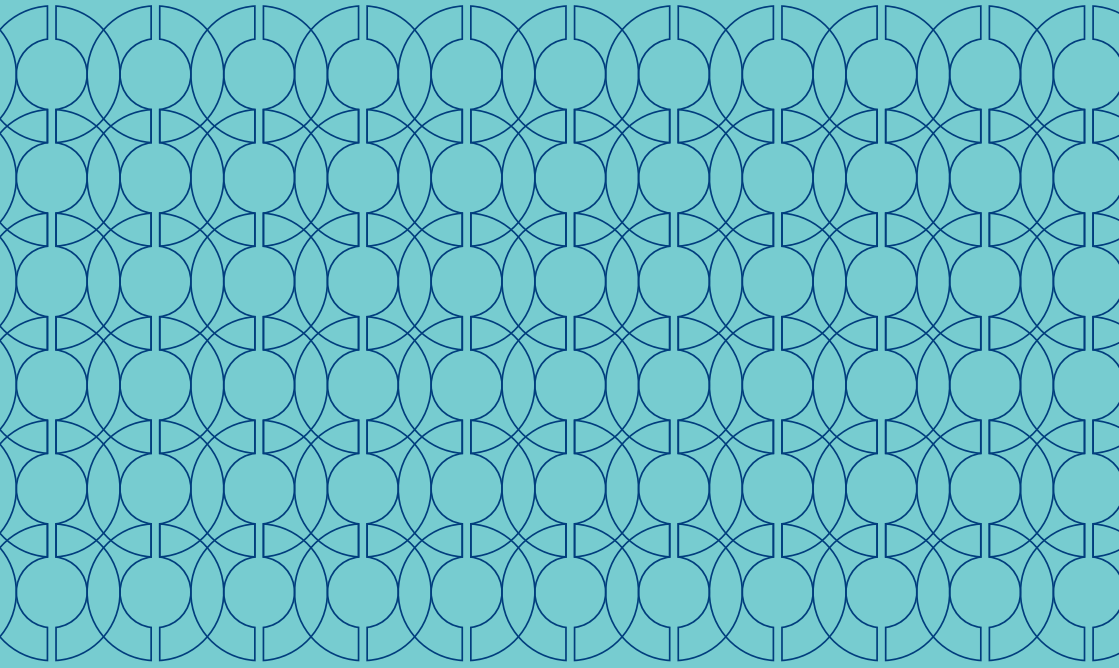


**Schroders**

**Schroder Asian Asset  
Income Fund**

**Explanatory Memorandum**

March 2024 Edition  
(Version 1)



Schroder Investment Management (Hong Kong) Limited  
Level 33, Two Pacific Place, 88 Queensway, Hong Kong  
Tel +852 2521 1633 Fax +852 2530 9095  
[www.schroders.com.hk](http://www.schroders.com.hk)

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

23 September 2024

Dear Unitholder,

**Schroder Balanced Investment Fund  
Schroder Capital Stable Fund  
Schroder Growth Fund  
Schroder Stable Growth Fund  
Schroder Hong Kong Money Market Fund  
Schroder U.S. Dollar Money Fund  
Schroder Umbrella Fund II and its sub-funds:**

- **Schroder Asian Asset Income Fund**
- **Schroder China Asset Income Fund**
- **Schroder China Equity Alpha Fund**
- **Schroder China Fixed Income Fund**
- **Schroder Global Multi-Asset Thematic Fund**

**(each a “Fund”, collectively, the “Funds”)**

We, as the Manager of the Funds would like to update you regarding certain changes relating to the Funds, which are summarised below.

#### **A. Updates regarding dealing arrangements for the Funds under severe weather conditions**

The dealing arrangements of the Funds on days when there are severe weather conditions<sup>1</sup> in Hong Kong (“**Severe Weather Days**”) will be updated with effect from 23 September 2024 (the “**Effective Date**”).

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<sup>1</sup> Severe weather refers to the scenario where a typhoon signal number 8 or above or a black rainstorm warning is issued by the Hong Kong Observatory, or an “extreme conditions” announcement is made by the Hong Kong government.

Currently, the Hong Kong securities and derivatives markets are closed during severe weather conditions. Hong Kong Exchanges and Clearing Limited has announced that, with effect from the Effective Date, it will implement arrangements to maintain normal operations of the Hong Kong securities and derivatives markets during severe weather conditions ("**Severe Weather Trading**").

In view of the implementation of Severe Weather Trading, from the Effective Date, the Funds will be open for dealing (i.e. subscription, redemption and switching of units) on Severe Weather Days, subject to the dealing deadlines and procedures set out in the offering document of the Funds.

Unitholders should note that dealing in the Funds on Severe Weather Days will depend on the operational support of the service providers, such as settlement banks or distributors. Investors should therefore consult the relevant service provider for (i) its internal dealing cut-off time (which may be earlier than a Fund's dealing cut-off time) and (ii) its services on Severe Weather Days before placing orders to deal in units of any Funds.

#### **B. Switching between funds for units of Schroder Umbrella Fund II – Schroder China Fixed Income Fund**

Previously, units of the Fund may not be converted into units of any other sub-funds (if any) of the Fund and units relating to other sub-funds (if any) of the Fund will not be able to be converted into units of the Fund. Units of a particular class may not be converted to units of other classes, unless otherwise agreed by the Manager.

With effect from April 2024, unitholders of the Fund may switch from one fund or class to another upon payment of an initial charge, the amount of which may be discounted at the discretion of the Manager. For further details, please refer to the section headed "SWITCHING BETWEEN FUNDS" of the explanatory memorandum of the Fund.

#### **C. Implications on Unitholders**

Apart from the changes as described above, all key features of the Funds, including fee level, fee structure, the way the Funds are managed and risk profile, remain unchanged. The changes do not have any adverse impact on the rights or interests of the unitholders of the Funds.

#### **D. Availability of documents**

The offering document and the trust deed of the Funds will be amended in due course to reflect the applicable changes as set out under section A above. The offering document of Schroder Umbrella Fund II – Schroder China Fixed Income Fund has been amended to reflect the changes set out under section B above. Unitholders should review the offering document and the trust deed of the relevant Fund (as amended in due course) for further details.

Copies of the offering document of the Funds (as amended) are and will be available upon request. Copies of the trust deed of the Funds (as amended) are and will be available for

inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager, Level 33, Two Pacific Place, 88 Queensway, Hong Kong.

**E. Enquiry**

Should you have any questions, please contact your usual professional advisor or Schroders Investor Hotline on (+852) 2869 6968.

**Schroder Investment Management (Hong Kong) Limited**

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

The ultimate holding company of the Manager is Schroders plc, an international investment group based in London and established in 1804. The Schroder Group worldwide manages assets of over US\$923.1 billion as at 30 June 2023.

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**ADMINISTRATION****Manager**

Schroder Investment Management (Hong Kong) Limited  
Level 33, Two Pacific Place  
88 Queensway  
Hong Kong

**Directors of the Manager**

Ms. Gopi B. Mirchandani (Chairman, Chief Executive Officer)  
Mr. Alexander H. McDougall  
Ms. Vivian C.W. Leung  
Mr. Christopher J. Durack

**Trustee and Registrar**

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

**Service Provider**

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

**Auditors**

KPMG  
8th Floor, Prince's Building  
10 Chater Road, Central  
Hong Kong

**Solicitors to the Manager**

Deacons  
5th Floor  
Alexandra House  
18 Chater Road  
Central  
Hong Kong

March 2024



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

This Explanatory Memorandum comprises information relating to Schroder Umbrella Fund II (the "Fund"), an umbrella unit trust established under the laws of Hong Kong by a trust deed dated 8 October 2010, as amended from time to time, (the "Trust Deed") between Schroder Investment Management (Hong Kong) Limited as manager (the "Manager") and HSBC Institutional Trust Services (Asia) Limited as trustee (the "Trustee"). The Fund may establish sub-funds (each a sub-fund) in respect of which a separate class of units ("Units") will be issued. This Explanatory Memorandum has been prepared in connection with the offer of Units in Schroder Asian Asset Income Fund (the "Sub-Fund"), a sub-fund of the Fund.

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

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

Receipt of this Explanatory Memorandum does not constitute an offer of Units of the Sub-Fund in those jurisdictions in which it is illegal to make such an offer.

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

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

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

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

Neither the Fund nor any of its sub-funds are authorized under the United Kingdom Financial Services and Markets Act 2000 (the "FSMA") in the United Kingdom and accordingly this Explanatory Memorandum must not be distributed in the United Kingdom other than to certain categories of persons as specified in regulations made under the FSMA. Such categories include certain persons with sufficient expertise such as authorized persons, who understand the risks involved.

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

The Fund and the Sub-Fund have been authorized by the Securities and Futures Commission in Hong Kong (the "SFC"). The SFC authorization is not a recommendation or endorsement of the Sub-Fund nor does it guarantee the commercial merits of the Sub-Fund or its performance. It does not mean the Sub-Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

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

## Enquiries and Complaints

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

**INTRODUCTION** Schroder Umbrella Fund II (the "Fund") is an umbrella fund established in Hong Kong. This Explanatory Memorandum relates to the establishment of a sub-fund, namely Schroder Asian Asset Income Fund (the "Sub-Fund"). The Manager may create further sub-funds in the future. The Manager may also determine to offer different classes of Units within a sub-fund pursuant to the provisions of the Trust Deed.

**INVESTMENT OBJECTIVE & POLICY** The Sub-Fund aims to provide income and capital growth over the medium to longer term by investing primarily in Asian equities and Asian fixed income securities.

The Sub-Fund will seek to achieve the investment objective primarily (i.e. at least 70% of its net asset value) through investment in a portfolio of equity and equity related securities of Asian (including countries in Asia-Pacific) companies which offer sustainable dividend payments, including real estate investment trusts ("REITs"), and bonds and other fixed or floating rate securities, of investment grade or below investment grade (at the time of or subsequent to acquisition), issued by governments, government agencies, supra-national and companies in Asia (including countries in Asia-Pacific). The REITs invested in by the Sub-Fund may not necessarily be authorized by the SFC and the distribution policy of the Sub-Fund may not reflect the dividend policy of the underlying REITs.

The Sub-Fund is not subject to any limitation on the portion of its net asset value that may be invested in any country in Asia (including countries in Asia-Pacific) or sector.

The Sub-Fund may invest below 50% of its net asset value in bonds and debt securities which are below investment grade (i.e. rated below BBB-/Baa3 (or its equivalent) by any internationally recognised credit rating agency, such as Standard & Poor's, Moody's or Fitch, or rated AA- or below by any mainland China domestic credit rating agency; whenever different ratings are assigned by different credit rating agencies, the lowest credit ratings assigned to the security will be adopted by the Sub-Fund) or unrated debt securities at the time of acquisition. For this purpose, if the relevant security does not itself have a credit rating, then reference can be made to the credit rating of the issuer of the security. If both the security and the relevant issuer are not rated, then the security will be classified as unrated. The Manager will assess credit risks of fixed income instruments based on quantitative and qualitative fundamentals, including without limitation the issuer's leverage, operating margin, return on capital, interest coverage, operating cash flows, industry outlook, firm's competitive position and corporate governance issue.

The Sub-Fund may invest up to 20% of its net asset value in debt instruments with loss-absorption features such as contingent convertible bonds, Additional Tier 1 capital notes and Tier 2 capital notes, capital security bonds, senior non-preferred debts and total loss-absorbing capacity bonds.

The Sub-Fund may, if the Manager considers fit, seek exposure of not more than 20% of its net asset value to other asset classes including but not limited to non-Asian securities, commodities (including energy, metals and agricultural commodities) indirectly through exchange traded funds ("ETFs") and/or similar instruments.

The Sub-Fund will actively allocate between Asian equities, Asian fixed income securities, other asset classes, cash and money market instruments to achieve the Sub-Fund's objectives. The Sub-Fund will use a cyclical approach to asset allocation where the asset mix will be adjusted according to the four phases of the economic cycle – recovery, expansion, slowdown and recession – based on a combination of fundamental and quantitative factors such as asset class valuation, macroeconomic data and liquidity. Cash and money market instruments will be treated as a separate asset class and will be deployed if necessary to limit downside risk during adverse market conditions. The Sub-Fund's expected asset allocation range for each asset class is expected to be the following:

Asian equities: 30-70%  
Asian fixed income: 20-70%  
Other asset classes: 0-20%  
Cash and money market instruments: 0-30%

***The expected asset allocation of the Sub-Fund is set out above for indicative purposes. Investors should note that the actual allocation may at times be varied from that shown above as market, economic and other conditions change.***

In addition to active asset allocation, the Sub-Fund will also perform active security selection for its investments in Asian equities, Asian fixed income and other asset classes. For the Asian equities portfolio, the Sub-Fund intends to focus on companies that are able to create true shareholder value, have a strong and stable earnings stream and have a strong sustainable dividend yield. For the Asian fixed income portfolio, the Sub-Fund intends to select securities that deliver capital growth taking into account both fundamental and technical views such as valuation, demand/supply conditions and liquidity. The Sub-Fund will also perform duration management based on the Manager's interest rate views. Duration is a measure of the sensitivity of the portfolio value to changes in interest rates. Hence duration management means managing the impact that interest rate movements have on the value of the portfolio. For example, an increase in interest rates usually has a negative impact on the value of bonds, hence the Manager would reduce the duration of the portfolio to reduce the effect from rising interest rates.

The Sub-Fund may also utilize financial derivative instruments for the purposes of hedging and investment, although the Manager is not obligated to do so. There can be no assurance that any financial derivative instruments employed by the Manager will achieve desired results. Any financial derivative instrument used for investment purposes is subject to the investment restrictions applicable to the Sub-Fund.

Under exceptional circumstances (e.g. market crash or major crisis), the Sub-Fund may hold up to 30% of its assets in cash and money market instruments such as bank deposits, certificates of deposit, commercial paper and treasury bills.

The Manager will also manage the Sub-Fund taking into account the distribution policy of the Sub-Fund. Please refer to the section headed "DISTRIBUTION" for details.

Investment in China A-shares may be made through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (collectively, the "Stock Connect") (as further described in the section under the heading "Stock Connect" below).

Indirect exposure to China A-shares may also be sought for the Sub-Fund through investment in, including but not limited to, China market access products, investment funds and ETFs.

The Sub-Fund may invest directly in fixed income and debt instruments issued or distributed in mainland China ("Onshore Chinese fixed income securities"). Direct exposure to Onshore Chinese fixed income securities may be gained via investing in mainland China interbank bond markets ("China Interbank Bond Market") under Foreign Access Regime (as further described in the section under the heading "Overview of China Interbank Bond Market" below) and/or Bond Connect (as further described in the section under the heading "Overview of China Interbank Bond Market" below) and/or other means as may be permitted by the relevant regulations from time to time.

The Sub-Fund's aggregate direct and indirect exposure (through, including but not limited to, China market access products, investment funds and ETFs) to China A-shares, China B-shares and Onshore Chinese fixed income securities will not exceed 20% of its net asset value.

The Sub-Fund may invest up to 10% of its net asset value in insurance-linked securities ("ILS"), such as catastrophe bonds, issued outside Hong Kong and/or any ILS-related products, such as derivatives or structured products whose returns are linked to the performance of any ILS and collective investment schemes whose investment objective or principal investment strategy is investing in ILS. For the avoidance of doubt, the Sub-Fund will not invest in ILS issued in Hong Kong and their repackaged products and derivatives.

The Sub-Fund will have limited Renminbi (RMB) denominated underlying investments.

The Sub-Fund is denominated in Hong Kong dollar.

#### **Use of financial derivative instruments**

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

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

The Manager may, with prior consent of the Trustee and subject to the SFC's approval (if required), change the investment objective of the Sub-Fund upon giving unitholders of the Sub-Fund one (1) month's prior written notice (or such other notice period as required under the SFC's Code on Unit Trusts and Mutual Funds ("Code")).

**Stock Connect** The Shanghai-Hong Kong Stock Connect is a securities trading and clearing links program developed by The Stock Exchange of Hong Kong ("SEHK"), Hong Kong Securities Clearing Company Limited ("HKSCC"), Shanghai Stock Exchange ("SSE") and China Securities Depository and Clearing Corporation Limited ("ChinaClear"), and the Shenzhen-Hong Kong Stock Connect is a securities trading and clearing links program developed by SEHK, HKSCC, Shenzhen Stock Exchange ("SZSE") and ChinaClear. The aim of the Stock Connect is to achieve mutual stock market access between mainland China and Hong Kong.

The Shanghai-Hong Kong Stock Connect comprises a Northbound Shanghai Trading Link and a Southbound Hong Kong Trading Link. Under the Northbound Shanghai Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and a securities trading service company established by the SEHK, may be able to trade eligible securities (e.g. China A-Shares and ETFs) listed on the SSE by routing orders to SSE. Under the Southbound Hong Kong Trading Link under the Shanghai-Hong Kong Stock Connect, investors in mainland China are able to trade certain securities listed on the SEHK. Under a joint announcement issued by the SFC and the China Securities Regulatory Commission ("CSRC"), the Shanghai-Hong Kong Stock Connect commenced trading on 17 November 2014.

Under the Shanghai-Hong Kong Stock Connect, the Sub-Fund, through their Hong Kong brokers may trade certain eligible securities listed on the SSE. These include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed China 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:

- SSE-listed shares which are not traded in RMB; and
- SSE-listed shares which are placed under "risk alert" (including shares of "ST companies" and "\*\*ST companies", and shares subject to the delisting process or the listing of which has been suspended).

From 1 February 2021, shares listed on SSE Science and Technology Innovation Board (“STAR Board”) that are constituent stocks of the SSE 180 Index and SSE 380 Index, or have corresponding H-shares listed on SEHK, will be eligible for Northbound trading under Shanghai-Hong Kong Stock Connect. Given the STAR Board’s special investor eligibility requirements, STAR Board-listed shares will only be accessible via Northbound Stock Connect trading by institutional professional investors, as defined under the rules of the SEHK.

In addition, Hong Kong and overseas investors are able to trade eligible SSE-listed ETFs that satisfy the relevant criteria at a regular review and are accepted as eligible ETFs for Northbound Shanghai Trading Link. Regular reviews will be performed to determine the eligible ETFs for Northbound Shanghai Trading Link every six months.

The trading is subject to rules and regulations issued from time to time. Trading under the Shanghai-Hong Kong Stock Connect is subject to a daily quota (“Daily Quota”). Northbound Shanghai Trading Link and Southbound Hong Kong Trading Link under the Shanghai-Hong Kong Stock Connect will be subject to a separate set of Daily Quota. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Shanghai-Hong Kong Stock Connect each day.

The Shenzhen-Hong Kong Stock Connect comprises a Northbound Shenzhen Trading Link and a Southbound Hong Kong Trading Link. Under the Northbound Shenzhen Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and a securities trading service company established by SEHK, may be able to trade eligible securities (e.g. China A-Shares and ETFs) listed on the SZSE by routing orders to SZSE. Under the Southbound Hong Kong Trading Link under the Shenzhen-Hong Kong Stock Connect investors in mainland China are able to trade certain securities listed on the SEHK. Under a joint announcement issued by the SFC and CSRC, the Shenzhen-Hong Kong Stock Connect commenced trading on 5 December 2016.

Under the Shenzhen-Hong Kong Stock Connect, the Sub-Fund, through their Hong Kong brokers may trade certain eligible securities listed on the SZSE. These include any constituent stock of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index which has a market capitalisation of RMB6 billion or above and all SZSE-listed shares of companies which have issued both China A-Shares and H-Shares, except the following:

- SZSE-listed shares which are not traded in RMB; and
- SZSE-listed shares which are placed under “risk alert” (including shares of “ST companies” and “\*ST companies”, and shares subject to the delisting process or the listing of which has been suspended).

Investors eligible to trade shares that are listed on the ChiNext Board of SZSE under the Northbound Shenzhen Trading Link will be limited to institutional professional investors as defined in the relevant Hong Kong rules and regulations.

In addition, Hong Kong and overseas investors are able to trade eligible SZSE-listed ETFs that satisfy the relevant criteria at a regular review and are accepted as eligible ETFs for Northbound Shenzhen Trading Link. Regular reviews will be performed to determine the eligible ETFs for Northbound Shenzhen Trading Link every six months.

The trading is subject to rules and regulations issued from time to time. Trading under the Shenzhen-Hong Kong Stock Connect will be subject to a Daily Quota. Northbound Shenzhen Trading Link and Southbound Hong Kong Trading Link under the Shenzhen-Hong Kong Stock Connect will be subject to a separate set of Daily Quota. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Shenzhen-Hong Kong Stock Connect each day.

The list of eligible securities under the Stock Connect may be changed subject to the review and approval by the relevant regulators from time to time.

HKSCC, a wholly-owned subsidiary of SEHK, and ChinaClear will be responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by their respective market participants and investors. The SSE and SZSE securities traded through the Stock Connect are issued in scripless form, and investors will not hold any physical shares.

Although HKSCC does not claim proprietary interests in the SSE and SZSE securities held in its omnibus stock accounts in ChinaClear, ChinaClear as the share registrar for SSE and SZSE listed securities will still treat HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE and SZSE securities.

SSE-/SZSE-listed companies usually announce information regarding their annual general meetings/extraordinary general meetings about two to three weeks before the meeting date. A poll is called on all resolutions for all votes. HKSCC will advise the Hong Kong Central Clearing and Settlement System (“CCASS”) participants of all general meeting details such as meeting date, time, venue and the number of resolutions.

Under the Stock Connect, Hong Kong and overseas investors are subject to the fees and levies imposed by SSE, SZSE, ChinaClear, HKSCC or the relevant mainland Chinese authority when they trade and settle SSE and SZSE securities. Further information about the trading fees and levies is available online at the website: [http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/chinaconnect.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm)

**Overview of China Interbank Bond Market** Foreign institutional investors (such as the Sub-Fund) can invest in the China Interbank Bond Market via the Foreign Access Regime (as defined below) and/or the Bond Connect (as defined below).

### *Investment in China Interbank Bond Market via Foreign Access Regime*

Pursuant to the "Announcement (2016) No 3" issued by the People's Bank of China ("PBOC") (中國人民銀行公告 [2016]第3號) on 24 February 2016, foreign institutional investors can invest in China Interbank Bond Market ("Foreign Access Regime") subject to other rules and regulations as promulgated by the mainland Chinese authorities, i.e., PBOC and the State Administration of Foreign Exchange ("SAFE"). Such rules and regulations may be amended from time to time and include (but are not limited to):

- (i) the "Implementation Rules for Filing by Foreign Institutional Investors for Investment in Interbank Bond Markets" (境外機構投資者投資銀行間債券市場備案管理實施細則) issued by the Shanghai Head Office of PBOC on 27 May 2016;
- (ii) the "Circular concerning the Foreign Institutional Investors' Investment in Interbank bond market in relation to foreign currency control" (國家外匯管理局關於境外機構投資者投資銀行間債券市場有關外匯管理問題的通知) issued by SAFE on 27 May 2016; and
- (iii) any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in mainland China, foreign institutional investors who wish to invest directly in the China Interbank Bond Market may do so via an onshore settlement agent, who will be responsible for making the relevant filings and account opening with the relevant authorities. There is no quota limitation under the Foreign Access Regime.

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

### *Investment in China Interbank Bond Market via Northbound Trading Link under Bond Connect*

Bond Connect is a new initiative launched in July 2017 for mutual bond market access between Hong Kong and mainland China ("Bond Connect") established by China Foreign Exchange Trade System & National Interbank Funding Centre ("CFETS"), China Central Depository & Clearing Co., Ltd ("CCDC"), Shanghai Clearing House ("SHCH"), and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit.

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

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

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

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

Pursuant to the prevailing regulations in mainland China, an offshore custody agent recognised by the Hong Kong Monetary Authority (currently, the Central Moneymarkets Unit) shall open omnibus nominee accounts with the onshore custody agent recognised by the PBOC (currently, the CCDC and SHCH). All bonds traded by eligible foreign investors will be registered in the name of Central Moneymarkets Unit, which will hold such bonds as a nominee owner.

**INVESTMENT AND BORROWING RESTRICTIONS** The Trust Deed sets out restrictions on borrowing and the acquisition of investments by the Manager for the Sub-Fund. A summary of the restrictions applicable to the Sub-Fund is set out in Schedule 1 to this Explanatory Memorandum.

**BREACH OF INVESTMENT AND BORROWING RESTRICTIONS** If the investment and borrowing restrictions for the Sub-Fund are breached, the Manager shall as a priority objective take all steps as are necessary within a reasonable period of time to remedy the situation, taking due account of the interests of the unitholders of the Sub-Fund.

**SECURITIES LENDING TRANSACTIONS, SALE AND REPURCHASE TRANSACTIONS AND REVERSE REPURCHASE TRANSACTIONS** It is not the Manager's current intention to engage in securities lending transactions, sale and repurchase transactions and reverse repurchase transactions in respect of the Sub-Fund.

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

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

The Manager would regularly assess the liquidity of the Sub-Fund's assets under the current and likely future market conditions. The Manager's liquidity policy takes into account the investment strategy; the liquidity profile; the redemption policy; the dealing frequency; the ability to enforce redemption limitations and the fair valuation policies of the Sub-Fund. These measures seek to ensure fair treatment and transparency for all investors.

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

To manage liquidity risks, the Manager is entitled, with the approval of the Trustee, to limit the number of Units redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of Units in issue (subject to the conditions under the heading entitled "Restrictions on Redemption" in the section headed "REDEMPTION OF UNITS"). The Manager may also apply "dilution adjustment" as part of its liquidity risk management. Please refer to the section headed "VALUATION" below.

## **RISK FACTORS**

### **General risks**

- The prices of Units depend on the market values of the Sub-Fund's investments and such prices as well as the income from Units can go down as well as up. Past performance of the Sub-Fund does not indicate the future performance. Investment in the Sub-Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment.
- The Sub-Fund's performance is subject to the risks associated with its investments and cash exposure including, among others, market, interest rate, currency, exchange rate, economic, credit, liquidity, counterparty, foreign securities and political risks.
- Investment objective expresses an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and macroeconomic environment, investment objective may become more difficult or even impossible to achieve. There is no express or implied assurance as to the likelihood of achieving the investment objective of the Sub-Fund.
- Investment in the Sub-Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account.
- Each type of security and market bears certain kinds of risks that may or may not be unique to the type of security and market. There is no assurance that the risks involved in different types of securities and markets are uncorrelated or independent and that diversification of requirements will remove risks.

### **Market risk**

- Investors should be aware that the value of securities in which the Sub-Fund invests, and the return derived from it can fluctuate. The Sub-Fund invests in and actively trades securities utilizing strategies and investment techniques with significant risk characteristics, including risks arising from the volatility of the securities. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as actions by various governmental agencies and domestic or international economic and political developments, may cause sharp market fluctuations, which could significantly and adversely affect the results of the Sub-Fund and hence the Sub-Fund's activities and the value of its investments. In addition, the value of the Sub-Fund's portfolio may fluctuate as the general level of interest rates fluctuates.

### **Equity investment risk**

- The Sub-Fund may invest in equity securities and is thus, subject to the risks generally associated with equity investment, namely, the market value of the stocks may go down as well as up. Factors affecting the stock values are numerous, including but not limited to changes in investment sentiment, political environment, economic environment, issuer-specific factors, regional or global economic instability, currency and interest rate fluctuations. If the market value of the stocks go down the net asset value of the Sub-Fund may be adversely affected. Stock exchanges typically have the right to suspend or limit trading in any security traded on the relevant exchange; a suspension will render it impossible to liquidate positions and can thereby expose the Sub-Fund to losses.

## Currency and exchange risk

- Investments acquired by the Sub-Fund may be denominated in a wide range of currencies different from the base currency of the Sub-Fund. Also a class of Units may also be denominated 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.
- Where the currency of the Sub-Fund varies from the investor's home currency, or where the currency of the Sub-Fund or a class of Units varies from the currencies of the markets in which the Sub-Fund invests, there is the prospect of an additional loss (or the prospect of additional gain) to the investor greater than the usual risks of investment.

## Risks relating to hedging and the Hedged Classes

- The Manager is permitted, but not obligated, to use hedging techniques to attempt to hedge the currencies in which the underlying assets of the Sub-Fund are denominated against the Sub-Fund's base currency. There is no guarantee that the desired hedging instruments will be available or hedging techniques will achieve their desired result. The Sub-Fund may suffer significant losses in adverse situation. If the counterparties of the instruments used for hedging purposes default, unitholders of the Hedged Classes may be exposed to currency exchange risk on an unhedged basis and may therefore suffer further losses. There can be no assurance that any currency hedging strategy employed by the Manager will fully and effectively eliminate the currency exposure of the Sub-Fund and unitholders of the Hedged Classes may be exposed to currency exchange risk for non-hedged classes. Please refer to the risk factor headed "Currency and exchange risk" above for details.
- Each of the Hedged Classes of Units (as defined below) will hedge the Sub-Fund's base currency back to its currency of denomination, on a best effort basis, with an aim to align the performance of the Hedged class (as defined below) to that of the equivalent class denominated in the Sub-Fund's base currency. The effects of hedging will be reflected in the net asset values of the Hedged Classes (as defined below). Similarly, any expenses arising from such hedging transactions, which may be significant depending on prevailing market conditions, will be borne by the relevant Hedged Classes (as defined below) in relation to which they have been incurred. There is no assurance that the hedging strategies employed will be effective in delivering performance differentials that are reflective only of interest rate differences adjusted for costs and fees. There can be no assurance that any hedging strategy employed by the Manager will fully and effectively achieve a positive desirable effect and result. Furthermore, the volatility of the Hedged Classes measured in the Sub-Fund's base currency may be higher than that of the equivalent class denominated in the Sub-Fund's base currency.
- If the Manager hedges the Sub-Fund's base currency against the currencies in which the underlying assets of the Sub-Fund are denominated currency exposures or currency hedging transactions within the Sub-Fund's portfolio will not be considered when hedging transactions are entered into for the Hedged Classes.
- It should also be noted that hedging transactions may be entered into whether the denominated currency of the Hedged Class (as defined below) is declining or increasing in value relative to the Sub-Fund's base currency and so, where such hedging is undertaken it may protect unitholders in the Hedged Class against a decrease in the value of the Sub-Fund's base currency relative to the denominated currency of the Hedged Class, but it may also preclude unitholders from benefiting from an increase in the value of the Sub-Fund's base currency.

## Renminbi ("RMB") currency risk and RMB classes related risk

- RMB has 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 RMB against other major currencies in the inter-bank foreign exchange market is allowed to float within a narrow band around the central parity published by mainland China.
- RMB is currently not freely convertible and RMB convertibility from offshore RMB (CNH) to onshore RMB (CNY) is a managed currency process subject to foreign exchange control policies of and restrictions imposed by the mainland China government.
- There can be no assurance that RMB will not be subject to depreciation. Any depreciation of RMB could adversely affect the value of investor's investment in classes denominated in RMB.
- Classes denominated in RMB will be valued with reference to offshore RMB (CNH) rather than onshore RMB (CNY). While offshore RMB (CNH) and onshore RMB (CNY) represent the same currency, they are traded in different and separate markets which operate independently. The value of offshore RMB (CNH) could differ, perhaps significantly, from that of onshore RMB (CNY) due to a number of factors including without limitation those foreign exchange control policies and repatriation restrictions. As such offshore RMB (CNH) does not necessarily have the same exchange rate and may not move in the same direction as onshore RMB (CNY).
- Classes denominated in RMB participate in the offshore RMB (CNH) market, which allows investors to freely transact offshore RMB (CNH) outside of mainland China subject to the availability and clearing liquidity of offshore RMB (CNH). Non-RMB based investors (e.g. Hong Kong investors) in classes denominated in RMB may have to convert HK dollar or other currency(ies) into RMB when investing in classes denominated in RMB and subsequently convert the RMB redemption proceeds and/or dividend payment (if any) back to HK dollar or such other currency(ies). Investors will incur currency conversion costs and you may suffer losses depending on the exchange rate movements of RMB relative to HK dollar or such other currencies.
- For non-hedged RMB denominated Classes (if any), depending on the exchange rate movements of RMB relative to the base currency of the Sub-Fund and/or other currency(ies) of the non-RMB denominated underlying investment of the Sub-Fund, (i) you may still suffer losses even if there are gains or no losses in the value of the non-RMB denominated underlying investments; or (ii) you may suffer additional losses if the non-RMB denominated underlying investments of the Sub-Fund fall in value. For RMB denominated Hedged Classes, please also refer to "Risks relating to hedging and the Hedged Classes" above for the relevant risks.



- Even if the Sub-Fund aims at paying redemption monies and/or distributions of RMB denominated classes in RMB, the Manager may, under extreme market conditions when there is not sufficient RMB for currency conversion and with the approval of the Trustee, pay redemption monies and/or distributions in US dollar or other currency as the Manager considers appropriate. There is also a risk that payment of redemption monies and/or distributions in RMB may be delayed when there is not sufficient amount of RMB for currency conversion for settlement of the redemption monies and distributions in a timely manner due to the exchange controls and restrictions applicable to RMB. In any event, redemption monies will be paid within one calendar month upon receipt of all properly completed documentation.

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

- "Investment grade" debt securities generally have a high capacity to pay interest and repay principal when compared to lower-rated bonds and notes. However, there are no assurances that losses will not occur with respect to these investments. The principal factors that may affect the value of the Sub-Fund's holdings in debt securities include: (i) changes in interest rates, (ii) the credit worthiness of the issuers of securities held by the Sub-Fund, (iii) unanticipated prepayment, and (iv) the decline of the relevant bond market.
- The Sub-Fund may invest in securities which are below investment grade. Such securities are considered to have a higher risk exposure than securities which are investment grade with respect to payment of interest and the return of principal. Low rated debt securities generally offer a higher current yield than higher grade issues. However, low rated debt securities involve higher risks and are more sensitive to adverse changes in general economic conditions and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers and changes in interest rates. Additionally, the market for lower rated debt securities generally is less active than that for higher quality securities and the Sub-Fund's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions.
- The Sub-Fund may invest in securities which are unrated. Investment in such securities may be subject to risks similar to those outlined above for below investment grade securities.
- Further, there is a risk that debt securities or their issuer may be downgraded due to adverse market conditions. In the event of a down-grading of the credit rating of a security or an issuer relating to a security that the Sub-Fund invests in, the value of the Sub-Fund may be adversely affected. The Manager may not dispose of such securities immediately and the Sub-Fund may therefore be subject to additional risk of loss.

#### **Interest rates risk**

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

#### **Credit risk**

- The Sub-Fund may invest in investments that involve credit risk. Bonds or other debt securities involve credit risk to the issuer which may be evidenced by the issuer's credit rating. Securities which are subordinated and/or have a lower credit rating are generally considered to have a higher credit risk and a greater possibility of default than more highly rated securities. In the event that any issuer of bonds or other debt securities experiences financial or economic difficulties, this may affect the value of the relevant securities (which may be zero) and any amounts paid on such securities (which may be zero). This may in turn adversely affect the net asset value per Unit of the Sub-Fund.
- Many emerging market countries have accumulated substantial debt servicing obligations. This may adversely affect their ability to service their debts and increase the likelihood of their defaulting on their obligations. It should also be noted that investment in securities issued by corporations may represent a higher credit risk than investment in securities issued by governments.
- The ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint and do not guarantee the credit worthiness of the security and/or issuer at all times. The rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is frequently a lag between the time the rating is assigned and the time it is updated. In addition, there may be varying degrees of difference in credit risk of securities within each rating category. In addition, the Sub-Fund may invest in debt securities the credit ratings of which are assigned by the Chinese local credit rating agencies. However, the rating criteria and methodology used by such agencies may be different from those adopted by most of the established international credit rating agencies. Therefore, such rating system may not provide an equivalent standard for comparison with securities rated by international credit rating agencies.
- In particular, RMB denominated fixed income securities that the Sub-Fund invests in are usually offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of the securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

#### **Valuation risk**

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



### **Risks relating to Real Estate Investment Trusts**

- Although the Sub-Fund will not invest in real property directly, the Sub-Fund may be subject to risks similar to those associated with the direct ownership of real property (in addition to securities market risks) through its investment in REITs.
- The prices of REITs are affected by changes in the value of the underlying property owned by the REITs. The prices of mortgage REITs are affected by the quality of any credit they extend, the creditworthiness of the mortgages they hold, as well as by the value of the property that secures the mortgages.
- Further, REITs are dependent upon management skills and generally may not be diversified. REITs are also subject to heavy cash flow dependency, defaults by borrowers and self-liquidation. There is also the risk that borrowers under mortgages held by a REIT or lessees of a property that a REITs owns may be unable to meet their obligations to the REITs. In the event of a default by a borrower or lessee, the REITs may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments. In addition to the foregoing risks, certain "special purpose" REITs in which the Sub-Fund may invest may have their assets in specific real property sectors, such as hotel REITs, nursing home REITs or warehouse REITs, and are therefore subject to the risks associated with adverse developments in these sectors.
- The REITs invested in by the Sub-Fund may not necessarily be authorized by the SFC and the distribution policy of the Sub-Fund may not reflect the dividend policy of the underlying REITs.

### **Risks relating to investment in ETFs generally**

- The trading prices of units/shares in an ETF may differ significantly from the net asset value of the units/shares of such ETF due to, disruptions to creations and realisations (for example, as a result of imposition of capital controls by a foreign government) and supply and demand forces in the secondary trading market for units/shares in the ETF. In addition, factors such as fees and expenses of an ETF, imperfect correlation between the ETF's assets and the underlying securities within the relevant tracking index, rounding of share prices, adjustments to the tracking index and regulatory policies may affect the ability of the manager of an ETF to achieve close correlation with the tracking index for the relevant ETF. An ETF's returns may therefore deviate from that of its tracking index.
- There can be no assurance that an active trading market will exist or maintain for units /shares of an ETF on any securities exchange on which units/shares of an ETF may trade. The units/shares of the ETFs which the Sub-Fund may invest in may be traded at large discounts or premiums to their net asset value, which may in turn affect the net asset value of the Sub-Fund.

### **Risks relating to exposure to commodities**

- The Sub-Fund may also invest indirectly in commodities and thus, be exposed to commodity markets risk. The commodity markets generally are subject to greater risks than other markets. It is a feature of commodities generally that they are subject to rapid change and the risks involved may change relatively quickly. Commodity prices are determined by forces of supply and demand in the commodity markets and these forces are themselves influenced by, without limitation, consumption patterns, macro economic factors, weather conditions, natural disasters, trade, fiscal, monetary and exchange policies and controls of governments and other unforeseeable events.
- In addition, the geographical distribution and concentration of commodities may expose the Sub-Fund to issues such as heightened political risks, sovereign intervention and the potential for sovereign claims to output, acts of war, or increase in resources-related rents and taxes. There is also the risk that industrial production may fluctuate widely, decline sharply, or be subject to waning secular consumption trends, adversely affecting the performance of the Sub-Fund.

### **Counterparty, Custody and Settlement risk**

- The Sub-Fund may be exposed to a credit risk on counterparties with whom they trade securities, and may also bear the risk of settlement default. As the Sub-Fund may also invest in securities in emerging markets where settlement mechanisms are generally less developed and reliable than those in more developed countries. This therefore increases the risk of settlement default which could result in substantial losses for the Sub-Fund in respect of investments in emerging markets.
- Where the 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 custody risk. The assets of the Sub-Fund that are traded in such markets and which have been entrusted to sub-custodians may be exposed to risk in circumstances where the custodian will have no liability. The Sub-Fund's cash account will usually be maintained on the custodian's records, but the balances may be held by a sub-custodian which poses an additional risk. In addition, in case of liquidation, bankruptcy or insolvency of such sub-custodians, the relevant Sub-Fund may take a longer time to recover its assets. In extreme 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 the relevant Sub-Fund investing and holding investments in such markets will be generally higher than in organised securities markets.
- The Sub-Fund may also be exposed to credit risk on counterparties with which they trade in relation to options, futures, contracts and other derivative financial instruments that are not traded on internationally recognized exchanges. The Sub-Fund will be subject to the possibility of the insolvency, bankruptcy or default of counterparties with which the Sub-Fund trades such instruments, which could result in substantial losses to the Sub-Fund.

## **Liquidity and volatility risk**

- Not all securities or investments held by the Sub-Fund will be listed or rated or actively traded and consequently they may have higher volatility and their liquidity may be low. The prices of such securities may be subject to fluctuations. Moreover, the accumulation and disposal of holdings in some investments may be time consuming and may need to be conducted at unfavourable prices. The Sub-Fund may also encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity. Further, the bid and offer spread of the price of the relevant instruments may be high and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such instruments.
- Liquidity risk exists if sizeable redemption requests are received as the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such investments.
- Liquidity risk also exists when a particular derivative instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price.

## **Risks associated with financial derivative instruments**

- Risks associated with financial derivative instruments include counterparty risk, credit risk, liquidity risk, valuation risk, volatility risk, over-the-counter transaction risk and hedging risk.
- Financial derivative instruments include instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Derivatives may allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index. Therefore, many of the risks applicable to trading the assets of the Sub-Fund may also be applicable to derivatives trading. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose the Sub-Fund to the possibility of a loss exceeding the original amount invested.
- Other risks inherent in the use of derivatives include, but are not limited to (a) the dependence on the Manager's ability to correctly predict the direction of interest rates, currencies exchange rates and securities prices; (b) the imperfect correlation between the returns of the derivative instruments used for hedging and the returns of the securities they hedge; (c) the fact that skills needed to use these strategies are different from those needed to select portfolio securities; (d) the possible absence of a liquid secondary market for any particular derivative instrument at any time; (e) the default of the counterparty on the terms of the derivative contract; (f) the risk of mispricing or improper valuation of derivatives; and (g) the risk of higher volatility of the returns as derivatives usually have a leverage component. The leverage component of a financial derivative instrument can result in a loss substantially greater than the amount invested in the financial derivative instruments by the Sub-Fund. Such exposure may lead to a high risk of significant capital loss.

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

- Debt instruments with loss-absorption features 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 events (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. 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. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.
- The Sub-Fund may invest in contingent convertible debt securities, commonly known as CoCos, which are highly complex and are of high risk. Upon the occurrence of the trigger event, CoCos may be converted into shares of the issuer (potentially at a discounted price), or may be subject to the permanent write-down to zero. Coupon payments on CoCos are discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time.
- The Sub-Fund may invest in senior non-preferred debts. While these instruments are generally senior to subordinated debts, they may 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. This may result in total loss of principal invested.

## **General risk associated with over-the-counter transactions**

- Instruments traded in over-the-counter markets may trade in smaller volumes, and their prices may be more volatile than instruments principally traded on exchanges. Such instruments may be less liquid than more widely traded instruments. In addition, the prices of such instruments may include an undisclosed dealer mark-up which the Sub-Fund may pay as part of the purchase price.

## **Investor risk**

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

- The Manager is entitled under certain circumstances specified in the Trust Deed to suspend dealings in the Units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the Units during the period up to the redemption of the Units is borne by the redeeming unitholders.
- If, in the opinion of the Manager or the Trustee, Units held by any unitholder is in contravention of any laws or requirements of any country, any government authority or any stock exchange or under such other circumstances specified in the Trust Deed, the Manager and the Trustee are entitled to compulsorily redeem all or a portion of the unitholder's Units in the Sub-Fund. If it shall come to the attention of the Manager or the Trustee at any time that Units are beneficially owned by a US Person, or a US person for the purposes of FATCA, to the extent permitted by applicable laws and regulations, the Manager and the Trustee may compulsorily redeem such Units. The Manager or the Trustee in taking any such action shall act in good faith and on reasonable grounds. Such compulsory redemption may create adverse tax and/or economic consequences to the unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon termination of the Sub-Fund, compulsory redemption or otherwise.

#### **Risk of termination of the Sub-Fund**

- In the event of the early termination of the Sub-Fund, the 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 Sub-Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the unitholders. Moreover, any organizational expenses with regard to the Units that had not yet become fully amortized would be debited against Sub-Fund's capital at that time.

#### **Emerging and less developed markets securities risk**

- Emerging or developing countries may have relatively unstable governments, economies based on a less diversified industrial base and securities markets that trade a smaller number of securities. Companies in emerging markets may generally be smaller, less experienced and more recently organised than many companies in more developed markets. Prices of securities traded in the securities markets of emerging or developing countries tend to be volatile. Furthermore, foreign investors are often subject to restrictions in emerging or developing countries. These restrictions may require, among other things, governmental approval prior to making investments or repatriating income or capital, or may impose limits on the amount or type of securities held by foreigners or on the companies in which the foreigners may invest.
- The economies of individual emerging countries may differ favorably or unfavorably from developed economies in such respects as growth of gross domestic product, rates of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payment position and may be based on a substantially less diversified industrial base. Further, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been, and may continue to be, adversely affected by economic conditions in the countries with which they trade.
- Risks of emerging market securities may include: greater social, economic and political uncertainty and instability; more substantial governmental involvement in the economy; less governmental supervision and regulation; unavailability of currency hedging techniques; companies that are newly organised and small; differences in auditing and financial reporting standards, which may result in unavailability of material information about issuers; and less developed legal systems. In addition taxation of interest and capital gains received by non-residents varies among emerging and less developed markets and, in some cases may be comparatively high. There may also be less well-defined tax laws and procedures and such laws may permit retroactive taxation so that the Sub-Fund could in the future become subject to local tax liabilities that had not been anticipated in conducting investment activities or valuing assets.

#### **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. In addition, the Sub-Fund may obtain exposure to equity securities and fixed income securities issued in mainland China through its investment in other investment funds, and hence the Sub-Fund may be subject to additional risks associated with securities issued in mainland China including risks of nationalisation or expropriation of assets, government control and intervention, regulatory risk, legal risk and accounting risk, settlement risk and the risks listed below.
- Since 1978, the mainland China government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the economy of mainland China, 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 may not be as well developed as those of developed countries. Mainland China companies are required to follow the mainland China accounting standards and practice which, to a certain extent, follow international accounting standards. However, the mainland China accounting standards and practices may deviate significantly from international accounting standards. The settlement and clearing systems of the mainland China securities markets may not be well tested and may be subject to increased risks of error or inefficiency. Securities exchanges in mainland China 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.

- Investments in mainland China will be sensitive to any significant change in political, social or economic policy in mainland China. Such sensitivity may, for the reasons specified above, adversely affect the capital growth and thus the performance of these investments.
- Compared with the choice available in other markets, there is a low level of liquidity in the mainland China markets. This could potentially lead to severe price volatility.
- The mainland China government's control of currency conversion and movements in the RMB exchange rates may adversely affect the operations and financial results of companies in mainland China. Insofar as the Sub-Fund's assets are invested in mainland China, it will be subject to the risk of the mainland China government's imposition of restrictions on the repatriation of funds or other assets out of the country, limiting the ability of the Sub-Fund to satisfy payments to investors.
- Under the prevailing mainland China tax policy, there are certain tax incentives available to foreign investment. There can be no assurance, however, that the aforesaid tax incentives will not be abolished in the future.
- By investing in onshore RMB debt securities, China A-shares and other onshore permissible securities ("Mainland China Securities"), the Sub-Fund may be subject to mainland China withholding income tax and other taxes imposed in mainland China. The tax laws, regulations and practice in mainland China are constantly changing, and they may be changed with retrospective effect. Please also refer to the sub-section headed "Mainland China" under the section headed "TAXATION" for details in relation to mainland China tax.

#### **Risks associated with Stock Connect**

- The Sub-Fund may have exposure to eligible SSE or SZSE securities (e.g. China A-shares and ETFs) through Stock Connect. The relevant rules and regulations on the Stock Connect are subject to change which may have potential retrospective effect. The programme is subject to quota limitations. Where a suspension in the trading through the programme is effected, this may restrict the Sub-Fund's ability to invest in eligible SSE or SZSE securities through the programme on a timely basis and as a result, the Sub-Fund's ability to access the mainland China market through the programme (and hence to pursue its investment strategy) will be adversely affected. The Stock Connect regulations impose certain restrictions on selling and buying. Hence the Sub-Fund may not be able to dispose of holdings of SSE or SZSE securities in a timely manner. Also, a security may be recalled from the scope of eligible securities for trading via the Stock Connect. This may adversely affect the investment portfolio or strategies of the Sub-Fund, for example, when the Manager wishes to purchase a security which is recalled from the scope of eligible securities. Due to the differences in trading days, the Sub-Fund may be subject to a risk of price fluctuations in SSE and SZSE securities on a day that the mainland China market is open for trading but the Hong Kong market is close.

#### **Risks associated with China Interbank Bond Market**

- Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the China Interbank Bond Market may result in prices of certain debt securities traded on such market fluctuating significantly. The Sub-Fund investing in such market is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.
- To the extent that the Sub-Fund transacts in the China Interbank Bond Market, the Sub-Fund may also be exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.
- For investments via Foreign Access Regime and/or Bond Connect, the relevant filings, registration with PBOC and account opening are carried out via an onshore settlement agent, offshore custody agent, registration agent or other third party (as the case may be). As such, the Sub-Fund is subject to the risks of default or errors on the part of such third parties.
- Investing in the China Interbank Bond Market via Foreign Access Regime and/or Bond Connect is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant mainland Chinese authorities suspend account opening or trading on the China Interbank Bond Market, the Sub-Fund's ability to invest in the China Interbank Bond Market will be adversely affected. In such event, the Sub-Fund's ability to achieve its investment objective will be negatively affected.
- Trading through Bond Connect is performed through newly developed trading platforms and operational systems. There is no assurance that such systems will function properly or will continue to be adapted to changes and developments in the market. In the event that the relevant systems fails to function properly, trading through Bond Connect may be disrupted. The Sub-Fund's ability to trade through Bond Connect (and hence to pursue its investment strategy) may therefore be adversely affected.

#### **Insurance-linked securities/ catastrophe bonds risks**

- Insurance-linked securities may incur severe or full losses as a result of insurance events such as natural, man-made or other catastrophes.
- The Sub-Fund could invest in catastrophe bonds which may lose part or all of their value in case a trigger event occurs (e.g. natural disasters or financial or economic failures).

- Catastrophes can be caused by various events, including, but not limited to, hurricanes, earthquakes, typhoons, hailstorms, floods, tsunamis, tornados, windstorms, extreme temperatures, aviation accidents, fires, explosions and marine accidents. The incidence and severity of such catastrophes are inherently unpredictable, and the Sub-Fund's losses from such catastrophes could be material. Any climatic or other event which might result in an increase in the likelihood and/or severity of such events (for example, global warming leading to more frequent and violent hurricanes) could have a material adverse effect on the Sub-Fund's holdings of such securities.
- Although the Sub-Fund's exposure to such events will be limited and diversified in accordance with its investment objective, a single catastrophic event could affect multiple geographic zones and lines of business or the frequency or severity of catastrophic events could exceed expectations, either of which could have a material adverse effect on the Sub-Fund's holdings of such securities.
- The loss amount is defined in the terms of the catastrophe bond and may be based on losses to a company or industry, modelled losses to a notional portfolio, industry indices, readings of scientific instruments or certain other parameters associated with a catastrophe rather than actual losses. The modelling used to calculate the probability of a trigger event may not be accurate or may underestimate the likelihood of the trigger event occurring which may increase the risk of loss.
- Catastrophe bonds may provide for extensions of maturity which may increase volatility and may be rated by credit ratings agencies on the basis of how likely it is that the trigger event will occur. Catastrophe bonds have typically have a below investment grade credit rating (or considered equivalent if they are unrated).

#### **Risks relating to distribution**

- In respect of Distribution Units, the Manager will declare and pay distributions on a monthly basis. However, the distribution rate is not guaranteed. The Manager has the sole and absolute discretion to vary the frequency of distributions, subject to one month's prior notice to the relevant unitholders. If the Manager does not intend to retain the flexibility to pay distributions out of the capital of the Sub-Fund, the change will be subject to the SFC's prior approval and one month's prior notice to the relevant unitholders.
- Where the income and/or capital gains generated by the Sub-Fund is insufficient to pay a distribution as the Sub-Fund declares, the Manager may at its discretion make such distributions out of the capital of the Sub-Fund.
- **You should note that in the circumstances where the payment of distributions are paid out of capital, this represents and amounts to a return or withdrawal of part of the amount you originally invested or capital gains attributable to that and may result in an immediate decrease in the value of Units of the relevant Distribution Units.**
- The distribution amount and net asset value of the Hedged Classes may be adversely affected by differences in the interest rates of the class currencies of the Hedged Classes 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.
- Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of the classes of Distribution Units paying distributions out of capital are available from the Manager on request and on the Schroders Internet site ([www.schroders.com.hk](http://www.schroders.com.hk)). This website has not been reviewed by the SFC.

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

- The provisions of the Foreign Account Tax Compliance Act were enacted on 18 March 2010 as part of the Hiring Incentive to Restore Employment Act ("FATCA"). It includes provisions under which the Manager as Foreign Financial Institution ("FFI") may be required to report directly to the US Internal Revenue Service ("IRS") certain information about Units held by US persons for the purposes of FATCA or other foreign entities subject to FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of US source income (including interests and dividends) as well as on the gross proceeds deriving from the sale of securities generating US income made to the Sub-Fund. Provided that the Sub-Fund acts in accordance with the provisions it will not be subject to withholding tax under FATCA.
- Although the Manager will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA penalty withholding on the Sub-Fund, no assurance can be given that the Manager will be able to achieve this and/or satisfy such FATCA obligations. If the Sub-Fund becomes subject to a FATCA penalty withholding as a result of the FATCA regime, the value of the Units held by unitholders may be adversely affected and unitholders may suffer material losses.
- Unitholders should seek independent professional advice regarding the FATCA requirements with respect to their own situation. In particular, where investors invest in or held Units of the Sub-Fund through an intermediary, nominee or custodian, investors are recommended to check whether such intermediary, nominee or custodian is FATCA compliant and any possible FATCA implications.

#### **Segregation of assets and liabilities between sub-funds**

- All sub-funds of the Fund will be established as separate and distinct trusts pursuant to a trust deed supplemental to the Trust Deed. Accordingly, the assets of each of the sub-funds should be effectively segregated from each other and none of them may be used to discharge the liabilities of or claims against any other sub-fund. Notwithstanding this, in the event that the assets of the sub-funds are held by any court of competent jurisdiction (other than Hong Kong) not to be effectively segregated, each of the sub-funds bears the risks of having its assets used to discharge the liabilities of or claims against any other sub-fund. The Manager will seek to advise potential creditors of a particular sub-fund that recourse is only to the assets of that particular sub-fund and not to all sub-funds of the Fund as a whole or the personal assets of the Trustee and will use reasonable efforts to include reference to this effect in any related documentation.

## Cross-Class Liability

- Where the liabilities of a particular class exceed the assets pertaining to that class, creditors pertaining to one class may have recourse to the assets attributable to other classes. Although for the purposes of internal accounting, a separate account will be established for each class, in the event of an insolvency or termination of the Sub-Fund (i.e., when the assets of the Sub-Fund are insufficient to meet its liabilities), all assets will be used to meet the Sub-Fund's liabilities, not just the amount standing to the credit of any individual class. However, the assets of the Sub-Fund may not be used to satisfy the liabilities of another sub-fund.

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

## MANAGEMENT OF THE FUND

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

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

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

The Manager is adviser to or manager of other Hong Kong authorized unit trusts and investment portfolios of institutional, private and retirement fund clients in Asia and elsewhere. The Schroder Group worldwide manages assets of over US\$923.1 billion as at 30 June 2023 in London, Luxembourg, New York, Zurich, Australia, Hong Kong, Japan and Singapore and other investment centres around the world.

In the performance of its duties, the Manager may seek, at its own expense, advice from investment adviser(s).

**Trustee** The Trustee of the Fund is HSBC Institutional Trust Services (Asia) Limited which is incorporated with limited liability in Hong Kong on 27 September 1974. It is an indirect wholly-owned subsidiary of HSBC Holdings plc. It is registered as a trust company under Section 77 of the Hong Kong Trustee Ordinance and is an approved trustee under the Mandatory Provident Fund Schemes Ordinance.

The Trustee shall be responsible and shall remain at all times liable for the safe-keeping of and shall take into custody or under its control all the investments, cash, assets and other property forming part of the Sub-Fund and hold them in trust for the unitholders of the Sub-Fund in accordance with 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 investments, cash and other assets of the Sub-Fund shall be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereto. The Trustee shall, in respect of any investments or other assets of the Sub-Fund which by nature cannot be held in custody, maintain a proper record of such investments or assets in its books under the name of the Sub-Fund.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its Connected Persons) or have such person or person(s) appointed to hold, as custodian, co-custodian, delegate, nominee or agent, all or any of the investments, assets, cash or other property comprised in the Sub-Fund and may empower any such person to appoint, with the prior consent in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, delegate, nominee, agent, co-custodian and sub-custodian a "**Correspondent**"). The fees and expenses of any Correspondent shall be paid out of the assets of the Sub-Fund. The Trustee shall (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of any Correspondent which are appointed for the custody and/or safekeeping of any of the investments, cash, assets or other property comprised in the Sub-Fund and (b) be satisfied that each Correspondent retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Fund or the Sub-Fund. The Trustee shall be liable for the acts and omissions of any Correspondent which is a Connected Person of the Trustee in relation to assets forming part of the property of the Sub-Fund as if the same were the acts or omissions of the Trustee, but provided that if the Trustee has discharged its obligations set out in (a) and (b) as set out above, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent which is not a Connected Person of the Trustee.

"Connected Person" shall have the meaning as set out in the Code which at the date of the Explanatory Memorandum means, in relation to a company:

- (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or
- (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or
- (c) any member of the group of which that company forms part; or
- (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).

The Trustee shall not be liable for the acts and omissions of, or fraud, negligence, breach of contract, misconduct, mistake, oversight, error of judgment, forgetfulness or want of prudence or insolvency of Euroclear Bank S.A./N.V., or Clearstream Banking, S.A. or any other such central depository or clearing and settlement system in relation to any investment deposited with such central depository or clearing and settlement system.

Subject as provided in 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 Sub-Fund or to unitholders. Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Sub-Fund from and against any and all action, costs, claims, damages, expenses or demands relating to the Sub-Fund.

Notwithstanding the foregoing, nothing shall (i) exempt the Trustee from or against any liability to unitholders imposed under the laws of Hong Kong or for breaches of trust through its fraud or negligence; and (ii) without prejudice to the generality of (i), in any case in which the Trustee has failed to show the degree of diligence and care required of it by the provisions of the Trust Deed exempt it from or indemnify it against any liability which by virtue of any rule of law would otherwise attach to it in respect of any negligence, default, breach of duty or trust of which it may be guilty in relation to its duties, and the Trustee may not be indemnified against such liability by unitholders or at unitholders' expense.

The Trustee has delegated certain of its functions as Registrar to The Hongkong and Shanghai Banking Corporation Limited (the "Service Provider").

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

The Trustee is entitled to the fees set out below under the section headed "EXPENSES AND CHARGES" and to be reimbursed for any sub-custodians' fees and expenses.

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

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

Neither the Trustee nor its delegate is responsible for the preparation of this Explanatory Memorandum and they accept no responsibility or liability for the information contained here other than the description relating to themselves under this sub-section.

**Auditors** KPMG acts as auditors to the Sub-Fund.

The Auditors' maximum liability to the Manager and the Trustee for any reason relating to the services rendered to the Sub-Fund will be limited according to the terms of the engagement letter to be entered into with the Auditor, details of which will be disclosed in the relevant audited reports.

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

Each of the hedged classes of Units (the "Hedged Class") will hedge the Sub-Fund's base currency back to its currency of denomination, on a best effort basis, with an aim to align the performance of the Hedged Class to that of the equivalent class denominated in the Sub-Fund's base currency. The effects of hedging will be reflected in the net asset values of the Hedged Classes. Similarly, any expenses arising from such hedging transactions will be borne by the Hedged Classes in relation to which they have been incurred. There is no assurance that the hedging strategies employed will be effective in delivering performance differentials that are reflective only of interest rate differences adjusted for costs and fees.

If the Manager hedges the Sub-Fund's base currency against the currencies in which the underlying assets of the Sub-Fund are denominated, currency exposures or currency hedging transactions within the Sub-Fund's portfolio will not be considered when hedging transactions are entered into for the Hedged Classes. There can be no assurance that any currency hedging strategy employed by the Manager will fully and effectively achieve a positive desirable effect and result.

Class A and Class X will generally be available to investors of certain distributors appointed specifically for the purpose of distributing Class A and/or Class X Units whilst Class M will generally be available to investors of certain distributors appointed specifically for the purpose of distributing Class M Units in mainland China. Class C Units will generally be available to investors which are considered to be institutional investors by the Manager. Class I is designed to accommodate an alternative charging structure whereby the investor is a client of the Manager or its associates and is charged management fee directly by the Manager or its associates. Class I is generally not available to retail investors.

## **APPLICATION FOR UNITS**

### **Application Procedures**

Subscription applications will be dealt with on each dealing day which is a Business Day on which securities markets of all or substantial part of investments of the Sub-Fund are open for trading and settlement or such other day(s) as the Manager with the approval of the Trustee may determine from time to time (the "Dealing Day"). A Business Day is a day on which banks in Hong Kong are open for normal business except Saturdays and Sundays, provided that where (for example, as a result of a number 8 or higher 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 otherwise determine.



In order for subscription applications to be dealt with, the relevant subscription application must be received in a manner satisfactory to the Manager or the Service Provider and in accordance with the application and payment procedures set out below.

To purchase Units an investor should:

- (a) complete the application form enclosed with this Explanatory Memorandum and return it to the Manager or the Service Provider (details of which as set out in the application form); or
- (b) fax an order to the Service Provider (details of which as set out in the application form).

Facsimile orders must always be followed by an original completed application form unless the investor already holds Units in the Sub-Fund or units/shares in other funds managed or distributed by the Manager and has already made arrangements with the Manager or the Service Provider to allow orders to be made via facsimile instructions and without the same being followed by original orders. Investors should be reminded that if they choose to send application forms by facsimile, they bear their own risk of the forms not being received by the Service Provider. Investors should therefore for their own benefit confirm with the Service Provider the receipt of the forms. Neither the Manager nor the Service Provider nor the Trustee shall be responsible to a unitholder or an investor for any loss resulting from non-accept or illegibility of any orders sent by facsimile or for any loss caused in respect of any action taken as a consequence of such facsimile believed in good faith to have originated from properly authorised persons.

Applications may also be sent through distributors appointed specifically for the purpose of distributing the Sub-Fund.

Units in the Sub-Fund may be acquired on any Dealing Day at a price calculated by reference to the relevant net asset value per Unit as described in the section headed "VALUATION", plus any applicable initial charge. Application should be made on, and in accordance with the instructions on the application form and be received by the Manager or the Service Provider by 5:00 p.m. (Hong Kong time) on a Dealing Day (or such other time as the Manager may from time to time with the approval of the Trustee determine) if they are to take effect at the relevant net asset value per Unit (plus any applicable initial charge) of that Dealing Day. Applications received after that time will be dealt with on the next Dealing Day.

The minimum investment for initial or subsequent investments is HK\$5,000 for HK dollar denominated Units of Class A, Class M, Class C and Class X, RMB5,000 for RMB denominated Units of Class A, Class M, Class C and Class X and US\$1,000 (or equivalent value in other currencies) for Units of Class A, Class M, Class C and Class X denominated in a currency other than HK dollar or RMB or such other amount as may from time to time be determined by the Manager generally or for a particular investor. The minimum amounts include any initial charge which is payable by the applicant.

The Manager shall have an absolute discretion to accept or reject in whole or in part any application for Units. No interests will accrue on subscription monies received. If an application is rejected by the Manager, the subscription monies will be refunded to the applicant without interest by cheque through the post or by telegraphic transfer to the bank account from which the moneys originated at the risk and expense of the applicants or in such other manner as the Manager may from time to time determine.

Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of Units.

On the issue of new Units, the Manager, at its discretion, is entitled to impose an initial charge of up to 5% of the gross investment amount. The initial charge is payable by the applicant and retained by the Manager for its own use and benefit. The Manager may, at its discretion, share with or rebate to approved intermediaries, including banks, brokers, recognized securities dealers and other investment advisers, a proportion of the initial charge received by it on the value of relevant business introduced to the Sub-Fund.

**Payment Procedure** Payment of the amount due on application should normally be made no later than three (3) Business Days after the relevant Dealing Day or such other number of days as may be from time to time determined by the Manager upon giving notice to the Trustee and unitholders. If timely settlement is not made the relevant allotment of Units may be cancelled in accordance with the Trust Deed and the Manager (at its discretion) may enforce payment of sum due. Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant therefore shall have no right to claim in respect thereof against the Manager or the Trustee, provided that no previous valuations of the Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units.

Pursuant to the Trust Deed, the Manager and the Trustee will be entitled to charge the relevant applicant (and retain for the account of the Sub-Fund) a cancellation fee to represent the administrative costs involved in processing the application and require the applicant to pay to the Trustee for the account of the Sub-Fund in respect of each Unit so cancelled the amount (if any) by which the net asset value per such Unit on the date of issue exceeds the net asset value per such Unit (had it been redeemed) on the date of cancellation together with interest on such amount until receipt of such payment by the Trustee.

Subscription monies should normally be paid in the currency of the relevant class of Units. If an investor selects a currency other than the currency of the relevant class of Units, the subscription monies will be converted into the currency of the relevant class of Units. The risk and cost of currency conversion and other related charges and expenses will be borne by the relevant investor. Neither the Trustee nor the Service Provider nor the Manager takes any responsibility for the rate of exchange obtained. Changes in the rate of exchange between the currency of denomination and the currency of an investor's subscription monies may cause the value of an investor's investment to diminish or increase. No payment will be accepted from any person other than the relevant applicant.

All payments can be paid either by telegraphic transfer to the relevant accounts as set out in the application form or may be paid by cheque in accordance with instructions on the application form. It should be noted that there may be delay in receipt of cleared funds if payment is made by cheques or bank draft compared to payment by telegraphic transfer. Any costs of transfer of application monies to the Sub-Fund will be payable by the applicant.



The applicant should quote the name of the Sub-Fund and the applicant's details in the remittance instructions.

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

**General** All holdings will be registered and certificates will not 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 or the Service Provider is informed of any change to the registered details. Fractions of Units rounded to the nearest two (2) decimal places will be issued. Application monies representing smaller fractions of a Unit will be retained by the Sub-Fund. A maximum of 4 persons may be registered as joint unitholders.

**REDEMPTION OF UNITS** Unitholders may request to redeem their Units on any Dealing Day at the relevant net asset value per Unit less any applicable deductions on application to the Manager or the Service Provider. Redemption notices must be received by the Manager or the Service Provider by 5:00 p.m. (Hong Kong time) on a Dealing Day (or such other time as the Manager may from time to time with the approval of the Trustee determine) if they are to be dealt with on that Dealing Day. Redemption notices received after that time will be dealt with on the next Dealing Day.

**General** Application for redemption should be made in the form available from the Manager or the Service Provider. Redemption forms/ notices can be submitted by post to the Manager or the Service Provider, or by facsimile to the Service Provider, or through one of the intermediaries authorized for this purpose. Please also see the section headed "ANTI-MONEY LAUNDERING REGULATIONS".

Partial redemptions for a minimum of HK\$5,000 for HK dollar denominated Units of Class A, Class M, Class C and Class X, RMB5,000 for RMB denominated Units of Class A, Class M, Class C and Class X, and US\$1,000 (or equivalent value in other currencies) for Units of Class A, Class M, Class C and Class X denominated in a currency other than HK dollar or RMB, unless otherwise waived or reduced by the Manager at its discretion generally or for a particular investor, are allowed provided that the value of such unitholder's remaining holding of Units is not less than the aforesaid minimum (as applicable) or such lower amount as may from time to time be determined by the Manager generally or for a particular investor. If a request for redemption will result in a unitholder holding Units less than the minimum holding amount, the Manager may deem such request to have been made in respect of all Units of the relevant class held by that unitholder.

There is currently no redemption charge.

Investors should be reminded that if they choose to send notices of redemption by facsimile, they bear their own risk of the notices not being received by the Service Provider. Investors should therefore for their own benefit confirm with the Service Provider the receipt of the notices. Neither the Manager nor the Service Provider nor the Trustee shall be responsible to a unitholder for any loss resulting from non-receipt or illegibility of any redemption request sent by facsimile or for any loss caused in respect of any action taken as a consequence of such facsimile believed in good faith to have originated from properly authorised persons.

Redemption monies in the currency of the redeeming Units are normally remitted by telegraphic transfer within three (3) Business Days after the relevant Dealing Day and at most within one calendar month upon receipt of all properly completed documentation. Notwithstanding the aforesaid, for RMB denominated classes of Units under extreme market conditions when there is not sufficient RMB for currency conversion and with the approval of the Trustee, the Manager may pay redemption monies in USD or other currency as the Manager considers appropriate. Redemption proceeds will be paid to the registered unitholder requesting such redemption only and will not be paid to third parties.

At the request of the unitholder, redemption proceeds may be paid in a currency other than the currency of the relevant class of Units. The risk and cost of currency conversion and other related charges and expenses will be borne by the relevant unitholder.

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

The Trust Deed gives the Trustee and the Manager powers to request a person to transfer the Units in the Sub-Fund owned by him if his ownership of Units is in contravention of any laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed or in circumstances (whether directly or indirectly affecting such person 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 their opinion might result in the Sub-Fund and/or the Fund incurring any tax liability or suffering any other pecuniary disadvantage which the Sub-Fund and/or the Fund might not otherwise have incurred or suffered. If it shall come to the attention of the Manager or the Trustee at any time that Units are beneficially owned by a US Person, or a US person for the purposes of FATCA, to the extent permitted by applicable laws and regulations, the Manager or the Trustee may request that person to transfer the Units in the Sub-Fund owned by him. If that person does not transfer such Units within thirty days after the notice of transfer is served by the Manager or the Trustee (as the case may be) or establish to the satisfaction of the Manager or the Trustee (as the case may be and whose judgment is final and binding) that his ownership of the Units is not in contravention of any such restrictions, he shall be deemed to have given a written request for the redemption of all his Units upon the expiration of the thirty days. The Manager or the Trustee in taking the above actions shall act in good faith and on reasonable grounds.

**Restrictions on Redemption** The Manager shall, after consultation with the Trustee and having regard to the best interest of unitholders, suspend the redemption of Units and/or may delay the payment of redemption proceeds during any periods in which the determination of the net asset value of the Sub-Fund is suspended (for details see the section headed "Suspension of Calculation of Net Asset Value").

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 redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of Units in issue. If the number of Units redeemed on any Dealing Day is limited, the limitation will apply pro rata so that all unitholders wishing to redeem their Units on that Dealing Day will redeem the same proportion of such Units, and Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, on the next Dealing Day. If requests for redemption are so carried forward, the Manager will within seven (7) days of such Dealing Day inform the unitholders concerned. Any part of a redemption request to which effect is not given by reason of the exercise of this power will be treated as if the request had been made with priority in respect of the next Dealing Day and all following Dealing Days (in relation to which the Manager have the same power) until the original request has been satisfied in full.

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

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

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

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

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

Instructions to switch units or shares between classes of units or shares denominated in different currencies will be accepted. In such cases, the risk and cost of currency conversion and other related charges and expenses will be borne by the relevant unitholder or shareholder.

**VALUATION** The value of the net assets of the Sub-Fund will be determined as at the Valuation Point in accordance with the Trust Deed. "Valuation Point" means the close of business in the last relevant market to close on the relevant Valuation Day or such other time on that day or such other day as the Manager and the Trustee may from time to time determine either generally or in relation to a particular class of Unit. "Valuation Day" is the day on which the net asset value of the Sub-Fund falls to be calculated, being the relevant Dealing Day or such other Business Day as the Manager may from time to time determine in its absolute discretion. The net asset value per Unit so determined may be subject to "dilution adjustment", as described in the sub-section titled "Dilution and Dilution Adjustment" below.

For the purposes of valuation, the Trust Deed provides (inter alia) that:

- (a) (1) except in the case of any interest in a collective investment scheme to which paragraph (c) applies and subject as provided in paragraph (g) below, all calculations based on the value of investments quoted, listed, traded or normally dealt in on any securities market shall be made by reference to the last traded price or (if no last traded price is available) midway between the latest available market dealing offer price and the latest available market dealing bid price on the market on which the investment is quoted, listed, traded or normally dealt in for such investments as the Manager may consider in the circumstances to provide a fair criterion and in determining such prices the Manager or the valuation service providers appointed by the Manager from time to time shall be entitled to use and rely on electronic price feeds from such source or sources as they may from time to time determine; (2) if an investment is quoted, listed or normally dealt in on more than one securities market, the Manager shall adopt the price or, as the case may be, middle quotation on the securities market which, in its opinion, provides the principal market for such investment; (3) where only a single external pricing source is available, the price shall be obtained independently for that source as the Manager may, after consultation with the Trustee, deem appropriate;
- (b) in the case of any investment which is quoted, listed or normally dealt in on a market but in respect of which, for any reason, prices on that Market may not be available at any relevant time, the value thereof shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee;
- (c) subject as provided in paragraphs (d) and (e) below, the value of each interest in any collective investment scheme shall be 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 latest available bid price for such a unit, share or other interest;

- (d) if no net asset value, bid and offer prices or price quotations are available as provided in paragraph (c) above, the value of the relevant investment shall be determined from time to time in such manner as the Manager, in consultation with the Trustee, shall determine;
- (e) the value of any investment which is not quoted, listed or normally dealt in on a 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 after consultation with the Trustee and shall at such times or at such intervals as the Trustee may request cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investments;
- (f) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager after consultation with the Trustee, any adjustment should be made to reflect the value thereof;
- (g) notwithstanding the foregoing, the Manager may after consultation with the Trustee, adjust the value of cash, deposits and any investment if, having regard to currency, applicable rate of interest, maturity, marketability and other considerations they deem relevant, they consider that such adjustment is required to reflect the fair value thereof; and
- (h) the value of any investment (whether of a borrowing or other liability or an investment or cash) otherwise than in the currency of the Sub-Fund shall be converted into the currency of the Sub-Fund at the rate (whether official or otherwise) which the Manager shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

The term 'last traded price' referred to in paragraph (a) above, refers to the last traded price reported on the exchange for the day, commonly referred to in the market as the 'settlement' or 'exchange price', and represents a price at which members of the exchange settle between them for their outstanding positions. Where a security has not traded then the last traded price will represent the 'exchange close' price as calculated and published by that exchange in accordance with its local rules and customs.

Where there is no stock exchange, commodities exchange, futures exchange or over-the-counter market all calculations based on the value of investments quoted by any person, firm or institution making a market in that investment (and if there shall be more than one such market maker then such particular market maker as the Manager in consultation with the Trustee may determine) shall be made by reference to the mean of the latest bid and asked price quoted.

The value of investments not listed or quoted on a recognized market will be determined on a regular basis by a professional person approved by the Trustee as qualified to value such investments. Such professional person may, with the approval of the Trustee, be the Manager.

When calculating the net asset value of the Sub-Fund in accordance with the foregoing, the Manager or the valuation service providers appointed by the Manager from time to time may, without verification, further enquiry or liability, rely on price data, cost price, sale price or other information provided to it through electronic price feeds, mechanised or electronic systems of price or valuation, or valuation or pricing information which is provided to the valuation service providers by the Manager, or which is provided by any valuer, third party valuation agent, intermediary or other third party appointed or authorized by the Manager to provide valuations or pricing information of the assets of the Sub-Fund. The Manager or the valuation service providers appointed by the Manager from time to time shall have no liability to the Sub-Fund, any unitholder or any other person in respect of such reliance.

### **Dilution and Dilution Adjustment**

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

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

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

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

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

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

The dilution adjustment shall not exceed 2% of the net asset value per Unit of the Sub-Fund on the relevant Valuation Day and the Manager reserves the right to adjust upwards or downwards the net asset value per Unit of the Sub-Fund on any Valuation Day in accordance with the foregoing without giving notice to unitholders, provided that during circumstances which the Manager may deem as extraordinary market circumstances or significant unexpected changes in general market conditions (including but not limited to high market volatility, illiquidity in the markets, disruption of markets or slowdown of the economy caused by terrorist attack or war (or other hostilities), a serious pandemic, or a natural disaster (such as a hurricane or a super typhoon)), the Manager may, in consultation with the Trustee, temporarily increase the dilution adjustment beyond 2% of the net asset value per Unit of the Sub-Fund. Any such increase shall be posted online at the website: [www.schroders.com.hk](http://www.schroders.com.hk) (this website has not been reviewed by the SFC) or notified to the unitholders in such manner as the Manager and Trustee may agree.

Because the dilution adjustment for the Sub-Fund will be calculated by reference to the costs of dealing in the underlying investments of the Sub-Fund, including any dealing spreads, which can vary with market conditions, this means that the amount of the dilution adjustment can vary over time but generally will not exceed 2% of the net asset value per Unit on the relevant Valuation Day except in the extraordinary circumstances discussed above.

**Suspension of Calculation of Net Asset Value** The Manager may, after consultation with the Trustee, having regard to the best interest of unitholders, declare a suspension of the determination of the net asset value of the 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 Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager in ascertaining the prices of investments or the net asset value of the Sub-Fund or the issue price or realisation price per Unit; or
- (b) for any other reason the prices of investments held or contracted for by the Manager for the account of the 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 or the Trustee, it is not reasonably practicable to realize any investments held or contracted for the account of the Sub-Fund or it is not possible to do so without seriously prejudicing the interests of unitholders of the relevant class; or
- (d) the remittance or repatriation of funds which will or may be involved in the redemption of, or in the payment for, the investments of the Sub-Fund or the issue or redemption of Units is delayed or cannot, in the opinion of the Manager or the Trustee, 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 any of the investments or other assets of that Sub-Fund or the net asset value of the Sub-Fund or the issue price or realisation price per Unit takes place or when for any other reason the value of any of the investments or other assets of the Sub-Fund or the net asset value of the Sub-Fund or the issue price or realisation 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 the Sub-Fund is invested in one or more collective investment schemes and the realisation of interests in any relevant collective investment scheme(s) (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 the Registrar or any of their delegates in relation to the operations of the 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 the 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 Sub-Fund until the Manager or the Trustee 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 authorized shall exist.

Whenever the Manager or the Trustee declares such a suspension it shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice online at [www.schroders.com.hk](http://www.schroders.com.hk) that such declaration has been made. This website has not been reviewed by the SFC. The Manager shall as soon as may be practicable notify the SFC of such declaration.

No Units in the Sub-Fund may be created, issued or redeemed during such a period of suspension.

## EXPENSES AND CHARGES

**Management Fee** The current management fee for the Sub-Fund is charged at the rates set out in the table below. The Manager will give one (1) month's prior notice to unitholders should there be any increase of the management fee from the current level up to the maximum level of 7% per annum of the net asset value of the Sub-Fund.

Class of Units	% p.a. of the net asset value of the Unit Class
Class A	1.25%
Class M	1.25%
Class C	0.625%
Class X	1.25%

As I Class is designated to accommodate an alternative charging structure whereby the investor is a client of the Manager or its associates and is charged management fees directly by the Manager or its associates, no management fees will be payable in respect of Units in Class I out of the net asset value of the Sub-Fund.

The management fee is payable to and retained by the Manager for its own use and benefit. The Manager may, at its discretion, share with or rebate to approved intermediaries, including banks, brokers, recognized securities dealers and other investment advisers, a proportion of the management fee received by it on the value of relevant business introduced to the Sub-Fund.

**Trustee Fee** The current trustee fee for the Sub-Fund is 0.0595% per annum of the net asset value of the Sub-Fund, subject to a minimum fee of HK\$156,000 per annum. The Trustee will give one (1) month's prior notice to unitholders should there be any increase of the trustee fee from the current level up to the maximum level of 0.50% per annum of the net asset value of the Sub-Fund.

The Trustee will also be entitled to recover out-of-pocket expenses in performing its services (including any sub-custody charges) together with certain transaction costs and processing fees. The 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 the Sub-Fund, each one of the sub-funds including the Sub-Fund will bear such costs in proportion to its respective net asset value. Such costs include but are not limited to the costs of investing and realizing the investments of the sub-fund(s), the fees and expenses of custodians of the assets of the Fund, the fees and expenses of the auditors, valuation costs, the Registrar's costs (including Service Provider's costs which vary from class to class within a range between 0.02% and 0.2% p.a. of net asset value of the Sub-Fund), legal fees, the costs and expenses of other service provider of the Fund or the Sub-Fund, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of unitholders and the costs incurred in the preparation and printing of any explanatory memorandum.

**Costs of Establishment** The costs of establishment of the Sub-Fund have already been fully amortized.

**Cash Rebates and Soft Commissions** The Sub-Fund will generally pay brokerage at customary institutional full service brokerage rates. Transactions of the Sub-Fund may be entered into through Connected Persons of the Manager or any investment delegate. The Manager, the investment delegate or any of their Connected Persons will not retain cash or other rebates from brokers or dealers in respect of transactions from the Sub-Fund, save that goods and services (soft commissions) as described in the paragraph below may be retained. Any such cash commission or rebates received from any such brokers or dealers shall be for the account of the Sub-Fund.

The Manager may enter into soft commission arrangements for the provision to the Manager, the investment delegate or their Connected Person of goods and services provided that (i) the goods and services to be provided pursuant thereto are of demonstrable benefit to the unitholders (taken as a body and in their capacity as such) whether by assisting the Manager and/or the investment delegate in their ability to manage the Sub-Fund or otherwise; (ii) the transaction execution is consistent with best execution standards and the brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) periodic disclosure is made in the annual report of the Sub-Fund in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegate, including a description of goods and services received by them; and (iv) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer.

For the avoidance of doubt (and without prejudice to the generality of the foregoing) 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 may be considered as of such benefit to unitholders.

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

## Hong Kong

Under the prevailing Hong Kong tax legislations and practices:

### The Sub-Fund

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

### Unitholders

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

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

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

Dividends, interest and other income received by the Sub-Fund from outside Hong Kong may be subject to withholding taxes in the country from which payment is made. Such taxes will not normally be recoverable by the Sub-Fund.

## Stamp Duty

No Hong Kong stamp duty is payable on the issue and redemption for extinguishment of the Units. Hong Kong stamp duty is also not payable if the sale of the Units is effected by the Manager, who then either extinguishes the Units or re-sells the Units to another person within two months thereof. Other types of sales or purchases or transfers of the Units by the unitholders will be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and seller) of the higher of the consideration amount or market value.

## Mainland China

By investing in Mainland China Securities, the Sub-Fund may be subject to withholding income tax ("Mainland China WIT") and other taxes imposed in mainland China.

### The Sub-Fund

#### (a) Mainland China Corporate Income Tax ("Mainland China CIT"):

If the Sub-Fund is considered as a tax resident enterprise of mainland China, it will be subject to Mainland China CIT at 25% on its worldwide taxable income. If the Sub-Fund is considered as a non-tax resident enterprise with an establishment or place of business ("PE") in mainland China, the mainland China sourced profits attributable to that PE would be subject to Mainland China CIT at 25%.

Under the Mainland China CIT Law effective from 1 January 2008, a foreign enterprise without a PE in mainland China will generally be subject to Mainland China WIT at the current rate of 10% on its mainland China sourced income, including but not limited to passive income (e.g. dividends, interest, gains arising from transfer of assets etc.).

The Manager intends to manage and operate the Sub-Fund in such a manner that the Sub-Fund should not be treated as a tax resident enterprise of mainland China or a non-tax resident enterprise with a PE in mainland China for Mainland China CIT purposes, although this cannot be guaranteed. As such, it is expected that the Sub-Fund should not be subject to Mainland China CIT on an assessment basis and would only be subject to Mainland China WIT to the extent the Sub-Fund directly derives mainland China sourced income in respect of its investment in Mainland China Securities.

The Sub-Fund is organised as an open-ended fund. Based on the prevailing practice of the mainland China tax authorities, mainland China tax assessed under mainland China tax laws would likely be charged directly against the Sub-Fund. As such, the Sub-Fund is the ultimate party which bears the risks relating to any mainland China taxes which are so levied by the relevant mainland China tax authority.

#### (i) *Interest*

Unless a specific exemption is applicable, non-mainland China tax residents, including the Sub-Fund, are subject to Mainland China WIT on the payment of interests on debt instruments issued by mainland China tax residents, including bonds issued by enterprises established within mainland China. The general Mainland China WIT rate applicable is 10%, subject to reduction under an applicable double tax treaty.

Interest derived from government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council is exempt from Mainland China CIT under the Mainland China CIT Law.

On 22 November 2018, the Ministry of Finance ("MOF") and State Taxation Administration ("STA") of mainland China jointly issued circular Caishui [2018] No. 108 ("Circular 108") to address the tax issues in relation to bond interest income received by foreign institutional investors from investments in the mainland China bond market. Under Circular 108, non-mainland China tax residents without a PE in mainland China (or having a PE in mainland China but the income so derived in mainland China is not effectively connected with such PE), bond interest income received from 7 November 2018 to 6 November 2021 will be temporarily exempt from Mainland China CIT. On 22 November 2021, MOF and STA jointly issued Bulletin No. 34 which extended this treatment until 31 December 2025.

Circular 108 did not specify the Mainland China WIT and VAT treatments on income received by non-mainland China tax residents from investment in other fixed income securities (such as asset-backed securities, certificates of deposits, etc.). It is currently uncertain as to whether such interest income is also exempt from Mainland China WIT based on Circular 108.

#### (ii) *Dividend*

Under the current Mainland China CIT Law, non-mainland China tax residents, including the Sub-Fund, are subject to Mainland China WIT on cash dividends and bonus distributions from mainland China tax residents. The general Mainland China WIT rate applicable is 10%, subject to reduction under an applicable double tax treaty.

Under the mainland China-HK Arrangement, dividend distributed by a mainland China tax resident to a Hong Kong tax resident would be subject to a reduced Mainland China WIT rate of 5% provided (i) the Hong Kong tax resident is the beneficial owner of the dividend; (ii) the Hong Kong tax resident holds at least 25% of the equity of the mainland China tax resident; and (iii) the relevant treaty conditions are satisfied. Due to the Sub-Fund's investment restriction, the Sub-Fund would not hold more than 10% of the ordinary shares issued by any single mainland China issuer. In this connection, the Sub-Fund would not be able to enjoy the reduced Mainland China WIT rate of 5% provided under the mainland China-HK Arrangement.

(iii) *Capital gain*

Based on the Mainland China CIT Law and its Implementation Rules, "income from the transfer of property" sourced from mainland China by a non-mainland China tax resident enterprise should be subject to 10% Mainland China WIT unless exempt or reduced under an applicable tax treaty.

Pursuant to circular Caishui [2014] No. 79 ("Circular 79"), for foreign investors without a place of establishment in mainland China, capital gain realized from the transfer of mainland China equity investment assets (including A-Shares) on or after 17 November 2014 is temporarily exempt from Mainland China CIT. There is currently no announced end date to this exemption.

Circular 79 and Circular 108 do not address the Mainland China WIT treatment of capital gains realized by foreign investors from the transfer of mainland China non-equity investment assets such as debt securities. Such capital gains are governed by the general taxing provisions of the Mainland China CIT Law, therefore the Sub-Fund may be subject to 10% Mainland China WIT on capital gains realized from the disposal of mainland China non-equity investment assets if such capital gains are regarded as mainland China-sourced income, unless exempted or reduced under an applicable double tax treaty.

However, the mainland China tax authorities have verbally indicated, on numerous occasions, that capital gains realized by non-mainland China tax residents from the disposal of mainland China debt securities are considered non-mainland China sourced income and hence not subject to Mainland China WIT. There is no specific written tax regulation to confirm this but, in practice, the mainland China tax authorities have not actively enforced the collection of Mainland China WIT on gains realized by non-mainland China tax residents from the disposal of mainland China debt securities. Should the mainland China tax authorities decide to levy tax on such gains in the future, the Manager would seek to apply with the mainland China tax authorities to treat the Sub-Fund as a Hong Kong tax resident and rely on the capital gains tax exemption accorded under mainland China-HK Arrangement, although this cannot be guaranteed.

(b) Value-added Tax ("VAT") and other surtaxes

On 24 March 2016, the MOF and STA jointly released circular Caishui [2016] No.36 ("Circular 36") on the transformation from Business Tax to VAT (the "B2V Reform"). The B2V Reform was officially implemented on 1 May 2016. Please note that, where VAT is applicable, additional surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) will be charged at up to 12% of the 6% VAT payable. Other local levies such as flood prevention fee, commodity reconciliation fund and water conservancy fund may also apply, depending on the location of the mainland China companies.

(i) *Dividend income*

Dividends from China A-Shares, China B-Shares and H-Shares are not within the charging scope of mainland China VAT.

(ii) *Interest income*

Circular 108 stipulates that non-mainland China tax residents are exempt from VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the mainland China bond market (extended to 31 December 2025 in Bulletin No. 34).

Circular 108 did not mention the VAT treatments on income received by non-mainland China tax residents from the investment in other fixed income securities (such as asset-backed securities, certificates of deposits, etc.). It is currently uncertain as to whether such interest income is also exempt from VAT based on Circular 108.

(iii) *Capital gains*

Gains realized from the trading of marketable securities in mainland China are generally subject to VAT at 6%; however, the various Circulars issued by the authorities provide for the following exemptions from VAT:

- Gains derived from trading of Mainland China Securities via QFII / RQFII (Circular 36 and circular Caishui [2016] No. 70).
- Gains derived by Hong Kong market investors from the trading of China A-Shares via the Shanghai-Hong Kong or Shenzhen-Hong Kong Stock Connects (Circular 36 and circular Caishui [2016] No. 127).

There is no specific circular exempting non-mainland China tax residents from VAT on gains derived from the trading of mainland China bonds via Foreign Access Regime and/or Bond Connect. However, in practice, the mainland China tax authorities have not enforced the collection of VAT on such gains.

(c) Stamp Duty ("SD")

SD under the mainland China laws generally applies to the execution and receipt of all taxable documents listed in mainland China's Provisional Rules on SD. SD is generally imposed on the sale of mainland China-listed shares of Chinese companies at a rate of 0.1% of the sales consideration. The Sub-Fund will be subject to this tax on each disposal of mainland China-listed shares. No SD is expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or upon a subsequent transfer of such bonds.

General

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



In light of Circular 79, which exempts foreign investors without a place of establishment in mainland China from Mainland China CIT on capital gains realized from the transfer of mainland China equity investment assets on or after 17 November 2014, the Sub-Fund does not intend to provide for any Mainland China WIT in respect of capital gains derived from the trading of A-Shares.

In respect of capital gains realized from the disposal of mainland China debt securities, in view that (i) the mainland China tax authorities have verbally indicated, on numerous occasions, that such gains are non-mainland China sourced income and hence not subject to Mainland China WIT; (ii) in practice, the mainland China tax authorities have not actively enforced the collection of Mainland China WIT on such gains; and (iii) the Manager is of the view that the Sub-Fund would qualify as a Hong Kong tax resident and be entitled to capital gains tax relief under mainland China-HK Arrangement if the mainland China tax authorities were to impose tax on such gains in the future, the Sub-Fund does not intend to provide for any Mainland China WIT on gains realized from the trading of mainland China debt securities.

Mainland China WIT of 10% on interest income accrued prior to 7 November 2018 from mainland China issued debt instruments will continue to be provided for on the basis that Circular 108 does not clarify the treatment before this date. VAT of 6.3% on relevant items arising before 7 November 2018 will be recognised for the same reason.

No provision will be made in respect of Mainland China WIT and VAT on interest income received from mainland China issued debt instruments during the period from 7 November 2018 to 31 December 2025 as stipulated in Circular 108 and Bulletin No. 34.

Note that there is a possibility that the mainland China tax authorities may change their view and interpretation of the provisions in the Mainland China CIT Law. There is also a possibility of rules being changed and taxes being applied retrospectively in the future.

The Manager, having taken and considered independent professional tax advice, (i) will not make provisions for any Mainland China WIT on gains derived from the disposal of China B-Shares and H-Shares; (ii) will not make provisions for Mainland China WIT on gains realized from the trading of mainland China debt securities; (iii) will not make provisions for any Mainland China WIT on realized and unrealized capital gains derived from investments in China A-Shares through market access products and Stock Connect; (iv) will continue to provide for Mainland China WIT of 10% on bond interest income accrued prior to 7 November 2018 from mainland China issued bonds; (v) recognized a provision for VAT at 6.3% on relevant items arising before 7 November 2018; and (vi) will not be providing for Mainland China WIT and VAT on interest income from mainland China issued debt instruments during the period from 7 November 2018 to 31 December 2025. Should there be a change in mainland China tax law and practices in the future which resulted in such gains and interest income being subject to Mainland China WIT, the net asset value of the Sub-Fund would suffer as the Sub-Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new investors will be disadvantaged. The Manager reserves the right to adjust the Sub-Fund's tax provision policy to cater for changes in mainland China tax law and practices.

#### **US Tax Reporting Obligations under FATCA**

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

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

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

#### **Automatic Exchange of Financial Account Information**

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

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



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

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

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

**REPORTS AND ACCOUNTS** Financial year end of the Sub-Fund is on 30 June in each year. Audited accounts in English will be made available to unitholders as soon as possible, and in any event within four months, after the end of the financial year.

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

The Manager will notify unitholders when such accounts (accompanied by the required reports), in printed and electronic forms are available and where such accounts may be obtained. Copies of audited accounts and unaudited semi-annual reports may be obtained free of charge at the registered office of the Manager and from the Schroders' Internet site ([www.schroders.com.hk](http://www.schroders.com.hk)). This website has not been reviewed by the SFC. Copies of the accounts and reports may be posted to investors on request.

The annual report and accounts of the Sub-Fund is prepared in accordance with HKFRS (Hong Kong Financial Reporting Standards). Investors should note that the above valuation policies may not necessarily comply with HKFRS. To the extent that the valuation basis adopted by the Sub-Fund deviates from HKFRS, adjustments may be required to make in the annual accounts of the Sub-Fund in order to comply with HKFRS, and if relevant will include a reconciliation note in the annual accounts of the Sub-Fund to reconcile values shown in the annual accounts determined under HKFRS to those arrived at by applying the Sub-Fund's valuation rules. Otherwise, non-compliance with HKFRS may result in the auditors issuing a qualified or an adverse opinion on the annual accounts depending on the nature and level of materiality of the non-compliance.

## DISTRIBUTION

**Accumulation Units** The Manager shall not make any distributions of income or net capital gains realized on the sale of investment in respect of the Accumulation Units. Any income and net capital gains in respect of the Accumulation Units shall be accumulated and capitalized.

**Distribution Units** In respect of Distribution Units, the Manager will declare and pay monthly distributions on such date as may be determined by the Manager, or such other time or frequency as the Manager and the Trustee consider appropriate. However, the distribution rate is not guaranteed.

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

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

Distributions of a class of Distribution Units declared, if any, shall be distributed among the unitholders of the relevant class of Distribution Units ratably in accordance with the number of Units held by them on the record date as determined by the Manager in respect of the corresponding distribution. For the avoidance of doubt, only unitholders whose names are entered on the register of unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding distribution. Any payment of distributions will be made in the currency of the relevant class of Distribution Units. Notwithstanding the aforesaid, for RMB denominated classes of Distribution Units under extreme market conditions when there is not sufficient RMB for currency conversion and with the approval of the Trustee, the Manager may pay distributions in USD or other currency as the Manager considers appropriate.

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

**MEETING OF UNITHOLDERS AND VOTING RIGHTS** Meetings of unitholders may be convened by the Manager or the Trustee, and the unitholders of 10% or more in value of the Units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting.

The quorum for all meetings is unitholders present in person or by proxy representing 10% of the units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution shall be unitholders present in person or by proxy representing 25% or more of the units in issue. 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 and no vote for a fraction of a Unit. In the case of joint unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of unitholders.

**PUBLICATION OF PRICES** The relevant net asset value per Unit of the Sub-Fund of each Dealing Day will be published online at [www.schroders.com.hk](http://www.schroders.com.hk) on every Dealing Day. This website has not been reviewed by the SFC. Prices are normally the latest available prices but are indicative only.

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

**TRUST DEED** The Fund was established under the laws of Hong Kong by a Trust Deed dated 8 October 2010, as amended, made between Schroder Investment Management (Hong Kong) Limited as Manager and HSBC Institutional Trust Services (Asia) Limited as Trustee.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Whilst every effort has been made to ensure the accuracy of the facts and matters stated in this Explanatory Memorandum, unitholders and intending applicants are advised to consult the Trust Deed for further details on the relevant provisions.

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

**REMOVAL AND RETIREMENT OF TRUSTEE AND MANAGER** Subject to the approval of the SFC, the Trustee may not be entitled to retire voluntarily except upon the appointment of a new Trustee. In the event of the Trustee desiring to retire, the Manager shall find a qualified corporation under any applicable law and by a supplemental deed to replace the Trustee. The Manager shall as soon as practicable thereafter give notice to the unitholders specifying the name and the address of the new Trustee.

Subject to the approval of the SFC, the Manager may be subject to removal (a) if the Manager goes into liquidation (b) if for good and sufficient reason the Trustee is of the opinion that a change of Manager is desirable in the interests of unitholders and (c) if the unitholders of not less than 50% in value of the units for the time being outstanding deliver to the Trustee in writing a request that the Manager should retire.

In the event that the Manager is removed under the circumstances above, the Trustee shall as soon as reasonably practicable appoint a successor manager to replace the Manager. The Trustee shall at all times act in the best interest of the unitholders in exercising its rights of removing the Manager and the appointment of a successor manager must be approved by the SFC.

**TERMINATION OF THE FUND** The Fund shall continue for a period of 80 years unless and until it is terminated in one of the ways set out below.

The Fund may be terminated by the Trustee, if (a) within 30 days of the Manager leaving office, no new manager is appointed 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 the Manager goes into liquidation or if a receiver is appointed over any of their assets and not discharged within 60 days or (d) 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 to continue the Fund or (e) if the Trustee shall desire to retire and no new Trustee is appointed within six months of the Trustee giving notice of such desire.

Further at any time the unitholders of the Sub-Fund may authorize termination of the Sub-Fund by extraordinary resolution.

The Fund, the Sub-Fund or a class of Units may be terminated by the Manager (a) if on any date, in relation to the Fund, the aggregate net asset value of the Units outstanding shall be less than US\$100 million or, in relation to the Sub-Fund or of the relevant class of Unit (as the case may be), the aggregate net asset value of the Units outstanding shall be less than US\$50 million or its equivalent in the currency in which the Sub-Fund is denominated, or (b) in the opinion of the Manager, it is impracticable or inadvisable to continue the Sub-Fund and/or any class of Units of the Sub-Fund (as the case may be) (including without limitation, a situation where it is no longer economically viable to operate the Sub-Fund) or (c) if any law shall be passed which renders it illegal or in the opinion of the Manager (after consultation with the SFC) impracticable or inadvisable in consultation with the relevant regulatory agencies to continue the Fund or the Sub-Fund and/or any class of Units of the Sub-Fund. One (1) month's notice of any such termination will be given to unitholders unless earlier termination is desirable by reason of the Fund or the Sub-Fund being or being expected to become illegal.

Any unclaimed proceeds or other cash held by the Trustee upon termination of the Fund, the Sub-Fund or a class of Units, as the case may be, may at the expiration of twelve months from the date upon which the same were payable be paid into court subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

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

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

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

Each of the Trustee, the Registrar and their respective delegates or agents reserves 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, each of the Trustee, the Registrar and their respective delegates or agents may refuse to accept the application and the subscription monies relating thereto and may refuse to pay any redemption proceeds. None of the Trustee, the Registrar or their delegates, agents or affiliates shall be liable to the applicant for any loss caused as a result of any delay or refusal to process applications, transfer requests or effect payment of realisation proceeds (as the case may be) and claims for payment of interest due to such delay or refusal are not accepted.

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

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

The Manager may enter into trades for the account of the Sub-Fund with the accounts of other clients of the Manager or its affiliates ("cross trades"). Such cross trades will only be undertaken where the sale and purchase decisions are in the best interests of both clients and fall within the investment objective, restrictions and policies of both clients, the cross trades are executed on arm's length terms at current market value, and the reasons for such cross trades are documented prior to execution. Cross trades may also be entered into between house accounts (i.e. account owned by the Manager or any of its Connected Persons over which it can exercise control and influence) and client accounts in accordance with applicable laws and regulations.

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

**MODIFICATION OF TRUST DEED** The Trustee and the Manager, if required, subject to any regulatory approval, may modify the Trust Deed in such manner as they may consider expedient for any purpose. Such material modification should be approved by an extraordinary resolution of unitholders unless the Trustee and the Manager certify in writing that such modification (i) does not materially prejudice the interests of the unitholders, does not operate to release to any material extent the Trustee or the Manager or any other person from liability to unitholders and (with the exception of the costs of preparing the relevant supplemental deed) will not result in any increase in the costs and charges; or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law); or (iii) is made to correct a manifest error.

## SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS

### 1. Investment limitations applicable to the Sub-Fund

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

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available net asset value of the Sub-Fund:
  - (i) investments in securities issued by that entity;
  - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

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

- (A) transacted on an exchange where the clearing house performs a central counterparty role; and
- (B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

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

- (b) subject to sub-paragraphs 1(a) and 3.4(c) of this Schedule 1, the aggregate value of the Sub-Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available net asset value of the Sub-Fund:
  - (i) investments in securities issued by those entities;
  - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

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

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

- (c) the value of the Sub-Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available net asset value of the Sub-Fund provided that the 20% limit may be exceeded in the following circumstances:
  - (i) cash held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (ii) cash proceeds from liquidation of investments prior to the merger or termination of the Sub-Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
  - (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

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

- (d) the Sub-Fund's holding of any ordinary shares (when aggregated with all other Sub-Funds' holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity.
- (e) the value of the Sub-Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a Securities Market, exceeding 15% of the latest available net asset value of the Sub-Fund.
- (f) the value of the Sub-Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available net asset value of the Sub-Fund (save that the Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

- (g) (i) the value of the Sub-Fund's investment in units or shares in other collective investment schemes (namely "underlying schemes") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available net asset value; and
- (ii) the value of the Sub-Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available net asset value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the offering document of the Sub-Fund,

provided that:

- (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;
- (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Sub-Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;
- (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its Connected Persons; and
- (E) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

- (aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by the Sub-Fund;
- (bb) unless otherwise disclosed in the investment policies of the Sub-Fund, the investment by the Sub-Fund in a Qualified Exchange Traded Fund will be considered and treated as collective investment schemes for the purposes of and subject to the requirements in this sub-paragraph 1(g)(i) and (ii) and proviso (A) to (C) of sub-paragraph 1(g) of this Schedule 1. Notwithstanding the aforesaid, the investments by the Sub-Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by the Sub-Fund shall be consistently applied;
- (cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively; and
- (dd) where the Sub-Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code.

## 2. Investment prohibitions applicable to the Sub-Fund

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

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);
- (c) make short sales unless (i) the liability of the Sub-Fund to deliver securities does not exceed 10% of its latest available net asset value; (ii) the security which is to be sold short is actively traded on a Securities Market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;
- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the relevant requirements are not subject to the limitations in this sub-paragraph 2(e);

- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the Sub-Fund which is unlimited. For the avoidance of doubt, the liability of unitholders of the Sub-Fund is limited to their investments in the Sub-Fund;
- (g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class;
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Sub-Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 3.5 and 3.6 of this Schedule 1.

### 3. Use of financial derivative instruments

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

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

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

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

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

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

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Sub-Fund may invest according to its investment objectives and policies;
- (b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
- (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, the Sub-Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available net asset value provided that the exposure of the Sub-Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and

(d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the valuation agent, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party service. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Sub-Fund's initiative. Further, the calculation agent or fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

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

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

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

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

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

#### **4. Securities financing transactions**

The Sub-Fund currently does not intend to engage in securities financing transactions. If the Sub-Fund engages in securities financing transactions, it shall be subject to the following restrictions:

4.1 The Sub-Fund may engage in securities financing transactions, provided that they are in the best interests of unitholders of the 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.

4.2 The 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.

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

4.4 The 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(s) or terminate the securities financing transaction(s) into which it has entered.

#### **5. Collateral**

In relation to over-the-counter financial derivative instruments as set out in sub-paragraphs 3.4(c) of this Schedule 1, the Sub-Fund will not hold or receive collateral from counterparty to reduce counterparty exposure or for collateral netting. The Sub-Fund currently does not intend to engage in securities financing transactions, and accordingly the collateral requirement as set out in sub-paragraph 4.2 of this Schedule 1 is not applicable.

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

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

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

- (c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;
- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The Sub-Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the Sub-Fund shall be subject to the following requirements:
  - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;
  - (ii) non-cash collateral received may not be sold, re-invested or pledged;
  - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the relevant requirements;
  - (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.

## 6. Borrowing and Leverage

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

Cash borrowing

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

Leverage from the use of financial derivative instruments

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



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

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

## 7. Name of Sub-Fund

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

The following terms used in this Schedule 1 shall have the following meanings:-

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

“Qualified Exchange Traded Funds” exchange traded funds that are:

- (a) authorized by the SFC under 8.6 or 8.10 of the Code; or
- (b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of the Code;

“REITs” means real estate investment trusts;

“reverse repurchase transactions” means transactions whereby 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;

“sale and repurchase transactions” means transactions whereby the Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future;

“securities financing transactions” means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions;

“securities lending transactions” transactions whereby the Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee;

“Securities Market” means any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded;

“substantial financial institution” means 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.