



HSBC Collective Investment Trust  
HSBC Asia Pacific ex Japan  
Equity Volatility Focused Fund

**Explanatory Memorandum**

July 2016

**This Summary has been written and authorised for distribution in the Hong Kong Special Administrative Region (“Hong Kong”) only. It does not constitute a distribution of information or an offer in any other jurisdiction.**

**Nationals or residents of, or persons domiciled in, countries other than Hong Kong should inform themselves, as to (a) possible tax consequences, (b) legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they may encounter under the law of their country of domicile or residence, and which may be relevant to the subscription, holding and disposal of units or shares in any HSBC fund.**

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# Directory

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

## Important information

HSBC Collective Investment Trust (the “Fund”) is an umbrella unit trust established under the laws of Hong Kong by a trust deed dated 27 February 2014 between HSBC Investment Funds (Hong Kong) Limited as manager and HSBC Institutional Trust Services (Asia) Limited as trustee. The trust deed was subsequently amended by a Deed of Amendment and Substitution made by the Manager and the Trustee on 9 March 2016 to, inter alia, consolidate amendments previously made to the trust deed.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong (the “SFC”). SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or the performance of the Fund. It does not mean the Fund is suitable for all investors nor is it an endorsement of the Fund’s suitability for any particular investor or class of investors.

The Fund may establish sub-funds (each a sub-fund) in respect of which a separate Class or Classes of Units will be issued. Each sub-fund has its own separate and distinct investment policy.

This Explanatory Memorandum comprises information relating to HSBC Asia Pacific ex Japan Equity Volatility Focused Fund (the “Sub-Fund”), a sub-fund that has been authorised by the SFC. Some of the information in this Explanatory Memorandum is a summary of corresponding provisions in the Trust Deed. Investors should refer to the Trust Deed for further details.

For the Classes offered to retail investors in Hong Kong, investors should also refer to the Product Key Facts Statement in relation to the Sub-Fund.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum and the Product Key Facts Statement of the Sub-Fund, as at the date of such documents, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which make any statement misleading. Distribution of this Explanatory Memorandum and the Product Key Facts Statement of the Sub-Fund must be accompanied by a copy of the latest available annual report and accounts of the Fund and any subsequent interim report (if available).

Units issued after the date hereof are offered on the basis only of the information contained in this Explanatory Memorandum, the Product Key Facts Statement of the Sub-Fund and any addendum or addenda issued by the Manager expressly in conjunction with the issue of this Explanatory Memorandum or the Product Key Facts Statement of the Sub-Fund. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorised and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of the Units shall not in any way constitute a representation that the information and representations given herein or in such documents are correct as at any time subsequent to the date of this Explanatory Memorandum or such documents. This Explanatory Memorandum and the Product Key Facts Statement of the Sub-Fund may from time to time be updated and intending applicants of Units should enquire of the Manager as to the issue of any later Explanatory Memorandum or Product Key Facts Statement.

No action has been taken to permit an offering of Units of the Sub-Fund or distribution of this Explanatory Memorandum and the Product Key Facts Statement of the Sub-Fund in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum and the Product Key Facts Statement of the Sub-Fund may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, Units of the Sub-Fund may not be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised. Receipt of this Explanatory Memorandum or the Product Key Facts Statement of the Sub-Fund does not constitute an offer of Units of the Sub-Fund in those jurisdictions in which it is illegal to make such an offer.

In particular, potential investors should note the following:–

## United Kingdom

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

## United States

Units have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or under the securities laws of any state and the Fund has not been and will not be registered under the Investment Company Act of 1940, as amended (the "Investment Company Act").

Units of the Fund may not be offered or sold to any "U.S. Person" (a "USP"). For the purposes of this restriction, the term USP shall mean the following:

1. An individual who is deemed a resident of the U.S. under any U.S. law or regulation
2. An entity:
  - i. that is a corporation, partnership, limited liability company or other business entity:
    - a. that was created or organized under U.S. federal or state law including any non-U.S. agency or branch of such entity; or
    - b. where regardless of place of formation or organization, was organized principally for passive investment (such as an investment company or fund or similar entity other than an employee benefit plan or employee pension scheme for the employees, officers, or principals of a non-U.S. entity having its principal place of business outside the United States);
      - and owned directly or indirectly by one or more USPs, with respect to which such USPs (unless defined as a Qualified Eligible Person under CFTC Regulation 4.7(a)) directly or indirectly hold in the aggregate 10% or greater beneficial interest; or
      - where a USP is the general partner, managing member, managing director or other position with authority for directing the entity's activities; or
      - was formed by or for a USP principally for the purpose of investing in securities not registered with the Securities and Exchange Commission ("SEC"); or
      - where more than 50% of its voting ownership interests or non-voting ownership interests are directly or indirectly owned by USPs; or
    - c. that is any agency or branch of a non-U.S. entity located in the U.S.; or
    - d. has its principal place of business in the U.S.; or
  - ii. that is a trust created or organized under U.S. federal or state law or regardless of the place of creation or organization;
    - a. where one or more USPs has the authority to control all substantial decisions of the trust; or
    - b. where the administration of the trust or its formation documents are subject to the supervision of one or more U.S. courts; or
    - c. where any settlor, founder, trustee, or other person responsible for decisions related to the trust is a USP; or
  - iii. that is an estate of a deceased person regardless of where the person resided while alive where an executor or administrator is a USP.

3. An employee benefit plan established and administered in accordance with the laws of the U.S.
4. A discretionary or non-discretionary investment account or similar account (other than an estate or trust) held by a non-U.S. or U.S. dealer or other fiduciary for the benefit or account of a USP (as defined above).

For the purpose of this definition, the "United States" and "U.S." means the United States of America (including the States and the District of Columbia), its territories, possessions and other areas of subject to its jurisdiction.

If, subsequent to a Unitholder's investment in the Fund, the Unitholder becomes a USP, such Unitholder (i) will be restricted from making any additional investments in the Fund and (ii) as soon as practicable have its Units compulsorily redeemed by the Fund (subject to the requirements of applicable law).

The Manager may, from time to time, waive or modify the above restrictions, subject to the provisions of the Trust Deed.

## **Canada**

The Units described in this Explanatory Memorandum may only be distributed in Canada through HSBC Global Asset Management (Canada) Limited, and this Explanatory Memorandum may not be used to solicit, and will not constitute a solicitation of, an offer to buy Units in Canada unless such solicitation is made by HSBC Global Asset Management (Canada) Limited. A distribution or solicitation may be deemed to occur in Canada where a distribution or solicitation is made to a person (including an individual, corporation, trust, partnership or other entity, or other legal person) resident or otherwise located in Canada at the applicable time. For these purposes, the following persons will generally be considered to be a Canadian resident:

1. An individual, if
  - i. the individual's primary principal residence is located in Canada; or
  - ii. the individual is physically located in Canada at the time of the offer, sale or other relevant activity.
2. A corporation, if
  - i. the corporation's head office or principal office is located in Canada; or
  - ii. securities of the corporation that entitle the holder to elect a majority of the directors are held by Canadian Resident individuals (as described above) or by legal persons resident or otherwise located in Canada; or
  - iii. the individuals that make investment decisions or provide instructions on behalf of the corporation are Canadian Resident individuals (as described above).
3. A trust, if
  - i. the principal office of the trust (if any) is located in Canada; or
  - ii. the trustee (or in the case of multiple trustees, the majority of trustees) are Canadian Resident individuals (as described above) or are legal persons resident or otherwise located in Canada; or
  - iii. the individuals that make investment decisions or provide instructions on behalf of the trust are Canadian Resident individuals (as described above).
4. A partnership, if
  - i. the partnership's head office or principal office (if any) is located in Canada; or
  - ii. the holders of the majority of the interests of or in the partnership are held by Canadian Residents (as described above); or

- iii. the general partner (if any) is a Canadian Resident (as described above); or
- iv. the individuals that make investment decisions or provide instructions on behalf of the partnership are Canadian Resident individuals (as described above).

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

### **Enquiries**

Enquiries and complaints concerning the Fund and the Sub-Fund (including information concerning subscription and redemption procedures and the current net asset value) should be directed to the Manager at 2284 1118 or at Level 22, HSBC Main Building, 1 Queen's Road Central, Hong Kong. The Manager will respond to any enquiry or complaint as soon as practicable.

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**Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objective of the Sub-Fund will be achieved. Investors should read the Explanatory Memorandum, particularly the section headed "RISK FACTORS", before making their investment decisions.**

## Definitions

The following terms used in this Explanatory Memorandum have the meanings set out below:–

<b>"AUD"</b>	Australian dollar, the lawful currency of Australia
<b>"Business Day"</b>	a day on which banks in Hong Kong and regulated markets in countries where the Sub-Fund is materially invested are normally open for business except Saturdays and Sundays, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in such markets are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee otherwise determine
<b>"CAAP"</b>	China A-Shares Access Product, being a security (such as a note, warrant, option or participation certificate) linked to China A-Shares or portfolios of China A-Shares, which aims to replicate synthetically the economic benefit of the relevant China A-Shares or portfolios of China A-Shares
<b>"CAD"</b>	Canadian dollar, the lawful currency of Canada
<b>"China", "mainland China" or "PRC"</b>	the People's Republic of China excluding Hong Kong, Macau and Taiwan for purpose of this Explanatory Memorandum
<b>"Class" or "Classes"</b>	a separate class or classes of Units in a sub-fund of the Fund
<b>"Class Currency"</b>	the currency of account of a Class specified by the Manager
<b>"Code"</b>	the Code on Unit Trusts and Mutual Funds (as amended)
<b>"Connected Person"</b>	shall unless otherwise specified have the meaning as set out in the Code, meaning, in relation to a company:  (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or  (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or  (c) any member of the group of which that company forms part; or  (d) any director or officer of that company or of any of its Connected Persons as defined in (a), (b) or (c).
<b>"Dealing Day"</b>	for the Sub-Fund, each Business Day or such other day(s) as the Manager may determine with the consent of the Trustee
<b>"EUR"</b>	Euro, the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the relevant laws and treaties as amended from time to time
<b>"Fund"</b>	HSBC Collective Investment Trust
<b>"GBP"</b>	Pound Sterling, the lawful currency of the United Kingdom of Great Britain and Northern Ireland
<b>"HKD"</b>	Hong Kong dollar, the lawful currency of Hong Kong

<b>“Investment Adviser”</b>	HSBC Global Asset Management (Hong Kong) Limited
<b>“Issue Price”</b>	in respect of the Sub-Fund the price at which Units will be issued, as more fully described in the section “Issue Price and Redemption Price”
<b>“Manager”</b>	HSBC Investment Funds (Hong Kong) Limited
<b>“Offer Price”</b>	in respect of the Sub-Fund the price to be paid by investors for the subscription of Units, which is inclusive of the applicable initial charge
<b>“QFII”</b>	Qualified Foreign Institutional Investor approved pursuant to the relevant PRC laws and regulations, as may be promulgated and/or amended from time to time
<b>“Redemption Price”</b>	in respect of the Sub-Fund the price at which Units will be redeemed, as more fully described in the section “Issue Price and Redemption Price”
<b>“Registrar”</b>	HSBC Institutional Trust Services (Asia) Limited
<b>“RMB”</b>	Renminbi, the lawful currency of China
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“Sub-Fund”</b>	HSBC Asia Pacific ex Japan Equity Volatility Focused Fund
<b>“Trust Deed”</b>	the trust deed dated 27 February 2014 entered into between the Manager and the Trustee as amended and supplemented from time to time
<b>“Trustee”</b>	HSBC Institutional Trust Services (Asia) Limited
<b>“Unit”</b>	a unit in a sub-fund of the Fund
<b>“Unitholder”</b>	a person registered as a holder of a Unit
<b>“USD”</b>	United States dollar, the lawful currency of the United States of America
<b>“Valuation Day”</b>	for the Sub-Fund, the relevant Business Day or Dealing Day or such other day(s) as the Manager may from time to time determine in its absolute discretion
<b>“Valuation Point”</b>	for the Sub-Fund, around the close of business in the last relevant market to close on the relevant Valuation Day or such other time on that day or such other day as the Manager may from time to time determine

## Investment objective, policy and strategy

### Investment objective and policy

The Sub-Fund aims to provide long term total return by investing in a portfolio of equities.

The Sub-Fund invests (normally a minimum 90% of its net assets) in equities and equity equivalent securities of companies which have their registered office in, and with an official listing on a major stock exchange or other regulated market of any Asia Pacific country (excluding Japan) as well as companies which carry out a preponderant part of their economic activities in the Asia Pacific region (excluding Japan). The Sub-Fund may invest the remaining assets in money market instruments, cash instruments and cash.

The Sub-Fund aims to deliver lower portfolio volatility relative to the MSCI AC Asia Pacific ex Japan USD Net Index<sup>1</sup> through portfolio optimisation to lower overall portfolio volatility by selecting a combination of lower volatility stocks and higher volatility stocks that are less correlated and thereby diversifying the portfolio. There is no guarantee that such an approach will always produce a portfolio of lower volatility than the relevant index. The Sub-Fund may rely on market research and quantitative analysis to estimate individual stock volatility and intra-stock correlation as part of its portfolio optimisation process.

The Sub-Fund normally invests across a range of market capitalisations without any capitalisation restriction.

The Sub-Fund will not invest more than 10% of its net assets in convertible bonds.

The Sub-Fund may invest in China A-Shares and B-Shares listed on stock exchanges in the PRC, H-Shares listed on the Hong Kong Stock Exchange ("SEHK") and other China-related shares or securities listed on the above exchanges as well as on other exchanges outside of the PRC, Hong Kong and Macau ("other China-related listed securities"). For other China-related listed securities, the Sub-Fund will invest in securities of companies which carry out or possess a preponderant part of their business activities in or are related to China.

The Sub-Fund may directly access China A-Shares through the Shanghai-Hong Kong Stock Connect or indirectly access China A-Shares through China A-Shares Access Products (CAAPs). The Sub-Fund's total exposure to China A-Shares and B-Shares will not be more than 10% of its net asset value.

Notwithstanding the foregoing, at present, the Manager does not intend to invest in China A-Shares (through the Shanghai-Hong Kong Stock Connect), CAAPs or B-Shares in respect of the Sub-Fund. The Manager will give at least one month's prior notice to Unitholders if there is a change in such intention.

The Manager will not enter into securities lending, repurchase or reverse repurchase transactions or similar over-the-counter transactions in respect of the Sub-Fund. Prior approval will be obtained from the SFC and at least one month's prior notice will be given to Unitholders if there is a change in such intention.

The Sub-Fund may use derivative instruments such as deliverable/non-deliverable forwards for hedging purpose.

The Sub-Fund may also use on-exchange traded index futures for hedging purposes and non-hedging purposes such as cash flow management and cash equitisation. Cash equitisation refers to the use of idle cash of the portfolio to simulate equity exposure with the prospect of generating additional gains from the long-term growth in equity markets. The Sub-Fund may use on-exchange traded index futures for up to 15% of the net asset value of the Sub-Fund for purposes other than hedging.

Financial derivative instruments may also be embedded in other instruments used by the Sub-Fund (for example, CAAPs, participation notes and convertible bonds). The Sub-Fund may use such instruments for up to 15% of the net asset value of the Sub-Fund for purposes other than hedging.

Save as mentioned above, the Sub-Fund will not invest in other derivative instruments for investment purposes.

The Sub-Fund will normally be exposed to currencies of Asia Pacific (excluding Japan) as well as other emerging and developed market currencies.

<sup>1</sup> Source: MSCI, the MSCI information may only be used for the Manager's internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

# Investment and borrowing restrictions

## Investment restrictions

The following investment restrictions apply to the Sub-Fund:-

- (a) not more than 10% of the net asset value of the Sub-Fund may consist of securities issued by a single issuer;
- (b) the Sub-Fund together with other sub-funds of the Fund (if any) may not, in aggregate, hold more than 10% of any ordinary shares issued by any single issuer;
- (c) not more than 15% of the net asset value of the Sub-Fund may consist of securities not listed or quoted or dealt in on a stock exchange, over-the-counter market or other organized securities market that is open to the international public and on which such securities are regularly traded;
- (d) not more than 15% of the net asset value of the Sub-Fund may consist of warrants and options, in terms of the total amount of premium paid, other than warrants and options held for hedging purposes;
- (e) not more than 10% of the net asset value of the Sub-Fund may consist of shares or units in other open ended unit trusts or mutual funds ("**managed funds**") which are non-recognised jurisdiction schemes (as permitted under the Code) and not authorised by the SFC; and not more than 30% of the net asset value of the Sub-Fund may consist of shares or units in a managed fund which is a recognised jurisdiction scheme (as permitted under the Code) or an SFC-authorized scheme; provided that:-
  - (i) no investment may be made in any managed fund which invests primarily in investments prohibited under Chapter 7 of the Code;
  - (ii) where the managed fund's objective is to invest primarily in investment restricted under Chapter 7 of the Code, such holdings may not be in contravention of the relevant limitation;
  - (iii) all initial charges on the managed fund must be waived if the managed fund is managed by the Manager or any of its Connected Persons; and
  - (iv) the Manager may not obtain a rebate on any fees or charges levied by such managed fund or its manager;
- (f) subject to paragraph (g) below, not more than 20% of the net asset value of the Sub-Fund may consist of physical commodities (including gold, silver, platinum or other bullion) and commodity based investments (other than shares in companies engaged in producing, processing or trading in commodities);
- (g) the net aggregate value of the contract prices of future contracts, whether payable to or by the Sub-Fund under all outstanding futures contracts (other than futures contracts entered into for hedging purposes), together with the aggregate value of investments falling within paragraph (f) above held by the Sub-Fund, may not exceed 20% of the net asset value of the Sub-Fund;
- (h) notwithstanding paragraphs (a) and (b) above, not more than 30% of the net asset value of the Sub-Fund may consist of Government and other public securities\*\* of the same issue; and
- (i) subject to paragraph (h) above, the Sub-Fund may be fully invested in Government and other public securities\*\* issued by a single issuer provided that it holds Government and other public securities\*\* of at least six different issues.

*\*\* In relation to (h) and (i), "Government and other public securities" means any investment issued by, or the payment of principal and interest on, which is guaranteed by the government of any member state of the Organization for Economic Co-operation and Development (OECD) or any fixed interest investment issued in any OECD country by a public or local authority or nationalized industry of any OECD country or anywhere in the world by any other body which is, in the opinion of the Trustee, of similar standing.*

*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.*

Further, the Manager shall not on behalf of the Sub-Fund:–

- (i) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or the directors and the officers of the Manager collectively own more than 5% of those securities;
- (ii) invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies and interests in real estate investment trusts (REITs));
- (iii) make short sales if as a consequence the liability of the Sub-Fund to deliver securities would exceed 10% of the net asset value of the Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);
- (iv) write uncovered options;
- (v) write call options if the aggregate of the exercise prices of all such call options written on behalf of the Sub-Fund would exceed 25% of the net asset value of the Sub-Fund;
- (vi) make a loan out of the Sub-Fund without the prior written consent of the Trustee except to the extent that the acquisition of an investment or the making of a deposit (within applicable investment restrictions) might constitute a loan;
- (vii) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person without the prior written consent of the Trustee;
- (viii) enter into any obligation on behalf of the Sub-Fund or acquire any asset for the account of the Sub-Fund which involves the assumption of any liability which is unlimited; or
- (ix) apply any part of the Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made unless such call could be met in full out of cash or near cash forming part of the Sub-Fund which has not been taken into account for the purpose of writing of call options on portfolio investments and shall not be entitled without the consent of the Trustee to apply any part of the Sub-Fund in the acquisition of any other investment which is in the opinion of the Trustee likely to involve the Trustee in any liability (contingent or otherwise).

Where the name of the Sub-Fund indicates a particular objective, geographic region or market, the scheme should invest at least 70% of its non-cash assets in securities and other investments to reflect the particular objective or geographic region or market which the Sub-Fund represents.

### **Borrowing restrictions**

The Manager may borrow up to 25% of the latest available net asset value of the Sub-Fund to acquire investments. For this purpose back-to-back loans do not count as borrowing. The Trustee shall be entitled on the instruction of the Manager to charge or pledge in any manner all or any part of the Sub-Fund for the purposes of securing any borrowing and interest and expenses thereof.

### **Securities lending and repurchase transactions**

The Manager will not enter into securities lending, repurchase or reverse repurchase transactions or similar over-the-counter transactions in respect of the Sub-Fund. Prior approval will be obtained from the SFC and at least one month's prior notice will be given to Unitholders if there is a change in such intention.

In the event that any of the above restriction is breached, the Manager shall as a priority objective take all steps as may be necessary to remedy such breach within a reasonable period of time, taking due account of the interests of Unitholders.

### **Base currency**

The base currency of the Sub-Fund is USD.

# Risk factors

Investors should consider the following risks before investing in the Sub-Fund. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not the Sub-Fund is suitable for them, they should obtain independent professional advice.

## General risks

- There is no guarantee that the investment objective of the Sub-Fund can be achieved. There is no express or implied assurance as to the likelihood of achieving the investment objective for the Sub-Fund.
- There is no guarantee that in any time period, particularly in the short term, the Sub-Fund's portfolio will achieve appreciation in terms of income or capital growth. The Sub-Fund's portfolio may be subject to market fluctuations and to all the risks inherent in all investments and markets. As a result, the price of Units may go down as well as up. Whilst the Manager intends to implement strategies designed to minimise potential losses, there can be no assurance that these strategies will be successful. Making an investment in the Sub-Fund is not the same as making a deposit in a bank. An investor may lose a substantial proportion or all of its investment in the Sub-Fund.
- The prices of Units depend on the market values of the Sub-Fund's investments and such prices as well as the income from Units can go down as well as up. Past performance of the Sub-Fund does not indicate future performance. Investment in the Sub-Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment.
- The Sub-Fund's performance is subject to the risks associated with its investments and cash exposure including, among others, market, interest rate, currency, exchange rate, economic, credit, liquidity, counterparty, foreign securities and political risks.

## Risk in connection with the investment strategy

- Whilst the Sub-Fund aims to for lower portfolio volatility compared to the MSCI AC Asia Pacific ex Japan USD Net Index<sup>2</sup>, there is no guarantee that such investment objective and strategy (i.e. to lower portfolio volatility) can be achieved.
- There is a possibility that portfolio optimisation may not be achieved and the Sub-Fund's value may be adversely affected.

## Market risk

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

<sup>2</sup> Source: MSCI, the MSCI information may only be used for the Manager's internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

### **Equity securities risk**

- Investment in equity securities is subject to market risk and the prices of such securities may be volatile. Factors affecting the stock values are numerous, including but not limited to changes in investment sentiment, political environment, economic environment, regional or global economic instability, currency and interest rate fluctuations. Prices of equity securities are also affected by the business, performance and activities of individual companies as well as general market and economic conditions. If the market value of equity securities in which the Sub-Fund invests in goes down, the net asset value of the Sub-Fund may be adversely affected, and investors may suffer substantial losses. Investors may not get back the amount they initially invested in the Sub-Fund.

### **Geographical concentration risk**

- The Sub-Fund invests primarily in the Asia Pacific (ex Japan) markets which involve higher concentration risks. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

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

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

### **China market risk**

- Investing in the China market is subject to the risks of investing in emerging markets generally and the risks specific to the China market.

- Since 1978, the Chinese government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the Chinese economy, moving from the previous planned economy system. However, many of the economic measures are experimental or unprecedented and may be subject to adjustment and modification. Any significant change in mainland China's political, social or economic policies may have a negative impact on investments in the China market.
- The regulatory and legal framework for capital markets and joint stock companies in mainland China may not be as well developed as those of developed countries. The Sub-Fund may be subject to the risks associated with changes in the PRC laws and regulations (including tax laws) and such changes may have retrospective effect and may adversely affect the Sub-Fund.
- Chinese accounting standards and practices may deviate significantly from international accounting standards. The settlement and clearing systems of the Chinese securities markets may not be well tested and may be subject to increased risks of error or inefficiency.
- The Chinese government's control of currency conversion and movements in the Renminbi exchange rates may adversely affect the operations and financial results of companies in mainland China.

### **Foreign exchange risk**

- Because the Sub-Fund's assets and liabilities may be denominated in currencies different from the Sub-Fund's base currency (USD), the Sub-Fund may be affected unfavourably by exchange control regulations or changes in the exchange rates between the Sub-Fund's base currency and other currencies. Changes in currency exchange rates may influence the value of the Sub-Fund's Units, the dividends or interest earned and the gains and losses realised by the Sub-Fund. Exchange rates between currencies are determined by supply and demand in the currency exchange markets, the international balance of payments, governmental intervention, speculation and other economic and political conditions. An investor may suffer losses arising from changes in currency exchange rates of investments held by the Sub-Fund.
- If the currency in which a security is denominated appreciates against the base currency of the Sub-Fund, the value of the security will increase in terms of the Sub-Fund's base currency. Conversely, a decline in the exchange rate of the currency in which a security is denominated would adversely affect the value of the security in terms of the Sub-Fund's base currency.
- Further, dividends (for the distribution Classes of Units only) will be paid in the relevant Class Currency, which may involve currency conversion of the proceeds obtained from realisation of the Sub-Fund's assets. Currency conversion involves foreign exchange risks as the exchange rates are subject to fluctuations.

### **The Renminbi currency risk**

- Starting from 2005, the exchange rate of the Renminbi is no longer pegged to the US dollar. The Renminbi has now moved to a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. The daily trading price of the Renminbi against other major currencies in the inter-bank foreign exchange market would be allowed to float within a narrow band around the central parity published by the People's Bank of China.
- As the exchange rates are based primarily on market forces, the exchange rates for Renminbi against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. It should be noted that the Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies and restrictions of the Chinese government. Trading in the Renminbi may be subject to possible delay in the settlement process.
- The possibility that the appreciation of Renminbi will be accelerated cannot be excluded. On the other hand, there can be no assurance that the Renminbi will not be subject to devaluation. The Sub-Fund's base currency is USD, but the Sub-Fund may invest in Renminbi denominated investments. Any devaluation of the Renminbi could adversely affect the value of investors' investments in the Sub-Fund.

## **Currency conversion risk for RMB denominated Classes**

- The Sub-Fund offers RMB denominated Classes of Units. If currency hedging between RMB and the base currency is not effective, investors in RMB denominated Classes of Units may be adversely affected by movements of exchange rates between the RMB and the base currency of the Sub-Fund.
- Non RMB-based investors may have to convert non-RMB currencies into RMB when investing in RMB Classes and subsequently convert the RMB redemption proceeds back to such non-RMB currencies. Such investors will incur currency conversion costs and may suffer losses depending on the exchange rate movements of RMB relative to the relevant currencies.
- Where an investor subscribes for Units denominated in RMB, the Manager may (where appropriate) convert such subscriptions into other currencies prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager will sell the Sub-Fund's investments (which may be denominated in a non-RMB currency) and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread.
- Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds into RMB which may also affect the Sub-Fund's ability to meet redemption requests from Unitholders in RMB denominated Classes of Units or to make distributions, and may delay the payment of redemption proceeds or dividends. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time. The Sub-Fund may not have sufficient RMB for its investments. Further, in case of sizeable redemption requests for the RMB Classes, the Manager has the absolute discretion to delay any payment in respect of redemption of the RMB Classes (for a period not exceeding one calendar month of receipt of a properly documented redemption request).
- If currency hedging between RMB and the base currency is not effective, investors will also be exposed to foreign exchange fluctuations between RMB and the base currency and may suffer losses arising from such fluctuations. Depending on the exchange rate movements of RMB relative to the base currency of the Sub-Fund and/or other currency(ies) of the non-RMB-denominated underlying investments, an investor (i) may still suffer losses even if there are gains or no losses in the value of the non-RMB-denominated underlying investments; or (ii) may suffer additional losses if the non-RMB-denominated underlying investments of the Sub-Fund fall in value.
- The RMB is traded in both the onshore and offshore markets. While both onshore RMB ("CNY") and offshore RMB ("CNH") represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. When calculating the net asset value of Units of a RMB denominated Class, the Manager will apply the exchange rate for offshore RMB market in Hong Kong, i.e. the CNH exchange rate, which may be at a premium or discount to the exchange rate for onshore RMB market in the PRC, i.e. the CNY exchange rate. Consequently, there may be significant trading costs incurred and investors investing in Classes of Units denominated in RMB may suffer losses.

## **China A-Shares Access Products ("CAAPs")**

- Exposure to China A-Shares may be obtained through investment in CAAPs, including equity linked notes and other similar equity linked securities and instruments. CAAPs are derivative instruments which are linked to China A-Shares, and are intended to provide an economic performance that is equivalent to holding the underlying China A-Shares.
- Seeking exposure through CAAPs could lead to additional costs of investments. For example, investment in CAAPs is subject to the fees, charges and costs of issuers. As the availability of CAAPs is limited by applicable PRC regulations, the cost of investing in such products is subject to market supply and demand forces. Where the market supply is low relative to market demand, acquiring further CAAPs may involve a higher cost or a premium, which may adversely affect the Sub-Fund's overall performance.
- CAAPs may not be listed and are subject to the terms and conditions imposed by their issuer. These terms may lead to delays in implementing the Manager's investment strategy due to restrictions on the issuer acquiring or disposing of the securities underlying the CAAPs. Investment in CAAPs can be illiquid as there is no active market in CAAPs. In order to meet realisation requests, the Sub-Fund relies upon the counterparty issuing the CAAPs to quote a price to unwind any part of the CAAPs. This price will reflect the market liquidity conditions and the size of the transaction.

- By seeking exposure to investments in China A-Shares through CAAPs, the Sub-Fund is taking on the credit risk of the issuer of the CAAPs. There is a risk that the issuer will not settle a transaction due to a credit or liquidity problem, or will otherwise default in its obligations under the CAAPs, thus causing the Sub-Fund to suffer a loss. In addition, in the case of a default, the Sub-Fund could become subject to adverse market movements while the Sub-Fund enters into a replacement transaction with a new counterparty.
- An investment in a CAAP entitles the holder to certain cash payments calculated by reference to the China A-Shares to which the CAAP is linked. It is not an investment directly in the China A-Shares themselves. An investment in the CAAP does not entitle the holder of the CAAP to the beneficial interest in the China A-Shares nor to make any claim against the company issuing the China A-Shares.
- Investment through CAAPs may lead to a dilution of performance of the Sub-Fund when compared to a fund investing directly in similar assets. In addition, when the Sub-Fund intends to invest in a particular China A-Share through CAAPs, there is no guarantee that subsequent application monies for Units in the Sub-Fund can be immediately invested in such China A-Share through CAAPs. This may impact on the performance of the Sub-Fund.
- An issuer of a CAAP may deduct various charges, expenses or potential liabilities from the prices of the CAAP including but not limited to any actual or potential PRC tax liabilities (if any) determined by the CAAP issuer at its discretion and such deduction may not be refundable.
- As at the date hereof, it is likely that the Sub-Fund will invest in the China A-Shares market through CAAPs issued by institutions which have obtained the status as a “qualified foreign institutional investor” or “QFII” in China; and certain restrictions imposed by the Chinese government on QFIIs may have an adverse effect on the Sub-Fund’s liquidity and performance. QFIIs are subject to restrictions on the maximum stake which can be held in any one listed company. Transaction sizes for QFIIs are large and there are lock-up restrictions on repatriation of capital invested by a QFII in China. These restrictions will impact on the terms of any CAAPs acquired by the Sub-Fund. In order to reduce such impact, the Sub-Fund will generally invest in CAAPs that is realisable on each Dealing Day under normal market conditions, subject to the credit risk of the counterparty. If the CAAPs cannot be realised on the each Dealing Day, the Sub-Fund may be subject to additional liquidity risks.
- Fluctuation in the exchange rate between the denomination currency of the underlying shares and the CAAPs will affect the value of the CAAPs, the redemption amount and the distribution amount on the CAAPs.
- For purpose of investment restriction monitoring, CAAPs will be treated as an equity investment in China A-Shares instead of being classified as a derivative in determining the appropriate limits.

### **Risks of investing in small-cap companies**

- The Sub-Fund does not have a capitalisation requirement on stock investment and may invest in stocks issued by of small cap companies. These stocks are more abrupt or erratic in price movements and their sensitivity to market changes is higher than stocks of larger companies. They may be subject to a lower liquidity and cannot be sold readily. Further, even relatively small orders for purchase or sale of illiquid these securities can lead to significant price volatility. There is the risk that the stocks cannot be sold or can only be sold at a significant discount to the purchase price. This may result in investment losses to the Sub-Fund.

### **Debt securities**

- The principal factors that may affect the value of the Sub-Fund’s securities holdings include: (i) changes in interest rates, (ii) the credit worthiness of the issuers of securities, (iii) unanticipated prepayment, and (iv) the decline of bond prices in general in the relevant bond market.
- The Sub-Fund may invest in securities which have a lower credit rating or are unrated. Such securities are considered to have a higher risk exposure than securities which have a higher credit rating with respect to payment of interest and the return of principal, and may also have a higher chance of default. Low rated or unrated debt securities generally offer a higher current yield than higher grade issues. However, low rated or unrated debt securities involve higher risks and are more sensitive to adverse changes in general economic conditions and in the

industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers and changes in interest rates. Valuation of these securities is more difficult and thus the Sub-Fund's price may be more volatile. Additionally, the market for lower rated or unrated debt securities generally is less active than that for higher quality securities and the Sub-Fund's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions.

- The credit ratings assigned by credit rating agencies are a generally accepted barometer of credit risk of a fixed income security. They are, however, subject to certain limitations. For example, the rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is often a time lag in updating the credit ratings in response to recent credit events.

### **Downgrading risk**

- Debt securities may be subject to the risk of being downgraded (i.e. lowering of credit ratings assigned to the securities). In the event of downgrading in the credit ratings of a security or an issuer relating to a security, a Sub-Fund's investment value in such security may be adversely affected. The risks disclosed in the foregoing paragraph in relation to low rated debt securities will generally apply.

### **Credit risk**

- Investment in the fixed income securities is subject to the credit and counterparty risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. On the other hand, the value of the Sub-Fund may be affected if any of the financial institutions with which the cash is invested or deposited suffers insolvency or other financial difficulties. Generally, a fixed income security that is lower rated or unrated will be subject to a higher credit risk of its issuer.
- In the event that any issuer of such securities defaults, becomes insolvent or experiences financial or economic difficulties, the value of the securities will be adversely affected. The Sub-Fund may suffer losses in its investment in such securities. There is no certainty in the credit worthiness of issuers of debt securities. Unstable market conditions may mean there are increased instances of default amongst issuers. In case of default, the Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers of securities as such issuers may be incorporated outside Hong Kong and subject to foreign laws.
- The fixed income securities that the Sub-Fund invests in may be offered on an unsecured basis without collateral. In such circumstances, the Sub-Fund will rank equally with other unsecured creditors of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds obtained from the liquidation of the issuer's assets will be paid to holders of the fixed income securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of issuers as an unsecured creditor.

### **Liquidity risk**

- The debt instruments in which the Sub-Fund invests may not be listed on a stock exchange or a securities market where trading is conducted on a regular basis. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such securities. The price at which the debt securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates.
- Further, the bid and offer spreads of the price of debt instruments in which the Sub-Fund invests may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments.

### **Interest rates**

- Changes in market interest rates will affect the value of securities held by the Sub-Fund. Generally, the prices of debt instruments rise when interest rates fall, and vice versa. Long-term securities are generally more sensitive to changes in interest rates and, therefore, are subject to a greater degree of market price volatility. To the extent the Sub-Fund holds long-term fixed income securities,

its net asset value will be subject to a greater degree of fluctuation than if it held fixed income securities of a shorter duration. Fluctuations in interest rates may cause the Sub-Fund to suffer a loss in its investments if it disposes of such fixed income securities before their maturity.

- The Chinese government's macro-economic policies and controls will have significant influence over the capital markets in China. Changes in fiscal policies, such as interest rates policies, may have an adverse impact on the pricing of debt instruments, and thus the return of the Sub-Fund.

### **Convertible bonds**

- Convertible bonds are bonds which give an investor an option to exchange the bond for a pre-determined number of shares at a given price and a specified future date. Convertible bonds are subject to the risks of both equities and bonds.
- Convertible bonds are subject to risks which typically apply to bonds including interest rate risk and credit risk. The value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. If the credit quality of the convertible bonds deteriorates or the issuer of the convertible bonds defaults, the performance of the Sub-Fund will be adversely affected. On the other hand, the prices of convertible bonds will be affected by the changes in the price of the underlying equity securities which, in turn, may have an unfavourable impact on the net asset value of the Sub-Fund.

### **Derivative risk**

- The Sub-Fund may invest in derivatives for hedging and non-hedging purposes. Investment in derivative instruments can be illiquid, if there is no active market in these instruments. Such instruments are complex in nature and will be subject to insolvency or default risk of the issuers or counterparties. The Sub-Fund may suffer losses if the issuers or counterparties of the derivative instruments default in their obligations.
- Besides, many derivative instruments involve an embedded leverage and their prices may be volatile. This is because such instruments provide significantly larger market exposure than the money paid or deposited when the transaction is entered into, so a relatively small adverse market movement could expose the Sub-Fund to the possibility of a loss exceeding the original amount invested. Investment in derivatives may result in significant losses to the Sub-Fund and hence investors may also suffer significant losses.
- Where the Sub-Fund invests in derivatives (e.g. forward contracts) for hedging purposes, there can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Sub-Fund. While the Sub-Fund may enter into such transactions to seek to reduce risks (such as currency risk), unanticipated changes in the relevant markets may result in a poorer overall performance of the Sub-Fund. For a variety of reasons, the Sub-Fund may not obtain a perfect correlation between its hedging techniques and the portfolio holdings being hedged. In adverse situations, the Sub-Fund's use of derivatives may become ineffective in hedging and the Sub-Fund may suffer significant losses.

### **Risks relating to Hedged Classes of Units**

- Investors should be aware that investment in Hedged Classes which do not hedge underlying portfolio currency exposures back to the investor's own currency may result in the investor taking speculative currency positions, which may be volatile and may have a material impact on an investor's returns. Investors should also note that the implementation of currency hedging strategies in relation to Hedged Classes is distinct from the various currency hedging strategies that the Manager may implement at a portfolio level to manage risks at the portfolio level.
- Currency hedging will be performed irrespective of whether the target currency is declining or increasing in value. Where such hedging is undertaken it may protect Unitholders in the relevant Classes against a decrease in the value of the Sub-Fund's base currency relative to the Class Currency of the relevant Class, but it may also preclude Unitholders from benefiting from an increase in the value of the Sub-Fund's base currency relative to the Class Currency of the relevant Class.
- A Hedged Class aims to deliver to the investors a hedged return in a different currency to the base currency of the Sub-Fund plus or minus the hedging cost or benefit. In other words, it aims to hedge the currency risk between the base currency and the Class Currency of the Hedged Class. However, the Sub-Fund's underlying assets (which may be denominated in various currencies different from the Sub-Fund's base currency) may not be hedged either to the base currency of the Sub-Fund or to the Class Currency of the Hedged Class. Therefore, investors in a Hedged Class

will be exposed to the movement of the underlying portfolio investments' currencies relative to the base currency of the Sub-Fund and such Hedged Class aims to produce a return similar to the return measured in the Sub-Fund's base currency (but the value of the Units will be quoted in the Class Currency of the Hedged Class). There is no guarantee that (a) any hedging objective will be achieved, or (b) any hedging strategy will fully and effectively eliminate the effects of exchange rate fluctuations. Further, the hedging strategy in respect of a Hedged Class does not seek to eliminate exposure of such Hedged Class to the exchange rate movements of the underlying portfolio investments' currencies against the Class Currency of the Hedged Class. Investors will still be subject to currency risks of the underlying investments in the Sub-Fund's portfolio.

- Currency hedging may involve the use of derivatives. Please refer to the risk factor "Derivative risk" above for the associated risks.
- The effects of hedging will be reflected in the net asset values of the relevant Classes. Any costs and expenses arising from such hedging transactions, which may be significant depending on prevailing market conditions, will be borne by the relevant Classes. This may adversely affect the returns of investors of such Classes.

### **Investor risk**

- Substantial redemptions of Units (which are more likely in times of adverse market conditions) could require the Manager to liquidate investments of the Sub-Fund more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions. This could adversely affect the net asset value of both Units being redeemed and of the remaining Units.
- The Manager is entitled under certain circumstances to suspend dealings in the Units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the Units during the period up to the redemption of the Units will be borne by the redeeming Unitholders.
- The Manager may compulsorily redeem all or a portion of the Unitholder's Units in the Sub-Fund. Such compulsory redemption may create adverse tax and/or economic consequences to the Unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon termination of the Sub-Fund, compulsory redemption or otherwise.

### **Valuation risk**

- Valuation of the Sub-Fund's investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the net asset value of the Sub-Fund may be adversely affected.
- The value of investments of the Sub-Fund may be affected by changing market conditions or other significant market events affecting valuation. For example, in the event of downgrading of an issuer, the value of the relevant debt securities may decline rapidly.
- In particular, the value of lower-rated corporate bonds is affected by investors' perceptions. When economic conditions appear to be deteriorating, or where an adverse event happens to the issuer, the bond may not be objectively priced and lower rated or unrated corporate bonds may decline in market value due to investors' heightened concerns and perceptions over credit quality.

### **Early termination risk**

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

### **Withholding tax**

- Investors should note that (i) the proceeds from the sale of securities in some markets or the receipt of any dividends or other income may be or may become subject to tax, levies, duties or other fees or charges imposed by the authorities in that market including taxation levied by withholding at source and/or (ii) the Sub-Fund's investments may be subject to specific taxes or charges imposed by authorities in some markets. Regarding FATCA, although the Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Fund will be able to satisfy these obligations. If the Fund becomes subject to a withholding tax as a result of the FATCA regime, the value of the

Units held by Unitholders may suffer material losses. On the other hand, if an investor or an intermediary through which it holds its interest in the Fund fails to provide the Fund, its agents or authorised representatives with any correct, complete and accurate information that may be required for the Fund to comply with FATCA, the investor may be subject to withholding on amounts otherwise distributable to the investor, may be compelled to sell its interest in the Fund or, in certain situations, the investor's interest in the Fund may be sold involuntarily (provided that the Manager or the Trustee shall observe relevant legal requirements and shall act in good faith and on reasonable grounds). In particular, investors and potential investors should note the risk factors regarding China tax considerations and emerging and less developed markets in the section headed "RISK FACTORS" and "Foreign Account Tax Compliance Act (FATCA) and similar measures" in the section headed "TAXATION".

### **Distribution out of capital**

- Under the Trust Deed, distributions of the Sub-Fund may be paid from capital of the Sub-Fund. The Manager may in its discretion distribute from capital if the income generated from the Sub-Fund's investments attributable to the relevant Class of Units during the relevant period is insufficient to pay distributions as declared. The Manager may also at its discretion pay dividend out of gross income while charging/ paying all or part of the Sub-Fund's fees and expenses to/ out of the capital of the Sub-Fund (resulting in an increase in distributable income for the payment of dividends by the Sub-Fund), and thereby effectively pay distributions out of capital of the Sub-Fund.
- Investors should note that the payment of distributions out of capital or effectively out of capital represents a return or withdrawal of part of the amount they originally invested or from any capital gains attributable to the original investment. Any distributions involving payment of dividends out of the Sub-Fund's capital or effectively out of the Sub-Fund's capital will result in an immediate reduction in the net asset value of the relevant Class of Units.

### **Cross-class liability**

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

### **Risks associated with the Shanghai-Hong Kong Stock Connect**

- The Shanghai-Hong Kong Stock Connect programme is recently announced and is novel in nature. It enables Hong Kong and overseas investors to directly access eligible China A-Shares through Hong Kong brokers. It is subject to regulations promulgated by regulatory authorities and implementation rules (e.g. trading rules) made by the stock exchanges in the PRC and Hong Kong.
- New regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Shanghai-Hong Kong Stock Connect.
- It should be noted that the regulations are untested and there is no certainty as to how they will be applied, and their application may have retrospective effects. Moreover, the current regulations are subject to change. There can be no assurance that the Shanghai-Hong Kong Stock Connect will not be abolished. The Sub-Fund, which may invest in the PRC markets through Shanghai-Hong Kong Stock Connect, may be adversely affected as a result of such changes.

### **Prohibited securities**

- In accordance with the HSBC Group policy, the Fund will not invest in the securities of companies that are involved directly and indirectly in the use, development, manufacturing, stockpiling, transfer or trade of cluster munitions and/or anti-personnel mines. As this policy aims to prohibit investment in certain types of securities, investors should be aware that this reduces the investment universe and prevents the Sub-Fund from benefitting from any potential returns from these companies.

## **Risks associated with government or central banks' intervention**

- Changes in regulation or government policy leading to intervention in the currency and interest rate markets (e.g. restrictions on capital movements or changes to the way in which a national currency is supported such as currency de-pegging) may adversely affect some financial instruments and the performance of the Sub-Fund.

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

## **Reference Performance Benchmark**

The reference performance benchmark for the Sub-Fund is MSCI AC Asia Pacific ex Japan USD Net<sup>3</sup> and is shown for comparison purposes only.

Unitholders should be aware that the Sub-Fund might not be managed to its reference performance benchmark and that investment returns may deviate materially from the performance of the specified benchmark.

Unitholders should also be aware that reference performance benchmark may change over time and that this Explanatory Memorandum will be updated accordingly.

# Management of the Fund

## **Manager and Investment Adviser**

The Manager of the Fund is HSBC Investment Funds (Hong Kong) Limited, a company incorporated in and under the laws of Hong Kong.

The Manager has delegated its investment management duties to HSBC Global Asset Management (Hong Kong) Limited, the Investment Adviser, to provide discretionary investment management services in respect of the Sub-Fund.

The Manager and the Investment Adviser are members of the HSBC Group.

The fees of the Investment Adviser will be borne by the Manager.

## **Trustee and Registrar**

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

The Trustee shall be responsible for the safe-keeping of the investments, assets and other property forming part of the Fund in accordance with the provisions of the Trust Deed and, to the extent permitted by law, such investments, assets and other property shall be dealt with as the Trustee may think proper for the purpose of providing for the safe-keeping thereof, subject to the provisions of the Trust Deed.

<sup>3</sup> Source: MSCI, the MSCI information may only be used for the Manager's internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

The Trustee may (i) appoint such person or persons (including, without limitation, any of its Connected Persons) or have such person(s) appointed, to hold, as agent, nominee, custodian, joint custodian, co-custodian or sub-custodian, all or any investments, assets or other property comprised in a fund and may empower any such person to appoint, with the prior consent in writing of the Trustee, additional co-custodians and/or sub-custodians (each such agent, nominee, custodian, joint custodian, co-custodian or sub-custodian a "**Correspondent**"), or (ii) delegate to a person or persons (including, without limitation, any of its Connected Persons) the performance of its duties, powers or discretions under the Trust Deed. In respect of the Fund, the Trustee confirms that the Trustee shall (a) exercise reasonable care and diligence in the selection, appointment and ongoing monitoring of any such persons and, (b) be satisfied that such persons retained remain suitably qualified and competent to provide the relevant services to the relevant sub-fund. The Trustee shall remain liable for any act or omission of any such person as described in the aforesaid (i) and (ii) that is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee. Provided however that if the Trustee has discharged its obligations set out in the aforesaid (a) and (b), the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any such person(s) not being the Trustee's Connected Person appointed as Correspondent and/or delegates of any sub-fund.

The Trustee shall not be liable for (1) the custody or control of any investments, assets or other property which is under the custody or held by or on behalf of a lender in respect of any borrowing made by the Trustee for the purpose of the Fund; or (2) any act, omission, insolvency, liquidation or bankruptcy of Euro-clear Clearing System Limited or Clearstream Banking, S.A. or any other recognised depository or clearing system.

The Trustee also acts as the Registrar and will be responsible for maintaining the Fund's register. Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the relevant sub-fund from and against any and all actions, proceedings, liabilities, costs, claims, damages, expenses, including all reasonable legal, professional and other similar expenses (other than any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence on the part of the Trustee or any of its officers, employees, agents or delegates for which the Trustee would be liable under the Trust Deed), which may be incurred by or asserted against the Trustee in performing its obligations or duties in connection with any Sub-Fund.

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

The Trustee is entitled to the fees set out below under the section headed "EXPENSES AND CHARGES" and to be reimbursed for other costs and expenses.

The Manager has sole responsibility for making investment decisions in relation to the Fund and/or each Sub-Fund and the Trustee (including its delegate) is not responsible or has no liability for any investment decision made by the Manager. The Trustee and its delegate will not participate in transactions or activities or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to the United States Office of Foreign Assets Control (OFAC) sanctions.

Neither the Trustee nor its delegate is involved directly or indirectly with the sponsorship or investment management of the Fund or any Sub-Fund. In addition, neither the Trustee nor its delegate is responsible for the preparation of this Explanatory Memorandum and therefore they accept no responsibility for any information contained in this Explanatory Memorandum other than information relating to themselves and the HSBC Group.

## **Auditors**

KPMG acts as auditors to the Fund.

# Application for Units

## Available classes

The following Classes of Units are currently offered:-

Class (until 4 September 2016)	Class (from 5 September 2016)	Class Currency	Investor
Class AM – USD	Class AM2 – USD	USD	Retail
Class AM – HKD	Class AM2 – HKD	HKD	Retail
Class AMH – RMB	Class AM3H - RMB	RMB	Retail
Class AMH – AUD	Class AM3H - AUD	AUD	Retail
Class AMH – CAD	Class AM3H - CAD	CAD	Retail
Class AMH – EUR	Class AM3H - EUR	EUR	Retail
Class AMH – GBP	Class AM3H - GBP	GBP	Retail
Class IC – USD	Class IC – USD	USD	Institutional
Class ZC – USD*	Class ZC – USD*	USD	Institutional
-	Class BM2 – USD	USD	Retail
-	Class BM2 – RMB	RMB	Retail
-	Class BM2 – HKD	HKD	Retail
-	Class BC – USD	USD	Retail
-	Class BC – RMB	RMB	Retail
-	Class BC – HKD	HKD	Retail

\* *Class Z Units are only available to investors making investment through a discretionary management agreement entered into with an HSBC group entity and to investors selected by the Manager at its discretion.*

The Manager may establish and issue additional Classes of Units from time to time. Each Class may be issued in different currencies, have different investment parameters, fee structures, distribution policies and other features.

Class B Units may be issued from time to time at the Manager's discretion. Such Units are available to investors in the PRC *only* (through the "Mainland-Hong Kong Mutual Recognition of Funds" regime) and will *not* be offered in Hong Kong. The issue of such Units is subject to applicable laws and regulations, and the approval required from the China Securities Regulatory Commission. Specific details in relation to such Units will be set out in a separate document.

## Application Procedures

Subscription applications will be dealt with on each Dealing Day.

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

Facsimile orders must always be followed by an original completed application form unless otherwise agreed by the Manager and the Trustee. Investors should be reminded that if they choose to send application forms by facsimile, they bear their own risk of the forms not being received. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a Unitholder or an investor for any loss resulting from non-receipt or illegibility of any orders sent by facsimile. This is notwithstanding the fact that a facsimile transmission report produced by the originator of such transmission discloses that such transmission was sent.

On any Dealing Day, Units will be issued at the Issue Price, as calculated in the manner set out in the section headed "Issue Price and Redemption Price" below. To subscribe for Units, investors will pay the "Offer Price" of such Units, which is inclusive of the applicable initial charge.

Subscription applications should be made on, and in accordance with the instructions on the application form and be received by the Manager or the Trustee by 4:00 p.m. (Hong Kong time) on a Dealing Day (or such other time as the Manager may from time to time determine) if they are to take effect at the relevant net asset value per Unit (plus any applicable initial charge) of that Dealing Day. Subscription applications received after that time will be dealt with on the next Dealing Day.

Subscription applications may also be sent through distributors appointed specifically for the purpose of distributing the Sub-Fund. Different distributors may have different cut-off times and investors should contact such distributors for details.

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

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

Units may not be issued during any period in which the determination of the net asset value of the Sub-Fund is suspended (for details see the section headed "Suspension of Calculation of Net Asset Value").

Under the Trust Deed, on the issue of new units of any sub-fund, the Manager is entitled to impose an initial charge up to 6.0%. For the Sub-Fund, the Manager currently charges an initial charge of up to 5.25% of the Offer Price of the Units. The initial charge is payable by the applicant and retained by the Manager for its own use and benefit. The Manager may, at its discretion, rebate to approved agents, which include banks, brokers, recognised securities dealers and other investment advisers, any part of the initial charge received by it on the value of relevant business introduced to the Sub-Fund.

**At the discretion of the Manager, the Sub-Fund may be closed to new subscriptions without any prior notice from the Manager. However, Unitholders may continue to redeem their holdings in the Sub-Fund in accordance with the procedures below, even when the Sub-Fund is closed to new subscriptions. Furthermore, at the discretion of the Manager, the Sub-Fund which is previously closed to new subscription may be re-opened for new subscription without any prior notice to existing Unitholders.**

The Manager reserves the right at its sole discretion to close and/or reopen the Sub-Fund and/or any Class of Units to new subscriptions without prior notice.

## **Classes of Units**

The Classes of Units currently offered are set out in the section headed "APPLICATION FOR UNITS" above. Please note that the name of a Class of Units will indicate its features:

### ***Target investor***

Class A is offered to retail investors. Class I and Class Z are offered to institutional investors.

Class B is available to investors in the PRC *only* and will *not* be offered in Hong Kong.

### ***Distribution policy***

Monthly distribution and capital-accumulation Classes of Units are identified by "M" and "C" respectively following the Class names (e.g. Class AM and Class IC).

*With effect from 5 September 2016, the following additional distribution Unit identifiers will apply:*

Annual distribution and quarterly distribution Classes of Units are identified by "D" and "Q" respectively following the Class names (e.g. Class AD and Class AQ).

Please refer to the section headed "DISTRIBUTION" for further information on the identifiers "C", "D", "Q" and "M" and the respective distribution feature they indicate.

**Denomination currency (i.e. Class Currency)**

The name of the Class will indicate the Class Currency of the relevant Class of Units.

Subscriptions and redemptions are only accepted in the Class Currency of a Class of Units.

In this Explanatory Memorandum, references to a Class of Units shall include Units of that Class denominated in different Class Currencies, unless the context otherwise requires.

**Hedging activity**

The Sub-Fund offers "Hedged Classes" (suffixed by "H" and the currency on which hedging is performed). For example: "H - EUR" or "H - GBP" indicate Classes hedged into Euro or Pound Sterling respectively.

Investors should note that the implementation of currency hedging strategies in relation to Hedged Classes is distinct from the various currency hedging strategies that the Manager may implement at a portfolio level to manage risks at the portfolio level.

A Hedged Class aims to deliver to the investors a hedged return in a different currency to the base currency of the Sub-Fund plus or minus the hedging cost or benefit. In other words, it aims to hedge the currency risk between the base currency and the Class Currency of the Hedged Class. This will generally have the effect of producing a similar return to the return measured in the Sub-Fund's base currency (but the value of the Units will be quoted in the Class Currency of the Hedged Class) plus or minus the hedging cost or benefit. However, the Sub-Fund's underlying assets (which may be denominated in various currencies different from the Sub-Fund's base currency) may not be hedged either to the base currency of the Sub-Fund or to the Class Currency of the Hedged Class. Therefore, investors in a Hedged Class will be exposed to the movement of the underlying portfolio investments' currencies relative to the base currency of the Sub-Fund and such Hedged Class aims to produce a return similar to the return measured in the Sub-Fund's base currency (but the value of the Units will be quoted in the Class Currency of the Hedged Classes). There is no guarantee that (a) any hedging objective will be achieved, or (b) any hedging strategy will fully and effectively eliminate the effects of exchange rate fluctuations. Further, the hedging strategy in respect of a Hedged Class does not seek to eliminate exposure of such Hedged Class to the exchange rate movements of the underlying portfolio investments' currencies against the Class Currency of the Hedged Class.

For example, in the case of a EUR denominated Hedged Class where the portfolio value of the Class in EUR is hedged against USD (base currency of the Sub-Fund), an investor in this Class will be exposed to the movement of the underlying portfolio currencies relative to USD and such EUR denominated Hedged Class aims to produce a return similar to the return measured in USD (but the value of the Units will be quoted in EUR). There is no guarantee that (a) any hedging objective will be achieved, or (b) any hedging strategy will fully and effectively eliminate the effects of exchange rate fluctuations. Further, the hedging strategy in respect of such Hedged Class (denominated and quoted in EUR) does not seek to eliminate exposure of such Hedged Class to the exchange rate movements of the underlying portfolio investments' currencies against EUR. If the USD appreciates against EUR, the Class will return less to the investor than if the investor had simply invested in an unhedged class denominated in EUR. The hedging activities will also potentially incur a cost dependent on the interest rate differential between the two currencies (EUR and USD).

Pursuant to the Trust Deed, the Trustee is entitled to any fees arising from the execution of the currency hedging policy which involves fees in valuing the assets of the Sub-Fund, as disclosed under heading "Other Expenses" in the section "EXPENSES AND CHARGES" below. Such fees will be borne by the relevant Hedged Class.

Any gains or losses from the currency hedging shall also accrue to the relevant Hedged Class. Hedged Classes will be hedged irrespective of whether the target currency is declining or increasing in value. No assurance can be given that the hedging objective will be achieved. Please refer to the risk factor headed "Risks relating to Hedged Classes of Units" in the section headed "Risk Factors".

## Minimum Initial Subscription and Minimum Subsequent Subscription

The Manager may from time to time prescribe the respective amounts of the minimum initial subscription and minimum subsequent subscription in respect of each Class of Units. The current minimum initial subscription amounts are indicated below (in the relevant Class Currency):–

Class	Class A Units			Class I Units	Class Z Units*
	(until 4 September 2016)	(from 5 September 2016)			
<b>Minimum Initial Subscription</b>	Class AM – USD Class AM – HKD Class AMH – RMB Class AMH – AUD Class AMH – CAD Class AMH – EUR Class AMH – GBP	Class AM2 – USD Class AM2 – HKD Class AM3H – RMB Class AM3H – AUD Class AM3H – CAD Class AM3H – EUR Class AM3H – GBP	USD1,000 HKD10,000 RMB10,000 AUD1,500 CAD1,000 EUR850 GBP650	USD1,000,000 or equivalent in the Class Currency	USD1,000,000 or equivalent in the Class Currency
<b>Minimum Subsequent Subscription</b>	Class AM – USD Class AM – HKD Class AMH – RMB Class AMH – AUD Class AMH – CAD Class AMH – EUR Class AMH – GBP	Class AM2 – USD Class AM2 – HKD Class AM3H – RMB Class AM3H – AUD Class AM3H – CAD Class AM3H – EUR Class AM3H – GBP	USD1,000 HKD10,000 RMB10,000 AUD1,500 CAD1,000 EUR850 GBP650	Not applicable	Not applicable

\* *Class Z Units are only available to investors making investment through a discretionary management agreement entered into with an HSBC group entity and to investors selected by the Manager at its discretion.*

The Manager may in its discretion agree to accept a lesser minimum amount from time to time, whether generally or in a particular case.

Class B Units are available to investors in the PRC *only* and will *not* be offered in Hong Kong. Specific details in relation to such Units will be set out in a separate document.

## Payment Procedures

Payment for Units issued for cash shall be due and subscription monies in cleared funds must be received forthwith upon submitting the subscription application, unless otherwise agreed by the Manager. In any event, if payment is not cleared within 4 Business Days following the relevant Dealing Day, or such other time as the Manager shall determine and notify the relevant applicant, the Manager reserves the right to cancel the transaction.

Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant therefore shall have no right to claim in respect thereof against the Manager, the Trustee or their respective delegates, provided that no previous valuations of the Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units. Pursuant to the Trust Deed, the Manager and the Trustee will be entitled to charge the relevant applicant (and retain for the account of the Sub-Fund) a cancellation fee to represent the administrative costs involved in processing the application and require the applicant to pay to the Trustee for the account of the Sub-Fund in respect of each Unit so cancelled the amount (if any) by which the Issue Price of each such Unit exceeds the Redemption Price (had such Unit been redeemed) on the date of cancellation together with interest on such amount until receipt of such payment by the Trustee.

Subscription monies should be paid in the Class Currency of the Class of Units being subscribed for. Subject to the agreement of the Trustee or the Manager and to applicable limits on foreign exchange, and unless otherwise specified in this Explanatory Memorandum, application moneys other than in the Class Currency will be converted into the Class Currency and all bank charges and other conversion costs will be deducted from the application moneys prior to investment in Units. Currency conversion will be subject to availability of the currency concerned. Such currency conversion will be effected on a timely basis by the Trustee upon receipt of application moneys. The Manager, the Trustee or their respective delegates will not be liable to any Unitholder for any loss suffered by such Unitholder arising from the said currency conversion.

Unless the applicant has made arrangements with the Trustee or the Manager to make payment in some other currency or by some other method, payment net of any bank charges must be made in the Class Currency of the relevant Units.

All application moneys must originate from an account held in the name of the subscriber. No third party payments shall be accepted.

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

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

## General

All holdings will be in registered form and certificates will not be issued. Evidence of title will be the entry on the Register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of Units rounded to 3 decimal places, or otherwise determined by the Manager after consulting the Trustee, will be issued. Application monies representing smaller fractions of a Unit will be retained by the Sub-Fund. A maximum of 4 persons may be registered as joint Unitholders.

## Switching

Unitholders have the right (subject to any suspension in the determination of the net asset value of the Sub-Fund) to switch all or part of their Units of a certain Class of the Sub-Fund into Units of any other Class (whether in the same Sub-Fund or another sub-fund by giving notice in writing to the Manager, provided that such Class of the Sub-Fund or other sub-fund is open for new subscription and available for switching). Switching is subject to limitations as the Manager may from time to time impose (including but not limited to the minimum holding requirement and investor eligibility requirement of the relevant Class of the Sub-Fund).

In order for switching to take effect on a particular Dealing Day, the switching notice signed by the Unitholder must be received by the Manager not later than 4:00 p.m. (Hong Kong time) on such Dealing Day.

The rate at which the whole or any part of a holding of Units in any class (the "Existing Class") will be switched on any Dealing Day into Units of another class (the "New Class") will be determined in accordance with the following formula:-

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

where:-

N = the number of Units in the New Class to be issued;

E = the number of Units in the Existing Class to be switched;

F = the currency conversion factor determined as representing the effective rate of exchange between the Class Currency of the Existing Class and the Class Currency of the New Class

R = the Realisation Price per Unit of the Existing Class on the relevant Dealing Day;

S = the Issue Price per Unit of the New Class on the relevant Dealing Day; and

SF = a switching fee per Unit (described below).

Under the Trust Deed, the Manager may charge a switching fee not exceeding 2.0% of the Issue Price per Unit of the New Class. Currently, the switching fee is up to 1.0% of the Offer Price of the New Class. No switching will be made if as a result thereof a Unitholder would hold less than the minimum value of Units of any relevant Class.

Investors should note that in switching, subject to the valuation time of each sub-fund and the time required to remit the switching money between different sub-funds, the day on which the investments are switched into the New Class may be later than the day on which the investments in the Existing Class are switched out or the day on which the switching instructions are given.

## Redemption of Units

### **Redemption Procedures**

On application to the Manager, Unitholders may request to redeem their Units on any Dealing Day at the Redemption Price calculated in the manner set out in section headed "Issue Price and Redemption Price" below. Redemption notices must be received by the Manager or the Trustee by 4:00 p.m. (Hong Kong time) on a Dealing Day if they are to be dealt with on that Dealing Day. Redemption notices received after that time will be dealt with on the next Dealing Day. Requests should be made on the form available from the Manager.

Redemption forms sent by facsimile must always be followed by an original completed redemption forms. Investors should be reminded that if they choose to send redemption forms by facsimile, they bear their own risk of the redemption forms not being received. Investors should therefore for their own benefit confirm with the Manager the receipt of the redemption forms. Neither the Manager nor the Trustee shall be responsible to a Unitholder or an investor for any loss resulting from non-receipt or illegibility of any orders sent by facsimile. This is notwithstanding the fact that a facsimile transmission report produced by the originator of such transmission discloses that such transmission was sent.

Redemption proceeds will not be paid to any redeeming Unitholder until (a) unless otherwise agreed by the Trustee, the written original of the redemption request duly signed by the Unitholder has been received by the Trustee, (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee and (c) receipt of all required documents by the Trustee for the purpose of verification of identity and the source of funds. Redemption proceeds will not be paid to any third parties.

Please also see the section headed "ANTI-MONEY LAUNDERING REGULATIONS".

### **Minimum Number or Value of Units and Minimum Redemption Amount**

Partial redemptions of a holding of Units may be effected provided that such redemptions will not result in the Unitholder holding a total number or value of Units less than such minimum number or value of Units as the Manager may from time to time prescribe. The minimum holdings and the value of minimum redemption amount of the relevant Classes are indicated below:-

Class	Class A Units			Class I Units	Class Z Units
	(until 4 September 2016)	(from 5 September 2016)			
<b>Minimum Redemption Amount</b>	Class AM – USD	Class AM2 – USD	Units with aggregate minimum value of USD1,000	Not applicable	Not applicable
	Class AM – HKD	Class AM2 – HKD	Units with aggregate minimum value of HKD10,000		
	Class AMH – RMB	Class AM3H – RMB	Units with aggregate minimum value of RMB10,000		
	Class AMH – AUD	Class AM3H – AUD	Units with aggregate minimum value of AUD1,500		
	Class AMH – CAD	Class AM3H – CAD	Units with aggregate minimum value of CAD1,000		
	Class AMH – EUR	Class AM3H – EUR	Units with aggregate minimum value of EUR850		
	Class AMH – GBP	Class AM3H – GBP	Units with aggregate minimum value of GBP650		
<b>Minimum Holdings</b>	Class AM – USD	Class AM2 – USD	Units with aggregate minimum value of USD1,000	Units with aggregate minimum value of USD1,000,000 or equivalent in the Class Currency	Units with aggregate minimum value of USD1,000,000 or equivalent in the Class Currency
	Class AM – HKD	Class AM2 – HKD	Units with aggregate minimum value of HKD10,000		
	Class AMH – RMB	Class AM3H – RMB	Units with aggregate minimum value of RMB10,000		
	Class AMH – AUD	Class AM3H – AUD	Units with aggregate minimum value of AUD1,500		
	Class AMH – CAD	Class AM3H – CAD	Units with aggregate minimum value of CAD1,000		
	Class AMH – EUR	Class AM3H – EUR	Units with aggregate minimum value of EUR850		
	Class AMH – GBP	Class AM3H – GBP	Units with aggregate minimum value of GBP650		

Class B Units are available to investors in the PRC *only* and will *not* be offered in Hong Kong. Specific details in relation to such Units will be set out in a separate document.

The Manager may in its discretion agree to accept a lesser minimum amount from time to time, whether generally or in a particular case. If a request for redemption will result in a Unitholder holding Units of a Class less than the minimum number or value of Units for that Class, the Manager may deem such request to have been made in respect of all Units of the relevant Class held by that Unitholder.

There is currently no redemption charge.

Redemption monies in the currency of the redeeming Units are normally remitted by bank transfer or telegraphic transfer or in such other manner as may be agreed by the Manager within 7 Business Days after the relevant Dealing Day upon receipt of all properly completed documentation. In any event, the maximum interval between the receipt of a properly documented request for redemption and the payment of the redemption money may not exceed one calendar month, unless the market(s) in which a substantial portion of investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of the redemption money within the aforesaid time period not applicable. In such case, the extended timeframe for the payment of the redemption money shall reflect the additional time needed in light of the specific circumstances in the relevant market(s). Redemption proceeds will be paid to the registered Unitholder requesting such redemption only and will not be paid to third parties.

Redemption proceeds will be paid in the Class Currency of the Class of Units being redeemed. Subject to the agreement of the Trustee or the Manager and to applicable limits on foreign exchange, arrangements can be made for Unitholders who wish to redeem their Units to receive payment in other major currencies. The cost of currency conversion where payment is to be other than in the Class Currency of the Units redeemed will be payable by the Unitholder and will be deducted from the redemption proceeds to be paid to the Unitholder.

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

### **Restrictions on Redemption**

The Manager may suspend, with the prior approval of the Trustee, the redemption of Units and/or delay the payment of redemption proceeds during any period in which the determination of the net asset value of the Sub-Fund is suspended (for details see the section headed "Suspension of Calculation of Net Asset Value").

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

### **Compulsory Redemption**

The Manager may impose such restrictions as it may think necessary or desirable for the purpose of ensuring that no Units are acquired or held directly, indirectly or beneficially by any person or persons (each a "**Restricted Person**"):

- (i) who is an "Ineligible Investor" (i.e. any person, corporation, or other entity to whom Units of the Fund may not be offered or sold, as disclosed under the section "Important Information");
- (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 be relevant) which might result in the Manager, the Trustee, the Fund, the Sub-Fund or any Class of Units incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee, the Fund, the Sub-Fund or any Class of Units to any additional regulation which they or any of them might not otherwise have incurred or suffered or been subject to; or
- (iii) in breach of any applicable law or applicable requirements of any country or governmental authority.

If it comes to the notice of the Manager or the Trustee that Units are owned directly or beneficially by any Restricted Person, the Manager or the Trustee may give a request for the transfer or the redemption of such Units. If the request is not complied with, the Manager or the Trustee may require the Units held to be compulsorily redeemed in accordance with the provisions of the Trust Deed. The Manager or the Trustee shall observe relevant legal requirements (as applicable) and shall act in good faith and on reasonable grounds in exercising such power of compulsory redemption.

## Prevention of market timing and other unitholder protection mechanisms

The Fund does not knowingly allow investments which are associated with market timing practices as such practices may adversely affect the interests of all Unitholders.

In general, market timing refers to the investment behaviour of an individual or company or a group of individuals or companies buying, selling or exchanging shares or other securities on the basis of predetermined market indicators by taking advantage of time differences and/or imperfections or deficiencies in the method of determination of the net asset value. Market timers may also include individuals or groups of individuals whose securities transactions seem to follow a timing pattern or are characterised by frequent or large exchanges. Market timers may disrupt the Sub-Fund's investment strategies, may increase expenses and may adversely affect investment returns for all Unitholders.

Accordingly, the Manager reserves the right to reject any application for switching and/or subscription of Units from investors whom the former considers market timers.

## Valuation

The value of the net assets of the Sub-Fund will be determined as at the Valuation Point in accordance with the Trust Deed.

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

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

- (e) the value of any investment which is not quoted, listed or normally dealt in on a securities market shall be the initial value thereof equal to the amount expended out of the Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investments;
- (f) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager after consultation with the Trustee, any adjustment should be made to reflect the value thereof;
- (g) notwithstanding the foregoing, the Manager may in consultation with the Trustee adjust the value of any investment if, having regard to currency, applicable rate of interest, maturity, marketability and other considerations they deem relevant, they consider that such adjustment is required to reflect the fair value of the investment; and
- (h) the value of any investment (whether of a borrowing or other liability or an investment or cash) otherwise than in the base currency of the Sub-Fund shall be converted into the base currency of the Sub-Fund at the rate (whether official or otherwise) which the Manager or the Trustee shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

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

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

The Trustee, in calculating the net asset value of the Sub-Fund, may rely without further enquiry upon prices and valuation supplied to it in accordance with the foregoing and shall have no liability to the Sub-Fund, any Unitholder or any other person in respect of such reliance.

The net asset value of a Class will be calculated in the base currency of the Sub-Fund and converted to the relevant Class Currency at a rate determined as the Trustee and the Manager may agree. For the purpose of calculating the net asset value of the Sub-Fund, the provision for taxes (if any) which may be payable by the Sub-Fund shall be deducted or withheld from assets of the Sub-Fund. The net asset value is rounded to 3 decimal places.

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

The Manager or the Trustee may, after giving notice to the other party, declare a suspension of the determination of the net asset value of the Sub-Fund for the whole or any part of any period during which:–

- (a) there is a closure of or the restriction or suspension of trading on any commodities market or securities market on which a substantial part of the investments of the Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager in ascertaining the prices of investments or the net asset value of the Sub-Fund or the Issue Price or Redemption Price per Unit; or
- (b) for any other reason the prices of a substantial part of the investments held or contracted for by the Manager for the account of the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly or fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager or the Trustee, it is not reasonably practicable to realise any investments held or contracted for the account of the Sub-Fund or it is not possible to do so without seriously prejudicing the interests of Unitholders of the Sub-Fund; or

- (d) the remittance or repatriation of funds which will or may be involved in the redemption of, or in the payment for, the investments of the Sub-Fund or the issue or redemption of Units is delayed or cannot, in the opinion of the Manager or the Trustee, be carried out promptly at normal rates of exchange; or
- (e) when a breakdown in the systems and/or means of communication usually employed in ascertaining the value of a substantial part of the investments or other assets of that Sub-Fund or the net asset value of the Sub-Fund or the Issue Price or Redemption Price per Unit takes place or when for any other reason the value of a substantial part of the investments or other assets of the Sub-Fund or the net asset value of the Sub-Fund or the Issue Price or Redemption Price per Unit cannot in the opinion of the Manager reasonably or fairly be ascertained or cannot be ascertained in a prompt or accurate manner; or
- (f) when, in the opinion of the Manager, such suspension is required by law or applicable legal process; or
- (g) where the Sub-Fund is invested in one or more collective investment schemes and the realisation of interests in any relevant collective investment scheme(s) (representing a substantial portion of the assets of the Sub-Fund) is suspended or restricted; or
- (h) when the business operations of the Manager, the Trustee or the Registrar or any of their delegates in relation to the operations of the Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God; or
- (i) when the Unitholders or the Manager have resolved or given notice to terminate the Sub-Fund.

Such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the net asset value of the Sub-Fund until the Manager or the Trustee shall declare the suspension at an end, except that the suspension shall terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension shall have ceased to exist and (ii) no other condition under which suspension is authorised shall exist.

Whenever the Manager or the Trustee declares such a suspension it shall as soon as may be practicable after any such declaration notify the SFC of the suspension and at least once a month during the period of such suspension, publish a notice in the newspapers in which the Issue Price and Redemption Price per Unit of each Class are published and/or notify Unitholders and all those (whether Unitholders or not) whose applications to subscribe for or redeem Units shall have been affected by such suspension stating that such declaration has been made.

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

### **Issue Price and Redemption Price**

The net asset value of the Sub-Fund attributable to Units of a Class as at any Valuation Point shall be determined as follows:

- (a) by calculating the net asset value as at that time excluding any assets or liabilities which are specifically attributable to any particular Class of Units related to the Sub-Fund;
- (b) by apportioning the resulting amount between the Classes of Units related to the 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.

The Issue Price or Redemption Price of each Unit of a Class for any relevant Dealing Day will, subject as provided below, be determined by dividing the net asset value of such Class of Units as at the Valuation Point relating to that Dealing Day by the number of Units of such Class then in issue. The resulting amount will be rounded to 3 decimal places (in such manner as determined by the Manager) for Issue Price and Redemption Price.

Investors will pay the "Offer Price" for subscription of Units. The Offer Price (inclusive of the initial charge) will be rounded up to 3 decimal places.

Class B Units are available to investors in the PRC *only* and will *not* be offered in Hong Kong. Details in relation to the prices at which such Units are issued and redeemed will be set out in a separate document.

If the Manager considers it in the interest of Unitholders, it may, when the net subscription or redemption requests in the Sub-Fund exceed a predefined threshold, require the Trustee to adjust the Issue Price or Redemption Price in order to mitigate the effects of transaction costs, in particular but not limited to, bid-offer spreads, brokerage, taxes and government charges. Under normal market conditions, the Manager expects that the adjustment will not exceed 2%. However, the rate may be significantly higher in special circumstances, for example, when a tax or levy higher than in normal rates is imposed on the Sub-Fund by a regulator or tax authority.

The management fee and trustee fee will continue to be calculated on the basis of the unadjusted net asset value of the Sub-Fund. The initial charge will be calculated on the basis of the adjusted net asset value of the Sub-Fund.

Further, the Manager may, with the approval of the Trustee, arrange for a revaluation of the Issue Price or Redemption Price of a Unit of any Class if it considers that the Issue Price or Redemption Price calculated in relation to any Dealing Day does not accurately reflect the true value of the Units.

## Expenses and charges

### Management Fee

The current management fee for the Sub-Fund is charged at the rates set out in the table below. The Manager will give one month's prior notice to Unitholders should there be any increase of the management fee from the current level up to the maximum level of 2.5% per annum of the net asset value of the Sub-Fund.

Class of Unit	% per annum of the net asset value of the Unit Class
Class AM*	1.75%
Class AMH**	1.75%
Class IC	0.875%
Class ZC	0.00%

\* From 5 September 2016, Class AM will be renamed as Class AM2.

\*\* From 5 September 2016, Class AMH will be renamed as Class AM3H.

Currently, no performance fee is charged by the Manager.

Class B Units are available to investors in the PRC *only* and will *not* be offered in Hong Kong. Specific details in relation to such Units will be set out in a separate document.

The Manager may share any amounts it is entitled to retain as manager of the Sub-Fund (including the applicable initial charge, switching fee and management fee) with any persons who distribute or otherwise procure subscriptions to the Sub-Fund.

### Trustee Fee

The current trustee fee for the Sub-Fund is 0.1% per annum of the net asset value of the Sub-Fund, accrued as at each Valuation Day and payable monthly in arrears, subject to an annual minimum fee of USD60,000. The Trustee will give one month's prior notice to Unitholders should there be any increase of the trustee fee from the current level up to the maximum level of 2.5% per annum of the net asset value of the Sub-Fund.

The Trustee is also entitled to receive a fee for acting as registrar at a rate of USD3,300 per annum for the Sub-Fund. It is also entitled to various transaction and processing fees and to be reimbursed for all out of pocket expenses (including sub-custody fees and expenses) properly incurred by it in the performance of its duties.

## Other expenses

Each Sub-Fund will bear the cost of (a) all stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and expenses, registration fees and expenses, transaction fees of the Trustee, custodian or sub-custodian and proxy fees and expenses, collection fees and expenses, insurance and security costs, and any other costs, charges or expenses payable in respect of the acquisition, holding and realisation of any investment or other property or any cash, deposit or loan (including the claiming or collection of income or other rights in respect thereof and including any fees or expenses charged or incurred by the Trustee or the Manager or any Connected Person in the event of the Trustee or the Manager or such Connected Person rendering services or effecting transactions giving rise to such fees or expenses), (b) the fees and expenses of the Auditors and the Registrar, (c) fees charged by the Trustee in connection with valuing the assets of the Sub-Fund or any part thereof, calculating the issue and redemption prices of Units of the Sub-Fund and preparing financial statements, (d) all legal and professional fees and charges incurred by the Manager or the Trustee in connection with the Sub-Fund (including the fees and charges of the legal counsel, and fees and charges incurred in conducting legal proceedings or applying to any court for any purposes related to the Sub-Fund) and other professional fees and charges (including any professional fees and charges in relation to agreeing and/or contesting taxation liabilities or recoveries to be paid out of or into the Sub-Fund, or preparation or issuance of any accounts, statements or reports in relation to the Sub-Fund or any income, revenue, expenses, assets and/or liabilities of the Sub-Fund), (e) out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties, (f) the expenses of or incidental to the preparation of deeds supplemental to the Trust Deed, (g) the expenses of holding meetings of Unitholders and of giving notices to Unitholders, (h) the costs and expenses of obtaining and maintaining a listing for the Units of the Sub-Fund on any stock exchange or exchanges selected by the Manager and approved by the Trustee and/or in obtaining and maintaining any approval or authorisation of the Sub-Fund or in complying with any undertaking given, or agreement entered into in connection with, or any rules governing such listing, approval or authorisation, and (i) without prejudice to the generality of the foregoing, all costs incurred in publishing the issue and redemption prices of Units of the Sub-Fund, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deed (including the Auditors' fees and Trustee's fee), the expenses of preparing and printing any offering document, and any other expenses, deemed by the Manager, after consulting the Trustee, to have been incurred in compliance with or in connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts.

The cost of establishment of the Sub-Fund is estimated to be approximately USD71,000. The cost will be amortised over the first five financial years of the Sub-Fund commencing from the first Valuation Day, unless otherwise determined by the Manager with the approval of the Trustee. If the Sub-Fund is wound-up prior to the expenses being fully amortised, such unamortised amount will be borne by the Sub-Fund prior to its termination.

It should be noted that the above policy relating to amortisation of establishment expenses is not strictly in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**"), which requires establishment expenses to be expensed as incurred. The Manager believes that such treatment is more equitable to the initial investors than expending the entire amount as they are incurred and is of the opinion that the departure is unlikely to be material to the Sub-Fund's overall financial statements.

## Transactions with Connected Persons

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

- such transactions are on arm's length terms;
- it uses due care in the selection of such brokers or dealers and ensure that they are suitably qualified in the circumstances;
- transaction execution must be consistent with applicable best execution standards;
- the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;

- it monitors such transactions to ensure compliance with its obligations; and
- the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the annual and semi-annual report and accounts of the Fund and/or the relevant Sub-Fund.

### **Cash Rebates and Soft Commissions**

The Sub-Fund will generally pay brokerage at customary institutional full service brokerage rates. Transactions of the Sub-Fund may be entered into through connected persons of the Manager. The Manager and its connected persons will not receive cash or other rebates from brokers or dealers in respect of transactions from the Sub-Fund.

The Manager may enter into soft commission arrangements for the provision to the Manager or connected persons of goods and services which are of demonstrable benefit to the Unitholders in consideration of the Manager or its connected persons procuring that such other persons (or persons connected thereto) execute transactions to be entered into for the account of the Sub-Fund provided that the brokerage rates do not exceed customary institutional full service brokerage rates and execution of transactions for the Sub-Fund is consistent with best execution standards. For the avoidance of doubt (and without prejudice to the generality of the foregoing) research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications may be considered as of such benefit to Unitholders.

## **Taxation**

Investors should consult their professional advisers on the consequences to them of acquiring, holding, redeeming, transferring or selling units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances. The following statements regarding taxation are based on advice received by the Fund regarding the law and practice in force in the relevant jurisdictions at the date of this Explanatory Memorandum. Investors should be aware that levels and bases of taxation are subject to change and that the value of any relief from taxation depends upon the individual circumstances of the taxpayer.

### **Taxation - Hong Kong**

During such period as the Fund and the Sub-Fund are authorised by the SFC pursuant to section 104 of the Securities and Futures Ordinance then, under present Hong Kong law and practice:-

- (a) The Fund and the Sub-Fund are not expected to be subject to Hong Kong profits tax in respect of any of its authorised activities.
- (b) No tax will be payable by Unitholders in Hong Kong in respect of dividends or other income distributions of any Sub-Fund so authorised or in respect of any capital gains arising on a sale, redemption or other disposal of Units of such Sub-Fund, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.
- (c) For Unitholders, no Hong Kong ad valorem stamp duty is payable in relation to an issue of Units or on the redemption of Units. No Hong Kong stamp duty is payable where the sale or transfer of the Unit is effected by extinguishing the Unit or the sale or transfer is to the Manager who subsequently re-sells the Units within two months thereof. Pursuant to a remission order issued by the Secretary for the Treasury on 20 October 1999, transfer of Hong Kong stocks to the Sub-Fund in exchange for issue of Units or transfer of Hong Kong stocks from the Sub-Fund in consideration for redemption of Units is exempt from Hong Kong Stamp Duty. Other types of sales or purchases or transfers of the Units by Unitholders should be liable to Hong Kong Stamp Duty of 0.1% (borne by each of the buyer and seller) on the higher of the consideration amount or market value. In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of Units.

## **Foreign Account Tax Compliance Act and similar measures**

Sections 1471 through 1474 of the U.S. Internal Revenue Code (“**FATCA**”) impose a 30% withholding tax on certain payments to a foreign financial institution (“**FFI**”) if that FFI is not compliant with FATCA. The Fund is a FFI and thus, subject to FATCA.

Beginning 1 July 2014, this withholding tax applies to payments to the Fund that constitute interest, dividends and other types of income from U.S. sources (such as dividends paid by a U.S. corporation) and beginning on 1 January 2019, this withholding tax is extended to the proceeds received from the sale or disposition of assets that give rise to U.S. source dividend or interest payments.

These FATCA withholding taxes may be imposed on payments to the Fund unless (i) the Fund becomes FATCA compliant pursuant to the provisions of FATCA and the relevant regulations, notices and announcements issued thereunder, or (ii) the Fund is subject to an appropriate Intergovernmental Agreement to improve international tax compliance and to implement FATCA (“IGA”). The Fund intends to comply with FATCA in good time to ensure that none of its income is subject to FATCA withholding.

Hong Kong has signed an IGA Model 2 with the U.S. and the Fund and the Sub-Fund intend to comply with the terms of the IGA and local implementing regulations.

As an IGA has been signed between Hong Kong and the U.S., FFIs in Hong Kong (such as the Fund and the Sub-Fund) 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 U.S. IRS) or close those recalcitrant accounts (provided that information regarding such recalcitrant account holders is reported to the U.S. IRS), but may be required to withhold tax on payments made to non-compliant FFIs.

As at the date of the Explanatory Memorandum, the Fund and the Sub-Fund are treated as a Nonreporting IGA FFIs under IGA Model 2 with the U.S.: the Manager will act as “FATCA sponsoring entity” and carry out FATCA obligations on behalf of the Fund and the Sub-Fund.

In order to comply with its FATCA obligations, the Fund will be required to obtain certain information from its investors so as to ascertain their U.S. tax status. If the investor is a specified U.S. person, U.S. owned non-U.S. entity, non-participating FFI (“NPPFI”) or does not provide the requisite documentation, the Fund may need to report information on these investors to the appropriate tax authority, as far as legally permitted.

If an investor or an intermediary through which it holds its interest in the Fund fails to provide the Fund, its agents or authorised representatives with any correct, complete and accurate information that may be required for the Fund to comply with FATCA, the investor may be subject to withholding on amounts otherwise distributable to the investor, may be compelled to sell its interest in the Fund or, in certain situations, the investor’s interest in the Fund may be sold involuntarily (provided that the Manager or the Trustee shall observe relevant legal requirements and shall act in good faith and on reasonable grounds). The Fund may at its discretion enter into any supplemental agreement without the consent of investors to provide for any measures that the Fund deems appropriate or necessary to comply with FATCA.

Other countries are in the process of adopting tax legislation concerning the reporting of information. The Fund also intends to comply with such other similar tax legislation that may apply to the Fund, although the exact parameters of such requirements are not yet fully known. As a result, the Fund may need to seek information about the tax status of investors under such other country’s laws and each investor for disclosure to the relevant governmental authority.

Investors should consult their own tax advisors regarding the FATCA requirements with respect to their own situation. In particular, investors who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer FATCA withholding tax on their investment returns.

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

# Reports and accounts

Financial year end of the Fund and the Sub-Fund is on 31 March in each year. Audited accounts will be made available to Unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited semi-annual reports will also be made available within two months after 30 September in each year. Such reports contain a statement of the net asset value of each sub-fund (including the Sub-Fund) and of the investments comprising its portfolio.

The audited accounts and semi-annual reports will be available in English only.

As an alternative to distributing hard copies of the annual and interim reports, the Manager may in future notify Unitholders when and where such reports are available (in printed and electronic forms) within the above periods. The annual reports and interim reports will be available on the website of the Manager at [www.assetmanagement.hsbc.com/hk](http://www.assetmanagement.hsbc.com/hk)<sup>4</sup>. Printed copies of the annual reports and interim reports will be provided to Unitholders upon their request and will be available at the offices of the Manager.

The annual report and accounts of the Fund is prepared in accordance with HKFRS (Hong Kong Financial Reporting Standards). Investors should note that the above valuation policies may not necessarily comply with HKFRS. Under HKFRS, investments should be valued at fair value and bid and ask pricing is considered to be representative of fair value for long and short listed investments respectively. However, under the valuation basis described in the section entitled "VALUATION" above, listed investments are expected to be valued at the last traded price instead of bid and ask pricing as required under HKFRS. To the extent that the valuation basis adopted by the Sub-Fund deviates from HKFRS, adjustments may be required to make in the annual accounts of the Sub-Fund in order to comply with HKFRS, and if relevant will include a reconciliation note in the annual accounts of the Sub-Fund to reconcile values shown in the annual accounts determined under HKFRS to those arrived at by applying the Sub-Fund's valuation rules. Otherwise, non-compliance with HKFRS may result in the Auditors issuing a qualified or an adverse opinion on the annual accounts depending on the nature and level of materiality of the non-compliance.

As described under the heading "Other Expenses" in the section "EXPENSES AND CHARGES" above, it should also be noted that the policy relating to amortisation of establishment expenses is not strictly in accordance with the HKFRS, which requires establishment expenses to be expensed as incurred. This may result in the net asset value of the Sub-Fund from the daily valuation being higher than the net asset value of the Sub-Fund reported in the audited annual accounts, which accounts are prepared in accordance with HKFRS.

## Distribution

### Until 4 September 2016

The Manager has discretion as to whether or not to make any distribution in respect of any Class of Units and as to the frequency and amount of distributions.

The Manager aims to pay distributions on a monthly basis in respect of the relevant distribution Classes of Units (i.e. Class AM – USD, Class AM – HKD, Class AMH – RMB, Class AMH – AUD, Class AMH – CAD, Class AMH – EUR and Class AMH - GBP).

No distribution will be declared or paid in respect of the relevant capital-accumulation Classes of Units (i.e. Class IC – USD and Class ZC – USD).

Payment of distributions will be made normally within seven Dealing Days of such declaration date.

<sup>4</sup> Please note that this website has not been reviewed by the SFC.

In the event that the income generated from the Sub-Fund's investments attributable to the relevant Class of Units during the relevant period is insufficient to pay distributions as declared, the Manager may in its discretion determine such distributions be paid from capital. The Manager may also at its discretion pay dividend out of gross income while charging/ paying all or part of the Sub-Fund's fees and expenses to/ out of the capital of the Sub-Fund (resulting in an increase in distributable income for the payment of dividends by the Sub-Fund), and thereby effectively pay distributions out of capital of the Sub-Fund. Investors should be aware of the effect of such distribution and pay attention to the risk factor headed "Distribution out of capital".

Investors should however note that the Manager may in its discretion decide not to declare distributions. There is no guarantee on regular payment of distributions and, if distribution is made, the rate of such distributions is not guaranteed.

The distribution policy of the Sub-Fund may be changed provided that prior approval will be sought from the SFC and not less than one month's prior written notice will be given to Unitholders.

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

Unitholders do not have the option to re-invest distributions into the Sub-Fund but can opt to switch their holdings in the distribution Classes of Units to the relevant capital-accumulation Class of Units for which no dividend is distributed.

For the Classes offered to retail investors in Hong Kong, the composition of the latest distributions (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the last 12 months is available from the Manager on request and on the website [www.assetmanagement.hsbc.com/hk](http://www.assetmanagement.hsbc.com/hk)<sup>5</sup>.

### From 5 September 2016

The Manager has discretion as to whether or not to make any distribution in respect of any Class of Units and as to the frequency and amount of distributions.

Distribution Units may be offered with the following dividend declaration/payment frequencies and are indicated by Unit identifiers as follows:

	<b>Annual</b>	<b>Quarterly</b>	<b>Monthly</b>
<b>Distribution Units</b>	a "D" follows the sub-fund and Class names	a "Q" follows the sub-fund and Class names	an "M" follows the sub-fund and Class names
<b>Example for Class A</b>	AD	AQ	AM

The Manager aims to pay distributions on a monthly basis in respect of the relevant distribution Classes of Units (i.e. Class AM2 – USD, Class AM2 – HKD, Class AM3H – RMB, Class AM3H – AUD, Class AM3H – CAD, Class AM3H – EUR and Class AM3H – GBP).

No distribution will be declared or paid in respect of the relevant capital-accumulation Classes of Units (i.e. Class IC – USD and Class ZC – USD).

The distribution policy for Class B Units will be set out in a separate document.

In addition to the different dividend frequencies, distribution Units may be offered with the following dividend calculation methodologies.

Unitholders should be aware that for Class of Unit identifiers 1, 2 and 3 the distribution of dividends may be made out of income and/or capital gains and/or capital. Dividends may therefore impact their tax position and accordingly investors are encouraged to seek appropriate tax advice in relation to investment in the different Classes of Units.

<sup>5</sup> Please note that this website has not been reviewed by the SFC.

The Class of Unit identifiers are listed and defined as detailed in the table below. The Manager has discretion to issue any Units with the below identifiers from time to time:

<b>Class of Unit Identifier</b>	<b>Calculation Methodology</b>
For illustrative purposes, each of the possible dividend frequencies is shown below on Class A Units.	The usual method for calculating dividends is described below. The Manager may decide, at their discretion, to change or amend any of the calculation methodologies at any time.
Class AD Class AQ Class AM	It is intended that substantially all investment income (net of fees and expenses <sup>6</sup> and net of withholding taxes) attributable to such Class of Units will be declared as a dividend.
Class AD1 Class AQ1 Class AM1	<p>It is intended that substantially all investment income (gross of fees and expenses<sup>6</sup> and net of withholding taxes) attributable to such Class of Units will be declared as a dividend.</p> <p>Investors should be aware that fees and expenses<sup>6</sup> will be charged to capital. As a result it may be considered that such Classes of Units are effectively distributing capital gains, if any, and capital attributable to such Units. Distribution of capital represents a withdrawal of part of an investor's original investment and may result in a reduction of the net asset value per Unit over time.</p>
Class AD2 Class AQ2 Class AM2	<p>It is intended that the Class of Units will declare a dividend based upon the estimated annualised yield of the relevant Sub-Fund's underlying portfolio which is attributable to the Class of Units.</p> <p>The Manager will review the estimated annualised yield at least semi-annually. However, the Manager may decide, at its discretion, to make adjustments to the dividend rate at any time to reflect changes in the estimated annualised yield of the Sub-Fund's portfolio.</p> <p>Investors should be aware that this dividend policy will pay out dividends gross of fees and expenses<sup>6</sup> and may pay out dividends gross of withholding taxes. The estimate of a Sub-Fund's underlying portfolio yield will not necessarily equal the income received by the Class of Units and may result in distribution of both realised and unrealised capital gains, if any, and capital attributable to such Units. Distribution of capital represents a withdrawal of part of an investor's original investment.</p> <p>Such distributions may result in a reduction of the net asset value per Unit over time and the net asset value per Unit may fluctuate more than other Classes of Units.</p>

<p>For illustrative purposes, the Classes of Units below are Euro hedged Classes:</p> <p>Class AD3H-EUR Class AQ3H-EUR Class AM3H-EUR</p>	<p>This type of Class of Units will only be offered on Sub-Funds which offer currency hedged Classes. Please refer to this Explanatory Memorandum for more information on hedged Classes.</p> <p>It is intended that the Class of Units will declare a dividend based upon: (i) the estimated annualised yield of the relevant Sub-Fund's underlying portfolio which is attributable to the Class of Units and (ii) an estimate of the interest rate carry (which could be positive or negative) and which is based upon the interest rate differential between the Sub-Fund's base currency and the Class currency of the Class of Units. A negative interest rate differential will result in a reduction of the dividend payment and may result in no dividends being paid.</p> <p>The Manager will review the estimated annualised yield at least semi-annually. However, the Manager may decide, at its discretion, to make adjustments to the dividend rate at any time to reflect changes in the estimated annualised yield of the Sub-Fund's portfolio.</p> <p>Investors should be aware that this dividend policy will pay out dividends gross of fees and expenses<sup>6</sup> and may pay out dividends gross of withholding taxes. The estimate of Sub-Fund's underlying portfolio yield will not necessarily equal income received by the Class of Units and the estimate of the interest rate carry does not represent income received by the Class of Units. Therefore this may result in distribution of capital gains, if any, and could result in distribution of capital attributable to such Units. Distribution of capital represents a withdrawal of part of an investor's original investment.</p> <p>Such distributions may result in a reduction of the net asset value per Unit over time and net asset value per Unit may fluctuate more than other Classes of Units.</p> <p>This type of Class of Units is only intended for investors whose home currency (which is the main currency an investor uses on a day-to-day basis) is the same as the Class currency of the Class of Units.</p> <p>These Classes of Units are available through certain distributors and may only be available to certain investors who meet eligibility criteria as decided by the Manager.</p>
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<sup>6</sup> "Fees and expenses" refers to the fees charges described in the section headed "EXPENSES AND CHARGES" of this Explanatory Memorandum.

Payment of distributions will be made normally within seven Dealing Days of such declaration date.

In the event that the income generated from the Sub-Fund's investments attributable to the relevant Class of Units during the relevant period is insufficient to pay distributions as declared, the Manager may in its discretion determine such distributions be paid from capital. The Manager may also at its discretion pay dividend out of gross income while charging/ paying all or part of the Sub-Fund's fees and expenses to/ out of the capital of the Sub-Fund (resulting in an increase in distributable income for the payment of dividends by the Sub-Fund), and thereby effectively pay distributions out of capital of the Sub-Fund. Investors should be aware of the effect of such distribution and pay attention to the risk factor headed "Distribution out of capital".

Investors should however note that the Manager may in its discretion decide not to declare distributions. There is no guarantee on regular payment of distributions and, if distribution is made, the rate of such distributions is not guaranteed.

The distribution policy of the Sub-Fund may be changed provided that prior approval will be sought from the SFC and not less than one month's prior written notice will be given to Unitholders.

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

Unitholders do not have the option to re-invest distributions into the Sub-Fund but can opt to switch their holdings in the distribution Classes of Units to the relevant capital-accumulation Class of Units for which no dividend is distributed.

For the Classes offered to retail investors in Hong Kong, the composition of the latest distributions (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the last 12 months is available from the Manager on request and on the website [www.assetmanagement.hsb.com/hk](http://www.assetmanagement.hsb.com/hk)<sup>7</sup>.

## Payments to Unitholders

Before making any distribution or other payment in respect of any Unit, the Trustee and/or the Manager may make any such deductions or withholdings (if any) as, by any applicable law of Hong Kong or elsewhere, or by any applicable regulation, direction, or guidance, or by any agreement with any tax or fiscal authority (whether within or outside Hong Kong), they are required or entitled by any applicable law to make in respect of any income, interest or other taxes, charges or assessments whatsoever. In such event, the Manager and/or the Trustee shall act in good faith and on reasonable grounds in making such deductions or withholdings.

The Trustee and the Manager may also deduct the amount of any stamp duties or other governmental taxes, charges or assessments payable by it or them in respect of any distribution made.

## Meeting of Unitholders and voting rights

Meetings of Unitholders may be convened by the Manager or the Trustee, and the Unitholders of 10% or more in value of the units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting.

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the units for the time being in issue except for the purpose of passing an extraordinary resolution (as defined in the Trust Deed) ("Extraordinary Resolution"). The quorum for passing an Extraordinary Resolution shall be Unitholders present in person or by proxy representing 25% or more of the units in issue. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. On a poll every Unitholder present in person, by proxy or by representative has one vote for every unit of which he is the holder and no vote for a fraction of a unit. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders. A poll may be demanded by the Chairman or one or more Unitholders present in person or by proxy representing 5% in value of the units for the time being in issue.

<sup>7</sup> Please note that this website has not been reviewed by SFC.

## Publication of prices

The Issue Price and the Redemption Price per Unit of each Class that is offered to retail investors will be published daily in the South China Morning Post, the Hong Kong Economic Journal and the Hong Kong Economic Times. The Issue Price and the Redemption Price per Unit of each Class can be obtained from the Manager.

## Transfer of Units

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

## Trust Deed

The Fund was established under the laws of Hong Kong by a Trust Deed dated 27 February 2014 made between HSBC Investment Funds (Hong Kong) Limited as Manager and HSBC Institutional Trust Services (Asia) Limited as Trustee. The Trust Deed was subsequently amended by a Deed of Amendment and Substitution made by the Manager and the Trustee on 9 March 2016 to, inter alia, consolidate amendments previously made to the Trust Deed. The Manager and the Trustee may further amend and/or supplement the Trust Deed, subject to the provisions under the section headed "MODIFICATION OF TRUST DEED" below.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. However neither the Trustee nor the Manager shall be exempted from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence nor may they be indemnified against such liability by Unitholders or at Unitholders' expense. Whilst every effort has been made to ensure the accuracy of the facts and matters stated in this Explanatory Memorandum, Unitholders and intending applicants are advised to consult the Trust Deed for further details on the relevant provisions.

Copy of the Trust Deed as for the time being in force may be obtained from the Manager at a reasonable fee and may be inspected during normal working hours at the offices of the Manager free of charge.

## Removal and retirement of Trustee and Manager

The Trustee may not be entitled to retire voluntarily except upon the appointment of a new Trustee. In the event of the Trustee desiring to retire, the Manager shall find a qualified corporation under any applicable law and by a supplemental deed replace the Trustee. The Manager shall as soon as practicable thereafter give notice to the Unitholders specifying the name and the address of the new Trustee.

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

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

# Termination of the Fund and the Sub-Fund

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

The Fund may be terminated by the Trustee, if (a) within 30 days of the Manager leaving office, no new manager is appointed or (b) if in the opinion of the Trustee the Manager is incapable of performing or fails to perform its duties satisfactorily or shall do any other thing which in the opinion of the Trustee is calculated to bring the Fund into disrepute or to be harmful to the interests of the Holders or (c) if the Manager goes into liquidation or if a receiver is appointed over any of their assets and not discharged within 60 days or (d) if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable in consultation with the relevant regulatory agencies to continue the Fund or (e) if the Trustee shall desire to retire and no new Trustee is appointed within six months of the Trustee giving notice of such desire.

Further at any time the Unitholders of the Sub-Fund may authorise termination of the Sub-Fund or any Class of Units thereof by Extraordinary Resolution.

The Fund may be terminated by the Manager if on any date the aggregate net asset value of the Units outstanding shall be less than US\$40 million or equivalent.

The Sub-Fund may be terminated by the Manager if on any date the aggregate net asset value of the relevant Class(es) of Units outstanding in respect of the Sub-Fund shall be less than US\$40 million or equivalent.

Further, the Fund, the Sub-Fund and / or any Class of Units may be terminated if (a) in the opinion of the Manager, it is impracticable or inadvisable to continue the Sub-Fund and/or any Class of Units of the Sub-Fund (as the case may be) (including without limitation, a situation where it is no longer economically viable to operate the Sub-Fund) or (b) if any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable in consultation with the relevant regulatory agencies to continue the Fund or the Sub-Fund and/or any Class of Units of the Sub-Fund or (c) if the Manager is unable to implement the investment objective in respect of the Sub-Fund (including without limitation where the Sub-Fund cannot access investment quota or where the instruments in which the Sub-Fund primarily invests become not available).

At least one month's notice will be given to affected Unitholders.

## Anti-money laundering regulations

The Sub-Fund, its service providers and other members of the HSBC Group (including but not limited to the Manager, the Trustee and their respective delegates) are required to act in accordance with the laws, regulations and requests of public and regulatory authorities operating in various jurisdictions which relate to, amongst other things, the prevention of money laundering, terrorist financing and the provision of financial and other services to any persons or entities which may be subject to sanctions. The Sub-Fund, any of its service providers or any member of the HSBC Group may take any action which in their sole and absolute discretion consider appropriate to take in accordance with all such laws, regulations and requests.

Such action may include but is not limited to: the interception and investigation of any payment messages and other information or communications sent to or by an investor or on behalf of such investor via the systems of the Sub-Fund, any service provider of the Sub-Fund or any member of the HSBC Group; and making further enquiries as to whether a name which might refer to a sanctioned person or entity actually refers to that person or entity.

The Sub-Fund, its service providers and other members of the HSBC Group shall not be liable for loss (whether direct or consequential and including, without limitation, loss of profit or interest) or damage suffered by any party arising out of:

- (a) any delay or failure of the Sub-Fund, any of its service providers or any member of the HSBC Group in processing any such payment messages or other information or communications, or in performing any of their duties or other obligations in connection with any accounts or the provision of any services to an investor, caused in whole or in part by any steps which the Sub-Fund, any of its service providers or any member of the HSBC Group, in their sole and absolute discretion, consider appropriate to take in accordance with all such laws, regulations and requests; or
- (b) the exercise of any of the rights of the Sub-Fund, its service providers and other members of the HSBC Group under this section.

In certain circumstances, the action which the Sub-Fund, any of its service providers or any member of the HSBC Group may take may prevent or cause a delay in the processing of certain information. Therefore, the Sub-Fund, its service providers and other members of the HSBC Group do not warrant that any information on their systems relating to any payment messages or other information and communications which are the subject of any action taken pursuant to this section is accurate, current or up-to-date at the time it is accessed, whilst such action is being taken.

In order to comply with regulations aimed at the prevention of money laundering in any applicable jurisdictions, the Manager, the Trustee and their respective delegates may require prospective investors to provide evidence to verify their identity and the source of payment of subscription monies. Accordingly, each of the Manager, the Trustee and their respective delegates reserves the right to request such information as it considers necessary to verify the identity of a prospective investor and the source of payment of subscription monies. The Manager, the Trustee and/or their respective delegates may refuse to accept any subscription application if a prospective investor delays in producing or fails to produce any information required by the Manager, the Trustee and/or their respective delegates, for the purpose of verification and, in that event, any funds received will be returned without interest to the account from which the monies were originally debited. Each of the Manager, the Trustee and their respective delegates may also refuse to process any redemption request or delay payment of redemption proceeds if a Unitholder requesting for redemption delays in producing or fails to produce any information required by the Manager, the Trustee and/or their respective delegates. Neither the Manager, the Trustee, nor their respective delegates shall be liable to any prospective investor or Unitholder (as the case may be) for any loss suffered by the prospective investor or Unitholder (as the case may be) as a result of the rejection of any subscription or redemption request or delay of subscription or payment of redemption proceeds.

## Conflicts of interest

The Manager, the Investment Adviser, and the Trustee and their respective delegates may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Sub-Fund. Each will, at all times, have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly and acts in the best interests of the Unitholders. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

The Fund and/or the Sub-Fund may enter into transactions with the Manager, the Investment Adviser and the Trustee or with any of their affiliates, or invest the assets of or reinvest the cash collateral received by the Sub-Fund in any investment products or funds managed, launched or offered by any of the above-mentioned entities, provided that such transactions are carried out as if effected on normal commercial terms negotiated at arm's length and provided that the transactions comply with the requirements set out in the section headed "Transactions with Connected Persons". The Investment Adviser or any affiliates acting in a fiduciary capacity with respect to client accounts may recommend to or direct clients to buy and sell Units of the Fund. If a client defaults on its obligation to repay indebtedness to the HSBC Group that is secured by Units in the Fund, and the HSBC Group forecloses on such interest, the HSBC Group would become a unitholder of the Fund. As a consequence, the HSBC Group and its affiliates could hold a relatively large proportion of Units and voting rights in the Fund.

Affiliates of the HSBC Group act as counterparties for certain forward foreign exchange and financial futures contracts.

The services of the Trustee provided to the Fund and the Sub-Fund are not deemed to be exclusive. The Trustee shall be free to render similar services to others so long as its services to the Fund and the Sub-Fund are not impaired thereby and to retain for its own use and benefit all fees and other moneys payable in relation to such services. Further, the Trustee shall not be deemed to be affected with notice of or to be under any duty to disclose to the Fund and the Sub-Fund any fact or thing which comes to the notice of the Trustee in the course of the Trustee rendering similar services to others or in the course of its business in any other capacity or in any manner, otherwise than in the course of carrying out its duties under the Trust Deed.

## Modification of Trust Deed

The Trustee and the Manager may modify, alter or add to the provisions of the Trust Deed. Such modification should be approved by an Extraordinary Resolution of Unitholders unless the Trustee and the Manager certify in writing that such modification, alteration or addition (i) does not materially prejudice the interests of the Unitholders, does not operate to release to any material extent the Trustee or the Manager or any other person from liability to Unitholders and (with the exception of the costs of preparing the relevant supplemental deed) will not result in any increase in the costs and charges; or (ii) is necessary in order to make possible compliance with any fiscal, statutory or official requirement (whether or not having the force of law); or (iii) is made to correct a manifest error.

## Terms and conditions of application

In these terms, all references to the Manager or the Trustee should include their respective delegates.

### **Application and payment**

The Manager reserves the right to refuse any application. Any application monies not accepted will be returned to you at your risk, and without interest. Once the Manager receives your application, you will be contractually bound to purchase the Units applied for. All instructions given or purported to be given by you will be binding on you.

### **Joint holders**

If you are one of joint Unitholders, your obligation shall be joint and several.

### **Investors from the United States and Canada**

You declare that you are not a U.S. Person or Canadian resident (as disclosed under the section "Important Information" in the Explanatory Memorandum). A U.S. Person includes any person who is a resident in the United States. You must inform the Manager immediately when you become a U.S. Person or a Canadian resident, in which circumstances you may be obliged to redeem your Units.

### **Risk**

All communications and remittances sent to the Manager and the Trustee by you or your nominee or vice versa are sent at your risk. None of the Manager and the Trustee shall have any responsibility for any loss arising from the inaccuracy or failure of any communication, whether by post or fax, unless such loss results from its wilful default or negligence.

Investors should consider the risks inherent in giving instructions by fax. Non-original signatures on faxes may be forged and instructions given by fax may be transmitted to wrong numbers, may never reach the Manager and may thereby become known to third parties. None of the Manager and the Trustee accepts any responsibility for any loss that investors may suffer as a result of giving instructions by fax. Investors should not authorise the Manager or the Trustee to accept fax instructions unless they are prepared to undertake such risks.

For investors who have authorised the Manager and the Trustee to act on faxed instructions, investors are required to confirm all faxed dealing instructions with the Registrar before the dealing deadline of the day on which the instruction is to be processed. The Registrar shall not be responsible for any failure to process any faxed dealing instruction unless the receipt of the instruction is being confirmed by the Registrar, although the Registrar may, in its absolute discretion, process such faxed instruction without telephone confirmation and any deal so processed will be binding on the investor.

In addition, if you have authorised the Manager and the Trustee to act on faxed instructions, you confirm that the Manager and the Trustee are authorised to act on any instruction which the Manager or the Trustee (as the case maybe) believes emanates from you, and that none of the Manager and the Trustee shall be liable for acting in good faith on instructions which emanate from unauthorised individuals. None of the Manager and the Trustee shall be under any duty to verify the authenticity of any signature on any instruction, and you will keep each of the Manager and the Trustee indemnified at all times against any loss it may suffer or incur in connection with acting on such instructions. However, if any of the Manager and the Trustee decides to authenticate any instructions given by fax, it has absolute discretion to refuse to act upon any such instructions if it has any reason to doubt the authenticity of such instructions and it will not be responsible to you for any loss you may suffer or incur in connection with any delay or failure in effecting any of your instructions.

## **Recording**

Each of the Manager and the Trustee is entitled to electronically record your telephone conversations with the Manager or the Trustee or any of their representatives with or without the use of an automatic tone warning device. Such recording and transcripts may be used for any purpose, including as evidence by either party in any dispute between you and the Manager and/or the Trustee.

## **Notification of errors**

You must examine contract notes and statements sent to you. If you do not notify the Manager of any errors within 30 days of issue of the statement or contract note, you will be deemed to have waived your right to raise any objections in relation to them.

## **Indemnity and Set Off**

You will indemnify the Manager and the Trustee against any actions, proceedings, claims, losses and expenses which are suffered by the Manager or the Trustee (as the case may be) as a result of the Manager's or the Trustee's reliance on or failure to act in accordance with instructions given to the Manager or the Trustee (as the case may be), unless arising through the Manager's or the Trustee's (as the case may be) breach of trust through fraud or negligence.

You confirm that the Manager or the Trustee may set off any claim that it may have against you against any cash held by it on your account.

## **Personal Data or Confidential Information**

- (1) Information (including personal data, confidential information and information necessary to assess tax status) provided by you on the application form, and details of transactions or dealings between you and the Manager will be used, shared, stored, processed, transferred and disclosed (in and outside Hong Kong) so that the Manager or a member of the HSBC Group can carry out its obligations in respect of the Fund or for other purposes including but not limited to (a) providing services to you as a Unitholder, (b) fulfilling or complying with any applicable statute, law, regulation, ordinance, rule, judgment, decree, voluntary code, directive, sanctions regime, court order, agreement with authorities ("**Laws**"); any demands from authorities or obligations under Laws; and Laws requiring any member of the HSBC Group to verify your identity ("**Compliance Obligations**"), (c) detecting, investigating and preventing fraud, money laundering, corruption, tax evasion and any other crime or attempts to violate laws and fulfilling related Compliance Obligations, (d) enforcing or defending HSBC Group's, or a member of the HSBC Group's rights, (e) fulfilling internal operational requirements of the HSBC Group, (f) maintaining HSBC Group's overall relationship with the Unitholder.
- (2) Failure to provide information may result in the Manager being unable to provide services to you or taking appropriate action or reporting to tax authorities. Information may be shared with other parties including but not limited to entities within the HSBC Group (provided that such information will be protected by HSBC Group's data protection policy).
- (3) You have the right to request access to and correction of any personal data or to request the personal data not to be used for direct marketing purposes.
- (4) Collection and use of personal data will be subject to the requirements under the Personal Data (Privacy) Ordinance of Hong Kong.

## **Applicable Law**

These terms and conditions shall be governed by laws of the Hong Kong Special Administrative Region of the People's Republic of China.