

## **TAIKANG KAITAI FUNDS**

**Taikang Kaitai Overseas Short Tenor Bond Fund**  
**Taikang Kaitai Investment Grade Bond Fund**  
**Taikang Kaitai China New Opportunities Fund**  
**Taikang Kaitai Hong Kong Dollar Money Market Fund**  
**Taikang Kaitai US Dollar Money Market Fund**  
**Taikang Kaitai Monthly Stable Income Fund**

### **FIRST ADDENDUM (“FIRST ADDENDUM”) TO EXPLANATORY MEMORANDUM DATED 1 NOVEMBER 2023 (“EXPLANATORY MEMORANDUM”)**

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**Important – If you are in any doubt about the contents of this First Addendum, you should seek independent professional financial advice.**

This First Addendum forms an integral part of the Explanatory Memorandum for Taikang Kaitai Funds dated 1 November 2023 and may not be distributed separately. All undefined capitalised terms used in this First Addendum have the same meaning as in the Explanatory Memorandum, unless otherwise stated.

The Manager accepts full responsibility for the accuracy of the information contained in this First Addendum and the Explanatory Memorandum as at the date of publication and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

The Securities and Futures Commission of Hong Kong (“**SFC**”) takes no responsibility for the accuracy of any of the statements made or opinions expressed in this First Addendum.

SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

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With effect from 20 May 2024, the Explanatory Memorandum shall be amended as follows to reflect an increase in Management Fee for Class I Units under Taikang Kaitai Overseas Short Tenor Bond Fund. Class I Units are only offered to institutional investors, private bank clients and other investors determined by the Manager from time to time.

- (i) The table in the section headed “**10. Fees**” under “**APPENDIX I - TAIKANG KAITAI OVERSEAS SHORT TENOR BOND FUND**” of the Explanatory Memorandum shall be amended based on the following changes:

<b><i>Fees payable by investors</i></b>	
Initial Charge (% of total subscription amount received)	<b>Class A, Class B and Class I:</b> up to 5%
Redemption Charge (% of total redemption proceeds)	<b>Class A, Class B and Class I:</b> Nil
Switching Charge (% of total amount being switched out of the Existing Class)	<b>Class A, Class B and Class I:</b> up to 1%
<b><i>Fees payable by the Sub-Fund</i></b>	
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A:</b> 1% p.a. <b>Class B:</b> 0.80% p.a. <b>Class I:</b> 0.250% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	Up to 0.15% p.a., subject to a minimum aggregate monthly fee of USD5,000 for the Sub-Fund.
Custody Fee (% Net Asset Value of the Sub-Fund)	Up to 0.1% p.a.
Performance Fee	Not applicable

### **Documents Available for Inspection**

Please refer to the section headed “Documents Available for Inspection” in the main part of the Explanatory Memorandum.

A copy of the Explanatory Memorandum (as amended by this First Addendum) will be available on the website of the Manager at <https://hk.taikangasset.cn/><sup>1</sup> from today. Investors should note that this website has not been reviewed or authorised by the SFC. Alternatively, the Explanatory Memorandum (as amended), and the Trust Deed (with all supplemental deeds to date), are available for your inspection at the Manager’s office (address at 39/F, Bank of China Tower, 1 Garden Road, Hong Kong) free of charge during normal office hours.

### **Taikang Asset Management (Hong Kong) Company Limited**

19 April 2024

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

# TAIKANG KAITAI FUNDS

TAIKANG KAITAI OVERSEAS SHORT TENOR BOND  
FUND

TAIKANG KAITAI INVESTMENT GRADE BOND FUND

TAIKANG KAITAI CHINA NEW OPPORTUNITIES  
FUND

TAIKANG KAITAI HONG KONG DOLLAR MONEY  
MARKET FUND

TAIKANG KAITAI US DOLLAR MONEY MARKET  
FUND

TAIKANG KAITAI MONTHLY STABLE INCOME FUND

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## EXPLANATORY MEMORANDUM

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## **IMPORTANT INFORMATION FOR INVESTORS**

This Explanatory Memorandum comprises information relating to Taikang Kaitai Funds, an open-ended unit trust established as an umbrella unit trust under the laws of Hong Kong by a trust deed dated 16 April 2014 (as amended and/or supplemented from time to time) between Taikang Asset Management (Hong Kong) Company Limited as manager and BOCI-Prudential Trustee Limited as trustee.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum and the Product Key Facts Statement of each Sub-Fund, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement in this Explanatory Memorandum or the Product Key Facts Statement(s) misleading. However, neither the delivery of this Explanatory Memorandum and the Product Key Facts Statement(s) nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum or the Product Key Facts Statement(s) is correct as of any time subsequent to the date of publication. This Explanatory Memorandum and the Product Key Facts Statement(s) may from time to time be updated.

Distribution of this Explanatory Memorandum must be accompanied by a copy of the Product Key Facts Statement of each Sub-Fund and the latest available annual report of the Fund and the Sub-Fund(s) (if any) and any subsequent interim report. Units of the Sub-Fund(s) are offered on the basis only of the information contained in this Explanatory Memorandum, the Product Key Facts Statement and (where applicable) the above mentioned annual reports and interim reports. Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum or the Product Key Facts Statement should be regarded as unauthorised and accordingly must not be relied upon.

The Fund and the Sub-Fund(s) have been authorised by the SFC pursuant to section 104 of the SFO. The SFC's authorisation is not a recommendation or endorsement of the Fund and the Sub-Fund(s) nor does it guarantee the commercial merits of the Fund and the Sub-Fund(s) or their performance. It does not mean the Fund or the Sub-Fund(s) is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

No action has been taken to permit an offering of Units or the distribution of this Explanatory Memorandum or the Product Key Facts Statement in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum or the Product Key Facts Statement may not be used for the purpose of an offer

or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

In particular:-

- (a) the Units have not been registered under the United States Securities Act of 1933 (as amended) and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a US Person (as defined in Regulation S under such Act); and
- (b) the Fund and the Sub-Fund(s) have not been and will not be registered under the United States Investment Company Act of 1940 as amended.

Potential applicants for Units should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries/regions of their incorporation, citizenship, residence or domicile and which might be relevant to the subscription, holding or disposal of Units.

**Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objective of the respective Sub-Funds will be achieved. Investors should consider the section headed “Risk Factors”, and the section headed “Specific Risk Factors” in the relevant Appendix, before making their investment decisions.**

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

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

- By writing to 39/F Bank of China Tower, 1 Garden Road, Central, Hong Kong
- By calling the Manager’s hotline at (852) 3975 5100

The Manager has an internal procedure for handling complaints from investors. In relation to complaints considered to be of a substantial nature (i.e. which involves risks of regulatory non-compliance), the Manager will respond to the relevant investors in writing within 30 Business Days after an independent inquiry conducted by the compliance department of the Manager. The Manager will keep records of complaints received.

## **Further Information**

Investors may access the website of the Manager at <http://www.taikangasset.cn/tkzc/hk/><sup>1</sup> for further information on the Fund and any Sub-Fund(s), including this Explanatory Memorandum (together with any addendum), annual and semi-annual reports and the latest Net Asset Value. Please note that the website does not form part of this Explanatory Memorandum and it has not been reviewed by the SFC.

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

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## **ADMINISTRATION**

### **Manager**

Taikang Asset Management (Hong Kong) Company Limited  
泰康資產管理 (香港) 有限公司  
39/F Bank of China Tower  
1 Garden Road, Central  
Hong Kong

### **Trustee and Registrar**

BOCI-Prudential Trustee Limited  
中銀國際英國保誠信託有限公司  
Suites 1501-1507 & 1513-1516, 15/F  
1111 King's Road  
Taikoo Shing  
Hong Kong

### **Custodian**

Bank of China (Hong Kong) Limited  
中國銀行（香港）有限公司  
14/F., Bank of China Tower  
1 Garden Road  
Hong Kong

### **Auditor**

Ernst & Young  
安永會計師事務所  
27/F, One Taikoo Place  
979 King's Road, Quarry Bay  
Hong Kong

### **Solicitors to the Manager**

King & Wood Mallesons  
金杜律師事務所  
13/F Gloucester Tower, The Landmark, 15  
Queen's Road Central  
Central, Hong Kong



## **DEFINITIONS**

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

<b>“Accounting Date”</b>	31 December in each year or such other date or dates in each year as the Manager may from time to time specify in respect of any Sub-Fund and notify to the Trustee and the Unitholders of such Sub-Fund
<b>“Accounting Period”</b>	a period commencing on the date of establishment of the relevant Sub-Fund or on the date next following an Accounting Date of the relevant Sub-Fund and ending on the next succeeding Accounting Date for such Sub-Fund
<b>“Authorised Distributor”</b>	any person appointed by the Manager to distribute Units of some or all of the Sub-Funds to potential investors
<b>“Business Day”</b>	a day (other than a Saturday and a Sunday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise
<b>“CCASS”</b>	the Central Clearing and Settlement System operated by HKSCC for the clearing of securities listed or traded on SEHK
<b>“China A-Shares”</b>	shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in Renminbi and available for investment by Mainland China investors, holders of the qualified foreign institutional investors ( <b>QFII</b> ) status and the Renminbi qualified foreign institutional investors ( <b>RQFII</b> ) status and foreign strategic investors approved by the CSRC

<b>“China Securities”</b>	Renminbi denominated corporate and government bonds, securities investment funds and warrants listed on the Mainland China stock exchanges
<b>“Code”</b>	the Code on Unit Trusts and Mutual Funds issued by the SFC, as amended
<b>“connected person”</b>	<p>in relation to a company:</p> <ul style="list-style-type: none"> <li>(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or being able to exercise, directly or indirectly, 20% or more of the total votes in that company; or</li> <li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or</li> <li>(c) any member of the group of which that company forms part; or</li> <li>(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c) above</li> </ul>
<b>“CSRC”</b>	China Securities Regulatory Commission
<b>“Custodian”</b>	Bank of China (Hong Kong) Limited
<b>“Dealing Day”</b>	such days as described in the Appendix for the relevant Sub-Fund(s)
<b>“Dealing Deadline”</b>	such time on the relevant Dealing Day or on such other Business Day as the Manager may from time to time with the approval of the Trustee determine, as described in the Appendix for the relevant Sub-Fund(s)

<b>“Explanatory Memorandum”</b>	this Explanatory Memorandum including the Appendices, as each may be amended, updated or supplemented from time to time
<b>“Fund”</b>	Taikang Kaitai Funds
<b>“Hong Kong”</b>	Hong Kong Special Administrative Region of the PRC
<b>“HK\$” or “HKD”</b>	Hong Kong Dollars, the lawful currency of Hong Kong
<b>“Issue Price”</b>	in respect of each Sub-Fund the issue price per Unit as more fully described in the section “Purchase of Units”
<b>“Mainland China”</b>	all customs territory of the People’s Republic of China
<b>“Manager”</b>	Taikang Asset Management (Hong Kong) Company Limited
<b>“Net Asset Value” or “NAV”</b>	the net asset value of the Fund or a Sub-Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed “Valuation”
<b>“PBOC”</b>	People’s Bank of China
<b>“PRC”</b>	People’s Republic of China
<b>“Redemption Price”</b>	the price at which Units will be redeemed as more fully described in the section headed “Redemption of Units”
<b>“Registrar”</b>	BOCI-Prudential Trustee Limited in its capacity as registrar of the Fund
<b>“RMB” or “Renminbi”</b>	renminbi, the lawful currency of the PRC
<b>“RQFII”</b>	a Renminbi qualified foreign institutional investor approved pursuant to the relevant Mainland China laws and regulations, as may be promulgated and/or amended from time to time

<b>“SAFE”</b>	State Administration of Foreign Exchange
<b>“SEHK”</b>	Stock Exchange of Hong Kong Limited
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“SFO”</b>	the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571)
<b>“SSE”</b>	Shanghai Stock Exchange
<b>“SSE Securities”</b>	<p>mean certain eligible shares listed on the SSE that are eligible for investment by Hong Kong and overseas investors via Shanghai-Hong Kong Stock Connect by routing orders to SSE. Currently, such eligible shares include all the consistent stocks from time to time of the SSE 180 Index and the SSE 380 Index, and all the SSE-listed A shares that are not included as constituent stocks of the relevant indices but which have corresponding H shares listed on SEHK, except the following:</p> <ul style="list-style-type: none"> <li>(a) SSE-listed shares which are not traded in RMB; and</li> <li>(b) SSE-listed shares which are under risk alert</li> </ul>
<b>“Sub-Fund”</b>	a separate pool of assets of the Fund that is invested and administered separately
<b>“SZSE”</b>	Shenzhen Stock Exchange
<b>“SZSE Securities”</b>	<p>mean certain eligible shares listed on SZSE that are eligible for investment by Hong Kong and overseas investors via Shenzhen-Hong Kong Stock Connect by routing orders to SZSE. Currently, such eligible shares include all the constituent stocks from time to time of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalization of not less than RMB 6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except the following:</p>

(a) SZSE-listed shares which are not traded in RMB; and

(b) SZSE-listed shares which are under risk alert or under delisting arrangement.

**“Trust Deed”** the trust deed dated 16 April 2014 constituting Taikang Kaitai Funds signed between the Manager and the Trustee, as amended from time to time

**“Trustee”** BOCI-Prudential Trustee Limited in its capacity as trustee of the Fund

**“Unit”** a unit in a Sub-Fund

**“Unitholder”** a person registered as a holder of a Unit

**“US\$” or “USD”** the lawful currency of the United States of America

**“Valuation Day”** such days as described in the Appendix for the relevant Sub-Fund

**“Valuation Point”** such time as described in the Appendix for the relevant Sub-Fund to calculate the Net Asset Value

## **INTRODUCTION**

Taikang Kaitai Funds is an open-ended unit trust established as an umbrella fund pursuant to the Trust Deed dated 16 April 2014 between Taikang Asset Management (Hong Kong) Company Limited as the Manager and BOCI-Prudential Trustee Limited as the trustee, as amended from time to time and governed by the laws of Hong Kong. All Unitholders are entitled to the benefit of, are bound by and deemed to have notice of the provisions of the Trust Deed.

Taikang Kaitai Funds is an umbrella fund. The Sub-Fund(s) currently offered are set out in the Appendices to this Explanatory Memorandum. The Manager may create further Sub-Funds in the future. Investors should contact the Manager to obtain the latest offering document relating to the available Sub-Fund(s).

Multiple classes of Units may be issued in respect of each Sub-Fund and the Manager may create additional classes of Units for any Sub-Fund(s) in its sole discretion in the future. The assets of a Sub-Fund will be invested and administered separately from the assets of the other Sub-Fund(s). The assets of a Sub-Fund shall belong exclusively to that Sub-Fund, and shall not be commingled with the Fund's assets of (i) another Sub-Fund; (ii) the property of the Manager, investment delegates and their respective connected persons; nor (iii) the Trustee and any nominees, agents or delegates throughout the custody chain, and any other clients of the Trustee and any of its nominees, agents or delegates throughout the custody chain, and shall not be used to discharged directly or indirectly the liabilities of or claims against or amount payable out of any other Sub-Fund and shall not be available for such purpose. The details of the Sub-Fund(s) and/or the new class or classes of Units related thereto that are on offer are set out in the Appendices to this Explanatory Memorandum.

## **INVESTMENT OBJECTIVE**

The investment objective and policy of each Sub-Fund and principal risks, as well as other important details, are set forth in the relevant Appendix hereto relating to the relevant Sub-Fund.

## **MANAGEMENT AND ADMINISTRATION OF THE FUND**

### **The Manager**

The Manager of the Fund is Taikang Asset Management (Hong Kong) Company Limited, which is a wholly-owned subsidiary of Taikang Asset Management Company Limited (“**TaikangAMC**”).

The Manager is a company incorporated in 2007 with limited liability under the laws of Hong Kong. It is currently licensed by the SFC for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under Part V of the SFO with CE number ARG103. In connection with its Type 1 regulated activity business, the Manager shall only provide services to professional investors. The term “professional investor” is as defined in the SFO and its subsidiary legislation.

As the entity to carry out TaikangAMC’s internationalization strategy, the Manager seeks to enhance brand recognition in offshore markets by progressively establishing strong investment capabilities and track records.

The Manager inherits a prudent investment approach of TaikangAMC, which emphasizes achieving stable and long-term return on the basis of sound risk management, given its background as asset manager of insurance assets. In terms of management of the Sub-Fund(s), the Manager will leverage on TaikangAMC’s sophisticated investment experience by sharing investment and research resources.

As of the date of this Explanatory Memorandum the directors of the Manager are as follows:-

Mr. CHEN Yilun  
Dr. DUAN Guo Sheng  
Mr. FENG Tieliang  
Dr. ZHANG Jing Guo  
Ms. ZHANG Le  
Dr. CHEN Dongsheng

The Manager undertakes the management of the assets of the Fund. The Manager may appoint sub-manager(s) and delegate any of its management functions in relation to assets of specific Sub-Fund(s) to such sub-manager(s) subject to prior SFC approval. Details of such appointment are set out in the Appendix relating to the relevant Sub-Fund. The Manager may at its discretion,

with or without giving any notice, appoint investment delegate(s) to provide investment advice to the Manager in relation to assets of specific Sub-Fund(s). The remuneration of such sub-manager(s) and investment delegate(s) will be borne by the Manager.

### **The Trustee and the Registrar**

The Trustee of the Fund is BOCI-Prudential Trustee Limited. The Trustee also acts as the Registrar of the Fund, and provides services in respect of the maintenance of the register of the Unitholders.

The Trustee is a registered trust company in Hong Kong. The Trustee is a joint venture founded by BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited (“PCHL”). BOC Group Trustee Company Limited is owned by BOC International Holdings Limited and Bank of China (Hong Kong) Limited, which are subsidiaries of Bank of China Limited. The business activities of the Trustee are principally provision of trustee services, investment accounting, administration and registrar services to various kinds of funds and institutional clients.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of and shall take into custody or under its control all of the cash and other assets of the Fund and the Sub-Fund(s) and hold them in trust for the Unitholders of the relevant Sub-Fund, subject to the provisions of the Trust Deed and, to the extent permitted by law, shall register cash and registrable assets in the name of or to the order of the Trustee and such assets of the Fund and the Sub-Funds(s) shall be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereto.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its connected persons) to hold as nominee, agent, delegate, custodian, sub-custodian or co-custodian, all or any of the investments, assets or other property comprised in the Fund and the Sub-Fund(s) and may empower any such custodian, nominee or agent to appoint, with no objection in writing of the Trustee, co-custodians and/or sub-custodians (each such nominee, agent, delegate, custodian, sub-custodian or co-custodian a “**Correspondent**”).

The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of Correspondents; and (b) be satisfied that the Correspondents retained remain suitably qualified and competent on an ongoing basis to provide the relevant services to the Fund and the Sub-Fund(s). The Trustee shall remain liable for the acts and omissions of any Correspondent which is a connected person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has



discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any acts or omissions of any Correspondent which is not a connected person of the Trustee.

The Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of Euroclear Bank S.A./N.V., Clearstream Banking, S.A. or any other such central depositary or clearing and settlement system in relation to any investment deposited with such central depositary or clearing and settlement system.

Subject as provided in the Trust Deed, the Trustee shall not be liable for losses caused by the performance of investments made by the Fund or the Sub-Fund(s).

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Fund and/or each Sub-Fund from and against any and all actions, costs, claims, damages, expenses or demands (other than those imposed under Hong Kong law or resulting from breaches of trust through fraud, wilful default or negligence on the part of the Trustee or any of its officers, employees, agents or delegates for which the Trustee would be liable under the Trust Deed), which may be incurred by or asserted against the Trustee in performing its obligations or duties in connection with the Fund or a Sub-Fund. Subject to applicable law and the provisions of the Trust Deed, the Trustee shall not, in the absence of fraud, negligence or wilful default by it or any agent, sub-custodian or delegate appointed by the Trustee, be liable for any losses, costs or damage to the Trust, the Sub-Fund(s) or any Unitholder.

The Trustee in no way acts as guarantor or offeror of the Units or any underlying investment. The Trustee has no responsibility or authority to make investment decisions, or render investment advice with respect to the Fund or the Sub-Fund(s), which is the sole responsibility of the Manager.

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 under the section headed “Expenses and Charges” of this Explanatory Memorandum and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Fund and the Sub-Fund(s) and the Trustee (including its delegate) is not responsible and has no liability for any investment decision made by the Manager. Except as provided in the Trust Deed or expressly stated in this Explanatory Memorandum and/or required by the Code, neither

the Trustee and the Registrar nor any of its employees, service providers or agents are or will be involved in the business affairs, organisation, sponsorship or investment management of the Fund or the Sub-Fund(s), and they are not responsible for the preparation or issue of this Explanatory Memorandum other than the description under this sub-section headed “The Trustee and the Registrar”.

### **The Custodian**

The Custodian of the Fund is Bank of China (Hong Kong) Limited.

The Custodian was incorporated in Hong Kong on 16 October 1964. As a locally incorporated licensed bank, it was re-structured to the present form since 1 October 2001 by combining the businesses of ten of the twelve banks in Hong Kong originally belonging to the Bank of China Group. In addition, it holds shares in BOC Credit Card (International) Limited and various subsidiaries engaging in specialized business areas.

BOC Hong Kong (Holdings) Limited was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in BOCHK, its principal operating subsidiary. After a successful global IPO, BOC Hong Kong (Holdings) Limited began trading on the Main Board of The Stock Exchange of Hong Kong Limited on 25 July 2002 with stock code "2388" and became a Hang Seng Index constituent stock on 2 December 2002.

With an extensive branch network and servicing more than 600,000 corporates and several million retail customers, BOCHK is the second largest banking group in Hong Kong. It offers a full range of banking services, including global custody and also fund-related services for institutional clients. BOCHK is also present in most of the ASEAN countries to better service the local and international communities.

The Trustee will appoint the Custodian pursuant to a custodial services agreement. Pursuant to such agreement, the Custodian will act as the custodian of the Fund’s assets, which will be held directly by the Custodian or through its agents, sub-custodians, or delegates. The Custodian shall (i) exercise reasonable care and diligence in the selection, appointment and ongoing monitoring of such agents, nominees or sub-custodians; (ii) be satisfied that such agents, nominees or sub-custodians remain suitably qualified and competent to provide the relevant services; and (iii) shall remain liable for their acts, omissions, negligence or wilful default in relation to assets forming part of the property of the Fund.

## **The Auditor**

Ernst & Young has been appointed to act as the auditor to the Fund and the Sub-Funds.

The engagement letter entered into with the Auditor contains provisions limiting the liability of the Auditor to one times the fees paid to the auditor for the services or work product giving rise to the liability of one year except to the extent finally determined to have resulted from the wilful or intentional neglect or misconduct, or fraudulent behaviour of the Auditor. Other release and indemnity provisions are also contained in the engagement letter relating to consequential loss, third party claims and fraudulent acts or omissions, misrepresentations or wilful default on the part of the Manager, its directors, employees or agents. The engagement letter also contains provisions limiting any claim for breach of contract, breach of duty or fault or negligence or otherwise whatsoever arising out or in connection with this engagement to be brought against the Auditor within six years of the act or omission alleged to have caused true loss in question.

## **The Authorised Distributor**

The Manager may appoint one or more Authorised Distributor(s) to distribute Units of one or more Sub-Funds, and to receive applications for subscription, redemption and/or switching of Units on the Manager's behalf.

## **CLASSES OF UNITS**

Different classes of Units may be offered for each Sub-Fund. Although the assets attributable to each class of Units of a Sub-Fund will form one single pool, each class of Units may be denominated in a different currency or may have a different charging structure with the result that the net asset value attributable to each class of Units of a Sub-Fund may differ. In addition, each class of Units may be subject to different minimum initial and subsequent subscription amounts and holding amounts, and minimum redemption and switching amounts.

The name of a class of Units may indicate the class currency (currency of denomination of the class) and distribution policy of such class of Units. In this Explanatory Memorandum, references to a class of Units shall include Units of that class denominated in different class currencies and/or with distribution policies, unless the context otherwise requires.

Investors should refer to the relevant Appendix for the available classes of Units and the

applicable minimum amounts. The Manager may in its discretion agree to accept applications for subscription, redemption and switching of certain classes below the applicable minimum amounts.

### **DEALING DAY AND DEALING DEADLINE**

The Manager may from time to time with the approval of the Trustee determine generally or in relation to any particular jurisdiction the time on such Dealing Day or on such other Business Day (on which Units may from time to time be sold) prior to which instructions for subscriptions, redemptions or switching are to be received in order to be dealt with on a particular Dealing Day. The Dealing Day and the relevant Dealing Deadline for each Sub-Fund are set out in the relevant Appendix.

Subscription, switching and redemption of Units may also be placed through the Authorised Distributor(s) or through other authorised and/or electronic means as from time to time determined by the Manager and the Trustee. Investors should note that applications made through such means may involve different dealing procedures. Further, the Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscription, redemption or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned on the arrangements and dealing procedures that are applicable to them.

### **PURCHASE OF UNITS**

#### **Initial Offer**

Details of the initial offer of Units are set forth in the Appendix relating to the relevant Sub-Fund.

#### **Subsequent Subscription**

Following the close of the initial offer period, Units will be issued at the prevailing Issue Price per Unit. Unless specified otherwise in the relevant Appendix for the relevant Sub-Fund, the Issue Price on any Dealing Day will be the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the Dealing Day divided by the number of such class of Units then in issue, rounded down to the nearest 3 decimal places. Any rounding

adjustment shall be retained for the benefit of the relevant Sub-Fund. In calculating the Issue Price, the Manager may impose surcharges to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the total cost of acquiring such assets including other relevant expenses such as taxes, governmental charges, brokerages, etc.

Unless otherwise disclosed in the Appendix of a Sub-Fund, applications for subscription of any class of Units in a Sub-Fund (together with application moneys in cleared funds), if received prior to the Dealing Deadline and accepted by the Manager, will be dealt with on that Dealing Day. Applications received after the Dealing Deadline in relation to a Dealing Day will be held over until the next Dealing Day.

Units may not be issued during the period of any suspension of the determination of the Net Asset Value relating to such class of Units of a Sub-Fund (for details see the sub-section below headed “Suspension of Calculation of Net Asset Value” under the section headed “Valuation”).

### **Application Procedure**

To purchase Units an investor should complete the application form, which may be obtained from the Manager or the Authorised Distributors (the “**Application Form**”), and return the original Application Form (only if original is required by the Manager or the Trustee) together with any further supporting documents (as may be required from time to time) to the Manager or the Authorised Distributors (details of which as set out in the Application Form).

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

Applications will generally be accepted on a Dealing Day only if cleared funds have been received by the Authorised Distributors or the Trustee on or prior to the Dealing Deadline of such Dealing Day in relation to which Units are to be issued. Notwithstanding the above, the Manager may with the approval of the Trustee rely upon application orders received, even prior to receipt of application moneys, and may issue Units to investors according to such orders and invest the expected application amounts. If payment is not cleared within 7 Business Days following the relevant Dealing Day (or such other date as the Manager with the approval of the Trustee shall determine and notify the relevant applicant at the time of receipt of the application), the Manager reserves the right to cancel the transaction. In such circumstances, an investor may be required to settle the difference between the prices at issue and at

cancellation of the Units concerned and in addition the appropriate cancellation fees and charges as representing the administrative costs involved in processing the application.

The Application Form may be sent by facsimile or any other electronic means from time to time agreed by the Manager and the Trustee. Subsequent applications may also be sent by facsimile or other means from time to time determined by the Manager and the Trustee. Provided that the original initial Application Form has been received previously, the original Application Form is not required to be submitted for subsequent applications, unless otherwise required by the Manager or the Trustee.

Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of Units but no certificates will be issued. Applicants should examine the contract notes received. In case of any error in a contract note, applicants should promptly contact the relevant Authorised Distributor or the intermediary through which the application is made for rectification.

The Manager, at its discretion, is entitled to impose an initial charge of up to 5% on the total subscription amount received (before deducting the initial charge) in relation to an application, and the current rates are described in the relevant Appendix for each Sub-Fund. The Manager may retain the benefit of such charge or may re-allow or pay all or part of the initial charge (and any other fees received) to intermediaries or such other persons as the Manager may at its absolute discretion determine subject to all applicable laws and regulations. The Manager also has discretion to waive the initial charge in whole or in part in relation to any subscription for Units whether generally or in a particular case.

### **Investment Minima**

Details of the minimum initial subscription, minimum holding, minimum subsequent subscription and minimum redemption amounts applicable to each class of Units in each Sub-Fund are set out in the relevant Appendix.

The Manager has the discretion to waive, change or accept an amount lower than the above amounts, whether generally or in a particular case.

### **Payment Procedure**

Subscription moneys should normally be paid in the relevant base currency or the class currency of such class of Units as determined by the Manager and agreed by the Trustee and as disclosed

in the relevant Appendix. Unless otherwise specified in the relevant Appendix relating to a Sub-Fund and subject to the agreement of the Trustee or the Manager and to applicable limits on foreign exchange, arrangements can be made for applicants to pay for Units in most other major currencies and in such cases, the cost of currency conversion will be borne by the applicant.

All payments should be made by cheque, direct transfer, telegraphic transfer or banker's draft. Cheques and banker's drafts should be crossed "a/c payee only, not negotiable" and made payable to "BOCI-Prudential Trustee Ltd - Taikang Kaitai Funds", stating the name of the relevant Sub-Fund to be subscribed, and sent with the Application Form. Payment by cheque is likely to cause delay in receipt of cleared funds and Units generally will not be issued until the cheque is cleared. Any costs of transfer of application moneys to a Sub-Fund will be payable by the applicant. Currency conversion will be subject to availability of the currency concerned.

Details of payments by telegraphic transfer are set out in the Application Form.

All application moneys must originate from an account held in the name of the applicant. No third party payments shall be accepted. The applicant should provide sufficient evidence of the source of application moneys.

**No money should be paid to any intermediary in Hong Kong who is not licensed by or registered with the SFC to conduct Type 1 (Dealing in Securities) regulated activity under Part V of the SFO.**

## **General**

All holdings will be held for the Unitholders in registered form and no certificates will be issued. Evidence of title will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager and the Trustee are informed of any change to the registered details.

Fractions of Units rounded down to the nearest 3 decimal places may be issued. Application moneys representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. The Manager reserves the right to reject any application in whole or in part. In the event that an application is rejected, application moneys will be returned without interest and net of expenses by cheque through the post or by telegraphic transfer to the bank account from which the moneys originated at the risk and expense of the applicants, or in such other manner determined by the Manager and the Trustee. A maximum of 4 persons may be registered as joint Unitholders.

## **REDEMPTION OF UNITS**

### **Redemption Procedure**

Unitholders who wish to redeem their Units may do so on any Dealing Day by submitting a redemption request to the Authorised Distributors or the Manager before the Dealing Deadline for the relevant Sub-Fund, as defined in the relevant Appendix. Unless otherwise stated in the Appendix of the relevant Sub-Fund, redemption requests received after the Dealing Deadline will be carried forward and dealt with on the next Dealing Day.

Partial redemptions may be effected subject to any minimum redemption amount for each class of Units of a Sub-Fund as disclosed in the relevant Appendix or as the Manager may determine from time to time whether generally or in a particular case.

If a request for redemption will result in a Unitholder holding Units in a class to the value of less than the minimum holding amount of that class as set out in the relevant Appendix of a Sub-Fund, the Manager may deem such request to have been made in respect of all the Units of that class held by that Unitholder. The Manager has the discretion to waive the requirement for a minimum holding of Units, whether generally or in a particular case.

A redemption request may be given in writing and/or sent by facsimile or any other electronic means as agreed by the Manager and the Trustee, unless the original is required by the Manager or the Trustee. Such redemption request must specify (i) the name of the Sub-Fund and the value or number of Units to be redeemed; (ii) the relevant class of Units to be redeemed; (iii) the name(s) of the registered holder(s); and (iv) the payment instructions for the redemption proceeds.

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

### **Payment of Redemption Proceeds**

Unless specified otherwise in the relevant Appendix for the relevant Sub-Fund, the Redemption Price on any Dealing Day shall be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the Dealing Day by the number of such class of Units then in issue, rounded down to the nearest 3 decimal places. Any rounding adjustment shall be retained by the relevant Sub-Fund. Such price shall be calculated in the base currency of the relevant Sub-Fund and quoted by the Manager in such base currency and in such other currency or currencies at the Manager's discretion (with prior



notice to the Trustee), by converting such price to its equivalent in such other currency or currencies at the same rate as the Manager shall apply in calculating the Net Asset Value as at the Valuation Point. In calculating the Redemption Price, the Manager may impose deductions to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the net proceeds which would be received on sale of such assets and for the relevant expenses such as taxes, governmental charges, brokerages, etc.

The Manager may at its option impose a redemption charge of up to 5.5% of the total redemption proceeds. The redemption charge, if any, is described in the relevant Appendix. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the redemption charge to be imposed (within the permitted limit).

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

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

Redemption proceeds will not be paid to any redeeming Unitholder until (a) if required by the Manager or the Trustee, the written original of the redemption request (in the required form) duly signed by the Unitholder has been received and (b) where redemption proceeds are to be paid by telegraphic transfer, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee.

The Manager or the Trustee, as the case may be, may, in its absolute discretion, refuse to make a redemption payment to a Unitholder if (i) the Manager or the Trustee, as the case may be, suspects or is advised that the payment of any redemption proceeds to such Unitholder may result in a breach or violation of any anti-money laundering law by any person in any relevant jurisdiction or other laws or regulations by any person in any relevant jurisdiction, or such refusal is considered necessary or appropriate to ensure the compliance by the Fund, the relevant

Sub-Fund, the Manager, the Trustee or any other service providers with any such laws or regulations in any relevant jurisdiction; or (ii) there is a delay or failure by the redeeming Unitholder in producing any information or documentation required by the Trustee and/or the Manager or their respective duly authorised agents for the purpose of verification of identity.

In the event that there is a delay in receipt by the Manager or the Trustee of the proceeds of realisation of the investments of the relevant Sub-Fund to meet redemption requests, the Manager or the Trustee may delay the payment of the relevant portion of the amount due on the redemption of Units. If the Manager or the Trustee is required by the laws of any relevant jurisdiction to make a withholding from any redemption moneys payable to the redeeming Unitholder the amount of such withholding shall be deducted from the redemption moneys otherwise payable to such person, provided that the Manager or the Trustee is acting in good faith and on reasonable grounds.

Subject as mentioned above and so long as relevant account details have been provided, redemption proceeds will be paid in the base currency or the class currency of the relevant class of Units by direct transfer or telegraphic transfer, normally within 7 Business Days after the relevant Dealing Day (or as otherwise specified in the Appendix of the relevant Sub-Fund) and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for redemption of Units, unless the market(s) in which a substantial portion of investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of the redemption money within the aforesaid time period not practicable. In such case, payment of redemption proceeds may be deferred, but the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant market(s). The Manager shall keep proper records to demonstrate and justify such extension of time period and will properly and promptly inform the SFC and the Unitholders affected.

Save for any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence of the Trustee or the Manager, neither the Manager nor the Trustee nor their agents shall be liable for any loss caused by any refusal or delay in making payment as a result of delay in receipt of proceeds of realisation of the investments of the relevant Sub-Fund.

Unless the Manager and the Trustee otherwise agree, redemption proceeds will only be paid to a bank account that bears the name of the redeeming Unitholder. If relevant account details are not provided, redemption proceeds may be paid to the redeeming Unitholder (or, in the case of joint Unitholders, either to all Unitholders or the first-named Unitholder as indicated by the relevant Unitholders on the Application Form) at the Unitholder's risk by cheque, usually in the

base currency of the relevant Sub-Fund or the class currency of the relevant class and sent to the redeeming Unitholder at the last known address (in the case of joint Unitholders, at the last known address of the first-named joint Unitholder) held in the records of the register of Unitholders.

Unless otherwise specified in the relevant Appendix relating to a Sub-Fund and subject to the agreement of the Trustee or the Manager, and to applicable limits on foreign exchange, redemption proceeds can be paid in a currency other than the base currency of the relevant Sub-Fund or the class currency of the relevant class at the request and expense of the Unitholder. In such circumstances, the Trustee or the Manager shall use such prevailing currency exchange rates as it may from time to time determine. Currency conversion will be subject to availability of the currency concerned. None of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder for any loss suffered by any person arising from the said currency conversion.

The Trust Deed also provides for payment of redemption proceeds in specie with the consent of the relevant Unitholder.

### **SWITCHING BETWEEN CLASSES**

Except for Units issued under Taikang Kaitai Monthly Stable Income Fund which can only be switched between the classes of Units issued under the same Sub-Fund, Unitholders have the right (subject to such limitations as the Manager after consulting with the Trustee may impose) to switch all or part of their Units of any class of a Sub-Fund into Units of any other class of the same Sub-Fund or another Sub-Fund (except for Units issued under Taikang Kaitai Monthly Stable Income Fund) by giving notice in writing to the Manager or the Authorised Distributors. A request for switching will not be effected if as a result the relevant holder would hold less than the minimum holding of Units of the relevant class of the relevant Sub-Fund prescribed by, or is prohibited from holding Units of the relevant class under, the relevant Appendix. Switching is subject to limitations as the Manager after consulting the Trustee may impose (e.g. in relation to the class of Units and the currency of denomination of Units), as disclosed in the relevant Appendix. Unitholders should note that different Sub-Funds may have different dealing frequency based on the Dealing Day applicable to each Sub-Fund. Subject to the

disclosure in the Appendix of the relevant Sub-Fund, the Sub-Fund may have a monthly Dealing Day or a daily Dealing Day.

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

A switching request may be sent by facsimile or other means from time to time determined by the Manager and the Trustee (unless the original is required by the Manager or the Trustee). Requests for switching received prior to the Dealing Deadline for a Dealing Day will be dealt with on that Dealing Day.

Notices to switch may not be withdrawn without the consent of the Manager.

The rate at which the whole or any part of a holding of Units of a class (the “**Existing Class**”) will be switched to Units of another class (the “**New Class**”) will be determined in accordance with the following formula:

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

Where:

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

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

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

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

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

SF is a switching charge (if any).

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

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

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

### **Restrictions on redemption and switching**

The Manager may suspend the redemption or switching of Units or delay the payment of redemption proceeds during any periods in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details see the sub-section headed “Suspension of Calculation of Net Asset Value” under the section headed “Valuation” below).

Any Unitholder may at any time after such a suspension has been declared and before lifting of such suspension withdraw any request for the redemption of Units of such class by notice in writing to the Manager or the Authorised Distributors. If no such notice withdrawing any such request has been received by the Manager before lifting of such suspension, the Manager shall redeem Units in respect of which it has received applications for redemption as at the Dealing Day next following the lifting of such suspension. However, in respect of any redemption request which has been received and accepted by the Manager before the suspension, the Manager may, where practicable, continue to pay the relevant redemption proceeds to the redeeming Unitholder in the manner as disclosed in the sub-section headed “Payment of Redemption Proceeds” above.

With a view to protecting the interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of Units of any Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation of Units) to 10% of the total number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Sub-Fund who have validly requested to redeem Units of the same Sub-Fund on that Dealing Day will redeem the same proportion of such Units of that Sub-Fund provided that any holdings so requested to be redeemed being in aggregate of not more than 1% of the total number of Units of any Sub-Fund in issue may be redeemed in full if in the opinion of the Manager with the Trustee's approval the application of such limitation would be unduly onerous or unfair to the Unitholder or Unitholders concerned. Any Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, and will have priority on the next succeeding Dealing Day and all following Dealing Days (in relation to which the Manager has the same power) until the original request has been satisfied in full. If requests for redemption are so carried forward, the Manager will inform the Unitholders concerned within 7 days of such Dealing Day.

The Manager does not authorise practices connected to market timing and it reserves the right to reject any applications for subscriptions, redemptions or switching of Units from a Unitholder which it suspects to use such practices and take, the case be, the necessary measures to protect the Unitholders of the Sub-Funds.

Market timing is to be understood as an arbitrage method through which a Unitholder systematically subscribes, redeems or switches Units within a short time period, by taking advantage of time differences and/or imperfections or deficiencies in the method of determination of the Net Asset Value of the concerned Sub-Funds.

## **VALUATION**

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

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies or a commodity, and subject as provided in paragraph (g) below, all calculations based on the value of investments quoted, listed, traded or dealt in on any stock exchange, over-the-counter (“OTC”) market or securities market (“**Securities Market**”) shall be made by reference to the last traded price or last closing price as

calculated and published by the relevant Securities Market for such investments, at or immediately preceding the Valuation Point, provided that if the Manager considers that the prices ruling on a Securities Market other than the principal Securities Market provide in all the circumstances a fairer criterion of value in relation to any such investment, it may adopt such prices with the approval of the Trustee; and in determining such prices the Manager and the Trustee shall be entitled to use and rely on without verification electronic price feeds from such source or sources as they may from time to time determine notwithstanding the prices used are not the last traded prices or closing prices;

- (b) subject as provided in paragraphs (c) and (g) below, the value of each interest in any collective investment scheme shall be the net asset value per unit or share as at the same day, or if such collective investment scheme is not valued as at the same day, the last published net asset value per unit or share in such collective investment scheme (where available) or (if the same is not available) the last published redemption or bid price for such unit or share at or immediately preceding the Valuation Point;
- (c) if no net asset value, bid and offer prices or price quotations are available as provided in paragraph (b) above, the value of the relevant investment shall be determined from time to time in such manner as the Manager shall determine with the approval of the Trustee;
- (d) the value of any investment which is not quoted, listed or normally dealt in on any Securities Market shall be the initial value thereof equal to the amount expended out of the Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made on a regular basis by a professional person approved by the Trustee as qualified to value such investment;
- (e) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager and subject to the approval of the Trustee, any adjustment should be made to reflect the value thereof;
- (f) the value of futures contracts will be determined with reference to the contract value of the relevant futures contract, the amount required to close the relevant contract and the amount expended out of the relevant Sub-Fund in entering into the relevant contract;

- (g) notwithstanding the foregoing, the Manager may with the consent of the Trustee adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment or use of such other method is required to reflect the fair value of the investment; and
- (h) the value (whether of a borrowing, other liability, investment or cash) otherwise than in the base currency of a Sub-Fund shall be converted into the base currency at the rate (whether official or otherwise) which the Manager or the Trustee shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

Under IFRS, the value of investments quoted, listed, traded or dealt in on any securities exchange are made by reference to a price within the closing bid (for long positions) and closing offer (for short positions) price. Since the Fund values its investments by reference to the last traded price or last closing price, its valuation policy deviates from IFRS, which may lead to a different valuation had the valuation been performed in accordance with IFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to materially affect the results and the Net Asset Value of a Sub-Fund. To the extent the Fund's valuation policy deviates from IFRS, the Manager may make necessary adjustments in the accounts of the relevant Sub-Fund for the accounts to comply with IFRS and will include in the relevant Sub-Fund's annual accounts a reconciliation note to reconcile values derived by applying the Fund's valuation rules. If the Net Asset Value of the relevant Sub-Fund is not adjusted in preparation of the annual accounts, non-compliance with IFRS may result in the Auditor qualifying its opinion on the annual accounts, depending on the nature and level of materiality of the non-compliance.

### **Suspension of Calculation of Net Asset Value**

The Manager may, after consultation with the Trustee, having regard to the best interests of the Unitholders, declare a suspension of the determination of the Net Asset Value of a Sub-Fund for the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any commodities market or Securities Market on which a substantial part of the investments of the relevant Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager or the Trustee (as the case may be) in ascertaining the prices of investments or the Net Asset Value of the relevant Sub-Fund or the Issue Price or Redemption Price per Unit; or



- (b) for any other reason the prices of a substantial part of the investments held or contracted for by the Manager for the account of that Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly or fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise a substantial part of the investments held or contracted for the account of that Sub-Fund or it is not possible to do so without seriously prejudicing the interests of Unitholders of the Sub-Fund; or
- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, a substantial part of the investments of that Sub-Fund or the issue or redemption of Units of the relevant class in the Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (e) when a breakdown in the systems and/or means of communication usually employed in ascertaining the value of a substantial part of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit takes place or when for any other reason the value of a substantial part of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit cannot in the opinion of the Manager reasonably or fairly be ascertained or cannot be ascertained in a prompt or accurate manner; or
- (f) when, in the opinion of the Manager, such suspension is required by law or applicable legal process; or
- (g) where that Sub-Fund is invested in one or more collective investment schemes and the redemption of interests in a relevant collective investment scheme (representing a substantial portion of the assets of the Sub-Fund) is suspended or restricted; or
- (h) when the business operations of the Manager, the Trustee or any of their delegates in relation to the operations of that Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God; or
- (i) when the Unitholders or the Manager have resolved or given notice to terminate that Sub-Fund.

Such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value of the relevant Sub-Fund until the Manager shall declare the suspension at an end, except that the suspension shall terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension shall have ceased to exist and (ii) no other condition under which suspension is authorised shall exist. The Manager will review any prolonged suspension of dealings and take all necessary steps to resume normal operations as soon as possible.

Whenever the Manager declares such a suspension, it shall (i) as soon as may be practicable after any such declaration notify the SFC of such suspension and (ii) publish the fact that dealing is suspended immediately following such decision and at least once a month during the period of such suspension by such means as the Manager may consider appropriate (including on any website or newspaper) or otherwise in accordance with applicable rules, laws and regulations.

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

## **INVESTMENT AND BORROWING RESTRICTIONS**

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager. Unless otherwise disclosed in the Appendix for each Sub-Fund, each of the Sub-Fund(s) is subject to the following principal investment restrictions:-

- (a) not more than 10% of the latest available Net Asset Value of the aggregate value of a Sub-Fund's being invested, or exposed to, any single entity through (i) investments in Securities issued by such entity; (ii) exposure to such entity through underlying assets of FDIs; and (iii) net counterparty exposure to such entity arising from transactions of the over-the-counter FDIs;
- (b) subject to paragraph (a) above and Chapter 7.28(c) of the Code, not more than 20% of the latest Net Asset Value of the aggregate value of a Sub-Fund's being invested in, or exposed to, entities within the same group through (i) investments in Securities issued by such entity; (ii) exposure to such entity through underlying assets of FDIs; and (iii) net counterparty exposure to such entity arising from transactions of the over-the-counter FDIs;

- (c) the value of a Sub-Fund's cash deposits being made with the same entity or entities within the same group shall not exceed 20% of the latest available Net Asset Value, unless:
  - (i) cash is held before the launch of the relevant Investment Fund and for a reasonable period thereafter prior to the initial subscription being fully invested;
  - (ii) the cash proceeds from liquidation of investments prior to the merger or termination of an Investment Fund; whereby the placing of cash deposits with various financial institutions would not be in the best interest of investors; or
  - (iii) the cash proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;
- (d) the amount of the Sub-Fund's holding of any ordinary shares (other than Government and other public securities and an interest in Collective Investment Schemes to which paragraph (e) below applies) issued by any single entity, when aggregated with the holdings of such shares by all other Sub-Funds, would not exceed 10% of the total amount of all the issued securities of that class; or
- (e) the value of the Sub-Fund's total holding of Securities and other financial products or instruments neither listed, quoted nor dealt in on a 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, would not exceed 15% of the total Net Asset Value of such Sub-Fund as at the most recent Valuation Day for such Sub-Fund. Notwithstanding paragraphs (a), (b) and (d), where direct investments by a Sub-Fund in a market that is not in the best interests of the Unitholders, a Sub-Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market, subject to the provisions under chapter 7.3A of the Code; or
- (f) (i) not more than 10% of the Net Asset Value of a Sub-Fund may consist of shares or units in other unit trusts or mutual funds ("**managed funds**") which are non-eligible schemes (as permitted under the Code) and not authorised by the SFC; (ii) not more than 30% of the Net Asset Value of a Sub-Fund may consist of shares or units in a

managed fund which is eligible schemes (as permitted under the Code) or an SFC-  
authorised scheme; provided that:-

- (1) no investment may be made in a managed fund the investment objective of which is to invest primarily in any investment prohibited under Chapter 7 of the Code;
  - (2) where the investment objective of such managed fund is to invest primarily in investments restricted under Chapter 7 of the Code and/or applicable laws and regulations, such investments may not be in contravention of the relevant limitation;
  - (3) all initial charges and redemption charges on the managed fund must be waived if the managed fund is managed by the Manager or any of its connected persons; and
  - (4) the Manager may not obtain a rebate on any fees or charges levied by such managed fund or its manager, or any quantifiable monetary benefits in connection with investments in such managed fund; or
- (g) the Net Asset Value of a Sub-Fund may not consist of physical commodities, unless such investment is otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the relevant physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (h) notwithstanding paragraphs (a), (b) and (d) above, not more than 30% of the Net Asset Value of a Sub-Fund may consist of Government and other public securities of the same issue;
- (i) subject to paragraph (h) above, a Sub-Fund may be fully invested in Government and other public securities issued by a single issuer provided that it holds Government and other public securities of at least six different issues.

For the purpose of this section, “**Government and other public securities**” means (i) 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; or (ii) such other Investments (if any) as may be determined as Government and other public securities in accordance with any policy, code, guideline, circular or other publication as promulgated by the SFC from time to time.

The Manager shall not on behalf of any Sub-Fund(s):-

- (i) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class, or, collectively the directors and officers of the Manager own more than 5% of those securities;
- (ii) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies or interests in real estate investment trusts (REITs));
- (iii) make short sales if as a consequence the liability of such Sub-Fund to deliver securities would exceed 10% of the Net Asset Value of such Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);
- (iv) make a loan out of that Sub-Fund except to the extent that the acquisition of an investment or the making of a deposit (within applicable investment restrictions) might constitute a loan;
- (v) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person;
- (vi) enter into any obligation on behalf of a Sub-Fund or acquire any asset or engage in any transaction for the account of that Sub-Fund which may result in the assumption of any liability which is unlimited;
- (vii) incur liability for the Unitholders beyond their investments in the Sub-Fund; or
- (viii) apply any part of a Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made unless such call could be met in full out of cash or near cash forming part of such Sub-Fund which has not been appropriated, and that such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in FDIs for the purpose of chapters 7.29 and 7.30 of the Code, and shall not be entitled without the consent of the Trustee to apply any part of the relevant Sub-Fund in the acquisition of any other investment which is in the opinion of the Trustee likely to involve the Trustee in any liability (contingent or otherwise).

## **Money Market Funds**

Further, in relation to a Sub-Fund which is a money market fund (“**Money Market Fund**”) under Chapter 8.2 of the Code, the following additional requirements shall apply:-

- (i) subject to the provisions set out below, a Money Market Fund may only invest in short-term deposits and high quality money market instruments (i.e. securities normally dealt in on the money markets including government bills, certificates of deposit, commercial papers, short-term notes, bankers’ acceptances, asset-backed securities such as asset-backed commercial papers), and money market funds that are authorised by the SFC under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC;
- (ii) a Money Market Fund shall maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days (or two years in the case of Government and other public securities (as defined in the Code)). For these purposes;

(1) “**weighted average maturity**” is a measure of the average length of time to maturity of all the underlying securities in a Money Market Fund weighted to reflect the relative holdings in each instrument; and is used to measure the sensitivity of the Money Market Fund to changing money market interest rates; and

(2) “**weighted average life**” is the weighted average of the remaining life of each security held in a Money Market Fund; and is used to measure the credit risk, as well as the liquidity risk,

provided that the use of interest rate resets in variable-notes or variable-rate notes generally should not be permitted to shorten the maturity of a security for the purpose of calculating weighted average life, but may be permitted for the purpose of calculating weighted average maturity;

- (iii) notwithstanding sub-paragraphs (a) and (c) above of this section headed “INVESTMENT AND BORROWING RESTRICTIONS”, the aggregate value of a Money Market Fund's holding of instruments issued by a single entity, together with any deposits held with that same entity may not exceed 10% of the latest available Net Asset Value of such Money Market Fund except:-

(1) the value of a Money Market Fund's holding of instruments and deposits issued by a single entity may be increased to 25% of the latest available Net Asset Value of such Money Market Fund if the entity is a substantial financial institution (as defined

in the Code), provided that the total value of such holding does not exceed 10% of the entity's share capital and non-distributable capital reserves; or

- (2) up to 30% of a Money Market Fund's latest available Net Asset Value may be invested in Government and other public securities of the same issue; or
- (3) in respect of any deposit of less than US\$1,000,000 or its equivalent in the base currency of the relevant Money Market Fund where such Money Market Fund cannot otherwise diversify as a result of its size;
- (iv) notwithstanding sub-paragraphs (b) and (c) above of this section headed “INVESTMENT AND BORROWING RESTRICTIONS”, the aggregate value of a Money Market Fund’s investments in entities within the same group through instruments and deposits may not exceed 20% of its latest available Net Asset Value provided that:
  - (1) the aforesaid limit will not apply in respect of cash deposit of less than US\$1,000,000 or its equivalent in the base currency of such Money Market Fund, where it cannot otherwise diversify as a result of its size;
  - (2) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity’s share capital and non-distributable capital reserves, the limit may be increased to 25%;
- (v) the value of a Money Market Fund’s holding of money market funds that are authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC may not in aggregate exceed 10% of its latest available Net Asset Value;
- (vi) the value of a Money Market Fund’s holding of investments in the form of asset-backed securities may not exceed 15% of its latest available Net Asset Value;
- (vii) subject to the requirements under “ANNEX B - INVESTMENT RESTRICTIONS IN RELATION TO SECURITIES FINANCING TRANSACTIONS AND COLLATERAL”, a Money Market Fund may engage in sale and repurchase transactions, and reverse repurchase transactions in compliance with the following additional requirements:
  - (1) the amount of cash received by the Money Market Fund under sale and repurchase transactions may not in aggregate exceed 10% of its latest available Net Asset Value;

- (2) the aggregate amount of cash provided to the same counterparty in reverse repurchase agreements may not exceed 15% of the latest available Net Asset Value of the Money Market Fund;
  - (3) collateral received may only be cash, high quality money market instruments and may also include, in the case of reverse repurchase transactions, government securities receiving a favourable assessment on credit quality; and
  - (4) the holding of collateral, together with other investments of the Money Market Fund, must not contravene the investment limitations and requirements set out in the other provisions of this sub-section headed “Money Market Funds” of this section headed “INVESTMENT AND BORROWING RESTRICTIONS”;
- (viii) a Money Market Fund may use financial derivative instruments for hedging purposes only;
  - (ix) the currency risk of a Money Market Fund should be appropriately managed and any material currency risk that arises from investments of the Money Market Fund that are not denominated in its base currency shall be appropriately hedged;
  - (x) a Money Market Fund must hold at least 7.5% of its latest available Net Asset Value in daily liquid assets and at least 15% of its latest available Net Asset Value in weekly liquid assets. For these purposes:
    - (1) daily liquid assets refers to (x) cash; (y) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one Business Day; and (z) amount receivable and due unconditionally within one Business Day on pending sales of portfolio securities; and
    - (2) weekly liquid assets refers to (x) cash; (y) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five Business Days; and (z) amount receivable and due unconditionally within five Business Days on pending sales of portfolio securities.



## **Borrowing Restrictions**

Unless otherwise disclosed below or in the relevant Appendix, the Manager may borrow up to 10% of the latest available Net Asset Value of a Sub-Fund to acquire investments, to meet redemption requests or to pay expenses relating to the relevant Sub-Fund. Notwithstanding the foregoing, a Money Market Fund may only borrow on a temporary basis for the purpose of meeting redemption requests or defraying operating expenses. For this purpose, back-to-back loans do not count as borrowing. The assets of a Sub-Fund may be charged or pledged as security for any such borrowings.

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

## **Financial Derivative Instruments**

Subject to the provisions of the Trust Deed, the Manager may on behalf of a Sub-Fund, enter into transactions in relation to currency forwards, swaps, futures, options or other FDI. A Sub-Fund may acquire FDIs for hedging purpose provided that such FDIs meet all of the following criteria:

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

Each Sub-Fund may also acquire FDIs for non-hedging purposes (“**investment purposes**”), subject to the limit that the Sub-Fund’s net exposure relating to these FDIs does not exceed 50% of its total Net Asset Value, provided that the exposure to the underlying assets of the FDIs, together with the other Investments of the scheme, may not in aggregate exceed the

corresponding investment restrictions or limitations applicable to such underlying assets and Investments as set out above or except when otherwise approved by the SFC.

In addition, investment by the relevant Sub-Fund in FDIs should be either listed or quoted on a stock exchange or dealt in over-the-counter market, and comply with the following requirements:

- (a) the underlying assets of the FDIs invested in by the relevant Sub-Fund consist solely of shares in companies, debt securities, money market instruments, units/shares in 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 scheme may invest according to its investment objectives and policies;
- (b) the counterparties to transactions of over-the-counter FDIs or their guarantors are substantial financial institutions (as designated by SFC);
- (c) subject to paragraphs (a) and (b) above, the net counterparty exposure to a single entity arising from transactions of over-the-counter FDIs may not exceed 10% of the Net Asset Value of the relevant Sub-Fund; and
- (d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s), or delegate(s) independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Sub-Fund's initiative. Further, calculation agent or Administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

If the relevant Sub-Fund engages in a transaction in FDIs, the relevant Sub-Fund should at all times be capable of meeting all its payment and delivery obligations incurred under such transactions (whether for hedging or for investment purposes) and the Manager shall ensure that, as part of its risk management process, that such transactions in FDIs are adequately

monitored on an ongoing basis. A transaction in FDIs which gives rise to a future commitment or contingent commitment of a Sub-Fund should be covered in accordance with chapter 7.30 of the Code. Where a financial instrument embeds a FDI, the investment restrictions and limitations under this section headed “**Financial Derivative Instruments**” will also apply to the embedded FDI.

The Sub-Funds currently do not intend to invest in any FDI for investment purposes.

### **Additional Country Specific Investment and Borrowing Restrictions**

#### **Switzerland**

Additional investment and borrowing restrictions apply to Sub-Fund(s) registered in Switzerland under the Mutual Recognition of Funds (MRF) between Switzerland and Hong Kong:

The Manager shall not on behalf of the relevant Sub-Fund(s):

- (i) make short sales;
- (ii) invest in precious metals or precious metals certificates, commodities or commodity certificates;
- (iii) borrow more than 10% of the Net Asset Value of each Sub-Fund; and
- (iv) invest in target funds the documents of which do not restrict investments in other target funds on their part to a total of 10% of their net assets.

### **Liquidity Risk Management Process**

#### *Liquidity Risk Management Tools and Impact on the Fund and Investors*

The liquidity risk management program would include multiple elements, including:

- Classification of the liquidity of fund portfolio assets;
- Assessment, periodic review and management of a fund’s liquidity risk;
- Establishment of minimum liquid asset level;

- The risk management committee approval and review;
- Redemption delay/ limit;
- Borrowing limit;
- Suspension of redemption;
- Stress testing;
- Assessment of liquidity profiles of a fund's liabilities; and
- Adjustments on the Redemption Price and Issue Price.

*Classification of the Liquidity of Fund Portfolio Assets:* Each Sub-Fund would be required to classify and engage in an ongoing review of each of the assets in its portfolio. The classification would be based on the number of days in which the Sub-Fund's position would be convertible to cash at a price that does not materially affect the value of that asset immediately prior to sale. Sub-Funds would be required to classify each asset position or portion of a position into various liquidity categories that would be convertible to cash within a certain number of days.

*Assessment, Periodic Review and Management of a Fund's Liquidity Risk:* Sub-Funds would be required to assess and periodically review their liquidity risk, based on specified factors. Liquidity risk would be defined as the risk that a Sub-Fund could not meet redemption requests that are expected under normal conditions or under stressed conditions, without materially affecting the Sub-Fund's NAV per Unit. In this respect, the Manager will consider the liquidity requirements of the Sub-Funds and perform ongoing liquidity risk assessment through quantitative and qualitative evaluations (e.g. considering the Sub-Funds' dealing arrangements, investment strategy, underlying assets' liquidity profile, time to maturity and time of issuance, bid-ask spreads, transaction costs, and historical subscription and redemption patterns). These measures seek to ensure fair treatment and transparency for all investors. The Manager should also regularly assess the liquidity profiles of the assets of a Sub-Fund, taking into account the characteristics of the assets and their markets, and determine reasonable and appropriate metrics and other factors to assess liquidity and categorise assets of each Sub-Fund. Regular risk assessment reports will be prepared and made available for the Manager to monitor and assess liquidity risk of each Sub-Fund on a timely basis. The data source and formulae used for generating the risk management reports would also be monitored and reviewed on a regular basis to ensure the accuracy of the reports.

*Determination of Minimum Liquid Asset Level:* A Sub-Fund would be required to determine a minimum percentage of its net assets that must be invested in cash and assets that are convertible to cash within a pre-defined number of business days at a price that does not materially affect the value of the assets immediately prior to sale.

*Risk Management Committee Approval and Review:* The Manager's risk management committee would be required to approve the Fund's liquidity risk management program, including each Sub-Fund's minimum liquid asset level. The risk management committee also would be responsible for reviewing a written report that reviews the program's adequacy, provided at least annually from the Fund's investment delegate or officer administering the program.

*Redemption Delay/Limit:* Sub-Funds would implement and maintain appropriate practice to delay and/or limit redemptions to allow them to be proceeded in an orderly manner, such as imposing redemption gates of up to 10% of the total number of Units of the relevant Sub-Fund in issue.

*Borrowing Limit:* Sub-funds would ensure that borrowing for the account of a Sub-Fund an amount not exceeding 10% of the value of the Net Asset Value of the Sub-Funds on any Dealing Day for the purposes of paying redemption proceeds on a redemption of Units.

*Suspension of Redemption:* Sub-Funds would suspend the redemption of Units of the Sub-Funds, after giving prior written notice to the Trustee in consultation with the Trustee having regard to the best interests of the Unitholders, during any period in which the determination of the Net Asset Value of the Sub-Funds is suspended.

*Stress testing:* Stress testing is a key risk management tool which allows the Manager to assess the impact of stressed situations on the liquidity of each Sub-Fund's assets and liabilities and take appropriate steps to respond to such situations. The Manager will conduct ongoing and regular stress tests to assess the impact of possible severe adverse changes in market conditions on the liquidity of each Sub-Fund. The stress testing scenarios will take into account and include (i) historical market conditions; (ii) all the instruments invested by the Sub-Funds; (iii) the liability profiles for the funds (e.g. a rise in redemption, the historical redemption patterns or forward-looking hypothetical redemption scenarios); and (iv) an assessment of a combination of multiple stress factors (e.g. a simultaneous rise in redemption and fall in the liquidity of the underlying assets).

*Assessment of liquidity profiles of fund liabilities:* The Manager would assess the potential redemption requests of Unitholders and prepare for any potential delivery and payment obligations with reference to a Sub-Fund's profile and historical and expected redemption patterns and market trends. The Manager should take reasonable steps to: (i) understand the types of underlying investors for each Sub-Fund and historical and future redemption patterns associated with each type of investor; and (ii) consider the liquidity demands which each Sub-

Fund will likely face, taking into account historical demands as well as reasonable and prudent estimates of expected demands.

*Adjustments on the Redemption Price and Issue Price:* In calculating the Redemption Price/ (in respect of subsequent subscription) the Issue Price, the Manager may impose deductions/ surcharges to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the net proceeds which would be received on sale of/ total cost of acquiring such assets, including the relevant expenses such as taxes, governmental charges, brokerages, etc.

#### *Reasons Why the Liquidity Risk Management Tools are Used*

Liquidity risk arises as a result of the mismatch between the liquidity profiles of the Fund's assets and the liabilities of the Fund. This is a key risk faced by funds and it is heightened during times of market stress or volatility. Effective liquidity risk management is important to maintain the robustness of funds and the integrity of the market.

Investors in funds expect to be able to redeem their investments in line with the commitments made in the fund prospectus – for the vast majority of open-ended funds this means daily dealing. Good liquidity risk management that ensures redemption requests can be met in varied market conditions is a key requirement in our rules relating to the operation of open-ended funds.

Managing liquidity has become more challenging for fund management companies since the financial crisis. The low interest rate environment has given rise to a widespread search for yield in fixed income securities. This has led to a greater proportion of lower-rated securities, which trade predominantly in over-the-counter (OTC) markets, and tend to offer only limited liquidity, being held in funds that offer frequent, often daily, dealing.

We adopted the tools described above in reviewing and updating the liquidity management of the Fund in light of market conditions to ensure that our portfolios can continue to meet redemption obligations and other liabilities, and remain suitable for our investor base. We have a team of independent risk management personnel responsible for monitoring the liquidity risk of the Sub-Funds so as to ensure adequate risk oversight and to maintain an adequate risk management governance structure.

### Impact of Liquidity Risk on the Fund and to Investors

Please refer to the risk factor headed “Volatility and liquidity risk” in the “Risk Factors” section of this Explanatory Memorandum.

### **Securities Lending and Repurchase Transactions**

Unless otherwise disclosed in the relevant Appendix for a Sub-Fund, the Manager will not engage in securities lending, repurchase and reverse repurchase transactions or similar over-the-counter transactions on behalf of any Sub-Fund. Prior approval (if required) will be sought from the SFC and not less than one month’s notice will be given to affected Unitholders if there is a change in such practice and this Explanatory Memorandum will also be updated accordingly.

### **RISK FACTORS**

Investors should consider the following risks and any additional risk(s) relating to any specific Sub-Fund, contained in the relevant Appendix, before investing in any of the Sub-Funds. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not a Sub-Fund is suitable for them, they should obtain independent professional advice.

Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of any Sub-Fund and the income from them may go down as well as up. There is no assurance that the investment objective of the respective Sub-Fund will be achieved.

- (i) **General investment risk** – The Fund’s investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the Fund may suffer losses. There is no guarantee of the repayment of principal. There can be no assurance that a Sub-Fund will achieve its investment objective. Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of the Units of any Sub-Fund and the income from them may go down as well as up. An investment in a Sub-Fund involves investment risks, including possible loss of the amount invested. Past performance of a Sub-Fund does not indicate the future performance of the relevant Sub-Fund.
- (ii) **Market risk** – The value of investments and the income derived from such investments may fall as well as rise and investors may not recoup the original amount invested in the

Sub-Funds. In particular, the value of investments may be affected by uncertainties such as international, political and economic developments or changes in government policies. In falling equity markets there may be increased volatility. Market prices in such circumstances may defy rational analysis or expectation for prolonged periods of time, and can be influenced by movements of large funds as a result of short-term factors, counter-speculative measures or other reasons.

- (iii) ***Mainland China market risk*** – Investing in the Mainland China market is subject to the risks of investing in emerging markets generally and the risks specific to the Mainland China market.

Since 1978, the PRC government has implemented economic reform measures which emphasize decentralisation and the utilisation of market forces in the development of the Chinese economy, moving from the previous planned economy system. However, many of the economic measures are experimental or unprecedented and may be subject to adjustment and modification. Any significant change in Mainland China's political, social or economic policies may have a negative impact on investments in the Mainland China market.

The regulatory and legal framework for capital markets and joint stock companies in Mainland China is still developing. Experience in the interpretation and enforcement of laws and regulations governing commercial contracts and undertakings may be limited. The introduction of new Mainland China laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social developments. As the legal system of Mainland China develops, changes in such legislation or interpretation thereof may have an adverse effect upon the business of the companies in which the Sub-Funds invest in. This may lead to losses to the relevant Sub-Funds. Mainland Chinese accounting standards and practices may deviate significantly from international accounting standards.

Investments in equity interests of Mainland Chinese companies may be made through China A-Shares, China B-Shares (i.e. shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currencies and available for investment by Mainland China investors and offshore investors) and China H-Shares (i.e. shares issued by companies incorporated in Mainland China and listed on the Hong Kong Stock Exchange and traded in Hong Kong Dollars). The Mainland China stock market has in the past experienced substantial price volatility, and there is no assurance that such volatility will not occur in future.



As the number of securities in Mainland China and their combined total market value are relatively small compared to more developed markets, investments in these securities may be subject to increased price volatility and lower liquidity.

- (iv) ***Renminbi currency and conversion risks*** – The Renminbi is not freely convertible and is subject to exchange controls and restrictions, such as those imposed by the PRC government. Such control of currency conversion and movements in the Renminbi exchange rates may adversely affect the operations and financial results of companies in Mainland China. Insofar as a Sub-Fund's assets are invested in Mainland China, it will be subject to the risk of the PRC government's imposition of restrictions on the repatriation of funds or other assets out of Mainland China, limiting the ability of the relevant Sub-Fund to satisfy payments to investors. Under exceptional circumstances, payment of redemptions and/or dividend payment in the Renminbi may be delayed due to the exchange controls and restrictions applicable to the Renminbi.

Starting from 2005, the exchange rate of the Renminbi is no longer pegged to the US dollar. The Renminbi has now moved to a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. The daily trading price of the Renminbi against other major currencies in the inter-bank foreign exchange market would be allowed to float within a narrow band around the central parity published by the PBOC. As the exchange rates are based primarily on market forces, the exchange rates for Renminbi against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. It should be noted that the Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of the PRC government. The possibility that the appreciation of Renminbi will be accelerated cannot be excluded. On the other hand, there can be no assurance that the Renminbi will not be subject to devaluation. Any depreciation of the Renminbi could adversely affect the value of investors' investments in the Fund. Investors whose base currency is not the Renminbi may be adversely affected by changes in the exchange rates of the Renminbi. Further, the PRC government's imposition of restrictions on the repatriation of Renminbi out of Mainland China may limit the depth of the Renminbi market in Hong Kong and reduce the liquidity of the relevant Sub-Fund. The PRC government's policies on exchange control and repatriation restrictions are subject to change, and the relevant Sub-Fund's or investors' position may be adversely affected.

The onshore RMB (“CNY”) is the only official currency of the PRC and is used in all financial transactions between individuals, state and corporations in Mainland China. Hong Kong is the first jurisdiction to allow accumulation of RMB deposits outside Mainland China. Since June 2010, the offshore RMB (“CNH”) is traded officially in the offshore market regulated jointly by the Hong Kong Monetary Authority and the PBOC. As a result of the controls on cross-border transfers of Renminbi between Hong Kong and Mainland China, the onshore RMB market and the offshore RMB market are, to an extent, segregated, and each market may be subject to different regulatory requirements that are applicable to the Renminbi. Although CNH and CNY are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

Due to the strong demand for offshore RMB, CNH used to be traded at a premium to onshore RMB, although occasional discount may also be observed. Where a Sub-Fund invests in RMB denominated investments, it may potentially be exposed to both the CNY and the CNH, and the Sub-Fund may consequently be exposed to greater foreign exchange risks and/or higher costs of investment (for example, when converting other currencies to the RMB at the CNH rate of exchange).

- (v) ***Emerging market risk*** – Various countries/regions in which a Sub-Fund may invest are considered as emerging markets. Where Sub-Funds invest in emerging markets, it 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. Prospective investors should note that investment in emerging markets such as Mainland China and other countries/regions involve special considerations and risks. These include a possibility of nationalisation, expropriation or confiscatory taxation, foreign exchange control, political and legal changes, government regulation, social instability or diplomatic developments which could affect adversely the economies of such countries/regions or the value of a Sub-Fund’s investments, and the risks of investing in countries/regions with smaller capital markets, such as limited liquidity, price volatility, restrictions on foreign investment and repatriation of capital, and the risks associated with emerging economies, including high inflation and interest rates and political and social uncertainties. In addition, it may be difficult to obtain and enforce a judgement in a court in an emerging country/region. Underlying investments of emerging market funds may also become illiquid which may constrain the Manager’s ability to realise some or all of the portfolio. Accounting, auditing and financial reporting standards,

practices and disclosure requirements applicable to some countries/regions in which a Sub-Fund may invest may differ from those applicable in developed countries/regions, for example, less information is available to investors and such information may be out of date.

- (vi) **Settlement risk** – Settlement procedures in emerging countries/regions are frequently less developed and less reliable and may involve the Sub-Fund's delivery of securities, or transfer of title to securities, before receipt of payment for their sale. A Sub-Fund may be subject to a risk of substantial loss if a securities firm defaults in the performance of its responsibilities. The Sub-Fund may incur substantial losses if its counterparty fails to pay for securities the Sub-Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Sub-Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays could result in substantial losses for a Sub-Fund if investment opportunities are missed or if a Sub-Fund is unable to acquire or dispose of a security as a result.
- (vii) **Currency risk** – Underlying investments of a Sub-Fund may be denominated in currencies other than the base currency of that Sub-Fund. Also, a class of Units of a Sub-Fund may be designated in a currency other than the base currency of that Sub-Fund. The Net Asset Value of a Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls. Since the Manager aims to maximise returns for such Sub-Funds in terms of their base currency, investors in these Sub-Funds may be exposed to additional currency risk.
- (viii) **Interest rate risk** – Changes in interest rates may affect the value of a security as well as the financial markets in general. Fixed income instruments (such as bonds) are more susceptible to fluctuation in interest rates and may fall in value if interest rates change. Where a Sub-Fund invests in bonds or other debt securities, investment in the Sub-Fund is subject to interest rate risk. In general, the prices of fixed income instruments rise when interest rates fall, whilst their prices fall when interest rates rise. Longer term fixed income instruments are usually more sensitive to interest rate changes. If the debt securities held by a Sub-Fund fall in value, the Sub-Fund's value will also be adversely affected.
- (ix) **Credit risk** – An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A

lowering of the credit rating of a security or its issuer may also affect the security's liquidity, making it more difficult to sell. A Sub-Fund's investment is also subject to the risk that issuers may not make payments on the securities they issue. In particular, where a Sub-Fund invests in bonds or other debt securities, such Sub-Fund may be exposed to the credit/default risk of issuers of bonds or other debt securities that the Sub-Fund may invest in. The issuers of bonds or other debt securities may incur difficulties in making full and timely repayments of principal and interest, which may lead to a default and, ultimately, a fall in the value of such Sub-Fund.

- (x) ***Credit rating risk*** – Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. The credit ratings of fixed-income securities or issuers by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations. For example, the rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is often a time lag in updating the credit ratings in response to recent credit events.
- (xi) ***Downgrading risk*** – The credit rating of a debt instrument or its issuer may be downgraded. For example, based on recent market events or specific developments, or as a result of deterioration of an issuer's financial conditions. In the event of such downgrading, the value of a Sub-Fund that invests in debt instruments may be adversely affected. The Manager may or may not be able to dispose of the debt instruments that are being downgraded, subject to the investment objectives of the relevant Sub-Fund. If the Sub-Fund continues to hold the relevant securities, it will be subject to additional risk of loss.

In the event of credit rating downgrading, the relevant security may be subject to higher credit risks and other risks applicable to lower rated securities outlined in the following paragraph.

- (xii) ***Risks associated with debt securities rated below investment grade or unrated*** – A Sub-Fund may invest in debt securities below investment grade or unrated. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities. Investors should note that such securities would generally be considered to have a degree of counterparty risk, credit risk and liquidity risk than higher rated and lower yielding securities and may be subject to greater fluctuation in value and higher chance of default. If the issuer of securities defaults, or such securities cannot be redeemed, or perform badly, investors may suffer

substantial losses. The market for these securities may be less active, making it more difficult to sell the securities. Valuation of these securities is more difficult and thus the relevant Sub-Fund's prices may be more volatile.

- (xiii) ***Over-the-counter market risk*** - Over-the-counter (“**OTC**”) markets are subject to less governmental regulation and supervision of transactions (in which many different kinds of financial derivative instruments and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets. Therefore, a Sub-Fund entering into transactions on OTC markets will be subject to the risk that its direct counterparty will not perform its obligations under the transactions and that a Sub-Fund will sustain substantial losses as a result.

In addition, certain instruments traded on the OTC markets (such as customised financial derivatives and structured products) can be illiquid. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments.

- (xiv) ***Concentration risk*** – A Sub-Fund's investments may be concentrated in a specific country, region, market or sector. Each Sub-Fund's portfolio may not be well diversified in terms of the number of holdings and the number of issuers of securities that the relevant Sub-Fund may invest in. The value of such Sub-Funds may be more volatile than that of a fund having a more diverse portfolio of investments. Such as a global or regional equity fund, as they are more susceptible to fluctuations in value resulting from limited number of holdings or from adverse conditions in their respective countries.
- (xv) ***Hedging risk*** – The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market and currency risks. There is no guarantee that hedging techniques will achieve their desired result.
- (xvi) ***Small and medium-sized companies risk*** – The stock prices of small and medium-sized companies tend to be more volatile than those of large-sized companies due to a lower degree of liquidity, greater sensitivity to changes market conditions and higher uncertainty over future growth prospects.

- (xvii) ***Risks associated with investment in financial derivative instruments (“FDI”) –*** The Sub-Funds may invest in derivatives such as options, futures and convertible securities, and in depository receipts, participation rights and potentially through other instruments which are linked to the performance of securities or indices such as participation notes, equity swaps and equity linked notes, which are sometimes referred to as “structured products”. Risks associated with FDI include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. Investment in these instruments can be illiquid, if there is no active market in these instruments. Such instruments are complex in nature. Therefore, there are risks of mispricing or improper valuation and the possibility that these instruments do not always perfectly track the value of the securities, rates or indices they are designed to track. Improper valuations can result in increased payments to counterparties or a loss in the value of the relevant Sub-Funds. The instruments will also be subject to insolvency or default risk of the issuers or counterparties. The leverage element/component of an FDI can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Funds. Exposure to FDI may lead to a high risk of significant loss by the Sub-Fund. In addition, investment through structured products may lead to a dilution of performance of such Sub-Funds when compared to a fund investing directly in similar assets. Also, many derivative and structured products involve an embedded leverage. This is because such instruments provide significantly larger market exposure than the money paid or deposited when the transaction is entered into, so a relatively small adverse market movement could expose the relevant Sub-Funds to the possibility of a loss exceeding the original amount invested.
- (xviii) ***Restricted markets risk –*** The Sub-Funds may invest in securities in jurisdictions (including Mainland China) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the Sub-Funds may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.
- (xix) ***Legal and regulatory risk –*** Legal and regulatory changes could occur in the future. For example, the regulatory environment for derivative instruments is evolving, and changes in their regulation may adversely affect the value of derivative instruments.

Changes to the current laws and regulations will lead to changes in the legal requirements to which the Fund may be subject, and may adversely affect the Fund and the investors.

- (xx) **Risks concerning taxation** – Investors should note that (i) the proceeds from the sale of securities in some markets or the receipt of any dividends or other income may be or may become subject to tax, levies, duties or other fees or charges imposed by the authorities in that market including taxation levied by withholding at source and/or (ii) a Sub-Fund's investments may be subject to specific taxes or charges imposed by authorities in some markets.

In particular, investors should pay attention to Mainland China tax considerations for Sub-Funds having exposure to investments issued in or relating to the Mainland China market. Changes in Mainland China taxation legislation could affect the amount of income which may be derived, and the amount of capital returned, from the investments of the relevant Sub-Fund. Laws governing taxation will continue to change and may contain conflicts and ambiguities. Please refer to the disclosures under the heading “General Mainland China taxation risks” in the section “Taxation”.

- (xxi) **Custodial risk** – Custodians or sub-custodians may be appointed in local markets for purpose of safekeeping assets in those markets. Where a Sub-Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Sub-Fund may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Sub-Fund may take a longer time to recover its assets. In circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Sub-Fund may even be unable to recover all of its assets. The costs borne by a Sub-Fund in investing and holding investments in such markets will be generally higher than in organised securities markets.
- (xxii) **Counterparty risk** – Counterparty risk involves the risk that a counterparty or third party will not fulfil its obligations to a Sub-Fund. A Sub-Fund may be exposed to the risk of a counterparty through investments such as bonds, futures and options and derivative instruments that are traded in over-the-counter markets. To the extent that a counterparty defaults on its obligations and a Sub-Fund is prevented from exercising its rights with respect to the investment in its portfolio, a Sub-Fund may experience a decline in the value and incur costs associated with its rights attached to the security.

- (xxiii) ***Risk of termination*** – A Sub-Fund may be terminated in certain circumstances which are summarised under the section “Termination of the Fund or any Sub-Fund”. In the event of the termination of a Sub-Fund, such Sub-Fund would have to distribute to the Unitholders their pro rata interest in the assets of the Sub-Fund. It is possible that at the time of such sale or distribution, certain investments held by the relevant Sub-Fund will be worth less than the initial cost of acquiring such investments, resulting in a loss to the Unitholders. Moreover, any organisational expenses (such as establishment costs) with regard to the relevant Sub-Fund that had not yet been fully amortised would be debited against the Sub-Fund’s assets at that time.
- (xxiv) ***Volatility and liquidity risk*** – Prices of securities may be volatile. Price movements of securities are difficult to predict and are influenced by, among other things, changing supply and demand relationships, governmental trade, fiscal, monetary and exchange control policies, national and international political and economic events, and the inherent volatility of the market place. A Sub-Fund’s value will be affected by such price movements and could be volatile, especially in the short-term. Where a Sub-Fund invests in bonds or other debt securities, the debt securities in some of the markets that the Sub-Fund invests in may be subject to higher volatility and lower liquidity compared to more developed markets. This may result in the fluctuation in the price of securities traded on such markets. Certain securities may be difficult or impossible to sell, and this would affect the Sub-Fund’s ability to acquire or dispose of such securities at their intrinsic value. The bid and offer spreads of the prices of such securities may be large and the Sub-Funds may incur significant trading costs.
- (xxv) ***Risk relating to Foreign Account Tax Compliance Act (“FATCA”)*** – The US FATCA provides that a 30% withholding tax will be imposed on certain payments to foreign financial institutions, such as the Fund and each Sub-Fund, unless the Fund complies with FATCA.

Although the Manager will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA withholding, no assurance can be given that any Sub-Fund will be able to achieve this and/or satisfy such FATCA obligations. If a Sub-Fund becomes subject to a 30% FATCA penalty withholding on most types of income from US investments (further described under the section headed “FATCA” below) as a result of the FATCA regime, the value of the Units held by Unitholders in the relevant Sub-Fund may suffer material losses.



The Fund and the Sub-Funds' ability to comply with FATCA will depend on each Unitholder providing the Fund with information that the Fund requests concerning the Unitholder or its direct and indirect owners. If a Unitholder fails to provide the Fund with any information the Fund requests, the Fund may exercise its right to request a transfer of Units to another person or to compulsorily redeem the Units held by such Unitholder. Any such transfer or compulsory redemption will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

Please refer to sub-section "FATCA" under the section headed "Taxation" for details of FATCA.

All prospective investors and Unitholders should consult with their own tax advisors regarding the possible implications of FATCA and the tax consequences on their investments in a Sub-Fund. Unitholders who hold their Units through intermediaries should also confirm the FATCA compliance status of those intermediaries.

- (xxvi) ***Risks associated with the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect*** – Where a relevant Sub-Fund invests through the Shanghai-Hong Kong Stock Connect and/or the Shenzhen-Hong Kong Stock Connect ("**Stock Connects**"), in addition to the risks associated with the Mainland China market, it is also subject to the following additional risks:

*Quota limitations*

- The Stock Connects are each subject to quota limitations, which does not belong to the Sub-Funds and can only be utilised on a first-come-first serve basis. In particular, once the remaining balance of the Northbound Daily Quota drops to zero or the Northbound Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). Therefore, quota limitations may restrict the Sub-Fund's ability to invest in China A-Shares through Stock Connects on a timely basis, and the Sub-Funds may not be able to effectively pursue its investment strategies.

*Suspension risk*

- Each of the SEHK, the SSE and the SZSE would reserve the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant

regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading through Stock Connects is effected, a relevant Sub-Fund's ability to invest in China A-Shares or access the Mainland China market through the programme will be adversely affected.

#### Differences in trading day

- The Stock Connects will only operate on days when both the Mainland China and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the Mainland China market but Hong Kong investors cannot carry out any China A-Shares trading. Due to the differences in trading days, the relevant Sub-Funds may be subject to a risk of price fluctuations in China A-Shares during the time when the Stock Connects are not operating as a result.

#### Operational risk

- The Stock Connects provide a new channel for investors from Hong Kong and overseas to access the Mainland China stock market directly.
- The Stock Connects are premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in these programs subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. Market participants generally have configured and adapted their operational and technical systems for the purpose of trading China A-Shares through Stock Connects. It should be appreciated that the securities regimes and legal systems of the two markets differ significantly and in order for the trial program to operate, market participants may need to address issues arising from the differences on an on-going basis.
- The “connectivity” in each of the Stock Connects requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and exchange participants (i.e. a new order routing system (“**China Stock Connect System**”)) to be set up by SEHK to which exchange participants need to connect. There is no assurance that the systems of the SEHK and market participants function properly or continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the

programs could be disrupted. A Sub-Fund's ability to access the China A-Shares market (and hence to pursue its investment strategy) will be adversely affected.

*Restrictions on selling imposed by front-end monitoring*

- Mainland China regulations require that before an investor sells any share, there should be sufficient shares in the account; otherwise SSE or SZSE will reject the sell order concerned. SEHK will carry out pre-trade checking on China A-Shares sell orders of its participants (i.e. the stock brokers) to ensure there is no over-selling.
- Generally, if the relevant Sub-Fund desires to sell certain China A-Shares it holds, to the extent those China A-shares are not kept in the special segregated account (“**SPSA**”) maintained with CCASS, it will be required to transfer those China A-Shares to the respective accounts of its brokers before the market opens on the day of selling (“**trading day**”) unless its brokers can otherwise confirm that the Sub-Fund has sufficient shares in its account. If it fails to meet this deadline, it will not be able to sell those shares on the trading day. Because of this requirement, the Sub-Fund may not be able to dispose of holdings of China A-Shares in a timely manner.

*Recalling of eligible stocks*

- When a stock is recalled from the scope of eligible stocks for trading via the Stock Connects, the stock can only be sold but cannot be bought. This may affect the investment portfolio or strategies of the relevant Sub-Funds, for example, when the Manager wishes to purchase a stock which is recalled from the scope of eligible stocks.

*Clearing and settlement risk*

- The Hong Kong Securities Clearing Company Limited (“**HKSCC**”) and the China Securities Depository and Clearing Corporation Limited (“**ChinaClear**”) have established the clearing links and each is a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house.

- Should the remote event of ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against ChinaClear. HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear's liquidation. In that event, the relevant Sub-Funds may suffer delay in the recovery process or may not be able to fully recover their losses from ChinaClear.

*Participation in corporate actions and shareholders' meetings*

- HKSCC will keep CCASS participants informed of corporate actions of SSE Securities and/or SZSE Securities. Where the articles of association of a listed company do not prohibit the appointment of proxy/multiple proxies by its shareholder, HKSCC will make arrangements to appoint one or more investors as its proxies or representatives to attend shareholders' meetings when instructed. Further, investors (with holdings reaching the thresholds required under the Mainland China regulations and the articles of associations of listed companies) may, through their CCASS participants, pass on proposed resolutions to listed companies via HKSCC under the CCASS rules. HKSCC will pass on such resolutions to the companies as shareholder on record if so permitted under the relevant regulations and requirements. Hong Kong and overseas investors (including the relevant Sub-Funds) will be holding SSE Securities and SZSE Securities traded via the Stock Connects through their brokers or custodians, and they need to comply with the arrangement and deadline specified by their respective brokers or custodians (i.e. CCASS participants). The time for them to take actions for some types of corporate actions of SSE Securities and SZSE Securities may be as short as one business day only. Therefore, the relevant Sub-Funds may not be able to participate in some corporate actions in a timely manner.
- Hong Kong and overseas investors (including the relevant Sub-Funds) will be holding SSE Securities and SZSE Securities traded via the Stock Connects through their brokers or custodians. According to existing Mainland China practice, multiple proxies are not available. Therefore, the relevant Sub-Funds may not be able to appoint proxies to attend or participate in shareholders' meetings in respect of the SSE Securities and/or SZSE Securities (as the case may be).

#### Risks of default of securities brokers

- Since the relevant Sub-Fund(s) will be carrying out Northbound trading under Stock Connects through securities brokers in Hong Kong but not Mainland China brokers, they will not be protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in Mainland China and may be exposed to the risks of default of these brokers. However, for defaults occurring on or after 1 January 2020, Hong Kong's Investor Compensation Fund covers investors' loss in relation to securities traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the Northbound link of any of the Stock Connects.

#### Regulatory risk

- The Stock Connects are subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in Mainland China and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connects.
- It should be noted that the regulations are untested and there is no certainty as to how they will be applied. Moreover, the current rules and regulations are subject to change which may have potential retrospective effect. There can be no assurance that the Stock Connects will not be abolished. The relevant Sub-Funds which invest in the Mainland China markets through Stock Connects may be adversely affected as a result of such changes.

#### (xxvii) ***Risks associated with ChiNext of the Shenzhen Stock Exchange and/or the Science and Technology Innovation Board ("STAR Board")***

##### *Higher fluctuation on stock prices and liquidity risk*

- Listed companies on ChiNext market and/or STAR Board are usually of emerging nature with smaller operating scale. Listed companies on ChiNext market and STAR Board are subject to wider price fluctuation limits, and due to higher entry thresholds for investors may have limited liquidity, compared to other boards. Hence, they are subject to higher fluctuation in stock prices and liquidity and have higher risks and turnover ratios than companies listed on the Main Boards.

#### *Over-valuation risk*

- Stocks listed on ChiNext market and/or STAR Board may be overvalued and such exceptionally high valuation may not be sustainable. Stock price may be more susceptible to manipulation due to fewer circulating shares.

#### *Differences in regulation applicable to ChiNext market and STAR Board*

- The rules and regulations regarding companies listed on ChiNext market and STAR Board are less stringent in terms of profitability and share capital than those in the Main Boards.

#### *Delisting risk*

- It may be more common and faster for companies listed on ChiNext market and/or STAR Board to delist. ChiNext Market and STAR Board have stricter criteria for delisting compared to the Main Boards. This may have an adverse impact on the relevant Sub-Funds if the companies that they invest in are delisted.

#### *Concentration risk applicable to STAR Board*

- STAR Board is a newly established board and may have a limited number of listed companies during the initial stage. Investments in STAR Board may be concentrated in a small number of stocks and subject the relevant Sub-Funds to higher concentration risk.

#### *Operating risks applicable to STAR Board*

- STAR Board companies are generally in an early stage of development and have a shorter history. They are usually smaller in scale, have less stable operations, and are less resilient against market risks and industry risks. Although they may have higher growth potential and leverage more on technical innovations, their future performance particularly those without a profit track record is susceptible to great uncertainty.

#### *Technical risks applicable to STAR Board*

- There is higher degree of uncertainty whether a STAR Board company is able to convert its technical innovations into physical products or services. When the industry is experiencing rapid technological development and replacement, its product may be obsolete and may not survive in the market.

Investments in ChiNext market and/or STAR Board may result in significant losses for the relevant Sub-Funds and their investors.

In view of the above, investment in any Sub-Fund should be regarded as long term in nature. The Sub-Funds are, therefore, only suitable for investors who can afford the risks involved.

Investors should refer to the relevant Appendix for details of any additional risks specific to a Sub-Fund.

## **EXPENSES AND CHARGES**

### **Charges Payable by Investors**

An initial charge, a redemption charge and/or a switching charge may be charged to an investor in his/her purchase, redemption and switching of Units pursuant to the sections headed “Purchase of Units”, “Redemption of Units” and “Switching between Classes” above.

The applicable rates of such charges in respect of a Sub-Fund are set out in the Appendix for the relevant Sub-Fund.

### **Charges Payable by a Sub-Fund**

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

#### **Management Fee**

The Manager is entitled to receive a management fee accrued daily and payable monthly in arrears out of each Sub-Fund as a percentage of the Net Asset Value of each class of Unit in a Sub-Fund as at each Valuation Day at the rates set out in the Appendix for the relevant Sub-Fund subject to a maximum fee of 3% per annum.

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

The Manager has the discretion to waive or accept an amount lower than the current Management Fee from time to time, whether generally or in a particular case.

The Manager reserves the right to waive or rebate any fees to which it is entitled, whether in part or in full and whether in respect of a particular investor or generally.

Unitholders shall be given not less than one month's prior notice should there be any increase of the management fee from the current level to the maximum level.

#### Trustee Fee

The Trustee is entitled to a Trustee Fee, payable out of the assets of each Sub-Fund which is based on the Net Asset Value of the relevant Sub-Fund at the rate set out in relevant Appendix for the Sub-Fund subject to a maximum fee of 0.5% per annum with a minimum monthly fee (if any) as specified in the relevant Appendix. The Trustee Fee is accrued daily and is payable monthly in arrears.

The Trustee also acts as the Registrar of the Fund.

Unitholders shall be given not less than one month's prior notice should there be any increase of the Trustee Fee from the current level up to the maximum level.

#### Custodian Fee

The Custodian is entitled to, among others, transaction charges at customary market rates and a Custody Fee at different rates, largely depending on the markets where the Custodian is required to hold the Sub-Fund's assets. The maximum rate of the Custody Fee is 0.3% of the Net Asset Value of the relevant Sub-Fund. The current rate of the Custody Fee is set out in the Appendix for the relevant Sub-Fund. Such charges and fees will be calculated monthly and will be paid monthly in arrears. The Custodian will also be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of its duties.

The fees and expenses payable to the any sub-custodians will be borne by the Custodian.

#### Establishment Costs

The establishment costs of the Fund were borne by the initial Sub-Fund (which has since withdrawn its authorisation from the SFC and is no longer offered to the public). Such costs amounted to around HK\$1.1 million, and have been fully amortised.



Unless specified otherwise in the relevant Appendix for the relevant Sub-Fund, the establishment costs and payments incurred in the establishment of subsequent Sub-Funds are to be borne by the Sub-Fund to which such costs and payments relate and amortised over a period of five Accounting Periods (or such other period as determined by the Manager after consultation with the Auditor).

The Manager has considered the impact of such non-compliance with IFRS (in respect of the amortisation of the establishment expenses over the first five accounting periods of the initial Sub-Fund) and does not expect this issue to affect the results and the Net Asset Value of the Fund and the initial Sub-Fund materially. To the extent that the Fund's accounting basis deviates from IFRS, such non-compliance with IFRS may result in the Auditor qualifying its opinion on those annual audited financial statements depending on the nature and level of material non-compliance.

## **General**

Each Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, such costs will be allocated amongst the Sub-Funds in proportion to the respective Net Asset Value of all the Sub-Funds.

Each Sub-Fund will bear the cost of (a) all stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and expenses, registration fees and expenses, transaction fees of the Trustee, custodian or sub-custodian and proxy fees and expenses, collection fees and expenses, insurance and security costs, and any other costs, charges or expenses payable in respect of the acquisition, holding and realisation of any investment or other property or any cash, deposit or loan (including the claiming or collection of income or other rights in respect thereof and including any fees or expenses charged or incurred by the Trustee or the Manager or any connected person in the event of the Trustee or the Manager or such connected person rendering services or effecting transactions giving rise to such fees or expenses), (b) the fees and expenses of the Auditor and the Registrar, (c) fees charged by the Trustee in connection with valuing the assets of the Sub-Fund or any part thereof, calculating the issue and redemption prices of Units of the Sub-Fund and preparing financial statements, (d) all legal charges incurred by the Manager or the Trustee in connection with the Sub-Fund, (e) out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties, (f) the expenses of or incidental to the preparation of deeds supplemental to the Trust Deed, (g) the expenses of holding meetings of Unitholders and of giving notices to Unitholders, (h) the costs and expenses of obtaining and maintaining a listing for the Units of the Sub-Fund on any stock exchange or exchanges selected by the Manager and approved

by the Trustee and/or in obtaining and maintaining any approval or authorisation of the Fund or the Sub-Fund or in complying with any undertaking given, or agreement entered into in connection with, or any rules governing such listing, approval or authorisation, and (i) without prejudice to the generality of the foregoing, all costs incurred in publishing the issue and redemption prices of Units of the Sub-Fund, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deed (including the Auditor's fees and Trustee's fee), the expenses of preparing and printing any explanatory memorandum, and any other expenses, deemed by the Manager, after consulting the Trustee, to have been incurred in compliance with or in connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts.

For so long as the Fund and such Sub-Funds are authorised by the SFC, no advertising or promotional expenses shall be charged to the Sub-Funds so authorised.

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

All transactions carried out by or on behalf of the Fund or a Sub-Fund must be at arm's length and are in the best interests of the Unitholders. In particular, any transactions between a Sub-Fund and the Manager, the investment delegate, the directors, the Trustee, the Custodian or any of their connected persons as principal may only be made with the prior written consent of the Trustee. All such transactions will be disclosed in the annual and semi-annual report of the Fund and/or the relevant Sub-Fund. In entering into transactions with brokers or dealers connected to the Manager, the investment delegate or any of their connected persons, the Manager must ensure that:

- (i) such transactions are on arm's length terms;
- (ii) such transactions are in the best interests of the Unitholders;
- (iii) it uses due care in the selection of such brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (iv) transaction execution must be consistent with applicable best execution standards;
- (v) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
- (vi) it monitors such transactions to ensure compliance with its obligations; and
- (vii) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the annual and semi-annual report of the Fund and/or the relevant Sub-Fund.

Neither the Manager, the investment delegate, nor any of their connected persons will retain cash or other rebates from brokers or dealers in consideration of directing transactions for a Sub-Fund to such brokers or dealers, save that goods and services (soft commissions) may be retained if, (i) such goods and services are of demonstrable benefit to the Unitholders (including research and advisory services; economic and political analysis; portfolio analysis including valuation and performance measurement; economic and political and quotation services; computer hardware and software incidental to the above goods and services; clearing and custodian services and investment-related publications); (ii) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments; and (iv) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. Any such cash commission or rebates received from any such brokers or dealers shall be for the account of the relevant Sub-Fund. Details of any such commissions including a description of the goods and services received by the Manager will be disclosed periodically in the annual and semi-annual report of the Fund and/or the relevant Sub-Fund.

The Manager, the investment delegate and/or any of their connected person reserves the right to effect transactions by or through the agency of another person with whom the Manager, the investment delegate and/or any of their connected person has an arrangement under which that party will from time to time provide to or procure for the Manager, the investment delegate and/or any of their connected person goods, services or other benefits (such as research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications) the nature of which is such that their provision can reasonably be expected to benefit the relevant Sub-Fund as a whole and may contribute to an improvement in the performance of the relevant Sub-Fund or of the Manager, the investment delegate and/or any of their connected person in providing services to the relevant Sub-Fund and for which no direct payment is made but instead the Manager, the investment delegate and/or any of their connected person undertakes to place business with that party. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

If cash forming part of a Sub-Fund's assets is deposited with the Trustee, the Manager, the investment delegate or with any connected person of these companies (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders, having regard to the prevailing commercial rate for deposits of a deposit of similar type, size and term, in the same currency and with institutions of a similar standing negotiated at arm's length in accordance with ordinary and normal course of business.

## **TAXATION**

Each prospective Unitholder should inform himself of, and where appropriate take advice on, the taxes applicable to the acquisition, holding and redemption of Units by him under the laws of the places of his citizenship, residence and domicile. Neither the Manager, the Trustee nor any of their respective affiliates accepts any responsibility for providing tax advice to any prospective Unitholder.

### **Hong Kong**

#### **Taxation of the Fund**

##### **Profits Tax**

Profits derived by the Fund and any of its Sub-Fund(s) will be exempt from Hong Kong Profits Tax under Section 26A of the Inland Revenue Ordinance (“**IRO**”) during such period as the Fund and any of its Sub-Fund(s) are authorised by the SFC as a collective investment scheme under Section 104 of the SFO for offer to the retail public in Hong Kong.

##### **Stamp Duty**

The sale and purchase of Hong Kong stock (if any) by the Fund and/or the Sub-Fund(s) is generally subject to Hong Kong stamp duty at 0.1% on the higher of the consideration amount or market value, payable by each of the buyer and the seller (i.e. 0.2% in total for a complete transaction). The rate of stamp duty on stock transfer is proposed to be increased from the current rate of 0.1% to 0.13% with effect from 1 August 2021 in the 2021-22 Budget, subject to the completion of the legislative process.

“**Hong Kong stock**” is defined under the Hong Kong Stamp Duty Ordinance (“**SDO**”) as “**stock**”, the transfer of which is required to be registered in Hong Kong.

Pursuant to the remission order issued by the Secretary for the Treasury on 20 October 1999, any Hong Kong stamp duty payable on the transfer of Hong Kong stocks to the Fund and/or the Sub-Fund(s) as consideration for an allotment of Units or transfer of Hong Kong stocks by the Fund and/or the Sub-Fund(s) upon redemption of Units is remitted.

### Taxation of Unitholders

#### Profits Tax

Profits arising on the sale, redemption, disposal or otherwise transfer of an investment in the Units will only be subject to Hong Kong Profits Tax (which is currently charged at the rate of 16.5% for corporations, and 15% for unincorporated business; half tax rate applies on the first HK\$2 million of assessable profits of those eligible taxpayers (i.e. 8.25% and 7.5%), subject to certain conditions being met) for Unitholders who carry on a trade, profession or business in Hong Kong where the profits, not being regarded as capital in nature, arise from such trade, profession or business and are sourced in Hong Kong. Unitholders who are not acquiring the Units as part of a trade, profession or business that they carry on in Hong Kong will not be liable to Hong Kong Profits Tax in respect of any gains from the disposal/redemption of such Units.

Distributions received by Unitholders from their investments in the Units would not be chargeable to Profits Tax in Hong Kong (whether by way of withholding or otherwise) under current law and practice of the Inland Revenue Department of Hong Kong.

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

#### Stamp Duty

No Hong Kong stamp duty is generally payable by a Unitholder in relation to the issue of the Units or on the redemption of the Units. No Hong Kong stamp duty is payable where the sale or transfer of the Units is effected by extinguishing the Units or the sale or transfer is to the Manager who subsequently re-sells the Units within two months thereof.

Other types of sales or purchases or transfers of Units by Unitholders would be liable to Hong Kong stamp duty of 0.1% (borne by each of the buyer and the seller) on the higher of the consideration or market value. The rate of stamp duty is proposed to be increased from the current rate of 0.1% to 0.13% with effect from 1 August 2021 in the 2021-22 Budget, subject

to the completion of the legislative process. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of Units.

### Automatic Exchange of Financial Account Information

#### (a) General 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 non-Hong Kong tax residents holding accounts with Hong Kong FIs, and to file such information 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 tax resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a Competent Authority Agreement (“**CAA**”); however, the Fund, the relevant Sub-Funds, the Manager, the Trustee and/or their agents may further collect information relating to residents of other jurisdictions.

The Fund and each of its Sub-Funds are required to comply with the requirements of AEOI as implemented by Hong Kong, which means the Fund, the relevant Sub-Funds, the Manager, the Trustee and/or their agents may collect tax information relating to Unitholders (and Controlling Persons, as defined in the Ordinance, of a Unitholder that is not a natural person) and prospective investors and provide to the IRD tax information relating to Unitholders (and Controlling Persons as appropriate).

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 to identify whether any such accounts are considered reportable accounts (“**Reportable Accounts**”) for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis commencing from the year 2018 to transmit the information reported to it to the government authorities of the relevant jurisdictions with which Hong Kong has signed a CAA. Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a jurisdiction with which Hong Kong has signed a CAA; and (ii) Controlling Persons of a Unitholder that is not a natural person who are tax resident in a jurisdiction with which Hong Kong has signed a CAA under certain conditions. Under the Ordinance, details of Unitholders, including but not limited to their name, date of birth, jurisdiction of birth, address, tax residence, Taxpayer Identification Number (“**TIN**”), account details, account balance/value, and income or sale or

redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant jurisdictions of tax residence.

(b) Impact to the Sub-Funds and Unitholders

By investing in the Fund and its Sub-Funds and/or continuing to invest in the Fund and its Sub-Funds, Unitholders acknowledge that they may be required to provide additional information to the Fund, and/or the relevant Sub-Funds, the Manager, the Trustee, and/or their agents in order for the Fund and each of its Sub-Funds to comply with AEOI. The Unitholder's information (and information pertaining to Controlling Persons of a Unitholder that is not a natural person) may be communicated by the IRD to authorities in other jurisdictions. The failure of an Unitholder or the Controlling Persons of the Unitholder to provide any requested information, may result in the Manager and/or the Trustee taking any action and/or pursue remedies at their disposal including, without limitation, mandatory redemption or withdrawal of the Unitholder concerned. Any such mandatory redemption or withdrawal will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

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

## **Mainland China**

The following considerations apply to any Sub-Fund(s) that invests/invest in the securities and instruments issued by Mainland China tax residents.

By investing in securities (including A-Shares and debt instruments) issued by Mainland China resident enterprises, irrespective of whether such securities are issued or distributed onshore or offshore (the “**Mainland China securities**”), the Sub-Fund(s) may be subject to Mainland China taxes.

The income (including interest income and capital gains) derived from a Sub-Fund(s)' investments in debt securities issued by non-Mainland China issuers outside Mainland China should not be subject to Mainland China taxes.

The PRC government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revisions or

amendment in tax laws and regulations may affect the after-taxation profit of Mainland China companies and foreign investors in such companies.

### Corporate Income Tax (“CIT”)

Under the Mainland China CIT regime, enterprises established in the Mainland China; or enterprises established under the laws of foreign countries or regions whose “place of effective management” is located in the Mainland China are considered to be Mainland China resident enterprises. The term “place of effective management” refers to the place where the material and overall management and control of the business, personnel, accounts and assets of the enterprise is exercised. Mainland China resident enterprises will be subject to CIT at 25% on their worldwide taxable income.

Non-resident enterprises with an establishment or place of business (“**E&P**”) in the Mainland China are subject to CIT at 25% on the profits and gains attributable to that E&P in the Mainland China. An E&P is broadly defined under the CIT regime to include a place of management, operation or administration; a place where services are rendered; and other establishment engaged in business operating activities. It also includes business agents that conduct certain activities on behalf of a principal.

Non-resident enterprises without any E&P in the Mainland China, or non-resident enterprises whose income is not attributable to an E&P in the Mainland China, are subject to Mainland China withholding tax (“**WHT**”), generally at a rate of 10% to the extent it directly derives the Mainland China-sourced passive income, unless any specific exemption or reduction is available under current Mainland China tax laws and regulations or relevant tax treaties.

The Manager intends to manage and conduct the Sub-Fund(s) in such a manner that the Sub-Fund(s) should not be treated as a Mainland China resident enterprise(s) or a non-Mainland China resident enterprise(s) with an E&P in the Mainland China for Mainland China CIT purpose, although this cannot be guaranteed. As such, it is expected that the Sub-Fund(s) should not be subject to CIT on an assessment basis at 25% and would only be subject to WHT to the extent that the Sub-Fund(s) directly derives Mainland China-sourced income in respect of its investment in Mainland China securities.

### *Interest income / Dividend*

Any interest income, dividend distributions from Mainland China resident enterprises received by the Sub-Fund(s) are generally subject to Mainland China WHT at a rate of 10%, unless such



WHT is eligible for a reduction or exemption in accordance with any Mainland China tax laws and regulations or an applicable tax treaty signed with the Mainland China.

The relevant Sub-Fund(s) may also invest via the Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (collectively the “**Stock Connects**”) in China A-Shares directly. Pursuant to the “Notice about the tax policies related to the Shanghai-Hong Kong Stock Connect” (Caishui [2014] No. 81) (“**Circular 81**”) and the “Notice about the tax policies related to the Shenzhen-Hong Kong Stock Connect” (Caishui [2016] No. 127) (“**Circular 127**”) promulgated by the Ministry of Finance (“**MOF**”), the State Administration of Taxation (“**SAT**”) and the China Securities Regulatory Commission (“**CSRC**”) on 14 November 2014 and 1 December 2016 respectively, the Sub-Fund(s) would be subject to a WHT of 10% on all cash dividend payment and cash proceeds which would be referable to dividend or distributions arising from China A-Shares through the Stock Connects. There is no assurance that the rate of the WHT will not be changed by the relevant Mainland China tax authorities in the future.

In respect of interest income, under the Mainland China CIT law and regulations, interest income derived from PRC government bonds issued by the MOF, or bonds issued by local government of a province, autonomous regions, and municipalities directly under the Central Government or municipalities separately listed on the state plan as approved by the State Council are exempt from Mainland China WHT under the Mainland China CIT law.

On 22 November 2018, the MOF and the SAT jointly issued Circular Caishui [2018] No.108 (“**Circular 108**”), which stipulates that foreign institutional investors are exempted from Mainland China WHT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the China bond market. The Ministry of Finance and the State Taxation Administration of the PRC jointly issued a Public Notice dated 22 November 2021 to temporarily exempt the VAT on bond interest income received by foreign institutional investors from the investments in the China bond market during the period from 7 November 2021 to 31 December 2025.

Meanwhile, under the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the “**Arrangement**”), the Mainland China WHT for interest income may be reduced or exempted by the relevant tax treaty, if applicable, subject to complying with the terms of the relevant tax treaty and any treaty relief application procedures in accordance with the relevant Mainland China tax regulations.

## *Capital gains*

### (i) Investing in China A-Shares

Based on the Mainland China CIT law and its detailed implementation rules (“**DIR**”), “income from the transfer of properties” sourced from China by a non-Mainland China resident enterprise without any E&P in the Mainland China should be subject to 10% Mainland China WHT.

Pursuant to Circular 81 and Circular 127, Mainland China WHT is temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Sub-Fund(s)) on the trading of China A-Shares through the Stock Connects. As such, no provision for gross realised or unrealised capital gains derived from trading of China A-Shares via the Stock Connects is made by the Sub-Fund(s).

Please note that the tax exemption granted under Circular 81 and Circular 127 is temporary. As such, when the Mainland China tax authorities announce the expiry date of such exemption, the Sub-Fund(s) may in future need to make provision to reflect the taxes payable, which may have a substantial negative impact on the Net Asset Value.

### (ii) Investing in debt or fixed income securities

There are currently no specific tax rules or regulations governing the taxation of capital gains realised by foreign investors on the disposal of these securities. In the absence of specific rules, the general tax provisions under Mainland China CIT Law should apply which stipulate that a non-resident enterprise without E&P in the Mainland China would generally be subject to WHT of 10% on its Mainland China-sourced income, unless exempt or reduced under current Mainland China tax laws and regulations or relevant tax treaties.

According to the DIR of the CIT Law, the source of income from the transfer of properties should be determined according to the following principles:

- If the property concerned is an immovable property, the source shall be determined according to the location where the immovable property is situated;
- If the property concerned is an equity investment, the source shall be determined according to the location of the investee enterprise whose shares are being transferred;
- If the property concerned is a movable property, the source shall be determined according to the location of the transferor.

Mainland China fixed income securities should not be considered as immovable properties or equity investment. However, the CIT Law and its DIR did not specify whether Mainland China debt or fixed income securities should be treated as movable properties for WHT purpose. Based on the current verbal interpretation of the SAT and the local Mainland China tax authorities, debt or fixed income securities can be regarded as movable property, and capital gains derived by foreign investors from investment in Mainland China debt or fixed income securities via QFIIs and RQFIIs should not be treated as Mainland China-sourced income and thus not subject to Mainland China WHT. However, there are no written tax regulations issued by the Mainland China tax authorities to explicitly clarify such treatment. Having said that, as a matter of practice, the collection of such 10% Mainland China WHT on capital gains realised by non-Mainland China resident enterprises from the trading of Mainland China debt or fixed income securities has not been strictly enforced by the Mainland China tax authorities. Please note that there is no official regulation for this position and thus it is subject to the local practice of the in-charge tax authority.

If the SAT and/or the MOF would issue tax rules in the future which change the above position (e.g. does not treat debt securities and instruments as movable property and consider the gains derived by non-Mainland China residents (including QFIIs and RQFIIs) to be Mainland China-sourced), the relevant Sub-Fund(s) would need to assess whether treaty relief would be available under the Arrangement which is discussed below.

Under the Arrangement, capital gains derived by a Hong Kong tax resident from the disposal of Mainland China fixed income securities and fixed income funds should not be subject to WHT upon completion of lodgement of the treaty benefit record-filing procedures with the Mainland China tax authorities. Having considered independent professional tax advice regarding the relevant Sub-Fund(s)'s eligibility for enjoying the treaty benefits in the Arrangement, and in accordance with such advice, the Manager considers that the relevant Sub-Fund(s) should qualify as a Hong Kong tax resident and it should be able to enjoy treaty relief based on the Arrangement. In this connection, the Manager has determined, having considered independent professional tax advice, that no WHT provision will be made on the gross realised and unrealised capital gains derived from trading of Mainland China fixed income securities and fixed income funds. It should be noted that there are certain uncertainties regarding the WHT provisioning policy, including:

- (a) the Mainland China tax rules and the Arrangement may be changed in the future and the relevant Sub-Fund(s) may ultimately be required to pay WHT on capital gains;

- (b) to date, the relevant Sub-Fund(s) has not obtained from the Inland Revenue Department of Hong Kong (“**IRD**”) a Hong Kong Tax Resident Certificate (“**HKTRC**”), which if the Mainland China tax authorities enforce the collection of WHT and require the relevant Sub-Fund(s) to provide HKTRC in the future, the Manager will apply for a HKTRC on behalf of the relevant Sub-Fund(s) for the relevant years. However, there is a risk that the Manager may not be able to obtain a HKTRC on behalf of the relevant Sub-Fund(s); and
- (c) the relief under the Arrangement is still subject to the assessment of the Mainland China tax authorities. Even if the Manager believes that the relevant Sub-Fund(s) should be eligible for such relief, the Mainland China tax authorities may ultimately hold a different view.

#### Value-added tax (“**VAT**”) and surtaxes

The MOF and the SAT jointly issued the Caishui [2016] No. 36 (“**Circular 36**”) on 23 March 2016. Circular 36 provides that VAT at 6% shall be levied on the difference between the selling and buying prices of those marketable securities (e.g., A-Shares and RMB denominated debt securities issued by Mainland China issuers).

#### *Interest income / Dividend*

Interest received from government bonds issued by the in-charge Finance Bureau of the State Council and/or local governments bonds approved by the State Council would be exempted from Mainland China VAT under the prevailing Mainland China VAT regulations.

Interest received by foreign investors (including QFIIs and RQFIIs) from non-government bonds (including corporate bonds) issued by Mainland China tax resident enterprises should be subject to 6% VAT. According to Circular 108, foreign institutional investors are exempted from China VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the China bond market. The Ministry of Finance and the State Taxation Administration of the PRC jointly issued a Public Notice dated 22 November 2021 to temporarily exempt the VAT on bond interest income received by foreign institutional investors from the investments in the China bond market during the period from 7 November 2021 to 31 December 2025.

Dividend income on equity investment derived from China are excluded from the taxable scope of VAT.

### *Capital gains*

According to Circular 81 and Circular 127, foreign investors which derive capital gains from trading activities via the Stock Connects are also exempted from VAT. Therefore, to the extent that the Sub-Fund(s)' investments (such as A-Shares through the Stock Connects, Access Products or debt instruments) are conducted through these channels, the capital gains should be exempted from VAT.

Please note that, if VAT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as 12% of VAT payable.

Any profit distributions on equity investment derived from China are excluded from the taxable scope of VAT.

### Stamp duty

Stamp duty under Mainland China laws generally applies to the execution and receipt of all taxable documents listed in the Mainland China's Provisional Rules on stamp duty. Stamp duty is levied on the execution or receipt in China of certain documents, including contracts for the sale of China A-Shares traded on the Mainland China stock exchanges. In the case of contracts for sale of China A-Shares and B-Shares, such stamp duty is currently imposed on the seller but not on the purchaser, at the rate of 0.1%. It is unclear whether Mainland China stamp duty that is imposed on the transfer of shares of Mainland China companies under the stamp duty Regulations would similarly apply to the acquisition and disposal of H-shares by foreign investors outside Mainland China. Having said that, Mainland China stamp duty is generally not imposed for trading of H-shares in practice.

According to Circular 127, Hong Kong and overseas investors borrow and return listed shares in relation to shares guarantee and short-selling through the Stock Connects will be exempted from Mainland China stamp duty.

No Mainland China stamp duty is expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or subsequent transfer of such bonds. Further, no Mainland China stamp duty is expected to be imposed on non-tax resident holders of fund units, either upon subscription or subsequent redemption of such fund units.

Shareholders is advised to seek their own tax advice on their tax position with regard to their investment in the Sub-Fund(s).

It is possible that the current tax laws, regulations and practice in the Mainland China will change, including the possibility of taxes being applied retrospectively, and that such changes may result in higher taxation on Mainland China investments than currently contemplated.

#### Tax provisions

Please note that the existing tax laws, regulations and practices may be revised or abolished in the future, with the possibility that such changes could be applied retrospectively. In view of any potential tax liabilities for capital gains or other income, the Sub-Fund(s) reserves the right to provide for WHT on such gains or income and withhold the taxes for the account of the Sub-Fund(s).

As such, if it transpires that the Sub-Fund(s) is/are subject to actual tax liabilities, in respect of which the Sub-Fund(s) had not made any provision, investors should note that the Net Asset Value of the Sub-Fund(s) may be lowered, as the Sub-Fund(s) will ultimately have to bear the full amount of tax liabilities. It should also be noted that the level of provision (if any) may be inadequate or excessive to fulfil the actual Mainland China tax liabilities on investments made by the Sub-Fund(s). Consequently, Shareholders may be disadvantaged or advantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If the actual tax levied by the Mainland China tax authorities is higher than that provided for by the Sub-Fund(s) so that there is a shortfall in the tax provision amount (or if the Manager did not make any tax provision), Shareholders should note that the Net Asset Value of the Sub-Fund(s) may be adversely affected, as the Sub-Fund(s) will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Shareholders and subsequent Shareholders will be disadvantaged as such Shareholders will bear, through the Sub-Fund(s), a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund(s). On the other hand, the actual tax liabilities may be lower than the tax provision made where those persons who have already redeemed their Shares before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, the Manager will, as

soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

### **Risk Factor – General Mainland China taxation risks**

Investors should consider the risk factor “Risks concerning taxation” in the section “Risk Factors” in the main part of the Explanatory Memorandum, and further pay attention to the following risk disclosures in relation to Mainland China tax:

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in Mainland China will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the relevant Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to offshore companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in Mainland China which the relevant Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

### **FATCA**

#### **(a) General Information**

Sections 1471-1474 of the United States Internal Revenue Code of 1986, as amended (commonly known as the Foreign Account Tax Compliance Act or “**FATCA**”) imposes a 30% withholding tax on certain payments to a foreign financial institution (“**FFI**”) if that FFI is not compliant with FATCA. The Fund and/or its Sub-Funds are likely to be FFIs and thus, subject to FATCA and generally be required to enter into an agreement (an “**FFI Agreement**”) with the IRS under which it will agree to identify its direct or indirect owners who are U.S. persons and report certain information.

Beginning 1 July 2014, this withholding tax applies to payments to the Fund and/or Sub-Funds that constitute interest, dividends and other types of income from U.S. sources (such as dividends paid by a U.S. corporation) and beginning on 1 January 2019, this withholding tax is extended to the proceeds received from the sale or disposition of assets that give rise to U.S. source dividend or interest payments. It is expected that certain non-U.S. sourced payments attributable to amounts that would be subject to FATCA withholding (referred to as “**passthru**”

**payments**”) will also be subject to FATCA withholding, though the definition of “passthru payment” in U.S. Treasury Regulations is currently pending.

These FATCA withholding taxes may be imposed on payments to the Fund and/or Sub-Fund unless the Fund and/or Sub-Fund becomes FATCA compliant pursuant to (i) the provisions of FATCA and the relevant regulations, notices and announcements issued thereunder, and/or (ii) where the Fund and/or Sub-Fund is subject to an appropriate Intergovernmental Agreement to improve international tax compliance and to implement FATCA (“**IGA**”), the applicable IGA. If an IGA is in place between the US and the country where the FFI is domiciled, the FFI will generally be able to apply simpler, less burdensome due diligence and tax information sharing requirements, with generally no FATCA tax withholding if the requirements of that IGA are satisfied.

The Hong Kong government has signed and released “Model 2” IGA with IRS on 13 November 2014, adopting “Model 2” IGA arrangements. Under this “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Fund and the Sub-Fund) would be required to enter into the FFI Agreement with the Internal Revenue Service (“**IRS**”), register with the IRS and comply with the terms of FFI Agreement. Otherwise they will be subject to a 30% withholding tax on relevant U.S. sourced payments to them.

(b) FATCA Registration Status

Taikang Kaitai Overseas Short Tenor Bond Fund has been registered with the IRS as a participating FFI and has obtained a global intermediary identification number (GIIN No.: N9XCKS.99999.SL.344) from the IRS.

Taikang Kaitai Investment Grade Bond Fund has been registered with the IRS as a participating FFI and has obtained a global intermediary identification number (GIIN No.: TS0I8A.99999.SL.344) from the IRS.

Taikang Kaitai China New Opportunities Fund has been registered with the IRS as a participating FFI and has obtained a global intermediary identification number (GIIN No.: BECC1P.99999.SL.344) from the IRS.

Taikang Kaitai Hong Kong Dollar Money Market Fund has been registered with the IRS as a participating FFI and has obtained a global intermediary identification number (GIIN No.: 7SPA4W.99999.SL.344) from the IRS.



Taikang Kaitai US Dollar Money Market Fund has been registered with the IRS as a participating FFI and has obtained a global intermediary identification number (GIIN No.: 7M504P.99999.SL.344) from the IRS.

Taikang Kaitai Monthly Stable Income Fund has been registered with the IRS as a participating FFI and has obtained a global intermediary identification number (GIIN No.: 9EUTQF.99999.SL.344) from the IRS.

An officer of the Manager is acting as the responsible officer for the Fund and each of its Sub-funds.

(c) Impact to the Sub-Funds and Unitholders

Unitholders will be required to furnish appropriate documentation certifying as to their FATCA Chapter 4 Status, together with such additional tax information as the Manager or its agents may from time to time request.

Each Unitholder shall also be required to: (a) inform the Manager or its agents as soon as possible of any change in any information provided in relation to its FATCA Chapter 4 Status (including any circumstances that would result in a change in the taxpayer status of such Unitholder); and (b) waive any and all rights of such Unitholder under any relevant law or regulation in any applicable jurisdiction that would prevent the Manager or its agents from meeting applicable regulatory and legal requirements.

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Fund or the relevant Sub-Fund, or a risk of the Fund or the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager or its agents may, acting in good faith and on reasonable grounds as permitted under applicable laws and regulations, (a) report the relevant information of such Unitholder to the US IRS; (b) withhold such amount from any redemption and/or distributions moneys which would otherwise be payable to a Unitholder; and/or (c) exercise its right to request a transfer of Units to another person or to compulsorily redeem the Units held by such Unitholder.

Nothing in this section constitutes or purports to constitute tax advice and Unitholder should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. Investors should consult their own tax advisors regarding the FATCA requirements, possible implications and related tax consequences with respect to their own situation. In particular, investors who hold their Units through intermediaries should

confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer FATCA withholding tax on their investment returns.

Although the Fund and the Sub-Funds will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Fund and the Sub-Funds will be able to satisfy these obligations. If the Fund or any Sub-Fund becomes subject to a withholding tax as a result of the FATCA regime, the value of the Units held by Unitholders may suffer material losses.

## **REPORTS AND ACCOUNTS**

The Fund's financial year end is 31 December in each year. The first financial year for Taikang Kaitai Overseas Short Tenor Bond Fund and Taikang Kaitai China New Opportunities Fund ended on 31 December 2017, while the first financial year for Taikang Kaitai Hong Kong Dollar Money Market Fund and Taikang Kaitai US Dollar Money Market Fund ended on 31 December 2022. The first financial year for Taikang Kaitai Investment Grade Bond Fund and Taikang Kaitai Monthly Stable Income Fund will be ending on 31 December 2024.

The Manager will not distribute printed copies of the annual report and audited accounts but will instead make available such reports to Unitholders (in printed and electronic forms). The Manager will notify Unitholders where and when the annual report and audited accounts (in English) can be obtained (in printed and electronic forms) within four months after the end of financial year, and where and when the unaudited semi-annual reports (in English) can be obtained (in printed and electronic forms) within two months after 30 June in each year. The first semi-annual reports for (i) Taikang Kaitai Overseas Short Tenor Bond Fund and Taikang Kaitai China New Opportunities Fund (ii) Taikang Kaitai Hong Kong Dollar Money Market Fund and (iii) Taikang Kaitai US Dollar Money Market Fund were respectively published for the period ended on 30 June 2017, 30 June 2022 and 30 June 2023. The first semi-annual reports for Taikang Kaitai Investment Grade Bond Fund and Taikang Kaitai Monthly Stable Income Fund will be published for the period ending on 30 June 2024. Printed copies of the annual and semi-annual reports will be available upon request of Unitholders free of charge at any time during normal business hours on any Business Day at the Manager's office and such reports will also be available in electronic copies at <http://www.taikangasset.cn/tkzc/hk/><sup>2</sup>.

In the event the Manager decides to change the means to make available financial reports stated above to Unitholders, not less than one month's prior notice will be given to Unitholders.

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

The Fund will comply with the International Financial Reporting Standards (IFRS).

## **DISTRIBUTION OF INCOME**

The Manager has discretion to determine whether dividends will be paid for any Sub-Fund. The distribution policy for each Sub-Fund is further described in the relevant Appendix for the Sub-Fund.

Distributions (if any) declared in respect of an interim accounting period or an Accounting Period, as described in the relevant Appendix, shall be distributed among the Unitholders of the relevant classes of Units rateably in accordance with the number of Units held by them on the record date in respect of such interim accounting period or Accounting Period, as the case may be. For the avoidance of doubt, only Unitholders whose names are entered on the register of Unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding interim accounting period or Accounting Period, as the case maybe.

Generally, any payment of distributions will be made in the base currency of the relevant Sub-Fund or class currency of the relevant classes (as determined by the Manager and agreed by the Trustee) by direct transfer into the appropriate bank account or by cheque at the risk of the Unitholders (or in such other manner as may be agreed with the Manager and the Trustee).

If the amount of dividends to a Unitholder is less than USD100 (or its equivalent in another currency), such dividends will not be paid in cash and will be applied to subscribe for further Units of the corresponding class of the relevant Sub-Fund. No initial charge will be made on the issue of such further units.

In the event that a Unitholder redeems or switches its entire holding of Units in the relevant class on or before the actual payment date of any distributions, the reinvestment amount will be deemed by the Manager to be changed to a cash dividend payment if the Unitholder no longer holds any Units in the relevant class as of the reinvestment date. Such cash dividend payment will be paid by cheque to the Unitholder.

Any distribution which is not claimed for six years will be forfeited and become part of the assets of the relevant Sub-Fund.

## **VOTING RIGHTS**

Meetings of Unitholders may be convened by the Manager or the Trustee, and the Unitholders of 10% or more in value of the Units in issue form a quorum for the transaction of business except for the passing of an extraordinary resolution.

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution shall be Unitholders present in person or by proxy representing 25% or more of the Units in issue. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting should be adjourned for not less than 15 days. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. On a poll every Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the holder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders.

Unitholders will be given not less than 21 days' prior notice (inclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given) of every general meeting at which an extraordinary resolution is to be proposed and at least 14 days' prior notice (inclusive of the day on which the notice is served or deemed to be served and of the day of which the notice is given) of every general meeting at which an ordinary resolution is proposed shall be given by the Trustee (or the Manager, if the Manager convenes the meeting) to all Unitholders in the relevant Sub-Fund or Sub-Funds in accordance to the terms of the Trust Deed.

These meetings may be used to sanction any modification, alteration or addition to the terms of the Trust Deed, to increase the maximum Management Fee, Manager's Fee or Trustee fee, to permit other types of fees or to approve termination of the Trust or any Sub-Fund in accordance to the terms of the Trust Deed. An ordinary resolution may be passed by a simple majority of the votes. A special or extraordinary resolution may only be passed by 75% or more of the votes of those present and entitled to vote in person or by proxy at a duly convened meeting.

## **PUBLICATION OF PRICES**

The Net Asset Value per Unit of Taikang Kaitai Overseas Short Tenor Bond Fund, Taikang

Kaitai China New Opportunities Fund, Taikang Kaitai Hong Kong Dollar Money Market Fund, Taikang Kaitai US Dollar Money Market Fund and Taikang Kaitai Monthly Stable Income Fund at each Valuation Day will be published on a daily basis on the Manager's website: <http://www.taikangasset.cn/tkzc/hk/><sup>3</sup>.

## **TRANSFER OF UNITS**

Subject as provided below, Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee and duly stamped with adequate stamp duty before the form is passed to the Registrar. The transferor will be deemed to remain the holder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of such Units.

Each instrument of transfer must relate to a single class of Units only. No Units may be transferred if, as a result, either the transferor or the transferee would hold Units having a value less than the minimum holding (if any) of the relevant class as set out in the relevant Appendix.

## **COMPULSORY REDEMPTION OR TRANSFER OF UNITS**

The Manager or the Trustee may require a Unitholder to transfer the Unitholder's Units or may redeem such units in accordance with the Trust Deed if it shall come to the notice of the Manager or the Trustee that the Unitholder holds such Units (a) in breach of the law or requirements of any country/region, any governmental authority or any stock exchange on which such Units are listed or (b) in circumstances (whether directly or indirectly affecting such Unitholder and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager or the Trustee to be relevant) which, in the opinion of the Manager or the Trustee, might result in the Fund and/or any Sub-Fund in relation to such class of Units incurring any liability to taxation or suffering any other pecuniary disadvantage which the Fund or the Sub-Fund might not otherwise have incurred or suffered.

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

## **TRUST DEED**

The Fund was established under the laws of Hong Kong by a Trust Deed dated 16 April 2014 made between Taikang Asset Management (Hong Kong) Company Limited as Manager and BOCI-Prudential Trustee Limited as Trustee.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Any indemnity expressly given to the Trustee or to the Manager in the Trust Deed is in addition to and without prejudice to any indemnity allowed by law. However, the Trustee and the Manager shall not be exempted from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence, nor may they be indemnified against such liability by Unitholders or at Unitholders' expense. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

Copies of the Trust Deed (together with any supplemental deeds) may be obtained from the Manager on payment of a reasonable fee and may be inspected during normal working hours at the offices of the Manager free of charge.

## **TERMINATION OF THE FUND OR ANY SUB-FUND**

The Fund shall continue until it is terminated in one of the ways set out below.

The Fund may be terminated by the Trustee on notice in writing:

- (a) if the Manager goes into liquidation, becomes bankrupt or if a receiver is appointed over any of their assets and not discharged within 60 days; or
- (b) if in the opinion of the Trustee, the Manager is incapable of performing or fails to perform its duties satisfactorily or shall do any other thing which in the opinion of the Trustee is calculated to bring the Fund into disrepute or to be harmful to the interests of the Unitholders; or
- (c) if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund; or
- (d) within 30 days of the Manager leaving office, no new manager is appointed; or

- (e) no new trustee is appointed within six months of the Trustee giving notice of its desire to retire.

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

- (a) on any date, in relation to the Fund, the aggregate Net Asset Value of all Units outstanding thereunder shall be less than RMB100 million or in relation to a Sub-Fund, the aggregate Net Asset Value of the Units of the relevant class or classes outstanding thereunder shall be less than RMB100 million or such other amounts as disclosed in the relevant Appendix; or
- (b) in the opinion of the Manager, it is impracticable or inadvisable to continue a Sub-Fund and/or any class of Units of a Sub-Fund (as the case may be) (including without limitation, a situation where the Sub-Fund cannot access investment quota to pursue its investment objectives or it is no longer economically viable to operate the Sub-Fund); or
- (c) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund or a Sub-Fund.

In cases of termination on notice, no less than one month's notice (such notice having been previously approved by the SFC, if necessary) containing information necessary to enable Unitholders to make an informed judgment of the proposed termination by the Manager (including the reasons for the termination, the relevant provisions under the Trust Deed that enable such termination, the consequences of the termination and their effects on existing Unitholders, the alternatives available to Unitholders, the estimated costs of the termination and who is expected to bear them) will be given to Unitholders.

Further, each of the Sub-Funds or a class or classes of a Sub-Fund may be terminated by an extraordinary resolution of the Unitholders of the Sub-Fund or the Unitholders of the relevant class or classes (as the case may be) on such date as the extraordinary resolution may provide.

Any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve months from the date upon which the same were payable be paid into court of competent jurisdiction subject to the right of the Trustee to deduct therefrom any expenses it may incur in

making such payment.

### **ANTI-MONEY LAUNDERING REGULATIONS**

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering, the Manager and Trustee or their respective delegates or agents may require a detailed verification of an investor's identity and the source of payment of application moneys. Depending on the circumstances of each application, a detailed verification might not be required where:-

- (a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or
- (b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations. The Manager and the Trustee nevertheless reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Manager or the Trustee may refuse to accept the application and the subscription moneys relating thereto and refuse to pay any redemption proceeds if an applicant for Units delays in producing or fails to produce any information required for the purposes of verification of identity or source of fund.

### **CONFLICTS OF INTEREST**

The Manager, the Trustee, the investment delegate and the Custodian and their connected persons may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment delegate, 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 any Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund and the Sub-Funds. Each will, at all times, have regard in such event to its obligations to the Fund and the Sub-Funds and will endeavour to ensure that such conflicts are resolved fairly. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated. To minimise potential conflicts of interest, the Manager has put in place compliance procedures



and measures such as segregation of duties and responsibilities together with different reporting lines and “Chinese walls”.

In addition to applying the above measures, to comply with requirements under the Code, if a Sub-Fund invests in an underlying fund managed by the Manager or a connected person of the Manager, all initial charges on such underlying fund will be waived. The Manager may not obtain a rebate on any fees or charges levied by such underlying fund or its manager.

### **FACSIMILE OR ELECTRONIC INSTRUCTIONS**

The Registrar will generally act on faxed or any other electronic instructions for subscription, redemption or switching, but may also require signed original instructions from the applicants or Unitholders (where necessary). The Registrar may, in its reasonable opinion and in exceptional circumstances (including but not limited to, where the electronic instructions received by the Registrar are incomprehensible or illegible), refuse to act on faxed or any other electronic instructions until the original written instructions are received. The Registrar may, in its absolute discretion, determine whether or not original instructions are also required in respect of subsequent applications or requests for subscription, redemption or switching sent by facsimile or any other electronic means by applicants or Unitholders.

Applicants or Unitholders should be reminded that if they choose to send the applications or requests for subscription, redemption or switching by facsimile or any such other electronic means, they bear the risk of such applications or requests not being received, or being illegible. Applicants or Unitholders should note that the Fund, the Sub-Funds, the Manager, the Trustee, and the Registrar and their respective agents and delegates accept no responsibility for any loss caused as a result of non-receipt or illegibility of any application or request sent by facsimile or any other electronic means, or any amendment to such application or request, or for any loss caused in respect of any action taken as a consequence of such faxed or any other electronic instructions believed in good faith to have originated from properly authorized persons. This is notwithstanding the fact that a facsimile or any other electronic transmission report produced by the originator of such transmission discloses that such transmission was sent. Applicants or Unitholders should therefore for their own benefit confirm with the Registrar safe receipt of an application or a request.

## **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal working hours at the offices of the Manager free of charge and copies thereof may be obtained from the Manager upon payment of a reasonable fee:-

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

## **APPENDIX I - TAIKANG KAITAI OVERSEAS SHORT TENOR BOND FUND**

This Appendix comprises information in relation to Taikang Kaitai Overseas Short Tenor Bond Fund, a Sub-Fund of the Fund.

### **1. Definitions**

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

### **2. Available Classes**

The following classes of Units are available for subscription in respect of the Sub-Fund. Class A Units are available for sale to the retail public in Hong Kong, while Class B Units are available for investment by (i) employees of the Manager; and (ii) retail investors who invest through distributors submitting dealing orders via distribution channels or distributors specified by the Manager, and Class I Units are offered to institutional investors, private bank clients and other investors determined by the Manager from time to time.

<b>Class</b>	<b>Class Currency</b>
Class A – HKD – DIST	HKD
Class A – HKD – ACC	HKD
Class A – USD – ACC	USD
Class A – USD – DIST	USD
Class A – RMB (Hedged) – ACC	RMB
Class A – RMB (Hedged) – DIST	RMB
Class A – RMB (Unhedged) – ACC	RMB
Class A – RMB (Unhedged) – DIST	RMB
Class B – HKD (Hedged) – ACC	HKD
Class B – HKD (Unhedged) – ACC	HKD
Class B – HKD – DIST	HKD
Class B – USD – ACC	USD
Class B – USD – DIST	USD
Class B – RMB (Hedged) – DIST	RMB

Class B – RMB (Hedged) – ACC	RMB
Class B – RMB (Unhedged) – DIST	RMB
Class B – RMB (Unhedged) – ACC	RMB
Class I – RMB (Hedged) – DIST	RMB
Class I – RMB (Hedged) – ACC	RMB
Class I – RMB (Unhedged) – DIST	RMB
Class I – RMB (Unhedged) – ACC	RMB
Class I – USD – DIST	USD
Class I – USD – ACC	USD
Class I – HKD – ACC	HKD
Class I – HKD – DIST	HKD

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

The Manager is entitled to charge an initial charge of up to 5% of the total subscription amount received (before deducting the initial charge) in relation to an application in respect of Class A and Class I Units.

### **3. Application Moneys / Redemption Proceeds**

Applicants for Units should note that application moneys for a class must be paid in the class currency of the relevant class. Where Unitholders redeem their Units of a class, redemption proceeds will be paid to the relevant Unitholders in the base currency or the class currency of the relevant class of Units, based on the prevailing exchange rate.

### **4. Base Currency**

The base currency of this Sub-Fund is USD.

## 5. Investment Objective and Policy

The Taikang Kaitai Overseas Short Tenor Bond Fund seeks to maximise the total return of investors. The Sub-Fund invests primarily in a portfolio of short-tenor fixed income instruments issued outside Mainland China, which have an average remaining duration across the portfolio of not more than 3.5 years. The short tenor fixed income instruments invested by the Sub-Fund may be denominated in any currencies.

### Fixed income securities

Within the above-mentioned scope, the Manager will allocate at least 70% of the Net Asset Value of the Sub-Fund to a portfolio of short-tenor fixed income instruments issued outside Mainland China, including but not limited to, investment grade corporate bonds and government or quasi-government bonds. The issuers of such fixed income instruments are domiciled in, or exercising the predominant part of their economic activity in countries or regions including, but not limited to, Mainland China, Hong Kong, Singapore, Japan, Korea, New Zealand, Indonesia, Malaysia, Taiwan, Thailand, India, the Philippines, US, UK, the EU countries, Mexico, Russia, Pakistan, Turkey, Brazil and South Africa. Investment grade fixed income instruments are rated long-term BBB-/Baa3 or above by at least one of the following three credit rating agencies, Fitch, Moody's or Standard & Poor's. Before investing in a fixed income instrument, the Manager will first consider the credit rating of such fixed income instrument and if such fixed income instrument does not itself have a credit rating, then reference can be made to the credit rating of the issuer or guarantor (where applicable) of the security, which will be deemed as its credit rating. The Sub-Fund will not invest more than 10% of its Net Asset Value in fixed income instruments issued or guaranteed by a single sovereign issuer.

The Sub-Fund may also invest up to 30% of its Net Asset Value in short-tenor fixed income instruments issued outside Mainland China that are below investment grade (i.e. have a credit rating below BBB-/Baa3 by all of the foregoing credit rating agencies) and unrated fixed income securities (i.e. fixed income securities which neither themselves nor their issuers have a credit rating).

The Sub-Fund may also invest up to 30% of its Net Asset Value in other fixed income securities, including perpetual bonds and debt securities with duration longer than 5 years and up to 10 years. Perpetual bonds are bonds without a fixed maturity date.

The Sub-Fund may also invest in debt instruments with loss-absorption features ("LAP"), e.g. contingent convertible bonds and senior non-preferred debts. The Sub-Fund's expected total maximum investments in LAP will be up to 30% of the Net Asset Value of the Sub-Fund. These instruments may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s).

### Collective investment schemes

The Sub-Fund may invest, in accordance with the Code, in aggregate no more than 30% of its Net Asset Value in collective investment schemes (including those managed by the Manager or its connected persons) which are authorised by the SFC or eligible schemes, or which are non-eligible schemes and not authorised by the SFC, among which investments in other collective investment schemes which are non-eligible schemes and not authorised by the SFC will not exceed 10% of the Sub-Fund's Net Asset Value.

For the avoidance of doubt, investments in exchange-traded funds will be considered and treated as collective investment schemes for the purposes of the Code. All investments in collective investment schemes are subject to the requirements in chapters 7.11, 7.11A and 7.11B of the Code. Where the Sub-Fund invests in collective investment schemes which are also managed by the Manager or its connected persons, all initial charges and redemption charges on the underlying schemes must be waived. The Manager, or any person acting on behalf of the Sub-Fund or the Manager, may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any such underlying scheme.

### Cash, cash equivalents, deposit and money market instruments

Under normal circumstances, subject to any applicable restrictions under the section headed "INVESTMENT AND BORROWING RESTRICTIONS" of the Explanatory Memorandum, up to 30% of Sub-Fund's Net Asset Value may be invested in money market instruments, deposits, cash or cash equivalents on an ancillary basis. Under exceptional circumstances (e.g. where there is a market crash or major crisis affecting the market), if the Manager deems appropriate or considers it to be in the best interest of the Sub-Fund, this Sub-Fund may hold up to 100% of the Sub-Fund's Net Asset Value in cash, cash equivalents, deposits and/or invest directly in money market instruments (such as treasury bills, certificates of deposits, commercial papers and bankers' acceptance etc.) on a temporary basis for liquidity management and/or defensive purpose.

### Financial Derivative Instruments

The Sub-Fund may invest in derivative instruments for hedging purposes and foreign exchange swaps for investment purposes to the extent permitted by the Code and the provisions set out under the sub-section headed "INVESTMENT AND BORROWING RESTRICTIONS" of the Explanatory Memorandum. Subject to applicable regulations, derivatives used for hedging purposes may include but are not limited to currency derivatives (e.g. currency forward contracts and foreign exchange swap agreements) to hedge against currency exposure, and futures (e.g. treasury futures) to manage exposure or hedge exposure of the underlying investments. The Sub-Fund will not invest in structured deposits, structured products or mortgage-backed securities.

### Sale and Repurchase Transactions and Reverse Repurchase Transactions

The Sub-Fund may invest and is expected to invest up to 30% of the Net Asset Value in over-the-counter sale and repurchase transactions and reverse repurchase transactions in aggregate with a view to creating additional income. The Manager's policy in managing these transactions is disclosed in "ANNEX C – SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS" of the Explanatory Memorandum.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund. Reverse repurchase transactions are transactions where the Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future. Cash obtained in sale and repurchase transactions and reverse repurchase transactions will be used for liquidity management, re-investment and hedging purposes.

Where cash collateral received by the Sub-Fund under sale and repurchase transactions is used for re-investment, such cash collateral may only be re-invested in accordance with Chapter 7 of the Code and the provisions set out under "ANNEX B - INVESTMENT RESTRICTIONS IN RELATION TO SECURITIES FINANCING TRANSACTIONS AND COLLATERAL" of the Explanatory Memorandum. Notwithstanding the provisions under "ANNEX B - INVESTMENT RESTRICTIONS IN RELATION TO SECURITIES FINANCING TRANSACTIONS AND COLLATERAL" and "ANNEX C – SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS" of the Explanatory Memorandum, other than the investment as set out in 7.36(j) of the Code, the Sub-Fund may also reinvest cash collateral received from sale and repurchase transactions in bonds as selected by the Manager based on its discretions, provided that any associated risks from such re-investment will be properly mitigated and addressed by the Manager and that (i) the re-investment, together with the Sub-Fund's net derivative exposure, do not in aggregate exceed 50% of the Sub-Fund's Net Asset Value; (ii) the re-investment is consistent with the Sub-Fund's investment objective and strategies; (iii) the re-investment is limited to bonds which are sufficiently liquid and of good quality; and (iv) the re-investment is subject to the corresponding investment restrictions and limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and complies with Notes (3) and (4) to 7.36(j) of the Code, and provided further that such re-investment shall not be subject to the limitation in 7.21 of the Code which allows borrowing of the Sub-Fund of up to 10% of the Sub-Fund's Net Asset Value.

The Sub-Fund will not enter into securities lending or similar over-the-counter transactions in respect of the Sub-Fund. The Manager will seek the prior approval of the SFC (if required) and

provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions and the Explanatory Memorandum will also be updated accordingly.

## 6. Investment Allocation

The Sub-Fund's indicative asset allocation is presented in the table below:

<i>Investments</i>	<i>Percentage of Allocation (% of NAV)</i>
<b>Fixed income securities – by type</b>	
Government or quasi-government bonds or corporate bonds (investment grade and non-investment grade)	70-100
<b>Fixed income securities – by rating</b>	
Investment grade (corporate bonds and government or quasi-government bonds)	70-100
Non-investment grade (corporate bonds and government or quasi-government bonds)	0-30
<b>Fixed income securities – by features</b>	
Short-tenor fixed income instruments issued outside Mainland China with an average remaining duration across the portfolio of not more than 3.5 years	70-100
Perpetual bonds and debt securities with duration longer than 5 years and up to 10 years, and LAP	0-30
<b>Collective investment schemes</b>	0-30
<b>Cash, cash equivalents, deposits and money market instruments</b>	0 - 30 or (under exceptional circumstances and on a temporary basis for liquidity management and/or defensive purpose) up to 100



## **7. Investment Strategy**

The Manager has formulated the following investment strategy for investments in fixed income securities to achieve the Sub-Fund's investment objective.

### *Duration strategy*

The Manager will perform analysis on fundamentals and forecast the trend of interest rates movements based on a comprehensive analysis of macroeconomic factors as well as the general political environment. It will consider how the fixed income market reacts to the changes of these factors and will actively adjust the average duration of the portfolio securities accordingly.

### *Term structure strategy*

The Manager will closely monitor and analyse changes in the yield curve by utilising statistical and quantitative techniques, and forecast the pattern of the changes accordingly. The Manager then formulates a yield curve strategy to be implemented for the Sub-Fund, along with projections of regulatory policies and market expectations, and re-allocates the portfolio into securities of different terms (e.g. short-term, medium-term and long-term securities) in a way to adjust exposure to interest rate risks.

### *Sector allocation strategy*

The Manager will progressively analyse various factors (e.g. credit risks, level of tax liabilities, liquidity) of different types of fixed income instruments (e.g. government / corporate, products with different credit ratings, etc.), and identify fundamental factors that influence the yield spread relationships among these instruments. The Manager will then use these findings to formulate appropriate sector allocation strategies.

### *Individual security selection*

The Manager will perform thorough fundamental analysis of an issuer including its financial position and, for corporate issuers, the capacity and governance of its management and the market position of the relevant company. Then the Manager will assess the value of the securities concerned, i.e. an analysis on the credit spread of the security and its relative values to other comparable securities, so as to identify and invest in under-valued securities.

## **8. Specific Risk Factors**

Investors should refer to the relevant risks under the section headed "Risk Factors" in the main part of the Explanatory Memorandum and the following specific risk factors in respect of the Sub-Fund.

### ***General investment risk***

The Sub-Fund's investment portfolio may fall in value due to any of the key risk factors below and therefore Unitholders' investment in the Sub-Fund may suffer losses. There is no guarantee of the repayment of principal. There is also no guarantee of regular dividend or distribution payments during the period investors hold Units of the Sub-Fund.

The Sub-Fund will invest mainly in fixed income securities. The purchase of Units in the Sub-Fund is not the same as investing directly in debt securities.

Please also refer to the risk factor headed "General investment risk" in the main part of the Explanatory Memorandum.

### ***Currency and conversion risks***

#### ***Currency risk***

Underlying investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund. Also, a class of Units may be designated in a currency other than the base currency of the Sub-Fund. The Net Asset Value of the Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

Please also refer to the risk factor headed "Currency risk" in the main part of the Explanatory Memorandum.

#### ***Conversion risk***

Where an investor subscribes for Units denominated in RMB or HKD, the Manager will convert such subscriptions into the relevant currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB or HKD, the Manager will sell the Sub-Fund's investments denominated in the relevant currency and convert such proceeds into RMB or HKD (as applicable) at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds denominated in a non-RMB or non-HKD currency into RMB or HKD (as applicable) which, in turn, might affect the Sub-Fund's ability to meet redemption requests from the Unitholders or delay the payment of redemption proceeds.

#### ***Renminbi ("**RMB**") currency and conversion risks***

The Sub-Fund may have substantial exposure to investments denominated in RMB.

RMB is currently not freely convertible and is subject to exchange controls and restrictions. Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB. If such policies change in future, the Sub-Fund's or the investors' position may be adversely affected. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time (that is, it is possible that there may not be sufficient RMB for currency conversion in the case of sizeable subscriptions in non-RMB classes). The Manager has the absolute discretion to reject any application made in non-RMB currency funds (whether such application is in relation to a RMB class) where it determines that there is not sufficient RMB for currency conversion. In the case of redemptions, currency conversion is also subject to the Sub-Fund's ability to convert any proceeds denominated in RMB into non-RMB currency which, in turn, might affect the Sub-Fund's ability to meet redemption requests from non-RMB based investors or delay the payment of redemption proceeds.

Investors may be adversely affected by movements of the exchange rates between RMB and other currencies. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of the value of RMB could adversely affect the value of investors' investments in the Sub-Fund. If investors convert another currency into RMB to invest in the RMB class of the Sub-Fund, and subsequently convert any RMB redemption proceeds back to such other currency, they may also suffer losses if RMB depreciates against such other currency.

Please also refer to the risk factor headed "Renminbi currency and conversion risks" in the main part of the Explanatory Memorandum.

### ***"Dim Sum" bond market risks***

The "Dim Sum" bond (i.e. bonds issued outside of Mainland China but denominated in RMB) market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the "Dim Sum" bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulators.

### ***Concentration risk***

The Sub-Fund's investments are concentrated in fixed income securities. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

Please also refer to the risk factor headed “Concentration risk” in the main part of the Explanatory Memorandum.

### ***Emerging market risk***

The Sub-Fund invests in emerging markets which 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.

Please also refer to the risk factor headed “Emerging market risk” in the main part of the Explanatory Memorandum.

### ***Risks relating to money market instruments / fixed income securities***

#### ***Credit / counterparty risk***

The Sub-Fund is exposed to the credit/default risk of issuers of the money market instruments and fixed income securities that it invests in. Such securities are typically unsecured debt obligations and are not supported by collateral. It will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer’s assets will be paid to holders of the fixed income securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/default risk of its counterparties as an unsecured creditor.

The Sub-Fund is exposed to the risk that a counterparty in a transaction may default in its obligation to settle the transaction, or may be unable or unwilling to make timely payments on principal and/or interest. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund may sustain substantial losses. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against issuers incorporated outside Hong Kong and subject to foreign laws.

Please also refer to the risk factor headed “Credit risk” in the main part of the Explanatory Memorandum.

#### ***Interest rate risk***

Investment in the Sub-Fund is subject to interest rate risk. In general, the prices of fixed income securities rise when interest rates fall, whilst their prices fall when interest rates rise. Changes in fiscal policies, such as interest rates policies, may have an adverse impact on the pricing of fixed income securities, and thus the return of the Sub-Fund.

Please also refer to the risk factor headed “Interest rate risk” in the main part of the Explanatory Memorandum.

### *Credit rating risk*

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

The credit rating of a debt security is not the only selection criterion used by the Manager. Whilst the Manager may use credit ratings for reference in its investment process, it will primarily refer to its internal assessments to evaluate the credit quality of debt securities. For example, when it believes that the credit rating given by credit rating agencies does not adequately reflect the credit risks.

Please also refer to the risk factor headed “Credit rating risk” in the main part of the Explanatory Memorandum.

### *Risks associated with debt securities rated below investment grade or unrated*

The Sub-Fund may invest in fixed income securities rated below investment grade or unrated by an internally recognised credit agency, such as Fitch, Moody’s and/or Standard & Poor’s. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities. Fixed income securities that have a lower credit rating or that are unrated will also be more susceptible to the credit risk of the issuers.

If the issuer of securities defaults, or such securities cannot be redeemed, or perform badly, investors may suffer substantial losses. The market for lower rated or unrated securities may be less active, making it more difficult to sell these securities. Valuation of such securities is more difficult and thus the Sub-Fund’s prices may be more volatile.

Please also refer to the risk factor headed “Risks associated with debt securities rated below investment grade or unrated” in the main part of the Explanatory Memorandum.

### *Downgrading risk*

The credit rating of a fixed income security or its issuer may be downgraded. In the event of such downgrading, the value of the Sub-Fund may be adversely affected. The Manager may or may not be able to dispose of the fixed income securities that are being downgraded. If the Sub-Fund continues to hold the relevant securities, it will be subject to additional risk of loss.

Please also refer to the risk factor headed “Downgrading risk” in the main part of the Explanatory Memorandum.

### *Valuation risk*

Valuation of the Sub-Fund's investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

The value of fixed income securities may be affected by changing market conditions or other significant market events affecting valuation. In particular, the value of lower-rated or unrated corporate bonds or commercial papers issued by corporations or financial institutions of lower credit ratings is affected by investors' perceptions. In adverse market conditions or where an adverse event happens to the issuer (e.g. credit rating downgrading), the value of lower rated or unrated corporate bonds may decline in value due to investors' perception over credit quality.

### *Sovereign debt risk*

The Sub-Fund'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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

### *Volatility and liquidity risk*

The fixed income securities in some of the markets that the Sub-Fund invests in may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The price at which the fixed income securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. The bid and offer spreads of the prices of such securities may be large and the Sub-Fund may incur significant trading costs.

There may not be an active secondary market for the fixed income securities the Sub-Fund invests in. The Sub-Fund is therefore subject to liquidity risks and may suffer losses in trading such instruments. Even if the fixed income securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the fixed income securities until their maturity date.

There is a risk that if the Sub-Fund is required to meet sizeable redemption requests, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and it may incur significant trading and realisation costs and suffer losses accordingly.

The offshore (that is, outside Mainland China) RMB denominated fixed income securities markets are at a developing stage and the trading volume may be lower than those of the more

developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated fixed income securities market may result in prices of fixed income securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

Please also refer to the risk factor headed "Volatility and liquidity risk" in the main part of the Explanatory Memorandum. For details in relation to the Fund's liquidity risk management process, please refer to the sub-section "Liquidity Risk Management Process" under the section headed "Investment and Borrowing Restrictions" in the main part of the Explanatory Memorandum.

### ***Risks of investing in convertible bonds***

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

The value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. If the credit quality of the convertible bonds deteriorates or the issuer of the convertible bonds defaults, the performance of the Sub-Fund will be adversely affected. On the other hand, the prices of convertible bonds will be affected by the changes in the price of the underlying equity securities which, in turn, may have an unfavourable impact on the Net Asset Value of the Sub-Fund. Convertible bonds may also have call provisions and other features which may give rise to the risk of a call (i.e. the right to repurchase the convertible bond from the holder at a specified price (usually the par value of the bond)). In effect, this call option can limit the bond's upside potential from the appreciation of the underlying equity. Therefore the value and performance of the Sub-Fund may be affected as a result.

Please also refer to the relevant risk factors "Interest rate risk", "Credit risk", "Credit rating risk", "Downgrading risk" and "Volatility and liquidity risk" in the main part of the Explanatory Memorandum.

### ***Risks associated with investments in debt instruments with loss-absorption features (LAP)***

LAPs are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of a pre-defined trigger event (e.g. when the issuer is near or at the point of non-viability or when the issuer's capital ratio falls to a specified level), which are likely to be outside of the issuer's control. In relation to senior non-preferred debts, while these instruments are generally senior to subordinated debts, they may also be subject to write-down

upon the occurrence of a trigger event and will no longer fall under the creditor ranking hierarchy of the issuer.

Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments. In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class.

LAPs may also be exposed to liquidity, valuation and sector concentration risk. Please also refer to the relevant risk factors “Concentration risk” and “Volatility and liquidity risk” in the main part of the Explanatory Memorandum.

### ***Risks associated with instruments with contingent convertible bonds (“CoCos”)***

CoCos are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), CoCos will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. They are risky and highly complex investment instruments. Coupon payments on CoCos are discretionary and may at times also be ceased or deferred by the issuer. Please further note the following:

- (i) *Trigger level risk* – Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require the conversion into equity or the write down to zero of principal investment and/or accrued interest. It would also be difficult for the Manager to assess how the securities will behave upon conversion. Trigger events may include:
  - a reduction in the issuing bank’s Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios;
  - a regulatory authority, at any time, making a subjective determination that an institution is “non-viable”, i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer; or
  - a national authority deciding to inject capital.
- (ii) *Coupon cancellation* – Coupon payments on some CoCos are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no



possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

- (iii) *Capital structure inversion risk* – Contrary to the classic capital hierarchy, investors in CoCos may suffer a loss of capital when equity holders do not (for example, when the loss absorption mechanism of CoCos is activated). This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.
- (iv) *Call extension risk* – Some CoCos are issued as perpetual instruments and only callable at pre-determined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual convertible securities will be called on a call date. Such convertible securities are a form of permanent capital. The Sub-Fund may not receive return of principal as expected on call date or indeed at any date.
- (v) *Conversion risk* – Trigger levels differ between specific instruments, which determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the instruments will behave upon conversion. These instruments may be converted into shares potentially at a discounted price, or the principal amount invested may be lost. In case of conversion into equity, the Manager might be forced to sell these new equity shares. Given the trigger event is likely to be some event depressing the value of the issuer's common equity, this forced sale may result in the Sub-Fund experiencing loss of all investments in CoCos.
- (vi) *Write-down/write-off risk* – In some cases, the issuer of CoCos may cause the convertible security to be written-down or written-off in value based on the specific terms of the individual security if a pre-specified trigger event occurs. Therefore, upon the occurrence of a trigger event, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.
- (vii) *Valuation risk* – Instruments subject to compulsory conversion with non-viability / loss absorption convertible features often offer attractive yield which may be viewed as a complexity premium. The value of such instruments may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets.
- (viii) *Market value fluctuations due to unpredictable factors* – The value of CoCos is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the instruments; (iii) general market conditions and

available liquidity and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

- (ix) *Liquidity risk* – In certain circumstances, finding a buyer ready to invest in CoCos may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.
- (x) *Sector concentration risk* – CoCos are issued by banking and insurance institutions. Investment in CoCos may lead to an increased sector concentration risk. The performance of the Sub-Fund will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.
- (xi) *Subordinated instruments* – CoCos may be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of such instruments, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the instruments shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.
- (xii) *Novelty and untested nature* – The structure of CoCos is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

### ***Risks associated with perpetual bonds***

There are risks associated with perpetual bonds. The Sub-Fund is subject to perpetual credit risk and counterparty risk exposure. As time progresses, issuers of such perpetual bonds can encounter financial difficulties, and may even shut down. Perpetual bonds may also be subject to call risk as the issuers can recall them.

Perpetual bonds are further subject to interest risk as the perpetual bond may be locked in interest which is significantly lower than the prevailing interest rate. Under such circumstances, the Sub-Fund could earn more money by holding a different bond than the perpetual bond. However, unlike for other bonds that have a maturity date when the issuer returns the principal, for perpetual bonds, to swap out an old perpetual bond for a newer, higher interest bond, the Sub-Fund must sell the existing bond on the secondary market, at which time it may be worth less than the purchase price as the Sub-Fund may need to discount the offer price based on the interest rate difference. As selling in the secondary market is the only option available, perpetual bonds may therefore be subject to liquidity risk and the bid-ask spread will be high.

Please also refer to the relevant risk factors “Credit risk”, “Counterparty risk” and “Volatility and liquidity risk” in the main part of the Explanatory Memorandum.

### ***Risks of investing in other collective investment schemes/funds***

The Sub-Fund may invest in other collective investment schemes (“**underlying funds**”) and will be subject to the risks associated with the underlying funds. The Sub-Fund does not have control of the investments of the underlying funds and there is no assurance that the investment objective and strategy of the underlying funds will be successfully achieved which may have a negative impact to the Net Asset Value of the Sub-Fund.

The underlying funds in which the Sub-Fund may invest may not be regulated by the SFC. The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their investment managers.

Some underlying funds may also impose fees or levies which may be payable by the Sub-Fund when it subscribes to or redeems out of such underlying funds. Therefore there may be additional costs involved when investing into these underlying funds. Whilst the Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Sub-Fund.

There is also no guarantee that the underlying funds will always have sufficient liquidity to meet the Sub-Fund’s redemption requests as and when made. The Sub-Fund may therefore be subject to liquidity risk by investing in these underlying funds.

If the Sub-Fund invests in an underlying fund managed by the Manager or connected person of the Manager, all initial charges on these underlying funds must be waived, and the Manager must not obtain rebate of any fees or charges levied by these underlying funds. In case any conflict of interest may still arise out of such investments, the Manager will use its best endeavours to resolve it fairly. Please refer to the section headed “Conflicts of Interest” in the main part of the Explanatory Memorandum for details on how conflicts of interest are managed.

### ***Derivative instruments / hedging risk***

#### ***Risks associated with investment in FDI***

Risks associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. Exposure to FDI may lead to a high risk of significant loss by the Sub-Fund.

### *Hedging risk*

Insofar as the Sub-Fund acquires derivative instruments for hedging, it will be subject to additional risks. There can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Sub-Fund.

Derivative instruments may be illiquid and are complex in nature. In adverse situations, the Sub-Fund's use of derivatives for hedging may become ineffective and the Sub-Fund may suffer significant losses. The price of a derivative instrument can be volatile which may result in losses in excess of the amount invested in the derivative instruments by the Sub-Fund. A derivative instrument is subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Sub-Fund, and this may result in losses to the Sub-Fund.

### ***Distribution out of Capital/Distribution effectively out of Capital Risk***

Payment of distributions out of capital and/or effectively out of capital amounts to a return or withdrawal of part of an Unitholder's original investment or from any capital gains attributable to that original investment. Any such distributions may result in an immediate reduction of the Net Asset Value per Unit and have a risk of capital erosion.

### ***Risks associated with securities financing transactions***

Where the Sub-Fund enters into a securities financing transaction, collateral may be received from or provided to the relevant counterparty. The Sub-Fund may be subject to operational, liquidity, counterparty, custody and legal risks.

### ***Risks relating to sale and repurchase agreements***

Cash collateral received from sale and repurchase transactions may be reinvested in accordance with the sub-section headed "Sale and Repurchase Transactions and Reverse Repurchase Transactions" of the section headed "5. Investment Objective and Policy" under this Appendix. Where reinvested, such re-investment will be subject to investment risk of the relevant investments, including loss of principal.

In the event of the failure of the counterparty with which collateral has been placed, the Sub-Fund may suffer loss as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral or market movements. In the event of the insolvency of the counterparty, the relevant Sub-Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty. Under a sale and repurchase transaction, the Sub-Fund retains the economic risks and rewards of the securities which it has sold to the counterparty and therefore is exposed to market risk in the event that it must repurchase such

securities from the counterparty at the pre-determined price if that pre-determined price is higher than the value of the securities at the time of repurchase.

***Risks relating to reverse repurchase transactions***

In the event of the failure of the counterparty with which cash has been placed, the Sub-Fund may suffer loss as there may be delay in recovering cash placed out or difficulty in realising collateral or proceeds from the sale of the collateral may be less than the cash placed with the counterparty due to inaccurate pricing of the collateral or market movements.

***Risks associated with bank deposits***

Bank deposits are subject to the credit risks of the relevant financial institutions. The Sub-Fund's deposit may not be protected by any deposit protection schemes, or the value of the protection under the deposit protection schemes may not cover the full amount deposited by the Sub-Fund. Therefore, if the relevant financial institution defaults, the Sub-Fund may suffer losses as a result.

Please also refer to the relevant risk factors "Counterparty risk", "Over-the-counter market risk" and "Hedging risk" in the main part of the Explanatory Memorandum.

**9. Investment Minima**

<b>Minimum Subscription Amount</b>	<b>Initial</b>	Class A – HKD – DIST	HKD10,000
		Class A – HKD – ACC	HKD10,000
		Class A – USD – ACC	USD2,000
		Class A – USD – DIST	USD2,000
		Class A – RMB (Hedged) – ACC	RMB10,000
		Class A – RMB (Hedged) – DIST	RMB10,000
		Class A – RMB (Unhedged) – ACC	RMB10,000
		Class A – RMB (Unhedged) – DIST	RMB10,000
		Class B – HKD (Hedged) – ACC	HKD100
		Class B – HKD (Unhedged) – ACC	HKD100
		Class B – HKD – DIST	HKD100
		Class B – USD – ACC	USD100
		Class B – USD – DIST	USD100
		Class B – RMB (Hedged) – DIST	RMB100

	Class B – RMB (Hedged) – ACC	RMB100
	Class B – RMB (Unhedged) – DIST	RMB100
	Class B – RMB (Unhedged) – ACC	RMB100
	Class I – RMB (Hedged) – DIST	RMB100,000
	Class I – RMB (Hedged) – ACC	RMB100,000
	Class I – RMB (Unhedged) – DIST	RMB100,000
	Class I – RMB (Unhedged) – ACC	RMB100,000
	Class I – USD – DIST	USD10,000
	Class I – USD – ACC	USD10,000
	Class I – HKD – ACC	HKD100,000
	Class I – HKD – DIST	HKD100,000
<b>Minimum Subsequent Subscription Amount</b>	Class A – HKD – DIST	HKD5,000
	Class A – HKD – ACC	HKD5,000
	Class A – USD – ACC	USD1,000
	Class A – USD – DIST	USD1,000
	Class A – RMB (Hedged) – ACC	RMB5,000
	Class A – RMB (Hedged) – DIST	RMB5,000
	Class A – RMB (Unhedged) – ACC	RMB5,000
	Class A – RMB (Unhedged) – DIST	RMB5,000
	Class B – HKD (Hedged) – ACC	HKD1
	Class B – HKD (Unhedged) – ACC	HKD1
	Class B – HKD – DIST	HKD1
	Class B – USD – ACC	USD1
	Class B – USD – DIST	USD1
	Class B – RMB (Hedged) – DIST	RMB1
	Class B – RMB (Hedged) – ACC	RMB1
	Class B – RMB (Unhedged) – DIST	RMB1
	Class B – RMB (Unhedged) – ACC	RMB1

	Class I – RMB (Hedged) – DIST	RMB50,000
	Class I – RMB (Hedged) – ACC	RMB50,000
	Class I – RMB (Unhedged) – DIST	RMB50,000
	Class I – RMB (Unhedged) – ACC	RMB50,000
	Class I – USD – DIST	USD5,000
	Class I – USD – ACC	USD5,000
	Class I – HKD – ACC	HKD50,000
	Class I – HKD – DIST	HKD50,000
<b>Minimum Holding (Units with aggregate minimum value of:)</b>	Class A – HKD – DIST	HKD10,000
	Class A – HKD – ACC	HKD10,000
	Class A – USD – ACC	USD2,000
	Class A – USD – DIST	USD2,000
	Class A – RMB (Hedged) – ACC	RMB10,000
	Class A – RMB (Hedged) – DIST	RMB10,000
	Class A – RMB (Unhedged) – ACC	RMB10,000
	Class A – RMB (Unhedged) – DIST	RMB10,000
	Class B – HKD (Hedged) – ACC	HKD100
	Class B – HKD (Unhedged) – ACC	HKD100
	Class B – HKD – DIST	HKD100
	Class B – USD – ACC	USD100
	Class B – USD – DIST	USD100
	Class B – RMB (Hedged) – DIST	RMB100
	Class B – RMB (Hedged) – ACC	RMB100
	Class B – RMB (Unhedged) – DIST	RMB100
	Class B – RMB (Unhedged) – ACC	RMB100
	Class I – RMB (Hedged) – DIST	RMB100,000
	Class I – RMB (Hedged) – ACC	RMB100,000
	Class I – RMB (Unhedged) – DIST	RMB100,000

	Class I – RMB (Unhedged) – ACC	RMB100,000
	Class I – USD – DIST	USD10,000
	Class I – USD – ACC	USD10,000
	Class I – HKD – ACC	HKD100,000
	Class I – HKD – DIST	HKD100,000
<b>Minimum Redemption Amount</b> <b>(Units with aggregate minimum value of:)</b>	Class A – HKD – DIST	HKD10,000
	Class A – HKD – ACC	HKD10,000
	Class A – USD – ACC	USD2,000
	Class A – USD – DIST	USD2,000
	Class A – RMB (Hedged) – ACC	RMB10,000
	Class A – RMB (Hedged) – DIST	RMB10,000
	Class A – RMB (Unhedged) – ACC	RMB10,000
	Class A – RMB (Unhedged) – DIST	RMB10,000
	Class B – HKD (Hedged) – ACC	HKD1
	Class B – HKD (Unhedged) – ACC	HKD1
	Class B – HKD – DIST	HKD1
	Class B – USD – ACC	USD1
	Class B – USD – DIST	USD1
	Class B – RMB (Hedged) – DIST	RMB1
	Class B – RMB (Hedged) – ACC	RMB1
	Class B – RMB (Unhedged) – DIST	RMB1
	Class B – RMB (Unhedged) – ACC	RMB1
	Class I – RMB (Hedged) – DIST	RMB100,000
	Class I – RMB (Hedged) – ACC	RMB100,000
	Class I – RMB (Unhedged) – DIST	RMB100,000
	Class I – RMB (Unhedged) – ACC	RMB100,000
	Class I – USD – DIST	USD10,000
	Class I – USD – ACC	USD10,000



	Class I – HKD – ACC	HKD100,000
	Class I – HKD – DIST	HKD100,000

## 10. Fees

<b><i>Fees payable by investors</i></b>	
Initial Charge (% of total subscription amount received)	<b>Class A, Class B and Class I:</b> up to 5%
Redemption Charge (% of total redemption proceeds)	<b>Class A, Class B and Class I:</b> Nil
Switching Charge (% of total amount being switched out of the Existing Class)	Class A, Class B and Class I: up to 1%
<b><i>Fees payable by the Sub-Fund</i></b>	
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A:</b> 1% p.a. <b>Class B:</b> 0.80% p.a. <b>Class I:</b> 0.20% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	Up to 0.15% p.a., subject to a minimum aggregate monthly fee of USD5,000 for the Sub-Fund.
Custody Fee (% Net Asset Value of the Sub-Fund)	Up to 0.1% p.a.
Performance Fee	Not applicable

## 11. Establishment Costs

Notwithstanding the provision in the section headed “Establishment Costs” in the main part of the Explanatory Memorandum that the establishment costs and payments incurred in the establishment of subsequent Sub-Funds are to be amortised over a period of five Accounting Periods, the establishment costs and payments incurred in the establishment of this Sub-Fund were borne by the Sub-Fund and expensed in the first year of the Sub-Fund’s establishment. The establishment costs for this Sub-Fund were approximately USD55,000.

## 12. Dealing Day

Each Business Day shall be a Dealing Day, or such other day as the Manager and the Trustee may determine from time to time.

### **13. Dealing Deadline**

5:00 p.m. (Hong Kong time) on the relevant Dealing Day. The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

### **14. Subscription, Redemption and Switching of Units**

For this Sub-Fund, a class of Units may be switched into: (i) Units of the same class, or Units of a different class, in another Sub-Fund on a Valuation Day common to both the Existing Class and the New Class, whether or not with the same currency denomination; or (ii) another class of Units in this Sub-Fund, whether or not with the same currency of denomination. The Manager will use the prevailing exchange rate for switching of units denominated in different currencies.

Redemption proceeds for this Sub-Fund will be paid in the base currency or the class currency of the relevant class of Units, based on the prevailing exchange rate. Payment will be made by direct transfer or telegraphic transfer, normally within 10 Business Days after the relevant Dealing Day.

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

### **15. Distributions**

For the accumulation classes of Units (i.e. classes with names suffixed by “-ACC”), no distribution will be paid.

For the distribution classes of Units (i.e. classes with names suffixed by “-DIST”), subject to the Manager’s discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends, distributions (if any) will be made on a monthly basis.

The Manager expects to be able to pay distributions from the net distributable income of the Sub-Fund, but in the event that such income attributable to the relevant class is insufficient to pay distributions as it declares, the Manager may in its discretion determine that such distributions may be paid out of capital of the Sub-Fund. Management Fee and other fees and expenses of the Sub-Fund are normally paid out of income. However, the Manager may at its discretion pay distributions out of the Sub-Fund’s gross income while charging/paying all or part of the Sub-Fund’s Management Fees and other fees and expenses to/out of the capital of

the Sub-Fund, resulting in an increase in distributable income for the payment of distributions by the Sub-Fund, and therefore effectively paying distributions out of the capital of the Sub-Fund. Payment of dividends out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the Sub-Fund's capital or payment of dividends effectively out of the Sub-Fund's capital (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit. Investors should refer to the risk factor under the sub-section "Distribution out of Capital/Distribution effectively out of Capital Risk" of this Appendix.

For the distribution classes of Units (i.e. classes with names suffixed by "–DIST"), distributions will be paid in the relevant class currency of the Units. Investors may elect to reinvest the dividends to subscribe for additional Units in the Sub-Fund. There is no guarantee of regular distribution and if distribution is made the amount being distributed.

The Manager may amend the policy with respect to the aforementioned, subject to the SFC's prior approval (if required) and by giving not less than one month's prior notice to the Unitholders.

The compositions of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months are available by the Manager on request and also on the Manager's website at <http://www.taikangasset.cn/tkzc/hk/><sup>4</sup>.

## **16. Valuation**

The Valuation Day will be the relevant Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day or such other time on such other day as the Manager and the Trustee may from time to time determine to calculate the Net Asset Value.

## **17. Documents Available for Inspection**

Please refer to the section headed "Documents Available for Inspection" in the main part of the Explanatory Memorandum.

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

## **APPENDIX II - TAIKANG KAITAI INVESTMENT GRADE BOND FUND**

This Appendix comprises information in relation to Taikang Kaitai Investment Grade Bond Fund, a Sub-Fund of the Fund.

### **1. Definitions**

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

### **2. Available Classes**

The following classes of Units are available for subscription in respect of the Sub-Fund. Class A Units are available for sale to the retail public in Hong Kong, while Class M Units are available for investment by (i) employees of the Manager; and (ii) retail investors who invest through distributors as specified by the Manager by submitting dealing orders via such distribution channels. Class I Units are offered to institutional investors, private bank clients and other investors as determined by the Manager from time to time.

<b>Class</b>	<b>Class Currency</b>
Class A – HKD – DIST	HKD
Class A – HKD – ACC	HKD
Class A – RMB (Unhedged) – DIST	RMB
Class A – RMB (Unhedged) – ACC	RMB
Class A – RMB (Hedged) – DIST	RMB
Class A – RMB (Hedged) – ACC	RMB
Class A – USD – DIST	USD
Class A – USD – ACC	USD
Class I – HKD – DIST	HKD
Class I – HKD – ACC	HKD
Class I – RMB (Unhedged) – DIST	RMB
Class I – RMB (Unhedged) – ACC	RMB
Class I – RMB (Hedged) – DIST	RMB
Class I – RMB (Hedged) – ACC	RMB
Class I – USD – DIST	USD
Class I – USD – ACC	USD
Class M – HKD – 6.5% – DIST	HKD
Class M – RMB (Hedged) – 6.5% – DIST	RMB
Class M – RMB (Unhedged) – 6.5% – DIST	RMB
Class M – USD – 6.5% – DIST	USD

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

The Manager is entitled to charge an initial charge of up to 5% of the total subscription amount received (before deducting the initial charge) in relation to an application in respect of Class A, Class M and Class I Units.

### **3. Application Moneys / Redemption Proceeds**

Applicants for Units should note that application moneys for a class must be paid in the class currency of the relevant class. Where Unitholders redeem their Units of a class, redemption proceeds will be paid to the relevant Unitholders in the class currency of the relevant class of Units.

Notwithstanding the disclosure under the sections headed “PURCHASE OF UNITS” and “REDEMPTION OF UNITS” in the main part of Explanatory Memorandum, the Issue Price and Redemption Price of the Sub-Fund shall be rounded down to the nearest 4 decimal places. Any rounding adjustment shall be retained for the benefit of the Sub-Fund.

### **4. Base Currency**

The base currency of this Sub-Fund is USD.

### **5. Investment Objective and Policy**

The Sub-Fund seeks to provide investors with a return in excess of investment grade bond markets outside Mainland China. The Sub-Fund invests primarily in a portfolio of investment grade fixed income instruments issued outside Mainland China. The fixed income instrument invested by the Sub-Fund may be denominated in any currencies.

#### Fixed income securities

The Manager will allocate at least 70% of the Net Asset Value of the Sub-Fund to a portfolio of investment grade fixed income instruments issued outside Mainland China, including but not limited to, corporate bonds and government or quasi-government bonds. The issuers of such fixed income instruments are domiciled in, or exercising the predominant part of their economic activity in countries or regions including, but not limited to, Australia, Brazil, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Russia, Singapore, South Africa, Taiwan, Thailand, the EU countries, the Philippines, Mainland China, Turkey, UK and US. The Sub-Fund will not invest more than 10% of its Net Asset Value in fixed income instruments issued or guaranteed by a single sovereign issuer.

Investment grade fixed income instruments are rated long-term BBB-/Baa3 or above by at least one of the following three credit rating agencies, Fitch, Moody's and Standard & Poor's. Before investing in a fixed income instrument, the Manager will first consider the credit rating of such fixed income instrument and if such fixed income instrument does not itself have a credit rating, then reference can be made to the credit rating of the issuer or guarantor (where applicable) of the security, which will be deemed as its credit rating.

Fixed income instruments will primarily (i.e. at least 70% of the Net Asset Value of the Sub-Fund) be rated investment grade. Up to 30% of the Sub-Fund's Net Asset Value may be invested in: (i) non-investment grade fixed income instruments; (ii) other investments, including but not limited to money market instruments (e.g. near-cash or cash equivalents such as bank certificates of deposit and negotiated term deposits); and (iii) exchange-traded funds ("**ETFs**") and collective investment schemes with similar investment objectives to the Sub-Fund. Any investment in ETFs by the Sub-Fund will be considered and treated as investment in collective investment schemes. Under exceptional circumstances (e.g. where there is a market crash or major crisis affecting the market), if the Manager deems appropriate or considers it to be in the best interest of the Sub-Fund, this Sub-Fund may hold up to 100% of the Sub-Fund's Net Asset Value in cash, cash equivalents, deposits and/or invest directly in money market instruments (such as treasury bills, certificates of deposits, commercial papers and bankers' acceptance etc.) on a temporary basis for liquidity management and/or defensive purpose.

The Sub-Fund will invest no more than 30% of its Net Asset Value in collective investment schemes. The collective investment schemes will have similar investment objectives to the Sub-Fund. The Sub-Fund may invest in other funds authorized by the SFC or in eligible schemes domiciled in Luxembourg, Ireland and/or the United Kingdom, except that not more than 10% of the Sub-Fund's Net Asset Value may be invested in non-eligible schemes not authorized by the SFC.

The Sub-Fund may invest in debt instruments with loss-absorption features ("**LAP**") such as contingent convertible bonds and senior non-preferred debts, etc. These instruments may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s). The Sub-Fund's expected total maximum investments in LAP will be up to 30% of its Net Asset Value.

#### Financial Derivative Instruments ("**FDI**")

The Sub-Fund may invest in derivative instruments including structured deposits or structured products for hedging purposes only but not for investment purposes. Subject to applicable regulations, derivatives used for hedging purposes may include but are not limited to currency derivatives (e.g. currency forward contracts and foreign exchange swap agreements) and futures (e.g. treasury futures).

### Collateralised and/or securitised products

The Sub-Fund may invest up to 30% of its Net Asset Value in collateralised and/or securitised products such as asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities.

### Sale and Repurchase Transactions and Reverse Repurchase Transactions

The Sub-Fund may invest and is expected to invest up to 30% of the Net Asset Value in over-the-counter sale and repurchase transactions and reverse repurchase transactions in aggregate with a view to creating additional income. The Manager's policy in managing these transactions is disclosed in "ANNEX C – SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS" of the Explanatory Memorandum.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund. Reverse repurchase transactions are transactions where the Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future. Cash obtained in sale and repurchase transactions and reverse repurchase transactions will be used for liquidity management, re-investment and hedging purposes.

Where cash collateral received by the Sub-Fund under sale and repurchase transactions is used for re-investment, such cash collateral may only be re-invested in accordance with Chapter 7 of the Code and the provisions set out under "ANNEX B - INVESTMENT RESTRICTIONS IN RELATION TO SECURITIES FINANCING TRANSACTIONS AND COLLATERAL" of the Explanatory Memorandum.

The Sub-Fund will not enter into securities lending or similar over-the-counter transactions in respect of the Sub-Fund. The Manager will seek the prior approval of the SFC (if required) and provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions and the Explanatory Memorandum will also be updated accordingly.

## **6. Investment Allocation**

The Sub-Fund's indicative asset allocation is presented in the table below:

<b>Investments</b>	<b>Percentage of allocation (% of Net Asset Value)</b>
<b>Fixed Income securities – by rating</b>	

- Investment grade (corporate bonds and government or quasi-government bonds)	70 – 100
- Non-investment grade (corporate bonds and government or quasi-government bonds)	0 – 30
<b>Fixed income securities – by features</b>	
- Debt instruments with loss-absorption features such as contingent convertible bonds and senior non-preferred debts (including both investment grade and non-investment grade)	0 – 30
- Collateralised and/or securitised products such as asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities	0 – 30
<b>Other</b>	
- ETFs and other collective investment schemes	0 – 30
- Money market instruments, cash, cash equivalents and deposits	0 - 30 (under exceptional circumstances and on a temporary basis for liquidity management and/or defensive purpose) up to 100

## 7. Investment Strategy

The Manager has formulated the following investment strategy for investments in fixed income securities to achieve the Sub-Fund's investment objective.

### *Duration strategy*

The Manager will perform analysis on fundamentals and forecast the trend of interest rates movements based on a comprehensive analysis of macroeconomic factors as well as the general political environment. It will consider how the fixed income market reacts to the changes of these factors and will actively adjust the average duration of the portfolio securities accordingly.

### *Term structure strategy*

The Manager will closely monitor and analyse changes in the yield curve by utilising statistical and quantitative techniques, and forecast the pattern of the changes accordingly. The Manager then formulates a yield curve strategy to be implemented for the Sub-Fund, along with



projections of regulatory policies and market expectations, and re-allocates the portfolio into securities of different terms (e.g. short-term, medium-term and long-term securities) in a way to adjust exposure to interest rate risks.

#### *Sector allocation strategy*

The Manager will progressively analyse various factors (e.g. credit risks, level of tax liabilities, liquidity) of different types of fixed income instruments (e.g. government / corporate, products with different credit ratings, etc.), and identify fundamental factors that influence the yield spread relationships among these instruments. The Manager will then use these findings to formulate appropriate sector allocation strategies.

#### *Individual security selection*

The Manager will perform thorough fundamental analysis of an issuer including its financial position and, for corporate issuers, the capacity and governance of its management and the market position of the relevant company. Then the Manager will assess the value of the securities concerned, i.e. an analysis on the credit spread of the security and its relative values to other comparable securities, so as to identify and invest in under-valued securities.

### **8. Specific Risk Factors**

Investors should refer to the relevant risks under the section headed “Risk Factors” in the main part of the Explanatory Memorandum and the following specific risk factors in respect of the Sub-Fund.

#### *General investment risk*

The Sub-Fund’s investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the Sub-Fund may suffer losses. There is no guarantee of the repayment of principal. There is also no guarantee of regular dividend or distribution payments during the period you hold units of the Sub-Fund.

Please also refer to the risk factor headed “General investment risk” in the main part of the Explanatory Memorandum.

#### *Currency and conversion risks*

##### *Currency risk*

Underlying investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund. Also, a class of Units may be designated in a currency other than the base currency of the Sub-Fund. The Net Asset Value of the Sub-Fund may be affected

unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

Please also refer to the risk factor headed “Currency risk” in the main part of the Explanatory Memorandum.

#### *Conversion risk*

Where an investor subscribes for Units denominated in RMB or HKD, the Manager will convert such subscriptions into the relevant currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB or HKD, the Manager will sell the Sub-Fund's investments denominated in the relevant currency and convert such proceeds into RMB or HKD (as applicable) at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds denominated in a non-RMB or non-HKD currency into RMB or HKD (as applicable) which, in turn, might affect the Sub-Fund's ability to meet redemption requests from the Unitholders or delay the payment of redemption proceeds.

#### *Renminbi (“**RMB**”) currency and conversion risks*

The Sub-Fund may have substantial exposure to investments denominated in RMB.

RMB is currently not freely convertible and is subject to exchange controls and restrictions. If such policies change in future, the Sub-Fund's or the investors' position may be adversely affected. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time (that is, it is possible that there may not be sufficient RMB for currency conversion in the case of sizeable subscriptions in non-RMB classes). The Manager has the absolute discretion to reject any application made in non-RMB currency funds (whether such application is in relation to a RMB class) where it determines that there is not sufficient RMB for currency conversion. In the case of redemptions, currency conversion is also subject to the Sub-Fund's ability to convert any proceeds denominated in RMB into non-RMB currency which, in turn, might affect the Sub-Fund's ability to meet redemption requests from non-RMB based investors or delay the payment of redemption proceeds.

Investors may be adversely affected by movements of the exchange rates between RMB and other currencies. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investments in the Sub-Fund. If investors convert another currency into RMB to invest in the RMB class of the Sub-Fund, and subsequently convert any RMB redemption proceeds back to

such other currency, they may also suffer losses if RMB depreciates against such other currency.

Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

Please also refer to the risk factor headed “Renminbi currency and conversion risks” in the main part of the Explanatory Memorandum.

### ***“Dim Sum” bond market risks***

The “Dim Sum” bond (i.e. bonds issued outside of Mainland China but denominated in RMB) market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the “Dim Sum” bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulators.

### ***Concentration risk***

The Sub-Fund’s investments are concentrated in fixed income securities. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

Please also refer to the risk factor headed “Concentration risk” in the main part of the Explanatory Memorandum.

### ***Emerging market risk***

The Sub-Fund invests in emerging markets which 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.

Please also refer to the risk factor headed “Emerging market risk” in the main part of the Explanatory Memorandum.

### ***Risks relating to fixed income securities***

#### ***Credit / counterparty risk***

The Sub-Fund is exposed to the credit/default risk of issuers of fixed income securities that the Sub-Fund may invest in. Such securities are typically unsecured debt obligations and are not

supported by collateral. It will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of the fixed income securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/default risk of its counterparties as an unsecured creditor.

The Sub-Fund is exposed to the risk that a counterparty in a transaction may default in its obligation to settle the transaction, or may be unable or unwilling to make timely payments on principal and/or interest. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund may sustain substantial losses. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against issuers incorporated outside Hong Kong and subject to foreign laws.

Please also refer to the risk factors headed "Credit risk" in the main part of the Explanatory Memorandum.

#### *Interest rate risk*

Investment in the Sub-Fund is subject to interest rate risk. In general, the prices of fixed income securities rise when interest rates fall, whilst their prices fall when interest rates rise. Changes in fiscal policies, such as interest rates policies, may have an adverse impact on the pricing of fixed income securities, and thus the return of the Sub-Fund.

Please also refer to the risk factor headed "Interest rate risk" in the main part of the Explanatory Memorandum.

#### *Credit rating risk*

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

The credit rating of a debt security is not the only selection criterion used by the Manager. Whilst the Manager may use credit ratings for reference in its investment process, it will primarily refer to its internal assessments to evaluate the credit quality of debt securities. For example, when it believes that the credit rating given by credit rating agencies does not adequately reflect the credit risks.

Please also refer to the risk factor headed "Credit rating risk" in the main part of the Explanatory Memorandum.

### *Risks associated with debt securities rated below investment grade or unrated*

The Sub-Fund may invest in fixed income securities rated below investment grade or unrated. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities. Fixed income securities that have a lower credit rating or that are unrated will also be more susceptible to the credit risk of the issuers.

If the issuer of securities defaults, or such securities cannot be redeemed, or perform badly, investors may suffer substantial losses. The market for lower rated or unrated securities may be less active, making it more difficult to sell these securities. Valuation of such securities is more difficult and thus the Sub-Fund's prices may be more volatile.

Please also refer to the risk factor headed "Risks associated with debt securities rated below investment grade or unrated" in the main part of the Explanatory Memorandum.

### *Downgrading risk*

The credit rating of a fixed income security or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the Sub-Fund may be adversely affected. The Manager may or may not be able to dispose of the fixed income securities that are being downgraded. If the Sub-Fund continues to hold the relevant securities, it will be subject to additional risk of loss.

Please also refer to the risk factor headed "Downgrading risk" in the main part of the Explanatory Memorandum.

### *Valuation risk*

Valuation of the Sub-Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the Net Asset Value calculation of the Sub-Fund.

The value of fixed income securities may be affected by changing market conditions or other significant market events affecting valuation. In particular, the value of lower-rated or unrated corporate bonds or commercial papers issued by corporations or financial institutions of lower credit ratings is affected by investors' perceptions. In adverse market conditions or where an adverse event happens to the issuer (e.g. credit rating downgrading), the value of lower rated or unrated corporate bonds may decline in value due to investors' perception over credit quality.

### *Sovereign debt risk*

The Sub-Fund'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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

### *Volatility and liquidity risk*

The fixed income securities in some of the markets that the Sub-Fund invests in may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The price at which the fixed income securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. The bid and offer spreads of the prices of such securities may be large and the Sub-Fund may incur significant trading costs.

There may not be an active secondary market for the fixed income securities the Sub-Fund invests in. The Sub-Fund is therefore subject to liquidity risks and may suffer losses in trading such instruments. Even if the fixed income securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the fixed income securities until their maturity date.

There is a risk that if the Sub-Fund is required to meet sizeable redemption requests, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and it may incur significant trading and realisation costs and suffer losses accordingly.

The offshore (that is, outside Mainland China) RMB denominated fixed income securities markets are at a developing stage and the trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated fixed income securities market may result in prices of fixed income securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

Please also refer to the risk factor headed "Volatility and liquidity risk" in the main part of the Explanatory Memorandum. For details in relation to the Fund's liquidity risk management process, please refer to the sub-section "Liquidity Risk Management Process" under the section headed "Investment and Borrowing Restrictions" in the main part of the Explanatory Memorandum.

### ***Risks of investing in other collective investment schemes***

The underlying collective investment schemes in which the Sub-Fund may invest may not be regulated by the SFC. There may be additional costs involved when investing into these underlying collective investment schemes. There is also no guarantee that the underlying collective investment schemes will always have sufficient liquidity to meet the Sub-Fund's redemption requests as and when made.

### ***Derivative instruments / hedging risk***

#### ***Risks associated with investment in FDI***

Risks associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. Exposure to FDI may lead to a high risk of significant loss by the Sub-Fund.

#### ***Hedging risk***

Insofar as the Sub-Fund acquires derivative instruments for hedging, it will be subject to additional risks. There can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Sub-Fund.

Derivative instruments may be illiquid and are complex in nature. In adverse situations, the Sub-Fund's use of derivatives for hedging may become ineffective and the Sub-Fund may suffer significant losses. The price of a derivative instrument can be volatile which may result in losses in excess of the amount invested in the derivative instruments by the Sub-Fund. A derivative instrument is subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Sub-Fund, and this may result in losses to the Sub-Fund.

Please also refer to the relevant risk factors "Counterparty risk", "Over-the-counter market risk" and "Hedging risk" in the main part of the Explanatory Memorandum.

### ***Risks relating to sale and repurchase agreements***

In the event of the failure of the counterparty with which collateral has been placed, the Sub-Fund may suffer loss as there may be delays in recovering collateral placed out, or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral or market movements. In the event of the insolvency of the counterparty, the Sub-Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty.

Under a sale and repurchase transaction, the Sub-Fund retains the economic risks and rewards of the securities which it has sold to the counterparty and therefore is exposed to market risk in the event that it must repurchase such securities from the counterparty at the pre-determined price if that pre-determined price is higher than the value of the securities at the time of repurchase.

***Risks relating to reverse repurchase transactions***

In the event of the failure of the counterparty with which cash has been placed, the Sub-Fund may suffer loss as there may be delay in recovering cash placed out or difficulty in realising collateral, or proceeds from the sale of the collateral may be less than the cash placed with the counterparty due to inaccurate pricing of the collateral or market movements.

***Risks associated with investments in debt instruments with loss-absorption features (LAP)***

LAPs are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of a pre-defined trigger event (e.g. when the issuer is near or at the point of non-viability or when the issuer's capital ratio falls to a specified level), which are likely to be outside of the issuer's control. In relation to senior non-preferred debts, while these instruments are generally senior to subordinated debts, they may also be subject to write-down upon the occurrence of a trigger event and will no longer fall under the creditor ranking hierarchy of the issuer.

Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments. In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class.

Subject to the limit stated in the section headed "Investment Objective and Policy", LAPs invested by the Sub-Fund may be of investment grade or/and non-investment grade. LAPs may also be exposed to liquidity, valuation and sector concentration risk. Please also refer to the relevant risk factors "Concentration risk" and "Volatility and liquidity risk" in the main part of the Explanatory Memorandum.

***Risks associated with instruments with contingent convertible bonds ("CoCos")***

CoCos are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), CoCos will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. They are risky and highly



complex investment instruments. Coupon payments on CoCos are discretionary and may at times also be ceased or deferred by the issuer. Please further note the following:

- (i) *Trigger level risk* – Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require the conversion into equity or the write down to zero of principal investment and/or accrued interest. It would also be difficult for the Manager to assess how the securities will behave upon conversion. Trigger events may include:
- a reduction in the issuing bank's Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios;
  - a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer; or
  - a national authority deciding to inject capital.
- (ii) *Coupon cancellation* – Coupon payments on some CoCos are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.
- (iii) *Capital structure inversion risk* – Contrary to the classic capital hierarchy, investors in CoCos may suffer a loss of capital when equity holders do not (for example, when the loss absorption mechanism of CoCos is activated). This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.
- (iv) *Call extension risk* – Some CoCos are issued as perpetual instruments and only callable at pre-determined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual convertible securities will be called on a call date. Such convertible securities are a form of permanent capital. The Sub-Fund may not receive return of principal as expected on call date or indeed at any date.

- (v) *Conversion risk* – Trigger levels differ between specific instruments, which determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the instruments will behave upon conversion. These instruments may be converted into shares potentially at a discounted price, or the principal amount invested may be lost. In case of conversion into equity, the Manager might be forced to sell these new equity shares. Given the trigger event is likely to be some event depressing the value of the issuer's common equity, this forced sale may result in the Sub-Fund experiencing loss of all investments in CoCos.
- (vi) *Write-down/write-off risk* – In some cases, the issuer of CoCos may cause the convertible security to be written-down or written-off in value based on the specific terms of the individual security if a pre-specified trigger event occurs. Therefore, upon the occurrence of a trigger event, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.
- (vii) *Valuation risk* – Instruments subject to compulsory conversion with non-viability / loss absorption convertible features often offer attractive yield which may be viewed as a complexity premium. The value of such instruments may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets.
- (viii) *Market value fluctuations due to unpredictable factors* – The value of CoCos is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the instruments; (iii) general market conditions and available liquidity; and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.
- (ix) *Liquidity risk* – In certain circumstances, finding a buyer ready to invest in CoCos may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.
- (x) *Sector concentration risk* – CoCos are issued by banking and insurance institutions. Investment in CoCos may lead to an increased sector concentration risk. The performance of the Sub-Fund will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.
- (xi) *Subordinated instruments* – CoCos may be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of such instruments, such as the Sub-Fund, against the issuer in respect of or arising under the

terms of the instruments shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

- (xii) *Novelty and untested nature* – The structure of CoCos is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

***Risks relating to asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities***

Mortgage-backed securities, including collateralised mortgage obligations and certain stripped mortgage-backed securities represent a participation in, or are secured by, mortgage loans. Asset-backed securities are structured like mortgage-backed securities, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include items such as motor vehicles instalment sales or instalment loan contracts, leases of various types of real and personal property and receivables from credit card agreements. Mortgage-backed and asset-backed securities are commonly used to redirect the interest and principal payments from the pool of underlying assets to investors and can be issued at a fixed or a floating rate. The securities backed by the same pool of underlying assets may be issued in a number of different tranches, or classes, with varying risk and return characteristics depending on the priority of claim on the cash flows from the pool and the terms and conditions. The higher the risk contained in the tranche, the more the security generally pays by way of income.

Traditional debt investments typically pay a fixed rate of interest until maturity, when the entire principal amount is due. By contrast, payments on mortgage-backed and many asset-backed investments typically include both interest and partial payment of principal. Principal may also be prepaid voluntarily, or as a result of refinancing or foreclosure. The Sub-Fund may have to invest the proceeds from prepaid investments in other investments with less attractive terms and yields. As a result, these securities may have less potential for capital appreciation during periods of declining interest rates than other securities of comparable maturities, although they may have a similar risk of decline in market value during periods of rising interest rates. As the prepayment rate generally declines as interest rates rise, an increase in interest rates will likely increase the duration, and thus the volatility, of mortgage-backed and asset-backed securities. In addition to interest rate risk, investments in mortgage-backed securities composed of sub-prime mortgages may be subject to a higher degree of credit risk, valuation risk and liquidity risk. Duration is a measure of the expected life of a fixed income security that is used to determine the sensitivity of the security's price to changes in interest rates. Unlike the maturity of a fixed income security, which measures only the time until final payment is due, duration takes into account the time until all payments of interest and principal on a security are expected to be made, including how these payments are affected by prepayments and by changes in interest rates.

The ability of an issuer of asset-backed securities to enforce its security interest in the underlying assets may be limited. Some mortgage-backed and asset backed investments receive only the interest portion or the principal portion of payments on the underlying assets. The yields and values of these investments are extremely sensitive to changes in interest rates and in the rate of principal payments on the underlying assets. Interest portions tend to decrease in value if interest rates decline and rates of repayment (including prepayment) on the underlying mortgages or assets increase; it is possible that the Sub-Fund may lose the entire amount of its investment in an interest portion due to a decrease in interest rates. Conversely, principal portions tend to decrease in value if interest rates rise and rates of repayment decrease. Moreover, the market for interest portions and principal portions may be volatile and limited, which may make them difficult for the Sub-Fund to buy or sell. The Sub-Fund may gain investment exposure to mortgage-backed and asset-backed investments by entering into agreements with financial institutions to buy the investments at a fixed price at a future date. The Sub-Fund may or may not take delivery of the investments at the termination date of such an agreement, but will nonetheless be exposed to changes in the value of the underlying investments during the term of the agreement.

***Risk associated with distributions at a fixed dividend rate***

For the Fixed Rate Distribution Classes, distributions will be made monthly at the annual dividend rate of 6.5%. Please refer to the section headed “16. Distributions” of this Appendix for the calculation basis of the monthly distribution amount. Although the Fixed Rate Distribution Classes are assigned with a fixed dividend rate of 6.5% per annum, subject to the Sub-Fund’s performance from time to time, such rate may be adjusted by the Manager by way of one month’s prior notice. There is no guarantee that the new dividend rate after adjustment will be similar to the current dividend rate of 6.5% per annum. Investments in the Fixed Rate Distribution Classes are not an alternative to a savings account or fixed-interest paying investment. The percentage of distributions paid by the Fixed Rate Distribution Classes is unrelated to the expected or past income or returns (if any) of these Unit classes or the Sub-Fund. The distribution can thus be higher or lower than the income and return that were effectively realised.

Fixed Rate Distribution Classes will continue to distribute in periods that the Sub-Fund has negative returns or is making losses, which further reduces the Net Asset Value of the Sub-Fund. Distribution out of and/or effectively out of capital may result in capital erosion in the long term, in particular, during the adverse market conditions where there is insufficient income in a given month, and therefore constrain future capital growth of the Sub-Fund together with the possibility that the value of future returns may be diminished. In extreme circumstances, investors may not be able to get back the original investment amount.

Investors should note that a positive distribution yield does not imply a positive investment return. Fixed Rate Distribution Classes do not distribute a fixed amount and the constant percentage of distribution results in higher absolute distributions when the Net Asset Value of

the relevant Fixed Rate Distribution Class is high, and lower absolute distributions when such Net Asset Value is low. The dividend amount or dividend rate for the Fixed Rate Distribution Classes are not guaranteed. Hence, the absolute distributions received by investors may vary from month to month.

***Risks associated with distributions out of/effectively out of capital***

The Manager expects to be able to pay distributions from the net distributable income of the Sub-Fund, but in the event that such income attributable to the relevant class is insufficient to pay distributions as it declares, the Manager may in its discretion determine that such distributions may be paid out of capital of the Sub-Fund. Management Fee and other fees and expenses of the Sub-Fund are normally paid out of income. However, the Manager may at its discretion pay distributions out of the Sub-Fund's gross income while charging/paying all or part of the Sub-Fund's Management Fees and other fees and expenses to/out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of distributions by the Sub-Fund, and therefore effectively paying distributions out of the capital of the Sub-Fund. The Manager may amend the policy with respect to the aforementioned, subject to the SFC's prior approval (if required) and by giving not less than one month's prior notice to the Unitholders.

Payment of distributions out of capital and/or effectively out of capital amounts to a return or withdrawal of part of an Unitholder's original investment or from any capital gains attributable to that original investment. Any such distributions may result in an immediate reduction of the Net Asset Value per Unit.

The distribution amount and Net Asset Value of the hedged classes of Units may be adversely affected by differences in the interest rates of the reference currency of the hedged classes of Units and the Sub-Fund's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged classes of Units.

**9. Investment Minima**

<b>Minimum Initial Subscription Amount</b>	Class A – HKD – DIST	HKD1
	Class A – HKD – ACC	HKD1
	Class A – RMB (Unhedged) – DIST	RMB1
	Class A – RMB (Unhedged) – ACC	RMB1
	Class A – RMB (Hedged) – DIST	RMB1
	Class A – RMB (Hedged) – ACC	RMB1
	Class A – USD – DIST	USD1
	Class A – USD – ACC	USD1
	Class I – HKD – DIST	HKD1,000,000
	Class I – HKD – ACC	HKD1,000,000

	Class I – RMB (Unhedged) – DIST Class I – RMB (Unhedged) – ACC Class I – RMB (Hedged) – DIST Class I – RMB (Hedged) – ACC Class I – USD – DIST Class I – USD – ACC Class M – HKD – 6.5% – DIST Class M – RMB (Hedged) – 6.5% – DIST Class M – RMB (Unhedged) – 6.5% – DIST Class M – USD – 6.5% – DIST	RMB1,000,000 RMB1,000,000 RMB1,000,000 RMB1,000,000 USD200,000 USD200,000 HKD0.01 RMB0.01 RMB0.01 USD0.01
<b>Minimum Subsequent Subscription Amount</b>	Class A – HKD – DIST Class A – HKD – ACC Class A – RMB (Unhedged) – DIST Class A – RMB (Unhedged) – ACC Class A – RMB (Hedged) – DIST Class A – RMB (Hedged) – ACC Class A – USD – DIST Class A – USD – ACC Class I – HKD – DIST Class I – HKD – ACC Class I – RMB (Unhedged) – DIST Class I – RMB (Unhedged) – ACC Class I – RMB (Hedged) – DIST Class I – RMB (Hedged) – ACC Class I – USD – DIST Class I – USD – ACC Class M – HKD – 6.5% – DIST Class M – RMB (Hedged) – 6.5% – DIST Class M – RMB (Unhedged) – 6.5% – DIST Class M – USD – 6.5% – DIST	HKD1 HKD1 RMB1 RMB1 RMB1 RMB1 USD1 USD1 HKD500,000 HKD500,000 RMB500,000 RMB500,000 RMB500,000 RMB500,000 USD100,000 USD100,000 HKD0.01 RMB0.01 RMB0.01 USD0.01
<b>Minimum Holding (Units with aggregate minimum value of:)</b>	Class A – HKD – DIST Class A – HKD – ACC Class A – RMB (Unhedged) – DIST Class A – RMB (Unhedged) – ACC Class A – RMB (Hedged) – DIST Class A – RMB (Hedged) – ACC Class A – USD – DIST Class A – USD – ACC Class I – HKD – DIST Class I – HKD – ACC Class I – RMB (Unhedged) – DIST Class I – RMB (Unhedged) – ACC	HKD1 HKD1 RMB1 RMB1 RMB1 RMB1 USD1 USD1 HKD1,000,000 HKD1,000,000 RMB1,000,000 RMB1,000,000

	Class I – RMB (Hedged) – DIST	RMB1,000,000
	Class I – RMB (Hedged) – ACC	RMB1,000,000
	Class I – USD – DIST	USD200,000
	Class I – USD – ACC	USD200,000
	Class M – HKD – 6.5% – DIST	HKD0.01
	Class M – RMB (Hedged) – 6.5% – DIST	RMB0.01
	Class M – RMB (Unhedged) – 6.5% – DIST	RMB0.01
	Class M – USD – 6.5% – DIST	USD0.01
<b>Minimum Redemption Amount (Units with aggregate minimum value of:)</b>	Class A – HKD – DIST	HKD1
	Class A – HKD – ACC	HKD1
	Class A – RMB (Unhedged) – DIST	RMB1
	Class A – RMB (Unhedged) – ACC	RMB1
	Class A – RMB (Hedged) – DIST	RMB1
	Class A – RMB (Hedged) – ACC	RMB1
	Class A – USD – DIST	USD1
	Class A – USD – ACC	USD1
	Class I – HKD – DIST	HKD500,000
	Class I – HKD – ACC	HKD500,000
	Class I – RMB (Unhedged) – DIST	RMB500,000
	Class I – RMB (Unhedged) – ACC	RMB500,000
	Class I – RMB (Hedged) – DIST	RMB500,000
	Class I – RMB (Hedged) – ACC	RMB500,000
	Class I – USD – DIST	USD100,000
	Class I – USD – ACC	USD100,000
	Class M – HKD – 6.5% – DIST	HKD0.01
	Class M – RMB (Hedged) – 6.5% – DIST	RMB0.01
	Class M – RMB (Unhedged) – 6.5% – DIST	RMB0.01
	Class M – USD – 6.5% – DIST	USD0.01

## 10. Fees

<b><i>Fees payable by investors</i></b>	
Initial Charge (% of total subscription amount received)	<b>Class A, Class I and Class M: up to 5%</b>
Redemption Charge (% of total redemption proceeds)	<b>Class A, Class I and Class M: Nil</b>
Switching Charge (% of total amount being switched out of the Existing Class)	<b>Class A, Class I and Class M: up to 1%</b>

<b><i>Fees payable by the Sub-Fund</i></b>	
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A:</b> 1% p.a. <b>Class I:</b> 0.5% p.a. <b>Class M:</b> 1% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	Up to 0.11% p.a., subject to a minimum monthly fee of USD4,000 for the Sub-Fund. The monthly minimum fee will be reduced by 50% for the first 6 months of the launch of this Sub-Fund.
Custody Fee (% Net Asset Value of the Sub-Fund)	Up to 0.1% p.a.
Performance Fee	Not applicable

## **11. Establishment Costs**

The establishment costs for launching this Sub-Fund are estimated to be approximately USD 60,000.

For other details regarding establishment costs, please see the main part of the Explanatory Memorandum under the sub-section headed “Establishment Costs” of the section headed “EXPENSES AND CHARGES - Charges Payable by a Sub-Fund”.

## **12. Dealing Day**

Each Business Day shall be a Dealing Day, or such other day as the Manager and the Trustee may determine from time to time.

## **13. Dealing Deadline**

5:00 p.m. (Hong Kong time) on the relevant Dealing Day. The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

## **14. Subscription, Redemption and Switching of Units**

For this Sub-Fund, a class of Units may be switched into: (i) Units of the same class, or Units of a different class, in another Sub-Fund on a Valuation Day common to both the Existing Class and the New Class, whether or not with the same currency denomination; or (ii) another class of Units in this Sub-Fund, whether or not with the same currency of denomination. The Manager will use the prevailing exchange rate for switching of units denominated in different currencies.



Redemption proceeds for this Sub-Fund will be paid in the class currency of the relevant class of Units. Payment will be made by direct transfer or telegraphic transfer, normally within 10 Business Days after the relevant Dealing Day.

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

## 15. Distributions

For the accumulation classes of Units (i.e. classes with names suffixed by “–ACC”), no distribution will be paid.

For the distribution classes of Units under Class A and Class I (i.e. Class A and Class I with names suffixed by “–DIST”), subject to the Manager’s discretion on whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends, distributions (if any) may be made on a monthly basis.

For the distribution classes of Units under Class M (i.e. Class M with names suffixed by “–DIST”, the “**Fixed Rate Distribution Classes**”), distributions will be made monthly at the fixed dividend rate of 6.5% per annum. Such dividend rate and the distribution frequency of the Fixed Rate Distribution Classes will remain unchanged. However, investors should note that subject to the Manager’s monitoring of the Sub-Fund’s performance from time to time, the Manager may adjust the fixed dividend rate by way of one month’s prior notice to Class M unitholders. The distribution amount will be calculated by the following formula:

- Monthly distribution amount = 6.5% per annum or the new dividend rate after any adjustment by the Manager (as the case may be) ÷ 12 months x Net Asset Value at the end of each month

As such, the dividend amount or dividend rate for the Fixed Rate Distribution Classes are not guaranteed. Investors should refer to the risk factor under the sub-section “Risk associated with distributions at a fixed dividend rate” of this Appendix.

The Manager expects to be able to pay distributions from the net distributable income of the Sub-Fund, but in the event that such income attributable to the relevant class is insufficient to pay distributions as it declares, the Manager may in its discretion determine that such distributions may be paid out of capital of the Sub-Fund. Management Fee and other fees and expenses of the Sub-Fund are normally paid out of income. However, the Manager may at its discretion pay distributions out of the Sub-Fund’s gross income while charging/paying all or part of the Sub-Fund’s Management Fees and other fees and expenses to/out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of distributions

by the Sub-Fund, and therefore effectively paying distributions out of the capital of the Sub-Fund.

Any distributions involving payment of dividends out of the Sub-Fund's capital or payment of dividends effectively out of the Sub-Fund's capital (as the case may be) amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Such distributions may result in an immediate reduction of the Net Asset Value per Unit. Investors should refer to the risk factor under the sub-section "Risks associated with distributions out of/effectively out of capital" of this Appendix.

Composition of the latest distributions, i.e. the percentages of distribution being made out of income or capital, for the last 12 months will be available from the Manager upon request and at the Manager's website at <http://www.taikangasset.cn/tkzc/hk/><sup>5</sup>.

## **16. Valuation**

The Valuation Day will be the relevant Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day or such other time on such other day as the Manager and the Trustee may from time to time determine to calculate the Net Asset Value.

## **17. Documents Available for Inspection**

Please refer to the section headed "Documents Available for Inspection" in the main part of the Explanatory Memorandum.

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<sup>5</sup> This website has not been reviewed by the SFC.

### **APPENDIX III - TAIKANG KAITAI CHINA NEW OPPORTUNITIES FUND**

This Appendix comprises information in relation to Taikang Kaitai China New Opportunities Fund, a Sub-Fund of the Fund.

#### **1. Definitions**

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

#### **2. Available Classes**

The following classes of Units are available for subscription in respect of the Sub-Fund. Class A Units are available for sale to the retail public in Hong Kong. Class I Units are offered to institutional investors, private bank clients and other investors determined by the Manager from time to time. Class P Units are available for sale to investors in Mainland China. In addition, the Manager may from time to time determine that a new class of Units shall be established (pursuant to provisions of the Trust Deed) and offered.

In respect of Class P Units, such Units will be issued at such dates as the Manager may determine.

<b>Class</b>	<b>Class Currency</b>
Class A – HKD – DIST	HKD
Class A – HKD – ACC	HKD
Class A – RMB (Unhedged) – DIST	RMB
Class A – RMB (Unhedged) – ACC	RMB
Class A – RMB (Hedged) – DIST	RMB
Class A – RMB (Hedged) – ACC	RMB
Class A – USD – DIST	USD
Class A – USD – ACC	USD
Class I – HKD – DIST	HKD
Class I – HKD – ACC	HKD
Class I – RMB (Unhedged) – DIST	RMB
Class I – RMB (Unhedged) – ACC	RMB

Class I – RMB (Hedged) – DIST	RMB
Class I – RMB (Hedged) – ACC	RMB
Class I – USD – DIST	USD
Class I – USD – ACC	USD
Class P – RMB (Unhedged) – DIST*	RMB
Class P – RMB (Unhedged) – ACC*	RMB
Class P – RMB (Hedged) – DIST*	RMB
Class P – RMB (Hedged) – ACC*	RMB
Class P – USD – DIST*	USD
Class P – USD – ACC*	USD
Class P – HKD – DIST*	HKD
Class P – HKD – ACC*	HKD

*\*Available to investors in Mainland China only.*

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

The Manager is entitled to charge an initial charge of up to 5% of the total subscription amount received (before deducting the initial charge) in relation to an application in respect of Class A Units, Class I Units and Class P Units.

### **3. Application Moneys / Redemption Proceeds**

Applicants for Units should note that application moneys for a class must be paid in the class currency of the relevant class. Where Unitholders redeem their Units of a class, redemption proceeds will be paid to the relevant Unitholders in the class currency of the relevant class of Units.

### **4. Base Currency**

The base currency of this Sub-Fund is HKD.

## 5. Investment Objective and Policy

The Taikang Kaitai China New Opportunities Fund seeks to provide investors with capital appreciation over the long term, primarily through China related investments in the equity markets.

### Equities and equity-related securities

Within the above-mentioned scope, the Manager will allocate at least 70% of the Net Asset Value of the Sub-Fund to a portfolio of (i) equities and equity-related securities (including but not limited to common stock, preference stock, American Depositary Receipts, and Global Depositary Receipts) issued by companies incorporated in, or exercising the predominant part of their economic activity in Mainland China, and quoted or traded on the stock exchanges of Hong Kong, Singapore, Taiwan and the United States of America, and (ii) China A-Shares quoted or traded through the Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (“**Approved Securities**”).

Up to 30% of the Sub-Fund’s Net Asset Value may be invested in: (i) other equity and equity-related securities issued by companies not meeting the preceding requirements (such as companies incorporated in, or exercising the predominant part of their economic activity in the United States of America or Europe); (ii) other investments, including but not limited to money market instruments (e.g. bank certificates of deposit and negotiated term deposits); and (iii) exchange-traded funds (“**ETFs**”) and collective investment schemes with similar investment objectives to the Sub-Fund.

The Sub-Fund will invest no more than 30% of its Net Asset Value in collective investment schemes. The collective investment schemes will have similar investment objectives to the Sub-Fund. The Sub-Fund may invest in other funds authorized by the SFC or that are eligible schemes domiciled in Luxembourg, Ireland and/or the United Kingdom (whether authorized by the SFC or not), except that not more than 10% of the Sub-Fund’s Net Asset Value may be invested in collective investment schemes which are non-eligible schemes and not authorized by the SFC.

### Financial Derivative Instruments (“**FDI**”)

The Sub-Fund may invest in financial derivative instruments for hedging purposes only but not for investment purposes. Subject to applicable regulations, derivatives used for hedging purposes may include but are not limited to options, warrants and futures.

It is not the Manager’s current intention to engage in securities lending, repurchase or reverse repurchase transactions or similar over-the-counter transactions or invest in asset-backed securities (including asset-backed commercial papers) or mortgage-backed securities for the account of the Sub-Fund. The Manager will seek the prior approval of the SFC (if required)

and provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions and the Explanatory Memorandum will also be updated accordingly.

## 6. Investment Allocation

The Sub-Fund's indicative asset allocation is presented in the table below:

By types of investments	Percentage of allocation (% of Net Asset Value)
<b>Equities and equity-related securities that are Approved Securities</b>	<b>70 – 100</b>
<b>Other</b> <ul style="list-style-type: none"> <li>- Equity and equity-related securities that are not Approved Securities</li> <li>- Money market instruments</li> <li>- ETFs and other collective investment schemes</li> </ul>	<b>0 – 30</b> <ul style="list-style-type: none"> <li>0 – 30</li> <li>0 – 30</li> <li>0 – 30</li> </ul>

## 7. Investment Strategy

The Manager will implement a combination of both top-down and bottom-up approach in determining investment of industries and individual stocks by the Sub-Fund. Through analysis of the macroeconomic impact on each industry and its developmental stage, the Manager understands the industry's growth potential and development process, and assesses the industry's long-term investment value. Then the Manager tracks changes in industry policies, profitability, inventory levels, gross margin and other indicators to monitor the current industry prosperity and its variation, and updates its assessment record.

The Manager will build up a long-term relationship with listed companies and its peers, and conduct an in-depth analysis on the company and the industry it belongs to, so as to track fundamental changes of related companies in a timely manner. The Manager eventually makes an investment decision based on a thorough understanding of an investment instrument's value from the above.

## 8. Specific Risk Factors

Investors should refer to the relevant risks under the section headed "Risk Factors" in the main part of the Explanatory Memorandum and the following specific risk factors in respect of the Sub-Fund.

### ***General investment risk***

The Sub-Fund's investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the Sub-Fund may suffer losses. There is no guarantee of the repayment of principal. There is also no guarantee of regular dividend or distribution payments during the period you hold units of the Sub-Fund.

Please also refer to the risk factor headed "General investment risk" in the main part of the Explanatory Memorandum.

### ***Currency and conversion risks***

#### ***Currency risk***

Underlying investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund. Also, a class of Units may be designated in a currency other than the base currency of the Sub-Fund. The Net Asset Value of the Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

Please also refer to the risk factor headed "Currency risk" in the main part of the Explanatory Memorandum.

#### ***Conversion risk***

Where an investor subscribes for Units denominated in RMB or HKD, the Manager will convert such subscriptions into the relevant currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB or HKD, the Manager will sell the Sub-Fund's investments denominated in the relevant currency and convert such proceeds into RMB or HKD (as applicable) at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds denominated in a non-RMB or non-HKD currency into RMB or HKD (as applicable) which, in turn, might affect the Sub-Fund's ability to meet redemption requests from the Unitholders or delay the payment of redemption proceeds.

#### ***Renminbi ("**RMB**") currency and conversion risks***

RMB is currently not freely convertible and is subject to exchange controls and restrictions. If such policies change in future, the Sub-Fund's or the investors' position may be adversely affected. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time (that is, it is possible that there may not be sufficient RMB for

currency conversion in the case of sizeable subscriptions in non-RMB classes). The Manager has the absolute discretion to reject any application made in non-RMB currency funds (whether such application is in relation to a RMB class) where it determines that there is not sufficient RMB for currency conversion. In the case of redemptions, currency conversion is also subject to the Sub-Fund's ability to convert any proceeds denominated in RMB into non-RMB currency which, in turn, might affect the Sub-Fund's ability to meet redemption requests from non-RMB based investors or delay the payment of redemption proceeds.

Investors may be adversely affected by movements of the exchange rates between RMB and other currencies. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investments in the Sub-Fund. If investors convert another currency into RMB to invest in the RMB class of the Sub-Fund, and subsequently convert any RMB redemption proceeds back to such other currency, they may also suffer losses if RMB depreciates against such other currency.

Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

Please also refer to the risk factor headed "Renminbi currency and conversion risks" in the main part of the Explanatory Memorandum.

### ***Concentration risk/Mainland China market risk***

The Sub-Fund's investments are concentrated in equities and equity-related securities issued by companies incorporated in, or exercising the predominant part of their economic activity in Mainland China. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

Insofar as the Sub-Fund may invest substantially in securities related to the Mainland China market, it will be subject to risks inherent in the Mainland China market and additional concentration risks.

Please also refer to the risk factor headed "Concentration risk" and "Mainland China market risk" in the main part of the Explanatory Memorandum.

### ***Emerging market risk***

The Sub-Fund invests in emerging markets (e.g. Mainland China) which 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.

Please also refer to the risk factor headed “Emerging market risk” in the main part of the Explanatory Memorandum.

### ***Risks associated with equities***

#### ***Equity market risk***

The Sub-Fund’s investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.

#### ***Risk associated with small-capitalisation / mid-capitalisation companies***

The stock of small-capitalisation/ mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general.

#### ***Risk associated with high volatility of the equity market***

High market volatility and potential settlement difficulties in the markets in Hong Kong, Singapore, Taiwan and the United States of America may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Sub-Fund.

#### ***Risk associated with regulatory/exchanges requirements/policies of the equity market***

Securities exchanges in Hong Kong, Singapore, Taiwan and the United States of America typically have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on the Sub-Fund.

### ***Risks associated with China A-Shares***

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

China A-Share market may also result in significant fluctuations in the prices of the securities traded on such market and thereby may affect the value of the Sub-Fund.

Securities exchanges in Mainland China typically have the right to suspend or limit trading in any security traded on the relevant exchange. In particular, trading band limits are imposed by the stock exchanges in Mainland China on China A-Shares, where trading in any China A-Share security on the relevant stock exchange may be suspended if the trading price of the security has increased or decreased to the extent beyond the trading band limit. A suspension may render it impossible for the Manager to liquidate positions and can thereby expose the Sub-Fund to significant losses. Further, when the suspension is subsequently lifted, it may not be possible for the Manager to liquidate positions at a favourable price.

***Risks associated with the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (collectively, “Stock Connect”)***

The Stock Connect is subject to regulations promulgated by regulatory authorities and implementation rules (e.g. trading rules) made by the stock exchanges in Mainland China and Hong Kong, including quota limitations. New regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect.

It should be noted that the regulations are untested and there is no certainty as to how they will be applied, and their application may have retrospective effects. Moreover, the current regulations are subject to change. Where a suspension in the trading through the programme is effected, the Sub-Fund’s ability to invest in China A-Shares or access the Mainland China market through the programme will be adversely affected. There can also be no assurance that the Stock Connect will not be abolished. In such event, the Sub-Fund’s ability to achieve its investment objective could be negatively affected.

Please also refer to the risk factor headed “Risks associated with the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect” and “Risks associated with ChiNext of the Shenzhen Stock Exchange and/or the Science and Technology Innovation Board (“STAR Board”)” under the section headed “Risk Factors” in the main part of the Explanatory Memorandum.

***Mainland China tax risk***

The Sub-Fund’s investments in the Mainland China market are subject to Mainland China tax risk considerations. Various tax reforms have been implemented by the Mainland China government in recent years. There can be no assurance that these existing tax laws will not be revised or abolished. The Sub-Fund may be subject to withholding and various other taxes imposed in Mainland China. Any changes in tax policies may affect adversely the performance

of companies in Mainland China or companies with activities closely related to the economic development and growth of Mainland China.

There are risks and uncertainties associated with changes in the current Mainland China tax laws, regulations and practice in respect of capital gains realised through Stock Connect or other means on its investment in Mainland China, which may have retrospective effect and may adversely affect the Sub-Fund. Having taken and considered independent professional tax advice regarding the prevailing tax regulations in Mainland China, the Sub-Fund's eligibility for treaty relief in the relevant double taxation arrangements between Hong Kong and Mainland China and acting in accordance with such advice, the Manager considers that the Sub-Fund should be regarded as a Hong Kong tax resident and able to enjoy a Mainland China withholding tax exemption on capital gains derived from trading of China A-Shares. Therefore, the Manager will not make any withholding tax provision in respect of any potential Mainland China tax liability on such gross realised and unrealised capital gains. It is possible that the applicable tax laws, regulations and practices may be changed, that the Mainland China tax authorities may hold a different view as to the enforcement of the Mainland China withholding tax collection on capital gains, or that the Mainland China tax authorities may require the Sub-Fund to provide a Hong Kong Tax Resident Certificate ("**HKTRC**") (the Sub-Fund has not currently obtained a HKTRC) and the Manager may not be able to obtain a HKTRC on behalf of the Sub-Fund. In such case, the Sub-Fund may be required to pay withholding tax on capital gains which the Sub-Fund has not provided for. Such withholding tax will be debited from the Sub-Fund's assets causing the Sub-Fund's NAV to be adversely affected. In this case, existing and subsequent investors will be disadvantaged as they will bear a disproportionately higher amount of tax liabilities as compared to the liability at the time of investment in the Sub-Fund.

Please also refer to the sub-sections "Mainland China" and "Risk Factors – General Mainland China taxation risks" under the section headed "Taxation" in the main part of the Explanatory Memorandum.

### ***Risks of investing in other collective investment schemes***

The underlying collective investment schemes in which the Sub-Fund may invest may not be regulated by the SFC. There may be additional costs involved when investing into these underlying collective investment schemes. There is also no guarantee that the underlying collective investment schemes will always have sufficient liquidity to meet the Sub-Fund's redemption requests as and when made.

### ***Derivative instruments / hedging risk***

#### ***Risks associated with investment in FDI***

Risks associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI

can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. Exposure to FDI may lead to a high risk of significant loss by the Sub-Fund.

#### *Hedging risk*

Insofar as the Sub-Fund acquires derivative instruments for hedging, it will be subject to additional risks. There can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Sub-Fund.

Derivative instruments may be illiquid and are complex in nature. In adverse situations, the Sub-Fund's use of derivatives for hedging may become ineffective and the Sub-Fund may suffer significant losses. The price of a derivative instrument can be volatile which may result in losses in excess of the amount invested in the derivative instruments by the Sub-Fund. A derivative instrument is subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Sub-Fund, and this may result in losses to the Sub-Fund.

Please also refer to the relevant risk factors "Counterparty risk", "Over-the-counter market risk" and "Hedging risk" in the main part of the Explanatory Memorandum.

#### ***Risks associated with distributions out of/effectively out of capital***

The Manager expects to be able to pay distributions from the net distributable income of the Sub-Fund, but in the event that such income attributable to the relevant class is insufficient to pay distributions as it declares, the Manager may in its discretion determine that such distributions may be paid out of capital of the Sub-Fund. Management Fee and other fees and expenses of the Sub-Fund are normally paid out of income. However, the Manager may at its discretion pay distributions out of the Sub-Fund's gross income while charging/paying all or part of the Sub-Fund's Management Fees and other fees and expenses to/out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of distributions by the Sub-Fund, and therefore effectively paying distributions out of the capital of the Sub-Fund. The Manager may amend the policy with respect to the aforementioned, subject to the SFC's prior approval (if required) and by giving not less than one month's prior notice to the Unitholders.

Payment of distributions out of capital and/or effectively out of capital amounts to a return or withdrawal of part of an Unitholder's original investment or from any capital gains attributable to that original investment. Any such distributions may result in an immediate reduction of the Net Asset Value per Unit.

The distribution amount and Net Asset Value of the hedged classes of Units may be adversely affected by differences in the interest rates of the reference currency of the hedged classes of Units and the Sub-Fund's base currency, resulting in an increase in the amount of distribution

that is paid out of capital and hence a greater erosion of capital than other non-hedged classes of Units.

### *Past performance risk*

As a result of the change of investment strategy of the Sub-Fund with effect from 13 September 2021, past performance of the Sub-Fund prior to that date was achieved under circumstances which will no longer apply. Investors should exercise caution when considering the past performance of the Sub-Fund prior to 13 September 2021.

## **9. Investment Minima**

<b>Minimum Initial Subscription Amount</b>	Class A – HKD – DIST	HKD10,000
	Class A – HKD – ACC	HKD10,000
	Class A – RMB (Unhedged) – DIST	RMB10,000
	Class A – RMB (Unhedged) – ACC	RMB10,000
	Class A – RMB (Hedged) – DIST	RMB10,000
	Class A – RMB (Hedged) – ACC	RMB10,000
	Class A – USD – DIST	USD2,000
	Class A – USD – ACC	USD2,000
	Class I – HKD – DIST	HKD1,000,000
	Class I – HKD – ACC	HKD1,000,000
	Class I – RMB (Unhedged) – DIST	RMB1,000,000
	Class I – RMB (Unhedged) – ACC	RMB1,000,000
	Class I – RMB (Hedged) – DIST	RMB1,000,000
	Class I – RMB (Hedged) – ACC	RMB1,000,000
	Class I – USD – DIST	USD200,000
	Class I – USD – ACC	USD200,000
	Class P – RMB (Unhedged) – DIST*	RMB10,000
	Class P – RMB (Unhedged) – ACC*	RMB10,000
	Class P – RMB (Hedged) – DIST*	RMB10,000
	Class P – RMB (Hedged) – ACC*	RMB10,000
	Class P – USD – DIST*	USD2,000
	Class P – USD – ACC*	USD2,000
	Class P – HKD – DIST*	HKD10,000
	Class P – HKD – ACC*	HKD10,000
<b>Minimum Subsequent Subscription Amount</b>	Class A – HKD – DIST	HKD5,000
	Class A – HKD – ACC	HKD5,000
	Class A – RMB (Unhedged) – DIST	RMB5,000
	Class A – RMB (Unhedged) – ACC	RMB5,000
	Class A – RMB (Hedged) – DIST	RMB5,000
	Class A – RMB (Hedged) – ACC	RMB5,000

	Class A – USD – DIST Class A – USD – ACC Class I – HKD – DIST Class I – HKD – ACC Class I – RMB (Unhedged) – DIST Class I – RMB (Unhedged) – ACC Class I – RMB (Hedged) – DIST Class I – RMB (Hedged) – ACC Class I – USD – DIST Class I – USD – ACC Class P – RMB (Unhedged) – DIST* Class P – RMB (Unhedged) – ACC* Class P – RMB (Hedged) – DIST* Class P – RMB (Hedged) – ACC* Class P – USD – DIST* Class P – USD – ACC* Class P – HKD – DIST* Class P – HKD – ACC*	USD1,000 USD1,000 HKD500,000 HKD500,000 RMB500,000 RMB500,000 RMB500,000 RMB500,000 RMB500,000 USD100,000 USD100,000 RMB5,000 RMB5,000 RMB5,000 RMB5,000 USD1,000 USD1,000 HKD5,000 HKD5,000
<b>Minimum Holding (Units with aggregate minimum value of:)</b>	Class A – HKD – DIST Class A – HKD – ACC Class A – RMB (Unhedged) – DIST Class A – RMB (Unhedged) – ACC Class A – RMB (Hedged) – DIST Class A – RMB (Hedged) – ACC Class A – USD – DIST Class A – USD – ACC Class I – HKD – DIST Class I – HKD – ACC Class I – RMB (Unhedged) – DIST Class I – RMB (Unhedged) – ACC Class I – RMB (Hedged) – DIST Class I – RMB (Hedged) – ACC Class I – USD – DIST Class I – USD – ACC Class P – RMB (Unhedged) – DIST* Class P – RMB (Unhedged) – ACC* Class P – RMB (Hedged) – DIST* Class P – RMB (Hedged) – ACC* Class P – USD – DIST* Class P – USD – ACC* Class P – HKD – DIST* Class P – HKD – ACC*	HKD10,000 HKD10,000 RMB10,000 RMB10,000 RMB10,000 RMB10,000 USD2,000 USD2,000 HKD1,000,000 HKD1,000,000 RMB1,000,000 RMB1,000,000 RMB1,000,000 RMB1,000,000 USD200,000 USD200,000 RMB10,000 RMB10,000 RMB10,000 RMB10,000 USD2,000 USD2,000 HKD10,000 HKD10,000

<b>Minimum Redemption Amount</b> (Units with aggregate minimum value of:)	Class A – HKD – DIST	HKD10,000
	Class A – HKD – ACC	HKD10,000
	Class A – RMB (Unhedged) – DIST	RMB10,000
	Class A – RMB (Unhedged) – ACC	RMB10,000
	Class A – RMB (Hedged) – DIST	RMB10,000
	Class A – RMB (Hedged) – ACC	RMB10,000
	Class A – USD – DIST	USD2,000
	Class A – USD – ACC	USD2,000
	Class I – HKD – DIST	HKD500,000
	Class I – HKD – ACC	HKD500,000
	Class I – RMB (Unhedged) – DIST	RMB500,000
	Class I – RMB (Unhedged) – ACC	RMB500,000
	Class I – RMB (Hedged) – DIST	RMB500,000
	Class I – RMB (Hedged) – ACC	RMB500,000
	Class I – USD – DIST	USD100,000
	Class I – USD – ACC	USD100,000
	Class P – RMB (Unhedged) – DIST*	RMB5,000
	Class P – RMB (Unhedged) – ACC*	RMB5,000
	Class P – RMB (Hedged) – DIST*	RMB5,000
	Class P – RMB (Hedged) – ACC*	RMB5,000
	Class P – USD – DIST*	USD1,000
	Class P – USD – ACC*	USD1,000
	Class P – HKD – DIST*	HKD5,000
	Class P – HKD – ACC*	HKD5,000

*\*Available to investors in Mainland China only*

## 10. Fees

<b><i>Fees payable by investors</i></b>	
Initial Charge (% of total subscription amount received)	<b>Class A, Class I and Class P*:</b> up to 5%
Redemption Charge (% of total redemption proceeds)	<b>Class A, Class I and Class P*:</b> Nil
Switching Charge (% of total amount being switched out of the Existing Class)	<b>Class A and Class I:</b> up to 1%

<b><i>Fees payable by the Sub-Fund</i></b>	
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A:</b> 1.75% p.a. <b>Class I:</b> 1.0% p.a. <b>Class P*:</b> 1.75% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	Up to 0.15% p.a., subject to a minimum monthly fee of HKD40,000 for the Sub-Fund.
Custody Fee (% Net Asset Value of the Sub-Fund)	Up to 0.1% p.a.
Performance Fee	Not applicable

*\*Available to investors in Mainland China only*

## **11. Establishment Costs**

The establishment costs for this Sub-Fund were approximately HKD350,000.

For other details regarding the establishment costs, see the main part of the Explanatory Memorandum under “Establishment Costs”.

## **12. Dealing Day**

Each Business Day shall be a Dealing Day, or such other day as the Manager and the Trustee may determine from time to time.

## **13. Dealing Deadline**

5:00 p.m. (Hong Kong time) on the relevant Dealing Day (unless otherwise specified in respect of Class P Units). The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

## **14. Subscription, Redemption and Switching of Units**

For this Sub-Fund, a class of Class A Units or Class I Units may be switched into: (i) Units of the same class, or Units of a different class, in another Sub-Fund on a Valuation Day common to both the Existing Class and the New Class, whether or not with the same currency denomination; or (ii) unless otherwise specified and subject to the applicable conditions, another class of Units in this Sub-Fund, whether or not with the same currency of denomination. The Manager will use the prevailing exchange rate for switching of units denominated in different currencies. No switching into or out of any Class P Units will be permitted.



Redemption proceeds for this Sub-Fund will be paid in the class currency of the relevant class of Units. Payment will be made by direct transfer or telegraphic transfer, normally within 10 Business Days after the relevant Dealing Day.

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

## **15. Distributions**

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends.

For the distribution classes of Units (i.e. classes with names suffixed by “–DIST”), subject to the Manager’s discretion, distributions (if any) will be made on a monthly basis. No distribution will be paid for the accumulation classes of Units (i.e. classes with names suffixed by “–ACC”).

The Manager may in its discretion pay distributions from the net distributable income of the Sub-Fund or out of the capital of the Sub-Fund. Please refer to “Risks associated with distributions out of/effectively out of capital” above in this Appendix III.

Distributions will be paid in the relevant class currency of the Units. Investors may elect to re-invest the dividends to subscribe for additional Units in the Sub-Fund. There is no guarantee of regular distribution and if distribution is made the amount being distributed.

Composition of the latest distributions, i.e. the percentages of distribution being made out of income or capital, for the last 12 months will be available from the Manager upon request and at the Manager’s website at <http://www.taikangasset.cn/tkzc/hk/><sup>6</sup>.

## **16. Valuation**

The Valuation Day will be the relevant Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day or such other time on such other day as the Manager and the Trustee may from time to time determine to calculate the Net Asset Value.

## **17. Documents Available for Inspection**

Please refer to the section headed “Documents Available for Inspection” in the main part of the Explanatory Memorandum.

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<sup>6</sup> This website has not been reviewed by the SFC.

## APPENDIX IV - TAIKANG KAITAI HONG KONG DOLLAR MONEY MARKET FUND

This Appendix comprises information in relation to Taikang Kaitai Hong Kong Dollar Money Market Fund, a Sub-Fund of the Fund.

### 1. Definitions

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

### 2. Available Classes

The following classes of Units are available for subscription in respect of the Sub-Fund. Class A Units are offered to other investors, including the retail public in Hong Kong and other distributors. Class B and Class C Units of the Sub-Fund are offered to selected distributor(s) as determined by the Manager from time to time. Class I Units are offered to institutional investors and selected investors as determined by the Manager. Class M Units are offered to investors related to the Manager.

Class	Class Currency
Class A – HKD	HKD
Class B – HKD	HKD
Class C – HKD – DIST	HKD
Class C – HKD – ACC	HKD
Class I – HKD	HKD
Class M – HKD	HKD

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

The Manager is entitled to charge an initial charge of up to 5% of the total subscription amount received (before deducting the initial charge) in relation to an application in respect of Class A, Class B, Class C, Class I and Class M Units of the Sub-Fund.

### **3. Application Moneys / Redemption Proceeds**

Applicants for Units should note that application moneys for a class must be paid in the class currency of the relevant class. Where Unitholders redeem their Units of a class, redemption proceeds will be paid to the relevant Unitholders in the base currency or the class currency of the relevant class of Units, based on the prevailing exchange rate.

Notwithstanding the disclosure in the sections “PURCHASE OF UNITS” and “REDEMPTION OF UNITS”, the Issue Price and the Redemption Price of the Units issued under Class A, Class B, Class I and Class M of the Sub-Fund shall be rounded down to the nearest 5 decimal places, whereas the Issue Price and Redemption Price of Units issued under Class C of the Sub-Fund shall be rounded down to the nearest 4 decimal places. Any rounding adjustment shall be retained for the benefit of the Sub-Fund.

### **4. Base Currency**

The base currency of this Sub-Fund is HKD.

### **5. Investment Objective and Policy**

#### **Objective**

The Sub-Fund’s objective is to achieve a return in Hong Kong Dollars in line with prevailing money market rates in Hong Kong.

#### **Strategy**

The Sub-Fund seeks to achieve its investment objective by investing primarily (i.e. not less than 70% of its Net Asset Value) in HKD denominated and settled short-term deposits and high quality money market instruments issued by governments, quasi-governments, international organisations and financial institutions. High quality money market instruments include but are not limited to government bills, short term notes, bankers’ acceptance, commercial papers, certificates of deposits, commercial bills and debt securities. Debt securities invested by the Sub-Fund (up to 20% of the Net Asset Value) include but are not limited to government bonds, fixed and floating rate bonds. Non-HKD denominated investments may account for up to 30% of the Sub-Fund’s Net Asset Value.

The Sub-Fund may also invest not more than 10% of its Net Asset Value into money market funds that are authorised by the SFC or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC. The money market funds invested into by the Sub-Fund may be denominated in any currency.

There is no specific geographical allocation of the country of issue of the Sub-Fund's investments, except that the Sub-Fund may not invest more than 30% of its Net Asset Value in emerging markets (including the onshore China markets). Countries or regions in which the Sub-Fund may invest in include but are not limited to Hong Kong, Singapore, the European Union, the United States and China (onshore and offshore markets).

The Sub-Fund may invest in onshore and offshore RMB-denominated money market instruments or debt securities. The total exposure to onshore RMB denominated money market instruments and debt securities may be up to 20% of the Sub-Fund's Net Asset Value (accessed via the mutual bond market access between Hong Kong and Mainland China ("**Bond Connect**"). The total exposure to offshore RMB denominated money market instruments and debt securities ("Dim Sum" bonds) will be less than 10% of the Sub-Fund's Net Asset Value. The total exposure to onshore and offshore RMB denominated assets may be up to 30% of the Sub-Fund's Net Asset Value.

The Manager will assess the credit quality and the liquidity profile of instruments that may be acquired on behalf of the Sub-Fund to determine whether a money market instrument is of high quality. The Sub-Fund will only invest in instruments which 1) have, or the issuers of which have, an investment grade rating, i.e. at least BBB-/Baa3 (rated by an internationally recognised credit agency such as Moody's, Standard & Poor's or Fitch) or AA+ (rated by a Mainland Chinese domestic credit rating agency) or 2) in terms of short-term debt security, has an investment grade short-term credit rating of A-3 or higher by Standard & Poor's or F3 or higher by Fitch or P-3 or higher by Moody's or equivalent rating as rated by one of the international credit rating agencies. While these credit ratings provided by the relevant rating agencies serve as a point of reference, the Manager will conduct its own assessment on the credit quality based on various factors. The assessment by the Manager involves both quantitative and qualitative analyses of an issuer's credit fundamentals. Quantitative financial factors that are assessed may include, the issuer's leverage, operating margin, return on capital, interest coverage and operating cash flows. Qualitative factors that will be assessed may include, industry outlook, the firm's competitive position, corporate governance, and other non-financial factors. The Manager will assess the liquidity profile of instruments based on various factors, included but not limited to time to cash, liquidation horizon, price volatility, external liquidity classification, daily trading volume, yield volatility and bid-ask spread of such instruments. Only instruments with sufficient liquidity will be included in the portfolio of the Sub-Fund.

The aggregate value of the Sub-Fund's holding of instruments and deposits issued by a single entity will not exceed 10% of the total Net Asset Value of the Sub-Fund except: (i) where the entity is a substantial financial institution (as defined in the Code) and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%; or (ii) in the case of Government and other public securities (as defined in the Code), up to 30% may be invested in the same issue; or (iii) in respect of any deposit of less than USD1,000,000 or its equivalent in HKD, where the Sub-Fund cannot otherwise diversify as a result of its size.

The Sub-Fund will not invest in convertible bonds. It will not invest in instruments with loss-absorption features (i.e. instruments that may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s)).

The Sub-Fund will maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days, or two years in the case of Government and other public securities.

The Sub-Fund may borrow up to 10% of its total Net Asset Value but only on a temporary basis for the purpose of meeting redemption requests or defraying operating expenses.

For the avoidance of doubt, the Sub-Fund will not (i) invest in any securities or other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded or (ii) make any short sales.

#### Financial Derivative Instruments (“FDI”)

The Sub-Fund may invest in FDI for hedging purposes only but not for investment purposes. The Sub-Fund will not write any options. Any material currency risk from non-HKD denominated investments will be appropriately hedged into HKD.

#### Sale and Repurchase Transactions

The Sub-Fund may enter into sale and repurchase transactions only on a temporary basis mainly for the purpose of meeting redemption requests. The maximum proportion and expected proportion of the Net Asset Value of the Sub-Fund that can be subject to sale and repurchase transactions, when aggregated with the Sub-Fund’s borrowing, are 10% and 10% respectively. The actual proportion of the Net Asset Value engaged in such transactions may vary over time depending on factors including, but not limited to, market conditions.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund.

The Sub-Fund will not enter into securities lending and reverse repurchase transactions in respect of the Sub-Fund. The Manager will seek the prior approval of the SFC (if required) and provide at least one month’s prior notice to Unitholders before the Manager engages in any such transactions and the Explanatory Memorandum will also be updated accordingly.

It is the intention of the Manager to sell the securities for cash equal to the market value of the securities provided in a sale and repurchase transaction, where cash obtained will not be re-invested. The Sub-fund will not receive any non-cash collateral.

The Manager's policy in managing these transactions is disclosed in "ANNEX C - SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS".

The Sub-Fund's indicative asset allocation is presented in the table below:

<b>Investments</b>	<b>Percentage of allocation (% of Net Asset Value)</b>
<b>HKD denominated securities</b>	
HKD denominated and settled short-term deposits and high quality money market instruments	70 – 100
<b>Non-HKD denominated securities</b>	
Non-HKD denominated and settled short-term deposits and high quality money market instruments	0 – 30

## **6. Specific Risk Factors**

Investors should refer to the relevant risks under the section headed "Risk Factors" in the main part of the Explanatory Memorandum and the following specific risk factors in respect of the Sub-Fund.

### ***General investment risk***

The Sub-Fund's investment portfolio may fall in value due to any of the key risk factors below and therefore Unitholders' investment in the Sub-Fund may suffer losses. There is no guarantee of the repayment of principal. There is also no guarantee of regular dividend or distribution payments during the period investors hold Units of the Sub-Fund.

Investors should note that purchase of a Unit in the Sub-Fund is not the same as placing funds on deposit with a bank or deposit-taking company and that the Sub-Fund is not subject to the supervision of the Hong Kong Monetary Authority. The Sub-Fund does not have a constant Net Asset Value and does not guarantee the repayment of investment principal. The Manager has no obligation to redeem Units at the offer value.

Please also refer to the risk factor headed “General investment risk” in the main part of the Explanatory Memorandum.

***Risks relating to money market instruments/ fixed income securities***

***Short-term instruments risk***

As the Sub-Fund invests significantly in short-term instruments with short maturities, it means the turnover rates of the Sub-Fund’s investments may be relatively high and the transaction costs incurred as a result of the purchase or sale of short-term instruments may also increase which in turn may have a negative impact on the Net Asset Value of the Sub-Fund.

***Credit / counterparty risk***

The Sub-Fund is exposed to the credit/default risk of issuers of the money market instruments and fixed income securities that it invests in. Such securities are typically unsecured debt obligations and are not supported by collateral. It will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer’s assets will be paid to holders of the fixed income securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/default risk of its counterparties as an unsecured creditor.

The Sub-Fund is exposed to the risk that a counterparty in a transaction may default in its obligation to settle the transaction, or may be unable or unwilling to make timely payments on principal and/or interest. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund may sustain substantial losses. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against issuers incorporated outside Hong Kong and subject to foreign laws.

Please also refer to the risk factors headed “Credit risk” in the main part of the Explanatory Memorandum.

***Interest rate risk***

Investment in the Sub-Fund is subject to interest rate risk. In general, the prices of fixed income securities rise when interest rates fall, whilst their prices fall when interest rates rise. Changes in monetary policies, such as interest rates policies, may have an adverse impact on the pricing of fixed income securities, and thus the return of the Sub-Fund.

Please also refer to the risk factor headed “Interest rate risk” in the main part of the Explanatory Memorandum.

### *Downgrading risk*

The credit rating of a fixed income security or its issuer may be downgraded. In the event of such downgrading, the value of the Sub-Fund may be adversely affected. The Manager may or may not be able to dispose of the fixed income securities that are being downgraded. If the Sub-Fund continues to hold the relevant securities, it will be subject to additional risk of loss.

Please also refer to the risk factor headed “Downgrading risk” in the main part of the Explanatory Memorandum.

### *Valuation risk*

Valuation of the Sub-Fund’s investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

The value of fixed income securities may be affected by changing market conditions or other significant market events affecting valuation. In adverse market conditions or where an adverse event happens to the issuer (e.g. credit rating downgrading), the value of lower rated securities may decline in value due to investors’ perception over credit quality.

### *Volatility and liquidity risk*

The fixed income securities in some of the markets that the Sub-Fund invests in (e.g. emerging markets) may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The price at which the fixed income securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. The bid and offer spreads of the prices of such securities may be large and the Sub-Fund may incur significant trading costs.

There may not be an active secondary market for the fixed income securities the Sub-Fund invests in. The Sub-Fund is therefore subject to liquidity risks and may suffer losses in trading such instruments. Even if the fixed income securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the fixed income securities until their maturity date.

There is a risk that if the Sub-Fund is required to meet sizeable redemption requests, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and it may incur significant trading and realisation costs and suffer losses accordingly.



The offshore (that is, outside Mainland China) RMB denominated fixed income securities markets are at a developing stage and the trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated fixed income securities market may result in prices of fixed income securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

Please also refer to the risk factor headed "Volatility and liquidity risk" in the main part of the Explanatory Memorandum. For details in relation to the Fund's liquidity risk management process, please refer to the sub-section "Liquidity Risk Management Process" under the section headed "Investment and Borrowing Restrictions" in the main part of the Explanatory Memorandum.

#### *Sovereign debt risk*

The Sub-Fund'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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

#### *Credit rating risk*

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

Investors should note that even if a security may be assigned a certain credit rating at the time the Sub-Fund acquires the security, there is no assurance that (a) it will not be downgraded or (b) it will continue to be rated in future. The credit rating of a debt security is not the only selection criterion used by the Manager. Whilst the Manager may use credit ratings for reference in its investment process, it will primarily refer to its internal assessments to evaluate the credit quality of debt securities, for example, when it believes that the credit rating given by credit rating agencies does not adequately reflect the credit risks.

Please also refer to the risk factor headed "Credit rating risk" in the main part of the Explanatory Memorandum.

#### *Credit rating agency risk*

The Sub-Fund may invest in Mainland China onshore securities with credit ratings assigned by the Mainland China local credit rating agencies.

The credit appraisal system in Mainland China and the rating methodologies employed in Mainland China may be different from those employed in other markets. Credit ratings given

by Mainland China rating agencies may therefore not be directly comparable with those given by other international rating agencies.

In particular, the perceived lack of independence and transparency in the rating process has led market participants to treat Mainland China local credit rating agencies as having lower authority and reliability than international credit rating agencies.

### ***Risks associated with bank deposits***

Bank deposits are subject to the credit risks of the relevant financial institutions. The Sub-Fund's deposit may not be protected by any deposit protection schemes, or the value of the protection under the deposit protection schemes may not cover the full amount deposited by the Sub-Fund. Therefore, if the relevant financial institution defaults, the Sub-Fund may suffer losses as a result.

### ***Currency and conversion risks***

#### ***Currency risk***

Underlying investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund. The Net Asset Value of the Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

Please also refer to the risk factor headed "Currency risk" in the main part of the Explanatory Memorandum.

#### ***Renminbi ("RMB") currency and conversion risks***

The Sub-Fund may have exposure to investments denominated in RMB.

RMB is currently not freely convertible and is subject to exchange controls and restrictions. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time.

Any depreciation of the value of RMB could adversely affect the value of investors' investments in the Sub-Fund.

Please also refer to the risk factor headed "Renminbi currency and conversion risks" in the main part of the Explanatory Memorandum.

#### ***"Dim Sum" bond market risks***

The "Dim Sum" bond (i.e. bonds issued outside of Mainland China but denominated in RMB) market is still a relatively small market which is more susceptible to volatility and illiquidity.

The operation of the “Dim Sum” bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulators.

***Risks associated with China Interbank Bond Market (“CIBM”) / Bond Connect***

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

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

For investments via Bond Connect, the relevant account opening procedures have to be carried out via an offshore custody agent. As such, the Sub-Fund is subject to the risks of default or errors in the account opening process.

Investing in the CIBM via Bond Connect is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant Mainland Chinese authorities suspend account opening or trading on the CIBM, the Sub-Fund’s ability to invest in the CIBM will be adversely affected. In such event, the Sub-Fund’s ability to achieve its investment objective will be negatively affected.

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

### ***Concentration risk***

The Sub-Fund's investments are concentrated in HKD denominated deposits and money market instruments. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

Please also refer to the risk factor headed "Concentration risk" in the main part of the Explanatory Memorandum.

### ***Emerging market risk***

The Sub-Fund invests in emerging markets which 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.

Please also refer to the risk factor headed "Emerging market risk" in the main part of the Explanatory Memorandum.

### ***Risks associated with securities financing transactions***

Where the Sub-Fund enters into a securities financing transaction, collateral may be received from or provided to the relevant counterparty. The Sub-Fund may be subject to operational, liquidity, counterparty, custody and legal risks.

### ***Risks relating to sale and repurchase agreements***

In the event of the failure of the counterparty with which collateral has been placed, the Sub-Fund may suffer loss as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral or market movements. In the event of the insolvency of the counterparty, the relevant Sub-Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty.

Under a sale and repurchase transaction, the Sub-Fund retains the economic risks and rewards of the securities which it has sold to the counterparty and therefore is exposed to market risk in the event that it must repurchase such securities from the counterparty at the pre-determined price if that pre-determined price is higher than the value of the securities at the time of repurchase.

## ***Derivative instruments / hedging risk***

### ***Risks associated with investment in FDI***

Risks associated with FDI include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI can result in a loss significantly greater than the amount invested in the FDI by the Sub-Fund. Exposure to FDI may lead to a high risk of significant loss by the Sub-Fund.

### ***Hedging risk***

Insofar as the Sub-Fund acquires derivative instruments for hedging, it will be subject to additional risks. There can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Sub-Fund.

Derivative instruments may be illiquid and are complex in nature. In adverse situations, the Sub-Fund's use of derivatives for hedging may become ineffective and the Sub-Fund may suffer significant losses. The price of a derivative instrument can be volatile which may result in losses in excess of the amount invested in the derivative instruments by the Sub-Fund. A derivative instrument is subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Sub-Fund, and this may result in losses to the Sub-Fund.

Please also refer to the relevant risk factors "Counterparty risk", "Over-the-counter market risk" and "Hedging risk" in the main part of the Explanatory Memorandum.

## **7. Investment Minima**

<b>Minimum Initial Subscription Amount</b>	Class A – HKD Class B – HKD Class C – HKD – ACC Class C – HKD – DIST Class I – HKD Class M – HKD	HKD 100 HKD 1 HKD 100 HKD 100 HKD 1 HKD 10,000
<b>Minimum Subsequent Subscription Amount</b>	Class A – HKD Class B – HKD Class C – HKD – ACC Class C – HKD – DIST Class I – HKD Class M – HKD	HKD 100 HKD 1 HKD 100 HKD 100 HKD 1 HKD 10,000
<b>Minimum Holding Amount (Units with aggregate minimum value of:)</b>	Class A – HKD Class B – HKD Class C – HKD – ACC Class C – HKD – DIST	HKD 100 HKD 1 HKD 100 HKD 100

	Class I – HKD Class M – HKD	HKD 1 HKD 10,000
<b>Minimum Redemption Amount (Units with Aggregate minimum value of:)</b>	Class A – HKD Class B – HKD Class C – HKD – ACC Class C – HKD – DIST Class I – HKD Class M – HKD	HKD 100 HKD 1 HKD 100 HKD 100 HKD 1 HKD 10,000

## 8. Fees

<b><i>Fees payable by investors</i></b>	
Initial Charge (% of total subscription amount received)	<b>Class A, Class B, Class C – HKD – ACC, Class C – HKD – DIST, Class I and Class M:</b> up to 5%
Redemption Charge (% of total redemption proceeds)	<b>Class A, Class B, Class C – HKD – ACC, Class C – HKD – DIST, Class I and Class M:</b> Nil
Switching Charge (% of total amount being switched out of the Existing Class)	<b>Class A, Class B, Class C – HKD – ACC, Class C – HKD – DIST, Class I and Class M:</b> up to 1%
<b><i>Fees payable by the Sub-Fund</i></b>	
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A:</b> 0.40% p.a. <b>Class B:</b> 0.65% p.a. <b>Class C – HKD – DIST:</b> 0.40% p.a. <b>Class C – HKD – ACC:</b> 0.40% p.a. <b>Class I:</b> 0.15% p.a. <b>Class M:</b> 0% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	Currently: Up to 0.075% p.a., subject to a monthly minimum fee of up to HKD30,000
Custody Fee (% Net Asset Value of the Sub-Fund)	Currently: Up to 0.0225% p.a.
Performance Fee	Not applicable

## **9. Establishment Costs**

Notwithstanding the provision in the section headed “Establishment Costs” in the main part of the Explanatory Memorandum that the establishment costs and payments incurred in the establishment of subsequent Sub-Funds are to be amortised over a period of five Accounting Periods, the establishment costs and payments incurred in the establishment of this Sub-Fund were borne by the Sub-Fund and expensed in the first year of the Sub-Fund’s establishment. The establishment costs for this Sub-Fund were approximately HKD450,000.

## **10. Dealing Day**

Each Business Day shall be a Dealing Day, or such other day as the Manager and the Trustee may determine from time to time.

## **11. Dealing Deadline**

11:00 a.m. (Hong Kong time) on the relevant Dealing Day. The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

## **12. Subscription, Redemption and Switching of Units**

Notwithstanding the disclosure under “Payment Procedures” in the section “PURCHASE OF UNITS” in the Explanatory Memorandum, payment for Units in the Sub-Fund shall be due in cleared funds in the relevant currency prior to the Dealing Deadline for the subscription application for Units.

If payment in cleared funds is not received by such time as aforesaid, the subscription application will be deferred to the next Dealing Day.

Further, in relation to switching described under the section “SWITCHING BETWEEN CLASSES” in the Explanatory Memorandum, the cut-off time for receipt of applications for switching into Units of the Sub-Fund is 11:00 a.m. (Hong Kong time) on each Dealing Day (or such other time, prior to the calculation of the Net Asset Value of the Sub-Fund, as the Manager may from time to time determine with the approval of the Trustee). Such switching will only be effected upon receipt of cleared funds for the account of the Sub-Fund. Accordingly, switching requests for switching into Units of the Sub-Fund will be dealt with on the Dealing Day when the switching proceeds from the original Sub-Fund are received prior to 11:00 a.m. (Hong Kong time) on that Dealing Day. Investors should note that a switching request may not be completed on the same Dealing Day as the request was submitted.

For this Sub-Fund, a class of Units may be switched into: (i) Units of the same class, or Units of a different class, in another Sub-Fund on a Valuation Day common to both the Existing Class

and the New Class, whether or not with the same currency denomination; or (ii) another class of Units in this Sub-Fund, whether or not with the same currency of denomination. The Manager will use the prevailing exchange rate for switching of units denominated in different currencies.

Redemption proceeds for this Sub-Fund will be paid in the base currency or the class currency of the relevant class of Units, based on the prevailing exchange rate. Payment will be made by direct transfer or telegraphic transfer, normally within 10 Business Days after the relevant Dealing Day.

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

### **13. Distributions**

The Manager has discretion as to whether or not to make any distribution of dividends and the amount of dividends to be distributed in respect of any class(es) of Units from time to time.

No distribution will currently be paid for the Units issued under Class A, Class B, Class C – HKD – ACC, Class I and Class M of the Sub-Fund.

For Class C – HKD – DIST, subject to the Manager’s discretions, distributions (if any) will be made on a monthly basis and paid out of net distributable income only. Distributions will be paid in the relevant currency of the Units. There is no guarantee of regular distribution and (if distribution is made) the amount being distributed. Class C – HKD – DIST only distributes out of its net distributable income (for this purpose it includes the net investment income (i.e. dividend income and interest income net of fees and expenses) and net realised gains (if any) attributable to the Class C – HKD – DIST).

No distribution will be made out of capital or effectively out of capital of the Sub-Fund.

### **14. Valuation**

The Valuation Day will be the relevant Dealing Day and the Valuation Point is 11:00 a.m. on the Valuation Day or such other time on such other day as the Manager and the Trustee may from time to time determine to calculate the Net Asset Value.

### **15. Documents Available for Inspection**

Please refer to the section headed “Documents Available for Inspection” in the main part of the Explanatory Memorandum.



## APPENDIX V - TAIKANG KAITAI US DOLLAR MONEY MARKET FUND

This Appendix comprises information in relation to Taikang Kaitai US Dollar Money Market Fund, a Sub-Fund of the Fund.

### 1. Definitions

For this Sub-Fund:

“**Business Day**” shall mean a day (other than a Saturday) on which banks and stock exchanges in Hong Kong are open for normal business or such other day or days as the Manager and the Trustee may agree from time to time.

“**US Dollars**” or “**USD**” shall mean the official currency of the United States of America.

### 2. Available Classes

The following classes of Units are available for subscription in respect of the Sub-Fund. Class A Units are offered to other investors, including the retail public in Hong Kong and other distributors. Class B and Class C Units of the Sub-Fund are offered to selected distributor(s) as determined by the Manager from time to time. Class I Units are offered to institutional investors and selected investors as determined by the Manager. Class M Units are offered to investors related to the Manager.

<b>Class</b>	<b>Class Currency</b>
Class A – USD	USD
Class B – USD	USD
Class C – USD – ACC	USD
Class C – USD – DIST	USD
Class I – USD	USD
Class M – USD	USD

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

The Manager is entitled to charge an initial charge of up to 5% of the total subscription amount received (before deducting the initial charge) in relation to an application in respect of Class A, Class B, Class C, Class I and Class M Units of the Sub-Fund.

### **3. Application Moneys / Redemption Proceeds**

Applicants for Units should note that application moneys for a class must be paid in the class currency of the relevant class. Where Unitholders redeem their Units of a class, redemption proceeds will be paid to the relevant Unitholders in the base currency or the class currency of the relevant class of Units, based on the prevailing exchange rate.

Notwithstanding the disclosure in the sections headed “PURCHASE OF UNITS” and “REDEMPTION OF UNITS” in the Explanatory Memorandum, the Issue Price and the Redemption Price of the Units issued under Class A, Class B, Class I and Class M of the Sub-Fund shall be rounded down to the nearest 5 decimal places, whereas the Issue Price and Redemption Price of Units issued under Class C shall be rounded down to the nearest 4 decimal places. Any rounding adjustment shall be retained for the benefit of the Sub-Fund.

### **4. Base Currency**

The base currency of this Sub-Fund is USD.

### **5. Investment Objective and Policy**

#### **Objective**

The Sub-Fund’s objective is to achieve a return in US Dollars in line with prevailing money market rates.

#### **Strategy**

The Sub-Fund seeks to achieve its investment objective by investing primarily (i.e. not less than 70% of its Net Asset Value) in USD denominated short-term deposits and high-quality money market instruments issued by governments, quasi-governments, international organisations and financial institutions. High-quality money market instruments include but are not limited to government bills, short term notes, bankers’ acceptance, commercial papers, certificates of deposits, commercial bills and high-quality debt securities. The Sub-Fund may invest less than 20% of its Net Asset Value in debt securities which include but are not limited to government bonds, fixed and floating rate bonds.

The Sub-Fund may also invest not more than 10% of its Net Asset Value into money market funds that are authorised by the SFC or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC. The money market funds invested into by the Sub-Fund may be denominated in any currency.

Non-USD denominated investments may account for up to 30% of the Sub-Fund’s Net Asset Value.

There is no specific geographical allocation of the country of issue of the Sub-Fund's investments, except that the Sub-Fund may not invest in emerging markets other than Mainland China (for the purpose of considering emerging markets only, excludes Hong Kong, Taiwan and Macau). Countries or regions in which the Sub-Fund may invest in include but are not limited to Hong Kong, Taiwan, Macau, Singapore, developed markets within the European Union, the United States and China (onshore and offshore markets).

The Sub-Fund may invest less than 30% of its Net Asset Value in onshore and offshore RMB-denominated money market instruments, deposits or high-quality debt securities (accessed via the mutual bond market access between Hong Kong and Mainland China ("**Bond Connect**"). The total exposure to onshore RMB denominated money market instruments, deposits and high-quality debt securities will be less than 20% of the Sub-Fund's Net Asset Value).

The Manager will assess the credit quality and the liquidity profile of instruments that may be acquired on behalf of the Sub-Fund to determine whether a money market instrument is of high quality. The Sub-Fund will only invest in instruments which have, or the issuers of which have, an investment grade rating, i.e. at least BBB-/Baa3 (rated by an internationally recognised credit agency such as Moody's, Standard & Poor's or Fitch) or AAA (rated by a Mainland Chinese domestic credit rating agency). Where the issue or the issuers have no credit rating, the Sub-Fund may invest into such instruments if they have a guarantor whose investment grade rating meets the credit rating requirements above. While these credit ratings provided by the relevant rating agencies serve as a point of reference, the Manager will conduct its own assessment on the credit quality based on various factors. The assessment by the Manager involves both quantitative and qualitative analyses of an issuer's credit fundamentals. Quantitative financial factors that are assessed may include, the issuer's leverage, operating margin, return on capital, interest coverage and operating cash flows. Qualitative factors that will be assessed may include, industry outlook, the firm's competitive position, corporate governance, and other non-financial factors. The Manager will assess the liquidity profile of instruments based on various factors, included but not limited to time to cash, liquidation horizon, price volatility, external liquidity classification, daily trading volume, yield volatility and bid-ask spread of such instruments. Only instruments with sufficient liquidity will be included in the portfolio of the Sub-Fund.

The aggregate value of the Sub-Fund's holding of instruments and deposits issued by a single entity will not exceed 10% of the total Net Asset Value of the Sub-Fund except: (i) where the entity is a substantial financial institution (as defined in the Code) and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%; or (ii) in the case of Government and other public securities (as defined in the Code), up to 30% may be invested in the same issue; or (iii) in respect of any deposit of less than USD1,000,000, where the Sub-Fund cannot otherwise diversify as a result of its size.

The Sub-Fund will not invest in convertible bonds. It will not invest in instruments with loss-absorption features (i.e. instruments that may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s)).

The Sub-Fund will maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days, or two years in the case of Government and other public securities.

The Sub-Fund may borrow up to 10% of its total Net Asset Value but only on a temporary basis for the purpose of meeting redemption requests or defraying operating expenses.

For the avoidance of doubt, the Sub-Fund will not (i) invest in any securities or other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded or (ii) make any short sales.

#### *Financial Derivative Instruments (“FDI”)*

The Sub-Fund’s net exposure to FDI may be up to 50% of the Sub-Fund’s Net Asset Value. The Sub-Fund may invest in FDI for hedging purposes only but not for investment purposes. The Sub-Fund will not write any options.

Any material currency risk from non-USD denominated investments will be appropriately hedged into USD.

#### *Sale and Repurchase Transactions*

The Sub-Fund may enter into sale and repurchase transactions only on a temporary basis mainly for the purpose of meeting redemption requests. The maximum proportion and expected proportion of the Net Asset Value of the Sub-Fund that can be subject to sale and repurchase transactions, when aggregated with the Sub-Fund’s borrowing, are 10% and 10% respectively. The actual proportion of the Net Asset Value engaged in such transactions may vary over time depending on various factors including, but not limited to, market conditions.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund.

The Sub-Fund will not enter into securities lending and reverse-repurchase transactions in respect of the Sub-Fund. The Manager will seek the prior approval of the SFC (if required) and provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions and the Explanatory Memorandum will also be updated accordingly.

It is the intention of the Manager to sell the securities for cash equal to the market value of the securities provided in a sale and repurchase transaction, where cash obtained will not be re-invested. The Sub-fund will not receive any non-cash collateral.

The Manager's policy in managing these transactions is disclosed in "ANNEX C - SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS".

The Sub-Fund's indicative asset allocation is presented in the table below:

<b>Investments</b>	<b>Percentage of allocation (% of Net Asset Value)</b>
<b>USD denominated securities</b>	
USD denominated and settled deposits and high-quality money market instruments	70 – 100
<b>Non-USD denominated securities</b>	
Non-USD denominated and settled deposits and high-quality money market instruments	0 – 30
<b>Other money market funds</b>	0 – 10

## **6. Specific Risk Factors**

Investors should refer to the relevant risks under the section headed "Risk Factors" in the main part of the Explanatory Memorandum and the following specific risk factors in respect of the Sub-Fund.

### ***General investment risk***

The Sub-Fund's investment portfolio may fall in value due to any of the key risk factors below and therefore Unitholders' investment in the Sub-Fund may suffer losses. There is no guarantee of the repayment of principal. There is also no guarantee of regular dividend or distribution payments during the period investors hold Units of the Sub-Fund.

Investors should note that purchase of a Unit in the Sub-Fund is not the same as placing funds on deposit with a bank or deposit-taking company and that the Sub-Fund is not subject to the supervision of the Hong Kong Monetary Authority. The Sub-Fund does not have a constant Net

Asset Value and does not guarantee the repayment of investment principal. The Manager has no obligation to redeem Units at the offer value.

Please also refer to the risk factor headed “General investment risk” in the main part of the Explanatory Memorandum.

***Risks relating to money market instruments/ fixed income securities***

***Short-term instruments risk***

As the Sub-Fund invests significantly in short-term instruments with short maturities, it means the turnover rates of the Sub-Fund’s investments may be relatively high and the transaction costs incurred as a result of the purchase or sale of short-term instruments may also increase which in turn may have a negative impact on the Net Asset Value of the Sub-Fund.

***Credit / counterparty risk***

The Sub-Fund is exposed to the credit/default risk of issuers of the money market instruments and fixed income securities that it invests in. Such securities are typically unsecured debt obligations and are not supported by collateral. It will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer’s assets will be paid to holders of the fixed income securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/default risk of its counterparties as an unsecured creditor.

The Sub-Fund is exposed to the risk that a counterparty in a transaction may default in its obligation to settle the transaction, or may be unable or unwilling to make timely payments on principal and/or interest. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund may sustain substantial losses. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against issuers incorporated outside Hong Kong and subject to foreign laws.

Please also refer to the risk factors headed “Credit risk” in the main part of the Explanatory Memorandum.

***Interest rate risk***

Investment in the Sub-Fund is subject to interest rate risk. In general, the prices of fixed income securities rise when interest rates fall, whilst their prices fall when interest rates rise. Changes in monetary policies, such as interest rates policies, may have an adverse impact on the pricing of fixed income securities, and thus the return of the Sub-Fund.

Please also refer to the risk factor headed “Interest rate risk” in the main part of the Explanatory Memorandum.

#### *Downgrading risk*

The credit rating of a fixed income security or its issuer may be downgraded. In the event of such downgrading, the value of the Sub-Fund may be adversely affected. The Manager may or may not be able to dispose of the fixed income securities that are being downgraded. If the Sub-Fund continues to hold the relevant securities, it will be subject to additional risk of loss.

Please also refer to the risk factor headed “Downgrading risk” in the main part of the Explanatory Memorandum.

#### *Valuation risk*

Valuation of the Sub-Fund’s investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

The value of fixed income securities may be affected by changing market conditions or other significant market events affecting valuation. In adverse market conditions or where an adverse event happens to the issuer (e.g. credit rating downgrading), the value of lower rated securities may decline in value due to investors’ perception over credit quality.

#### *Volatility and liquidity risk*

The fixed income securities in some of the markets that the Sub-Fund invests in (e.g. an emerging market) may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The price at which the fixed income securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. The bid and offer spreads of the prices of such securities may be large and the Sub-Fund may incur significant trading costs.

There may not be an active secondary market for the fixed income securities the Sub-Fund invests in. The Sub-Fund is therefore subject to liquidity risks and may suffer losses in trading such instruments. Even if the fixed income securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the fixed income securities until their maturity date.

There is a risk that if the Sub-Fund is required to meet sizeable redemption requests, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and it may incur significant trading and realisation costs and suffer losses accordingly.

The offshore (that is, outside Mainland China) RMB denominated fixed income securities markets are at a developing stage and the trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated fixed income securities market may result in prices of fixed income securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

Please also refer to the risk factor headed "Volatility and liquidity risk" in the main part of the Explanatory Memorandum. For details in relation to the Fund's liquidity risk management process, please refer to the sub-section "Liquidity Risk Management Process" under the section headed "Investment and Borrowing Restrictions" in the main part of the Explanatory Memorandum.

#### *Sovereign debt risk*

The Sub-Fund'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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

#### *Eurozone Risk*

In light of ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, the Sub-Fund's investments in the region may be subject to higher volatility, liquidity, currency and default risks. Any adverse events, such as credit downgrade of a sovereign or exit of European Union members from the Eurozone, may have a negative impact on the value of the Sub-Fund.

#### *Credit rating risk*

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

Investors should note that even if a security may be assigned a certain credit rating at the time the Sub-Fund acquires the security, there is no assurance that (a) it will not be downgraded or (b) it will continue to be rated in future. The credit rating of a debt security is not the only selection criterion used by the Manager. Whilst the Manager may use credit ratings for reference in its investment process, it will primarily refer to its internal assessments to evaluate the credit



quality of debt securities, for example, when it believes that the credit rating given by credit rating agencies does not adequately reflect the credit risks.

Please also refer to the risk factor headed “Credit rating risk” in the main part of the Explanatory Memorandum.

#### *Credit rating agency risk*

The Sub-Fund may invest in Mainland China onshore securities with credit ratings assigned by the Mainland China local credit rating agencies.

The credit appraisal system in Mainland China and the rating methodologies employed in Mainland China may be different from those employed in other markets. Credit ratings given by Mainland China rating agencies may therefore not be directly comparable with those given by other international rating agencies.

In particular, the perceived lack of independence and transparency in the rating process has led market participants to treat Mainland China local credit rating agencies as having lower authority and reliability than international credit rating agencies.

#### ***Risks associated with bank deposits***

Bank deposits are subject to the credit risks of the relevant financial institutions. The Sub-Fund’s deposit may not be protected by any deposit protection schemes, or the value of the protection under the deposit protection schemes may not cover the full amount deposited by the Sub-Fund. Therefore, if the relevant financial institution defaults, the Sub-Fund may suffer losses as a result.

#### ***Currency and conversion risks***

##### *Currency risk*

Underlying investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund. The Net Asset Value of the Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

Please also refer to the risk factor headed “Currency risk” in the main part of the Explanatory Memorandum.

##### *RMB currency and conversion risks*

The Sub-Fund may have exposure to investments denominated in RMB.

RMB is currently not freely convertible and is subject to exchange controls and restrictions. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time.

Any depreciation of the value of RMB could adversely affect the value of investors' investments in the Sub-Fund.

Please also refer to the risk factor headed "Renminbi currency and conversion risks" in the main part of the Explanatory Memorandum.

### ***"Dim Sum" bond market risks***

The "Dim Sum" bond (i.e. bonds issued outside of Mainland China but denominated in RMB) market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the "Dim Sum" bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulators.

### ***Risks associated with China Interbank Bond Market ("CIBM") / Bond Connect***

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

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

For investments via Bond Connect, the relevant account opening procedures have to be carried out via an offshore custody agent. As such, the Sub-Fund is subject to the risks of default or errors in the account opening process.

Investing in the CIBM via Bond Connect is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant Mainland Chinese authorities suspend account opening or trading on the CIBM, the Sub-Fund's ability to invest in the CIBM will be adversely affected.

In such event, the Sub-Fund's ability to achieve its investment objective will be negatively affected.

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

### ***Concentration risk***

The Sub-Fund's investments are concentrated in USD denominated deposits and money market instruments. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

Please also refer to the risk factor headed "Concentration risk" in the main part of the Explanatory Memorandum.

### ***Emerging market risk***

The Sub-Fund invests in Mainland China which is an emerging market and such investments 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.

Please also refer to the risk factor headed "Emerging market risk" in the main part of the Explanatory Memorandum.

### ***Risks associated with securities financing transactions***

Where the Sub-Fund enters into a securities financing transaction, collateral may be received from or provided to the relevant counterparty. The Sub-Fund may be subject to operational, liquidity, counterparty, custody and legal risks.

### ***Risks relating to sale and repurchase agreements***

In the event of the failure of the counterparty with which collateral has been placed, the Sub-Fund may suffer loss as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate

pricing of the collateral or market movements. In the event of the insolvency of the counterparty, the relevant Sub-Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty.

Under a sale and repurchase transaction, the Sub-Fund retains the economic risks and rewards of the securities which it has sold to the counterparty and therefore is exposed to market risk in the event that it must repurchase such securities from the counterparty at the pre-determined price if that predetermined price is higher than the value of the securities at the time of repurchase.

### ***Derivative instruments / hedging risk***

#### ***Risks associated with investment in FDI***

Risks associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. Exposure to FDI may lead to a high risk of significant loss by the Sub-Fund.

#### ***Hedging risk***

Insofar as the Sub-Fund acquires derivative instruments for hedging, it will be subject to additional risks. There can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Sub-Fund.

Derivative instruments may be illiquid and are complex in nature. In adverse situations, the Sub-Fund's use of derivatives for hedging may become ineffective and the Sub-Fund may suffer significant losses. The price of a derivative instrument can be volatile which may result in losses in excess of the amount invested in the derivative instruments by the Sub-Fund. A derivative instrument is subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Sub-Fund, and this may result in losses to the Sub-Fund.

Please also refer to the relevant risk factors "Counterparty risk", "Over-the-counter market risk" and "Hedging risk" in the main part of the Explanatory Memorandum.

## **7. Investment Minima**

<b>Minimum Subscription Amount</b>	<b>Initial</b>	Class A – USD	USD100
		Class B – USD	USD1
		Class C – USD – DIST	USD100
		Class C – USD – ACC	USD100

	Class I – USD	USD1
	Class M – USD	USD10,000
<b>Minimum Subsequent Subscription Amount</b>	Class A – USD	USD100
	Class B – USD	USD1
	Class C – USD – DIST	USD100
	Class C – USD – ACC	USD100
	Class I – USD	USD1
	Class M – USD	USD10,000
<b>Minimum Holding Amount (Units with aggregate minimum value of:)</b>	Class A – USD	USD100
	Class B – USD	USD1
	Class C – USD – DIST	USD100
	Class C – USD – ACC	USD100
	Class I – USD	USD1
	Class M – USD	USD10,000
<b>Minimum Redemption Amount (Units with Aggregate minimum value of:)</b>	Class A – USD	USD100
	Class B – USD	USD1
	Class C – USD – DIST	USD100
	Class C – USD – ACC	USD100
	Class I – USD	USD1
	Class M – USD	USD10,000

## 8. Fees

<b><i>Fees payable by investors</i></b>	
Initial Charge (% of total subscription amount received)	<b>Class A, Class B, C – USD – DIST, Class C – USD – ACC, Class I and Class M:</b> up to 5%
Redemption Charge (% of total redemption proceeds)	<b>Class A, Class B, C – USD – DIST, Class C – USD – ACC, Class I and Class M:</b> Nil
Switching Charge (% of total amount being switched out of the Existing Class)	<b>Class A, Class B, C – USD – DIST, Class C – USD – ACC, Class I and Class M:</b> up to 1%
<b><i>Fees payable by the Sub-Fund</i></b>	
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A:</b> 0.40% p.a. <b>Class B:</b> 0.60% p.a. <b>Class C – USD – DIST:</b> 0.40% p.a. <b>Class C – USD – ACC:</b> 0.40% p.a. <b>Class I:</b> 0.15% p.a. <b>Class M:</b> 0% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	Currently: Up to 0.075% p.a., subject to a monthly minimum fee of up to

	USD4,000
Custody Fee (% Net Asset Value of the Sub-Fund)	Currently: Up to 0.0225% p.a.
Performance Fee	Not applicable

## **9. Establishment Costs**

Notwithstanding the provision in the section headed “Establishment Costs” in the main part of the Explanatory Memorandum that the establishment costs and payments incurred in the establishment of subsequent Sub-Funds are to be amortised over a period of five Accounting Periods, the establishment costs and payments incurred in the establishment of this Sub-Fund were borne by the Sub-Fund and expensed in the first five years of the Sub-Fund’s establishment. The establishment costs for this Sub-Fund were approximately USD65,000.

## **10. Dealing Day**

Each Business Day shall be a Dealing Day, or such other day as the Manager and the Trustee may determine from time to time.

## **11. Dealing Deadline**

11:00 a.m. (Hong Kong time) on the relevant Dealing Day. The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

## **12. Subscription, Redemption and Switching of Units**

Notwithstanding the disclosure under “Payment Procedures” in the section “PURCHASE OF UNITS” in the Explanatory Memorandum, payment for Units in the Sub-Fund shall be due in cleared funds in the relevant currency prior to the Dealing Deadline for the subscription application for Units.

If payment in cleared funds is not received by such time as aforesaid, the subscription application will be deferred to the next Dealing Day.

Further, in relation to switching described under the section “SWITCHING BETWEEN CLASSES” in the Explanatory Memorandum, the cut-off time for receipt of applications for switching into Units of the Sub-Fund is 11:00 a.m. (Hong Kong time) on each Dealing Day (or such other time, prior to the calculation of the Net Asset Value of the Sub-Fund, as the Manager may from time to time determine with the approval of the Trustee). Such switching will only be effected upon receipt of cleared funds for the account of the Sub-Fund. Accordingly, switching requests for switching into Units of the Sub-Fund will be dealt with on the Dealing

Day when the switching proceeds from the original Sub-Fund are received prior to 11:00 a.m. (Hong Kong time) on that Dealing Day. Investors should note that a switching request may not be completed on the same Dealing Day as the request was submitted.

For this Sub-Fund, a class of Units may be switched into: (i) Units of the same class, or Units of a different class, in another Sub-Fund on a Valuation Day common to both the Existing Class and the New Class, whether or not with the same currency denomination; or (ii) another class of Units in this Sub-Fund, whether or not with the same currency of denomination. The Manager will use the prevailing exchange rate for switching of units denominated in different currencies.

Redemption proceeds for this Sub-Fund will be paid in the base currency or the class currency of the relevant class of Units, based on the prevailing exchange rate. Payment will be made by direct transfer or telegraphic transfer, normally within 10 Business Days after the relevant Dealing Day.

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

### **13. Distributions**

The Manager has discretion as to whether or not to make any distribution of dividends and the amount of dividends to be distributed in respect of any class(es) of Units from time to time.

No distribution will currently be paid for the Units issued under Class A, Class B, Class C – USD – ACC, Class I and Class M of the Sub-Fund.

For Class C – USD – DIST, subject to the Manager’s discretions, distributions (if any) will be made on a monthly basis and paid out of net distributable income only. Distributions will be paid in the relevant currency of the Units. There is no guarantee of regular distribution and (if distribution is made) the amount being distributed. The Class C – USD – DIST only distributes out of its net distributable income (for this purpose it includes the net investment income (i.e. dividend income and interest income net of fees and expenses) and net realised gains (if any) attributable to Class C – USD – DIST).

No distribution will be made out of capital or effectively out of capital of the Sub-Fund.

### **14. Valuations**

The Valuation Day will be the relevant Dealing Day and the Valuation Point is 11:00 a.m. on the Valuation Day or such other time on such other day as the Manager and the Trustee may from time to time determine to calculate the Net Asset Value.

## **15. Documents Available for Inspection**

Please refer to the section headed “Documents Available for Inspection” in the main part of the Explanatory Memorandum.



## **APPENDIX VI - TAIKANG KAITAI MONTHLY STABLE INCOME FUND**

This Appendix comprises information in relation to Taikang Kaitai Monthly Stable Income Fund, a Sub-Fund of the Fund.

### **1. Definitions**

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

### **2. Dealing Day**

This Sub-Fund is a monthly dealing Sub-fund and the Dealing Day applicable to this Sub-Fund is the 5th calendar day of every month (or the immediately following Business Day if such date is not a Business Day), or such other day as the Manager and the Trustee may determine from time to time.

### **3. Dealing Deadline**

5:00 p.m. (Hong Kong time) on the relevant Dealing Day. The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

### **4. Initial Offer**

The following classes of Units of this Sub-Fund will be available for subscription during the initial offer period commencing from 9:00 a.m. (Hong Kong time) on 1 November 2023 to 5:00 p.m. (Hong Kong time) on 5 December 2023 (or such other dates as the Manager and the Trustee may determine). It is expected that the first Dealing Day will be 5 December 2023 (or such other date as the Manager may determine). If any such day is not a Business Day, the following Business Day will become the first Dealing Day.

<b>Class</b>	<b>Initial offer price per Unit in the relevant class currency (exclusive of initial charge)</b>
Class A1 – USD – ACC	USD100
Class A1 – USD – DIST	USD100
Class A1 – HKD – ACC	HKD100
Class A1 – HKD – DIST	HKD100

Class A1 – RMB (Hedged) – ACC	RMB100
Class A1 – RMB (Hedged) – DIST	RMB100
Class A1 – RMB (Unhedged) – ACC	RMB100
Class A1 – RMB (Unhedged) – DIST	RMB100
Class I1 – USD – ACC	USD100
Class I1 – USD – DIST	USD100
Class I1 – HKD – ACC	HKD100
Class I1 – HKD – DIST	HKD100
Class I1 – RMB (Hedged) – ACC	RMB100
Class I1 – RMB (Hedged) – DIST	RMB100
Class I1 – RMB (Unhedged) – ACC	RMB100
Class I1 – RMB (Unhedged) – DIST	RMB100
Class M1 – USD – ACC	USD100
Class M1 – USD – DIST	USD100
Class M1 – HKD – ACC	HKD100
Class M1 – HKD – DIST	HKD100
Class M1 – RMB (Hedged) – ACC	RMB100
Class M1 – RMB (Hedged) – DIST	RMB100
Class M1 – RMB (Unhedged) – ACC	RMB100
Class M1 – RMB (Unhedged) – DIST	RMB100

Class A1 Units are available for sale to the retail public in Hong Kong. Class I1 Units are offered to institutional investors, private bank clients and other investors determined by the Manager from time to time. Class M1 Units are offered to investors related to the Manager.

The Manager is entitled to charge an initial charge of up to 5% of the total subscription amount received (before deducting the initial charge) in relation to an application in respect of Class A1, Class I1 and Class M1 Units.

Units will be issued on 6 December 2023 or the first Business Day following the last day of the initial offer period (or such other day as the Manager and the Trustee may agree and notify to the applicants for Units in the Sub-Fund) in respect of applications received prior to 5:00 p.m. (Hong Kong time) on the last day of the initial offer period and accepted by the Manager.

Payment for Units subscribed during the initial offer period shall be due in cleared funds prior to the close of the relevant initial offer period or such later date as the Manager with the approval of the Trustee may determine. If applications and/or cleared funds are received after that time, such applications shall be carried forward to the next Dealing Day.

The Manager has set a minimum total subscriptions amounting to USD10 million to be received during the initial offer period, failing which the Manager may either extend the initial offer period or decide that the Sub-Fund shall not launch. If the Manager decides not to launch the Sub-Fund, application moneys paid by applicants will be returned without interest and net of expense, within 7 Business Days of such decision, by cheque through post, by telegraphic transfer to the bank account from which the moneys originated, at the risk and expense of the applicants or in such other manner determined by the Manager.

## **5. Application Moneys / Redemption Proceeds**

Applicants for Units should note that application moneys for a class must be paid in the class currency of the relevant class. Where Unitholders redeem their Units of a class, redemption proceeds will be paid to the relevant Unitholders in the base currency or the class currency of the relevant class of Units, based on the prevailing exchange rate.

## **6. Base Currency**

The base currency of this Sub-Fund is USD.

## **7. Investment Objective and Policy**

The Taikang Kaitai Monthly Stable Income Fund seeks to provide stable income by primarily investing in a portfolio of fixed income instruments including money market instruments and debt securities issued outside Mainland China. The fixed income instruments invested by the Sub-Fund may be denominated in any currencies.

Within the above-mentioned scope, the Manager will allocate at least 70% of the Net Asset Value of the Sub-Fund to a portfolio of investment grade money market instruments and debt securities issued by governments, quasi-governments, international organisations, financial institutions and corporate issuers outside of Mainland China, including but not limited to short-term deposits, corporate bonds and government or quasi-government bonds, government bills, time deposit, certificates of deposit, commercial papers, bankers' acceptances, bonds (including perpetual bonds which are bonds without a fixed maturity date) and notes. Among the securities issued outside of Mainland China, there is no specific geographical allocation of the country of issue of the money market instruments or debt securities, or the location of banks in respect of bank deposits. The issuers of fixed income instruments invested by the Sub-Fund may be domiciled in, or exercising the predominant part of their economic activity in countries or regions including, but not limited to, Mainland China, Hong Kong, Singapore, Japan, Korea,

New Zealand, Indonesia, Malaysia, Taiwan, Thailand, India, the Philippines, US, UK, the EU countries, Mexico, Egypt, Pakistan, Turkey, Brazil and South Africa.

The Sub-Fund will not have limits on the weighted average maturity and weighted average life of the portfolio. The Sub-Fund will not have a limit on the remaining maturity of a single investment instrument.

For the purpose of this Sub-Fund, investment grade money market instruments and debt securities are rated short-term A-3 or higher by Standard & Poor's or F3 or higher by Fitch Ratings or P-3 or higher by Moody's or equivalent rating as rated by one of the international credit rating agencies, or rated long-term BBB-/Baa3 or above by at least one of the following three credit rating agencies, Fitch, Moody's or Standard & Poor's. Before investing in a fixed income instrument, the Manager will first consider the credit rating of such fixed income instrument and if such fixed income instrument does not itself have a credit rating, then reference can be made to the credit rating of the issuer or guarantor (where applicable) of the security, which will be deemed as its credit rating. The Sub-Fund will not invest more than 10% of its Net Asset Value in fixed income instruments issued or guaranteed by a single sovereign issuer.

The Sub-Fund may invest up to 30% of its Net Asset Value in fixed income instruments issued outside Mainland China that are below investment grade (i.e. have a credit rating below A-3/F3/P-3 for short term and below BBB-/Baa3 for long term by all of the foregoing credit rating agencies) and unrated fixed income securities (i.e. fixed income securities which neither themselves nor their issuers have a credit rating).

The Sub-Fund may invest in onshore investment grade money market instruments and debt securities issued in Mainland China such as government bonds, policy bank bonds and negotiable certificates of deposits for up to 30% of the Sub-Fund's Net Asset Value (accessed via the mutual bond market access between Hong Kong and Mainland China ("**Bond Connect**"). The Sub-Fund may also invest up to 20% of the Sub-Fund's Net Asset Value in "Dim Sum" bonds and up to 20% of the Sub-Fund's Net Asset Value in convertible bonds.

For onshore money market instruments and debt securities issued in Mainland China, an investment grade rating is a short-term credit rating of AAA or higher as rated by one of the credit rating agencies in Mainland China, or a long-term credit rating of AA+ or higher as rated by one of the credit rating agencies in Mainland China. If such fixed income instrument does not itself have a credit rating, then reference can be made to the credit rating of the issuer or guarantor (where applicable) of the security, which will be deemed as its credit rating.

The Sub-Fund may invest up to 20% of its Net Asset Value in urban investment bonds, which are debt instruments issued by mainland local government financing vehicles ("**LGFVs**") in the listed bond and interbank bond market in mainland China. These LGFVs are separate legal

entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.

### ***Collateralised and/or securitised products***

The Sub-Fund may invest up to 30% of its Net Asset Value in collateralised and/or securitised products such as asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities.

The Sub-Fund may invest in debt instruments with loss-absorption features ("**LAP**") such as contingent convertible bonds and senior non-preferred debts, etc. These instruments may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s). The Sub-Fund's expected total maximum investments in LAP will be up to 30% of its Net Asset Value.

### ***Collective investment schemes***

The Sub-Fund may invest in collective investment schemes managed by a third party, the Manager, or its Connected Persons. Not more than 30% of the Sub-Fund's Net Asset Value may in aggregate be invested in collective investment schemes which are authorised by the SFC or eligible schemes as defined in the Code or which are non-eligible schemes and not authorized by the SFC. The Sub-Fund's investment in collective investment schemes which are non-eligible schemes and not authorised by the SFC may not in aggregate exceed 10% of its Net Asset Value.

### ***Cash and cash equivalents***

Under normal circumstances, subject to any applicable restrictions under the section headed "INVESTMENT AND BORROWING RESTRICTIONS" of the Explanatory Memorandum, up to 30% of Sub-Fund's Net Asset Value could be invested in cash or cash equivalents on an ancillary basis. Under exceptional circumstances (e.g. where there is a market crash or major crisis affecting the market), if the Manager deems appropriate or considers it to be in the best interest of the Sub-Fund, this Sub-Fund may hold up to 100% of the Sub-Fund's Net Asset Value in cash or cash equivalents on a temporary basis for liquidity management and/or defensive purpose.

### ***Financial Derivative Instruments ("FDI")***

To the extent permitted by the Code and the provisions set out under the sub-section headed "INVESTMENT AND BORROWING RESTRICTIONS" of the Explanatory Memorandum, the Sub-Fund may invest in derivative instruments for hedging or non-hedging (i.e. investment) purposes. Subject to applicable regulations, derivatives used for non-hedging purposes may include currency derivatives (e.g. foreign exchange swap agreements), and derivatives used for

hedging purposes may include currency derivatives (e.g. currency forward contracts and foreign exchange swap agreements) and futures (e.g. treasury futures).

### ***Sale and Repurchase Transactions and Reverse Repurchase Transactions***

The Sub-Fund may invest and is expected to invest up to 50% of the Net Asset Value in over-the-counter sale and repurchase transactions and reverse repurchase transactions in aggregate with a view to creating additional income. The Manager's policy in managing these transactions is disclosed in "ANNEX C – SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS" of the Explanatory Memorandum.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund. Reverse repurchase transactions are transactions where the Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future. Cash obtained in sale and repurchase transactions and reverse repurchase transactions will be used for liquidity management, re-investment and hedging purposes.

Where cash collateral received by the Sub-Fund under sale and repurchase transactions is used for re-investment, such cash collateral may only be re-invested in accordance with Chapter 7 of the Code and the provisions set out under "ANNEX B - INVESTMENT RESTRICTIONS IN RELATION TO SECURITIES FINANCING TRANSACTIONS AND COLLATERAL" of the Explanatory Memorandum. Notwithstanding the provisions under "ANNEX B - INVESTMENT RESTRICTIONS IN RELATION TO SECURITIES FINANCING TRANSACTIONS AND COLLATERAL" and "ANNEX C – SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS" of the Explanatory Memorandum, other than the investment as set out in 7.36(j) of the Code, the Sub-Fund may also reinvest cash collateral received from sale and repurchase transactions in bonds as selected by the Manager based on its discretions, provided that any associated risks from such re-investment will be properly mitigated and addressed by the Manager and that (i) the re-investment, together with the Sub-Fund's net derivative exposure, do not in aggregate exceed 50% of the Sub-Fund's Net Asset Value; (ii) the re-investment is consistent with the Sub-Fund's investment objective and strategies; (iii) the re-investment is limited to bonds which are sufficiently liquid and of good quality; and (iv) the re-investment is subject to the corresponding investment restrictions and limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and complies with Notes (3) and (4) to 7.36(j) of the Code, and provided further that such re-investment shall not be subject to the limitation in 7.21 of the Code which allows borrowing of the Sub-Fund of up to 10% of the Sub-Fund's Net Asset Value.

The Sub-Fund will not enter into securities lending or similar over-the-counter transactions in respect of the Sub-Fund. The Manager will seek the prior approval of the SFC (if required) and provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions and the Explanatory Memorandum will also be updated accordingly.

## 8. Investment Allocation

The Sub-Fund's indicative asset allocation is presented in the table below:

<b>Investments</b>	<b>Percentage of allocation (% of the Net Asset Value)</b>
<b>Fixed income securities – by rating</b>	
Investment grade money market instruments and debt securities issued outside Mainland China	70 – 100
Non-investment grade issued outside Mainland China	0 – 30
<b>Fixed income securities – by features</b>	
- Debt instruments with loss-absorption features such as contingent convertible bonds and senior non-preferred debts (including both investment grade and non-investment grade)	0 – 30
- Collateralised and/or securitised products such as asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities	0 – 30
- Urban investment bonds	0 – 20
- Onshore investment grade money market instruments and debt securities such as government bonds, policy bank bonds and negotiable certificates of deposits	0 – 30
- “Dim Sum” bonds	0 – 20
- Convertible bonds	0 – 20
<b>Collective investment schemes</b>	0 – 30

<b>Investments</b>	<b>Percentage of allocation (% of the Net Asset Value)</b>
<b>Cash and cash equivalents</b>	0 - 30 or (under exceptional circumstances and on a temporary basis for liquidity management and/or defensive purpose) up to 100

## **9. Specific Risk Factors**

Investors should refer to the relevant risks under the section headed “Risk Factors” in the main part of the Explanatory Memorandum and the following specific risk factors in respect of the Sub-Fund.

### ***General investment risk***

The Sub-Fund’s investment portfolio may fall in value due to any of the key risk factors below and therefore Unitholders’ investment in the Sub-Fund may suffer losses. There is no guarantee of the repayment of principal. There is also no guarantee of regular dividend or distribution payments during the period investors hold Units of the Sub-Fund.

The Sub-Fund will invest mainly in fixed income securities. The purchase of Units in the Sub-Fund is not the same as investing directly in fixed income securities.

Please also refer to the risk factor headed “General investment risk” in the main part of the Explanatory Memorandum.

### ***Liquidity risks for monthly dealing fund***

The Sub-Fund is a monthly dealing sub-fund. Unitholders subscribing for Units issued under the Sub-Fund can only apply for subscription, redemption and switching once a month on the Dealing Day. Further, Units issued under the Sub-Fund cannot be switched into Units of other Sub-Funds established under the Fund. As such, Units of the Sub-Fund would have lower liquidity when compared to the Units issued by other daily dealing Sub-Funds established under the Fund.

Due to the Sub-Fund’s monthly dealing arrangement, subscription and redemption applications for Units issued under the Sub-Fund can be more concentrated on the single Dealing Day in



each month. Where redemption applications are concentrated on the Dealing Day, it may cause the Sub-Fund's redemption gate to be triggered more easily on the Dealing Day. The Manager will consider the Sub-Fund's liquidity profile when deciding whether to exercise its power to impose a redemption gate on a pro-rata basis on each Dealing Day if the Units being redeemed on the Dealing Day for the Sub-Fund has exceeded 10% of the total number of Units of the Sub-Fund in issue.

### ***Currency and conversion risks***

#### ***Currency risk***

Underlying investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund. Also, a class of Units may be designated in a currency other than the base currency of the Sub-Fund. The Net Asset Value of the Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

Please also refer to the risk factor headed "Currency risk" in the main part of the Explanatory Memorandum.

#### ***Conversion risk***

Where an investor subscribes for Units denominated in RMB or HKD, the Manager will convert such subscriptions into the relevant currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB or HKD, the Manager will sell the Sub-Fund's investments denominated in the relevant currency and convert such proceeds into RMB or HKD (as applicable) at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds denominated in a non-RMB or non-HKD currency into RMB or HKD (as applicable) which, in turn, might affect the Sub-Fund's ability to meet redemption requests from the Unitholders or delay the payment of redemption proceeds.

#### ***Renminbi ("**RMB**") currency and conversion risks***

RMB is currently not freely convertible and is subject to exchange controls and restrictions. Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB. If such policies change in future, the Sub-Fund's or the investors' position may be adversely affected. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time (that is, it is possible that there may not be sufficient RMB for currency conversion in the case of sizeable subscriptions in non-RMB classes). The Manager has the absolute

discretion to reject any application made in non-RMB currency funds (whether such application is in relation to a RMB class) where it determines that there is not sufficient RMB for currency conversion. In the case of redemptions, currency conversion is also subject to the Sub-Fund's ability to convert any proceeds denominated in RMB into non-RMB currency which, in turn, might affect the Sub-Fund's ability to meet redemption requests from non-RMB based investors or delay the payment of redemption proceeds.

Investors may be adversely affected by movements of the exchange rates between RMB and other currencies. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of the value of RMB could adversely affect the value of investors' investments in the Sub-Fund. If investors convert another currency into RMB to invest in the RMB class of the Sub-Fund, and subsequently convert any RMB redemption proceeds back to such other currency, they may also suffer losses if RMB depreciates against such other currency.

Although CNH and CNY are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors. Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB. Please also refer to the risk factor headed "Renminbi currency and conversion risks" in the main part of the Explanatory Memorandum.

### ***Eurozone and European country risk***

The Sub-Fund may invest in the European Union (the "EU"). Investments in Europe may be subject to a number of risks arising from a recent financial crisis in Europe. In light of the ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, the Sub-Fund's investments in the region may be subject to higher volatility, liquidity, currency and default risks. While the governments of many European countries, the European Commission, the European Central Bank, the International Monetary Fund and other authorities are taking measures (such as undertaking economic reforms and imposing austerity measures on their citizens) to address the current fiscal conditions and concerns in Europe, these measures may not have the desired effect, and the future stability and growth of Europe is therefore uncertain. It is possible that a country may leave the Eurozone and return to a national currency, and as a result may leave the EU and/or that the Euro will cease to exist in its current form and/or lose its legal status in one or more countries in which it currently has such status. It is also possible that the credit rating of a country or sovereign may be downgraded. The effect of such potential events on the Sub-Fund which invests in instruments tied to Europe is impossible to predict. The impact of the above adverse events may be significant and may adversely affect the value of Sub-Fund investing in securities issued by issuers based in or with substantial operations in Europe, and investors may suffer significant loss.

In a referendum held in June 2016, the United Kingdom (the “UK”) electorate voted to leave the EU. On 31 January 2020, the UK has officially left the European Union. On 24 December 2020, the EU and the UK reached an agreement in principle on the EU-UK Trade and Cooperation Agreement. The future economic and political relationship between the UK and the EU (and between the UK and other countries) is uncertain, and a period of economic and political uncertainty is continuing in the UK, in the rest of the European Union and globally. The UK’s exit from the EU is anticipated to result in regulatory changes, which may be adverse to the Manager. The ultimate nature and extent of the impact of these events on the Sub-Fund are uncertain, but may be significant.

Other member states of the EU may also reconsider their EU membership. This could result in one or more other countries leaving the EU, or in major reforms or changes being made to the Eurozone. The nature and extent of the impact of any such changes on the Sub-Fund are uncertain, but may be significant.

### ***Emerging market risk***

The Sub-Fund invests in emerging markets which 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.

Please also refer to the risk factor headed “Emerging market risk” in the main part of the Explanatory Memorandum.

### ***Risks relating to money market instruments and fixed income securities***

#### ***Money market instruments risk***

The Sub-Fund will invest significantly in money market instruments, which are not risk-free. Investing in these money market instruments or in the Sub-Fund is not the same as placing funds on deposit with a bank or deposit-taking company. As the Sub-Fund invests significantly in money market instruments which typically have short maturities, it means the turnover rates of the Sub-Fund’s investments may be relatively high and the transaction costs incurred as a result of the purchase or sale of short-term instruments may also increase which in turn may have a negative impact on the Net Asset Value of the Sub-Fund.

#### ***Credit / counterparty risk***

The Sub-Fund is exposed to the credit/default risk of issuers of the money market instruments and fixed income securities that it invests in. Such debt securities are typically unsecured debt obligations and are not supported by collateral. It will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation

of the issuer's assets will be paid to holders of the fixed income securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/default risk of its counterparties as an unsecured creditor.

The Sub-Fund is exposed to the risk that a counterparty in a transaction may default in its obligation to settle the transaction, or may be unable or unwilling to make timely payments on principal and/or interest. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund may sustain substantial losses. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against issuers incorporated outside Hong Kong and subject to foreign laws.

Please also refer to the risk factors headed "Credit risk" in the main part of the Explanatory Memorandum.

#### *Interest rate risk*

Investment in the Sub-Fund is subject to interest rate risk. In general, the prices of fixed income securities rise when interest rates fall, whilst their prices fall when interest rates rise. Changes in fiscal policies, such as interest rates policies, may have an adverse impact on the pricing of fixed income securities, and thus the return of the Sub-Fund.

Please also refer to the risk factor headed "Interest rate risk" in the main part of the Explanatory Memorandum.

#### *Credit rating risk*

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

The credit rating of a debt security or money market instrument is not the only selection criterion used by the Manager. Whilst the Manager may use credit ratings for reference in its investment process, it will primarily refer to its internal assessments to evaluate the credit quality of debt securities and money market instruments. For example, when it believes that the credit rating given by credit rating agencies does not adequately reflect the credit risks.

Please also refer to the risk factor headed "Credit rating risk" in the main part of the Explanatory Memorandum.

#### *Risks associated with debt securities rated below investment grade or unrated*

The Sub-Fund may invest in fixed income securities rated below investment grade or unrated by an internally recognised credit agency, such as Fitch, Moody's and/or Standard & Poor's. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss

of principal and interest than high-rated debt securities. Fixed income securities that have a lower credit rating or that are unrated will also be more susceptible to the credit risk of the issuers.

If the issuer of securities defaults, or such securities cannot be redeemed, or perform badly, investors may suffer substantial losses. The market for lower rated or unrated securities may be less active, making it more difficult to sell these securities. Valuation of such securities is more difficult and thus the Sub-Fund's prices may be more volatile.

Please also refer to the risk factor headed "Risks associated with debt securities rated below investment grade or unrated" in the main part of the Explanatory Memorandum.

#### *Downgrading risk*

The credit rating of a fixed income security or money market instrument or its issuer may be downgraded. In the event of such downgrading, the value of the Sub-Fund may be adversely affected. The Manager may or may not be able to dispose of the fixed income securities or money market instruments that are being downgraded. If the Sub-Fund continues to hold the relevant securities or instruments, it will be subject to additional risk of loss.

Please also refer to the risk factor headed "Downgrading risk" in the main part of the Explanatory Memorandum.

#### *Valuation risk*

Valuation of the Sub-Fund's investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

The value of fixed income securities may be affected by changing market conditions or other significant market events affecting valuation. In particular, the value of lower-rated or unrated corporate bonds or commercial papers issued by corporations or financial institutions of lower credit ratings is affected by investors' perceptions. In adverse market conditions or where an adverse event happens to the issuer (e.g. credit rating downgrading), the value of lower rated or unrated corporate bonds may decline in value due to investors' perception over credit quality.

#### *Sovereign debt risk*

The Sub-Fund'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 Sub-Fund to

participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

### *Volatility and liquidity risk*

The fixed income securities in emerging markets that the Sub-Fund invests in may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities and instruments traded in such markets may be subject to fluctuations. The price at which the fixed income securities and money market instruments are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. The bid and offer spreads of the prices of such securities and instruments may be large and the Sub-Fund may incur significant trading costs.

There may not be an active secondary market for the fixed income securities the Sub-Fund invests in. The Sub-Fund is therefore subject to liquidity risks and may suffer losses in trading such instruments. Even if the fixed income securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the fixed income securities until their maturity date.

There is a risk that if the Sub-Fund is required to meet sizeable redemption requests, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and it may incur significant trading and realisation costs and suffer losses accordingly.

The offshore (that is, outside Mainland China) RMB denominated fixed income securities markets are at a developing stage and the trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated fixed income securities market may result in prices of fixed income securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

Please also refer to the risk factor headed "Volatility and liquidity risk" in the main part of the Explanatory Memorandum. For details in relation to the Fund's liquidity risk management process, please refer to the sub-section "Liquidity Risk Management Process" under the section headed "Investment and Borrowing Restrictions" in the main part of the Explanatory Memorandum.

### *Risks associated with PRC debt securities*

#### *General*

Many of the PRC debt securities may be subject to greater risks because of generally reduced liquidity, greater price volatility and greater credit risk. The Sub-Fund may also encounter

difficulties or delays in enforcing its rights against the issuers who will generally be incorporated in the PRC and therefore not subject to the laws of Hong Kong.

The credit appraisal system in Mainland China and the rating methodologies employed in Mainland China may be different from those employed in other markets. Credit ratings given by Mainland rating agencies may therefore not be directly comparable with those given by other international rating agencies.

***Risk associated with China Interbank Bond Market (“CIBM”) / Bond Connect***

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

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

For investments via Bond Connect, the relevant account opening procedures have to be carried out via an offshore custody agent. As such, the Sub-Fund is subject to the risks of default or errors in the account opening process.

Investing in the CIBM via Bond Connect is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant Mainland Chinese authorities suspend account opening or trading on the CIBM, the Sub-Fund’s ability to invest in the CIBM will be adversely affected. In such event, the Sub-Fund’s ability to achieve its investment objective will be negatively affected.

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

### *Taxation Risk*

By investing in the CIBM, the Sub-Fund may be at risk of being subject to PRC taxes. There is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Sub-Fund. No PRC capital gains tax provision will be made regarding the investments in PRC debt securities by the Sub-Fund made via Bond Connect.

### ***“Dim Sum” bond market risks***

The “Dim Sum” bond (i.e. bonds issued outside of Mainland China but denominated in RMB) market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the “Dim Sum” bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulators.

### ***Concentration risk***

The Sub-Fund’s investments are concentrated in fixed income securities which include debt securities issued in emerging markets. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

Please also refer to the risk factor headed “Concentration risk” in the main part of the Explanatory Memorandum.

### ***Risks of investing in convertible bonds***

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

The value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. If the credit quality of the convertible bonds deteriorates or the issuer of the convertible bonds defaults, the performance of the Sub-Fund will be adversely affected. On the other hand, the prices of convertible bonds will be affected by the changes in the price of the



underlying equity securities which, in turn, may have an unfavourable impact on the Net Asset Value of the Sub- Fund. Convertible bonds may also have call provisions and other features which may give rise to the risk of a call (i.e. the right to repurchase the convertible bond from the holder at a specified price (usually the par value of the bond)). In effect, this call option can limit the bond's upside potential from the appreciation of the underlying equity. Therefore the value and performance of the Sub-Fund may be affected as a result.

Please also refer to the relevant risk factors "Interest rate risk", "Credit risk", "Credit rating risk", "Downgrading risk" and "Volatility and liquidity risk" in the main part of the Explanatory Memorandum.

### ***Risks associated with investments in debt instruments with loss-absorption features (LAP)***

LAPs are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of a pre-defined trigger event (e.g. when the issuer is near or at the point of non-viability or when the issuer's capital ratio falls to a specified level), which are likely to be outside of the issuer's control. In relation to senior non-preferred debts, while these instruments are generally senior to subordinated debts, they may also be subject to write-down upon the occurrence of a trigger event and will no longer fall under the creditor ranking hierarchy of the issuer.

Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments. In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class.

LAPs may also be exposed to liquidity, valuation and sector concentration risk. Please also refer to the relevant risk factors "Concentration risk" and "Volatility and liquidity risk" in the main part of the Explanatory Memorandum.

### ***Risks associated with instruments with contingent convertible bonds ("CoCos")***

CoCos are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), CoCos will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. They are risky and highly complex investment instruments. Coupon payments on CoCos are discretionary and may at times also be ceased or deferred by the issuer. Please further note the following:

- (i) *Trigger level risk* – Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require

the conversion into equity or the write down to zero of principal investment and/or accrued interest. It would also be difficult for the Manager to assess how the securities will behave upon conversion. Trigger events may include:

- a reduction in the issuing bank's Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios;
  - a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer; or
  - a national authority deciding to inject capital.
- (ii) *Coupon cancellation* – Coupon payments on some CoCos are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.
- (iii) *Capital structure inversion risk* – Contrary to the classic capital hierarchy, investors in CoCos may suffer a loss of capital when equity holders do not (for example, when the loss absorption mechanism of CoCos is activated). This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.
- (iv) *Call extension risk* – Some CoCos are issued as perpetual instruments and only callable at pre-determined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual convertible securities will be called on a call date. Such convertible securities are a form of permanent capital. The Sub-Fund may not receive return of principal as expected on call date or indeed at any date.
- (v) *Conversion risk* – Trigger levels differ between specific instruments, which determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the instruments will behave upon conversion. These instruments may be converted into shares potentially at a discounted price, or the principal amount invested may be lost. In case of conversion into equity, the Manager might be forced to sell these new equity shares. Given the trigger event is likely to be some event depressing the value of the

issuer's common equity, this forced sale may result in the Sub-Fund experiencing loss of all investments in CoCos.

- (vi) *Write-down/write-off risk* – In some cases, the issuer of CoCos may cause the convertible security to be written-down or written-off in value based on the specific terms of the individual security if a pre-specified trigger event occurs. Therefore, upon the occurrence of a trigger event, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.
- (vii) *Valuation risk* – Instruments subject to compulsory conversion with non-viability / loss absorption convertible features often offer attractive yield which may be viewed as a complexity premium. The value of such instruments may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets.
- (viii) *Market value fluctuations due to unpredictable factors* – The value of CoCos is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the instruments; (iii) general market conditions and available liquidity and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.
- (ix) *Liquidity risk* – In certain circumstances, finding a buyer ready to invest in CoCos may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.
- (x) *Sector concentration risk* – CoCos are issued by banking and insurance institutions. Investment in CoCos may lead to an increased sector concentration risk. The performance of the Sub-Fund will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.
- (xi) *Subordinated instruments* – CoCos may be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of such instruments, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the instruments shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.
- (xii) *Novelty and untested nature* – The structure of CoCos is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

### ***Risks relating to asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities***

Mortgage-backed securities, including collateralised mortgage obligations and certain stripped mortgage-backed securities represent a participation in, or are secured by, mortgage loans. Asset-backed securities are structured like mortgage-backed securities, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include items such as motor vehicles instalment sales or instalment loan contracts, leases of various types of real and personal property and receivables from credit card agreements. Mortgage-backed and asset-backed securities are commonly used to redirect the interest and principal payments from the pool of underlying assets to investors and can be issued at a fixed or a floating rate. The securities backed by the same pool of underlying assets may be issued in a number of different tranches, or classes, with varying risk and return characteristics depending on the priority of claim on the cash flows from the pool and the terms and conditions. The higher the risk contained in the tranche, the more the security generally pays by way of income.

Traditional debt investments typically pay a fixed rate of interest until maturity, when the entire principal amount is due. By contrast, payments on mortgage-backed and many asset-backed investments typically include both interest and partial payment of principal. Asset-backed securities, mortgage-backed securities and commercial mortgage-backed securities are often exposed to extension and prepayment risks and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities. Principal may be prepaid voluntarily, or as a result of refinancing or foreclosure. The Sub-Fund may have to invest the proceeds from prepaid investments in other investments with less attractive terms and yields. As a result, these securities may have less potential for capital appreciation during periods of declining interest rates than other securities of comparable maturities, although they may have a similar risk of decline in market value during periods of rising interest rates. As the prepayment rate generally declines as interest rates rise, an increase in interest rates will likely increase the duration, and thus the volatility, of mortgage-backed and asset-backed securities. In addition to interest rate risk, investments in mortgage-backed securities composed of sub-prime mortgages may be subject to a higher degree of credit risk, valuation risk and liquidity risk. Duration is a measure of the expected life of a fixed income security that is used to determine the sensitivity of the security's price to changes in interest rates. Unlike the maturity of a fixed income security, which measures only the time until final payment is due, duration takes into account the time until all payments of interest and principal on a security are expected to be made, including how these payments are affected by prepayments and by changes in interest rates.

The ability of an issuer of asset-backed securities to enforce its security interest in the underlying assets may be limited. Some mortgage-backed and asset backed investments receive only the interest portion or the principal portion of payments on the underlying assets. The yields and values of these investments are extremely sensitive to changes in interest rates and in the rate of principal payments on the underlying assets. Interest portions tend to decrease in value if interest rates decline and rates of repayment (including prepayment) on the underlying

mortgages or assets increase; it is possible that the Sub-Fund may lose the entire amount of its investment in an interest portion due to a decrease in interest rates. Conversely, principal portions tend to decrease in value if interest rates rise and rates of repayment decrease. Moreover, the market for interest portions and principal portions may be volatile and limited, which may make them difficult for the Sub-Fund to buy or sell. The Sub-Fund may gain investment exposure to mortgage-backed and asset-backed investments by entering into agreements with financial institutions to buy the investments at a fixed price at a future date. The Sub-Fund may or may not take delivery of the investments at the termination date of such an agreement, but will nonetheless be exposed to changes in the value of the underlying investments during the term of the agreement.

### ***Urban investment bonds risk***

Urban investment bonds are issued by local government financing vehicles (“LGFVs”), such bonds are typically not guaranteed by local governments or the central government of Mainland China. In the event that the LGFVs default on payment of principal or interest of the urban investment bonds, the Sub-Fund could suffer substantial loss and the Net Asset Value of the Sub-Fund could be adversely affected.

### ***Distribution out of Capital/Distribution effectively out of Capital Risk***

Payment of distributions out of capital and/or effectively out of capital amounts to a return or withdrawal of part of an Unitholder’s original investment or from any capital gains attributable to that original investment. Any such distributions may result in an immediate reduction of the Net Asset Value per Unit and have a risk of capital erosion.

The distribution amount and Net Asset Value of the hedged classes of Units may be adversely affected by differences in the interest rates of the reference currency of the hedged classes of Units and the Sub-Fund’s base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged classes of Units.

### ***Risks associated with securities financing transactions***

Where the Sub-Fund enters into a securities financing transaction, collateral may be received from or provided to the relevant counterparty. The Sub-Fund may be subject to operational, liquidity, counterparty, custody and legal risks.

### ***Risks relating to sale and repurchase agreements***

Cash collateral received from sale and repurchase transactions may be reinvested in accordance with the sub-section headed “Sale and Repurchase Transactions and Reverse Repurchase Transactions” of the section headed “7. Investment Objective and Policy” under this Appendix. Where reinvested, such re-investment will be subject to investment risk of the relevant investments, including loss of principal.

In the event of the failure of the counterparty with which collateral has been placed, the Sub-Fund may suffer loss as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral or market movements. In the event of the insolvency of the counterparty, the relevant Sub-Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty. Under a sale and repurchase transaction, the Sub-Fund retains the economic risks and rewards of the securities which it has sold to the counterparty and therefore is exposed to market risk in the event that it must repurchase such securities from the counterparty at the pre-determined price if that pre-determined price is higher than the value of the securities at the time of repurchase.

***Risks relating to reverse repurchase transactions***

In the event of the failure of the counterparty with which cash has been placed, the Sub-Fund may suffer loss as there may be delay in recovering cash placed out or difficulty in realising collateral or proceeds from the sale of the collateral may be less than the cash placed with the counterparty due to inaccurate pricing of the collateral or market movements.

***Risks associated with bank deposits***

Bank deposits are subject to the credit risks of the relevant financial institutions. The Sub-Fund's deposit may not be protected by any deposit protection schemes, or the value of the protection under the deposit protection schemes may not cover the full amount deposited by the Sub-Fund. Therefore, if the relevant financial institution defaults, the Sub-Fund may suffer losses as a result.

***Risks associated with perpetual bonds***

There are risks associated with perpetual bonds. The Sub-Fund is subject to perpetual credit risk and counterparty risk exposure. As time progresses, issuers of such perpetual bonds can encounter financial difficulties, and may even shut down. Perpetual bonds may also be subject to call risk as the issuers can recall them.

Perpetual bonds are further subject to interest risk as the perpetual bond may be locked in interest which is significantly lower than the prevailing interest rate. Under such circumstances, the Sub-Fund could earn more money by holding a different bond than the perpetual bond. However, unlike for other bonds that have a maturity date when the issuer returns the principal, for perpetual bonds, to swap out an old perpetual bond for a newer, higher interest bond, the Sub-Fund must sell the existing bond on the secondary market, at which time it may be worth less than the purchase price as the Sub-Fund may need to discount the offer price based on the interest rate difference. As selling in the secondary market is the only option available, perpetual bonds may therefore be subject to liquidity risk and the bid-ask spread will be high.

Please also refer to the relevant risk factors “Credit risk”, “Counterparty risk” and “Volatility and liquidity risk” in the main part of the Explanatory Memorandum.

### ***Risks of investing in other collective investment schemes/funds***

The Sub-Fund may invest in other collective investment schemes (“**underlying funds**”) and will be subject to the risks associated with the underlying funds. The Sub-Fund does not have control of the investments of the underlying funds and there is no assurance that the investment objective and strategy of the underlying funds will be successfully achieved which may have a negative impact to the Net Asset Value of the Sub-Fund.

The underlying funds in which the Sub-Fund may invest may not be regulated by the SFC. The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their investment managers.

Some underlying funds may also impose fees or levies which may be payable by the Sub-Fund when it subscribes to or redeems out of such underlying funds. Therefore there may be additional costs involved when investing into these underlying funds. Whilst the Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Sub-Fund.

There is also no guarantee that the underlying funds will always have sufficient liquidity to meet the Sub-Fund’s redemption requests as and when made. The Sub-Fund may therefore be subject to liquidity risk by investing in these underlying funds.

If the Sub-Fund invests in an underlying fund managed by the Manager or connected person of the Manager, all initial charges on these underlying funds must be waived, and the Manager must not obtain rebate of any fees or charges levied by these underlying funds. In case any conflict of interest may still arise out of such investments, the Manager will use its best endeavours to resolve it fairly. Please refer to the section headed “Conflicts of Interest” in the main part of the Explanatory Memorandum for details on how conflicts of interest are managed.

### ***Derivative instruments / hedging risk***

#### ***Risks associated with investment in FDI***

Risks associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. Exposure to FDI may lead to a high risk of significant loss by the Sub-Fund.

### *Hedging risk*

Insofar as the Sub-Fund acquires derivative instruments for hedging, it will be subject to additional risks. There can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Sub-Fund.

Derivative instruments may be illiquid and are complex in nature. In adverse situations, the Sub-Fund's use of derivatives for hedging may become ineffective and the Sub-Fund may suffer significant losses. The price of a derivative instrument can be volatile which may result in losses in excess of the amount invested in the derivative instruments by the Sub-Fund. A derivative instrument is subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Sub-Fund, and this may result in losses to the Sub-Fund.

Please also refer to the relevant risk factors "Counterparty risk", "Over-the-counter market risk" and "Hedging risk" in the main part of the Explanatory Memorandum.

### **10. Available Classes**

The following classes of Units are available for subscription in respect of the Sub-Fund. Class A1 Units are available for sale to the retail public in Hong Kong. Class I1 Units are offered to institutional investors, private bank clients and other investors determined by the Manager from time to time. Class M1 Units are offered to investors related to the Manager.

<b>Class</b>	<b>Class Currency</b>
Class A1 – USD – ACC	USD
Class A1 – USD – DIST	USD
Class A1 – HKD – ACC	HKD
Class A1 – HKD – DIST	HKD
Class A1 – RMB (Hedged) – ACC	RMB
Class A1 – RMB (Hedged) – DIST	RMB
Class A1 – RMB (Unhedged) – ACC	RMB
Class A1 – RMB (Unhedged) – DIST	RMB
Class I1 – USD – ACC	USD
Class I1 – USD – DIST	USD
Class I1 – HKD – ACC	HKD
Class I1 – HKD – DIST	HKD
Class I1 – RMB (Hedged) – ACC	RMB



Class I1 – RMB (Hedged) – DIST	RMB
Class I1 – RMB (Unhedged) – ACC	RMB
Class I1 – RMB (Unhedged) – DIST	RMB
Class M1 – USD – ACC	USD
Class M1 – USD – DIST	USD
Class M1 – HKD – ACC	HKD
Class M1 – HKD – DIST	HKD
Class M1 – RMB (Hedged) – ACC	RMB
Class M1 – RMB (Hedged) – DIST	RMB
Class M1 – RMB (Unhedged) – ACC	RMB
Class M1 – RMB (Unhedged) – DIST	RMB

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

## 11. Investment Minima

<b>Minimum Initial Subscription Amount</b>	Class A1 – USD – ACC	USD1.00
	Class A1 – USD – DIST	USD1.00
	Class A1 – HKD – ACC	HKD1.00
	Class A1 – HKD – DIST	HKD1.00
	Class A1 – RMB (Hedged) – ACC	RMB1.00
	Class A1 – RMB (Hedged) – DIST	RMB1.00
	Class A1 – RMB (Unhedged) – ACC	RMB1.00
	Class A1 – RMB (Unhedged) – DIST	RMB1.00
	Class I1 – USD – ACC	USD100,000
	Class I1 – USD – DIST	USD100,000
	Class I1 – HKD – ACC	HKD100,000
	Class I1 – HKD – DIST	HKD100,000
	Class I1 – RMB (Hedged) – ACC	RMB100,000
	Class I1 – RMB (Hedged) – DIST	RMB100,000
	Class I1 – RMB (Unhedged) – ACC	RMB100,000
	Class I1 – RMB (Unhedged) – DIST	RMB100,000
	Class M1 – USD – ACC	USD1,000,000
	Class M1 – USD – DIST	USD1,000,000
	Class M1 – HKD – ACC	HKD1,000,000
	Class M1 – HKD – DIST	HKD1,000,000
	Class M1 – RMB (Hedged) – ACC	RMB1,000,000

	Class M1 – RMB (Hedged) – DIST	RMB1,000,000
	Class M1 – RMB (Unhedged) – ACC	RMB1,000,000
	Class M1 – RMB (Unhedged) – DIST	RMB1,000,000
<b>Minimum Subsequent Subscription Amount</b>	Class A1 – USD – ACC	USD1.00
	Class A1 – USD – DIST	USD1.00
	Class A1 – HKD – ACC	HKD1.00
	Class A1 – HKD – DIST	HKD1.00
	Class A1 – RMB (Hedged) – ACC	RMB1.00
	Class A1 – RMB (Hedged) – DIST	RMB1.00
	Class A1 – RMB (Unhedged) – ACC	RMB1.00
	Class A1 – RMB (Unhedged) – DIST	RMB1.00
	Class I1 – USD – ACC	USD100,000
	Class I1 – USD – DIST	USD100,000
	Class I1 – HKD – ACC	HKD100,000
	Class I1 – HKD – DIST	HKD100,000
	Class I1 – RMB (Hedged) – ACC	RMB100,000
	Class I1 – RMB (Hedged) – DIST	RMB100,000
	Class I1 – RMB (Unhedged) – ACC	RMB100,000
	Class I1 – RMB (Unhedged) – DIST	RMB100,000
	Class M1 – USD – ACC	USD1,000,000
	Class M1 – USD – DIST	USD1,000,000
	Class M1 – HKD – ACC	HKD1,000,000
	Class M1 – HKD – DIST	HKD1,000,000
	Class M1 – RMB (Hedged) – ACC	RMB1,000,000
	Class M1 – RMB (Hedged) – DIST	RMB1,000,000
	Class M1 – RMB (Unhedged) – ACC	RMB1,000,000
	Class M1 – RMB (Unhedged) – DIST	RMB1,000,000
<b>Minimum Holding (Units with aggregate minimum value of:)</b>	Class A1 – USD – ACC	USD1.00
	Class A1 – USD – DIST	USD1.00
	Class A1 – HKD – ACC	HKD1.00
	Class A1 – HKD – DIST	HKD1.00
	Class A1 – RMB (Hedged) – ACC	RMB1.00
	Class A1 – RMB (Hedged) – DIST	RMB1.00
	Class A1 – RMB (Unhedged) – ACC	RMB1.00
	Class A1 – RMB (Unhedged) – DIST	RMB1.00
	Class I1 – USD – ACC	USD100,000
	Class I1 – USD – DIST	USD100,000
	Class I1 – HKD – ACC	HKD100,000
	Class I1 – HKD – DIST	HKD100,000
	Class I1 – RMB (Hedged) – ACC	RMB100,000
	Class I1 – RMB (Hedged) – DIST	RMB100,000
	Class I1 – RMB (Unhedged) – ACC	RMB100,000
	Class I1 – RMB (Unhedged) – DIST	RMB100,000

	Class I1 – RMB (Unhedged) – DIST	RMB100,000
	Class M1 – USD – ACC	USD1,000,000
	Class M1 – USD – DIST	USD1,000,000
	Class M1 – HKD – ACC	HKD1,000,000
	Class M1 – HKD – DIST	HKD1,000,000
	Class M1 – RMB (Hedged) – ACC	RMB1,000,000
	Class M1 – RMB (Hedged) – DIST	RMB1,000,000
	Class M1 – RMB (Unhedged) – ACC	RMB1,000,000
	Class M1 – RMB (Unhedged) – DIST	RMB1,000,000
<b>Minimum Redemption Amount (Units with aggregate minimum value of:)</b>	Class A1 – USD – ACC	USD1.00
	Class A1 – USD – DIST	USD1.00
	Class A1 – HKD – ACC	USD1.00
	Class A1 – HKD – DIST	HKD1.00
	Class A1 – RMB (Hedged) – ACC	HKD1.00
	Class A1 – RMB (Hedged) – DIST	RMB1.00
	Class A1 – RMB (Unhedged) – ACC	RMB1.00
	Class A1 – RMB (Unhedged) – DIST	RMB1.00
	Class I1 – USD – ACC	RMB1.00
	Class I1 – USD – DIST	USD100,000
	Class I1 – HKD – ACC	USD100,000
	Class I1 – HKD – DIST	HKD100,000
	Class I1 – RMB (Hedged) – ACC	HKD100,000
	Class I1 – RMB (Hedged) – DIST	RMB100,000
	Class I1 – RMB (Unhedged) – ACC	RMB100,000
	Class I1 – RMB (Unhedged) – DIST	RMB100,000
	Class M1 – USD – ACC	USD1,000,000
	Class M1 – USD – DIST	USD1,000,000
	Class M1 – HKD – ACC	USD1,000,000
	Class M1 – HKD – DIST	HKD1,000,000
	Class M1 – RMB (Hedged) – ACC	HKD1,000,000
	Class M1 – RMB (Hedged) – DIST	RMB1,000,000
	Class M1 – RMB (Unhedged) – ACC	RMB1,000,000
	Class M1 – RMB (Unhedged) – DIST	RMB1,000,000

## 12. Fees

<i>Fees payable by investors</i>	
Initial Charge (% of total subscription amount received)	Class A1, Class I1 and Class M1: up to 5%

Redemption Charge (% of total redemption proceeds)	Class A1, Class I1 and Class M1: Nil
Switching Charge (% of total amount being switched out of the Existing Class)	Class A1, Class I1 and Class M1: up to 1%
<b><i>Fees payable by the Sub-Fund</i></b>	
Management Fee (% Net Asset Value of the Sub-Fund)	<b>Class A1:</b> 0.90% p.a. <b>Class I1:</b> 0.50% p.a. <b>Class M1:</b> 0% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	Up to 0.15% p.a., subject to a minimum aggregate monthly fee of USD5,000 for the Sub-Fund. The monthly minimum fee will be reduced by 50% for the first 6 months of the launch of this Sub-Fund.
Custody Fee (% Net Asset Value of the Sub-Fund)	Up to 0.1% p.a.
Performance Fee	Not applicable

### 13. Establishment Costs

The establishment costs and payments incurred in the establishment of this Sub-Fund are borne by the Sub-Fund and are to be amortised over a period of five Accounting Periods. The establishment costs for this Sub-Fund are approximately USD45,000.

### 14. Subscription, Redemption and Switching of Units

For this Sub-Fund, a class of Units may be switched into another class of Units in this Sub-Fund on the Dealing Day, whether or not with the same currency of denomination. The Manager will use the prevailing exchange rate for switching of units denominated in different currencies.

Units of this Sub-Fund cannot be switched into Units of other Sub-Funds established under the Fund.

Redemption proceeds for this Sub-Fund will be paid in the base currency or the class currency of the relevant class of Units, based on the prevailing exchange rate. Payment will be made by direct transfer or telegraphic transfer, normally within 10 Business Days after the relevant Dealing Day.

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

## **15. Distributions**

The Manager has discretion as to whether or not to make any distribution of dividends and the amount of dividends to be distributed in respect of any class(es) of Units from time to time.

For the accumulation classes of Units (i.e. classes with names suffixed by “–ACC”), no distribution will be paid.

For the distribution classes of Units (i.e. classes with names suffixed by “–DIST”), subject to the Manager’s discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends, distributions (if any) will be made on a monthly basis.

The Manager expects to be able to pay distributions from the net distributable income of the Sub-Fund, but in the event that such income attributable to the relevant class is insufficient to pay distributions as it declares, the Manager may in its discretion determine that such distributions may be paid out of capital of the Sub-Fund. Management Fee and other fees and expenses of the Sub-Fund are normally paid out of income. However, the Manager may at its discretion pay distributions out of the Sub-Fund’s gross income while charging/paying all or part of the Sub-Fund’s Management Fees and other fees and expenses to/out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of distributions by the Sub-Fund, and therefore effectively paying distributions out of the capital of the Sub-Fund. Payment of dividends out of capital amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the Sub-Fund’s capital or payment of dividends effectively out of the Sub-Fund’s capital (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit. Investors should refer to the risk factor under the sub-section “Distribution out of Capital/Distribution effectively out of Capital Risk” of this Appendix.

For the distribution classes of Units (i.e. classes with names suffixed by “–DIST”), distributions will be paid in the relevant class currency of the Units. Investors may elect to reinvest the dividends to subscribe for additional Units in the Sub-Fund. There is no guarantee of regular distribution and if distribution is made the amount being distributed.

The Manager may amend the policy with respect to the aforementioned, subject to the SFC’s prior approval (if required) and by giving not less than one month’s prior notice to the Unitholders.

The compositions of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months are available by the Manager on request and also on the Manager's website at <http://www.taikangasset.cn/tkzc/hk/><sup>7</sup>.

## **16. Valuation**

The Valuation Day will be every Business Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day or such other time on such other day as the Manager and the Trustee may from time to time determine to calculate the Net Asset Value.

## **17. Documents Available for Inspection**

Please refer to the section headed "Documents Available for Inspection" in the main part of the Explanatory Memorandum.

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<sup>7</sup> This website has not been reviewed by the SFC.

## **ANNEX A - OVERVIEW OF THE MAINLAND CHINA DEBT SECURITIES MARKET**

### **The Debt Securities Markets**

The Mainland China bond market consists of three markets: (i) the interbank bond market is regulated by the PBOC and functions as a wholesale market for institutional investors; (ii) the exchange bond market is regulated by the CSRC and targets non-bank institutions and individual investors; and (iii) the bank over-the-counter market is regulated by the PBOC and targets non-financial institutions and individual investors. The current size and trading volume of the bank over-the-counter market is much smaller than the interbank bond market and the exchange bond market.

The China Central Depository & Clearing Co., Ltd (“**CCDC**”) acts as the central custodian of all marketable Renminbi denominated bonds. For the exchange bond market, it adopts a two-level custody system, with the CCDC acting as the primary custodian and the China Securities Depository and Clearing Corporation Limited (“**CSDCCL**”) acting as the secondary custodian. In the interbank bond market, the Shanghai Clearing House acts as custodian of commercial papers.

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

	<b>Interbank Bond Market</b>	<b>Exchange Bond Market</b>
Size	In 2015, approximately 82.3% of all bond transactions (Data source: <a href="http://www.chinabond.com.cn">www.chinabond.com.cn</a> ; <a href="http://www.shclearing.com">www.shclearing.com</a> ;Wind)	In 2015, approximately 17.7% of all bond transactions (Data source: <a href="http://www.chinabond.com.cn">www.chinabond.com.cn</a> ; <a href="http://www.shclearing.com">www.shclearing.com</a> ;Wind)
Major types of products being traded	Government bonds, central bank bills, financial bonds, enterprise bonds, commercial papers, mid-term notes, asset-backed securities, panda bonds (i.e. RMB-denominated bonds issued by international financial institutions within the boundaries of China)	Government bonds, listed company bonds, enterprise bonds, convertible bonds, asset-backed securities

Key market participants	Institutional investors (such as commercial banks, securities firms, funds and trust investment companies), QFIIs, RQFIIs	Individuals and non-bank institutions (such as insurance companies and funds), QFIIs, RQFIIs
Trading and settlement mechanism	Trades through bilateral negotiation and settle trade-for-trade; settlement cycle: T+0 or T+1	Centralised trade matching with netting settlement; settlement cycle: T+1
Regulator(s)	People's Bank of China	China Securities Regulatory Commission
Counterparty	The trading counterparty	China Securities Depository and Clearing Corporation Limited acting as the central counterparty to all securities transactions on the Shanghai and Shenzhen Stock Exchanges
Central Clearing Entity (if any)	China Central Depository & Clearing Co., Ltd or Shanghai Clearing House, depending on the type of securities	China Securities Depository and Clearing Corporation Limited
Liquidity of Market	High	Medium to low
Associated Risks	Counterparty risk Credit risk of bond issuers Liquidity risk	Counterparty risk Credit risk of bond issuers Liquidity risk
Minimum rating requirements (if any)	No minimum rating requirement	AA for the exchange trading platform which is accessible by QFIIs and RQFIIs; no minimum rating requirement for the electronic trading platform



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

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

The yield of the major RMB denominated instruments issued in Mainland China was in the range of 1.87% to 3.71% for government bonds and 2.48% to 26.92% for corporate bonds, and 1.43% to 4.70% for policy bank bonds as 31 May 2016 (Source: www.chinabond.com.cn;Wind). However, investors should note that this is not an indication of the expected return of the Sub-Fund. There is no assurance that the Sub-Fund's return will be correlated with the expected yield of its underlying investments.

### **Mainland China Local Credit Rating Agencies**

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

The major Mainland China local credit rating agencies in China include:

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

These Mainland China local credit rating agencies in China are regulated by competent mainland authorities. The PBOC serves as the main supervisory authority of the credit rating

industry. The CSRC supervises credit rating in the exchange bond market while the National Development and Reform Commission (NDRC) oversees the credit rating for enterprise bonds. The onshore credit ratings agencies mainly provide credit ratings to publicly listed and interbank market bonds. The definition and methodology of ratings vary among onshore credit agencies.

In relation to the exchange bond market, the CSRC and its agencies regulate securities rating business activities according to law. The PBOC has issued guidance notes in relation to recognition of credit rating activities in the interbank bond market. As with other global rating agencies, they apply quantitative method and qualitative methods in their rating. Such credit ratings are subject to the credit rating agency's evaluation of the likelihood that the issuer will fulfil its repayment obligations. In contrast with international rating agencies, Mainland China credit rating agencies may take into account additional factors such as the importance of the corporate to the PRC central and local government and the potential support from the government. Rating information and reports are available on the websites of the relevant credit rating agencies and other financial data providers.

## **ANNEX B - INVESTMENT RESTRICTIONS IN RELATION TO SECURITIES FINANCING TRANSACTIONS AND COLLATERAL**

This annex applies to Sub-Funds that may carry out securities financing transactions.

### **Securities financing transactions**

A Sub-Fund may engage in securities financing transactions, provided that they are in the best interests of Unitholders of such Sub-Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

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

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

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

### **Collateral**

In order to limit the exposure to each counterparty as set out in the 10<sup>th</sup> paragraph under the sub-section headed “Financial Derivative Instruments” under the section headed “INVESTMENT AND BORROWING RESTRICTIONS” and the 2<sup>nd</sup> paragraph under the sub-section headed “Securities financing transactions” above, a Sub-Fund may receive collateral from such counterparty, provided that the collateral complies with the requirements set out below:

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

- (c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;
- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. A Sub-Fund’s exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs (a), (b), (c), (h), (i) and (f) and provisos (1) and (2) of sub-paragraph (f) and the twenty-first paragraph under the section headed “INVESTMENT AND BORROWING RESTRICTIONS”;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the relevant Sub-Fund shall be subject to the following requirements and all other restrictions and limitation as may be imposed from time to time by the SFC:

- (i) unless otherwise specified in the relevant Appendix and subject to prior consultation with the SFC, and in compliance with the applicable laws and regulations including the SFO and the Code, cash collateral received may be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. 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 sub-paragraphs (ii) and (x) under the sub-section headed "Money Market Funds" under the section headed "INVESTMENT AND BORROWING RESTRICTIONS";
- (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions;
- (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

Further details relating to the safekeeping requirements of collateral please refer to Annex C.

## **ANNEX C - SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS**

The summary of policy of securities financing transactions set out in this Annex C is only applicable to a Sub-Fund which may engage in securities financing transactions.

Securities financing transactions may only be effected in accordance with normal market practice and provided that they are in the best interest of Unitholders of the relevant Sub-Fund to do so and the associated risks have been properly mitigated and addressed.

### ***Securities Financing Transactions***

Under a securities lending transaction, a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee subject to a commitment from that counterparty that it will return equivalent securities on a specified future date or when requested to do so by the relevant Sub-Fund. A Sub-Fund is expected to retain the rights of beneficial ownership as to the loaned securities, including voting rights and rights to interest or other distributions, and will generally have the right to regain record ownership of loaned securities to exercise such beneficial rights.

Under a sale and repurchase transaction, a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions subject to an agreement to repurchase the securities at an agreed price with a financing cost on a specified future date. Where a Sub-Fund enters into a sale and repurchase transaction under which it sells securities to the counterparty, it will incur a financing cost from engaging in this transaction which will be paid to the relevant counterparty.

Under a reverse repurchase transaction, a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions subject to an agreement to re-sell the relevant securities to the counterparty at an agreed price on a specified future date.

A Sub-Fund must have the right to terminate the securities financing transactions at any time and demand the return of all of the securities loaned or the full amount of cash (as the case may be).

### ***Revenues and Expenses***

All revenues (if any) 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 relevant Sub-Fund. Such direct and indirect expenses shall include fees and expenses payable to securities lending agents engaged for the relevant Sub-Fund from time to time. Such fees and expenses of any securities lending agents engaged for the relevant Sub-Fund, will be at normal commercial rates and will be borne by the relevant Sub-Fund in respect of which the relevant party has been engaged.

Information on the revenues generated under such transactions shall be disclosed in the annual and interim financial reports of the relevant Sub-Fund as required under Appendix E of the

Code, along with entities to whom direct and indirect operational costs and fees relating to such transactions are paid. These entities may include the Manager, any investment delegate or any other their connected persons.

### ***Eligible Counterparties***

The Manager has counterparty selection policies and control measures to manage the credit risks of counterparties of securities financing transactions which shall include amongst other considerations, fundamental creditworthiness (e.g. ownership structure, financial strength) and commercial reputation of specific legal entities in conjunction with the nature and structure of proposed trading activities, external credit ratings of the counterparty, the regulatory supervision applied to the relevant counterparty, country of origin of the counterparty and legal status of the counterparty.

The counterparty of securities financing transactions must be a substantial financial institution which is an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK\$2 billion or its equivalent in foreign currency.

### ***Maximum and expected level of securities financing transactions***

The maximum and expected level of a Sub-Fund's assets available for securities financing transactions are set out in the Appendix of the relevant Sub-Fund.

### ***Types of assets that may be subject to securities financing transactions***

The types of assets that may be subject to securities financing transactions include equity securities, fixed income securities, collective investment schemes, money market instruments and cash. Use of such assets is subject to a Sub-Fund's investment objective and policy.

### ***Connected person(s) arrangement***

Where any sale and repurchase transaction has been arranged through the Trustee or a connected person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement; such transactions with connected persons of the Trustee or the Manager (including the fee retained by the Trustee or the Manager or their connected persons) will be disclosed in the connected party transaction section of the relevant Sub-Fund's annual financial reports as required under Appendix E of the Code.



### ***Safekeeping arrangement***

#### *Assets received*

Assets (including any collateral) received by a Sub-Fund under a title-transfer arrangement should be held by the Trustee or a Correspondent.

#### *Assets provided*

Assets (including any collateral) provided to a counterparty under a title-transfer arrangement shall no longer belong to the Sub-Fund. Assets (including any collateral) provided to a counterparty other than under a title-transfer arrangement shall be held by the Trustee or a Correspondent (which may include the counterparty to the relevant securities financing transaction). Upon the exercise of a right of re-use by a counterparty, such assets will not be safe-kept by the Trustee or a Correspondent and such counterparty may use the assets at its absolute discretion.