received for the account of the Fund shall be subject to the following requirements:

(i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;

(ii) non-cash collateral received may not be sold, re-invested or pledged;

(iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in 8.2(f) and 8.2(n) of the Code;

(iv) cash collateral received is not allowed to be further engaged in any securities financing transactions; and

(v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;

(k) the collateral is free of prior encumbrances; and

(l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

6. Borrowing and Leverage

The expected maximum level of leverage of the Fund is as follows:

Cash borrowing

6.1 No borrowing shall be made in respect of the Fund which would result in the principal amount for the time being of all borrowings made for the account of the Fund exceeding an amount equal to 10% of the latest available net asset value of the Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 6.1.

Leverage from the use of financial derivative instruments

6.2 The Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the Explanatory Memorandum under the section headed "Use of Derivatives".

6.3 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.

6.4 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

7. Name of the Fund

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

8. Investment via Subsidiary

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 subject to the requirements of the Code.

About Schroder Investment Management (Hong Kong) Limited Schroder Investment Management (Hong Kong) Limited manages a wide range of unit trusts investing in markets worldwide, but with a concentration on South East Asia. The Manager is one of the leading investors on behalf of pension funds, institutional funds and private client portfolios for Hong Kong and international clients.

The ultimate holding company of the Manager is Schroders plc, an international investment group based in London and established in 1804. The Schroder Group worldwide as at 31 December 2019 manages assets of more than US$662.6 billion.

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Ms. Amy Cho (Chief Executive Officer)
Mr. Steve R. Bryant
Ms. Rena B.L. Tsang
Ms. Louisa W.L. Lo

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October 2020

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

In particular, nationals or residents of, or persons domiciled in, countries other than Hong Kong should consult their financial advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to acquire units and as to any taxation effects, foreign exchange restrictions or exchange control requirements applicable.

No action has been taken to permit an offering of units of Schroder Stable Growth Fund (the "Fund") or distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong, where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, units in the Fund may be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised.

Receipt of any document about the Fund does not constitute an offer of units in those jurisdictions in which it is illegal to make such an offer.

Units of the Fund have not been and will not be registered under the United States Investment Company Act of 1940 as amended (the "Investment Company Act"). The units have not been and will not be registered under the United States Securities Act of 1933 as amended (the "Securities Act") or under the securities laws of any state of the United States of America ("US") and such units may be offered, sold or otherwise transferred only in compliance with the Securities Act and such state or other securities laws. The units may not be offered or sold within the US or to or for the account, of any US Person. For these purposes, "US Person" is as defined in Rule 902 of Regulation S under the Securities Act or the Internal Revenue Code of 1986, as amended including to reflect the provisions of FATCA (the "IR Code").

Rule 902 of Regulation S under the Securities Act defines "US Person" to include inter alia any natural person resident of the US and with regards to investors other than individuals, (i) a corporation or partnership organised or incorporated under the laws of the US or any state thereof; (ii) a trust: (a) of which any trustee is a US Person except if such trustee is a professional fiduciary and a co-trustee who is not a US Person has sole or shared investment discretion with regard to trust assets and no beneficiary of the trust (and no settlor if the trust is revocable) is a US Person or (b) where a court is able to exercise primary jurisdiction over the trust and one or more US fiduciaries have the authority to control all substantial decisions of the trust and (iii) an estate (a) which is subject to US tax on its worldwide income from all sources; or (b) for which any US Person is executor or administrator except if an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with regard to the assets of the estate and the estate is governed by foreign law.

The term "US Person" also means any entity organised principally for passive investment (such as a commodity pool, investment company or other similar entity) that was formed: (a) for the purpose of facilitating investment by a US Person in a commodity pool with respect to which the operator is exempt from certain requirements of Part 4 of the regulations promulgated by the United States Commodity Futures Trading Commission by virtue of its participants being non-US Persons or (b) by US Persons principally for the purpose of investing in securities not registered under the Securities Act, unless it is formed and owned by "accredited investors" (as defined in Rule 501 (a) under the Securities Act) who are not natural persons, estates or trusts.

Pursuant to the IR Code, the term "US Person" means (i) a citizen or resident of the US, (ii) a partnership or other entity treated as a partnership for US federal income tax organized under the laws of the US or any political subdivision thereof, (iii) a corporation or other entity treated as a corporation for US federal income tax purposes organized under the laws of the US or any political subdivision thereof, (iv) an estate the income of which is subject to US federal income tax without regard to its source or (v) a trust, if, either (a) a court within the US is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to be treated as a US person.

The Fund is not authorised under the United Kingdom Financial Services and Markets Act 2000 (the "FSMA") in the United Kingdom and accordingly this Explanatory Memorandum must not be distributed in the United Kingdom other than to certain categories of person as specified in regulations made under the FSMA. Such categories include certain persons with sufficient expertise such as authorised persons, who understand the risks involved.

Distribution of this Explanatory Memorandum in Hong Kong must be accompanied by the Product Key Facts Statements of the Fund, a copy of the latest available annual report and accounts of the Fund, any subsequent interim report. Units issued after the date of this Explanatory Memorandum are offered on the basis only of the information contained in this Explanatory Memorandum. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorised and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of the units shall not in any way constitute a representation that the information and representations given herein or in such documents are correct as at any time subsequent to the date of this Explanatory Memorandum or such documents.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong (the "SFC"). The 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. The Manager accepts full responsibility for the accuracy, as at the date of this Explanatory Memorandum, of the information contained in this Explanatory Memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

Enquiries and Complaints

Enquiries and complaints concerning the Fund (including information concerning subscription and redemption procedures and the current net asset value of the Fund) should be directed to the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong or by electronic mail at schroders@schroders.com.hk or by phone at +852 2869 6968.

SUMMARY

Principal Features of the Schroder Stable Growth Fund

– Investment in quoted securities, and fixed income securities, other asset classes and money market instruments and cash worldwide directly or through investment in funds investing in the foregoing investments.

– Active investment management to achieve long term capital growth.

– Access to the specialist investment management expertise of Schroder Group.

– Minimum investment of HK$5,000 or US$1,000.

– Daily valuations and dealing.

– A fund authorised in Hong Kong; denominated in HK dollars.

INVESTMENT POLICY

Investment Objective and Policy

The Fund's investment objective is capital appreciation in HK dollars through investing in quoted equities, and fixed income securities, other asset classes and money market instruments and cash in any part of the world directly or through investment in funds (including qualified exchange traded funds) ("Underlying Schemes") investing in the foregoing investments. The Fund may directly invest up to 70% of its net asset value in quoted equities and up to 70% of its net asset value in fixed income securities. The Fund's investment is not subject to any prescribed limit on the region, country, industry, credit rating or market capitalisation of the investment. The Manager intends to adopt a relatively balanced approach towards bonds and equities exposure in the Fund with the objective of achieving capital appreciation with minimal short term performance volatility.

Up to 100% of the Fund's net asset value may be invested in Underlying Schemes. The Fund will only invest in other funds authorized by the Securities and Futures Commission (the "SFC") (except for hedge funds under 8.7 of the Code on Unit Trusts and Mutual Funds ("UT Code")) or in eligible schemes[Note] domiciled in jurisdictions recognized by the SFC (whether authorized by the SFC or not), except that not more than 10% of the Fund's net asset value may be invested in non-eligible schemes not authorized by the SFC.

The Fund may, if the Manager considers fit, seek exposure of not more than 15% of its net asset value to other asset classes including but not limited to commodities (including energy, metals and agricultural commodities) indirectly through Underlying Schemes.

The Fund will actively allocate between different asset classes including equities, fixed income securities, other asset classes, money market instruments and cash to achieve the Fund's objectives. The Fund will also make changes to the regional allocation within each of the asset class. The Fund uses a risk-premia approach to analyse different asset classes to identify the driving forces behind the risks and returns of asset classes. The analysis is based on a combination of fundamental and quantitative factors such as asset class valuation, macroeconomic data and liquidity. Money market instruments and cash will be treated as a separate asset class and will be deployed if necessary to limit downside risk during adverse market conditions.

In addition to active asset allocation, the Fund also aims to achieve its investment objectives through investment in the Underlying Schemes, which perform active security selection. The allocation to the Underlying Schemes is actively managed based on the Underlying Schemes' investment universes, investment strategies, risk and return profiles and the prevailing market conditions.

The Fund's expected asset allocation ranges for each asset class, either directly or through investment in Underlying Schemes, is expected to be the following:

Equities: 30 – 70%
Fixed income: 30 – 70%
Other asset classes: 0 – 15%
Money market instruments and cash: 0 – 30%

The Fund may acquire financial derivative instruments for hedging and non-hedging purposes.

The Fund may invest in Underlying Schemes of which the net derivative exposure is more than 50% of the Underlying Scheme's latest available net asset value. Investment in any single Underlying Scheme with a net derivative exposure exceeding 50% of its net asset value, which is (i) an SFC authorized fund (except for hedge funds under 8.7 of the UT Code) or (ii) an eligible scheme[Note] which is not authorized by the SFC, will not be more than 30% of the Fund's net asset value.

Note: "Eligible schemes" refer to UCITS schemes domiciled in Ireland, Luxembourg or the United Kingdom and, in accordance with their home regulation, such UCITS schemes may adopt the commitment approach or value at risk approach in monitoring the derivative exposure or risk of the UCITS schemes.

Borrowing and Leverage

The Trust Deed permits borrowing to be used to purchase or facilitate the purchase of investments for the Fund to provide monies to meet redemption requests and to pay operation expenses. The Manager intends to use this power to borrow but does not intend to gear the Fund.

Please refer to Schedule 1 for further details on the borrowing restrictions of the Fund.

Use of Derivatives

The Fund's net derivative exposure may be up to 50% of the Fund's latest available net asset value.

In relation to over-the-counter derivative transactions, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting.

Securities Financing Transactions

The Manager currently does not intend to enter into any securities financing transactions in respect of the Fund.

Change of Investment Policy

The Manager has power to change the investment policy from time to time within the investment restrictions contained in the Trust Deed.

INVESTMENT AND BORROWING RESTRICTIONS The Trust Deed sets out the investment and borrowing restrictions of the Fund, and a summary thereof are set out in Schedule 1.

RISK FACTORS

General risks

– The prices of units depend on the market values of the Fund's investments and such prices as well as the income from units can go down as well as up. Past performance of the Fund does not indicate the future performance. The Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment and are prepared for medium to high levels of risk.

– The Fund may invest in other funds. The Fund's performance will be affected by the performance of the Underlying Schemes and is subject to all the risks associated with the Underlying Schemes' investments and cash exposure including, among others, market, interest rate, currency, exchange rate, economic, credit, liquidity, counterparty, foreign securities and political risks. The Fund does not have control of the investments of the Underlying Schemes and there can be no assurance that the Underlying Schemes' objectives will be achieved. The Underlying Schemes in which the Fund may invest may not be regulated by the SFC. Investors will bear the recurring expenses of the Fund in addition to the expenses of the Underlying Schemes, and therefore, the returns that they may obtain may not reflect the returns that they obtained by investing directly in the Underlying Schemes. There is also no guarantee that the Underlying Schemes will always have sufficient liquidity to meet the Fund's redemption requests as and when made.

– Investment in the Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account.

– Investment decisions of the Underlying Schemes are made at the level of such Underlying Schemes and it is possible that the managers of such Underlying Schemes will take positions or engage in transactions in the same securities or in issues of the same asset class, industry or country or currency at the same time. Consequently there is concentration risk.

– The Fund may invest in a number of Underlying Schemes, which employ different strategies and objectives and invest in different types of securities and markets. Each type of security and market bears certain kinds of risks that may or may not be unique to the type of security and market. There is no assurance that the risks involved in different types of securities and markets are uncorrelated or independent and that diversification requirements will remove risks.

Market risk

– Investors should be aware that the value of securities in which the Fund or the Underlying Schemes invest, and the return derived from it can fluctuate. The Fund or the Underlying Schemes invest in and actively trade securities utilising strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the fixed income and equity and the risks associated with the use of derivative transactions, short sale positions, leverage and foreign securities. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as actions by various governmental agencies and domestic or international economic and political developments, may cause sharp market fluctuations, which could significantly and adversely affect the results of the Fund or the Underlying Schemes and hence the Fund's activities and the value of its investments. In addition, the value of the Fund's portfolio may fluctuate as the general level of interest rates fluctuates.

Currency and Exchange risk

– The investments (including the Underlying Schemes and their investments) acquired by the Fund may be denominated in a wide range of currencies different from the base currency of the Fund. This exposes the Fund to exchange rate fluctuations and currency risk.

Equity investment risk

– The Fund and the Underlying Scheme's investment in equity securities is subject to the risk that the market value of the stocks may go down as well as up due to numerous factors such as changes in investment sentiment, political environment, economic environment, issuer-specific factors, regional or global economic instability, currency and interest rate fluctuations. If the market value of the stocks go down the net asset value of the Fund and the Underlying Scheme may be adversely affected.

Risks relating to investment grade, below investment grade and unrated debt securities

– "Investment grade" debt securities generally have a high capacity to pay interest and repay principal when compared to lower-rated bonds and notes. However, there are no assurances that losses will not occur with respect to these investments. The principal factors that may affect the value of the Fund's and the Underlying Scheme's securities holdings include: (i) changes in interest rates, (ii) the credit worthiness of the issuers of securities held by the Fund or the Underlying Scheme, (iii) unanticipated prepayment, and (iv) the decline of the relevant bond market. Further, there is risk that investment grade securities may be downgraded due to adverse market conditions. In the event of a down-grading of the credit rating of a security or an issuer relating to a security that the Fund or the Underlying Schemes invest in, the value of the Fund or the Underlying Schemes (as the case may be) may be adversely affected. The Manager or the manager of the Underlying Schemes may or may not be able to dispose of the debt instruments that are being downgraded.

– The Fund and/or the Underlying Schemes may invest in debt securities which are below investment grade which are generally accompanied by lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities, a higher degree of counterparty risk, credit risk than higher rated, lower yielding securities. Such debt securities are considered to have a higher risk exposure than securities which are investment grade with respect to payment of interest and the return of principal. Low rated debt securities generally offer a higher current yield than higher grade issues. However, low rated debt securities involve higher risks and are more sensitive to adverse changes in general economic conditions and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers and changes in interest rates. Additionally, the market for lower rated debt securities generally is less active than that for higher quality securities and the Fund's or an Underlying Scheme's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions.

– The Fund and/or the Underlying Schemes may invest in securities which are unrated. Investment in such securities may be subject to risks similar to those outlined above for below investment grade securities.

Interest Rates risk

– Changes in market interest rates will affect the value of debt securities held by the Fund or the Underlying Schemes. Generally, the market value decreases when interest rates rise and increases when interest rates fall. Long-term debt securities are generally more sensitive to changes in interest rates and, therefore, are subject to a greater degree of market price volatility. To the extent the Fund or the Underlying Schemes hold long-term fixed income securities, their net asset values will be subject to a greater degree of fluctuation than if they held fixed income securities of a shorter duration.

Credit risk

– The Fund's or an Underlying Scheme's investments may be subject to credit risk. Bonds or other debt securities involve credit risk to the issuer which may be evidenced by the issuer's credit rating. Securities which are subordinated and/or have a lower credit rating are generally considered to have a higher credit risk and a greater possibility of default than more highly rated securities. In the event that any issuer of bonds or other debt securities experiences financial or economic difficulties, this may affect the value of the relevant securities (which may be zero) and any amounts paid on such securities (which may be zero). This may in turn affect the net asset value of the Fund or the prices of the Underlying Schemes and in turn affect the net asset value per unit of the Fund.

– Many emerging market countries have accumulated substantial debt service obligations. This may adversely affect their ability to service their debts and increase the likelihood of their defaulting on their obligations. It should also be noted that investment of the Fund or any Underlying Scheme in securities issued by corporations may represent a higher credit risk than investment in securities issued by governments.

– The ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint. The rating on an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time the rating is assigned and the time it is updated. In addition, there may be varying degrees of difference in credit risk of securities within each rating category.

Valuation risk

– Valuation of the Fund's or Underlying Scheme's investments in fixed income securities may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the net asset value calculation of the Fund and/or Underlying Scheme.

Sovereign debt risk

– The Fund's or an Underlying Scheme's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Fund or the Underlying Scheme to participate in restructuring such debts. The Fund may suffer significant losses when there is a default of sovereign debt issuers.

Counterparty, Custody and Settlement risk

– The Fund and the Underlying Schemes may be exposed to a credit risk on counterparties with whom they trade securities, and may also bear the risk of settlement default. As the Fund and/or the Underlying Schemes may also directly or indirectly invest in securities in emerging markets where settlement mechanisms are generally less developed and reliable than those in more developed countries. This therefore increases the risk of settlement default which could result in substantial losses for the Fund or the Underlying Scheme in respect of investments in emerging markets.

– The Fund and/or the Underlying Schemes may invest in markets where custodial and/or settlement systems are not fully developed. The assets of the Fund and/or the Underlying Schemes that are traded in such markets and which have been entrusted to such sub-custodians may be exposed to risk in circumstances where the custodian will have no liability. The Fund's and the Underlying Schemes' cash account will usually be maintained on the custodian's records, but the balances may be held by a sub-custodian which poses an additional risk. In addition, in case of liquidation, bankruptcy or insolvency of such sub-custodians, the Fund or the Underlying Schemes (as the case may be) may take a longer time to recover their assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Fund or the Underlying Schemes (as the case may be) may even be unable to recover all of its/their assets. The costs borne by the Fund and the Underlying Schemes investing and holding investments in such markets will be generally higher than in organised securities markets.

– The Fund and/or the Underlying Schemes may be also exposed to credit risk on the counterparties with which they trade in relation to options, futures, contracts and other derivative financial instruments that are not traded on internationally recognised exchanges. The Fund and the Underlying Schemes will be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which the Fund or the Underlying Schemes trade such instruments, which could result in substantial losses to the Fund.

Liquidity risk

– Not all securities or investments held by the Fund or the Underlying Schemes will be listed or rated or actively traded and consequently liquidity may be low. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at unfavourable prices. The Fund or the Underlying Schemes may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity. Moreover, there is no assurance that the liquidity of the Fund or the Underlying Schemes will always be sufficient to meet redemption requests as and when made.

– Liquidity risk also exists if sizeable redemption requests are received as the Fund may need to liquidate its underlying investments including investments in Underlying Schemes, which in turn may need to liquidate their investments at a substantial discount, in order to satisfy such requests and the Fund may suffer losses in liquidating such investments.

Risks associated with derivatives

– Derivatives include instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Derivatives may allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index. Therefore, many of the risks applicable to trading the assets of the Fund and the Underlying Schemes are also applicable to derivatives trading. Risks associated with derivatives include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. However, there are a number of other risks associated with derivatives trading. The leverage element/component of a derivative can result in a loss significantly greater than the amount invested in the derivative. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose the Fund to the possibility of a significant loss exceeding the original amount invested.

Funds investing in mortgage related and other asset backed securities

– Mortgage related and other asset backed securities may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities. They are often exposed to extension and prepayment risks (as further discussed below), and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

– The yield and maturity characteristics of mortgage-related and other asset backed securities differ from traditional debt securities. A major difference is that the principal amount of the obligations may normally be prepaid at any time because the underlying assets (i.e. loans) generally may be prepaid at any time. In calculating the average weighted maturity of such a portfolio, the maturity of mortgage-related and other asset backed securities held will be based on estimates of average life which take prepayments into account. The average life of a mortgage-related instrument, in particular, is likely to be substantially less than the original maturity of the mortgage pools underlying the securities as the result of scheduled principal payments and mortgage prepayments. In general, the collateral supporting non-mortgage asset backed securities is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments.

– The relationship between prepayments and interest rates may give some high-yielding asset backed securities less potential for growth in value than conventional bonds with comparable maturities. In addition, in periods of falling interest rates, the rate of prepayments tends to increase. During such periods, the reinvestment of prepayment proceeds by the Fund or the Underlying Scheme will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. Because of these and other reasons, an asset backed security's total return and maturity may be difficult to predict precisely. To the extent that the Fund or the Underlying Scheme purchases asset backed securities at a premium, prepayments (which may be made without penalty) may result in loss of the Fund or the Underlying Scheme's principal investment to the extent of premium paid.

– In addition, to the extent that they are not guaranteed, each type of asset backed securities entails specific credit risks depending on the type of assets involved and the legal structure used.

Investor risk

– Substantial redemptions of units (which are more likely to occur in adverse economic or market conditions) could require the Manager to liquidate investments of the Fund more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions and to achieve a position appropriately reflecting the smaller equity base. This could adversely affect the net asset value of both units being redeemed and of existing units.

– The Manager is entitled under certain circumstances specified in the Trust Deed to suspend dealings in the units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the units during the period up to the redemption of the units is borne by the redeeming unitholders.

– If, in the opinion of the Manager or the Trustee, units held by any unitholder is in contravention of any laws or regulations or under such other circumstances specified in the Trust Deed, the Manager is entitled to compulsorily redeem all or a portion of the unitholder's units in the Fund. Such compulsory redemption may create adverse tax and/or economic consequences to the unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon any termination of the Fund, compulsory redemption or otherwise.

Risk of termination of the Fund

– In the event of the early termination of the Fund, the Fund would have to distribute to the unitholders their pro rata interest in the assets of the Fund. It is possible that at the time of such sale or distribution, certain investments held by the Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the unitholders. Moreover, any organisational expenses with regard to the units that had not yet become fully amortised would be debited against Fund's capital at that time.

Emerging Markets

– Investments in emerging and less developed markets may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Emerging or developing countries may have relatively unstable governments, economies based on a less diversified industrial base and securities markets that trade a smaller number of securities. Companies in emerging markets may generally be smaller, less experienced and more recently organised than many companies in more developed markets. Prices of securities traded in the securities markets of emerging or developing countries tend to be volatile. Furthermore, foreign investors are often subject to restrictions in emerging or developing countries. These restrictions may require, among other things, governmental approval prior to making investments or repatriating income or capital, or may impose limits on the amount or type of securities held by foreigners or on the companies in which the foreigners may invest.

– The economies of individual emerging countries may differ favourably or unfavourably from developed economies in such respects as growth of gross domestic product, rates of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payment position and may be based on a substantially less diversified industrial base. Further, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been, and may continue to be, adversely affected by economic conditions in the countries with which they trade.

Risk relating to exchange traded funds

– The Fund or an Underlying Scheme may invest in exchange traded funds ("ETFs"). ETFs generally are passively managed and may not be able to adapt to market changes. ETFs may be subject to tracking error risk, which is the risk that its performance may not track that of the index exactly. The trading price of units of ETFs is driven by market factors such as demand and supply of the units, and units may trade at a substantial premium or discount to net asset value. Where the Fund or an Underlying Scheme invests in synthetic ETFs, such investments are susceptible to more significant price fluctuations and higher volatility, and are exposed to risk of fall in collateral value and risk of default of counterparties.

Risk relating to small- and mid-capped companies

– The Fund and some of the Underlying Schemes may invest in the securities of small- and/or mid-capped companies. Investing in these securities may expose the Fund or the Underlying Schemes to risks such as greater market price volatility, less publicly available information, and greater vulnerability to fluctuations in the economic cycle.

Risks relating to investment in commodities

– Underlying Schemes may invest in commodities and commodities-related investments and therefore may be exposed to commodity markets risks, which are generally greater than risks in other markets. It is a feature of that generally commodities prices are subject to rapid changes and the risks involved in investing in commodities may change relatively quickly. Commodity prices are determined by forces of supply and demand which are influenced by, without limitation, macroeconomic factors, consumer pattern, trade, fiscal, monetary and exchange policies and controls of governments and other unforeseeable events.

Foreign Account Tax Compliance Act ("FATCA") related risks

- The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund. Provided that the Fund acts in accordance with the provisions it will not be subject to withholding tax under FATCA.

- Although the Manager will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA penalty withholding on the Fund, no assurance can be given that the Manager will be able to achieve this and/or satisfy such FATCA obligations. If the Fund becomes subject to a FATCA penalty withholding as a result of the FATCA regime, the value of the units held by unitholders may be adversely affected and unitholders may suffer material losses.

- Unitholders should seek independent professional advice regarding the FATCA requirements with respect to their own situation. In particular, where investors invest in or held units of the Fund through an intermediary, nominee or custodian, investors are recommended to check whether such intermediary, nominee or custodian is FATCA compliant and any possible FATCA implications.

Risks relating to distribution

- In respect of Income Units, the Manager will declare and pay distributions on a regular basis. However, the distribution rate is not guaranteed. The Manager has the sole and absolute discretion to vary the frequency of distributions, subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

- Where the income and/or capital gain generated by the Fund is insufficient to pay a distribution as the Fund declares, the Manager may at its discretion make such distributions out of the capital of the Fund.

- **You should note that in the circumstances where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount you originally invested or capital gains attributable to that and may result in an immediate decrease in the value of units of the relevant Income Units.**

Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of the Classes of Income Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site (www.schroders.com.hk). The website has not been reviewed by the SFC.

Prospective investors should consult with their own advisors before deciding to invest in the Fund.

MANAGEMENT AND ADMINISTRATION The Manager of the Fund is Schroder Investment Management (Hong Kong) Limited and is licensed by the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities. The Manager is not subject to any licensing conditions in respect of its aforementioned licenses for regulated activities pursuant to the Securities and Futures Ordinance.

The Manager undertakes the management and administration of the Fund, including communication with unitholders and conduct of meetings, and in conjunction with the Trustee is responsible for the maintenance of accounts and records in compliance with the Trust Deed and the laws of Hong Kong.

With almost forty years of investment experience in Asia Pacific the Schroder Group is able to offer particular expertise in the management of specialist Asian portfolios and is able to draw on the worldwide resources of the Group with offices and research analysts based throughout the region.

The Manager is adviser to or manager of other Hong Kong authorised unit trusts and investment portfolios of institutional, private and retirement fund clients in Asia and elsewhere. The Schroder Group worldwide manages assets of over US$662.6 billion as at 31 December 2019 in London, Luxembourg, New York, Zurich, Australia, Hong Kong, Japan and Singapore and other investment centres around the world.

TRUSTEE The Trustee of the Fund is HSBC Institutional Trust Services (Asia) Limited which is incorporated with limited liability in Hong Kong on 27 September 1974. It is an indirect wholly-owned subsidiary of HSBC Holdings plc. It is registered as a trust company under Section 77 of the Hong Kong Trustee Ordinance and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance. The Trustee has delegated certain of its functions as registrar to HSBC France, Luxembourg Branch (the "Service Provider").

Under the Trust Deed and subject to the provisions therein, all cash and other property which ought in accordance with the provisions of the Trust Deed to form part of the Fund's property shall be paid or transferred to the Trustee or as it may direct and be held by or under the control of the Trustee accordingly. The Trustee shall be responsible for the safe-keeping of the Fund's property including where appropriate the insurance thereof as the Trustee may think fit and shall take into custody or under its control all the investments, cash and other assets forming part of the Fund's property and hold them in trust for the unitholders in accordance with the provisions of the Trust Deed. The Trustee shall in respect of any investments or other assets of the Fund which by nature cannot be held in custody, maintain a proper record of such investments or assets in its books under the name of the Fund.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself or any associate) as custodian or co-custodian or sub-custodian of the investments and/or deposits comprised in the Fund's property. The Trustee may empower any such custodian or co-custodian or sub-custodian to appoint, with the prior consent in writing of the Trustee, sub-custodians. The fees and expenses of such custodian, co-custodians and sub-custodians shall be paid out of the Fund's property. The Trustee (a) shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of agents, nominees, delegates, custodian, co-custodian or sub-custodian which are appointed for the custody and/or safe keeping of any Trust property, cash or other assets forming part of the Fund's property (each a "**Correspondent**"); (b) shall be satisfied that each such Correspondents retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Trust; and (c) shall remain liable for any act or omission of any Correspondent which are connected persons as if the same were the act or omission of the Trustee provided however that if the Trustee has discharged its obligations set out in (a) and (b) above, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent that is not a connected person of the Trustee.

HSBC group has adopted a policy of compliance with the sanctions issued by The Office of Foreign Assets Control of the US Department of the Treasury. The Trustee and its delegates will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control of the US Department of the Treasury.

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 headed "Charges and Fees" and to be reimbursed for any sub-custodians' fees and expenses.

If the Trustee or its delegates (which may be affiliates of the Trustee) shall act as banker in respect of Fund then it shall be entitled to retain all normal banking profit and benefits; in the event that the Trustee or its delegates shall act as custodian or broker for the purchase and sale of investments, then it shall be entitled to charge and retain all normal fees and expenses.

The Manager has sole responsibility for making investment decisions in relation to the Fund. Subject to the duty to ensure that investment and borrowing limitations of the Fund are complied with as required by the Code on Unit Trusts and Mutual Funds, the Trustee (including its delegate) is not responsible or has any liability for any investment decision made by the Manager. Neither the Trustee, nor its delegate acts as guarantor or offeror of the Units or any underlying investment of the Fund.

TYPES OF UNITS The Manager intends to offer A Class (the "A Class"), C Class (the "C Class") and I Class (the "I Class") which may be denominated in HK dollar ("HK$"), US dollar ("US$") or such other currencies as may be determined by the Manager from time to time, and designated as Accumulation Units or Income Units. HK dollar and US dollar refer to Hong Kong dollar and United States dollar respectively. The Manager may in future determine to offer other class(es) of Units pursuant to the provisions of the Trust Deed. The Manager will provide a full list of classes of units with currency denomination that are available for sale to the public in Hong Kong, upon request of an investor. The list is also available online at www.schroders.com.hk. The website has not been reviewed by the SFC.

A Class will initially only be available to investors of certain distributors appointed specifically for the purpose of distributing the A Class Units whilst C Class Units will generally be available to investors who are considered to be institutional investors by the Manager. I Class is designed to accommodate an alternative charging structure whereby the investors are clients of the Manager or its associates and are charged management fees directly by the Manager or its associates.

APPLICATION FOR UNITS To purchase units an investor should:–

a) complete the application form enclosed with this Explanatory Memorandum and return it to the Manager (details of which as set out in the application form); or

b) fax an order to the Manager (details of which as set out in the application form).

Fax orders must always be followed by a completed application form unless the investor already holds units in this Fund or another fund managed or distributed by the Manager and has already made arrangements with the Manager to allow orders to be made via facsimile instructions and without the same being followed by original orders. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a unitholder or an investor for any loss resulting from non-receipt of any orders sent by facsimile.

Applications may also be sent through an investment adviser.

Units may be acquired on any Valuation Date – see "Valuation and Price Calculation".

Applications should be made on, and in accordance with the instructions on the application form and be received by the Manager by 5 p.m. Hong Kong time if they are to take effect at the relevant net asset value per unit (plus any applicable initial charge) on the next business day. Payment of the amount due on application should normally be made no later than four (4) business days after the application is accepted. If timely settlement is not made the relevant allotment of units may be cancelled in accordance with the Trust Deed.

The minimum investment for initial or subsequent investments is HK$5,000 for units denominated in HK dollars and US$1,000 for Accumulation Units denominated in US dollars or such other amount as may from time to time be determined by the Manager generally or for a particular investor. The minimum amounts include any initial charge which is payable by the applicant.

The issue of units is at the discretion of the Manager. Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of units.

Payments should normally be made in HK dollars for units denominated in HK dollars and US dollars for units denominated in US dollars. If an investor selects a currency other than the currency of the relevant class of unit for any payments to or from the Fund, this will be deemed to be a request by the investor to the Service Provider to provide a foreign exchange service to the investor in respect of such payment. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant investor. Neither the Trustee nor the Service Provider nor the Manager takes any responsibility for the rate of exchange obtained. Changes in the rate of exchange between the currency of denomination and the currency of an investor’s subscription monies may cause the value of an investor’s investment to diminish or increase.

Monies can be paid either by telegraphic transfer to the relevant accounts as set out in the application form or may be paid by cheque in accordance with instructions on the application form. It should be note that there may be delay in receipt of cleared funds if payment is made by cheque or banker’s draft compared to payment by telegraphic transfer. Any costs of transfer of application monies to the Fund will be payable by the applicant.

The applicant should quote the name of the Fund in the remittance instructions.

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

All holdings will be registered but certificates are not issued. Evidence of title will be the entry on the Register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of units correct to the nearest two (2) decimal places will be issued. The Manager reserves the right to reject any application in whole or in part. A maximum of 4 persons may be registered as joint unitholders.

REDEMPTION OF UNITS Units may be redeemed on any Valuation Date at their net asset value per unit less any applicable deductions (there is currently no deduction) on application to the Manager as applicable to the relevant class and denomination of units. Redemption notices must be received by the Manager by 5 p.m. Hong Kong time on a Valuation Date to take effect on the next business day. Application should be made on the form available from the Manager by post or by fax to the Manager, or through one of the intermediaries authorised for this purpose. Please see also “Anti-Money Laundering Regulations”. Partial redemptions for a minimum of HK$2,500 (HK dollar denominated units) or US$500 (US dollar denominated units), unless otherwise waived by the Manager at its discretion, are allowed provided that the value of such unitholder’s remaining holding of units is not less than HK$5,000 or US$1,000 (as applicable) or such lower amount as may from time to time be determined by the Manager generally or for a particular investor. There is no redemption charge.

Investors should be reminded that if they choose to send notices of redemption by fax, they bear their own risk of the notices not being received by the Manager. Investors should therefore for their own benefit confirm with the Manager the receipt of the notices. Neither the Manager nor the Trustee shall be responsible to a unitholder for any loss resulting from non-receipt of any redemption request sent by facsimile.

Redemption monies are normally remitted by telegraphic transfer within ten (10) business days after the relevant Valuation Date and at most within 28 days upon receipt of all properly completed documentation. Redemption proceeds will be paid to the registered unitholder requesting such redemption only and will not be paid to third parties.

Redemption monies will normally be paid in the currency of the relevant class of units. However, at the request of the unitholder, a currency exchange service for redemptions is provided to the unitholder by the Service Provider. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant unitholder.

The Trust Deed gives the Manager power to redeem compulsorily units in certain circumstances, in the event of adverse tax or other consequences for the Fund, the Manager, the Trustee or their associates.

In the event of redemption requests being received on any one day for units in excess of 10% of the units in issue the Manager may sell a proportion of the Fund’s assets corresponding to the proportion the units to be redeemed bear to the total number in issue and calculate the relevant net asset value per unit based on the proceeds of the investments sold. Alternatively the Manager may limit the number of units to be redeemed on any one Valuation Date to 10% of the units in issue (with redemption requests reduced pro rata) and any excess redemption requests are then carried forward to the next Valuation Date.

Payment of redemption monies in US dollars may result in the Fund benefiting from or bearing the costs of any fluctuations in the exchange rate between HK dollars and US dollars for the period between the date of redemption of US dollar units and the date of payment of US dollar redemption monies. Due to the peg of the currencies, and the fact that the current investment policy includes the holding of assets denominated in US dollars sufficient to cover likely redemptions of units denominated in US dollars, variations are expected to be small. The position will be actively monitored by the Manager.

CONVERSION OF UNITS Units cannot be converted to other units denominated in a different currency by the unitholder. The Manager has power, with the consent of the Trustee to compulsorily re-designate the currency of a Class of Units to such other currencies by one month’s notice to unitholders if in the Manager’s opinion it is in the interests of unitholders to do so.

SWITCHING BETWEEN FUNDS The Manager offers a number of other unit trusts and mutual funds with different investment objectives. Unitholders switching from one fund to another will be generally given, at the discretion of the Manager, discounts on the initial charge (currently up to 5% of the switching amount) which may otherwise apply. A switch is an instruction for a redemption of units or shares in a fund and application of the redemption proceeds to purchase units or shares in another fund and therefore the provisions on application and redemption for the relevant funds generally apply. Acceptance of switching instructions will be subject to the availability of the fund to be switched in (the “New Fund”) and to the compliance with any eligibility requirements and/or other specific conditions attached to the New Fund such as minimum subscription and holding amounts.

For switches between funds managed or distributed by the Manager and generally available to investors, save for switches into funds dealt with on a cleared fund basis (for example money funds), switches are normally effected by redeeming units or shares in the fund to be switched out (the "Original Fund") on the dealing day on which the redemption would occur and subscribing into units or shares of the New Fund on the same day provided that the availability of pricing and the applicable dealing days and settlement periods of both funds match. However, if the availability of pricing, dealing days or settlement periods of the Original Fund and the New Fund do not match, subscription to the New Fund may be deferred to align the settlement dates of both funds. In no circumstances the settlement date of the subscription to the New Fund will precede the settlement date of the redemption of the Original Fund.

For switches into a fund dealt with on a cleared fund basis, cleared funds are needed before units or shares will be issued. The time of issue of the units or shares in the fund will thus depend on the time of receipt of the redemption proceeds in cleared funds from the Original Fund.

In the cases where dealing of the Original Fund and/or the New Fund is suspended, the processing of the switch will be held over until the next dealing day where the dealings are no longer suspended. The switching procedures described above will continue to apply.

Instructions to switch units between classes of units denominated in different currencies will be accepted. A currency exchange service for such switches is provided by the Service Provider. Details of the charge applied to foreign exchange transactions, which is retained by the Service Provider, are available upon request from the Manager. The cost of currency conversion and other related expenses will be borne by the relevant unitholder.

Investors are reminded to read the offering documents of the funds into which they wish to switch (available on request from the Manager) before investing.

CHARGES AND FEES Units are purchased at their relevant net asset value per unit plus any applicable initial charge. On redemption, units are purchased back by the Manager at their relevant net asset value per unit without redemption charge.

a) **Initial Charge** On the issue of new units, the Manager is entitled to charge an amount not exceeding 5% of the gross investment amount. The initial charge is accordingly payable by the applicant and retained by the Manager for its own use and benefit.

   The Manager may, in its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the initial charge received by it on the value of relevant business introduced to the Fund.

b) **Manager's Fee** The Manager is paid a fee out of the assets of the Fund, calculated on each Valuation Date which accrues daily and is payable monthly in arrears currently at the following rate of the net asset value of the relevant class of the Fund, subject to a maximum of 1.5% p.a. The fee may be increased by 3 months' notice to unitholders subject to the maximum.

A Class	1.0%
C Class	0.625%

   As I Class is designed to accommodate an alternative charging structure whereby the investors are clients of the Manager or its associates and are charged management fees directly by the Manager or its associates, no management fees will be payable in respect of units in I Class out of the net assets of the Fund.

   The Manager may, in its discretion, share with or rebate to approved intermediaries including banks, brokers, recognised securities dealers and other investment advisers, a proportion of the manager's fee received by it on the value of relevant business introduced to the Fund.

c) **Trustee fee.** The Trustee is entitled to receive a fee of 0.04% p.a. of the net asset value of the Fund calculated on each Valuation Date and is payable monthly in arrears. The Trust Deed permits a maximum charge of 0.5% p.a. of the Fund's net asset value. The fee may be increased by 3 months' notice to unit holders (subject to the maximum) and with the consent of the Manager.

EXPENSES The costs, charges and expenses borne by the Fund, in addition to the Manager's fee and the Trustee's fee are those in connection with the establishment and authorization of the Fund, investing and realising the assets of the Fund, the safe keeping or custody of investments including fees and charges of any custodian or sub-custodian, fiscal charges payable in respect of the Fund, the registrar's costs (including Service Provider's costs which vary from class to class within a range between 0.02% and 0.1% p.a. of the Fund's net asset value), the costs of publishing unit prices and costs incurred in preparing and publishing reports and other communications to unitholders. The Fund also bears legal expenses incurred by the Manager or the Trustee in enabling the Fund to conform to new legislation or in connection with any supplemental deed giving effect to an alteration, modification or variation of the Trust Deed, the costs and expenses of auditing the Fund, the costs of obtaining or maintaining the approval of any regulatory authority for the Fund and the Manager's and Trustee's costs and expenses including legal fees properly incurred in performance of their duties under the Trust Deed for the benefit of the Fund. Any other costs, charges and expenses incurred in connection with the management and trusteeship of the Fund are paid on their own account by the Manager or the Trustee.

The Manager's and Trustee's fees are calculated and payable in HK dollars.

The preliminary expenses in relation to the set up of the Fund have already been fully amortised.

The Fund will generally pay brokerage at customary institutional full service brokerage rates. Transactions of the Fund may be entered into through associates of the Manager. The Manager, the investment delegate (if any) and any associates will not receive cash or other rebates from brokers or dealers in respect of transactions from the Fund. The Manager may enter into soft commission arrangements for the provision to the Manager or associates of goods and services which (a) are of demonstrable benefit to unitholders; (b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full service brokerage rates; (c) periodic disclosure is made in the Fund's annual report in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegate, including a description of goods and services received by them; and (d) the availability of soft commission arrangements is not the sole or primary purpose to perform or arrange transaction with such person.

As the Fund invests in the Underlying Schemes, it will also indirectly bear a proportionate share of the management and trustee fees, operating expenses and charges, where permitted by the Trust Deed of the Fund, incurred by the Underlying Schemes. An Underlying Scheme may also charge an initial charge when an investment is made by the Fund in the Underlying Scheme. The foregoing is in addition to the initial charge payable by investors of the Fund, and fees and expenses payable by the Fund to the Manager. The Manager will not retain any rebate on any fees or charges levied by an Underlying Scheme or its management company. Please note however, that the Manager will waive all front-end charges, redemption charges and management fees for investment in any Underlying Schemes managed by the Manager or its associates.

VALUATION AND PRICE CALCULATION Valuation Dates are normally every business day in Hong Kong on which securities markets of all or substantial part of investments of the Fund are open for trading and settlement or such other day(s) as the Manager with the approval of the Trustee may determine from time to time. A business day in Hong Kong is a day on which banks in Hong Kong are normally open for business except Saturdays and Sundays, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a business day in Hong Kong unless the Manager otherwise determine.

The relevant net asset value per unit in HK dollars is calculated as at the time at which the Fund is valued on the Valuation Date on which the application or redemption is being effected. The net asset value per unit of each class is adjusted to the nearest two (2) decimal places. Units denominated in HK dollars will be redeemed at the relevant net asset value per unit less any applicable deductions for that class.

Where units are denominated in US dollars, the relevant net asset value per unit calculated as set out above are converted to US dollars from HK dollars at the exchange rate applied by the Trustee for the valuation of the assets of the Fund. The relevant net asset value per unit in US dollars is calculated correct to the nearest two (2) decimal places.

The net asset value per unit so determined may be subject to "dilution adjustment", as described in the section titled "DILUTION AND DILUTION ADJUSTMENT" below.

The net asset value of the Fund is generally determined by valuing the assets of the Fund in accordance with the provisions of the Trust Deed and deducting the liabilities attributable to the Fund in accordance with the provisions of the Trust Deed. The Trust Deed provides among others that:

(a) the Manager shall value investments and deposits to determine the gross asset value as follows:

   (i) investments for which prices are quoted on a market shall be valued at the mid-market price where bid and offer prices are quoted and in other cases, at the last traded price of the relevant investment on the relevant market and in either case, as at the close of business of such market at or immediately preceding the valuation point; and

   (ii) deposits shall be valued at face value;

(b) interest, discount and similar income and returns shall be deemed to accrue from day to day. Dividends shall be deemed to be received on the date on which the relevant investment is first quoted ex the dividend or interest payment in question. The value of any accounts receivable, prepaid expenses, and cash dividends and interest declared or accrued and receivable but not yet received shall be deemed to be the full amount thereof unless the Manager shall determine that less than the full amount is likely to be received. In such case, the Manager shall determine the reasonable value thereof;

(c) the value of any investment which may not be determined in accordance with the provisions of the Trust Deed whether because the relevant prices are not generally available on a market or not available on a particular Valuation Date or where the Manager or the Trustee (as they may between themselves decide) considers the method of valuation inappropriate, shall be determined by (i) the Manager or the Trustee (as they may between themselves decide) after consultation with the Auditors and if determined by the Manager, with the prior consent in writing of the Trustee; or (ii) by some other person appropriately qualified and approved by the Manager or the Trustee (as they may between themselves decide). Notwithstanding any other provisions of the Trust Deed, the Manager may, with the prior consent in writing of the Trustee, adjust the value of any cash, deposits and/or investment or permit some other method of valuation to be used if it considers that such adjustment or use of such other method is required to reflect the fair value thereof.

Valuation Dates, the time as at which valuations are made and any latest time for receipt of applications and redemption requests may be changed from time to time by the Manager. The Manager will usually give notice of such changes to the Trustee and Unitholders and, in the case of changes to the Valuation Date, must give one month's prior notice.

The Manager may deal in units, and subscriptions and redemptions may accordingly at the Manager's discretion be either for direct account of the Fund or sales or purchases by the Manager.

The Manager may, with the prior consent in writing of the Trustee, adjust the value of any investment of the Fund if it considers that such adjustment is required to reflect the fair value thereof and may in making such adjustment have regard to currency, applicable rate of interest, maturity, marketability and other relevant considerations.

DILUTION AND DILUTION ADJUSTMENT The Fund is single priced and may suffer a reduction in value as a result of the transaction costs incurred in the purchase and sale of its underlying investments and the spread between the buying and selling prices of such investments caused by subscriptions, redemptions and/or switching in and out of the Fund. This is known as "dilution". In order to counter this and to protect unitholders' interests, the Manager will apply "dilution adjustment" as part of its daily valuation policy. This will mean that in certain circumstances the Manager (if in its opinion in good faith it is in the interest of Unitholders to do so) will make adjustments in the calculations of the net asset value per unit, to counter the impact of dealing and other costs on occasions when these are deemed to be significant, as further described below.

In the usual course of business the application of a dilution adjustment will be triggered mechanically and on a consistent basis.

The need to make a dilution adjustment will depend upon the net value of subscriptions, switching and redemptions received by the Fund for each dealing day. The Manager therefore reserves the right to make a dilution adjustment where the Fund experiences a net cash movement which exceeds a threshold set by the Manager from time to time of the previous dealing day's total net asset value.

The Manager may also make a discretionary dilution adjustment if, in its opinion, it is in the interest of existing unitholders to do so.

Where a dilution adjustment is made, it will increase the net asset value per unit when there are net inflows into the Fund and decrease the net asset value per unit when there are net outflows. The net asset value per unit of each unit class in the Fund will be calculated separately but any dilution adjustment will, in percentage terms, affect the net asset value per unit of each unit class identically.

As dilution is related to the inflows and outflows of money from the Fund, it is not possible to accurately predict whether dilution will occur at any future point in time. Consequently it is also not possible to accurately predict how frequently the Manager will need to make such dilution adjustments.

Because the dilution adjustment for the Fund will be calculated by reference to the costs of dealing in the underlying investments of the Fund, including any dealing spreads, which can vary with market conditions, this means that the amount of the dilution adjustment can vary over time but will not exceed 2% of the net asset value per unit on the relevant Valuation Date.

TAXATION ***The below summary is based on the Manager's understanding of the law and practice currently in force as at the date of this Explanatory Memorandum and applies to investors acquiring units in the Fund as an investment. Each prospective unitholder should inform himself of, and where appropriate take professional advice on, the taxes applicable to the acquisition, holding and redemption of units by him under the laws of the places of his citizenship, residence and domicile. Neither the Fund nor any of its respective affiliates accepts any responsibility for providing tax advice to any prospective unitholder.***

Under the prevailing Hong Kong tax legislations and practices:–

The Fund

The Fund should be exempt from profits tax, in respect of its authorised activities, in Hong Kong upon authorisation as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance.

Unitholders

Profits arising on the disposal or redemption of any units should only be subject to Hong Kong profits tax for unitholders who carry on a trade or business in Hong Kong where the profits, not being regarded as capital in nature, arise from such trade or business and are sourced in Hong Kong. Unitholders who do not carry on a trade or business in Hong Kong should not be liable to Hong Kong profits tax in respect of any gains from the disposal or redemption of such units.

Distributions received by unitholders from their investments in the units generally should not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise).

There is no withholding tax on dividends and interest in Hong Kong.

Dividends, interest and other income received by the Fund from outside Hong Kong may be subject to withholding taxes in the country from which payment is made. Such taxes will not normally be recoverable by the Fund, though they may be recoverable by individual unitholders who are able to claim the benefit of appropriate double taxation relief.

Stamp Duty

No Hong Kong stamp duty is payable on the issue and redemption for extinguishment of the units. Hong Kong stamp duty is also not payable if the sale 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 will be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and seller) of the higher of the consideration amount or market value.

US Tax Reporting Obligations under FATCA

The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Fund.

The Fund intends to comply with the provisions of FATCA under the terms of the inter-governmental agreement ("IGA") Model II that has been entered into between US Treasury and Hong Kong Government on 13 November 2014 and under the terms of the Hong Kong legislation implementing the IGA when introduced rather than under the US Treasury Regulations implementing FATCA. The Manager as the sponsoring entity has included the Fund in the list of funds sponsored by it.

In order to comply with its FATCA obligations, from 1 July 2014 the Fund may be required to obtain certain information from its investors so as to ascertain their US tax status. If the investor is a specified US person under the provisions of FATCA, U.S. owned non-U.S. entity, non-participating FFI or does not provide the requisite documentation, the Fund will need to report information on these investors directly to the IRS. Provided that the Fund acts in accordance with these provisions it will not be subject to withholding tax under FATCA.

Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The AEOI requires financial institutions ("FI") in Hong Kong to collect information relating to account holders, and to file such information as relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("IRD") who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships ("Reportable Jurisdictions"); however, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund and/or its agents shall collect and provide to the IRD tax information relating to unitholders and prospective investors.

The AEOI rules as implemented by Hong Kong require the Fund to, amongst other things: (i) register the Fund's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e. unitholders) to identify whether any such accounts are considered "Reportable Accounts" for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant Reportable Jurisdiction(s). Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in a Reportable Jurisdiction. Under the Ordinance, details of unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

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 Fund, the Manager and/or the Fund's agents in order for the Fund to comply with AEOI. The unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

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

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 liquidity risk management of the Fund is an integral part of investment management process and is operated under Schroders' investment risk management framework. The oversight of the liquidity risk management function will be performed by the investment risk function which is part of Schroders Group Risk. A liquidity report will be generated by Group Risk monthly. The results of the oversight will be reported to a risk management committee consisting of responsible officers, management and senior staff from Compliance, Investment and Operational and Risk on a regular basis. Exceptions on liquidity risk related issues will be escalated to the risk management committee.

The Manager would regularly assess the liquidity of the Fund's assets under the current and likely future market conditions. 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 Fund. 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 as stated under the section headed "REDEMPTION OF UNITS", 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.

To manage liquidity risks, the Manager may limit the number of units to be redeemed on any one Valuation Date to 10% of the units in issue (subject to the conditions set out in the section headed "REDEMPTION OF UNITS").

SUSPENSION OF DEALINGS The Manager, after consultation with the Trustee, having regard to the best interests of Unitholders, may at any time, suspend the right of unitholders to require the redemption of units and will at the same time cease to issue units and thus conversion of units will cease in any of the following circumstances:

a. when any relevant market on which any material part of the Fund's investment are listed, quoted or dealt in is closed other than for ordinary holidays; or

b. when dealings on any such market are restricted or suspended; or

c. when a state of affairs exists as a result of which the acquisition or disposal of investments, or the making or uplifting of deposits, for account of the Fund cannot be effected normally or without seriously prejudicing the interests of unitholders; or

d. when there is a breakdown in the means of communication normally employed in determining the value of the Fund or any material part thereof or when, for any other reason, the value of any of the Fund's investments which represents a significant part of the value of the Fund, or the amount of any significant liability of the Fund, cannot be promptly and accurately ascertained; or

e. when the realisation of any of the Fund's investments or deposits or the transfer of funds involved in such realisation cannot be effected at normal prices or normal rates of exchange; or

f. if the remittance of monies involved in the subscription or redemption of units cannot be carried out without undue delay and at normal rates of exchange.

Where the Manager declares a suspension, a notification will be published (a) immediately after any such declaration and (b) at least once a month during the period of such suspension, on the Schroders' Internet site (www.schroders.com.hk) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC.

REPORTS AND ACCOUNTS The Fund's financial year end is on the 30 September in each year. Audited accounts in HK dollars will be made available to unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited semi-annual reports will also be made available within two months after the 31 March in each year. Such reports contain a statement of the net asset value of the Fund and of the investments composing its portfolio.

The Manager will notify unitholders when such accounts (accompanied by the required reports), in printed and electronic forms are available and where such accounts may be obtained. Copies of audited accounts and unaudited semi-annual reports may be obtained free of charge at the registered office of the Manager and from the Schroders' Internet site (www.schroders.com.hk). Copies of the accounts and reports may be posted to investors on request. The website has not been reviewed by the SFC and is not approved by the SFC and may contain information in relation to funds that are not authorised by the SFC and may not be offered to the retail public in Hong Kong.

DISTRIBUTION

Accumulation Units

In respect of Accumulation Units, the Manager shall not make any distributions of income or net capital gains realised on the sale of investments. Income, if any, and the net capital gains, if any, in respect of the Fund shall be accumulated and capitalised.

Income Units

In respect of Income Units, the Manager will declare and pay yearly distributions on such date as may be determined by the Manager. However, the distribution rate is not guaranteed.

In the event that the income generated from the Fund's investments attributable to the relevant Class of the Income Units during the relevant period is insufficient to pay distributions as declared, the Manager may in its discretion determine such distributions be paid from capital. **Investors should note that where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount originally invested or capital gains attributable to that, and may result in an immediate decrease in the value of the units of the relevant Income Units.**

The Manager will periodically review Income Units and reserve the right to make changes to the distribution policies of the Income Units. Any change to the frequency of distributions is subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.

Distributions of a Class of Income Units declared, if any, shall be distributed among the unitholders of the relevant Class of Income Units ratably in accordance with the number of Units held by them on the record date as determined by the Manager in respect of the corresponding distribution. For the avoidance of doubt, only unitholders whose names are entered on the register of unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding distribution. Any payment of distributions will be made in the currency of the relevant Class of Income Units.

Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of these Classes of Income Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site (www.schroders.com.hk). The website has not been reviewed by the SFC.

VOTING RIGHTS Meetings of unitholders may be convened by the Manager or the Trustee, and the unitholders of 10% or more 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 of any meeting at which an Ordinary Resolution is proposed.

The powers of such a meeting are (i) to sanction a modification to the Trust Deed as approved by the Manager and the Trustee, (ii) to sanction the removal of the Trustee, (iii) to terminate the Fund; (iv) to elect a Chairman of the meeting; (v) to adjourn the meeting and (vi) to approve further unrestricted investments. These powers save (iv), (v) and (vi) are exercisable by Extraordinary Resolution, that is a 75% majority of the votes cast for and against the relevant proposal. The other powers are exercisable by Ordinary Resolution that is by simple majority of the votes cast for and against the relevant proposal.

The quorum for all meetings is unitholders present in person or by proxy representing 25% of the units in issue on the day immediately preceding the date of the meeting, or (in the case of an adjourned meeting of which separate notice will be given) such unitholders as are present in person or by proxy. On a show of hands, every individual unitholder present personally or by representative has one vote; on a poll every unitholder present in person, by proxy or by representative has one vote for every undivided share in the Trust Property represented by the unit held by him and no vote for a fraction of an undivided share. The number of undivided shares which an Accumulation Unit represents will increase when a distribution of income is made. 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. A poll may be demanded by the Chairman or one or more unitholders present in person or by proxy representing 5% of the units in issue.

A Unit carries the same voting rights whether denominated in HK dollars or US dollars.

PUBLICATION OF PRICES The relevant net asset value per unit in HK dollars and for US dollar Accumulation Units, in US dollars (except I Class, the relevant net asset value per unit is available from the Manager) at each Valuation Date are published on the Schroders' Internet site (www.schroders.com.hk) or in such other appropriate manner as the Manager shall determine. The website has not been reviewed by the SFC. Prices are normally the latest available prices but are indicative only.

TRUST DEED The Fund was established under Hong Kong law by a trust deed dated 22 May 1995 (as amended from time to time) and made between Schroder Investment Management (Hong Kong) Limited as Manager and Bank of Bermuda (Cayman) Limited as Trustee, which has been substituted by a consolidated trust deed dated 15 December 2008 made between Schroder Investment Management (Hong Kong) Limited as Manager and Bank of Bermuda (Cayman) Limited as Trustee (the "Trust Deed"). Since the Fund was established, the Trustee has changed. HSBC Institutional Trust Services (Asia) Limited became the Trustee with effect on 30 September 2014 pursuant to a deed of retirement and appointment dated 1 May 2014.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. In the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed prevail.

Copies of the Trust Deed as for the time being in force may be obtained from the Manager at a cost of HK$1,000 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

TERMINATION OF THE FUND The Fund may be terminated by the Trustee if within 6 months of the Manager leaving office, no new manager is appointed or if the Trustee wishes to retire and no replacement is found within 6 months or if the Manager goes into liquidation. Further if at any time after the expiry of five years from the date of establishment of the Trust, the unitholders authorise termination of the Fund by Extraordinary Resolution, the Trustee will terminate it by 3 months' notice. The Manager may terminate the Fund or any Class of Unit launched after 15 December 2008 if for any 3 month period, the net asset value of the Fund or of the relevant Class of Unit (as the case may be) shall be less than HK$35 million. The Trustee or the Manager may also terminate the Fund if any law shall be passed which renders it illegal or in their opinion impracticable or inadvisable to continue the Fund. Three months' notice will always be given to unitholders unless earlier termination is desirable by reason of the Fund being or being expected to become illegal.

Any unclaimed net proceeds or other cash held by the Trustee may at any time after the expiration of six (6) years from the date on which the same were payable, be paid to the Manager for its account subject to the right of the Trustee to deduct therefrom any expenses it may incur in carrying out this provision.

ANTI-MONEY LAUNDERING REGULATIONS As part of the Trustee and Registrar's responsibility for the prevention of money laundering, the Trustee and Registrar may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:–

(a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or

(b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

The Trustee and Registrar reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and Registrar may refuse to accept the application and the subscription monies relating thereto.

CONFLICTS OF INTEREST The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund.

The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest. If such conflicts arise, the Manager and the Trustee will use reasonable endeavours to resolve such conflicts fairly (having regard to its respective obligations and duties) and acts in the best interests of the unitholders. In any event, the Manager shall act in a manner which it believes to be equitable in its allocation of investment opportunities among other funds, other investment vehicles it manages or advises and the accounts of its other clients and ensure that all investment opportunities will be fairly allocated. The Manager will also have regard to its obligations to act in the best interests of the unitholders when undertaking any investments where potential conflicts of interests may arise. The Manager will ensure that all transactions are effected in good faith at arm's length and in the best interests of the Fund on normal commercial terms.

In particular, the services of the Trustee, the Registrar and their respective delegates provided to the Fund are not deemed to be exclusive and each of the Trustee, the Registrar and their respective delegates shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other moneys payable thereby and neither of them shall be deemed to be affected with notice of or to be under any duty to disclose to the Fund any fact or thing which comes to the notice of any of them in the course of their rendering similar services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed.

SCHEDULE 1– INVESTMENT AND BORROWING RESTRICTIONS The Fund shall be subject to the investment restrictions set out in this Schedule save to the extent that any approval, permission or waiver in respect of any of the below restrictions has been obtained from the SFC or otherwise provided under the Code (as defined below), handbook, code and/or guideline issued by the SFC from time to time.

Definitions

The following defined terms used in this Schedule 1 have the following meanings:–

"**Code**" means the Overarching Principles Section and Section II- Code on Unit Trusts and Mutual Funds of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products or any handbook, guideline and code issued by the SFC, as may be amended from time to time.

"**Government and other public securities**" means any investment issued by, or the payment of principal and interest on which is guaranteed by a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.

"**Qualified Exchange Traded Funds**" means exchange traded funds that are: (AA) authorized by the SFC under 8.6 or 8.10 of the Code; or (BB) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (I) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (II) the investment objective, policy, underlying investments and products features of which are substantially in line with comparable with those set out under 8.10 of the Code.

"**REITs**" means real estate investment trusts.

"**reverse repurchase transactions**" 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.

"**sale and repurchase transactions**" 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.

"**securities financing transactions**" means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

"**securities lending transactions**" means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee.

"**substantial financial institution**" means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HKD 2 billion or its equivalent in foreign currency.

1. Investment limitations applicable to the Fund

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

(a) the aggregate value of the Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the Fund:

(i) investments in securities issued by that entity;

(ii) exposure to that entity through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 3.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

(A) transacted on an exchange where the clearing house performs a central counterparty role; and

(B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 5(e) and (j) of this Schedule 1.

(b) subject to sub-paragraphs 1(a) and 3.4(c) of this Schedule 1, the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available net asset value of the Fund:

(i) investments in securities issued by those entities;

(ii) exposure to those entities through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

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

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

(c) the value of the Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available net asset value of the Fund provided that the 20% limit may be exceeded in the following circumstances:

(i) cash held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested;

(ii) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or

(iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

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

(d) the Fund's holding of any ordinary shares (when aggregated with all other Fund's holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity;

(e) the value of the Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a market (i.e. any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded), exceeding 15% of the latest available net asset value of the Fund;

(f) the value of the Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available net asset value of the Fund (save that the Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise;

(g) (i) the value of the Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available net asset value; and

(ii) the value of the Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available net asset value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the offering document of the Fund,

provided that:

(A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;

(B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;

(C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);

(D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its associates;

(E) 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 its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme; and

(F) the value of the Fund's holding of investment of any one collective investment scheme would not exceed 70% (or such lower percentage as required by the SFC) of its latest net asset value.

For the avoidance of doubt:

(aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by the Fund;

(bb) unless otherwise disclosed in this Explanatory Memorandum, the investment by the Fund in a Qualified Exchange Traded Fund will be considered and treated as collective investment schemes for the purposes of and subject to the requirements in sub-paragraphs 1(g)(i) and (ii) and proviso (A) to (C) of sub-paragraph 1(g) of this Schedule 1. Notwithstanding the aforesaid, the investments by the Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by the Fund shall be consistently applied;

(cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively;

(dd) where the Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code;

2. Investment prohibitions applicable to the Fund

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

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

(b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);

(c) make short sales unless (i) the liability of the Fund to deliver securities does not exceed 10% of its latest available net asset value; (ii) the security which is to be sold short is actively traded on a securities market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;

(d) carry out any naked or uncovered short sale of securities;

(e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);

(f) acquire any asset or engage in any transaction which involves the assumption of any liability by the Fund which is unlimited. For the avoidance of doubt, the liability of unitholders of the Fund is limited to their investments in the Fund;

(g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; and

(h) invest in any security which are for the time being nil paid or partly paid in respect of which a call is to due to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 3.5 and 3.6 of this Schedule 1.

3. **Use of Financial derivative instruments**

3.1 The Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 3.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

(a) they are not aimed at generating any investment return;

(b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;

(c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and

(d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

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

3.2 The Fund may also acquire financial derivative instruments for non-hedging purposes ("**investment purposes**") subject to the limit that the Fund's net exposure relating to these financial derivative instruments ("**net derivative exposure**") does not exceed 50% of its latest available Net Asset Value, provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 3.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 3.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

3.3 Subject to sub-paragraphs 3.2 and 3.4 of this Schedule 1, the Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.

3.4 The financial derivative instruments invested by the Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:

(a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;

(b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;

(c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, the Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Fund to a counterparty of over-the-counter financial derivative instruments 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 financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative. 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 financial derivative instruments on a regular basis.

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

3.6 Subject to sub-paragraph 3.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Fund shall be covered as follows:

(a) in the case of financial derivative instruments transactions which will, or may at the Fund's discretion, be cash settled, the Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

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

3.7 The requirements under sub-paragraphs 3.1 to 3.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an "**embedded financial derivative**" is a financial derivative instrument that is embedded in another security.

4. Securities financing transactions

4.1 The Fund currently does not intend to engage in securities financing transactions. If this changes and the Fund engages in securities financing transactions, it can only do so if such transactions are in the best interests of unitholders of the Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

4.2 The Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

4.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions shall be returned to the Fund.

4.4 The Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

5. Collateral

In relation to over-the-counter financial derivative instruments as set out in sub-paragraphs 3.4(c) of this Schedule 1, the Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting. The Fund currently does not intend to engage in securities financing transactions, and accordingly no collateral will be held in the manner described in sub-paragraph 4.2 of this Schedule 1.

However, if the above changes and the Fund receives collateral, in order to limit the exposure to each counterparty as set out in sub-paragraphs 3.4(c) and 4.2 (as applicable) of this Schedule 1, such collateral must comply with the requirements set out below:

(a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;

(b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;

(c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;

(d) Haircut – the collateral is subject to a prudent haircut policy;

(e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;

(f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;

(g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;

(h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;

(i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;

(j) Re-investment of collateral – any re-investment of collateral received for the account of the Fund shall be subject to the following requirements:

(i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;

(ii) non-cash collateral received may not be sold, re-invested or pledged;

(iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in 8.2(f) and 8.2(n) of the Code;

(iv) cash collateral received is not allowed to be further engaged in any securities financing transactions; and

(v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;

(k) the collateral is free of prior encumbrances; and

(l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

6. Borrowing and Leverage

The expected maximum level of leverage of the Fund is as follows:

Cash borrowing

6.1 No borrowing shall be made in respect of the Fund which would result in the principal amount for the time being of all borrowings made for the account of the Fund exceeding an amount equal to 10% of the latest available net asset value of the Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 6.1.

Leverage from the use of financial derivative instruments

6.2 The Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the Explanatory Memorandum under the section headed "Use of Derivatives".

6.3 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.

6.4 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

7. Name of the Fund

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

8. Investment via Subsidiary

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 subject to the requirements of the Code.