



**輝立資本管理(香港)有限公司**  
**PHILLIP CAPITAL MANAGEMENT (HK) LIMITED**

# **Phillip Wealth Funds**

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**EXPLANATORY MEMORANDUM**

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24 July 2023

## CONTENTS

|   |    |
|---|----|
| IMPORTANT INFORMATION FOR INVESTORS .....               | IV |
| DIRECTORY .....   | VI |
| DEFINITIONS .....                                       | 1  |
| INTRODUCTION.....                                       | 6  |
| MANAGEMENT OF THE TRUST.....                            | 7  |
| The Manager .....                                       | 7  |
| The Trustee.....  | 8  |
| The Global Custodian.....                               | 9  |
| The Registrar and Transfer Agent .....                  | 9  |
| The Fund Accountant .....                               | 10 |
| INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS.....    | 11 |
| Investment objective.....                               | 11 |
| Investment strategy.....                                | 11 |
| Investment restrictions .....                           | 11 |
| Investment prohibitions .....                           | 14 |
| Borrowing restrictions.....                             | 15 |
| Financial derivative instruments .....                  | 15 |
| Securities Financing Transactions.....                  | 17 |
| Collateral valuation and management policy .....        | 18 |
| SUBSCRIPTION OF UNITS.....                              | 21 |
| Initial issue of Units .....                            | 21 |
| Subsequent issue of Units.....                          | 21 |
| Application procedure .....                             | 21 |
| Payment procedure .....                                 | 22 |
| General .....   | 23 |
| REDEMPTION OF UNITS .....                               | 24 |
| Redemption procedure .....                              | 24 |
| Payment of redemption proceeds .....                    | 24 |
| Restrictions on redemption.....                         | 25 |
| Compulsory redemptions under certain circumstances..... | 25 |
| SWITCHING.....  | 27 |
| VALUATION .....   | 28 |
| Valuation rules .....                                   | 28 |
| Suspension of calculation of Net Asset Value .....      | 32 |
| Publication of Net Asset Value .....                    | 34 |
| EXPENSES AND CHARGES .....                              | 35 |
| Fees payable by Unitholders .....                       | 35 |
| Fees payable by the Trust.....                          | 35 |
| Establishment costs .....                               | 37 |
| Cash rebates and soft commissions .....                 | 37 |
| RISK FACTORS .....                                      | 39 |
| General risks.....                                      | 39 |
| Investment risks.....                                   | 45 |
| Liquidity risk management.....                          | 47 |

|  |    |
|--|----|
| TAXATION .....   | 49 |
| GENERAL .....  | 50 |
| Reports .....  | 50 |
| Distribution policy.....   | 50 |
| Trust Deed.....  | 50 |
| Modification of Trust Deed.....  | 50 |
| Meetings of Unitholders .....  | 51 |
| Transfer of Units .....  | 51 |
| Termination of the Trust or any Sub-Fund or any class of Units .....   | 51 |
| Documents available for inspection .....                               | 53 |
| Anti-Money Laundering Regulations.....                                 | 53 |
| Conflicts of Interest.....   | 53 |
| Websites .....   | 55 |
| Certification for Compliance with FATCA or Other Applicable Laws ..... | 55 |
| Power to Disclose Information to Tax Authorities.....                  | 55 |
| Personal Data.....   | 56 |
| APPENDIX 1: PHILLIP HKD MONEY MARKET FUND .....                        | 57 |

## **IMPORTANT INFORMATION FOR INVESTORS**

**Important - If you are in any doubt about the contents of this Explanatory Memorandum and the KFS (as defined below), you should seek independent professional financial advice.**

Phillip Wealth Funds (the "**Trust**") is an umbrella unit trust established under the laws of Hong Kong by a trust deed dated 12 April 2017 between Phillip Capital Management (HK) Limited as manager (the "**Manager**") and BNP Paribas Trust Services (Hong Kong) Limited as trustee (as the previous trustee), as amended and/or supplemented from time to time, including by a Deed of Retirement and Appointment of Trustee, pursuant to which BNP Paribas Securities Services, acting through its Hong Kong Branch (as previous trustee) was formerly appointed as trustee of the Trust in place of BNP Paribas Trust Services (Hong Kong) Limited with effect from 30 August 2021, and subsequently by a Supplemental Deed, pursuant to which BNP Paribas, acting through its Hong Kong Branch (the "**Trustee**") was appointed as trustee of the Trust in place of BNP Paribas Securities Services, acting through its Hong Kong Branch with effect from 1 October 2022 (collectively, the "**Trust Deed**"). The Trust Deed is governed by the laws of Hong Kong.

A product key facts statement (the "**KFS**"), which contains the key features and risks of each Sub-Fund (as defined below), is also issued by the Manager and such KFS together with this Explanatory Memorandum shall form part of the offering documents of the Trust and the Sub-Fund and shall be read in conjunction with this Explanatory Memorandum.

The Manager and its directors accept full responsibility for the information contained in this Explanatory Memorandum and the KFS as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information misleading. However, neither the delivery of this Explanatory Memorandum and the KFS nor the offer or issue of Units (as defined below) shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum and the KFS is correct as of any time subsequent to the date of its publication. This Explanatory Memorandum and the KFS may from time to time be updated. Investors should check the Manager's website at [www.phillipfunds.com.hk](http://www.phillipfunds.com.hk) (this website has not been reviewed by the SFC) for the latest version of the Explanatory Memorandum and the KFS. The Explanatory Memorandum, the KFS and constitutive documents (i.e. the Trust Deed together with supplemental deeds) of the Trust and the Sub-Fund will be available for inspection by any Unitholder free of charge at all times during normal office hours at the place of business of the Manager and the Manager may charge a reasonable amount upon request from such Unitholder to receive a copy of the constitutive documents.

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

The Trust and each Sub-Fund have been authorised by the Securities and Futures Commission in Hong Kong (the "**SFC**") under Section 104 of the Securities and Futures Ordinance of Hong Kong. SFC authorisation is not a recommendation or endorsement of the Trust or any Sub-Fund nor does it guarantee the commercial merits of the Trust or any Sub-Fund or their performance. It does not mean the Trust or any Sub-Fund is suitable for all investors nor is it an endorsement of their suitability for any particular investor or class of investors.

No action has been taken in any jurisdiction (other than Hong Kong) that would permit an offering of the Units or the possession, circulation or distribution of this Explanatory Memorandum and the KFS or any other offering or publicity material relating to the offering of Units in any other country or jurisdiction where action for the purpose is required. This Explanatory Memorandum and the KFS do not constitute an

offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation.

In particular:

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

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

Any investor enquiries or complaints should be submitted in writing to the Manager's office (11/F United Centre, 95 Queensway, Hong Kong) and the Manager will respond in writing within 14 Business Days. Investors may also contact the Manager at +852 2277 6698.

## DIRECTORY

|                                     |   |
|-------------------------------------|---|
| <b>Manager</b>                      | Phillip Capital Management (HK) Limited<br>11/F United Centre<br>95 Queensway<br>Hong Kong  |
| <b>Trustee</b>                      | BNP Paribas, acting through its Hong Kong Branch<br><i>Registered address:</i><br>60-63/F Two International Finance Centre<br>8 Finance Street<br>Central<br>Hong Kong<br><br><i>Correspondence address:</i><br>21/F PCCW Tower<br>Taikoo Place, 979 King's Road<br>Quarry Bay<br>Hong Kong |
| <b>Global Custodian</b>             | BNP Paribas, acting through its Singapore Branch<br>20 Collyer Quay<br>#01-01 Tung Centre<br>Singapore 049319   |
| <b>Registrar and Transfer Agent</b> | BNP Paribas, acting through its Hong Kong Branch<br><i>Registered address:</i><br>60-63/F Two International Finance Centre<br>8 Finance Street<br>Central<br>Hong Kong<br><br><i>Correspondence address:</i><br>21/F PCCW Tower<br>Taikoo Place. 979 King's Road<br>Quarry Bay<br>Hong Kong |
| <b>Legal Advisor</b>                | Deacons<br>5/F, Alexandra House<br>18 Chater Road<br>Central<br>Hong Kong   |
| <b>Auditor</b>                      | KPMG<br>Certified Public Accountants<br>8 <sup>th</sup> Floor<br>Prince's Building<br>10 Chater Road<br>Central<br>Hong Kong  |
| <b>Fund Accountant</b>              | BNP Paribas, acting through its Singapore Branch<br>20 Collyer Quay<br>#01-01 Tung Centre<br>Singapore 049319   |

## DEFINITIONS

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

**"Appendix"** means an appendix to this Explanatory Memorandum containing information in respect of a particular Sub-Fund.

**"Base Currency"** means, in respect of a Sub-Fund, the currency specified as such in the relevant Appendix.

**"Business Day"** means unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for normal banking business, provided that where, as a result of a number 8 typhoon signal or above or black rain storm warning or other similar events, the period during which banks in Hong Kong are open for normal banking business on any day is reduced, such day shall not be a Business Day unless the Manager, in consultation with the Trustee, determines otherwise.

**"Bond Connect"** As defined in the joint announcement of the People's Bank of China and the Hong Kong Monetary Authority dated 16 May 2017, means an arrangement that establishes mutual bond market access between Mainland China and Hong Kong. Eligible foreign investors can invest in the China interbank bond market through Northbound Trading of the Bond Connect.

**"China"** means, for the purposes of interpretation of this Explanatory Memorandum only, the People's Republic of China and Hong Kong.

**"Class Currency"** means, in relation to a class of Units, the currency of account as the Manager may specify for such class of Units.

**"Code"** means the Code on Unit Trusts and Mutual Funds issued by the SFC, as amended from time to time.

**"Collective Investment Scheme"** means:

- (a) any arrangement made for the purpose, or having the effect, of providing facilities for the participation of persons, as beneficiaries under a trust, in profits or income arising from the acquisition, holding, management or disposal of securities or any other property whatsoever; and
- (b) any other investment vehicle of a similar nature to that described in paragraph (a) of this definition, any other open-ended investment company and mutual fund;

which, in any such case, has in issue units, shares or other interests (howsoever described) that are redeemable at the option of the holder thereof, provided that:-

- (i) in the case of any such arrangement or investment vehicle the assets of which are divided into two or more separate portfolios (whether described as portfolios, sub-funds or by any other name) in which an investor may separately invest, each such portfolio shall be

deemed to be a separate Collective Investment Scheme; and

- (ii) in relation to any such Collective Investment Scheme, "unit" means any unit, share or other interest (howsoever described) of similar nature in such Collective Investment Scheme;

**"Commodity"**

means all merchandise of any nature (other than cash and any other merchandise which would fall within the definition of "Investment" if the reference to "Commodity" were omitted therefrom) and includes any futures contract and any financial futures contract. For the purposes of this definition "financial futures contract" means:

- (a) any contract which is traded on the London International Financial Futures Exchange, the Chicago Board of Trade or such other exchange or market as from time to time determined by the Manager, in consultation with the Trustee and is described or treated by persons trading in such contract as a financial futures contract, or
- (b) any contract expressed as being in respect of the sale or purchase of a share price index for settlement at a future date.

**"Connected Person"**

in relation to a company means:

- (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;
- (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a);
- (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).

**"Dealing Day"**

means, in respect of any Sub-Fund, the days on which Units of that Sub-Fund may be subscribed or redeemed, as specified in the relevant Appendix.

**"Dealing Deadline"**

means, in respect of any Sub-Fund, such time on the relevant Dealing Day or any other Business Day as the Manager may from time to time determine in relation to the subscription and redemption of Units, as specified in the relevant Appendix.

**"Deed of Retirement and Appointment of Trustee"**

means a supplemental deed relating to the retirement and appointment of trustee dated 28 May 2021 entered into by the Manager, BNP Paribas Trust Services (Hong Kong) Limited and BNP Paribas Securities Services, acting through its Hong Kong Branch, pursuant to which BNP Paribas Securities Services, acting through its Hong Kong Branch (as the previous trustee) was formerly appointed as trustee of the Trust in place



of BNP Paribas Trust Services (Hong Kong) Limited.

|   |   |
|---|---|
| <b>"Entities within the Same Group"</b>         | means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.  |
| <b>"FDI"</b>                                    | means financial derivatives instrument which derives its value from the value and characteristics of one or more underlying assets.   |
| <b>"Fund Accountant"</b>                        | means BNP Paribas, acting through its Singapore Branch.   |
| <b>"Global Custodian"</b>                       | means BNP Paribas, acting through its Singapore Branch.   |
| <b>"Government and other Public Securities"</b> | has the meaning as set out in the Code.   |
| <b>"Hong Kong"</b>                              | means the Hong Kong Special Administrative Region of the PRC.   |
| <b>"Hong Kong Dollars" or "HKD"</b>             | means the lawful currency for the time being and from time to time of Hong Kong.  |
| <b>"Hong Kong Stock Exchange"</b>               | means The Stock Exchange of Hong Kong Limited.  |
| <b>"IFRS"</b>                                   | means International Financial Reporting Standards issued by the International Accounting Standards Board.   |
| <b>"Initial Offer Period"</b>                   | means, in respect of a Sub-Fund, the period during which Units in that Sub-Fund will be offered for subscription at a fixed price, as specified in the relevant Appendix.   |
| <b>"Investment"</b>                             | <p>means any share, stock, debenture, loan stock, bond, unit, share or other interest in a Collective Investment Scheme, Commodity, share price index futures contract, derivative instrument, credit derivative transaction, Sale and Repurchase Transaction, Reverse Repurchase Transaction, Securities Lending Transaction, swap, spot or forward transaction (whether in relation to currency or any other property), security, commercial paper, acceptance, trade bill, treasury bill, instrument or note of or issued by or under the guarantee of any body, whether incorporated or unincorporated, or of any government or local governmental authority or supranational body, whether paying interest or dividends or not, and whether fully paid, partly paid or nil paid and includes (without prejudice to the generality of the foregoing):</p> <ul style="list-style-type: none"><li>(a) any right, option or interest (howsoever described) in or in respect of any of the foregoing;</li><li>(b) any certificate of interest or participation in, or temporary or interim certificate for, or receipt for or warrant to subscribe for or purchase, any of the foregoing;</li><li>(c) any instrument commonly known or recognised as a security;</li><li>(d) any receipt or other certificate or document evidencing the deposit of a sum of money, or any rights or interests arising under any such</li></ul> |

receipt, certificate or document;

(e) any mortgage-backed security or other securitised receivable; and

(f) any bill of exchange and any promissory note.

|   |  |
|---|--|
| <b>"Manager"</b>                          | means Phillip Capital Management (HK) Limited.   |
| <b>"Net Asset Value"</b>                  | means, in relation to any Sub-Fund or class of Units, the net asset value of such Sub-Fund or class, as the context may require, calculated in accordance with the provisions of the Trust Deed.   |
| <b>"PRC"</b>                              | means the People's Republic of China, excluding for the purposes of interpretation of this Explanatory Memorandum only, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan.   |
| <b>"Redemption Price"</b>                 | means the price per Unit at which Units of the relevant class will be redeemed, as described in the section headed "Redemption of Units" below.  |
| <b>"Registrar and Transfer Agent"</b>     | means BNP Paribas, acting through its Hong Kong Branch.  |
| <b>"Reverse Repurchase Transactions"</b>  | means transactions whereby a 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.   |
| <b>"RMB"</b>                              | means Renminbi, the lawful currency of the PRC.  |
| <b>"Sale and Repurchase Transactions"</b> | means transactions whereby a 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.   |
| <b>"Securities Lending Transactions"</b>  | means transactions whereby a Sub-Fund lends its Securities to a security-borrowing counterparty for an agreed fee.   |
| <b>"Securities Market"</b>                | means any stock exchange, over-the-counter market or other securities market in any country in the world and includes, in relation to any particular Investment, any responsible firm, corporation or association in any part of the world so dealing in the Investment as to be expected generally to provide in the opinion of the Manager a satisfactory market for the Investment and in such a case the Investment shall be deemed to be the subject of an effective permission to deal on the Securities Market deemed to be constituted by such firm, corporation or association. |
| <b>"SFC"</b>                              | means the Securities and Futures Commission of Hong Kong.  |
| <b>"SFO"</b>                              | means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).   |
| <b>"Sub-Fund"</b>                         | means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed and with respect   |

to which one or more separate classes of Units is issued.

**"Subscription Price"**

means the price per Unit at which Units of a particular class will be issued, which price shall be ascertained in accordance with the section headed "Subscription of Units" below.

**"substantial financial institution"**

has the same meaning as in the Code.

**"Supplemental Deed"**

means a supplemental deed dated 7 July 2022 entered into by the Manager, BNP Paribas Securities Services, acting through its Hong Kong Branch, and BNP Paribas, acting through its Hong Kong Branch, pursuant to which BNP Paribas, acting through its Hong Kong Branch was appointed as trustee of the Trust in place of BNP Paribas Securities Services, acting through its Hong Kong Branch.

**"Trust"**

means Phillip Wealth Funds.

**"Trust Deed"**

means the trust deed establishing the Trust dated 12 April 2017 entered into by the Manager and BNP Paribas Trust Services (Hong Kong) Limited as trustee (as the previous trustee), as amended and/or supplemented from time to time, including by the Deed of Retirement and Appointment of Trustee and subsequently by the Supplement Deed.

**"Trustee"**

means BNP Paribas, acting through its Hong Kong Branch.

**"Unit"**

means a unit of the class to which it relates and except where used in relation to a particular class of Unit, a reference to Units means and includes Units of all classes.

**"Unitholder"**

means a person registered as a holder of a Unit.

**"US"**

means the United States of America.

**"USD"**

means the lawful currency of the United States of America.

**"Valuation Day"**

means, in relation to any class of Units, the Business Day as at which the Net Asset Value and the Net Asset Value per Unit is to be calculated and/or such other Business Day or Business Days as the Manager may from time to time determine.

**"Valuation Point"**

means such time on the relevant Valuation Day as the Manager may from time to time determine to calculate the Net Asset Value.

**"Value"**

means, in relation to any Investment comprising all or part of the Trust Fund (as defined in the Trust Deed), the value thereof determined in accordance with Schedule 1 (*Valuation Rules*) of the Trust Deed.

## INTRODUCTION

Phillip Wealth Funds is an open-ended umbrella unit trust established under the laws of Hong Kong pursuant to the Trust Deed. By way of the Supplemental Deed, the Trustee was appointed as trustee of the Trust. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust has been established as an umbrella fund and separate and distinct Sub-Fund(s) may be established by the Manager and the Trustee within the Trust from time to time. Each Sub-Fund has its own investment objective and policies.

The Manager may at any time and from time to time, without obtaining the approval of the Unitholders or the SFC, determine that a new class or classes of Units related to a Sub-Fund be created by giving the Trustee a written notice. More than one class of Units may therefore be offered in relation to a particular Sub-Fund, which may have different terms, including different currencies of denomination. A separate portfolio of assets will not be maintained for each class. All classes of Units relating to the same Sub-Fund will be commonly invested in accordance with such Sub-Fund's investment objective and policies. In addition, each class of Units may be subject to different minimum initial and subsequent subscription amounts and holding amounts, and minimum redemption and switching amounts. Investors should refer to the relevant Appendix for the available classes of Units and the applicable minimum amounts.

A separate Net Asset Value per Unit will be calculated for each class following the close of the relevant Initial Offer Period. Additional classes of Units of any of the Sub-Funds and/or additional Sub-Funds may be created in the future in accordance with the Trust Deed.

Information relating to the Trust and the Sub-Funds, including the latest versions of the Trust and the Sub-Funds' offering documentation, circulars, notices, announcements, financial reports and the latest available Net Asset Value will be available on the website [www.phillipfunds.com.hk](http://www.phillipfunds.com.hk) (this website has not been reviewed by the SFC).

## MANAGEMENT OF THE TRUST

### **The Manager**

The Manager of the Trust is Phillip Capital Management (HK) Limited.

The Manager was incorporated with limited liability on 14 October 1993 in Hong Kong and is licensed by the SFC for type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO with CE number AEP527.

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

The Manager may appoint investment delegates in relation to specific Sub-Funds (details of any such appointments are set out in the relevant Appendix), subject to the prior approval of the SFC and at least one month's prior notice to Unitholders (where applicable). The Manager shall at all times exercise reasonable skill, care and diligence in the selection, appointment and ongoing monitoring of any delegate and shall during the term of appointment of such delegate satisfy itself that the delegate remains suitably qualified and competent on an ongoing basis to provide the relevant service. Provided the Manager has satisfied such obligations, it shall not be responsible for the acts and omissions of any delegate without any investment management functions. However the Manager shall at all times be responsible for the acts and omissions of any delegate with investment management functions. The Manager shall be responsible for the remuneration of any delegate, with or without investment management functions, provided that any fees and expenses incurred by any delegate in relation to any Sub-Fund shall be borne by the relevant Sub-Fund.

The directors of the Manager are as follows:

*Mr. Lim Wah Sai*

Mr. Lim is the Managing Director and Responsible Officer of the Phillip Securities Group, including Phillip Capital Management (HK) Limited, Phillip Commodities (HK) Ltd and Phillip Securities (Hong Kong) Limited. He has been appointed to the Board of Directors of Phillip Capital Management (S) Ltd since 2016. He joined the Phillip Securities Group in 1988 and has worked in Hong Kong since 1993.

He holds an MSc in Management Science from Imperial College, University of London in 1982 and a BSc (1st Class Hon) in Control Instrumentation and System Engineering from City University, London in 1981. He has over 30 years' experience in the securities, derivatives and banking industries.

*Mr. Wong Wai Kit, Louis*

Mr. Wong is the Executive Director and Responsible Officer of Phillip Capital Management (HK) Limited. He joined the Phillip Securities Group in Hong Kong in 1993 and has been the Director of Phillip Securities (Hong Kong) Limited and Phillip Capital Management (HK) Limited since 1996 and 2002, respectively. He has been appointed to the Board of Directors of Phillip Capital Management (S) Ltd since 2016. He has over 30 years of investment experience in securities dealing and more than 20 years in asset management. He is the investment advisor to an authorised fund in Thailand, which primarily invests in Hong Kong and China.

*Mr. Lim Wen Sheong, Linus*

Mr. Lim is the Executive Director, Responsible Officer and "Key Personnel" of Phillip Capital Management (HK) Limited. He focuses on formulating investment strategy and approving investment decisions as well as product development and regulatory compliance. Mr. Lim is Executive Director of Phillip Capital Management (S) Ltd, in Singapore, since 2009, and has been appointed to the Boards of the

following fund management companies since the stated years: Phillip Private Equity Pte Ltd (2009), Phillip Asset Management Company Ltd (2014), Phillip Mutual Berhad (2014) and Phillip Tokai Tokyo Investment Management Pte Ltd (2014).

He possesses more than 14 years of investment experience, including more than eight years managing unit trusts. He is the director and Chief Executive Officer of Phillip Capital Management (S) Ltd and Phillip Tokai Tokyo Investment Management Pte. Ltd. He has been with Phillip Capital Group since 2001 where he has been involved in equity research as well as corporate finance both in Singapore and the UK. Prior to Phillip Capital, he was at the Investments business of Citibank Asia Pacific.

Mr. Lim holds an MBA from the Anderson School of Management at University of California, Los Angeles, and an Investment Management Certificate IIMR (UK) as well as a Chartered Alternative Investment Analyst (CAIA Association) certificate. Linus is also a holder of the Fundamentals of Sustainability Accounting (FSA) Credential awarded by the Sustainability Accounting Standards Board.

*Ms. Loh Yang Nee, Sabrina*

Ms. Loh is the Executive Director, Responsible Officer and "Key Personnel" of Phillip Capital Management (HK) Limited. She is the lead manager for Phillip Money Market Fund, Phillip Money Market Fund ETF and Phillip Singapore Real Estate Income Fund, which are not authorised for public offering in Hong Kong and are managed by Phillip Capital Management (S) Ltd in Singapore. Between the period from 2012 to 2017, she was the manager for Phillip US Dollar Money Market Fund and Global Opportunities Fund which are not authorised for public offering in Hong Kong.

Ms. Loh has more than 20 years' experience of managing funds, including more than ten years' managing unit trusts. She began her career with DBS Asset Management and later joined Insurance Corporation of Singapore. Prior to joining Phillip Capital Management (S) Ltd, she worked for AVIVA Insurance Group. She is responsible for the strategic focus and management of various fixed income and balanced portfolios.

Ms. Loh graduated with a Bachelor of Commerce (double majors in Economics and Finance) from Curtin University of Technology, Australia.

### **The Trustee**

The Trustee of the Trust is BNP Paribas, acting through its Hong Kong Branch. BNP Paribas is a bank organised under the laws of France under No. 662 042 449 and a public limited company incorporated under the laws of France with its registered office at 16 boulevard des Italiens, 75009 Paris, France, and is authorised and supervised by the European Central Bank and by the *Autorité de Contrôle Prudentiel et de Résolution* in France. The Trustee is authorised as a licenced bank in Hong Kong by the Hong Kong Monetary Authority pursuant to the Banking Ordinance of Hong Kong and is also registered with the SFC pursuant to the SFO to carry on its regulated activities in Hong Kong.

Under the Trust Deed, the Trustee is responsible for the safekeeping of the assets of the Trust and each Sub-Fund and such assets will be dealt with pursuant to the provisions of the Trust Deed.

Subject to applicable regulatory requirements, the Trustee may from time to time appoint or (where the appointment of a local custodian is required by the applicable laws and regulations of the relevant jurisdiction) agree in writing to such appointment of any person or persons (including, without limitation, itself or a Connected Person of the Trustee) to hold, as custodian, co-custodian, delegate, nominee or agent, all or any of the Investments, assets or other property of any 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, co-custodian, delegate, nominee, agent or sub-custodian a "**Custodian**") provided that no such Custodian shall be appointed in respect of a market or markets which the Trustee has determined by notice to the Manager to be emerging markets (which shall not include Hong Kong or the PRC). The Trustee shall (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of such Custodians and (b) be satisfied that such Custodians retained remain suitably qualified and competent on an ongoing basis to provide the relevant services to the Trust and/or any Sub-Fund. The Trustee shall be

liable for the acts and omissions of any Custodian which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Custodian which is not a Connected Person of the Trustee. For the avoidance of doubt, the Custodian also includes the Global Custodian.

The Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of Euro-clear Clearing System Limited or Clearstream Banking S.A. or any other recognised central securities depositary or clearing system in relation to any Investment deposited with such depositary or clearing system.

Subject as provided in the Trust Deed and all applicable laws and regulations (including, for a Sub-Fund authorised by the SFC, the Code), the Trustee is entitled to be indemnified from the assets of the relevant Sub-Fund in respect of all liabilities and expenses incurred in relation to such Sub-Fund and against any and all actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted to be done in any way relating to such Sub-Fund including, without limitation, any actions of the Manager, except to the extent that such liability, expense, action, proceeding, cost, claim or demand arises out of breach of trust through the fraud, negligence or wilful default of the Trustee or its officers, employees, agents or delegates or liability to Unitholders imposed under the laws of Hong Kong. The Trustee or any of its officers, employees, agents or delegates shall not incur any liability by reason of any error of law or any matter or thing done or suffered or omitted to be done by them in good faith under the provisions of the Trust Deed in the absence of fraud, wilful default or negligence on the part of the Trustee.

The Manager is solely responsible for making investment decisions in relation to the Trust and/or each Sub-Fund and the Trustee (including its delegates) is not responsible and has no liability for any investment decision made by the Manager. The Trustee does not act as guarantor or offeror of the Units or any underlying Investments of a Sub-Fund. The Trustee is not responsible for the preparation or issue of this Explanatory Memorandum and the KFS other than the description under the section "The Trustee". 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 "Fees payable by the Trust" and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

### **The Global Custodian**

The Trustee has appointed BNP Paribas, acting through its Singapore Branch with its registered address at 20 Collyer Quay #01-01, Singapore 049319, as the Global Custodian of the Trust. BNP Paribas, acting through its Singapore Branch is a licensed bank in Singapore regulated by the Monetary Authority of Singapore. Its banking license was granted with effect from 20 October 1999.

BNP Paribas is a bank organised under the laws of France under No. 662 042 449 and a public limited company incorporated under the laws of France with its registered office at 16 boulevard des Italiens, 75009 Paris, France, and is authorised and supervised by the European Central Bank and by the *Autorité de Contrôle Prudentiel et de Résolution* in France.

Pursuant to the global custodian agreement between the Trustee and the Global Custodian (the "**Global Custodian Agreement**"), the Global Custodian will act as the custodian of the Trust's and the Sub-Funds' assets, which may be held directly by the Global Custodian or through its agents, sub-custodians or delegates pursuant to the relevant custodial services agreement.

### **The Registrar and Transfer Agent**

BNP Paribas, acting through its Hong Kong Branch has been appointed as the Registrar and Transfer Agent to maintain responsibility for registrar functions including keeping the respective registers of Unitholders up-to-date and accurate and arranging for the issue and realisation of Units of each Sub-Fund.

BNP Paribas, acting through its Hong Kong Branch (in its capacity as the Trustee and the Registrar and Transfer Agent) and other entities in the BNP Paribas Group (collectively, "**BNP**") (i) have not independently verified the information (except for information relating to BNP) contained in this

Explanatory Memorandum, (ii) have not been involved in the preparation of this Explanatory Memorandum (except for the provision of information relating to BNP), and (iii) have not caused or otherwise authorised the issue of this Explanatory Memorandum. Neither BNP nor its employees or officers accept any responsibility or liability arising in any way for errors or omissions in this Explanatory Memorandum other than information relating to BNP. BNP is not involved in the management of the Trust and does not guarantee the success or the performance of the Trust and its Sub-Funds nor the repayment of capital or any particular rate of capital or income return.

### **The Fund Accountant**

The Manager has appointed BNP Paribas, acting through its Singapore Branch with its registered address at 20 Collyer Quay #01-01, Singapore 049319, as the Fund Accountant of the Trust. BNP Paribas, acting through its Singapore Branch is a licensed bank in Singapore regulated by the Monetary Authority of Singapore. Its banking license was granted with effect from 20 October 1999.

Pursuant to the administration agreement between the Manager and the Fund Accountant (the "**Administration Agreement**"), the Fund Accountant will act as accountant to the Trust and each Sub-Fund. The Fund Accountant's role will include, amongst other things, keeping the accounts, financial books and records of each Sub-Fund, determining the Net Asset Value and liaising with the auditors in respect of preparation of financial statements.



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

### **Investment objective**

The investment objective of each Sub-Fund is set out in the relevant Appendix.

### **Investment strategy**

The investment strategy of each Sub-Fund is set out in the relevant Appendix.

### **Investment restrictions**

The following principal investment restrictions apply to each Sub-Fund authorised by the SFC, unless otherwise provided in the relevant Appendix:

- (a) the aggregate Value of a Sub-Fund's Investments in, or exposure to, any single entity through the following may not exceed 10% of the total Net Asset Value of such Sub-Fund, save as permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the Code:
  - (1) Investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs;
- (b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate Value of a Sub-Fund's Investments in, or exposure to, Entities within the Same Group through the following may not exceed 20% of the total Net Asset Value of the Sub-Fund:
  - (1) Investments in securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
- (c) unless otherwise approved by the SFC, the Value of a Sub-Fund's cash deposits made with the same entity or Entities within the Same Group may not exceed 20% of the total Net Asset Value of the Sub-Fund, unless:
  - (1) the cash is held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested, or
  - (2) the cash is proceeds from liquidation of Investments prior to the merger or termination of a Sub-Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interest of investors; or
  - (3) the cash is 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 is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;

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

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

may either be considered and treated as (i) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (ii) Collective Investment Schemes for the purposes of and subject to the requirements in paragraph (k) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and, unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, Investment by a Sub-Fund in exchange traded funds is considered and treated as listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above;

(k) where a Sub-Fund invests in shares or units of other Collective Investment Schemes ("**underlying schemes**"),

(1) the Value of such Sub-Fund's Investments in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC, may not in aggregate exceed 10% of the total Net Asset Value of the Sub-Fund; and

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

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

(i) the objective of each underlying scheme may not be to invest primarily in any Investment prohibited by Chapter 7 of the Code, and where that underlying scheme's objective is to invest primarily in Investments restricted by Chapter 7 of the Code, such Investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, a Sub-Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100% of its total Net Asset Value, and exchange traded funds satisfying the requirements in paragraph (i) above in compliance with paragraph (k)(1) and (k)(2);

(ii) where the underlying schemes are managed by the Manager or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the Investments of the underlying scheme;

(iii) the objective of the underlying schemes may not be to invest primarily in other Collective Investment Scheme(s);

(iv) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme (s) must be waived; and

(v) 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 the management company of an underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme;

(l) in the case of Investments in shares in real estate companies and interests in real estate investment trusts (REITs), a Sub-Fund shall comply with the requirements under paragraphs (a), (b), (d), (e) and (k)(1) above where applicable. Where Investments are made in listed REITs, the

requirements under paragraphs (a), (b) and (d) above apply and where Investments are made in unlisted REITs, which are either companies or Collective Investment Schemes, then the requirements under paragraphs (e) and (k)(1) above apply respectively.

- (m) a Sub-Fund may invest 90% or more of its total Net Assets Value in a single Collective Investment Scheme and may be authorised as a feeder fund by the SFC. In this case:
  - (1) the underlying scheme ("**master fund**") must be authorised by the SFC;
  - (2) the Explanatory Memorandum must state that:
    - (i) the Sub-Fund is a feeder fund into the master fund;
    - (ii) for the purpose of complying with the investment restrictions, the Sub-Fund and its master fund will be deemed a single entity;
    - (iii) the Sub-Fund's annual financial report must include the investment portfolio of the master fund as at the financial year end date; and
    - (iv) the aggregate amount of all the fees and charges of the Sub-Fund and its underlying master fund must be clearly disclosed;
  - (3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, Manager's annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Unitholders or by the Sub-Fund may result, if the master fund in which the Sub-Fund invests is managed by the Manager or by its Connected Person; and
  - (4) notwithstanding paragraph (k)(iii) above, the master fund may invest in other Collective Investment Scheme(s) subject to the investment restrictions as set out in paragraph (k); and
- (n) if the name of a Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund should, under normal market circumstances, invest at least 70% of its total Net Asset Value in securities and other Investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.

### **Investment prohibitions**

A Sub-Fund shall not:

- (a) 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% of the total nominal amount of all the issued securities of that class, or, collectively the directors and officers of the Manager own more than 5% of those securities;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs));
- (c) make short sales if as a result a Sub-Fund would be required to deliver securities exceeding 10% of the total Net Asset Value of the Sub-Fund (and for this purpose (i) securities sold short must be actively traded on a market where short selling is permitted; and (ii) short selling is carried out in accordance with all applicable laws and regulations).;
- (d) carry out any naked or uncovered short sale of securities;

- (e) subject to paragraph (e) of the section headed "Investment restrictions" above, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for Reverse Repurchase Transactions in compliance with the Code;
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders must be limited to their Investments in the relevant Sub-Fund; or
- (g) apply any part of a Sub-Fund in the acquisition of any security where a call is to be made for any sum unpaid on that security unless such call could be met in full out of cash or near cash forming part of a Sub-Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs for the purposes of Chapter 7.29 and 7.30 of the Code.

### **Borrowing restrictions**

The maximum borrowing of each Sub-Fund shall not exceed 10% of its total Net Asset Value. Where the Manager so determines, a Sub-Fund's permitted borrowing level may be a lower percentage. In determining for the purpose of these borrowing limits, back-to-back loans do not count as borrowing. The assets of a Sub-Fund may be charged or pledged as security for any such borrowings in accordance with the provisions of the Trust Deed.

For the avoidance of doubt, Securities Lending Transactions and Sale and Repurchase Transactions in compliance with the requirements set out in the section headed "Securities financing transactions" below are not borrowings for the purpose of, and are not subject to the borrowing restrictions in this section.

The Trustee will take reasonable care to ensure that the investment and borrowing limitations set out in the constitutive documents and the conditions under which a Sub-Fund was authorised are complied with.

If any of the restrictions or limitations set out above is breached in respect of a Sub-Fund, the Manager will make it a priority objective all steps as are necessary within a reasonable period of time to remedy such breach, taking due account the interests of the Unitholders of that Sub-Fund.

### **Financial derivative instruments**

Subject always to the provisions of the Trust Deed and the Code, the Manager may on behalf of a Sub-Fund enter into any transactions in relation to swaps or other FDIs, for hedging or non-hedging (investment) purposes. The FDI policy of each Sub-Fund is specified in the relevant Appendix.

#### Hedging purposes

A Sub-Fund may acquire FDIs for hedging purposes. FDIs are considered as being acquired for hedging purposes if they meet all of the following criteria:

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

### Non-hedging (investment) purposes

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

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

### Restrictions applicable to FDIs

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

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of Collective Investment Schemes, deposits with substantial financial institutions, Government and other Public Securities, highly liquid physical commodities, 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) where a Sub-Fund invests in index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions set out in paragraphs (a), (b), (c) and (f) of the section headed "Investment restrictions" above provided that the index is in compliance with the relevant requirements under Chapter 8.6(e) of the Code;
- (c) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC on a case-by-case basis;
- (d) subject to paragraphs (a) and (b) under the section entitled "Investment Restrictions" above, a Sub-Fund's net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the Net Asset Value of such Sub-Fund. The exposure of the Sub-Fund to a counterparty of over-the-counter FDIs 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 marked-to-market value of the over-the-counter FDIs with that counterparty, if applicable; and
- (e) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominees, agents or delegates independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Sub-Fund. Further, the administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in paragraphs (a) and (b) under the section entitled "Investment Restrictions" above and paragraph (d) of this section will not apply

to FDIs 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 FDI positions and subject to margining requirements at least on a daily basis.

Subject to the above, a Sub-Fund may invest in FDIs provided that the exposure to the underlying assets of the FDIs, together with the other Investments of the relevant Sub-Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets as set out in the paragraphs (a), (b), (c), (f), (g), (k) and (l) under the section entitled “Investment restrictions” above.

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

A transaction in FDIs which gives rise to a future commitment or contingent commitment of a Sub-Fund should also be covered as follows:

- (a) in the case of FDIs transactions which will, or may at the discretion of the Trustee or the Manager, be cash settled, the Sub-Fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- (b) in the case of FDIs transactions which will, or may at the counterparty’s discretion, require physical delivery of the underlying assets, the Sub-Fund should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the 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.

In the case of holding alternative assets as cover, a 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.

The above policies relating to FDIs apply to financial instruments which embeds a financial derivative as well. An embedded financial derivative is a FDI that is embedded in another security.

### **Securities Financing Transactions**

Where indicated in the relevant Appendix, a Sub-Fund may enter into Securities Lending Transactions, Sale and Repurchase Transactions, Reverse Repurchase Transactions and other similar over-the-counter transactions (“**Securities Financing Transactions**”), provided that they are in the best interests of the Unitholders and the associated risks have been properly mitigated and addressed.

A Sub-Fund is subject to the following requirements when engaging in Securities Financing Transactions:

- (a) it shall have at least 100% collateralisation in respect of the Securities Financing Transactions into which it enters to ensure there is no uncollateralised counterparty risk exposure arising from these transactions;
- (b) it shall ensure that it is able at any time to recall the securities or the full amount of cash / collateral (as the case may be) subject to the Securities Financing Transactions or terminate the Securities Financing Transactions into which it has entered; and

- (c) the counterparties to the Securities Financing Transactions must be financial institutions which are subject to ongoing prudential regulation and supervision.

Further, details of the arrangements are as follows:

- (i) all Securities Financing Transactions will only be entered into with institutions of appropriate financial standing which are acceptable to the Manager. Each counterparty for such transactions is expected to be rated with either a minimum short-term rating of F1 by Fitch, P-1 by Moody's or A-1 by S&P or, where it only has a long-term rating, a minimum rating of A by Fitch, A2 by Moody's or A by S&P (including such sub-categories or gradations therein);
- (ii) the Sub-Fund will receive as collateral sufficient cash and/or liquid assets, the value of which, during the duration of the securities financing agreement, will be equal to at least 100% of the global valuation of the securities lent (interests, dividends and other eventual rights included), marked-to-market on a daily basis;
- (iii) the Trustee will be responsible for the safekeeping of such collateral received and held in custody;
- (iv) 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, should be returned to the relevant Sub-Fund;
- (v) the cost relating to any Securities Financing Transaction will be borne by the borrower;
- (vi) the maximum and expected level of a Sub-Fund's assets available for these transactions will be as set out in the relevant Appendix; and
- (vii) where any Securities Financing Transaction has been arranged through the Trustee or a Connected Person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement; such transactions with Connected Persons of the Trustee or the Manager (including the fee retained by the Trustee or the Manager or their Connected Persons) will be disclosed in the connected party transaction section of the relevant Sub-Fund's annual financial reports.

### **Collateral valuation and management policy**

The Manager employs a collateral management policy in relation to collateral received in respect of over-the-counter FDI transactions and Securities Financing Transactions entered into in respect of a Sub-Fund.

A Sub-Fund may receive collateral from a counterparty to an over-the-counter FDI transaction or a Securities Financing Transaction, so as to reduce its counterparty risk exposure as set out in paragraph (d) under the section entitled "Restrictions applicable to FDIs" above and in paragraph (a) under the section entitled "Securities financing transactions" above, provided that the collateral complies with the requirements set out below:

- (a) Nature and quality of collateral – unless otherwise agreed by the Manager, eligible collateral include:
  - (i) cash; and
  - (ii) Government or other Public Securities including debt securities;
- (b) Selection of counterparties - The Manager has counterparty selection policies and control measures to manage the credit risks of counterparties of over-the-counter FDI transactions and Securities Financing Transactions and will be subject to the requirements under the section entitled "Securities Financing transactions" above. In particular:



- (i) the counterparties for over-the-counter FDI transactions will be entities with legal personality typically located in Organisation for Economic Co-operation and Development (OECD) jurisdictions (but may also be located outside such jurisdictions), and be subject to ongoing supervision by a regulatory authority; and
  - (ii) the counterparties for Securities Financing Transactions (including a borrower for a Securities Lending Transaction) will be an independent counterparty approved by the Manager and will be a financial institution which is subject to ongoing prudential regulation and supervision;
- (c) Liquidity – collateral must be sufficiently liquid and tradable 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.
  - (d) Valuation – collateral should be marked-to-market daily by using independent pricing source;
  - (e) Credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral;
  - (f) Haircut – a haircut is a discount applied to the value of a collateral asset to account for the fact that its valuation, or liquidity profile, may deteriorate over time. Collateral should be subject to prudent haircut policy, which should be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and volatile markets:
    - (i) the haircut policy takes into account the price volatility of the asset used as collateral and, where appropriate, other specific characteristics of the collateral, including, among others, asset types, issuer creditworthiness, residual maturity, price sensitivity, optionality, expected liquidity in stressed period, impact from foreign exchange, and correlation between securities accepted as collateral and the securities involved in the transactions; and
    - (ii) the haircut policy applied to posted collateral will be negotiated on a counterparty basis and will vary depending on the class of asset received by a Sub-Fund. Further details of the applicable haircut arrangement for each asset class is available from the Manager upon request;
  - (g) Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or Entities within the Same Group and a Sub-Fund’s exposure to issuer(s) of the collateral should be taken into account in compliance with the corresponding investment restrictions and limitations set out in the paragraphs (a), (b), (c), (f), (g), (k) and (l) under the section entitled “Investment restrictions” above;
  - (h) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs to the extent that it would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the FDIs or the counterparty of Securities Financing Transactions or any of their related entities should not be used as collateral;
  - (i) Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
  - (j) Independent custody – collateral must be held by the Trustee of the relevant Sub-Fund;
  - (k) Enforceability – collateral must be readily accessible/enforceable by the Trustee without further

recourse to the issuer of the FDIs, or the counterparty of Securities Financing Transactions;

- (l) Re-investment of collateral - cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such Investments or exposure as set out in Chapter 7 of the Code and the following restrictions:
- (i) non-cash collateral received may not be sold, re-invested or pledged;
  - (ii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Chapter 8.2 (f) and 8.2(n) of the Code;
  - (iii) cash collateral received is not allowed to be further engaged in any Securities Financing Transactions;
  - (iv) 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; and
  - (v) unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, up to 100% of the cash collateral received by a Sub-Fund may be reinvested.

For the purposes of re-investment of cash collateral received, "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 will be taken into account;

- (m) Encumbrances - collateral should be free of prior encumbrances; and
- (n) Collateral generally should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitised products; or (iv) unlisted Collective Investment Schemes.

The requirements under paragraphs (a) and (b) under the section entitled "Investment Restrictions" above will also apply in the case of the "diversification" and "re-investment of collateral" requirements of this section.

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

## **SUBSCRIPTION OF UNITS**

### **Initial issue of Units**

During an Initial Offer Period, Units in a Sub-Fund will be offered to investors at an initial Subscription Price of a fixed price per Unit as specified in the relevant Appendix. If at any time during an Initial Offer Period the total amount received by the Trustee from the subscription of the Units reaches a maximum amount for aggregate subscriptions (if any, as specified in the relevant Appendix), the Manager is entitled (but not obliged) to close the Sub-Fund to further subscriptions before the end of the relevant Initial Offer Period.

The Manager may decide not to issue any Units in the event that less than a minimum amount for aggregate subscriptions (if any, as specified in the relevant Appendix) is raised during the relevant Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such event, subscription monies paid by an applicant will be returned by cheque, by post or by telegraphic transfer or such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses) promptly after the expiry of the Initial Offer Period.

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

### **Subsequent issue of Units**

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

The Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class of that Sub-Fund then in issue and rounded to 4 decimal places (0.00005 and above being rounded up; below 0.00005 being rounded down) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee and notifying potential investors. Any rounding adjustment will be retained by the relevant Sub-Fund. The Subscription Price will be calculated and quoted in the Class Currency of the relevant class of Units.

### **Application procedure**

To subscribe for Units, an applicant should complete the application form supplied with this Explanatory Memorandum and the KFS and return the required supporting documents to the Registrar and Transfer Agent.

Applications for Units during the relevant Initial Offer Period, together with cleared funds, must be received by the relevant time on the last day of the relevant Initial Offer Period, as specified in the relevant Appendix. After the Initial Offer Period, applications must be received by the relevant Dealing Deadline.

Applicants who choose to send an application form by fax bear the risk of the form not being received by the Registrar and Transfer Agent. Applicants should therefore, for their own benefit, confirm with the Registrar and Transfer Agent safe receipt of an application form. None of the Manager, the Trustee nor the Registrar and Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by fax or for any loss caused in respect of any action taken as a consequence of such fax believed in good faith to have originated from properly authorised persons.

Unless the Manager otherwise determines or as otherwise specified in the relevant Appendix relating to a Sub-Fund, payment for Units shall be due in cleared funds in the relevant currency upon the submission of

an application by the Dealing Deadline. If payment in cleared funds is not received by such time as aforesaid, the application may, at the discretion of the Manager, be considered void and cancelled.

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

Applicants may apply for Units through a distributor appointed by the Manager. Distributors may have different dealing procedures, including earlier cut-off times for receipt of applications and/or cleared funds. Applicants who intend to apply for Units through a distributor should therefore consult the distributor for details of the relevant dealing procedures.

Where an applicant applies for Units through a distributor, the Manager and the Trustee will treat the distributor (or its nominee) as the applicant. The distributor (or its nominee) will be registered as Unitholder of the relevant Units. The Manager and the Trustee will treat the distributor (or its nominee) as the Unitholder and shall not be responsible for any arrangements between the relevant applicant and the distributor regarding the subscription, holding and redemption of Units and any related matters, as well as any costs or losses that may arise in connection with such arrangements. The Manager will, however, take all reasonable care in the selection and appointment of distributors.

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

The Manager may, at its discretion, reject in whole or in part any application for Units. In the event that an application is rejected, application monies will be returned without interest and net of expenses by cheque through the post or by telegraphic transfer or by such other means as the Trustee considers appropriate at the risk of the applicant.

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

### **Payment procedure**

During the Initial Offer Period and following the end of the Initial Offer Period, payment for Units and the subscription charge (if any) must be received on or prior to the Dealing Deadline of such Dealing Day in relation to which Units are to be issued. Notwithstanding the above and subject to the discretion of the Manager, a Sub-Fund may rely upon application orders received, even prior to receipt of application moneys, and may issue Units to investors according to such application orders and invest the expected application amounts. In such circumstances, payment for Units and the subscription charge (if any) is due at the expiry of the applicable payment period (if applicable, as agreed by the Manager in consultation with the Registrar and Transfer Agent). Unless otherwise agreed by the Manager in relation to any Sub-Fund, if payment in full in cleared funds has not been received by the Initial Offer Period deadline (or such other period as the Manager after consultation with the Trustee may determine) or the relevant payment period (or such other period as the Manager may determine and disclose to the applicants), the Manager may (without prejudice to any claim in respect of the failure of the applicant to make payment when due) cancel any Units which may have been issued in respect of such application for subscription and the Manager must cancel the issue of the relevant Units if the Trustee so requires.

Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant shall have no right to claim in respect thereof against the Manager or the Trustee, provided that: (i) no previous valuations of the relevant Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units; (ii) the Manager and the Trustee may charge the applicant a cancellation fee to represent the administrative costs involved in processing the application for such Units from such applicant; and (iii) the Manager and the Trustee may require the applicant to pay (for the account of the relevant Sub-Fund in respect of each Unit so cancelled) the amount (if any), by which the issue price of each such Unit exceeds

the Redemption Price of such Unit on the day of cancellation (if such day is a redemption day for the relevant class of Units) or the immediately following redemption day plus interest on such amount until receipt of such payment by the Trustee.

Payments for Units should be made in the Base Currency of the Sub-Fund or where one or more classes are issued in respect of a Sub-Fund, payment for Units of a class should be made in the Class Currency of such class. Subject to the agreement of the Manager, payment in other freely convertible currencies may be accepted. Where amounts are received in a currency other than the relevant Base Currency or Class Currency (as the case may be), they will be converted into the relevant Base Currency or Class Currency (as the case may be) at the cost of the relevant applicant and the proceeds of conversion (after deducting the costs of such conversion) will be applied in the subscription of Units in the relevant Sub-Fund or class. Any conversion to the relevant Base Currency or Class Currency (as the case may be), will be at the prevailing market rate (whether official or otherwise) which the Manager or the Trustee deems appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange. Conversion of currency may be made at a premium or discount in exceptional circumstances such as where there is a huge fluctuation in the exchange rate. Currency conversion will be subject to availability of the currency concerned. Save for any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence of the Trustee or the Manager, none of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder or any person for any loss suffered by such Unitholder arising from such currency conversion.

All payments should be made by direct transfer or telegraphic transfer (or other manner as may be agreed by the Manager). Any costs of transfer of subscription moneys to the Sub-Fund will be payable by the applicant.

All application moneys must originate from an account held in the name of the applicant. No third party payments shall be accepted. The applicant should provide sufficient evidence as to identity of the applicant and the source of payment as the Manager and the Trustee may from time to time require.

## **General**

All holdings of Units will be in registered form and certificates will not be issued unless the Trustee and the Manager agree otherwise. Evidence of title of Units will be the entry on the register of Unitholders in respect of each Sub-Fund. Unitholders should therefore be aware of the importance of ensuring that the Registrar and Transfer Agent is informed of any change to the registered details. Fractions may be issued rounded down to the nearest two decimal places. Subscription monies representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. A maximum of four persons may be registered as joint Unitholders.

## **REDEMPTION OF UNITS**

### **Redemption procedure**

Unitholders who wish to redeem their Units in a Sub-Fund may do so on any Dealing Day by submitting a redemption request to the Registrar and Transfer Agent.

Any redemption request must be received by the Registrar and Transfer Agent before the Dealing Deadline. Investors redeeming Units through a distributor or a nominee should submit their redemption requests to the distributor or nominee in such manner as directed by the distributor or nominee. Distributors and nominees may have different dealing procedures, including earlier cut-off times for receipt of redemption requests. Where an investor holds its investment in Units through a nominee, the investor wishing to redeem Units must ensure that the nominee, as the registered Unitholder, submits the relevant redemption request by the Dealing Deadline. Redemption requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

A redemption request must be given in writing by post, electronic means or by fax and must specify the name of the Sub-Fund, the class (if applicable) and the Value or number of Units to be redeemed, the name(s) of the registered Unitholder(s) and give payment instructions for the redemption proceeds.

A Unitholder who chooses to send an application form by fax bears the risk of the form not being received by the Registrar and Transfer Agent. Unitholders should therefore, for their own benefit, confirm with the Registrar and Transfer Agent safe receipt of a redemption request. None of the Manager, the Trustee nor the Registrar and Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any redemption request sent by fax or for any loss caused in respect of any action taken as a consequence of such fax believed in good faith to have originated from properly authorised persons.

Partial redemption of a holding of Units in a Sub-Fund by a Unitholder may be effected, provided that such redemption will not result in the Unitholder holding Units in a class less than the minimum holding for that class specified in the relevant Appendix. In the event that, for whatever reason, a Unitholder's holding of Units in a class is less than such minimum holding for that class, the Manager may give notice requiring such Unitholder to submit a redemption request in respect of all the Units of that class held by that Unitholder. A request for a partial redemption of Units with an aggregate Value of less than the minimum amount for each class of Units specified in the relevant Appendix (if any) will not be accepted.

### **Payment of redemption proceeds**

The Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the relevant Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 4 decimal places (0.00005 and above being rounded up; below 0.00005 being rounded down). Any rounding adjustment will be retained by the relevant Sub-Fund. The Redemption Price will be calculated and quoted in the Class Currency of the relevant class of Units.

The amount due to a Unitholder on the redemption of a Unit will be the Redemption Price, less any redemption fee.

Redemption proceeds will not be paid to any redeeming Unitholder until (a) the redemption request duly signed by the Unitholder has been received by the Registrar and Transfer Agent and (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Registrar and Transfer Agent.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds shall be paid by telegraphic transfer, cheque or such other means as the Trustee may permit, as soon as reasonably practicable (and in any event within one calendar

month of the relevant Dealing Day, unless otherwise permitted by the Code) after the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless the markets in which a substantial portion of the relevant Sub-Fund's Investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of redemption proceeds within the aforesaid time period not practicable, but in such a case the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant markets. Any bank charges associated with the payment of such redemption proceeds will be borne by the redeeming Unitholder.

Redemption proceeds will be paid in the Class Currency of such class of Units as disclosed in the relevant Appendix, unless Unitholders request to receive redemption proceeds in other currencies, in which case, subject to the agreement of the Manager and to applicable limits on foreign exchange, and unless otherwise specified in relevant Appendix, arrangements can be made for redemption proceeds to be paid in most other currencies. In such circumstances, the cost of conversion into the currency requested by the Unitholder will be borne by the Unitholder and deducted from the redemption proceeds, and the Unitholder may suffer loss arising from such currency conversion. The Manager shall use the prevailing market currency exchange rates. Currency conversion will be subject to availability of the currency concerned. None of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder for any loss suffered by any person arising from the said currency conversion.

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

The Trust Deed provides that redemptions may be, in whole or in part, made *in specie* at the discretion of the Manager. However, the Manager does not intend to exercise this discretion in respect of any Sub-Fund unless otherwise specified in the relevant Appendix. In any event, redemptions may only be made *in specie*, in whole or in part, with the prior consent of the Unitholder requesting the redemption.

### **Restrictions on redemption**

With a view to protecting the interests of Unitholders, the Manager is entitled to limit the total Net Asset Value or total number of Units of a Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total Net Asset Value or the total number of Units of the relevant Sub-Fund in issue on the Dealing Day, or such higher percentage as the Manager may determine either generally or in respect of any particular Dealing Day after notifying potential investors. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Sub-Fund wishing to redeem Units of that Sub-Fund 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 on the next Dealing Day based on the Redemption Price as at that Dealing Day, subject to the same limitation, and will have priority on the next Dealing Day over subsequent redemption requests received in respect of such subsequent Dealing Day. If requests for redemption are so carried forward, the Manager will promptly inform the Unitholders concerned.

The Manager may suspend the redemption of Units of any Sub-Fund, or delay the payment of redemption proceeds in respect of any redemption request received, during any period in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details please see the section headed "Suspension of calculation of Net Asset Value" below).

### **Compulsory redemptions under certain circumstances**

If it shall come to the notice of the Trustee or the Manager that any Units are owned directly, indirectly or beneficially (i) by a US Person; (ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager, the Trustee or the relevant Sub-Fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee or the relevant Sub-Fund to any additional regulation to which the Manager, the Trustee or the relevant Sub-

Fund might not otherwise have incurred or suffered or been subject; or (iii) in breach of any applicable law or applicable requirements of any country or governmental authority, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the redemption of such Units in accordance with the terms of the Trust Deed. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or redeem such Units as aforesaid or establish to the satisfaction of the Trustee or the Manager (whose judgment shall be final and binding) that such Units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30 day period to have given a request in writing for the redemption of all such Units. In performing its duties and making any decision in respect of such compulsory redemption, the Manager will act in good faith, on reasonable grounds and pursuant to applicable laws and regulations.



## SWITCHING

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

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 2% of the redemption proceeds payable in respect of the Units of the Existing Class being switched. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager.

Subject as hereinafter provided, the switching of Units shall be made on the day which is both a Dealing Day in relation to the Existing Class and a Dealing Day in relation to the New Class ("**Common Dealing Day**") on which the request for switching is received by the Registrar and Transfer Agent by the Dealing Deadline on such Common Dealing Day.

Switching will be effected as follows:

- redemption and cancellation of the Units of the Existing Class will be dealt with by reference to the Redemption Price on the relevant Common Dealing Day;
- where the Existing Class and the New Class have different currencies of denomination, the redemption proceeds of Units of the Existing Class, after deduction of any switching fee, shall be converted into the currency of denomination of the New Class; and
- the resulting amount will be used to subscribe for the number of Units of the New Class, to be determined by the Manager in accordance with the provisions of the Trust Deed, at the relevant Subscription Price on the relevant Common Dealing Day.

Where a request for switching is received on a day other than a Common Dealing Day, or is received after the Dealing Deadline on a Common Dealing Day, such request shall be treated as having been received before the Dealing Deadline on the next Common Dealing Day.

The Manager may suspend the switching of Units during any period in which the determination of the Net Asset Value of the Trust is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

## VALUATION

### Valuation rules

#### 1. *Net Asset Value of a Sub-Fund and a class of Units*

- 1.1 The Net Asset Value of a Sub-Fund will be calculated by valuing the assets of such Sub-Fund in accordance with paragraph 3 below and deducting the liabilities attributable to such Sub-Fund in accordance with paragraph 4 below.
- 1.2 The Net Asset Value attributable to Units of a particular class related to a Sub-Fund as at any Valuation Point shall be determined as follows:-
  - (a) by calculating the Net Asset Value of such Sub-Fund as at that time excluding any assets or liabilities which are specifically attributable to any particular class of Units related to such Sub-Fund;
  - (b) by apportioning the resulting amount between the classes of Units related to such Sub-Fund by reference to the respective Net Asset Values of each such class immediately prior to the relevant Valuation Point; and
  - (c) by deducting the liabilities and adding any assets specifically attributable to the relevant class of Units.

In order to determine the Net Asset Value of a Unit of a particular class related to such Sub-Fund, the Net Asset Value of such class shall be divided by the number of Units of that class in issue immediately prior to the relevant Dealing Day for such class of Units.

#### 2. *Conversion to Class Currency*

Where the Class Currency of a class is different from the Base Currency of the Sub-Fund, the Subscription Price or Redemption Price of each Unit of such class shall be converted from the Base Currency into the relevant Class Currency 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 or in accordance with a conversion formula set out in the relevant Notice of Establishment or Supplemental Deed (each as defined in the Trust Deed).

#### 3. *Valuation Methods*

The Manager will apply and adhere to fair value principles at all times to ensure the appropriate price is determined and will comply with all applicable regulatory requirements including consultation with the Trustee. The Value of the assets comprised in each Sub-Fund shall be calculated on the following basis:-

##### 3.1 Listed Investments

The Value of any Investment (including unit, share or other interest in a Collective Investment Scheme quoted, listed, traded or normally dealt in on a Securities Market but excluding unit, share or other interest in an unlisted Collective Investment Scheme or a Commodity) quoted, listed, traded or normally dealt in on a Securities Market shall be calculated by reference to the last traded price or closing price as calculated and published by the Securities Market (which, in the opinion of the Manager, provides the principal Securities Market for such Investment) on which the Investment is quoted, listed, traded or normally dealt in for such amount of such Investment at or immediately preceding the Valuation Point, as the Manager may consider in the circumstances to provide a fair criterion, provided that:-

- 3.1.1 If the Manager in its discretion considers that the prices ruling on a Securities Market other than the principal Securities Market provide in all the circumstances a fairer criterion of Value in relation to any such Investment, it may, after consultation with the Trustee, adopt such prices.
- 3.1.2 If an Investment is quoted, listed or normally dealt in on more than one Securities Market, the Manager shall adopt the price on the market which is considered the principal market for such Investment.
- 3.1.3 In the case of any Investment which is quoted, listed or normally dealt in on a Securities Market but in respect of which, for any reason, prices on that Securities 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 after consultation with the Trustee.
- 3.1.4 There shall be taken into account interest accrued on interest-bearing Investments up to (and including) the date as at which the valuation is made, unless such interest is included in the quoted or listed price.

### 3.2 Unquoted Investments

The Value of any Investment (other than an interest in a Collective Investment Scheme or a Commodity) which is not quoted, listed or normally dealt in on a Securities Market ("**Unquoted Investments**") shall be the initial value thereof equal to the amount expended out of the relevant Sub-Fund in the acquisition (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that money market instruments and other liquid assets may be valued using the linear amortization method, and provided further that the Value of any Unquoted Investments shall be determined on a regular basis by a professional person approved by the Trustee as qualified to value such Unquoted Investments. Such professional person may, with the approval of the Trustee, be the Manager.

### 3.3 Cash, Deposits etc.

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, provided that such adjustment shall only be made in consultation with the Trustee.

### 3.4 Commodity

The Value of any Commodity shall be ascertained in such manner as the Manager, after consultation with the Trustee, shall think fit, but so that:-

- 3.4.1 if such Commodity is dealt in on any Commodities Market (as defined in the Trust Deed), then the Manager shall, in ascertaining the Value of such Commodity, have regard to the latest ascertainable price ruling or price officially fixed in respect of such Investment on such Commodities Market or (if there shall be more than one such Commodities Market) on such Commodities Market as the Manager shall consider appropriate;
- 3.4.2 if any such price as referred to in paragraph 3.4.1 above is not reasonably up-to-date (in the opinion of the Manager) or is not ascertainable at any relevant time, then the Manager shall, in ascertaining the Value of the relevant Commodity, have regard to any certificate as to such Value provided by a firm or institution making a market in such Commodity;

3.4.3 the Value of any futures contract shall be:-

- (1) in the case of a futures contract for the sale of a Commodity including a financial futures contract, the positive or negative amount produced by applying the following formula:-

$$a - (b + c)$$

- (2) in the case of a futures contract for the purchase of a Commodity including a financial futures contract, the positive or negative amount produced by applying the following formula:-

$$b - (a + c),$$

in each case where

a = the Contract Value of the relevant futures contract (the "**relevant Contract**")

b = the amount determined by the Manager to be the contract value of such futures contract as would be required to be entered into by the Manager on behalf of the relevant Sub-Fund in order to close the relevant Contract, such determination to be based on the latest available price or (if bid and offered quotations are made) the latest available middle market quotation on the market in which the relevant Contract was entered into by the Manager; and

c = the amount expended out of the relevant Sub-Fund in entering into the relevant Contract, including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith; and

- (3) notwithstanding paragraphs (1) and (2), the Value of any futures contract may be determined in such other manner as the Manager, after consultation with the Trustee, shall think fit; and

3.4.4 if the provisions set out in paragraphs 3.4.1 and 3.4.2 above do not apply to any relevant Commodity, then the Manager shall, in ascertaining the Value of such Commodity, have regard to the same factors which would have determined the Value of such Commodity pursuant to paragraph 3.2 above, if such Commodity were an Unquoted Investment.

### 3.5 Collective Investment Scheme

3.5.1 The Value of each unit, share or other interest in any Collective Investment Scheme (other than unit, share or other interest in a Collective Investment Scheme quoted, listed, traded or normally dealt in on a Securities Market) shall be the net asset value per unit, share or other interest as at the same day the Net Asset Value of the relevant Sub-Fund is calculated, or if such Collective Investment Scheme is not valued as at the same day, the last published net asset value per unit, share or other interest 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 at or immediately preceding the Valuation Point.

3.5.2 If no net asset value, bid and offer prices or price quotations are available as provided in paragraph 3.5.1 above, the value of each unit, share or other interest shall be determined from time to time in such manner as the Trustee and the Manager shall determine.

### 3.6 Other Valuation Methods

Notwithstanding paragraphs 3.1 to 3.5 above, the Manager may, after consultation with the Trustee, adjust the Value of any Investment or permit some other method of valuation to be used if, having regard to currency, applicable rate of interest, maturity, marketability and other considerations it deems relevant, it considers that such adjustment or use of such other method is required to reflect the fair value thereof.

### 3.7 Valuation of Other Assets

Assets other than investments and cash shall be valued in such manner and at such time or times as the Manager and the Trustee shall from time to time agree.

### 3.8 Wholly-owned Entity

Any entity wholly owned by any Sub-Fund shall be valued on the basis of its net assets (being the difference between the Value of its assets and liabilities) and in valuing its net assets this section shall *mutatis mutandis* apply.

### 3.9 Assets comprised in a Sub-Fund

In calculating the Net Asset Value of any Sub-Fund:

- 3.9.1 Every Unit of the class relating to such Sub-Fund agreed to be issued by the Manager as at a date prior to the date as at which the valuation is made and not subsequently cancelled shall be deemed to be in issue and such Sub-Fund shall be deemed to include not only cash and any other property in the hands of the Trustee but also the value of any cash or other property to be received in respect of such Units agreed to be issued prior to the date as at which the valuation is made after deducting therefrom or providing thereout the subscription charge (if any) and any additional amount charged by the Manager, provided that such Sub-Fund shall not include the issue price of Units of the relevant class to be issued on the date as at which the valuation is made.
- 3.9.2 Where, in consequence of any redemption request given, a reduction of such Sub-Fund by the cancellation of Units of the relevant class has been effected but payment in respect of such reduction has not been completed, the Units in question shall be deemed not to be in issue and the Redemption Price thereof shall be deducted, provided that no deduction shall be made in respect of Units of the relevant class to be cancelled on the date as at which the valuation is made.
- 3.9.3 Where Investments or other property have been agreed to be purchased or otherwise acquired or sold for the account of such Sub-Fund but such purchase, acquisition or sale has not been completed, such Investments or other property shall be included or excluded and the gross purchase or acquisition or net sale consideration excluded or included (as the case may be) as if such purchase, acquisition or sale had been duly completed.
- 3.9.4 There shall be included in the assets of the relevant Sub-Fund an amount equal to the appropriate portion for such Sub-Fund of the total of the costs, charges, fees and expenses incurred in establishing the Trust and/or such Sub-Fund and referred to in the Trust Deed less the amount thereof which has previously been or is then to be written off.

3.9.5 Where the current price of an Investment is quoted "ex" any dividend (including stock dividend), interest or other rights to which the Sub-Fund is entitled but such dividend, interest or the property or cash to which such rights relate has not been received and is not taken into account under any other provisions of this definition, the amount of such dividend, interest, property or cash shall be taken into account.

#### 4. *Liabilities*

4.1 The liabilities attributable to such Sub-Fund shall include (without limitation):

4.1.1 an amount in respect of any Management Fee or Trustee Fee (each term as defined below) attributable to such Sub-Fund accrued to the date as at which the valuation is made but remaining unpaid;

4.1.2 the amount of tax payable (if any) in respect of capital gains, income and profits attributable to such Sub-Fund up to the end of the last Accounting Period (as defined in the Trust Deed) remaining unpaid;

4.1.3 the aggregate amount for the time being outstanding of any borrowing effected for the account of such Sub-Fund and the amount of any interest and expenses accrued but not paid;

4.1.4 any other costs or expenses payable but not paid which are expressly authorised by the terms of the Trust Deed to be payable out of such Sub-Fund; and

4.1.5 an appropriate allowance for any contingent liabilities.

4.2 There shall be taken into account such sum (if any) as in the estimate of the Manager will fall to be paid or reclaimed for the account of such Sub-Fund in respect of taxation related to income and transactions down to the date as at which the valuation is made.

4.3 There shall be taken into account any other fees that may become payable in respect of the then current Accounting Period pursuant to the relevant Supplemental Deed.

4.4 Liabilities shall (where appropriate) be treated as accruing from day to day.

#### 5. *Reliance on Price Data and Information provided through Electronic Price Feeds etc.*

Subject as provided below, when calculating the Net Asset Value of a Sub-Fund, the valuation agent will be entitled, without verification, further enquiry or liability, to rely on price data and other information in relation to the Value of any Investment or the cost price or sale price thereof provided through electronic price feeds, mechanised or electronic systems of price or valuation, or valuation or pricing information which is provided to it by any valuer, third party valuation agent, intermediary or other third party appointed or authorised by the valuation agent to provide valuations or pricing information of the Investments or the assets of the Sub-Fund notwithstanding that the prices so used are not the last traded prices or closing prices.

The valuation agent will exercise reasonable care and diligence in the selection of the valuation service providers and shall satisfy itself that such valuation service providers remain suitably qualified and competent to provide such price data and other information services.

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

The Manager may, after consultation with and giving notice to the Trustee and having regard to the best interests of Unitholders, declare a suspension of the determination of the Net Asset Value of a Sub-Fund or any class in exceptional circumstances, being the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any Securities Market or Commodities Market or futures exchange on which a substantial part of the Investments of the Sub-Fund is normally listed, quoted, traded or dealt or a breakdown in any of the means normally employed in ascertaining the prices of Investments of the Sub-Fund;
- (b) for any other reason the prices of any of the Investments or other assets of the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (c) there is a breakdown in any of the systems and/or means of communication normally employed in ascertaining the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit or the Subscription Price or Redemption Price of the relevant class, or when for any other reason the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit or the Subscription Price or Redemption Price of the relevant class cannot be ascertained in a prompt or accurate manner;
- (d) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise a substantial part of the Investments of the Sub-Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders;
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, a substantial part of the Investments of the Sub-Fund or the issue or redemption of Units in the Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange;
- (f) the business operations of the Manager, the Trustee or any agent of the Manager or the Trustee in relation to the operations of the Trust and/or the relevant 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
- (g) the issue, redemption or transfer of Units of the relevant Sub-Fund or class would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

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

Any Unitholder may at any time after such a suspension has been declared and before termination of such suspension, withdraw any application for the redemption or conversion of Units (but only if the redemption or conversion of those Units has not been effected on a Dealing Day prior to the suspension), by notice in writing to the Manager and/or the Registrar. If no such notice withdrawing any such application has been received by the Manager or the Registrar before termination of such suspension, the Manager shall, subject to and in accordance with the Trust Deed, redeem or convert Units in respect of which it has received a redemption request or conversion request, as the case may be, as at the Dealing Day next following the termination of such suspension.

Whenever the Manager declares such a suspension it shall (i) immediately notify the SFC of such suspension and (ii) immediately after any such declaration and at least once a month during the period of such suspension, publish a notice in the Manager's website ([www.phillipfunds.com.hk](http://www.phillipfunds.com.hk)) (this website has not been reviewed by the SFC) stating that such declaration has been made. The Manager may from time to time determine other appropriate means of dissemination including local newspapers advertisement or service hotlines, which will be notified to Unitholders relating to the relevant Sub-Fund and to all those (whether Unitholders or not) whose applications to subscribe for or redeem Units shall have been affected by such suspension.

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

**Publication of Net Asset Value**

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of each Sub-Fund are available on the Manager's website [www.phillipfunds.com.hk](http://www.phillipfunds.com.hk) on each Dealing Day (this website has not been reviewed by the SFC).



## EXPENSES AND CHARGES

*There are different levels of fees and expenses applicable to investing in each Sub-Fund as set out below. For information concerning actual fees payable in respect of each Sub-Fund, please refer to the relevant Appendix.*

### **Fees payable by Unitholders**

The following fees and charges are payable by Unitholders:

#### Subscription Fee

Under and in accordance with the provisions of the Trust Deed, the Manager is entitled to impose a subscription fee on the issue of Units of any Sub-Fund of up to a maximum of 5% of the Subscription Price.

The subscription fee is payable in addition to the Subscription Price per Unit. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the subscription fee (either generally or in any particular case) of a Sub-Fund.

#### Redemption fee

Under and in accordance with the provisions of the Trust Deed, the Manager is entitled to impose a redemption fee on the redemption of Units of any Sub-Fund of up to a maximum of 2% of the Redemption Price of such Units.

The redemption fee, if applicable, is deducted from the redemption proceeds payable to a Unitholder in respect of each Unit redeemed.

#### Switching fee

Under and in accordance with the provisions of the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 2% of the redemption proceeds payable in respect of the Units of the Existing Class being switched.

The switching fee, if applicable, is deducted from the amount realised from redemption of the Existing Class and reinvested in the New Class.

### **Fees payable by the Trust**

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

#### Management fee

The Trust Deed provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages (the "**Management Fee**"), the maximum amount of which is equal to 2% per annum of the Net Asset Value of each class of Units issued in respect of the relevant Sub-Fund, subject to any further limitations for each Sub-Fund as set out in the relevant Appendix. The Management Fee will be calculated and accrued as at each Valuation Day and will be payable monthly in arrears, except as otherwise set out in the Trust Deed.

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

### Performance fee

The Manager may also charge an annual performance fee in respect of any Sub-Fund on a high-on-high basis, subject to a maximum of 30% of the excess return over the offer value. Details of any performance fee are set out in the relevant Appendix.

### Trustee fee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund (the "**Trustee Fee**"), the maximum amount of which is equal to 2% per annum of the Net Asset Value of each class of Units issued in respect of the relevant Sub-Fund, subject to any further limitations for each Sub-Fund as set out in the relevant Appendix (inclusive of fees payable of the Registrar and Transfer Agent, as to which see below), at the rate specified in the relevant Appendix, subject to a minimum annual fee (if any) as set out in the Appendix. The Trustee Fee will be accrued as at each Valuation Day and will be payable monthly in arrears. The Trustee will be entitled to reimbursement by the Sub-Fund for any reasonable and properly incurred out-of-pocket expenses incurred in the course of its duties. The Trustee Fee is inclusive of fees payable to the Registrar and Transfer Agent and, where agreed by the Trustee and the Manager, the Trustee Fee is exclusive of fees payable to the Global Custodian as set out below.

### Custodian fee

The Global Custodian is entitled to a custodian fee in respect of each Sub-Fund, which fee includes, but is not limited to, transaction fees and safekeeping fees at different rates, each largely dependant on the markets where the Global Custodian is required to hold the relevant Sub-Fund's assets. The fee that the Global Custodian is entitled to charge with respect of each Sub-Fund is as specified in the Appendix in respect of each Sub-Fund. The Global Custodian is entitled to reimbursement by the Sub-Fund for any reasonable and properly incurred out-of-pocket expenses incurred in the course of its duties.

### Fund Accounting Fee

The Fund Accountant is entitled to a fund accounting fee in respect of each Sub-Fund. The fee that the Fund Accountant is entitled to charge with respect to each Sub-Fund is as specified in the Appendix in respect of each Sub-Fund.

The fund accounting fee will be accrued as at each Valuation Day and will be payable monthly in arrears. The fund accounting fee is based on the Net Asset Value of each class of Units issued in respect of the relevant Sub-Fund.

### Other charges and expenses

Each Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, such costs will be allocated between all Sub-Funds pro-rata to the Net Asset Value of each Sub-Fund, unless otherwise determined by the Manager after consultation with the Trustee and/or the Auditor. Such costs include but are not limited to the costs of investing and realising the Investments of a Sub-Fund, the fees and expenses of safekeeping of the assets of the Trust and each Sub-Fund, any fees, charges or expenses (including without limitation, stamp duty) incurred in connection with counterparty risk management procedures, the fees and expenses of any administrators, auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation and printing of the Explanatory Memorandum, the KFS and any financial statements.

Expenses arising out of any advertising or promotional activities in connection with any Sub-Fund authorised by the SFC will not be charged to the Trust or that Sub-Fund.

## **Establishment costs**

The costs of establishing the Trust and the first Sub-Fund (i.e. Phillip HKD Money Market Fund) were approximately HKD500,000. These costs were charged to the first Sub-Fund and amortised over the first five accounting periods of the Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

Where subsequent Sub-Funds under the Trust are established in the future, the Manager may determine that the unamortised establishment costs of the Trust or a part thereof may be re-allocated to such subsequent Sub-Funds.

Investors should also note that under IFRS, establishment costs should be expensed as incurred and that amortisation of the expenses of establishing Sub-Funds is not in accordance with IFRS; however, the Manager has considered the impact of such non-compliance and has considered that it will not have a material impact on the financial statements of Sub-Funds. To the extent that the basis adopted by a Sub-Fund for subscription and redemption purposes deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements for the financial statements to be in compliance with IFRS.

## **Increase in fees**

The current fees in respect of each Sub-Fund payable to the Manager and the Trustee as described in the relevant Appendix may be increased on one month's prior notice to Unitholders, subject to the maximum rates set out in the Trust Deed.

## **Cash rebates and soft commissions**

Neither the Manager, any investment delegate nor any of their Connected Persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions in the Trust's property to the broker or dealer.

The Manager, any investment delegate and/or any of their Connected Persons reserve the right to effect transactions by or through the agency of another person with whom the Manager, any investment delegate and/or any of their Connected Persons has an arrangement under which that party will from time to time provide to or procure for the Manager, any investment delegate and/or any of their Connected Persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures), the nature of which is such that their provision are of demonstrable benefit to the Trust (or the relevant Sub-Fund) as a whole and may contribute to an improvement in the performance of the Trust (or the relevant Sub-Fund) or of the Manager, any investment delegate and/or any of their Connected Persons in providing services to the Trust (or the relevant Sub-Fund) and for which no direct payment is made but instead the Manager, any investment delegate and/or any of their Connected Persons undertakes to place business with that party. Goods, services or other benefits may only be retained if:

- (a) the goods or services are of demonstrable benefit to the Unitholders;
- (b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates;
- (c) adequate prior disclosure is made in this Explanatory Memorandum the terms of which the Unitholder has consented to;
- (d) periodic disclosure is made in the Trust's annual financial report in the form of a statement describing the soft dollar policies and practices of the Manager or investment delegate, including a description of the goods and services received by them; and

- (e) 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, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments. Details of soft commission arrangements will be disclosed in the Trust's annual financial reports.

## **RISK FACTORS**

*The nature of each Sub-Fund's Investments involves certain risks and uncertainties, including those inherent in any investment. There can be no assurance that the investment objective of any Sub-Fund will be achieved. This section sets out what the Manager believes are the general risks associated with Investments in the Sub-Funds, but investors should note that the relevant Appendix may include additional risk factors which are specific or particular to a particular Sub-Fund. The risk factors below do not offer advice on the suitability of investing in any Sub-Fund. Prospective investors should carefully evaluate the merits and risks of an investment in a Sub-Fund in the context of their overall financial circumstances, knowledge and experience as an investor and should consult their independent professional or financial advisors before making any Investments in a Sub-Fund.*

### **General risks**

#### **Investment risk**

Investors should be aware that investment in any Sub-Fund is subject to normal market fluctuations and other risks inherent in the underlying assets into which the Sub-Fund may invest. There can be no assurance that any appreciation in Value of Investments will occur. There is no assurance that the investment objectives of a Sub-Fund will actually be achieved, notwithstanding the efforts of the Manager since changes in political, financial, economic, social and/or legal conditions are not within the control of the Manager. Accordingly, there is a risk that investors may not recoup the original amount invested in a Sub-Fund or may lose a substantial part or all of their initial investment.

#### **Market risk**

The Net Asset Value of a Sub-Fund will change with changes in the market value of the Investments of such Sub-Fund. The Value of such Investments, and consequently the price of Units of the relevant Sub-Fund, may go down as well as up.

#### **Concentration risk**

Certain Sub-Funds may invest only in a specific country, region, sector or type of investment with a particular focus. Although there are various investment restrictions with which the Manager has to comply when managing the investments of any Sub-Fund, the concentration of a Sub-Fund's Investments may subject it to greater volatility than portfolios which comprise broad-based global investments.

#### **Management risk**

A portfolio may be subject to management risk because it is an actively managed investment fund. The Manager will apply its investment techniques and risk analyses in making investment decisions for the portfolio, but there can be no guarantee that its decisions will produce the desired results. In some cases, derivative and other investment techniques may be unavailable or the Manager may determine not to use them, possibly even under market conditions where their use could benefit the portfolio.

#### **Counterparty risk**

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

Deposits of securities or cash with a custodian, bank or financial institution (“**custodian or depository**”) will also carry counterparty risk as the custodian or depository may be unable to perform their obligations

due to credit-related and other events like insolvency of or default by them. In these circumstances, the Sub-Fund may be required to unwind certain transactions and may encounter delays of some years and difficulties with respect to court procedures in seeking recovery of the Sub-Fund's assets. In most cases, the Sub-Fund's assets will be maintained by the custodian or depository in segregated accounts and would be protected in the event of the insolvency of the custodian or depository. However, in some custody, sub-custody or stock lending arrangements, the Sub-Fund may not have a right to have specific assets returned to it, but rather, the Sub-fund may only have an unsecured claim against the custodian or counterparty, in which case it may lose all or the greater part of the value of the relevant assets.

### Liquidity risk

A Sub-Fund may invest in instruments where the volume of transactions may fluctuate significantly depending on market sentiment. There is a risk that Investments made by a Sub-Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, there may be no willing buyer and the Investments cannot be readily sold at the desired time or price, and the relevant Sub-Fund may have to accept a lower price to sell the Investments or may not be able to sell the Investments at all. An inability to sell a portfolio position can adversely affect the Net Asset Value of a Sub-Fund or prevent a Sub-Fund from being able to take advantage of other investment opportunities.

Liquidity risk also includes the risk that a Sub-Fund will not be able to pay redemption proceeds within one calendar month because of unusual market conditions, an unusually high volume of redemption requests, or other uncontrollable factors. To meet redemption requests, a Sub-Fund may be forced to sell Investments, at an unfavourable time and/or conditions. Investment in fixed income securities will be especially subject to the risk that during certain periods, the liquidity of particular issuers or industries, or all securities within a particular investment category will shrink or disappear suddenly and without warning as a result of adverse economic, market or political events, or adverse investor perceptions whether or not accurate. The bid and offer spread of an instrument may be high and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such Investments. In the absence of a regular and active secondary market with respect to any fixed income instruments, the Sub-Fund may not be able to sell its holdings at prices the Manager considers advantageous and may need to hold such instruments until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its Investments at a discount in order to satisfy such requests and the Sub-Fund may suffer losses.

### Valuation risk

Securities acquired on behalf of the Sub-Fund(s) may subsequently become illiquid due to events relating to the issuer of the securities, market and economic conditions and regulatory sanctions. There may be cases where no clear indication of the value of a Sub-Fund's portfolio securities is available (for example, when the secondary markets on which a security is traded has become illiquid). If this situation occurs, the Manager may, in consultation with the Trustee, value the asset at a price which reflects a fair and reasonable price for that asset in the prevailing circumstances, as such investors' interest may be adversely affected if they purchase or redeem Units during such period and the Value of the relevant Sub-Fund may be adversely impacted. Market volatility also may result in a discrepancy between the market price of Investments and their fair value. In such circumstances, to protect the interest of investors, the Manager may, having due regard to the interests of incoming, remaining and outgoing Unitholders and in consultation with the Trustee, adjust the value of the securities or permit some other valuation method to be used pursuant to the "Valuation" section of this Explanatory Memorandum (which reflects the provisions of the Trust Deed), to ascertain the fair value of the Investments of the Sub-Fund, if in the circumstances it considers that such adjustment is required to reflect more accurately the fair value of the Sub-Fund's assets.

### Exchange rate risk

Assets of certain Sub-Funds may be denominated in currencies other than (1) the Base Currencies and/or (2) the subscription/redemption/dividend payment currencies of such Sub-Funds. These Sub-Funds may be subject to exchange rate risks, and may be adversely affected by changes in exchange rates between the currencies in which the assets of the relevant Sub-Fund are held and the Base Currency and/or the

subscription/redemption/dividend payment currencies of such Sub-Fund. In addition, any class not denominated in the Base Currency of the relevant Sub-Fund will be exposed to possible adverse currency fluctuations between its currency of denomination and the Base Currency.

#### Legal and compliance risk

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

#### Suspension risk

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

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

#### Early termination risk

Under the Trust Deed, a Sub-Fund may be terminated by the Manager or the Trustee in certain conditions and in the manner as described in "Termination of the Trust or any Sub-Fund" in the section entitled "General" in this Explanatory Memorandum. It is possible that, in the event of such termination, a Sub-Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will receive an amount less than the capital they originally invested. Moreover, any preliminary costs with regard to the Trust that had not yet been fully amortised would be debited against the Trust's assets at that time.

#### Effect of Substantial Redemptions

Substantial redemptions by Unitholders within a short period of time could require the relevant Sub-Fund to liquidate securities and other positions more rapidly than would otherwise be desirable, possibly reducing the value of its assets and/or disrupting its investment strategy. Further, it may be impossible to liquidate a sufficient amount of securities to meet redemptions because a significant part of the portfolio at any given time may be invested in securities for which the market is or has become illiquid. Reduction in the size of the relevant Sub-Fund could make it more difficult to generate a positive return or to recoup losses due to, among other things, reductions in the Sub-Fund's ability to take advantage of particular investment opportunities or decreases in the ratio of its income to its expenses.

In view of the above, investment in any Sub-Fund should be regarded as long term in nature. The Sub-Funds are, therefore, only suitable for investors who can afford the risks involved. Investors should refer to the relevant Appendix for details of any additional risks specific to a Sub-Fund.

#### Conflicts of interest

A Sub-Fund may from time to time invest in other funds managed by the Manager or Connected Persons of the Manager. In such circumstances, in accordance with the Sub-Fund's investment restrictions, all initial charges and redemption charges on the underlying fund must be waived for the Sub-Fund, and the Manager may not obtain a rebate on any fees or charges levied by the underlying fund. However, despite such measures, conflicts of interest may nevertheless arise out of such Investments, and in such event the Manager will use its best endeavours to resolve such conflicts fairly.

### Cross class liability risk

The Trust Deed allows the Trustee and the Manager to issue Units in separate classes. The Trust Deed provides for the manner in which liabilities are to be attributed across the various classes within a Sub-Fund under the Trust (liabilities are to be attributed to the specific class of a Sub-Fund in respect of which the liability was incurred). A person to whom such a liability is owed has no direct recourse against the assets of the relevant class (in the absence of the Trustee granting that person a security interest). However, the Trustee will have a right of reimbursement and indemnity out of the assets of the Trust which may result in Unitholders of one class of Units of a Sub-Fund being compelled to bear the liabilities incurred in respect of another class of the Sub-Fund which Units such Unitholders do not themselves own if there are insufficient assets attributable to that other class to satisfy the amount due to the Trustee. Accordingly, there is a risk that liabilities of one class of a Sub-Fund may not be limited to that particular class and may be required to be paid out of one or more other classes of that Sub-Fund.

### Cross Sub-Fund liability risk

The assets and liabilities of each Sub-Fund under the Trust will be tracked, for bookkeeping purposes, separately from the assets and liabilities of any other Sub-Funds, and the Trust Deed provides that the assets of each Sub-Fund should be segregated from each other. There is no guarantee that the courts of any jurisdiction will respect the limitations on liability and that the assets of any particular Sub-Fund will not be used to satisfy the liabilities of any other Sub-Fund.

### Valuation and accounting risk

Investors should note that, under IFRS, establishment costs should be expensed as incurred. However for the purpose of calculating Net Asset Value for subscription and redemption purposes, establishment costs are to be amortised over a period of five years, which may lead to a different valuation had the accounting been in accordance with IFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and the calculation of Net Asset Value of the Sub-Funds materially. To the extent that the valuation or accounting basis adopted by any Sub-Fund deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements to comply with IFRS. Any such adjustments will be disclosed in the annual accounts, including a reconciliation note to reconcile values arrived at by applying the Trust's valuation rules. Otherwise, non-compliance with IFRS 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.

### Taxation risk

Investing in the Sub-Fund(s) may have tax implications for a Unitholder depending on the particular circumstances of each Unitholder. Prospective investors are strongly urged to consult their own tax advisers and counsel with respect to the possible tax consequences to them of an investment in the Units. Such tax consequences may differ in respect of different investors. Please refer to the section "Taxation" and the taxation risks specific to each Sub-Fund in the relevant Appendix of this Explanatory Memorandum and the KFS.

### Foreign Account Tax Compliance Act

Sections 1471 – 1474 of the US Internal Revenue Code of 1986, as amended ("**IRS Code**") (referred to as the Foreign Account Tax Compliance Act or "**FATCA**") will impose new rules with respect to certain payments to foreign financial institutions ("**FFIs**"), such as the Trust and the Sub-Funds, including payment of interest and dividends from securities of US issuers and gross proceeds from the sale of such securities. Generally, all such payments may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service ("**IRS**") to identify US persons (within the meaning of the IRS Code) with direct or indirect interests in such payments. To avoid such withholding on payments made to it, FFIs, such as the Trust and the Sub-Funds (and, generally, other investment funds organised outside the US), generally will be required to enter into an



agreement (an "**FFI Agreement**") with the IRS under which it will agree to identify its direct or indirect owners who are US persons and report certain information concerning such US person and nonparticipating FFIs owners to the IRS.

In general, an FFI which does not sign an FFI Agreement or is not otherwise exempt will face a punitive 30% withholding tax on all "withholdable payments" derived from US sources, including dividends, interest and certain derivative payments made on or after 1 July 2014. In addition, starting from 1 January 2019, payments of gross proceeds such as the proceeds and returns of principal derived from the sale or disposal of property, stocks and debt obligations generating US sourced income (e.g. dividends or interest) will be treated as "withholdable payments".

The Hong Kong government signed an intergovernmental agreement on 13 November 2014 with the US ("**IGA**") for the implementation of FATCA, adopting "Model 2" IGA arrangements. Under the "Model 2" IGA arrangements, FFIs in Hong Kong (such as the Trust and the Sub-Funds) would be required to register with the US IRS and comply with the terms of the FFI Agreement, as discussed above.

As an IGA has been signed between Hong Kong and the US on 13 November 2014, it is expected that FFIs in Hong Kong (such as the Trust and the Sub-Funds) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments to recalcitrant accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the US IRS) or close those recalcitrant accounts (provided that information regarding such recalcitrant account holders is reported to the US IRS), but may be required to withhold tax on payments made to non-compliant FFIs.

Under FATCA, the Trust and the relevant Sub-Fund are likely to be treated as an "Investment Entity" and therefore a "Financial Institution". The Manager and/or Trustee may, at their discretion, take any necessary measures that may be required to avoid the 30% withholding tax, including but not limited to:

- (a) apply prescribed due diligence procedures, and report "U.S. Accounts", "Non-consenting accounts" and account information with respect to "Non-participating Financial Institutions" to the IRS;
- (b) obtain from its Unitholders self-certification or other information or documentation in order to establish their tax residence or to comply with any reporting obligations imposed by the US, Hong Kong or any other jurisdiction(s); and
- (c) if there is any change in circumstances that would affect the investors tax residence, or there is any reason for the Manager and/or Trustee to know that the self-certification may be required from the Unitholders.

The Trustee and/or Manager may need to obtain consent from the Unitholders authorising the Trustee and/or Manager to report their information to the appropriate tax authority. If the consent is not obtained from the Unitholders, the Trustee and/or Manager may, at their own discretion, decide not to open the account for such Unitholders and to reject any subscription submitted by them.

The Manager has been registered as a "sponsoring FFI" (i.e. the FFI which undertakes the obligations under FATCA on behalf of the Trust and/or the Sub-Funds). In addition, the Manager has registered the Trust and/or the Sub-Funds.

Other jurisdictions are in the process of adopting tax legislation concerning the reporting of information. The Trust and the relevant Sub-Fund may need to comply with such other similar tax legislation that may apply to the Trust and the relevant Sub-Fund, although the exact parameters of such requirements are not yet fully known. As a result, the Trust and/or the Sub-Fund may need to seek information about the tax status of Unitholders under such other jurisdiction's law for disclosure to the relevant governmental authority.

The Trust and each Sub-Fund will endeavour to satisfy the requirements imposed under FATCA and the FFI Agreement to avoid any withholding tax, although no assurance can be given that the Trust and each Sub-Fund will be able to satisfy all FATCA obligations. In the event that the Trust or any Sub-Fund is not able to comply with the requirements imposed by FATCA or the FFI Agreement and the Trust or such Sub-Fund does suffer US withholding tax on its Investments as a result of noncompliance, the Net Asset Value of the Trust or that Sub-Fund may be adversely affected and the Trust or such Sub-Fund may suffer significant loss as a result.

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Trust or the relevant Sub-Fund, or a risk of the Trust or the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Trust or each of such relevant Sub-Fund reserves the right to take any action and/or pursue all remedies at its disposal, to the extent permitted by applicable laws and regulations, including, without limitation, (i) reporting the relevant information of such Unitholder to the US IRS; (ii) withholding or deducting from such Unitholder's redemption proceeds or distributions, or otherwise collecting any such tax liability from such Unitholder to the extent permitted by applicable laws and regulations; and/or (iii) deeming such Unitholder to have given notice to redeem all his Units in the relevant Sub-Fund. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds and pursuant to applicable laws and regulations.

Each Unitholder and prospective investor should consult with his own professional tax advisor regarding the possible implications of FATCA on them and the Sub-Fund. In particular, Unitholders who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they would not be subject to FATCA tax on their investment returns.

#### Automatic Exchange of Financial Account Information Disclosures

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 ("**FIs**") in Hong Kong to collect information relating to non-Hong Kong tax residents holding accounts with FIs, and to file such information with the Hong Kong Inland Revenue Department ("**IRD**") who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a Competent Authority Agreement ("**CAA**"); however, the Trust and/or its agents may further collect information relating to residents of other jurisdictions.

The Trust and each Sub-Fund are required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Trust 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 Trust and/or each Sub-Fund to, amongst other things: (i) register the Trust and/or each 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 jurisdictions with which Hong Kong has signed a CAA. Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a jurisdiction with which Hong Kong has signed a CAA; and (ii) certain entities controlled by individuals who are tax resident in such other jurisdiction. Under the Ordinance, details of Unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, Taxpayer Identification Number or its Functional Equivalent ("**TIN**"), account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant jurisdictions of tax residence.

By investing in the Trust or any Sub-Fund and/or continuing to invest in the Trust or any Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the Trust or any Sub-Fund, the Manager and/or the Trust's agents in order for the Trust and the relevant 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. The failure of a Unitholder to provide any requested information (whether or not such action or inaction leads to compliance failures by the Trust and/or the relevant Sub-Fund, or a risk of the Trust or its Unitholders being subject to withholding tax or other costs, debts, expenses, obligations or liabilities (whether external, or internal, to the Trust and the relevant Sub-Fund) (collectively, "**costs**") under AEOI), may result in the Trust and the relevant Sub-Fund, the Manager and/or other agents of the Trust (i) taking any action and/or pursuing remedies at their disposal including, without limitation, mandatory redemption or withdrawal of the Unitholder concerned and (ii) holding back from any redemption or repurchase proceeds, dividend payments or any other distributions, or to deduct from the Unitholder's applicable Net Asset Value, any costs caused (directly or indirectly) by the Unitholder's action or inaction. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds and pursuant to applicable laws and regulations.

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 Trust or any Sub-Fund.

## **Investment risks**

### Risk of investing in fixed income instruments

*Interest rate risk:* Sub-Funds which invest in fixed income instruments are subject to interest rate risk as interest rates in countries in which the Sub-Fund's assets will be invested may be subject to fluctuations. Any such fluctuations may have a direct effect on the income received by the Sub-Fund and its capital value. Generally, the value of fixed income instruments will change inversely with changes in interest rates. As interest rates rise, market value of fixed income instruments tends to fall. Long-term fixed income instruments in general are subject to higher interest rate risk than short-term fixed income instruments.

*Credit risk:* Investment in fixed income instruments is subject to the credit risk of the issuers, which may be unable or unwilling to make timely payments of principal and/or interest. In general, debt instruments that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. In the event of a default or credit rating downgrading of the issuers of the fixed income instruments held by a Sub-Fund, that Sub-Fund's Net Asset Value may be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who are incorporated outside Hong Kong and therefore not subject to the laws of Hong Kong.

*Credit rating risk:* Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. It is possible that the creditworthiness of rated securities or issuers deteriorated before rating agencies revise their existing ratings.

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

*Risks of credit rating downgrades:* Credit rating of fixed income instruments and/or the issuers of such instruments may be downgraded or withdrawn, investors should therefore note that even if the bonds the Sub-Fund invests in may have an investment grade rating by an international credit rating agency as of the time of investment, there is no assurance that (a) such bonds will continue to have an investment grade rating or (b) such bonds will continue to be rated in the future, thus adversely affecting the Value and performance of a Sub-Fund holding such Investments. The Manager may or may not be able to dispose of

debt instruments that are being downgraded in a timely manner. A downgrade of ratings of an instrument to below investment grade rating or the withdrawal of ratings may result in such instrument becoming less liquid. Credit rating downgrades affecting issuers or major financial institutions may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of fixed income instruments, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's Investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all, which in turn may adversely affect the Net Asset Value of the Sub-Fund.

*Sovereign Debt Obligations - political, social and economic risks:* By investing in debt obligations of governmental entities, a portfolio will be exposed to the direct or indirect consequences of political, social and economic changes in various countries. Adverse political changes in a particular country may affect the willingness or ability of a particular government to make or provide for timely payments of its debt obligations, including the repayment of principal and/or interest when due. The country's economic status, as reflected, among other things, in its inflation rate, the amount of its external debt and its gross domestic product, will also affect the government's ability to honour its obligations.

In addition, the cost of servicing debt obligations can be affected by a change in global interest rates since the majority of these debt obligations carry interest rates that are adjusted periodically based upon global rates.

*Sovereign Debt Obligations – restructuring risk:* A Sub-Fund that holds sovereign debt obligations may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. Sovereign debt holders may also be affected by additional constraints relating to sovereign issuers which may include the restructuring of such debt (including the reduction of outstanding principal and interest and or rescheduling of repayment terms) without the consent of the Sub-Fund (e.g. pursuant to legislative actions unilaterally taken by the sovereign issuer and/or decisions made by a qualified majority of the lenders).

*Sovereign Debt Obligations - limited legal recourse risk:* The Sub-Fund may have limited legal recourse in the event of a default with respect to certain sovereign debt obligations it holds. For example, remedies from defaults on certain debt obligations of governmental entities, unlike those on private debt, must, in some cases, be pursued in the courts of the defaulting party itself. Legal recourse therefore may be significantly diminished. Bankruptcy, moratorium and other similar laws applicable to issuers of sovereign debt obligations may be substantially different from those applicable to issuers of private debt obligations. The political context, expressed as the willingness of an issuer of sovereign debt obligations to meet the terms of the debt obligation, for example, is of considerable importance.

#### Over-the-counter markets risk

Over-the-counter markets are subject to less governmental regulation and supervision of transactions (in which many types of FDIs and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on over-the-counter markets. Therefore, a Sub-Fund entering into transactions on over-the-counter markets will be subject to the risk that its direct counterparty may not perform its obligations under the transactions.

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

### Hedging risk

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

### Risks of investing in other funds

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

### Investment objective risk

Although the Manager will use due diligence procedures to select and monitor underlying funds, there can be no assurance that an underlying fund's investment strategy will be successful or that its investment objective will be achieved.

### FDIs and Collateral risks

The risks associated with the use of FDIs are different from, or possibly greater than, the risks associated with investing directly in Securities and other traditional investments. Generally, a FDI is a financial contract the value of which depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities, and related indices. Any Sub-Fund investing in FDIs may utilise both exchange-traded and over-the-counter FDI. Compared to equity securities, FDIs can be more sensitive to changes in market prices of the underlying assets and thus market prices of FDIs may fall in value as rapidly as they may rise. Investors investing in such Sub-Funds are exposed to a higher degree of fluctuation in Value than a Sub-Fund which does not invest in FDIs. Transactions in over-the-counter FDIs may involve additional risk such as the risk that a counterparty defaults as there is no regulated market for such FDIs. Investing in FDIs also involves other types of risks including, but not limited to, the risk of adopting different valuation methodologies and imperfect correlation between the FDI and its underlying securities, rates and indices. Risks associated with FDIs also include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of a FDI can result in a loss significantly greater than the amount invested in the FDI by a Sub-Fund. Exposure to FDIs may lead to a high risk of significant loss by a Sub-Fund. There is no assurance that any derivative strategy used by a Sub-Fund will succeed.

There are risks associated with management of collateral and re-investment of collateral. The value of any collateral received in respect of any FDI transactions may be affected by market events. In the case of collateral assets which are listed securities, the listing of such securities may be suspended or revoked or the trading of such securities on the stock exchanges may be suspended, and during the period of suspension or upon revocation, it may take longer to realise the relevant collateral assets. In the case of collateral assets which are debt securities, the value of such securities will be dependent on the creditworthiness of the issuers or obligors in respect of the relevant collateral assets. In the event any issuer or obligor of such collateral assets is insolvent, the value of the collateral assets will be reduced substantially and may cause the relevant Sub-Fund's exposure to such counterparty to be under-collateralised. If a Sub-Fund reinvests cash collateral, it is subject to investment risk including the potential loss of principal.

### **Liquidity risk management**

The Manager shall, at all times, exercise due care, skill and diligence in managing the liquidity of the Sub-Fund and ensuring that investors are treated fairly and the Sub-Fund is able to meet investors' redemption requests.

The Manager has adopted liquidity risk management policies and procedures in its risk management function to help evaluate and monitor liquidity risks of the Sub-Fund, which will be reviewed periodically and as needed. These policies include appropriate supervision and oversight by senior management, appropriate reporting and response procedures to enable the Manager to assess, review and decide on actions required to meet liquidity demands at short notice, regular assessment and measurement processes, on-going monitoring and internal control procedures.

The Manager shall ensure that the Sub-Fund's subscription and redemption arrangements are appropriate for its investment strategy and underlying assets throughout the term of the Sub-Fund. To do so, the Manager shall monitor the liquidity profiles of the Sub-Fund's investors and regularly communicate with and monitor the Sub-Fund's distributors to understand the investors' redemption patterns.

Ongoing liquidity risk management is conducted through regular assessment of the liquidity profile of the Sub-Fund's assets by reference to both current and anticipated market conditions and testing against internal liquidity limits of the Sub-Fund. The Manager shall exercise its professional judgement in determining reasonable and appropriate factors to be considered in assessing liquidity. For example, potential quantitative factors include size, turnover, bid-ask spreads, transaction cost, number of market makers and the Sub-Fund's holding as a proportion of the outstanding issue and, for fixed income securities, time of issuance and time to maturity. The Manager may also consider qualitative factors such as currency denomination and credit quality. The results of assessments will be reviewed by senior management.

Ongoing liquidity stress testing allows the Manager to test the Sub-Fund's ability to withstand and meet anticipated redemption requests under both normal and exceptional liquidity conditions. The results of stress tests will be reviewed by senior management.

Certain tools allow the Manager to safeguard the interests of Unitholders against liquidity risks during the term of the Sub-Fund. For example, the Manager may, under exceptional circumstances, limit the number of Units to be redeemed at any given time or suspend redemption (as described in "Restrictions on Redemption" in the section entitled "Redemption of Units" in this Explanatory Memorandum) or apply *in specie* redemption (as described in "Payment of Redemption Proceeds" in the section entitled "Redemption of Units" in this Explanatory Memorandum). Investors should refer to the relevant sections referred to above for further details as to when these tools may be utilised and their potential impacts. Further, the Manager may dedicate part of the Sub-Fund's borrowing to payment of redemption proceeds and may liquidate any of the Sub-Fund's underlying assets to meet redemption requests and ensure that the Sub-Fund's investment mandate and risk profile are maintained to the extent possible.

## TAXATION

*The following summary of Hong Kong taxation is of a general nature, for information purposes only, and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to a decision to purchase, own, redeem or otherwise dispose of Units. This summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Hong Kong and the laws and practice of their respective jurisdictions. The information below is based on the law and practice in force in Hong Kong as at the date of this Explanatory Memorandum. The relevant laws, rules and practice relating to tax are subject to change and amendment (and such changes may be made on a retrospective basis). As such, there can be no guarantee that the summary provided below will continue to be applicable after the date of this Explanatory Memorandum.*

### Hong Kong

During such period as the Trust and each Sub-Fund is authorised by the SFC as a Collective Investment Scheme pursuant to Section 104 of the SFO, under present law and practice in Hong Kong, the Trust and/or the relevant Sub-Fund is not expected to be subject to Hong Kong profits tax in respect of its authorised investment activities.

No profits tax should be payable by Unitholders of the Trust or Sub-Fund in Hong Kong (whether by way of withholding or otherwise) in respect of income distributions from the Trust and/or the relevant Sub-Fund or in respect of any capital gains arising on a sale, redemption or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong by Unitholders.

No Hong Kong stamp duty is payable in relation to the issue of the Units or on the redemption of the Units. No Hong Kong stamp duty should be payable where the sale or transfer of Units in the Trust and/or Sub-Fund is effected by selling the relevant Units back to 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 Units by the Unitholders should be liable to Hong Kong stamp duty at a rate of 0.26% (normally borne by the buyer and the seller in equal share) on the higher of the consideration amount or market value.

## **GENERAL**

### **Reports**

The Trust's and each Sub-Fund's financial year end is on 31 December in each year.

Audited annual financial reports drawn up in accordance with IFRS and unaudited interim financial reports will be prepared for each financial year. Financial reports will be available in English only.

To the extent that the valuation basis adopted by the Sub-Fund deviates from IFRS, the Sub-Fund may be required to include a reconciliation note in the annual financial statements of the Sub-Fund to reconcile values arrived at by applying the Sub-Fund's valuations rules. If the Net Asset Value of the Sub-Fund is not adjusted in preparation of the annual financial statements, non-compliance with IFRS may result in the auditors qualifying their opinion on those annual financial statements depending on the nature and level of materiality of the non-compliance.

Once financial reports are issued, Unitholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Unitholders on or before the issue date of the relevant financial reports, which will be within four months after the end of the financial year in the case of audited annual financial reports, and within two months after 30 June in each year in the case of unaudited interim financial reports. Once issued the financial reports will be available in softcopy from the website [www.phillipfunds.com.hk](http://www.phillipfunds.com.hk) (this website has not been reviewed by the SFC) and in hardcopy for inspection at the Manager's office free of charge during normal working hours.

At least one month's prior notice will be provided to Unitholders if there will be any change to the mode of distribution of financial reports described above.

### **Distribution policy**

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends in respect of any Sub-Fund, details of which are set out in the relevant Appendix.

### **Trust Deed**

The Trust was established as an umbrella unit trust under the laws of Hong Kong by the Trust Deed. The Trust Deed was made between the Manager and BNP Paribas Trust Services (Hong Kong) Limited (as the previous trustee) as trustee and amended by the Deed of Retirement and Appointment of Trustee under which BNP Paribas Trust Services (Hong Kong) Limited was formerly replaced by BNP Paribas Securities Services, acting through its Hong Kong Branch (as previous trustee) to act as the trustee of the Trust, and subsequently by the Supplemental Deed under which BNP Paribas Securities Services, acting through its Hong Kong Branch was replaced by the Trustee to act as trustee of the Trust. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust Deed contains provisions for the indemnification of the Trustee and the Manager out of the assets of the Trust or the relevant Sub-Fund(s) and their relief from liability in certain circumstances, subject to the proviso that nothing in any of the provisions of the Trust Deed shall exempt either the Trustee or the Manager (as the case may be) from or indemnify them against any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence, nor may they be indemnified against such liability by Unitholders or at Unitholders' expense. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

### **Modification of Trust Deed**

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that the Trustee and the Manager certify in writing that, in their opinion, such modification (i) does not materially



prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee or the Manager or any other person from any liability to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Trust or the relevant Sub-Fund; (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. In all other cases, modifications, alterations and additions involving material changes require the sanction of an Extraordinary Resolution of the Unitholders affected or the SFC's approval. Certain amendments to the Trust Deed will require prior approval from the SFC. Notice of any amendment or modification in respect of which the Trustee and the Manager shall have certified in accordance with the aforesaid will be given by the Manager.

### **Meetings of Unitholders**

Meetings of Unitholders may be convened by the Manager or the Trustee. Unitholders holding 10% or more in Value of the Units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting in which an Extraordinary Resolution is proposed or on not less than 14 days' notice (in respect of all other meetings).

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 is 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. Every individual Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the Unitholder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders.

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

### **Transfer of Units**

Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee. The transferor will be deemed to remain the Unitholder of the Units transferred until the name of the transferee is entered in the Register of Unitholders in respect of such Units. The Trustee is entitled to require from the transferor and/or the transferee the payment to it of a fee (the maximum amount of which shall be agreed by the Trustee and the Manager from time to time), together with a sum equal to any expenses incurred by the Trustee in connection therewith.

Transfers of Units are subject to prior consent of the Manager and the Manager may instruct the Trustee not to enter the name of a transferee in the Register or recognise a transfer of any Units if either the Manager or the Trustee believes that such will result in or is likely to result in the contravention of any applicable laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed.

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

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

*Termination by the Trustee.* The Trust (and/or in the case of (b) below, one or more Sub-Funds and/or in the case of (d) below, one or more Sub-Funds or class of Units of any Sub-Fund) may be terminated by the Trustee giving prior written notice to the Manager and the Unitholders upon the occurrence of any of the following events: (a) the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation) or a receiver shall be appointed over any of its assets and shall not be discharged within 60 days; (b) if any law or regulation shall be passed or amended or any regulatory

directive or order is imposed that affects the Trust or any Sub-Fund and which renders the Trust or such Sub-Fund illegal or, in the good faith opinion of the Trustee makes it impracticable or inadvisable to continue the Trust or such Sub-Fund; (c) either the Trustee shall be unable to find a person acceptable to the Trustee to act as the new manager within 30 days after the removal of the Manager for the time being pursuant to the Trust Deed or the person nominated by the Trustee shall fail to be approved by an Extraordinary Resolution; (d) if the Trustee believes, and the Manager agrees, that it is undesirable to continue, and in the best interest of Unitholders to terminate, the Trust and/or any Sub-Fund and/or any class of Units of any Sub-Fund (as the case may be) or (e) the Trustee shall have decided to retire but within 30 days of the Trustee giving notice to the Manager of its desire to retire, the Manager shall be unable to find a suitable person who is willing to act as trustee.

*Termination by the Manager.* The Trust (and/or in the case of (a), (b) and (e) below, one or more Sub-Funds and/or in the case of (d) below, one or more Sub-Funds or class of Units of any Sub-Fund) may be terminated by the Manager in its absolute discretion by notice in writing to the Trustee: (a) on any day on which the aggregate Net Asset Value of the Units in all Sub-Funds, or the Net Asset Value of any Sub-Fund, outstanding shall be less than HKD80 million; (b) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the Trust or any Sub-Fund and which renders the Trust or such Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Trust or such Sub-Fund; (c) if within a reasonable time and using commercially reasonable endeavours, the Manager shall be unable to find a person acceptable to the Manager to act as the new trustee after deciding to remove the Trustee for the time being pursuant to the provisions of the Trust Deed; (d) if the Manager believes, and the Trustee agrees, that it is undesirable to continue, and in the best interest of Unitholders to terminate, the Trust and/or any Sub-Fund and/or any class of Units of any Sub-Fund (as the case may be) or (e) if the Manager is unable to implement its investment strategy in respect of all Sub-Funds or any Sub-Fund.

*Termination by Unitholders.* The Trust, any Sub-Fund and/or any class of Units of any Sub-Fund shall be automatically terminated in the event that the affected Unitholders determine, by Extraordinary Resolution, that the Trust, Sub-Fund and/or class of Units (as the case may be) should be terminated (in which case, such termination shall take effect from the date on which such Extraordinary Resolution is passed or such later date (if any) as the Extraordinary Resolution may provide).

Any termination of the Trust, a Sub-Fund or any class of Units of a Sub-Fund will be subject to the SFC's prior approval and prior notice to Unitholders (for a period to be determined by the SFC). Upon termination of the Trust, any Sub-Fund or any class of Units of a Sub-Fund, no Units of such Trust, Sub-Fund or class (as the case may be) may be issued or sold by the Manager and neither the Manager nor any Unitholder shall have any right to require the cancellation or redemption of any such Unit. The Trustee and the Manager will arrange for the sale of all assets then comprised in the Trust Fund or such part thereof as the Manager thinks fit and shall repay any borrowings effected by the Trustee in respect of the Trust, the Sub-Fund or the class of Units of the Sub-Fund (together with any interest thereon accrued but remaining unpaid). Where only part of the assets comprised in the Trust Fund are to be realised, that part shall be at least sufficient to produce such amount as the Trustee and the Manager consider necessary to make full provision for all costs, charges, expenses claims and demands referred to below. The Trustee shall from time to time distribute to Unitholders in proportion to their respective holdings of Units all net cash proceeds derived from the realisation of the assets of the Trust Fund and available for the purpose of such distribution, provided that the Trustee may retain out of any moneys as part of the Trust Fund full provisions for all costs, charges, expenses, claims and demands properly incurred, made or apprehended by the Trustee or the Manager. Any unclaimed proceeds or other monies held by the Trustee in the event of a termination may at the expiration of 12 calendar months from the date upon which the same became payable be paid into court, subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

Please refer to the Trust Deed for further details.

## **Documents available for inspection**

Copies of the Trust Deed, this Explanatory Memorandum, the KFS and the latest annual and interim reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager. Copies of the Trust Deed can be purchased from the Manager at a nominal amount.

## **Anti-Money Laundering Regulations**

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

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

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

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

## **Conflicts of Interest**

The Manager and the Trustee (and any of their affiliates) (each a "**relevant party**") may from time to time act as trustee, administrator, registrar, manager, custodian, investment delegate, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of any Sub-Fund. It is, therefore, possible that any relevant party may, in the course of business, have potential conflicts of interest with the Trust or any Sub-Fund. Each relevant party will, at all times, have regard in such event to its obligations to the Trust and the relevant Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly. Each relevant party shall be entitled to retain for its own use and benefit all fees and other monies payable thereby and shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust, any Sub-Fund, any Unitholder or any other relevant party any fact or thing which comes to the notice of the relevant party in the course of its rendering 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. In any event, the Manager will ensure that all investment opportunities will be fairly allocated.

The Manager has established policies in relation to the identification and monitoring of potential conflicts of interest situations, to ensure that clients' interests are given priority at all times. Key duties and functions must be appropriately segregated and there are strict policies and dealing procedures designed to avoid,

monitor and deal with conflicts of interests situations, such as rules and procedures in relation to order allocation, best execution, receipt of gifts or benefits, retention of proper records, prohibition of certain types of transactions and handling of client complaints. The Manager has designated staff to monitor the implementation of such trading policies and dealing procedures with clear reporting lines to and oversight by senior management. In any event, the Manager will ensure that all investment schemes and accounts which it manages, including each Sub-Fund, are treated fairly.

It is expected that transactions for any Sub-Fund may be carried out with or through Connected Persons of the Manager. The Manager will ensure that all transactions carried out by or on behalf of each Sub-Fund will be in compliance with all applicable laws and regulations. The Manager will use due care in the selection of such Connected Persons to ensure that they are suitably qualified in the circumstances, and will monitor and ensure that all such transactions are conducted on an arm's length basis and are consistent with best execution standards. The fees or commissions payable to any such Connected Persons will not be greater than those which are payable at the prevailing market rate for such transactions. All such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the relevant Sub-Fund's annual report.

The Manager may execute foreign exchange spot, forward or swap transactions (collectively "**foreign exchange transactions**") for the account of a Sub-Fund with Connected Persons of the Trustee or with dealers or counterparties that are not affiliated with the Trustee. If the Manager elects to execute foreign exchange transactions with Connected Persons of the Trustee, then:

- (a) the Connected Person of the Trustee will enter into such foreign exchange transactions with or for the account of the Trust, any Sub-Fund or any class of Units as a principal counterparty (and not as agent or fiduciary for the Trust, the relevant Sub-Fund or the Manager);
- (b) the Manager will at its discretion determine the method of execution to be used, either generally or in any particular case, from the methods of execution made available to the Manager by the Connected Persons of the Trustee from time to time and shall be responsible for determining which method of execution is suitable for the Trust, the relevant Sub-Fund or the relevant class of Units;
- (c) any such transaction shall be effected at rates quoted or as determined by the Connected Persons of the Trustee from time to time which are consistent with the applicable method of execution chosen by the Manager from the methods made available to it by the Connected Person of the Trustee in light of such factors as the Manager determines to be relevant, including price, service transaction size and execution quality; and
- (d) the Connected Persons of the Trustee shall be entitled to retain for their own account any benefit which they may derive from any such foreign exchange transactions or the holding of cash in connection therewith.

For the avoidance of doubt, the Manager may elect to enter into foreign exchange transactions with counterparties other than the Connected Persons of the Trustee.

The services of the Trustee provided to the Trust and the Sub-Funds are not deemed to be exclusive and the Trustee 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 appropriate fees and benefits. The Trustee shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust and the Sub-Funds any fact or information which comes to the notice of the Trustee in the course of the Trustee rendering similar services to other parties or in the course of its business in any other capacity, otherwise than in the course of carrying out its duties under the Trust Deed or as required by any applicable laws and regulations for the time being in force.

If cash forming part of a Sub-Fund's assets or distribution account is deposited with the Trustee, the Manager, the investment delegate or with any of their Connected Persons (being an institution licensed to

accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the holders, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with ordinary and normal course of business. Subject thereto, the Trustee, the Manager, the investment delegate (if any) or their Connected Persons shall be entitled to retain for its or their own use and benefit any benefit which it may derive from any cash for the time being in its or their hands (whether on current or deposit account) as part of the Sub-Fund or of a distribution account (as the case may be).

## **Websites**

The offer of the Units is made solely on the basis of information contained in this Explanatory Memorandum and the KFS. This Explanatory Memorandum and the KFS may refer to information and materials included in websites, which may be updated or changed from time to time without any notice. Such information and materials do not form part of the offering documents of the Trust or any Sub-Fund and have not been reviewed by the SFC. Investors should exercise an appropriate degree of caution when assessing the value of such information and materials.

## **Certification for Compliance with FATCA or Other Applicable Laws**

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Trust or the Sub-Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Trust or the Sub-Fund receives payments and/or (B) to satisfy reporting or other obligations under the IRS Code and the US Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority, (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments and (iii) will otherwise comply with any reporting obligations imposed by the US, Hong Kong or any other jurisdiction (including any law, rule and requirement relating to AEOI), including reporting obligations that may be imposed by any future law, regulation or agreement.

For the purposes herein, "AEOI" means:

- (a) FATCA;
- (b) the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standard (the "CRS") and any associated guidance;
- (c) any intergovernmental agreement, treaty, regulation, guidance, standard or other agreement between the Hong Kong government (or any government body in Hong Kong) and any other jurisdiction (including any government bodies in such jurisdiction), entered into in order to comply with, facilitate, supplement or implement the legislation, regulations, guidance or standards described in sub-clauses (a) and (b) above; and
- (d) any legislation, regulations or guidance in Hong Kong that give effect to the matters outlined in the preceding sub-clauses (a) to (c) above.

## **Power to Disclose Information to Tax Authorities**

Subject to applicable laws and regulations in Hong Kong and the provisions of its FFI Agreement respectively, the Sub-Fund, the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the IRS and the IRD), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, jurisdiction of birth, tax residence, tax identification number (if any), social security number (if

any) and certain information relating to the Unitholder's holdings, account balance/value, and income or sale or redemption proceeds, to enable the Sub-Fund to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law (including any law, rule and requirement relating to AEOI), regulation or agreement under FATCA).

### **Personal Data**

Pursuant to the provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong, "**PDPO**"), the Trustee, the Manager, or any of their respective delegates (each a "**Data User**") may collect, hold, use personal data of individual investors in the Trust and the Sub-Fund only for the purposes for which such data was collected and shall comply with personal data protection principles and requirements as set out in the PDPO and all other applicable regulations and rules governing personal data use in Hong Kong from time to time. Accordingly, each Data User shall take all practicable steps to ensure that personal data collected, held and processed by them are protected against unauthorised or accidental access, processing, erasure or other use.

Personal data or confidential information (including information necessary to ascertain tax status, information for reporting of tax withholding and details of transaction) provided by a Unitholder (in any form or certification or otherwise) will be used, shared, stored, processed, transferred and disclosed (within or outside Hong Kong) so that the relevant agents can carry out their obligations in respect of the Trust and/or the Sub-Funds or for other purposes including but not limited to (a) processing the subscription, redemption and switching of Units in the Sub-Funds, completing the information on the Register of Unitholders, carrying out instructions or responding to Unitholders' enquiries, verifying data and providing administrative or other relevant services to the Unitholders (including the mailing of reports, notices or newsletters); (b) in compliance with any applicable law, regulation, statute, ordinance, rule, judgment, decree, code, guidelines, directive, circulars, sanctions regime, court order issued by other regulatory authorities of relevant jurisdiction, exchange or market, whether legal, regulatory, governmental, tax, law enforcement, self-regulatory, industry or others which apply in respect of the Trust and/or the Sub-Funds or the Unitholders' Investments and/or bind or apply to the relevant agents from time to time or any agreement with any tax or fiscal authority in any jurisdiction and meeting any demands, disclosure, notification or reporting requirements to which any recipient of the data is subject under the applicable laws and regulations, including but not limited to compliance with obligations pursuant to the FATCA, verifying the identity of a Unitholder or establishing whether a Unitholder is a U.S. Person for the purposes of FATCA and compliance with reporting or other obligations under the IRS Code and the United States Treasury Regulations promulgated under the IRS Code or any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including under AEOI), including reporting obligations that may be imposed by future legislation (collectively, the "**Regulatory Requirements**"); (c) prevention, detection, sanction or investigation of crime, fraud, money laundering, corruption, tax evasion, terrorist financing and any other violation of laws or unlawful activities and fulfilling related Regulatory Requirements; (d) enforcing or defending the rights of the Trust and/or the Sub-Funds and/or the relevant agents; (e) fulfilling internal operational or compliance requirements of the relevant agents; and (f) maintenance or continuation of overall relationship with the Unitholder.

## **APPENDIX 1: Phillip HKD Money Market Fund**

*This Appendix (which forms part of the Explanatory Memorandum, and should be read together with the rest of the Explanatory Memorandum and the KFS) relates to the Phillip HKD Money Market Fund (the "Sub-Fund"), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to the Phillip HKD Money Market Fund. Terms defined in the main body of the Explanatory Memorandum and the KFS have the same meaning when used in this Appendix. The main body of the Explanatory Memorandum, the KFS and this Appendix should be carefully read in their entirety before any investment decision with respect to Sub-Fund is made.*

*The Value of the Units may go up or down and investors may not get back the amount they have invested. See the section headed "Risk Factors" of the main body of the Explanatory Memorandum, the KFS and the section headed "Additional Risk Factors" of this Appendix for a discussion of certain risks that should be considered by investors.*

*The Base Currency of the Sub-Fund is Hong Kong Dollars.*

### **Investment Objective**

The Sub-Fund's objective is to invest primarily in HKD-denominated money market instruments, short-term debt securities and short-term deposits, as more fully described and subject to the conditions set forth under "Investment Strategy" below. The Sub-Fund seeks to preserve principal value and to maintain a high degree of liquidity while generating a higher rate of return as compared to personal deposits of the Base Currency.

### **Investment Strategy**

The Sub-Fund seeks to invest primarily i.e. not less than 70% of its Net Asset Value in (i) HKD-denominated money market instruments and short-term debt securities issued by governments, quasi-government organisations, supra-national organisations, multinational organisations, financial institutions and other corporations and (ii) HKD-denominated short-term deposits (the "**HKD-denominated Investments**"). The Sub-Fund may also invest less than 30% of its Net Asset Value in (i) non-HKD-denominated short-term bonds, commercial paper, certificates of deposits, commercial bills, Government and other public securities (as defined below) and dim sum bonds (i.e. bonds issued outside of Mainland China but denominated in RMB) and (ii) non-HKD-denominated short-term deposits, which may be subject to currency hedging at the discretion of the Manager (the "**non-HKD-denominated Investments**").

The target investment allocation of the Sub-Fund to the HKD-denominated Investments, subject to the conditions set forth below, is 70% (minimum) to 100% (maximum) of the Sub-Fund's Net Asset Value. Less than 30% of the Sub-Fund's Net Asset Value may be held in the non-HKD-denominated Investments. Under exceptional circumstances (e.g. market crash or major crisis), the Sub-Fund may temporarily invest up to 100% of the Sub-Fund's Net Asset Value in cash or cash equivalents.

The Sub-Fund may invest less than 30% of its Net Asset Value in onshore mainland China debt instruments through Bond Connect and/or other means as may be permitted by the relevant regulations from time to time. Also, it is not intended that the Sub-Fund will invest in debt securities with loss-absorption features.

### **Weighted average maturity and weighted average life**

The Sub-Fund will maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase any instrument with a remaining maturity of more than 397 days, or two years in the case of Government and other Public Securities.

### **Credit Rating**

For short-term deposits, the Sub-Fund will only place deposits with Eligible Financial Institutions. An "Eligible Financial Institution" is a financial institution which has a minimum short-term rating of F1 by Fitch Ratings Inc. ("**Fitch**"), P-1 by Moody's Investors Service, Inc. ("**Moody's**") or A-1 by Standard and Poor's Financial Services LLC ("**S&P**") (including sub-categories or gradations therein).

All investments in money market instruments and short-term debt securities will satisfy one of the below conditions:

- (a) the Investments, or the issuers of such Investments, shall be rated with either a minimum short-term rating of F1 by Fitch, P-1 by Moody's or A-1 by S&P or, where it only has a long-term rating, a minimum rating of A by Fitch, A2 by Moody's or A by S&P (including such sub-categories or gradations therein), or a credit rating of AA+ or higher from a Mainland Chinese credit rating agency. In the case of a split rating, the highest rating will be considered;
- (b) issued by [non-Hong Kong] supranational agencies or other [non-Hong Kong] entities and rated other than by the credit rating organisations specified in paragraph (a) above, for which the Manager is satisfied that the quality of the money market instrument or debt security is comparable with those with the ratings specified in paragraph (a) above; or
- (c) issued by a Hong Kong entity, including the Hong Kong government and statutory boards, and is not rated, for which the Manager is satisfied that the quality of the money market instrument or debt security is comparable to those with the ratings specified in paragraph (a) above.

Where the Manager is to determine whether an Investment is of "comparable quality" in accordance with paragraphs (b) and (c) above, the Manager shall make such determination on the basis of its internal policies and procedures, which should include a review of the business fundamentals impacting an issuer, including but not limited to the following.

- *Industry risk assessment*
  - *Competition* – competition is influenced by market share distribution among industry incumbents (concentrated market vs. fragmented market) and the perceived threat of new market participants being able to overcome barriers to entry such as capital requirements, economies of scale, access to raw materials and intellectual / technical barriers.
  - *Industry Standing and Pricing Power* – the bargaining power of both customers and suppliers (e.g. switching costs, demand elasticity, ease of substitution), supplier concentration (e.g. product substitution, switching costs), industry peer rivalry (e.g. price competition, product differentiation, branding strength) and industry growth cycles are all important factors here.
  - *Regulatory risk* – an assessment of the applicable regulations, the nature of those regulations, the government's ability and willingness to render support, political pressure and the frequency by which the regulatory environment may change or be updated are all relevant factors.
- *Business assessment*
  - *Management quality* – this is a reflection of the competency of corporate governance, capital utilisation, communication transparency, business strategy consistency and operating track record.
  - *Financial policies* – management should set reasonable gearing and coverage targets, while maintaining a dividend policy that is not detrimental to the issuer's credit quality. Repayment risk may be minimised by ensuring a well distributed debt maturity profile.



- *Competitive advantage* – an advantage is derived from various factors such as innovation capacity, consistency in business strategy, strategic focus and operational track record. A competitive advantage strengthens the ability to either maintain or grow market share or sustain profitability margins.
- *Shareholding structure* – the quality of a shareholding structure is influenced by the concentration of shareholdings and willingness of support from shareholders.
- *Financial assessment*
  - *Profitability* – determined by evaluating, amongst other things, revenue, revenue growth, pre-tax profits, operating profit before interest and tax ("**OPBIT**"), OPBIT margin, net profit.
  - *Cash flow and coverage* – an analysis is based on, amongst other things, net operating cash flows ("**NOCF**"), net cash flows ("**NCF**"), NOCF interest cover, NOCF debt cover and cash balance.
  - *Capital structure* – an assessment considers, amongst other things, short-term borrowing, long-term borrowing, total borrowings, shareholder equity and debt-equity ratios.
  - *Financial flexibility* – the ability to access additional financing facilities or to refinance existing debt maturities.
- *Third party enhancements* (parent, subsidiary, guarantor or government entity) - consideration should be given to the creditworthiness of guarantors, insurers or other forms of credit enhancements. This may include assessing the quality of any collateral in secured debt issuances or analysing the quality of the parent-subsidiary relationships and the willingness to provide support in times of financial distress.

The Manager shall provide to the Trustee a confirmation each month that Investments determined to be of "comparable quality" meet the Manager's internal rating requirements as further described above.

If the short-term credit rating of any fixed income securities or Government and other Public Securities, or of any issuer of such securities, falls below A-1 as rated by S&P (or its equivalent as rated by Fitch or Moody's) or the long-term credit rating of any such securities falls below A as rated by S&P (or its equivalent as rated by Fitch or Moody's) [or AA+ from a Mainland Chinese credit rating agency] after the acquisition of such securities, the Sub-Fund will dispose of such securities within 30 calendar days of the credit rating downgrade under normal market conditions, unless, due to unusual market conditions (such as lack of liquidity), the Sub-Fund is unable to dispose of such securities, in which case the Sub-Fund will dispose of such securities as soon as practicable.

The Sub-Fund's approach to managing liquidity and enhancing returns is to diversify across assets types of varying tenure as follows: (i) cash; (ii) bank time deposits or certificates of deposit with a tenure of one year or less; (iii) bonds with a remaining term of 397 days or less; and (iv) Government and other Public Securities with a term of less than two years.

### **Additional Investment Restrictions**

In addition to the investment and borrowing restrictions as set out in the main body of the Explanatory Memorandum, the Sub-Fund is subject to the following restrictions pursuant to Chapter 8.2 of the Code:

- (a) the Sub-Fund may only invest in short-term deposits and high quality money market instruments, and money market funds that are authorized by the SFC under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC;

- (b) notwithstanding paragraphs (b) and (c) under the section "Investment Restrictions" in the main body of the Explanatory Memorandum, the aggregate value of the Sub-Fund's holding of instruments and deposits issued by a single entity may not exceed 10% of the Net Asset Value of the Sub-Fund except:
  - (1) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%; or
  - (2) in the case of Government and other Public Securities, up to 30% may be invested in the same issue; or
  - (3) in respect of any deposit of less than USD1,000,000 or its equivalent in the base currency of the Sub-Fund, where the Sub-Fund cannot otherwise diversify as a result of its size.
- (c) notwithstanding paragraphs (b) and (c) under the section "Investment Restrictions" in the main body of the Explanatory Memorandum, the aggregate value of the Sub-Fund's Investments in Entities within the Same Group through instruments and deposits may not exceed 20% of its total Net Asset Value except:
  - (1) in respect of any cash deposit of less than USD1,000,000 or its equivalent in the base currency of the Sub-Fund, where the Sub-Fund cannot otherwise diversify as a result of its size; and
  - (2) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable reserves, the limit may be increased to 25%;
- (d) the Sub-Fund may borrow up to 10% of its total Net Asset Value but only on a temporary basis for the purpose of meeting redemption requests or defraying operating expenses;
- (e) the value of the Sub-Fund's holding of money market funds that are authorized by the SFC under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC may not in aggregate exceed 10% of its total Net Asset Value;
- (f) the value of the Sub-Fund's holding of Investments in the form of asset-backed securities may not exceed 15% of its total Net Asset Value;
- (g) subject to Chapter 7.32 to 7.38 of the Code, the Sub-Fund may engage in sale and repurchase and Reverse Repurchase Transactions in compliance with the following requirements:
  - (1) the amount of cash received by the Sub-Fund under Sale and Repurchase Transactions may not in aggregate exceed 10% of its total Net Asset Value;
  - (2) the aggregate amount of cash provided to the same counterparty in reverse repurchase agreements may not exceed 15% of the Net Asset Value of the Sub-Fund;
  - (3) collateral received may only be cash, high quality money market instruments, and may also include, in the case of Reverse Repurchase Transactions, government securities receiving a favourable assessment on credit quality; and
  - (4) the holding of collateral, together with other Investments of the Sub-Fund, must not contravene the investment limitations and requirements set out under Chapter 8.2 of the Code;
- (h) the Sub-Fund may use FDIs for hedging purposes only;

- (i) the currency risk of the Sub-Fund shall be appropriately managed and any material currency risk that arises from Investments that are not denominated in the Base Currency shall be appropriately hedged;
- (j) the Sub-Fund must hold at least 7.5% of its total Net Asset Value in daily liquid assets and at least 15% of its total Net Asset Value in weekly liquid assets. For this purpose:
  - (1) daily liquid assets refer to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one Business Day; and (iii) amount receivable and due unconditionally within one Business Day on pending sales of portfolio securities; and
  - (2) weekly liquid assets refer to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five Business Days; and (iii) amount receivable and due unconditionally within five Business Days on pending sales of portfolio securities;
  - (3) periodic stress testing shall be carried out by the Manager in monitoring the liquidity of the relevant Sub-Fund.

### **Securities Financing Transactions**

The Manager does not intend to enter into any Securities Lending Transactions in respect of the Sub-Fund. If this changes in the future, prior approval of the SFC will be sought and not less than one month's notice will be provided to Unitholders before the Sub-Fund and/or the Manager enter(s) into any such transaction.

### Investment allocation

The following is the target investment allocation of the Sub-Fund, subject to the conditions set forth above. Investors should note that the Manager may under certain extraordinary circumstances adjust the target allocation having regard to prevailing market conditions in the future and, despite the target allocation indicated below, may choose to allocate up to 100% in cash or cash equivalents as the Manager determines appropriate in the interest of the Sub-Fund, until such time when such extraordinary circumstances and the risks relating thereto subside. Such circumstances would include, for instance, market conditions where prices for fixed income instruments as an asset class are adversely affected (whether caused by political events, terrorism, natural disasters or otherwise) and, as a result, the Manager determines that the risks of maintaining the target allocation would significantly outweigh the benefits involved.

### Indicative investment allocation

| <b>Type of instruments</b>   | <b>Percentage limits<br/>(of the Sub-Fund's<br/>Net Asset Value)</b> |
|--|--|
| (i) HKD-denominated money market instruments and short-term debt securities issued by governments, quasi-government organisations, supra-national organisations, multinational organisations, financial institutions and other corporations; and<br><br>(ii) HKD-denominated short-term deposits with Eligible Financial Institutions. | 70% (minimum) -<br>100% (maximum)                                    |
| (i) Non-HKD-denominated short-term bonds, commercial paper, certificates of deposits, commercial bills, Government and other public securities (as defined above) and dim sum bonds (i.e. bonds issued outside of Mainland China but denominated in RMB)*; and   | Less than 30%  |

|   |  |
|---|--|
| (ii) Non-HKD-denominated short-term deposits with Eligible Financial Institutions*. |  |
|---|--|

\* *May be subject to currency hedging at the discretion of the Manager.*

## Valuation

Notwithstanding the section headed "Valuation" in the main part of the Explanatory Memorandum, the Sub-Fund will value cash, cash equivalent and deposits at current face value. The Sub-Fund may value any debt instrument with a residual maturity of 90 days or less (the "**Relevant Instruments**") it holds by using the amortised cost valuation method.

Under the amortised cost valuation method, the Relevant Instruments are valued at their acquisition cost as adjusted for amortisation of premium or accretion of discount. Under IFRS, investments should be valued at fair value. As a result, the valuation of the Sub-Fund's portfolio at the amortised cost under the valuation basis described above instead of fair value as required under IFRS may lead to a different valuation had the valuation been performed in accordance with IFRS. In the event that such difference in valuation is material, the Manager may make necessary adjustments in the annual financial statements for the financial statements to be in compliance with IFRS.

The Manager will assess amortised cost valuation method on an ongoing basis in order to ensure that this method continues to be in the best interest of Unitholders and provide a fair valuation of the Relevant Instruments and may, with the consent of the Trustee, determine changes, where necessary, to ensure that the Relevant Instruments are valued at their fair value as determined in good faith by the Manager.

The Manager will perform daily monitoring on the discrepancy between the amortised cost value and fair value of the Relevant Instruments where amortised cost value is utilised. Escalation procedures have been put in place by the Manager when discrepancy between the latest available fair value of the Relevant Instruments and the amortised cost value of the Relevant Instruments at the level of the overall portfolio exceeds 0.1%. If the discrepancy exceeds 0.1%, then:

- (a) the Net Asset Value calculated by using the fair value will be used as the official Net Asset Value of the Sub-Fund; and
- (b) the Manager may consider disposing the Relevant Instruments if such disposal is in the best interest of the Unitholders, unless the temporary change in the value of the Relevant Instruments is triggered by interest rate fluctuation.

There may be periods during which the stated value of a Relevant Instrument determined under the amortised cost valuation method is higher or lower than the price which the Sub-Fund would receive if the Relevant Instrument were sold, and the accuracy of the amortised cost valuation method can be affected by changes in interest rates and the credit standing of issuers of the Relevant Instruments.

Appropriate stress testing will be conducted to ensure the mechanism is sufficient and reflects the risk characteristics of the Sub-Fund's portfolio.

## Available Classes

Class A (HKD), Class A (RMB), Class A (RMB Hedged), Class A (USD) and Class A (USD Hedged) Units are currently available for issue to the public.

Class B (HKD), Class B (RMB), Class B (RMB Hedged), Class B (USD) and Class B (USD Hedged) Units<sup>1</sup> are only offered to institutional investors and accredited investors who satisfy certain conditions and are not currently offered to the public.

The Class Currency of each class of Units is specified in the name of the class of Units.

Class A (RMB Hedged), Class A (USD Hedged), Class B (RMB Hedged)<sup>1</sup> and Class B (USD Hedged)<sup>1</sup> are currency hedged unit classes which seek to seek to minimise the effect of currency fluctuations between the Class Currency of the class of Units and the Base Currency of the Sub-Fund. For details of the risks associated with currency hedged unit classes, please refer to the risk factor “Currency hedged Unit classes risk” in the section “Additional Risk Factors” below.

### **Initial Offer**

The Manager may launch Class A (RMB), Class A (RMB Hedged), Class A (USD), Class A (USD Hedged), Class B (RMB), Class B (RMB Hedged), Class B (USD) and Class B (USD Hedged) at the following initial Subscription Price or such other prices as determined by the Manager:

| <i>Class of Units</i> | <i>Initial Subscription Price</i> |
|-----------------------|-----------------------------------|
| Class A (RMB)         | RMB10                             |
| Class A (RMB Hedged)  | RMB10                             |
| Class A (USD)         | USD1                              |
| Class A (USD Hedged)  | USD1                              |
| Class B (RMB)         | RMB10                             |
| Class B (RMB Hedged)  | RMB10                             |
| Class B (USD)         | USD100,000                        |
| Class B (USD Hedged)  | USD100,000                        |

The Initial Offer Period for Class A (HKD) has been closed. The initial Subscription Price for Class A (HKD) was HKD10.

The Initial Offer Period of Class B (HKD)<sup>1</sup> has been closed. The initial Subscription Price for Class B (HKD)<sup>1</sup> was HKD10.

### **Dealing Procedures**

For details of dealing procedures, please refer to the sections headed "Subscription of Units", "Redemption of Units" and "Switching" in the main body of the Explanatory Memorandum. The following apply to the Sub-Fund:

|                         |   |
|-------------------------|---|
| <i>Dealing Day</i>      | each Business Day                                     |
| <i>Dealing Deadline</i> | 11:00 am (Hong Kong time) on the relevant Dealing Day |

### **Subscription Payment and Payment of redemption proceeds**

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<sup>1</sup> Class B Units are only offered to institutional investors and accredited investors who satisfy certain conditions and are not currently offered to the public.

Notwithstanding anything to the contrary herein, payment for the subscription of Units must be made in the Class Currency of the relevant class of Units and redemption proceeds will be paid in the Class Currency of the relevant class of Units.

### Investment Minima

The following investment minima apply to the respective class of the Sub-Fund:

|                                      | Class A<br>(HKD)              | Class A<br>(RMB)              | Class A (RMB<br>Hedged)              | Class A<br>(USD)              | Class A (USD<br>Hedged)              |
|--------------------------------------|-------------------------------|-------------------------------|--------------------------------------|-------------------------------|--------------------------------------|
| <i>Minimum initial investment</i>    | HKD10                         | RMB10                         | RMB10                                | USD1                          | USD1                                 |
| <i>Minimum subsequent investment</i> | HKD10                         | RMB10                         | RMB10                                | USD1                          | USD1                                 |
| <i>Minimum holding</i>               | HKD10                         | RMB10                         | RMB10                                | USD1                          | USD1                                 |
| <i>Minimum redemption amount</i>     | HKD10                         | RMB10                         | RMB10                                | USD1                          | USD1                                 |
|                                      | Class B<br>(HKD) <sup>1</sup> | Class B<br>(RMB) <sup>1</sup> | Class B (RMB<br>Hedged) <sup>1</sup> | Class B<br>(USD) <sup>1</sup> | Class B (USD<br>Hedged) <sup>1</sup> |
| <i>Minimum initial investment</i>    | HKD800,000                    | RMB800,000                    | RMB800,000                           | USD100,000                    | USD100,000                           |
| <i>Minimum subsequent investment</i> | HKD100,000                    | RMB100,000                    | RMB100,000                           | USD10,000                     | USD10,000                            |
| <i>Minimum holding</i>               | HKD800,000                    | RMB800,000                    | RMB800,000                           | USD100,000                    | USD100,000                           |
| <i>Minimum redemption amount</i>     | HKD100,000                    | RMB100,000                    | RMB100,000                           | USD10,000                     | USD10,000                            |

### Publication of Net Asset Value

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of the Sub-Fund are available on the Manager's website [www.phillipfunds.com.hk](http://www.phillipfunds.com.hk) on each Dealing Day (this website has not been reviewed by the SFC).

### Expenses and Charges

The following are the current levels of fees and charges payable in respect of each class of the Sub-Fund. Current levels of fees may be increased up to the maximum levels (as set out below and in the section titled "Expenses and Charges" in the main body of the Explanatory Memorandum) permitted to be charged on one months' prior notice to Unitholders and, beyond this maximum level, is subject to prior approval from the SFC.

#### Fees payable by Unitholders

|                         | Class A | Class B <sup>1</sup> |
|-------------------------|---------|----------------------|
| <i>Subscription fee</i> | Nil     | Nil                  |
| <i>Redemption fee</i>   | Nil     | Nil                  |
| <i>Switching fee</i>    | Nil     | Nil                  |

### Fees payable by the Sub-Fund

|   | Class A   | Class B <sup>1</sup>   |
|---|---|--|
| <i>Management fee</i>   | Up to 0.50% per annum of the Net Asset Value of the Sub-Fund*   | Up to 0.50% per annum of the Net Asset Value of the Sub-Fund*  |
| <i>Performance fee</i>  | Nil   | Nil  |
| <i>Trustee fee**</i><br>(inclusive of fees payable to the Registrar and Transfer Agent) | Current rate 0.030% per annum of the Net Asset Value of the Sub-Fund*   | Current rate 0.030% per annum of the Net Asset Value of the Sub-Fund*  |
| <i>Custodian fee</i>  | Up to 0.50% as a safekeeping fee per annum of the Net Asset Value of the Sub-Fund and up to USD133.00 per transaction as a transaction fee*** | Up to 0.50% as a safekeeping fee per annum of the Net Asset Value of the Sub-Fund and up to USD133.00 per transaction as a transaction fee *** |
| <i>Fund accounting fee**</i>  | Current rate 0.025% per annum of the Net Asset Value of the Sub-Fund  | Current rate 0.025% per annum of the Net Asset Value of the Sub-Fund   |

\* The current rate of such fees may be increased, up to a specified permitted maximum as disclosed in the Explanatory Memorandum, by giving affected Unitholders at least one month's prior notice. For details please refer to the section headed "Expenses and Charges" in the Explanatory Memorandum.

\*\* Subject to a minimum annual fee of USD35,000 in aggregate for the Trustee Fee and fund accounting fee.

\*\*\* The Custodian shall charge the Sub-Fund safekeeping fees and transaction fees at different rates depending on the markets where assets of the Sub-Fund are held.

## **Additional Risk Factors**

### Risk related to money market funds

Investment in the Sub-Fund is not the same as placing funds on deposit with a bank or deposit-taking institution. The Manager has no obligation to redeem units at the offer value and the Sub-Fund is not subject to the supervision of the Hong Kong Monetary Authority.

### Risks associated with fixed income instruments

#### *Liquidity risk*

There is a risk that Investments made by the Sub-Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, the Sub-Fund may have to accept a lower price to sell the Investments or may not be able to sell the Investments at all. An inability to sell a portfolio position can adversely affect the Sub-Fund's Value.

#### *Valuation risk*

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

#### Risks associated with amortised cost valuation method

The Net Asset Value of the Sub-Fund is calculated using the amortised cost valuation method, which values securities at their cost and thereafter assumes a constant amortisation to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the security or instrument. The accuracy of the amortised cost valuation method of valuation can be reduced by changes in market interest rates and the credit standing of issuers of the Sub-Fund's Investments. Sudden movements in interest rates or credit concerns may cause material deviations between the market value of an instrument and the value calculated using the amortised cost valuation method. The use of amortised cost valuation method may create opacity for investors regarding the actual net asset value of the assets held by the Sub-Fund.

Whilst this method provides certainty in valuation, it may result in periods during which the value of the security, as determined by the amortised cost valuation method of valuation, is higher or lower than the price the Sub-Fund would receive if the security was sold. During such periods, the daily fluctuation in Value of the Units in the Sub-Fund may differ somewhat from an identical computation made by a fund with identical investments utilising available indications as to market value in order to value its portfolio securities. Where the value of a security as determined by the amortised cost valuation method of valuation is higher than the market price of such security and an investor redeems at a redemption price calculated on the basis of such amortised cost value, the Sub-Fund may be left with a portfolio of assets whose value is much lower than the market price of the relevant securities. The remaining Unitholders may therefore be worse off.

The calculation of the Net Asset Value involves the estimation of expenses and liabilities and may involve the amortisation of these expenses and liabilities together with any realised capital losses over a certain period. In the event that these estimates prove inaccurate or in the event the Sub-Fund terminates before the end of the relevant amortisation period, this may impact the Net Asset Value and the Net Asset Value per Unit and in particular may result in Unitholders receiving less than the amount they invested on the redemption of their Units or the termination of the Sub-Fund.

#### Currency hedged Unit classes risk

The currency hedging process used with currency hedged Unit classes may not give a precise hedge and there is no guarantee that hedging will be completely successful. Returns of such Unit classes may be significantly different over time than those of unhedged Unit classes. Investors in currency hedged Unit classes bear the associated costs and may also be exposed to the risks associated with the instruments used in the hedging process.

#### RMB currency and conversion risk

The Sub-Fund may invest in securities denominated in RMB and may have RMB hedged class of Units. Therefore, it may be subject to RMB currency risks. RMB is currently not freely convertible and is subject to exchange controls and restrictions. Non-RMB based (e.g. Hong Kong) investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor's



investment in the Sub-Fund. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors. Under exceptional circumstances, payment of redemption proceeds in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

#### RMB class(es) risk

The Sub-Fund offers Unit classes designated in RMB. It should be noted that there may be additional risks involved in investing through RMB over and above those of investing through other currencies. Currency exchange rates can be affected unpredictably by intervention (or failure to intervene) by governments or central banks or by currency controls or political developments, particularly in the PRC. There is also a greater measure of legal uncertainty concerning currency transactions with respect to trades in RMB compared to currencies which have a more established history of being traded internationally.

RMB Unit classes for the Sub-Fund are denominated in offshore RMB (CNH). CNH convertibility to the onshore RMB (CNY) is a managed currency process subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government in co-ordination with the Hong Kong Monetary Authority (HKMA). The value of CNH could differ, perhaps significantly, from that of CNY due to a number of factors including without limitation those foreign exchange control policies and repatriation restrictions pursued by the Chinese government from time to time as well as other external market forces. In addition, currency markets in RMB may have lower trading volumes than the currencies of more developed countries and accordingly markets in RMB may be materially less liquid, subject to greater dealing spreads and experience materially greater volatility than those of other currencies. In particular, the trading of RMB during European market hours when trades for the hedged Unit class will be executed entails inherently lower liquidity and greater transaction costs. This is likely to cause performance divergence against the expected performance of trading RMB during Asian market hours, where liquidity is generally higher and transaction costs are generally lower.

In an extreme event, the lack of liquidity could make it impossible to execute the currency hedge. The Manager will seek to implement the hedge and minimize transaction costs on a best efforts basis. However, there can be no guarantee that it will be successful in doing so and cannot eliminate the above risks or transaction costs. The costs and gains/losses of hedging transactions will accrue solely to the relevant hedged class and will be reflected in the Net Asset Value per Unit of that class.

When calculating the value of the RMB denominated class(es), CNH will be used. The value of the RMB denominated class(es) thus calculated will be subject to fluctuation. Non-RMB based (for example Hong Kong) investors may have to convert HKD or other currencies into RMB when investing in the RMB denominated class(es). Subsequently, investors may also have to convert the RMB redemption proceeds (received when selling the Units) back to HKD or other currencies. During these processes, investors will incur currency conversion costs and may suffer losses in the event that RMB depreciates against HKD or such other currencies upon receipt of the RMB redemption proceeds.

For RMB denominated class(es), since the Unit prices are denominated in RMB, but the Sub-Fund will not be fully invested in RMB-denominated underlying investments and its Base Currency is not RMB, so even if the prices of the non-RMB denominated underlying investments and/or value of the Base Currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the non-RMB denominated underlying investments and/or the Base Currency more than the increase in the value of the non-RMB denominated underlying investments and/or the Base Currency.

Furthermore, under the scenario where RMB appreciates against the currencies of the non-RMB denominated underlying investments and/or the Base Currency of the Sub-Fund, and the value of the non-RMB denominated underlying investments decreased, the value of investors' investments in RMB denominated class(es) may suffer additional losses.

#### Risks relating to Bond Connect

The Sub-Fund may directly invest in permissible fixed income instruments traded on the China Interbank Bond Market (“CIBM”) via Bond Connect. The Bond Connect initiative was launched in July 2017 to facilitate CIBM access between Hong Kong and Mainland China. It was 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 (“CMU”).

The Bond Connect scheme is designed to be efficient and more convenient for offshore investors at an operational level, by using familiar trading interfaces of established electronic platforms without requiring investors to engage an onshore settlement agent. Orders are executed electronically with any of the eligible onshore participating dealers who are recognized by CFETS. Cash is exchanged offshore in Hong Kong. The infrastructure contemplates twoway access between Hong Kong and Mainland China. Eligible foreign investors can invest through Hong Kong into the CIBM (generally referred to as “**Northbound Trading Link**”). Eligible foreign investors utilising Bond Connect are required to appoint the CFETS or other institutions recognised by the People’s Bank of China (“PBOC”) as registration agents to apply for registration with the PBOC.

The Northbound Trading Link under Bond Connect adopts a multi-layered custody arrangement whereby CCDC/SHCH performs the primary settlement function as the ultimate central securities depository, which handles bond custody and settlement for the CMU in China. The CMU is the nominee holder of CIBM bonds acquired by overseas investors via the Northbound Trading Link. The CMU handles custody and settlement for the accounts opened with it for the beneficial ownership of those overseas investors.

Under the multi-layered custody arrangement of Bond Connect:

- 1) the CMU acts as “nominee holder” of CIBM bonds; and
- 2) overseas investors are the “beneficial owners” of CIBM bonds through CMU members.

Overseas investors invest through offshore electronic trading platforms where trade orders are executed on CFETS, CIBM’s centralised electronic trading platform, between investors and onshore participating dealers.

Under the multi-layered custody arrangement, while the distinct concepts of “nominee holder” and “beneficial owner” are generally recognized under relevant Mainland China regulations, the application of such rules is untested, and there is no assurance that Mainland China courts will recognise such rules, e.g. in liquidation proceedings of Mainland China companies or other legal proceedings.

Under Bond Connect, bond issuers and trading of CIBM bonds are subject to the market rules in China. Any changes in laws, regulations and policies of the China bond market or rules in relation to Bond Connect may affect prices and liquidity of the relevant bonds, and the Sub-Fund’s investment in the relevant bonds may be adversely affected.

#### Credit rating agency risk (for Mainland Chinese credit rating agency)

The credit appraisal system in the Mainland China and the rating methodologies employed in the Mainland China may be different from those employed in other markets. Credit ratings given by the Mainland China rating agencies may therefore not be directly comparable with those given by other international rating agencies.

#### **Distribution policy**

No dividend is to be declared or paid to Unitholders.