

# **BOSERA CHINA OPPORTUNITIES BOND FUND**

a sub-fund of

## **BOSERA INVESTMENT FUNDS**

### **EXPLANATORY MEMORANDUM**

---

April 2024

**BOSERA CHINA OPPORTUNITIES BOND FUND**

a sub-fund of

**BOSERA INVESTMENT FUNDS**

---

**EXPLANATORY MEMORANDUM**

---

---

April 2024

## CONTENTS

IMPORTANT INFORMATION FOR INVESTORS .....	iii
DIRECTORY .....	vii
DEFINITIONS .....	1
INTRODUCTION .....	5
MANAGEMENT OF THE FUND .....	6
The Manager .....	6
The Trustee and Registrar .....	7
The PRC Custodian and the PRC Custodian's Delegate.....	9
The Auditors .....	10
INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS .....	11
Investment objective.....	11
Investment strategy .....	11
Investment and borrowing restrictions.....	11
Borrowing restrictions.....	15
Financial derivative instruments .....	15
Securities Financing Transactions .....	17
Collateral .....	18
SUBSCRIPTION OF UNITS .....	20
Initial issue of Units .....	20
Subsequent issue of Units.....	20
Application procedure.....	20
Payment procedure .....	22
General.....	22
REDEMPTION OF UNITS .....	23
Redemption procedure.....	23
Payment of redemption proceeds .....	23
Restrictions on redemption.....	24
Compulsory redemption .....	25
General.....	25
SWITCHING .....	26
VALUATION.....	27
Valuation rules.....	27
Suspension of calculation of Net Asset Value .....	29
Publication of Net Asset Value .....	30
EXPENSES AND CHARGES .....	31
Fees payable by Unitholders.....	31
Fees payable by the Fund.....	31
Establishment costs .....	32
Cash rebates and soft commissions .....	32
RISK FACTORS .....	34
General risks .....	34
Investment risks .....	36
TAXATION .....	39

GENERAL .....	47
Reports .....	47
Distribution policy .....	47
Trust Deed .....	47
Modification of Trust Deed .....	47
Meetings of Unitholders .....	48
Transfer of Units .....	48
Termination of the Trust or any sub-fund .....	48
Documents available for inspection .....	50
Anti-Money Laundering Regulations .....	50
Liquidity Risk Management .....	50
Conflicts of Interest .....	51
Websites .....	52
Appendix 1: BOSERA CHINA OPPORTUNITIES BOND FUND .....	54

## **IMPORTANT INFORMATION FOR INVESTORS**

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

Bosera Investment Funds (the “Trust”) is an umbrella unit trust established under the laws of Hong Kong by the Trust Deed between Bosera Asset Management (International) Co., Limited as manager (the “Manager”) and HSBC Institutional Trust Services (Asia) Limited as trustee (the “Trustee”).

The Manager and its directors accept full responsibility for the information contained in this Explanatory Memorandum as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information misleading. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to the date of its publication. This Explanatory Memorandum may from time to time be updated. Investors should check the Manager’s website at [www.bosera.com.hk](http://www.bosera.com.hk) (this website has not been reviewed by the SFC) for the latest version of the Explanatory Memorandum.

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

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

No action has been taken in any jurisdiction (other than Hong Kong, Macau and Singapore) that would permit an offering of the Units or the possession, circulation or distribution of this Explanatory Memorandum or any other offering or publicity material relating to the offering of Units in any other country or jurisdiction where action for the purpose is required. This Explanatory Memorandum does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation.

In particular:

**United States:** The Units have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), or under the securities law of any state or political sub-division of the United States of America or any of its territories, possessions or other areas subject to its jurisdiction including the Commonwealth of Puerto Rico (collectively, the “United States”). No person has registered nor will register as a commodity pool operator of the Trust or any sub-fund under the Commodity Exchange Act of 1936, as amended (the “CEA”) and the rules thereunder (the “CFTC Rules”) of the Commodity Futures Trading Commission (the “CFTC”), and the Trust and the sub-funds have not been and will not be registered under the United States Investment Company Act of 1940, as amended, nor under any other United States federal laws. The Units are being offered and sold in reliance on an

exemption from the registration requirements of the Securities Act pursuant to Regulation S thereunder ("Regulation S").

Accordingly, the Units may not be offered, sold, pledged or otherwise transferred except (i) in an "Offshore Transaction" (as such term is defined under Regulation S) and (ii) to or for the account or benefit of a Permitted Transferee.

A "Permitted Transferee" means any person who is not any of:

- (a) a U.S. person as defined in Rule 902(k)(1) of Regulation S;
- (b) a person who comes within any definition of U.S. person for the purposes of the CEA or any CFTC rule, guidance or order proposed or issued under the CEA (for the avoidance of doubt, any person who is not a "Non-United States person" as such term is defined under CFTC Rule 4.7(a)(1)(iv), but excluding, for purposes of subsection (D) thereof, the exception for qualified eligible persons who are not "Non-United States persons", shall be considered a U.S. person); or
- (c) a "resident of the United States" for purposes of, and as defined in implementing regulations proposed or issued under, Section 13 of the Bank Holding Company Act of 1956, as amended ("BHC Act").

Transfers of Units within the United States or to any person other than a Permitted Transferee are prohibited. Any transfer of Units to a person other than a Permitted Transferee (a "Non-Permitted Transferee") will be void *ab initio* and of no legal effect whatsoever. Accordingly, any purported transferee of any legal or beneficial ownership interest in a Unit in such a transaction will not be entitled to any rights as a legal or beneficial owner of such interest in such Unit.

The foregoing restrictions on the offer, sale, pledge or other transfer of Units to a Non-Permitted Transferee may adversely affect the ability of an investor in the Units to dispose of the Units in the secondary market, if any, and significantly reduce the liquidity of the Units. As a result, the value of the Units may be materially adversely affected.

As defined in Rule 902(k)(1) of Regulation S, "U.S. person" means:

- (a) Any natural person resident in the United States;
- (b) Any partnership or corporation organized or incorporated under the laws of the United States;
- (c) Any estate of which any executor or administrator is a U.S. person;
- (d) Any trust of which any trustee is a U.S. person;
- (e) Any agency or branch of a non-U.S. entity located in the United States;
- (f) Any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person;
- (g) Any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and
- (h) Any partnership or corporation if:
  - (i) organized or incorporated under the laws of any non-U.S. jurisdiction; and
  - (ii) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) of Regulation D under the Securities Act) who are not natural persons, estates or trusts.

As defined in CFTC Rule 4.7, modified as indicated above, "Non-United States person" means:

- (a) A natural person who is not a resident of the United States;
- (b) A partnership, corporation or other entity, other than an entity organized principally for passive investment, organized under the laws of a non-U.S. jurisdiction and which has its principal place of business in a non-U.S. jurisdiction;
- (c) An estate or trust, the income of which is not subject to United States income tax regardless of source;
- (d) An entity organized principally for passive investment such as a pool, investment company or other similar entity; provided, that units of participation in the entity held by persons who do not qualify as Non-United States persons represent in the aggregate less than 10% of the beneficial interest in the entity, and that such entity was not formed principally for the purpose of facilitating investment by persons who do not qualify as Non-United States persons in a pool with respect to which the operator is exempt from certain requirements of part 4 of the Commodity Futures Trading Commission's regulations by virtue of its participants being Non-United States persons; and
- (e) A pension plan for the employees, officers or principals of an entity organized and with its principal place of business outside the United States.

As defined in the CFTC's proposed interpretive guidance and policy statement regarding cross-border application of certain swaps provisions of the CEA, 78 Fed. Reg. 45292 (Jul. 26, 2013)., "U.S. person" means:

- (a) A natural person who is a resident of the United States;
- (b) Any estate of a decedent who was a resident of the United States at the time of death;
- (c) Any corporation, partnership, limited liability company, business or other trust, association, joint-stock company, fund or any form of enterprise similar to any of the foregoing (other than an entity described in prongs (d) or (e), below) (a "legal entity"), in each case that is organized or incorporated under the laws of a state or other jurisdiction in the United States or having its principal place of business in the United States;
- (d) Any pension plan for the employees, officers or principals of a legal entity described in prong (c), unless the pension plan is primarily for foreign employees of such entity;
- (e) Any trust governed by the laws of a state or other jurisdiction in the United States, if a court within the United States is able to exercise primary supervision over the administration of the trust;
- (f) any commodity pool, pooled account, investment fund, or other collective investment vehicle that is not described in prong (c) and that is majority-owned by one or more persons described in prong (a), (b), (c), (d), or (e), except any commodity pool, pooled account, investment fund, or other collective investment vehicle that is publicly offered only to non-U.S. persons and not offered to U.S. persons;
- (g) Any legal entity (other than a limited liability company, limited liability partnership or similar entity where all of the owners of the entity have limited liability) that is directly or indirectly majority-owned by one or more persons described in prong (a), (b), (c), (d), or (e) and in which such person(s) bears unlimited responsibility for the obligations and liabilities of the legal entity; and
- (h) Any individual account or joint account (discretionary or not) where the beneficial owner (or one of the beneficial owners in the case of a joint account) is a person described in prong (a), (b), (c), (d), (e), (f), or (g).

As defined in the implementing regulations issued under Section 13 of the BHC Act, SEC Release No. BHCA-1; File No. S7-41-11 , “resident of the United States” means a person that is a “U.S. person” as defined in rule 902(k) of the SEC’s Regulation S.

Each person who offers, sells, pledges or otherwise transfers Units has exclusive responsibility for ensuring that its offer, sale, pledge or other transfer is not to or for the account or benefit of any person other than a Permitted Transferee as such term is defined as of the date of such offer, sale, pledge or other transfer.

The Units have not been approved or disapproved by the United States Securities and Exchange Commission (“**SEC**”) or any other regulatory agency in the United States, nor has the SEC or any other regulatory agency in the United States passed upon the accuracy or adequacy of this document or the merits of the Units. Any representation to the contrary is a criminal offence. Furthermore, the Units do not constitute, and have not been marketed as, contracts for the sale of a commodity for future delivery (or options thereon) subject to the CEA, and neither trading in the Units nor this document has been approved by the CFTC under the CEA, and no person other than a Permitted Transferee may at any time trade or maintain a position in the Units.

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

Any investor enquiries or complaints should be submitted in writing to the Manager’s office (Suite 4109, Jardine House, One Connaught Place, Central, Hong Kong) and the Manager will respond in writing within 14 Business Days.



## **DIRECTORY**

### **Manager**

Bosera Asset Management (International) Co., Limited  
Suite 4109, Jardine House  
One Connaught Place  
Central  
Hong Kong

Telephone No.: +852 2537 6658  
Fax No.: +852 2537 1249

### **Trustee and Registrar**

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

### **Auditors**

PricewaterhouseCoopers  
21/F, Edinburgh Tower  
15 Queen's Road  
Central  
Hong Kong

## **DEFINITIONS**

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

<b>“A-Shares”</b>	means shares issued by companies incorporated in Mainland China and listed on the SSE, the SZSE or the BSE, traded in RMB and available for investment by domestic investors through Stock Connect (where applicable), QFIIs and RQFIIs.
<b>“Appendix”</b>	means an appendix to this Explanatory Memorandum containing information in respect of a particular sub-fund.
<b>“B-Shares”</b>	means shares issued by companies incorporated in the PRC and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currencies and available for investment by domestic PRC investors and foreign investors.
<b>“Base Currency”</b>	means, in respect of a sub-fund unless otherwise specified in the relevant Appendix, the RMB.
<b>“Business Day”</b>	means unless otherwise specified in the relevant Appendix in respect of a particular sub-fund, a day (other than a Saturday or Sunday) on which banks in Hong Kong and the PRC are open for normal banking business or such other day or days as the Trustee and the Manager may agree from time to time, provided that where, as a result of a typhoon number 8 signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong or and the PRC are open on any day is reduced, such day shall not be a Business Day unless the Trustee and the Manager determine otherwise.
<b>“Code”</b>	means the Code on Unit Trusts and Mutual Funds issued by the SFC (as amended or replaced from time to time).
<b>“Connected Person”</b>	<p>has the meaning as set out in the Code which at the date of the Explanatory Memorandum means, in relation to a company:</p> <ul style="list-style-type: none"><li>(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or</li><li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or</li><li>(c) any member of the group of which that company forms part; or</li><li>(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).</li></ul>
<b>“CSDCC”</b>	means the China Securities Depository and Clearing Co., Ltd.
<b>“CSRC”</b>	means the China Securities Regulatory Commission.

<b>“Dealing Day”</b>	means, in respect of any sub-fund, the days on which Units of that sub-fund may be subscribed or redeemed, as specified in the relevant Appendix.
<b>“Dealing Deadline”</b>	means, in respect of any sub-fund, such time on the relevant Dealing Day or any other Business Day as the Manager may from time to time determine in relation to the subscription and redemption of Units, as specified in the relevant Appendix.
<b>“entities within the same group”</b>	means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.
<b>“Government and other Public Securities”</b>	has the meaning as set out in the Code.
<b>“Hong Kong”</b>	means the Hong Kong Special Administrative Region of the People’s Republic of China.
<b>“Hong Kong Dollars” or “HKD”</b>	means the currency of Hong Kong.
<b>“Hong Kong Stock Exchange”</b>	means The Stock Exchange of Hong Kong Limited.
<b>“IFRS”</b>	means International Financial Reporting Standards issued by the International Accounting Standards Board.
<b>“Initial Offer Period”</b>	means, in respect of a sub-fund, the period during which Units in that sub-fund will be offered for subscription at a fixed price, as specified in the relevant Appendix.
<b>“Manager”</b>	means Bosera Asset Management (International) Co., Limited.
<b>“Net Asset Value”</b>	means the net asset value of a sub-fund or, as the context may require, the net asset value of a Unit, in accordance with the provisions of the Trust Deed.
<b>“Participation Agreement”</b>	means the participation agreement between the PRC Custodian, the PRC Custodian’s Delegate, the Manager and the Trustee, as amended from time to time.
<b>“PBOC”</b>	means the People’s Bank of China.
<b>“PRC” or “China”</b>	means the People’s Republic of China, excluding for the purposes of interpretation of this Explanatory Memorandum only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan.
<b>“PRC Custodian”</b>	means The Hongkong and Shanghai Banking Corporation Limited.
<b>“PRC Custodian’s Delegate”</b>	means HSBC Bank (China) Company Limited

<b>“QFII”</b>	means a qualified foreign institutional investor approved pursuant to the relevant regulations in the PRC.
<b>“Registrar”</b>	means HSBC Institutional Trust Services (Asia) Limited, as the registrar of each sub-fund.
<b>“reverse repurchase transactions”</b>	means transactions whereby a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.
<b>“RMB” or “¥”</b>	means Renminbi Yuan, the currency of the PRC.
<b>“RQFII” or “RQFII holder”</b>	means a renminbi qualified foreign institutional investor approved pursuant to the relevant regulations in the PRC.
<b>“RQFII Custody Agreement”</b>	means the custody agreement entered into between the PRC Custodian, the PRC Custodian’s Delegate, the Manager and the Trustee, as amended from time to time.
<b>“SAFE”</b>	means the State Administration of Foreign Exchange of the PRC.
<b>“sale and repurchase transactions”</b>	means transactions whereby a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future.
<b>“securities financing transactions”</b>	means, collectively, securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.
<b>“securities lending transactions”</b>	means transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee.
<b>“SFC”</b>	means the Securities and Futures Commission of Hong Kong.
<b>“SFO”</b>	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.
<b>“sub-fund”</b>	means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed.
<b>“Subscription Price”</b>	means the price at which Units will be issued as described in the section headed “Subscription of Units” below.
<b>“Trust”</b>	means Bosera Investment Funds.
<b>“Trust Deed”</b>	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 5 January 2012, as amended and restated on 31 December 2019, and as further amended and/or supplemented from time to time.
<b>“Trustee”</b>	means HSBC Institutional Trust Services (Asia) Limited.

<b>“Unit”</b>	means a unit in a sub-fund, and, except where used in relation to a particular sub-fund, a reference to Units means and includes Units of all sub-funds.
<b>“Unitholder”</b>	means a person registered as a holder of a Unit.
<b>“Redemption Price”</b>	means the price at which Units will be redeemed as described in the sections headed “Redemption” below.
<b>“US dollars” or “USD”</b>	means the currency of the United States of America.
<b>“Valuation Day”</b>	means, unless otherwise specified in the relevant Appendix, each Dealing Day or such other Business Day or Business Days as the Manager may from time to time determine.
<b>“Valuation Point”</b>	means such time on the relevant Valuation Day as the Manager may from time to time determine to calculate the Net Asset Value.

## **INTRODUCTION**

Bosera Investment Funds is an open-ended umbrella unit trust established under the laws of Hong Kong pursuant to the Trust Deed. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust has been established as an umbrella fund and separate and distinct sub-funds may be established by the Manager and the Trustee within the Trust from time to time. Each sub-fund has its own investment objective and policies. More than one class of Units may be offered in relation to a particular sub-fund, which may have different terms, including different currencies of denomination. A separate portfolio of assets will not be maintained for each class. All classes of Units relating to the same sub-fund will be commonly invested in accordance with such sub-fund's investment objective and policies.

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

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

## **MANAGEMENT OF THE FUND**

### **The Manager**

The Manager of the Trust is Bosera Asset Management (International) Co., Limited.

The Manager is a wholly owned subsidiary of Bosera Asset Management Co., Limited ("Bosera"). Established on 13 July 1998, Bosera is one of the largest independent management institutions in China, serving over 11 million retail investors and 6 million pensioners. Total client assets under management as at the end of December 2013 exceeded US\$31.6 billion, including US\$13.7 billion in pension assets. The Manager was established on 4 March 2010 in Hong Kong as a part of Bosera's focused approach of developing its investment management capabilities in the Greater China markets.

The Manager is licensed by the SFC for type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO with CE number AVR135. The Manager's licence is subject to the condition that, in respect of type 1 regulated activity, the Manager shall only carry on the business of dealing in collective investment schemes.

Under the Trust Deed, the Manager is responsible for the management of the assets of the Trust and each sub-fund. The Manager is also responsible, in conjunction with the Trustee, for the maintenance of the financial reports and records of the Trust and each sub-fund as well as certain other administrative matters relating to the Trust and each sub-fund.

The Manager may appoint investment managers or investment delegates in relation to specific sub-funds (details of any such appointments are set out in the relevant Appendix), subject to the approval of the SFC and at least one month's prior notice to Unitholders (where applicable). Where the investment management functions in respect of a sub-fund are delegated to third party investment managers or investment delegates, the Manager will conduct on-going supervision and regular monitoring of the competence of such delegates to ensure that the Manager's accountability to investors is not diminished, and although the investment management role of the Manager may be sub-contracted to third parties, the responsibilities and obligations of the Manager may not be delegated.

The directors of the Manager are as follows:

#### *WU Huifeng*

Mr. Wu is a director of the Manager. From 1996 to 2023, he had worked at China Nanshan Development Group Inc, Shanghai Nanshan Real Estate Development Co., Ltd., China Merchants Finance Holdings Company Limited and China Merchants Securities Co., Ltd., being a senior management and overseeing finance functions. Mr. Wu joined Bosera Asset Management Co., Ltd. in 2023 and is currently its Deputy General Manager, Chief Financial Officer, and Secretary of its Board.

Mr. Wu holds a Master's Degree in Economics from Peking University and a Bachelor's Degree in Economics from Shanghai University of Finance and Economics.

#### *LIAN Shaodong*

Ms. Lian is the Chairman of the Board of Directors, Chief Executive Officer and Responsible Officer of the Manager. Ms. Lian joined Bosera Asset Management Co., Ltd in May 2012 as head of product department and head of marketing and sales division. Effective from 2016, Ms. Lian was appointed as Deputy CEO, RO and director of the Manager.

Prior to joining Bosera Asset Management Co., Ltd, Ms. Lian was Chief Executive Officer of Da Cheng International Asset Management from 2008 to 2012. She also worked for DBS Vickers

(Hong Kong) as China Business director from 2004 to 2008. Prior to that, Ms. Lian joined Dacheng Fund Management Co. as first batch of employee in 2000. Lastly, she started her career as trader and chief representative in ABN AMRO Bank (Asia) since 1993.

Ms. Lian is the Chairperson of Chinese Asset Management Associate of Hong Kong and Election Committee Member of Hong Kong SAR currently.

Ms. Lian achieved a master degree in Economics from Guangdong Provincial Community Party College.

#### *HE Kai*

Mr. He is the Chief Investment Officer, Chief Marketing Officer, Responsible Officer and director of the Manager. Mr. He joined the Manager in December 2012. Prior to this, he was an Executive Director/Portfolio Manager at CSOP Asset Management, responsible for Asia fixed income investment. Prior to CSOP, he worked as a portfolio manager of emerging market debt at China Investment Corporation. Mr. He started his career as an exotic credit derivatives trader at ABN AMRO Bank (London).

Mr. He holds an MSc degree in Financial Economics from Oxford University and an MPhil degree in Management Studies from Cambridge University. He received his undergraduate degree in Electronic & Information Science & Technology from Peking University, China.

#### *OU Zhiming*

Mr. Ou is a director of the Manager. Since 2002, Mr. Ou joined GF Securities in its Shenzhen business headquarters as an Institutional Client Account Manager. From April 2003 to July 2004, he was engaged in risk management at the headquarters of GF Securities. He joined China Merchants Fund Management Co., Ltd. ("CMFM") in July 2004 and consecutively served as the Legal Compliance Department's Senior Manager, Deputy Director, Director, and CMFM's Chief Inspector. He is currently the Deputy General Manager, Chief Information Officer, Secretary of the Board of Directors of CMFM, and concurrently serves as a Director of the China Merchants Wealth Asset Management Co., Ltd.

Mr. Ou holds a Master's degree in Investment Economics and double undergraduate degrees in Economics and Law from the Huazhong University of Science and Technology.

#### *ZHOU Yi*

Ms. Zhou is a director of the Manager. Since July 2010, she joined the China Merchants Bank's Headquarters and served as the Risk Control Manager of the Financial Market Department and the Head of the Foreign Currency Wealth Management Team of the Asset Management Department. In 2018, she joined E Fund Management Co., Ltd., and was responsible for the investment management of USD Short-Term Bond Strategy, USD and HKD Money Market Funds. Ms. Zhou joined China Merchants Fund Management Co., Ltd. in 2021 as a Senior Fund Manager.

She holds a Master of Science degree from Oxford University. Ms. Zhou received a Master of Engineering and double undergraduate degrees in Engineering and Management from the Huazhong University of Science and Technology. Ms. Zhou is a Chartered Financial Analyst (CFA).

### **The Trustee and Registrar**

The Trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited. The Trustee also acts as the Registrar of each sub-fund.

The Trustee was incorporated with limited liability in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance, Chapter 29 of the Laws of Hong Kong and approved by the Mandatory Provident Funds Scheme Authority as trustee of registered MPF schemes under the



Mandatory Provident Fund Schemes Ordinance. HSBC Institutional Trust Services (Asia) Limited is an indirectly wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales.

Under the Trust Deed, the Trustee shall take into its custody or under its control all the property forming part of the assets of the Trust and hold it in trust for the Unitholders of the relevant Sub-Fund in accordance with the provisions of the Trust Deed and, to the extent permitted by applicable laws and regulation, all registrable assets and cash from time to time comprised in the Trust shall be registered in the name of or held to the order of the Trustee. The Trustee is responsible and shall remain at all times liable for the safe-keeping of the investments, assets and other property forming part of the Trust in accordance with the provisions of the Trust Deed and 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. The Trustee shall in respect of any investments, assets and other property of a Sub-Fund which by nature cannot be held in custody, maintain a proper record of such investments, assets or property in its books under the name of that Sub-Fund.

The Trustee may, however, appoint any person or persons (including a Connected Person of the Trustee) to be custodian of the assets of any sub-fund ("Custodian", which term, pursuant to the Trust Deed, includes the PRC Custodian (being The Hongkong and Shanghai Banking Corporation Limited) and the PRC Custodian's Delegate (being HSBC Bank (China) Company Limited) which are each a Connected Person of the Trustee). The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of any Custodian which are appointed for the custody and/or safekeeping of any of the investments, cash, assets or other property comprised in the Trust and, (b) be satisfied that any Custodian retained remains suitably qualified and competent on an ongoing basis to provide the relevant custodial services to the sub-fund. The Trustee shall be liable for the acts and omissions of any Custodian which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Custodian which is not a Connected Person of the Trustee.

The Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of Euro-clear Clearing System Limited or Clearstream Banking S.A. or any other recognised depositary or clearing system which may from time to time be approved by the Trustee and the Manager.

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Trust and/or 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 those resulting from the fraud, negligence or wilful default on the part of the Trustee or any of its officers, employees, agents or delegates for which the Trustee would be liable under the Trust Deed), which may be incurred by or asserted against the Trustee in performing its obligations or duties in connection with the Trust or any sub-fund. Subject to applicable law and the provisions of the Trust Deed, the Trustee shall not, in the absence of fraud, negligence or wilful default by it or any agent, sub-custodian or delegate appointed by the Trustee, be liable for any losses, costs or damage to the Trust, any sub-fund or any Unitholder. Furthermore, the Trust Deed provides that nothing in any of the provisions of the Trust Deed shall exempt the Trustee from or indemnify it against any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence.

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

The Trustee 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 sanctions by The Office of

Foreign Assets Control of the US Department of the Treasury ("OFAC"). OFAC administers and enforces economic sanction programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers by using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals. In enforcing economic sanctions, OFAC acts to prevent "prohibited transactions," which are described by OFAC as trade or financial transactions and other dealings in which US persons may not engage unless authorised by OFAC or expressly exempted by statute. OFAC has the authority to grant exemptions to prohibitions on such transactions, either by issuing a general licence for certain categories of transactions, or by specific licences issued on a case-by-case basis. HSBC group of companies (which means HSBC Holdings plc, its subsidiaries and associated companies) has adopted a policy of compliance with the sanctions issued by OFAC. As part of its policy, the Trustee may request for additional information if deemed necessary.

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

The Trustee is entitled to the fees set out below under the section headed "Fees payable by the Fund" and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Trust and/or each sub-fund and the Trustee (including its delegate) is not responsible and has no liability for any investment decision made by the Manager. Except as expressly stated in this Explanatory Memorandum and/or required by the Code, neither the Trustee nor any of its employees, service providers or agents are or will be involved in the business affairs, organisation, sponsorship or investment management of the Trust or any sub-fund, and they are not responsible for the preparation or issue of this Explanatory Memorandum other than the description under the section "The Trustee and Registrar".

In respect of a sub-fund which invests directly into the PRC's securities markets pursuant to the RQFII regime, the Trustee has put in place proper arrangements to ensure that

- (a) the Trustee takes into its custody or under its control the assets of the sub-fund, including onshore PRC assets acquired by the sub-fund through the Manager's RQFII status which will be maintained by the PRC Custodian's Delegate in electronic form via securities account(s) with the CSDCC or any relevant depository and RMB special deposit account(s) with the PRC Custodian's Delegate ("Onshore PRC Assets"), and holds the same in trust for the relevant Unitholders;
- (b) cash and registrable assets of the sub-fund, including Onshore PRC Assets, are registered by or to the order of the Trustee; and
- (c) the PRC Custodian's Delegate will look to the Trustee for instructions and solely act in accordance with the Trustee's instructions as provided under the Participation Agreement.

### **The PRC Custodian and the PRC Custodian's Delegate**

The Hongkong and Shanghai Banking Corporation Limited (the "PRC Custodian") has been appointed jointly by the Manager and the Trustee to act through its delegate as PRC Custodian responsible for the safe custody of the assets managed by the Manager and acquired using or in connection with the Manager's RQFII status within the PRC under the RQFII scheme in accordance with the RQFII Custody Agreement. Pursuant to the terms of the RQFII Custody Agreement, each of the Manager and the Trustee has agreed that the PRC Custodian is entitled to appoint HSBC Bank (China) Company Limited (the "PRC Custodian's Delegate") for the performance of services under the RQFII Custody Agreement and has delegated its duties and obligations and powers under the RQFII Custody Agreement to the PRC Custodian's Delegate. Pursuant to the terms of the RQFII Custody Agreement, the PRC Custodian remains liable for the acts and omissions

(including fraud, negligence and wilful default) of the PRC Custodian's Delegate as if no such appointment had been made.

Neither the PRC Custodian nor the PRC Custodian's Delegate is responsible for the preparation of this Explanatory Memorandum and neither accepts any responsibility for the information contained here other than the description under the section "The PRC Custodian and the PRC Custodian's Delegate".

### **The Auditors**

PricewaterhouseCoopers has been retained as the independent auditors of the Trust. The terms of engagement of the auditors contain provisions limiting the liability of the auditor to certain times of the fees paid to the auditor for the services or work product giving rise to the liability except to the extent finally determined to have resulted from the wilful or intentional neglect or misconduct, or fraudulent behaviour of the auditors and providing that the claims must be made within a certain period of time as specified in the engagement letter. Other release and indemnity provisions are also contained in the engagement letter relating to consequential loss, third party claims and fraudulent acts or omissions, misrepresentations or wilful default on the part of a sub-fund, the Manager, employees or agents.

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

### **Investment objective**

The investment objective of each sub-fund is set out in the relevant Appendix.

### **Investment strategy**

The investment strategy of each sub-fund is set out in the relevant Appendix.

### **Investment and borrowing restrictions**

Unless otherwise approved by the SFC, the following principal investment restrictions apply to each sub-fund under the Trust authorised by the SFC:

- (a) the aggregate value of the sub-fund's investments in, or exposure to, any single entity (other than Government or other Public Securities) through the following may not exceed 10% of the total Net Asset Value of the sub-fund, save as permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the Code;
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entity arising from transactions of over the-counter FDIs,

for the avoidance of doubt, the restrictions and limitations on counterparty as set out in subparagraphs (a) and (b) and Chapter 7.28(c) of the Code will not apply to FDIs that are: (i) transacted on an exchange where the clearing house performs a central counterparty role; and (ii) marked-to-market daily in the valuation of their FDI positions and subject to margining requirements at least on a daily basis;
- (b) subject to (a) above and Chapter 7.28(c) of the Code, the aggregate value of the sub-fund's investments in, or exposure to entities within the same group through the following may not exceed 20% of the total Net Asset Value of the sub-fund;
  - (1) investments in Securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
- (c) the value of the sub-fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of the total Net Asset Value of the sub-fund, unless:
  - (1) the cash is held before the launch of the sub-fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of a sub-fund, whereby the placing of cash deposits with various financial institutions may not be in the best interest of investors; or

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

For the purpose of this paragraph, cash deposits generally refer to those that are repayable on demand or have the right to be withdrawn by the sub-fund and not referable to provision of property or services.

- (d) ordinary shares issued by a single entity (other than Government and other Public Securities) held for the account of the sub-fund, when aggregated with other holdings of ordinary shares issued by the same entity held for the account of all other sub-funds under the Trust collectively may not exceed 10% of the nominal amount of the ordinary shares issued by the entity;
- (e) not more than 15% of the total Net Asset Value of the sub-fund may be invested in Securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such Securities are regularly traded;
- (f) notwithstanding (a), (b), (d) and (e) above, where direct investment by a sub-fund in a market is not in the best interests of investors, a sub-fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
  - (1) the underlying investments of the subsidiary, together with the direct investments made by the sub-fund, must in aggregate comply with the requirements of Chapter 7 of the Code;
  - (2) any increase in the overall fees and charges directly or indirectly borne by the Unitholders or the sub-fund as a result must be clearly disclosed in the Explanatory Memorandum; and
  - (3) the sub-fund must produce the reports required by Chapter 5.10(b) of the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the sub-fund.
- (g) notwithstanding (a), (b) and (d) above, not more than 30% of the total Net Asset Value of a sub-fund may be invested in Government and other Public Securities of the same issue, except for a sub-fund which has been authorised by the SFC as an index fund, this limit may be exceeded with the approval of the SFC;
- (h) subject to (g) above, a sub-fund may fully invest in Government and other Public Securities in at least six different issues, and subject to the approval of the SFC, a sub-fund which has been authorised by the SFC as an index fund may invest all of its assets in Government and other Public Securities in any number of different issues;
- (i) unless otherwise approved by the SFC, the sub-fund may not invest in physical commodities;
- (j) for the avoidance of doubt, exchange traded funds that are:
  - (1) authorised by the SFC under Chapter 8.6 or 8.10 of the Code; or
  - (2) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (a) the principal objective of which is to

track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under Chapter 8.6 of the Code; or (b) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

may either be considered and treated as (i) listed Securities for the purposes of and subject to the requirements in (a), (b) and (d) above; or (ii) collective investment schemes for the purposes of and subject to the requirements in (k) below. However, the investments in exchange traded funds shall be subject to (e) above and the relevant investment limits in exchange traded funds by a sub-fund should be consistently applied and clearly disclosed in the Explanatory Memorandum of a sub-fund;

(k) where the Sub-Fund invests in units or shares of other collective investment schemes ("underlying schemes"),

- (1) the value of the sub-fund's investment in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC may not in aggregate exceed 10% of the total Net Asset Value of the sub-fund; and
- (2) the sub-fund may invest in one or more underlying schemes which are either schemes authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the sub-fund's investment in units or shares in each such underlying scheme may not exceed 30% of the total Net Asset Value of the sub-fund, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in the Explanatory Memorandum of the sub-fund,

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

- (A) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, a sub-fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure does not exceed 100% of its total Net Asset Value, and exchange traded funds satisfying the requirements in (j) above in compliance with (1) and (2) above;
  - (B) where the underlying schemes are managed by the Manager, or by other companies within the same group that the Manager belongs to, then (a), (b), (d) and (e) are also applicable to the investments of the underlying scheme; and
  - (C) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
- (3) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and
  - (4) the Manager or any person acting on behalf of the sub-fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the manager of an underlying scheme or any quantifiable monetary benefits in connection with investments in any underlying scheme;

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

Each sub-fund shall not:

- (1) 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 officers of the Manager collectively own more than 5% of those securities;
- (2) 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)). In the case of investments in such shares and REITs, they shall comply with the investment restrictions and limitations set out in paragraphs (a), (b), (d), (e) and (k) above, where applicable. For the avoidance of doubt, where investments are made in listed REITs, paragraphs (a), (b) and (d) apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then paragraphs (e) and (k) apply respectively;
- (3) make short sales if as a result the sub-fund would be required to deliver securities exceeding 10% of the total 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). For the avoidance of doubt, a sub-fund is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations;

- (4) subject to paragraph (e) above, lend or make a loan out of the assets of the sub-fund except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan, or assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (5) enter into any obligation on behalf of the sub-fund or acquire any asset or engage in any transaction for the account of the sub-fund which involves the assumption of any liability which is unlimited; or
- (6) 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 for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the sub-fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in FDIs for the purposes of the Chapter 7.29 and 7.30 of the Code.

### **Borrowing restrictions**

The Manager may cause to borrow up to 10% of the total Net Asset Value of a sub-fund unless otherwise stated in the relevant Appendix, provided always that back to back borrowings shall not be taken into account when determining whether or not these limits have been breached by the relevant sub-fund. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in Chapters 7.32 to 7.35 of the Code are not subject to the limitations in this paragraph. Up to 50% of the assets of any sub-fund may be charged or pledged as security for any such borrowings.

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

In respect of the Boseria China Opportunities Bond Fund (referred to in this paragraph as the “Sub-Fund”), the following additional restrictions apply: (i) the Sub-Fund may not hold 10% or more of the nominal capital of any single issuer; (ii) the Sub-Fund may invest all of its assets in Government and other Public Securities in at least six different issuers, provided that at least three of such securities must have different risk profiles; and (iii) any borrowing by the Sub-Fund shall be on a short-term basis with a term not exceeding 12 months.

### **Financial derivative instruments**

Subject to the Code and the provisions of the Trust Deed, the Manager shall have the power on behalf of each sub-fund to agree and to enter into any FDI, for hedging or non-hedging (investment) purposes, provided that the exposure to the underlying assets of the FDIs, together with other investments of the relevant sub-fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets as set out in Chapters 7.1, 7.1A, 7.1B, 7.4, 7.5, 7.11, 7.11A, 7.11B and 7.14 of the Code.

#### *Hedging Purposes*

A sub-fund may acquire FDIs for hedging purpose provided that such FDIs shall meet all of the following criteria:

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



- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss of risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they should exhibit price movements with high negative correlation with the investments being hedged under normal market conditions. Hedging arrangement should be adjusted or re-positioned, where necessary and with due consideration on the fees, expenses and costs, to enable the sub-fund to meet its hedging objective in stressed or extreme market conditions.

#### *Non-hedging (investment) purposes*

A sub-fund may acquire FDIs for non-hedging purposes ("investment purposes"), subject to the limit that the sub-fund's net exposure relating to these FDIs ("net derivative exposure") does not exceed 50% of its total Net Asset Value, except this limit may be exceeded for sub-funds approved by the SFC under Chapter 8.8 (structured funds) or 8.9 (funds that invest extensively in financial derivative instruments) of the Code. For the avoidance of doubt:

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

#### *Restrictions applicable to FDIs*

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

- (a) the underlying assets consist solely of shares in companies, debt Securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other Public Securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates or currencies or other asset classes acceptable to the SFC, in which the sub-fund may invest according to its investment objectives and policies. Where a sub-fund invests in Index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions or limitations set out in paragraphs (a), (b), (c) and (g) under the section headed "Investment and borrowing restrictions" above provided that the relevant Index is in compliance with Chapter 8.6(e) of the Code;
- (b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC on a case-by-case basis;

- (c) subject to paragraphs (a) and (b) under the section headed “Investment and borrowing restrictions” above, the sub-fund’s net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the total Net Asset Value of the sub-fund. The exposure of the sub-fund to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the sub-fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
- (d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the sub-fund. Further, the calculation agent/fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

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

A transaction in FDIs which gives rise to a future commitment or contingent commitment of a sub-fund shall be covered as follows:

- (a) in the case of FDIs transactions which will, or may at the discretion of the Trustee or the Manager, be cash settled, the sub-fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- (b) in the case of FDIs transactions which will, or may at the counterparty’s discretion, require physical delivery of the underlying assets, the sub-fund should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the sub-fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation. In the case of holding alternative assets as cover, the sub-fund should apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

Where a financial instrument embeds a FDI, the requirements under “Financial Derivative Instruments” above will also apply to the embedded financial derivative. For such purposes, an “embedded financial derivative” is a FDI that is embedded in another security, namely the host contract.

### **Securities Financing Transactions**

The Trustee may, at the request of the Manager, enter into securities financing transactions in respect of a sub-fund, provided that:

- (a) they are in the best interests of the Unitholders;
- (b) the associated risks have been properly mitigated and addressed; and

- (c) the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

Please refer to the “Investment Strategy” section in each relevant Appendix for the policy regarding such arrangements for each sub-fund.

A sub-fund which engages in securities financing transactions is subject to the following requirements:

- it shall have at least 100% collateralisation in respect of the securities financing transactions into which it enters to ensure there is no uncollateralised counterparty risk exposure arising from these transactions;
- all the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions to the extent permitted by applicable legal and regulatory requirements, shall be returned to the sub-fund;
- it shall ensure that it is able to at any time to recall the securities or the full amount of cash / collateral (as the case may be) subject to the securities financing transactions or terminate the securities financing transactions into which it has entered.

Please refer to each Appendix for the use of securities financing transactions for each sub-fund. If a sub-fund enters into such transactions, the details of the Manager’s policy in relation to securities financing transactions will be disclosed in this Explanatory Memorandum in accordance with the Code.

## **Collateral**

A sub-fund may receive collateral from a counterparty to over-the-counter FDI transactions and securities financing transactions. A sub-fund may receive collateral from each counterparty provided that the collateral complies with the requirements set out below:

- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral;
- Haircut – collateral should be subject to prudent haircut policy which should be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and volatile markets. The price volatility of the asset used as collateral should be taken into account when devising the haircut policy;
- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the sub-fund’s exposure to issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in Chapters 7.1, 7.1A, 7.1B, 7.4, 7.5, 7.11, 7.11A, 7.11B and 7.14 of the Code;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions to the extent that it would undermine the effectiveness of

the collateral. Securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;

- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee of the relevant sub-fund;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee of the sub-fund without further recourse to the issuer of the FDIs, or the counterparty of the securities financing transactions;
- Re-investment of collateral – unless otherwise specified in the relevant Appendix and subject to prior consultation with the SFC, and in compliance with all applicable laws and regulations including the SFO and the Code, cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. Non-cash collateral received may not be sold, re-invested or pledged;

For the purpose herein, “money market instruments” refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers’ acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account. Any re-investment of cash collateral shall be subject to the following further restrictions and limitations and all other restrictions and limitations as may be imposed from time to time by the SFC:

- (i) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Clauses 18.3(B) and 18.3(I);
  - (ii) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
  - (iii) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions.
- collateral should be free of prior encumbrances; and
  - Collateral generally should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

Where a sub-fund intends to receive collateral, details of the Manager’s policy in relation to the collateral and criteria will be disclosed in this Explanatory Memorandum in accordance with the Code, and a description of holdings of collateral (including but not limited to a description of the nature of collateral, identity of the counterparty providing the collateral, value of the sub-fund (by percentage) secured/ covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the sub-fund’s annual and interim reports for the relevant period as required under Appendix E of the Code.

## **SUBSCRIPTION OF UNITS**

### **Initial issue of Units**

During an Initial Offer Period, Units in a sub-fund will be offered to investors at an initial Subscription Price of a fixed price per Unit as specified in the relevant Appendix.

If at any time during an Initial Offer Period, the total amount received by the Trustee from the subscription of the Units reaches a maximum amount for aggregate subscriptions (as specified in the relevant Appendix), the Manager is entitled (but not obliged) to close the sub-fund to further subscriptions before the end of the relevant Initial Offer Period.

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

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

### **Subsequent issue of Units**

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

The Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the sub-fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of that sub-fund then in issue and rounded to 2 decimal places (0.005 and above being rounded up; below 0.005 being rounded down) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the relevant sub-fund. The Subscription Price will be calculated and quoted in the Base Currency of the sub-fund.

In determining the Subscription Price, the Manager is entitled to add an amount it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred in investing a sum equal to the application monies and issuing the relevant Units or the remittance of money to the Trustee. Any such additional amount will be paid to the Trustee and will form part of the assets of the relevant sub-fund.

The Manager is entitled to impose a subscription fee on the Subscription Price of each Unit. The Manager may retain the benefit of such subscription fee or may pay all or part of the subscription fee (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine. Details of the subscription fee are set out in the section headed "Expenses and Charges" below.

### **Application procedure**

To subscribe for Units, an applicant should complete the application form supplied with this Explanatory Memorandum and return the original form, together with the required supporting documents, to the Trustee.

Applications for Units during the relevant Initial Offer Period, together with cleared funds, must be received by no later than 4:00 pm (Hong Kong time) on the last day of the relevant Initial Offer Period. After the Initial Offer Period, applications must be received by the relevant Dealing Deadline.

Applications for subscription may be made in writing by post or sent via fax or other electronic means. Unless otherwise agreed by the Manager and the Trustee, application forms that are sent via fax or other electronic means to the Trustee must always be followed by their original, unless fax and/or electronic indemnity is in place. . Applicants who choose to send an application form by fax or other electronic means bear the risk of the form being illegible or not being received by the Trustee. Applicants should therefore, for their own benefit, confirm with the Trustee safe receipt of an application form. Neither the Manager nor the Trustee (nor any of their respective officers, employees, agents or delegates) will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by fax or other electronic means or for any loss caused in respect of any action taken as a consequence of such application believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent.

Unless the Manager otherwise determines, payment for Units shall be due in cleared funds in the relevant currency within 3 Business Days following the relevant Dealing Day on which an application was received by the Dealing Deadline. If payment in cleared funds is not received prior to such time as aforesaid, the application may, at the discretion of the Manager, be considered void and cancelled. In such event the Manager may require the applicant to pay to the Trustee, for the account of the relevant sub-fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Day exceeds the applicable Redemption Price on the date of cancellation and the Trustee shall be entitled to charge the applicant a cancellation fee for the administrative costs involved in processing the application and subsequent cancellation.

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

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

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

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

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

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

**Payment procedure**

Subscription monies should be paid in the currency in which the relevant class of Units is denominated. Payment details are set out in the application form.

Subscription monies paid by any person other than the applicant will not be accepted.

**General**

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders in respect of each sub-fund. Unitholders should therefore be aware of the importance of ensuring that the Registrar is informed of any change to the registered details. Fractions of Units may be issued rounded down to the nearest 2 decimal places. Subscription monies corresponding to such rounding will be retained by the relevant sub-fund. A maximum of 4 persons may be registered as joint Unitholders.

## **REDEMPTION OF UNITS**

### **Redemption procedure**

Unitholders who wish to redeem their Units in a sub-fund may do so on any Dealing Day by submitting a redemption request to the Trustee.

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

Redemption requests may be made in writing by post or sent via fax or other electronic means and must specify the name of the sub-fund, the class (if applicable) and the value or number of Units to be redeemed, the name(s) of the registered Unitholder(s) and give payment instructions for the redemption proceeds.

Unless otherwise agreed by the Trustee, redemption requests that are sent via fax or other electronic means to the Trustee must always be promptly followed by their original, unless fax and/or electronic indemnity is in place. A Unitholder who chooses to send the redemption request by fax or other electronic means bears the risk of the request being illegible or not being received by the Trustee. Unitholders should therefore, for their own benefit, confirm with the Trustee safe receipt of a redemption request. Neither the Manager nor the Trustee (nor any of their respective officers, employees, agents or delegates) will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any redemption request sent by fax or other electronic means or for any loss caused in respect of any action taken as a consequence of such redemption request believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent.

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

### **Payment of redemption proceeds**

The Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant sub-fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units then in issue and rounded to 2 decimal places (0.005 and above being rounded up; below 0.005 being rounded down) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the relevant sub-fund. The Redemption Price will be calculated and quoted in the Base Currency of the relevant sub-fund.

In determining the Redemption Price, the Manager is entitled to deduct an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees,



which are likely to be incurred by the relevant sub-fund. Any such deducted amount will be retained by and form part of the assets of the relevant sub-fund.

The Manager may at its option impose a redemption fee in respect of the Units to be redeemed as described in the section headed “Expenses and Charges” below. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the redemption fee to be imposed (within the permitted limit provided in the Trust Deed) on each Unitholder.

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

Redemption proceeds will not be paid to any redeeming Unitholder until (a) unless otherwise agreed in writing by the Trustee, the written original of the redemption request duly signed by the Unitholder has been received by the Trustee, unless fax and/or electronic indemnity is in place. and (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee. In accordance with the Sub-Fund’s anti-money laundering (AML) obligations, requests for transfer or payment of redemption proceeds will not be effected until receipt of all outstanding information and identification documents. None of the Sub-Fund, the Manager or the Trustee accepts any responsibility for any loss caused as a result of any such delay for refusal to process transfer requests or effect payment of redemption proceeds (as the case may be) and claims for payment of interest due to such delays are not accepted.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the currency of denomination of the relevant class of Units by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless the markets in which a substantial portion of the relevant sub-fund’s investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of redemption proceeds within the aforesaid time period not practicable, but in such a case the details of such legal or regulatory requirements will be set out in the relevant Appendix and the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant markets. Any bank charges associated with the payment of such redemption proceeds will be borne by the redeeming Unitholder.

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

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

### **Restrictions on redemption**

With a view to protecting the interests of Unitholders and unless otherwise specified in the relevant Appendix, the Manager is entitled to limit the number of Units of a sub-fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of Units of the relevant sub-fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant sub-fund wishing to redeem Units of that sub-fund on that Dealing Day will redeem the same proportion of such Units, and Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption on the next Dealing Day based on the Redemption Price as at that Dealing Day, subject to the same limitation, and will have priority on the next Dealing Day over subsequent redemption requests received in respect of such

subsequent Dealing Day. If requests for redemption are so carried forward, the Manager will promptly inform the Unitholders concerned.

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

### **Compulsory redemption**

If it shall come to the notice of the Trustee or the Manager that any Units are owned directly, indirectly or beneficially (i) by a U.S. Person; (ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager, the Trustee or the relevant sub-fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee or the relevant sub-fund to any additional regulation to which the Manager, the Trustee or the relevant sub-fund might not otherwise have incurred or suffered or been subject; or (iii) in breach of any applicable law or applicable requirements of any country or governmental authority, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the redemption of such Units in accordance with the terms of the Trust Deed. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or redeem such Units as aforesaid or establish to the satisfaction of the Trustee or the Manager (whose judgment shall be final and binding) that such Units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30 day period to have given a request in writing for the redemption of all such Units.

### **General**

Fractions of a Unit may be redeemed rounded down to the nearest 2 decimal places. Redemption monies corresponding to such rounding will be retained by the relevant Sub-Fund.

## **SWITCHING**

The Manager may from time to time permit Unitholders to switch some or all of their Units of any class of a sub-fund (the “Existing Class”) into Units of another class of the same sub-fund or of another sub-fund which has been authorised by the SFC (the “New Class”). Where permitted, Unitholders may request switching by giving notice in writing by post or via fax or other electronic means to the Trustee. A Unitholder who chooses to send the notice by fax or other electronic means bears the risk of the request being illegible or not being received by the Trustee. Unitholders should therefore, for their own benefit, confirm with the Trustee safe receipt of a switching notice. Neither the Manager nor the Trustee (nor any of their respective officers, employees, agents or delegates) shall be responsible to any Unitholder for any loss resulting from the non-receipt or illegibility of a request for switching transmitted by fax or other electronic means, or for any loss caused in respect of any action taken as a consequence of instructions believed in good faith to have originated from the Unitholder. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent. Unless otherwise determined by the Manager, a request for the switching of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding specified for the New Class (if any).

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 5% of the redemption proceeds payable in respect of the Units of the Existing Class being switched. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager.

Where a request for switching is received by the Trustee prior to the Dealing Deadline in respect of a Dealing Day, switching will be effected as follows:

- redemption of the Units of the Existing Class will be dealt with by reference to the Redemption Price on that Dealing Day (the “Switching Redemption Day”);
- where the Existing Class and the New Class have different currencies of denomination, the redemption proceeds of Units of the Existing Class, after deduction of any switching fee, shall be converted into the currency of denomination of the New Class; and
- the resulting amount will be used to subscribe for Units of the New Class at the relevant Subscription Price on the Dealing Day on which the Trustee receives cleared funds in the relevant currency by the Dealing Deadline of the New Class (the “Switching Subscription Day”).

Subject to the time required to remit redemption proceeds in respect of the Units of the Existing Class, the Switching Subscription Day may be later than the Switching Redemption Day.

The Manager may suspend the switching of Units during any period in which the determination of the Net Asset Value of the relevant class or Units of the relevant sub-fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below).

Details of the switching policy and switching fee (if any) relating to each class of Units are set out in the relevant Appendix.

## **VALUATION**

### **Valuation rules**

The Net Asset Value of each sub-fund will be calculated by valuing the assets of the sub-fund and deducting the liabilities attributable to the sub-fund. These liabilities include, without limitation, any management fee, performance fee, trustee fee, any taxes, any borrowings and the amount of any interest and expenses thereon, any other costs or expenses expressly authorised by the Trust Deed, and an appropriate allowance for any contingent liabilities.

Where a sub-fund has more than one class of Units, to ascertain the Net Asset Value of a class of Units, a separate class account (a “Class Account”) will be established in the books of the sub-fund. An amount equal to the proceeds of issue of each Unit will be credited to the relevant Class Account. Any increase or decrease in the Net Asset Value of the sub-fund (disregarding for these purposes any increase in the Net Asset Value due to new subscriptions or decreases due to redemptions or any designated Class Adjustments (as defined below)) will be allocated to the relevant Class Account on a pro-rata basis based on the previous Net Asset Value of each such Class Account. There will then be allocated to each Class Account the “designated Class Adjustments” being those costs, pre-paid expenses, losses, dividends, profits, gains and income which the Manager determines relate to a single class.

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

- (a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market will be valued by reference to the last traded price or “exchange close” price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed, traded or dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment, provided that if the Manager considers that the prices published on a securities market other than the principal market for such investment provides, in all circumstances, a fairer criterion of value in relation to any such investment, such prices may be adopted; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment or, if the Trustee so requires, by the Manager after consultation with the Trustee; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Trustee and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;
- (b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed, traded or ordinarily dealt in on any securities market shall initially be the value equal to the amount expended on behalf of the sub-fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Trustee on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Trustee and the Manager consider appropriate, quoted by a person, firm or institution making a market in such investments or otherwise approved by the Trustee as qualified to value such investments (which may, if the Trustee agrees, be the Manager);

- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager in consultation with the Trustee, any adjustment should be made to reflect the value thereof;
- (d) the value of any commodity or futures contract shall be ascertained in accordance with the following:
  - (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Trustee, in consultation with the Manager, shall consider appropriate;
  - (ii) if any such price as referred to in (i) is not, in the opinion of the Trustee, ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;
  - (iii) the value of any futures contract (the "relevant Contract"), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined by the Trustee (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the sub-fund in order to close the relevant Contract and the amount expended out of the sub-fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined by the Trustee (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the sub-fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended out of the sub-fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
  - (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity or futures contract, then the value shall be determined in accordance with (b) above as if such commodity or futures contract were an unquoted investment;
- (e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the sub-fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day or, if the Trustee so determines, if such collective investment scheme is not valued as at the same day as the sub-fund, shall be the last published net asset value per unit, share or other interest in such collective investment scheme, provided that if no net asset value and bid prices are available, the value thereof shall be determined from time to time in such manner as the Trustee shall determine in consultation with the Manager;
- (f) notwithstanding paragraphs (a) to (e) above, the Manager may, with the consent in writing of the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to reflect the fair value of the investment; and
- (g) the value of any investment (whether of a borrowing or other liability or an investment or cash) in a currency other than the Base Currency of the sub-fund or the currency of

denomination of the relevant class will be converted into the Base Currency or the currency of denomination of such class (as the case may be) at the rate (whether official or otherwise) which the Trustee shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

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

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

- (a) there is a closure of or the restriction or suspension of trading on any commodities market or any 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 in ascertaining the prices of investments of the sub-fund; or
- (b) for any other reason the prices of investments of the sub-fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) there is a breakdown in the systems and/or means of communication usually employed to determine the Net Asset Value of the sub-fund or the Net Asset Value per Unit in the sub-fund or the Subscription Price and Redemption Price or when for any other reason the Net Asset Value or the Subscription Price and Redemption Price cannot be ascertained in a prompt or accurate manner; or
- (d) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of the sub-fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders; or
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the sub-fund or the issue or redemption of Units in the sub-fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (f) the business operations of the Manager, the Trustee or any investment manager or investment delegate in respect 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
- (g) the issue, redemption or transfer of Units would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

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

Whenever the Manager declares such a suspension it shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice on the Manager's website [www.bosera.com.hk](http://www.bosera.com.hk) (this website has not been reviewed by the SFC).

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

**Publication of Net Asset Value**

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

## **EXPENSES AND CHARGES**

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

### **Fees payable by Unitholders**

The following fees and charges are payable by Unitholders:

#### **Subscription Fee**

Under the Trust Deed, the Manager is entitled to impose a subscription fee on the issue of Units of any sub-fund of up to a maximum of 5% of the subscription amount.

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

#### **Redemption fee**

Under the Trust Deed, the Manager is entitled to impose a redemption fee on the redemption of Units of any sub-fund of up to a maximum of 5% of the redemption price of such Units.

The redemption fee is deducted from the redemption proceeds payable to a Unitholder in respect of each Unit redeemed. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the redemption fee (either generally or in any particular case) of a sub-fund.

#### **Switching fee**

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 5% of the redemption proceeds payable in respect of the Units of the Existing Sub-Fund being switched.

The switching fee is deducted from the amount realised from redemption of the Existing Sub-Fund and reinvested in the New Sub-Fund. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the switching fee (either generally or in any particular case) of a sub-fund.

### **Fees payable by the Fund**

The following fees and charges are payable out of the assets of each sub-fund:

#### **Management fee**

The Trust Deed provides that the Manager is entitled to a management fee in respect of each sub-fund it manages, the maximum amount of which is equal to 5% per annum of the Net Asset Value of the relevant sub-fund. Any increase in the management fee in respect of a sub-fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders; and (ii) beyond this maximum level, is subject to approval by extraordinary resolution of the affected Unitholders. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

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



### Performance fee

The Manager may also charge a performance fee in respect of any sub-fund. Details of any performance fee are set out in the relevant Appendix.

### Trustee fee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each sub-fund, the maximum amount of which is equal to 1% per annum of the Net Asset Value of the sub-fund. Any increase in the trustee fee in respect of a sub-fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders; and (ii) beyond this maximum level, is subject to approval by extraordinary resolution of the affected Unitholders. The trustee fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

### Other charges and expenses

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

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

### **Establishment costs**

The costs of establishing the Trust and the first sub-fund were charged to and amortised over the first 5 accounting periods of the first sub-fund (or such other period as determined by the Manager after consultation with the auditors of the sub-fund). Where subsequent sub-funds under the Trust are established, the Manager may determine that the unamortised establishment costs of the Trust (if any) or a part thereof may be re-allocated to such subsequent sub-funds.

The costs of establishing a subsequent sub-fund will be charged to the relevant sub-fund and amortised over such period as the Manager may determine after consultation with the auditors, and details are set out in the relevant Appendix.

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

### **Cash rebates and soft commissions**

None of the Manager, the investment delegate (if any) or any of its Connected Persons receives any cash commissions or other rebates from brokers or dealers in respect of transactions for the

account of any sub-fund. However, the Manager, the investment delegate (if any) and/or any of the Connected Persons with either of them reserve the right to effect transactions by or through the agency of another person (the “Agent”) with whom the Manager, the investment delegate (if any) and/or any of their respective Connected Persons has such an arrangement.

The Manager, the investment delegate (if any) and/or any of their respective Connected Persons further reserve the right to effect transactions by or through the agency of another person with whom the Manager, the investment delegate (if any) and/or any of their respective Connected Persons has an arrangement under which that party will from time to time provide to or procure for the Manager, the investment delegate (if any) and/or any of their respective Connected Persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Trust (or the relevant sub-fund) as a whole and may contribute to an improvement in the performance of the Trust (or the relevant sub-fund) or of the Manager, the investment delegate (if any) and/or any of their respective Connected Persons in providing services to the Trust (or the relevant sub-fund) and for which no direct payment is made but instead the Manager, the investment delegate (if any) and/or any of their respective Connected Persons undertakes to place business with that party. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

## **RISK FACTORS**

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

### **General risks**

#### **Investment risk**

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

#### **Market risk**

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

#### **Concentration risk**

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

#### **Emerging market risk**

Certain sub-funds may invest in emerging markets (including the PRC), which subjects sub-funds to a higher level of market risk than investments in a developed country. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, settlement risk (including risks arising from settlement procedures), greater risk of market shut down and more governmental limitations on foreign investment than those typically found in developed markets.

#### **Counterparty risk**

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

### Liquidity risk

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

Liquidity risk also includes the risk that a sub-fund will not be able to pay redemption proceeds within the allowable time period because of unusual market conditions, an unusually high volume of redemption requests, or other uncontrollable factors. To meet redemption requests, a sub-fund may be forced to sell investments, at an unfavourable time and/or conditions.

### Exchange rate risk

Assets of certain sub-funds may be denominated in currencies other than the base currencies of such sub-funds and the currency of some assets may not be freely convertible. These sub-funds may be adversely affected by changes in exchange rates between the currencies in which the assets of the relevant sub-fund are held and the base currency of such sub-fund.

### Restricted markets risk

Certain sub-funds may invest in securities in jurisdictions (including the PRC) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, such sub-funds may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.

### Legal and compliance risk

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

### Suspension risk

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

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

### Early termination risk

Under the Trust Deed, a sub-fund may be terminated by the Manager or the Trustee in certain conditions and in the manner as described in "Termination of the Trust or any sub-fund" in the

section entitled “General” in this Explanatory Memorandum. It is possible that, in the event of such termination, a sub-fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will receive an amount less than the capital they originally invested.

#### Cross class liability risk

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

#### Cross sub-fund liability risk

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

#### Valuation and accounting risk

Investors should note that, under IFRS, establishment costs should be expensed as incurred. However for the purpose of calculating of net asset value for subscription and redemption purposes, establishment costs are to be amortised over a period of five years, which may lead to a different valuation had the accounting been in accordance with IFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and the calculation of Net Asset Value of the sub-funds materially. To the extent that the valuation or accounting basis adopted by any sub-fund deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements to comply with IFRS.

### **Investment risks**

#### Risk of investing in equity securities

Sub-funds which invest directly or indirectly in equity securities are exposed to the risk that the market value of such equity securities may go down as well as up. Equity markets may fluctuate significantly with prices rising and falling sharply, and this will have a direct impact on such sub-funds. When equity markets are extremely volatile, such sub-fund’s Net Asset Value may fluctuate substantially.

#### Risk of investing in fixed income instruments:

*Interest rate risk:* Sub-funds which invest in fixed income instruments are subject to interest rate risk. Generally, the value of fixed income instruments will change inversely with changes in interest rates. As interest rates rise, market value of fixed income instruments tends to fall. Long-term fixed income instruments in general are subject to higher interest rate risk than short-term fixed income instruments.

*Credit risk:* Investment in fixed income instruments is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In general, debt instruments that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. In the event of a default or credit rating downgrading of the issuers of the fixed income instruments held by a sub-fund, that sub-fund's Net Asset Value will be adversely affected and investors may suffer a substantial loss as a result.

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

*Risks of investing in lower graded or unrated fixed income instruments:* A sub-fund may invest in fixed income instruments which are rated with a relatively lower grade or which are non-rated. As mentioned above, such instruments are generally more susceptible to the credit risk of the issuers, and as a result such investments assume greater risks because of generally reduced liquidity and greater fluctuation in value. The valuation of these instruments may also be more difficult and thus the relevant sub-fund's prices may be more volatile.

*Risks of credit rating downgrades:* Credit rating of fixed income instruments and/or issuers of fixed income instruments may be downgraded, thus adversely affecting the value and performance of a sub-fund holding such investments.

*Risks of PRC fixed income instruments:* Certain sub-funds may invest in fixed income instruments issued or distributed within the PRC. The financial market of the PRC is at an early stage of development, and many of such PRC fixed income instruments may be unrated, which exposes such sub-funds to greater risks because of generally reduced liquidity, greater price volatility and greater credit risk. Such a sub-fund may also encounter difficulties or delays in enforcing its rights against the issuers who will generally be incorporated in the PRC and therefore not subject to the laws of Hong Kong.

*Limited availability of offshore RMB fixed income instruments:* Certain sub-funds may invest in RMB fixed income instruments issued or distributed outside the PRC. However, the quantity of RMB fixed income instruments issued or distributed outside the PRC that are available is currently limited, and the remaining duration of such instruments may be short. In the absence of available fixed income instruments, or when such instruments held are at maturity, a sub-fund holding such investments may have to allocate a significant portion of its portfolio in RMB negotiated term deposits with authorised financial institutions until suitable fixed income instruments are available in the market. This may adversely affect the relevant sub-fund's return and performance.

#### Risk of investing in financial derivative instruments

Certain sub-funds may from time to time utilise financial derivative instruments for investment and/or hedging purposes. The use of derivatives exposes a sub-fund to additional risks, including: (1) volatility risk (derivatives can be highly volatile and expose investors to a high risk of loss); (2) leverage risk (as the low initial margin deposits normally required to establish a position in derivatives permits a high degree of leverage, there is risk that a relatively small movement in the price of a contract could result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin); (3) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of derivatives and transactions in over-the-counter derivatives may involve additional risk as there is no exchange market on which to close out an open position); (4) correlation risk (when used for hedging purposes there may be an imperfect correlation between the derivatives and the investments or market sectors being hedged); (5) counterparty risk (the sub-fund is exposed to the risk of loss resulting from a counterparty's

failure to meet its financial obligations); (6) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the derivative contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (7) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of a sub-fund which uses financial derivative instruments.

#### Risk of investing in structured debt instruments (including mortgage-backed securities)

Certain sub-funds may invest in securitised or structured debt instruments (collectively, "structured debt instruments"). Such structured debt instruments include asset-backed securities, mortgage-backed securities, collateralised debt instruments and collateralised loan obligations. provide exposure, synthetically or otherwise, to underlying assets and the risk/return profile is determined by the cash flows derived from such assets. Some of such instruments involve multiple instruments and cash flow profiles such that it is not possible to predict with certainty the outcome from all market scenarios. Also, the price of such an investment could be contingent on, or highly sensitive to, changes in the underlying components of the structured debt instrument. The underlying assets can take many forms including, but not limited to, credit card receivables, residential mortgages, corporate loans, manufactured housing loans or any type of receivables from a company or structured vehicle that has regular cash flows from its customers. Some structured debt instruments may employ leverage which can cause the price of the instruments to be more volatile than if they had not employed leverage. In addition, investments in structured debt instruments may be less liquid than other securities. The lack of liquidity may cause the current market price of assets to become disconnected from the underlying assets' value and consequently sub-funds investing in structured debt instruments may be more susceptible to liquidity risk. The liquidity of a structured debt instrument can be less than a regular bond or debt instrument and this may adversely affect either the ability to sell the position or the price at which such a sale is transacted.

#### Over-the-counter markets risk

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

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

#### Hedging risk

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

## TAXATION

The following summary of taxation is of a general nature, and for information purposes only, and is not intended to be an exhaustive list of all the tax considerations that may be relevant to a decision to purchase, own, realise or otherwise dispose of Units. The summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of Unitholders. Prospective Unitholders should consult their professional advisers on the consequences to them of acquiring, holding, redeeming, transferring or selling Units under the relevant laws of Hong Kong as well as the relevant jurisdiction(s) 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 Manager regarding the law and practice in force in Hong Kong, Mainland China and also regarding FATCA and related laws at the date of this Explanatory Memorandum. The relevant laws, rules and practice relating to tax are subject to change and amendment (and such changes may be made on a retrospective basis). As such, there can be no guarantee that the summary provided below will continue to be applicable after the date of this Explanatory Memorandum. Furthermore, tax laws can be subject to different interpretations and no assurance can be given that the relevant tax authorities will not take a contrary position to the tax treatment described below.

### **Hong Kong Taxation**

#### Taxation of the Trust and the Sub-Fund

##### *Profits Tax*

As the Trust and the Sub-Fund have been authorised as a collective investment scheme by the SFC under Section 104 of the SFO, profits of the Trust and the Sub-Fund are exempt from Hong Kong profits tax pursuant to Section 26A(1A)(a) of the Inland Revenue Ordinance ("IRO").

##### *Stamp Duty*

Hong Kong stamp duty is payable on the transfer of Hong Kong stock. "Hong Kong stock" is defined as "stock" the transfer of which is required to be registered in Hong Kong. The Units should fall within the definition of "Hong Kong stock" as the register of Unitholders will be kept in Hong Kong.

Pursuant to a remission order issued by the Secretary for the Treasury on 20 October 1999, transfer of Hong Kong stocks to the Trust and/or the Sub-Fund in exchange for issue of Units or transfer of Hong Kong stocks from the Trust and/or the Sub-Fund in consideration for redemption of Units is exempt from Hong Kong Stamp Duty.

No Hong Kong Stamp Duty is payable by the Trust and the Sub-Fund on an issue or redemption of Units.

#### Taxation of the Unitholders

##### *Profits tax*

Where the Unitholders do not carry on a trade, profession or business in Hong Kong or the Units in the Sub-Fund are held by the Unitholders as capital assets for Hong Kong profits tax purposes, gains arising from the sale or disposal or redemption of the Units in the Sub-Fund should not be taxable. For Unitholders carrying on a trade, profession or business in Hong Kong, such gains may be subject to Hong Kong profits tax (which is currently charged at the rate of 16.5% in the case of corporations, and 15% in the case of individuals and unincorporated business) if the gains in questions arise in or are derived from such trade, profession or business and sourced in Hong Kong and the Units are not capital assets to Unitholders.



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

Distributions made by the Trust or the Sub-Fund should generally not be subject to Hong Kong profits tax in the hands of Unitholders according to the practice of the Inland Revenue Department of Hong Kong ("IRD") (as at the date of this Explanatory Memorandum).

#### *Stamp duty*

No Hong Kong stamp duty is payable in relation to the issue or redemption of Units if the Units are extinguished upon redemption.

No Hong Kong stamp duty is payable where the sale or transfer of the Units is effected by selling the relevant Units back to the Manager, who then either extinguishes the Units or re-sells the Units to another person within two months thereof.

Other types of sales and purchases or transfers of the Units by the Unitholders should be liable to Hong Kong stamp duty of 0.2% (normally borne in equal share of 0.1% by the buyer and 0.1% by the 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.

Unitholders should take advice from their own professional advisers as to their particular tax position.

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

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into effect on 30 June 2016. The Ordinance together with the later amendments is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The AEOI comprises, among others, the model Competent Authority Agreement ("CAA") and Common Reporting Standard ("CRS"). In addition, the IRD published guidance for financial institutions ("FIs") on 9 September 2016 which is updated and amended from time to time to provide guidance to them for complying with the CRS obligations. The AEOI requires FIs in Hong Kong to obtain certain information and documentation relating to non-Hong Kong tax residents holding financial accounts with the FIs, and report the required information to the IRD for the purpose of automatic exchange. Generally, the information will be reported and automatically exchanged in respect of account holders that are tax residents in a reportable jurisdiction(s) with which Hong Kong has a Multilateral CAA or bilateral agreement in force; however, a Sub-Fund and/or its agents may further obtain information and/or documentation relating to the residents of other jurisdictions that are not resident in a reportable jurisdiction for CRS purposes in Hong Kong.

The Trust is required to comply with the requirements of the Ordinance, which means that the Trust and/or its agents shall obtain and provide to the IRD the required information relating to Unitholders. The Ordinance requires the Trust to, amongst other things, (i) register the Trust as a "Reporting Financial Institution" with the IRD to the extent the Trust maintains reportable financial accounts; (ii) conduct due diligence on its account holders (i.e. Unitholders) in order to determine whether any of their relevant financial accounts are regarded as "Reportable Accounts" under the Ordinance; and (iii) report to the IRD the required information of such Reportable Accounts. The IRD is expected on an annual basis to exchange the required information reported to it to the competent authorities of the respective reportable jurisdictions. Broadly, AEOI requires that Hong Kong FIs should report on: (i) individuals or entities that are tax residents in a reportable jurisdiction; and (ii) certain entities controlled by individuals who are tax residents in such jurisdictions. Under the Ordinance, details of Unitholders, including but not limited to their name, place of birth, date of birth, address, tax residence, tax identification number(s) (if any), account number, account balance/value regarding their interest in the Trust, and income or sale or redemption proceeds received from the Trust, should be reported to the IRD and subsequently exchanged with competent authorities in the relevant jurisdictions.

By investing in a Sub-Fund and/or continuing to invest in a Sub-Fund, Unitholders acknowledge that they may be required to provide additional information or documents to the Trust and/or its agents in order for the Trust to comply with the Ordinance. A Unitholder's information (and information on controlling persons including beneficial owners, beneficiaries, direct or indirect Unitholders or other persons associated with such Unitholders that are passive non-financial entities as defined under the Ordinance) may be exchanged by the IRD to the competent authorities in the relevant reportable jurisdictions.

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

## **Mainland China Taxation**

The following is based on the Manager's understanding of and certain aspects of the tax laws, regulations and practice currently in force in the PRC. No guarantee can be given that the tax position at the date of this Explanatory Memorandum or at the time of an investment will endure indefinitely.

In the PRC, under the current regulatory environment, foreign investors are allowed to invest in China A-shares, bonds and certain financial instruments through QFII/RQFII, Stock Connect and Bond Connect schemes.

With the implementation of the new QFII/RQFII scheme from 1 November 2020, foreign institutional investors are allowed to invest in more diversified financial instruments, including certain derivatives products, etc. Following that, investments including commodity futures, commodity options and stock options in exchange market are also allowed for QFII/RQFII.

Under the prevailing PRC tax regimes, foreign investment in China A-shares, bonds and other financial instruments would normally be subject to Corporate Income Tax ("CIT"), Withholding Income Tax ("WHT"), Value Added Tax ("VAT") and Stamp Duty ("SD").

### General China Taxation

#### *Corporate Income Tax ("CIT")*

Under the prevailing PRC CIT Law, a China Tax Resident Enterprise ("TRE") is subject to CIT on its worldwide income. A foreign enterprise with a "place of effective management" within the PRC is also regarded as a China TRE.

The "place of effective management" refers to the place where the exercise, in substance, of the overall management and control of the production and business operation, personnel, accounts and assets is located.

A non-TRE with an establishment or a place of business in China shall pay CIT on income derived by such establishment or place from sources in China as well as income derived from outside China that is effectively connected with such establishment or place.

An "establishment or place" is defined under PRC CIT regulations as an establishment or place in China engaging in production and business operations, including management and business organisations, offices, places where natural resources are exploited, labour services are rendered, contractor projects are undertaken, and other establishments or places where production and business activities are undertaken. Business agents who regularly sign contracts, store and deliver goods, etc. on behalf of non-TREs would also be regarded as creating an establishment or place of business in China under CIT law/regulations.

Under the CIT law, the standard CIT rate is 25%.

A non-TRE that has no establishment or place in China is taxed only on its China-source income. A unilateral concessionary rate of 10% WHT will be applied on gross income derived from dividends, interest and other China-source passive income unless any specific exemption or reduction is available under current PRC tax laws, tax treaties or tax arrangements.

The Trust together with the Manager, do not intend to operate in a way that would cause a Sub-Fund to be treated as a PRC tax resident enterprise or to have an establishment or a place in the PRC, although this cannot be guaranteed. It is possible, however, that the PRC tax authority could disagree with such an assessment or that changes in Mainland China tax law could affect the PRC CIT status of a Sub-Fund.

If a Sub-Fund does not have a place of effective management, an establishment or a place of business in Mainland China, the Sub-Fund will normally be regarded as a non-TRE.

Generally, QFII/RQFII would be subject to PRC WHT at 10% on its gross income from dividends, interest and capital gains realised from the disposal of the Units in the PRC investee companies unless reduced/waived under China tax laws and regulations or relevant tax treaties/tax arrangements.

#### *Value-added Tax ("VAT")*

In Mainland China, VAT payers are classified into general payers and small scale payers. They are subject to different VAT calculation methods and different VAT rates.

Being an overseas entity, the Trust and the Sub-Fund are subject to VAT at 6% which is applicable to general payers on the gains derived from trading financial products in PRC (including trading equity or equity-linked securities) and various interest income from China. According to Circular Caishui [2016] No. 36 ("Circular 36"), deposit interest income is not subject to VAT. Interest income derived from government bonds and local government bonds are exempted from VAT. Other VAT-exempted regulations for different types of income are as follows.

VAT surcharges including Urban Maintenance and Construction Tax ("UMCT"), Educational Surcharge ("ES") and Local Educational Surcharge ("LES")) are no longer applicable for a foreign taxpayer from 1st September 2021.

#### *Stamp Duty ("SD")*

The SD law of the PRC took into effect from 1 July 2022. According to SD Law, SD is levied on the execution or receipt in China of certain documents. In the case of contracts for sale of A-shares and B-shares, SD is currently imposed on the seller side only, at the rate of 0.1%. Where there is no transfer price for securities transactions, the SD basis should be calculated based on the closing price of the previous transaction day at the time of completing the transfer registration; where there is no closing price, SD basis should be calculated on the par value of the securities.

The sale or purchase of PRC domestic bonds investments does not fall in the SD taxable scope and are not subject to PRC SD.

#### A-shares investments via QFII/RQFII

##### *Capital gains*

According Circular Caishui [2014] No. 79 ("Circular 79"), effective from 17 November 2014, QFIIs/RQFIIs are temporarily exempt from the PRC WHT on the capital gains derived from trading A-shares and other PRC equity-linked investments, provided that QFIIs/RQFIIs do not have a place or an establishment in the PRC or the relevant capital gains are not connected to their places or establishments in the PRC. However, it is uncertain how long such temporary exemption will last and whether it will be repealed and re-imposed retrospectively.

According to Circular Caishui [2016] No. 36 and Caishui [2016] No. 70, QFII/RQFII are exempt from VAT on their income derived from entrusting PRC domestic companies to conduct securities trading in the PRC.

#### *Dividends*

Dividends derived by overseas investors from China A-shares via QFII/RQFII are subject to WHT at 10% unless reduced under a tax treaty or tax arrangement. Under the current China tax regulations, China A-shares listed companies are required to withhold and settle such WHT with China tax authorities.

Dividends from China equity investment is not subject to VAT.

#### A-shares investment via Stock Connect

##### *Capital gains*

According to Circular Caishui [2014] No. 81 (“Circular 81”) and Circular Caishui [2016] No. 127 (“Circular 127”), overseas investors are temporarily exempt from PRC WHT on the gains from trading A-shares via Shanghai/HK Stock Connect and Shenzhen/HK Stock Connect schemes. However, it is uncertain how long the temporary exemption will last, and whether it will be repealed and re-imposed retrospectively.

Investors from Hong Kong market are exempt from VAT on gains from trading China A-shares through Shanghai/HK Stock Connect and Shenzhen/HK Stock Connect schemes during the pilot period of VAT reform since 2016. However, it is uncertain how long such VAT exemption will last and whether it will be repealed and re-imposed retrospectively.

##### *Dividends*

Dividends derived by overseas investors from China A-shares via Stock Connects are subject to WHT at 10%, which are not subject to VAT.

#### China Bonds Investment via Bond Connect and QFII/RQFII

##### *Interest*

According to Circular Caishui [2021] No.34, interest income derived by overseas investors from the domestic bond market through foreign institute investors (including QFII/RQFII or Bond Connect channels) are temporarily exempt from CIT and VAT during the period from 7 November 2021 to 31 December 2025 provided that such bond interests are not derived by the establishment or place of business of the overseas investors in the PRC or effectively connected with such establishment or place. However, it is uncertain whether this temporary exemption will be further extended after expiration.

##### *Capital gains*

In China, there are no specific tax rules granting CIT exemption on capital gains derived from trading debt instruments. In practice, it is more likely than not such gains derived by foreign investors would be regarded as non-PRC sourced income and not subject to PRC CIT.

The above complements with the Operational Procedures for Overseas Institutional Investors to Enter China’s Inter-bank Bond Market prescribed by the PBOC in November 2017, which indicated that capital gains derived by overseas investors from trading the domestic bond market investments through Inter-bank Bond Market is temporarily exempt from CIT and VAT during the pilot period of VAT reform since 2016. However, it is uncertain how long the exemption will last and whether it will be repealed and re-imposed retrospectively.

Without the exemption described above, interest or capital gain derived by overseas investors through holding or trading the PRC bonds would be subject to WHT at the rate of 10% unless reduced under a tax treaty or tax arrangement.

### Investment in New Assets Classes

In China, new QFII scheme became effective on 1 November 2020 with significant changes, including the consolidation of previous QFII and RQFII schemes and expansion of QFII's investment scope, etc.

However, the prevailing PRC CIT and VAT exemption policies may not cover all the income derived from new permissible asset classes after the implementation of new QFII/RQFII scheme. Therefore, depending on the structure of market access products, income derived from new asset classes and other diversified financial instruments (e.g. swaps, derivatives), might not be fully covered by the prevailing China CIT and VAT exemption treatment. It is subject to clarification of regulatory and tax authorities. New asset classes refer to the expanded investment scope under the new QFII scheme.

It should also be noted that the actual PRC taxes imposed by China tax authorities may be different and may change from time to time. There is a possibility of regulatory changes and PRC taxes being applied retrospectively. There are also risks and uncertainties associated with the current PRC tax laws, regulations and practice. Such changes or uncertainties may result in higher taxation on PRC investments than currently contemplated. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet ultimate PRC tax liabilities. Consequently, investors may be advantaged or disadvantaged depending upon the ultimate PRC tax liabilities, the level of provision and when they subscribed and/or redeemed their Units in the Sub-Fund.

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

### **FATCA**

The United States ("US") Hiring Incentives to Restore Employment Act (the "HIRE Act") was signed into US law in March 2010 and includes provisions commonly referred to as the "Foreign Account Tax Compliance Act" or "FATCA". Broadly, the FATCA provisions are set out in sections 1471 to 1474 of the US Internal Revenue Code of 1986, as amended (the "Revenue Code"), which impose a new reporting regime with respect to certain payments to foreign financial institutions (each an "FFI"), including interests and dividends from securities of US issuers and gross proceeds from the sale of such securities. All such payments may be subject to withholding at a rate of 30%, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service (the "IRS") to identify United States persons (within the meaning of the Revenue Code) ("US persons") with interests in such FFIs. To avoid such withholding on payments made to it, FFIs (including banks, brokers, custodians and investment funds) located in jurisdictions that have not signed an intergovernmental agreement ("IGA") for implementation of FATCA, will be required to enter into a FFI agreement (a "FFI Agreement") with the IRS to be treated as a participating FFI ("Participating FFI"). Participating FFIs are required to identify all investors that are US persons and report certain information concerning such US persons to the IRS. The FFI Agreement will also generally require that a Participating FFI deduct and withhold 30% from certain payments made by the Participating FFI to investors who fail to cooperate with certain information requests made by the Participating FFI. Moreover, Participating FFIs are required to deduct and withhold such payments made to investors that are themselves FFIs but that have not entered into an FFI Agreement with the IRS or that are not otherwise deemed compliant with FATCA (i.e. a "non-compliant FFI").

FATCA withholding applies to (i) payments of US source income, including US source dividends and interest, made after 30 June 2014; and (ii) payments of gross proceeds of sale or other disposal

of property that can produce US source income after 31 December 2016. The 30% withholding could also apply to payments otherwise attributable to US source income (also known as “foreign passthru payments”) starting no earlier than 1 January 2017, though the US tax rules on “foreign passthru payments” are currently pending. Withholding agents (which may include Participating FFIs) will generally be required to begin withholding on certain withholdable payments made after 30 June 2014. The first reporting deadline for FFIs that have entered into the FFI Agreement was 31 March 2015 with respect to information relating to the 2014 calendar year.

The US and a number of other jurisdictions have entered into IGAs. The US Department of the Treasury and Hong Kong have on 13 November 2014 signed a Model 2 IGA (the “HK IGA”). The HK IGA modifies the foregoing requirements but generally requires similar information to be disclosed to the IRS. Under the HK IGA, FFIs in Hong Kong would register with the IRS to be subject to the terms of a FFI Agreement with the IRS and comply with the terms of such FFI Agreement. Otherwise they will be subject to a 30% withholding tax on relevant US source payments to them.

Under the HK IGA, it is expected that FFIs in Hong Kong complying with an FFI Agreement will generally not be required to withhold tax on withholdable payments to recalcitrant accounts (i.e. certain accounts of which the holders do not consent to FATCA reporting and disclosure to the IRS) or close such recalcitrant accounts (provided that information regarding the recalcitrant accounts is reported to the IRS according to the terms of the HK IGA), but may be required to withhold tax on payments made to non-compliant FFIs.

Even though the HK IGA has now been signed between Hong Kong and the US, withholding may apply to withholdable payments covered by FATCA if the Trust cannot satisfy the applicable requirements and is determined to be non-FATCA compliant or if the Hong Kong government is found in breach of the terms of the HK IGA.

Each Sub-Fund has been registered with the IRS as at the date of this Explanatory Memorandum. In order to protect Unitholders and avoid being subject to withholding under FATCA, it is the Manager’s intention to endeavour to satisfy the requirements imposed under FATCA. Hence it is possible that this may require a Sub-Fund (through its agents or service providers) as far as legally permitted, to report information on the holdings or investment returns of any Unitholders to the IRS or the local authorities pursuant to the terms of the HK IGA. It is also possible that a Sub-Fund may be required to compulsorily redeem and/or apply withholdings to payments to Unitholders who fail to provide the information and documents required to identify their status, or who are non-compliant FFIs or who fall within other categories specified in the FATCA provisions and regulations. Any such compulsory redemption and/or withholding will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds. In any event, the Manager shall comply with personal data protection principles, and requirements as set out in the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) and all other applicable regulations and rules governing personal data use in Hong Kong from time to time.

Although the Sub-Fund will attempt to satisfy any obligations imposed on them to avoid the imposition of FATCA withholding tax, no assurance can be given that the Sub-Fund will be able to fully satisfy these obligations. If a Sub-Fund becomes subject to a withholding tax as a result of FATCA, the Net Asset Value of the Sub-Fund may be adversely affected and the Sub-Fund and the Unitholders may suffer material loss.

The FATCA provisions are complex and their application is uncertain at this time. The above description is based in part on regulations, official guidance and the HK IGA, all of which are subject to change or may be implemented in a materially different form. Nothing in this section constitutes or purports to constitute tax advice and Unitholders should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. All Unitholders should therefore consult their own tax and professional advisors regarding the FATCA

requirements, possible implications and related tax consequences with respect to their own situation. In particular, Unitholders who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer the above mentioned withholding tax on their investment returns.

### **FATCA in Mainland China**

On 26 June 2014, the US and China reached an agreement in substance to implement the FATCA through a Model 1 IGA. As China is one of the US largest trading partners, this is a substantial development in achieving overall tax compliance through information sharing agreements. However, an official mutual announcement continues to be absent until now, which means the agreement is still not effective for China. As a result, there is no local implementation rules or guidance to follow at current stage in China regarding FATCA.

## **GENERAL**

### **Reports**

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

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

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

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

### **Distribution policy**

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

### **Trust Deed**

The Trust was established as an umbrella unit trust under the laws of Hong Kong by the Trust Deed made between the Manager and the Trustee. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust Deed contains provisions for the indemnification of the Trustee and the Manager out of the assets of the Trust or the relevant sub-fund(s) and their relief from liability in certain circumstances, subject to the proviso that nothing in any of the provisions of the Trust Deed shall exempt either the Trustee or the Manager (as the case may be) from or indemnify them against any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

### **Modification of Trust Deed**

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee and the Manager such modification (i) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee or the Manager or any other person from any liability to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Trust or the relevant sub-fund; or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law); or (iii) is made to correct a manifest error. In all other cases, involving any material changes, no modifications, alterations and additions may be made without the approval of the SFC or the sanction of an extraordinary resolution of the Unitholders. Notice of any amendment or modification in respect of which the Trustee and the Manager shall have certified in



accordance with the aforesaid will be given by the Trustee (or the Trustee will procure that notice be given by the Manager) unless such amendment or modification is not in the opinion of the Trustee of material significance.

### **Meetings of Unitholders**

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

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution is Unitholders present in person or by proxy representing 25% or more of the Units in issue. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. Every individual Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the Unitholder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders.

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

### **Transfer of Units**

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

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

### **Termination of the Trust or any sub-fund**

The Trust shall continue for a period of 80 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Trust may be terminated on the occurrence of any of the following events: (a) any law shall be passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the Trust; (b) the Trustee shall be unable to find a person acceptable to the Trustee to act as the new manager within 30 days after the removal or retirement of the Manager; (c) the Trustee shall have decided to retire but within three months from the date of the Trustee giving its written notice to retire as the Trustee, the Manager shall be unable to find a suitable person who is willing to act as trustee; (d) if the Trustee and the Manager agree that it is undesirable to continue the Trust and the affected Unitholders sanction the termination by way of extraordinary resolution; or (e) the affected Unitholders of the Trust determine, by extraordinary resolution, that the Trust should be terminated (in which case, such termination shall take effect from the date on which such extraordinary resolution is passed or such later date (if any) as the extraordinary resolution may provide).

Any sub-fund may also be terminated on the occurrence of any of the following events: (a) any law shall be passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the sub-fund; (b) if the Trustee and the Manager agree that it is undesirable to continue the sub-fund and the affected Unitholders sanction the termination by way of extraordinary resolution; or (c) the affected Unitholders of the sub-fund determine, by extraordinary resolution, that the sub-fund should be terminated (in which case, such termination shall take effect from the date on which such extraordinary resolution is passed or such later date (if any) as the extraordinary resolution may provide).

The Trust may be terminated by the Trustee giving prior written notice to the Manager and the Unitholders if any of the following events shall occur: (a) the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or a receiver shall be appointed over any of its assets and shall not be discharged within 60 days; (b) the Trustee shall form the opinion for good and sufficient reason and shall so state in writing to the Manager that the Manager is incapable of performing its duties under the Trust Deed satisfactorily; (c) the Manager shall fail to perform its duties under the Trust Deed satisfactorily or the Manager shall do any other thing which in the opinion of the Trustee is calculated to bring the Trust into disrepute or to be harmful to the interests of the Unitholders; (d) any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Trust; (e) either the Trustee shall be unable to find a person acceptable to the Trustee to act as the new manager within 30 days after the removal of the Manager for the time being pursuant to the provisions of the Trust Deed or the person nominated by the Trustee shall fail to be approved by an extraordinary resolution; or (f) the Trustee shall have decided to retire but within 30 days of the Trustee giving notice to the Manager of its desire to retire the Manager shall be unable to find a suitable person who is willing to act as trustee.

The Trust may be terminated by the Manager in its absolute discretion by notice in writing to the Trustee: (a) if the aggregate Net Asset Value of the Units in all sub-funds outstanding shall be less than RMB50 million (or its equivalent in other currencies); (b) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the Trust and which renders the Trust illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Trust; (c) if within a reasonable time and using commercially reasonable endeavours, the Manager shall be unable to find a person acceptable to the Manager to act as the new trustee after deciding to remove the Trustee for the time being pursuant to the provisions of the Trust Deed; or (d) if the Manager is unable to implement its investment strategy in respect of all sub-funds.

Any sub-fund may also be terminated by the Manager in its absolute discretion by notice in writing to the Trustee: (a) if the aggregate Net Asset Value of the Units in the sub-fund outstanding shall be less than RMB50 million; (b) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the sub-fund and which renders the sub-fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the sub-fund; or (c) if the Manager is unable to implement its investment strategy in respect of the sub-fund.

Prior notice of termination of the Trust or any sub-fund will be provided to Unitholders as determined and approved by the SFC.

Upon termination of the Trust or a sub-fund, the Trustee and the Manager will arrange for the sale of all investments remaining as part of the assets and discharging all liabilities of the Trust or the relevant sub-fund (as the case may be). Thereafter, the Trustee will distribute to the Unitholders, in proportion to the Units held by them, any net cash proceeds derived from the realisation of the assets and available for the purposes of such distribution, provided that the Trustee may retain out of any moneys as part of the assets full provisions for all costs, charges, expenses, claims and demands properly incurred, made or apprehended by the Trustee or the Manager. Any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve months from the date upon which the same were payable be paid into court subject to the right of the Trustee to deduct

therefrom any expenses it may incur in making such payment. Please refer to the Trust Deed for further details.

### **Documents available for inspection**

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

### **Anti-Money Laundering Regulations**

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

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

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

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

### **Liquidity Risk Management**

The Manager has put in place measures to effectively manage the liquidity risk of each sub-fund. The Manager's risk management function monitors the implementation of liquidity risk management policies on a day-to-day basis. The risk management function regularly communicates with the portfolio managers on each sub-fund's liquidity risk issues. The Manager also has in place liquidity risk management tools (such as those described under the "Restrictions on redemption" section) which allow the Manager to process redemptions in an orderly manner and to ensure that all investors are treated fairly.

On an on-going basis, the Manager's risk management function will assess each sub-fund's liquidity position against internal liquidity indicators. The Manager may consider a range of quantitative metrics and qualitative factors in arriving at a liquidity assessment. The quantitative metrics that the Manager may consider include, where available, the underlying asset's issue size, bid-ask spreads, transaction cost, the number of market makers, each sub-fund's holding as a proportion of the

outstanding issuance, time to maturity and time of issuance. The Manager supplements the available quantitative data with its professional judgment and other qualitative factors such as the overall market conditions, the applicable regulatory requirements, the currency denomination, and the credit quality. The Manager classifies each sub-fund's assets into different liquidity categories using the generic categories of low, medium and high liquidity, and sets indicators on the minimum and maximum holding of assets that belong to each of these liquidity categories, taking into account the historical liquidity demands and expected future liquidity demands of each sub-fund under likely future market conditions. Where a sub-fund is unable to meet the targets, the Manager will report the incident to the senior management who perform the oversight role for consideration in a timely manner. Policies will be put in place and documentation will be maintained on the assessments. The Manager will also perform liquidity stress testing on each sub-fund on an ongoing basis.

## **Conflicts of Interest**

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

The Manager has established policies in relation to the identification and monitoring of potential conflicts of interest situations, to ensure that clients' interests are given priority at all times. Key duties and functions must be appropriately segregated and there are strict policies and dealing procedures designed to avoid, monitor and deal with conflicts of interests situations, such as rules and procedures in relation to order allocation, best execution, receipt of gifts or benefits, retention of proper records, prohibition of certain types of transactions and handling of client complaints. The Manager has designated staff to monitor the implementation of such trading policies and dealing procedures with clear reporting lines to and oversight by senior management. In any event, the Manager will ensure that all investment schemes and accounts which it manages, including each sub-fund, are treated fairly.

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

**Websites**

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



## **Appendix 1: BOSERA CHINA OPPORTUNITIES BOND FUND**

*This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the Bosera China Opportunities Bond Fund (the “Sub-Fund”), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to Bosera China Opportunities Bond Fund. Terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix.*

### **Investment Objective**

The Sub-Fund aims to achieve income and long-term capital appreciation by investing in Greater China fixed income securities.

There can be no assurance that the Sub-Fund will achieve its investment objective.

### **Investment Strategy**

The Sub-Fund seeks to achieve its investment objective by investing at least 70% of its total assets in fixed income securities issued or guaranteed by (i) listed or unlisted corporations which have their main operations (or majority of assets) in, or have majority of their income or revenue derived from Greater China (comprising Mainland China, Hong Kong, Macau and Taiwan), and/or (ii) governments and/or government related entities in Greater China. For the avoidance of doubt, the issuers of the fixed income securities who have a majority of their income or revenue derived from Greater China as mentioned in (i) above may be based in or outside Greater China.

The fixed income securities which the Sub-Fund may invest in include, but are not limited to, corporate bonds, government and other public securities, certificate of deposits, commercial papers, short-term notes. The Sub-Fund will not hold more than 30% of its total assets in cash or cash equivalents. The average duration of the Sub-Fund’s fixed income securities as a whole will be less than 5 years.

“Total assets” means the total market value of all the assets under the Sub-Fund, including but not limited to various securities and bills purchased, the principal and interest of bank deposits, the subscription fund receivables of the Sub-Fund, and other investments, and without taking into account any liabilities.

The Sub-Fund may invest up to 100% of its total assets in fixed income securities issued by issuers who have a majority of their income or revenue derived from Mainland China. However, less than 70% of the Sub-Fund’s Net Asset Value may be invested in onshore PRC fixed income securities via the Manager’s RQFII status or in the Mainland Inter-bank Bond Market via Foreign Access Regime (as defined below).

In addition, no more than 50% of the Sub-Fund’s total assets will be invested in fixed income securities which are rated below investment grade or unrated. For the purposes of the Sub-Fund,

- a fixed income security which is rated below investment grade is defined as a fixed income security which (or the issuer of which) is rated below BBB-/Baa3 by an internationally recognised credit rating agency (such as Standard & Poor’s, Moody’s and/or Fitch) (“Below Investment Grade”) or rated AA or below as rated by a Mainland credit rating agency. For split credit ratings, the highest rating shall apply; and
- an “unrated” fixed income security is defined as a fixed income security which neither the security itself nor its issuer has a credit rating.

If a fixed income security is unrated, then reference will be made to the credit rating of the issuer of the fixed income security. For both rated and unrated (for both the security and its issuer) fixed

income securities, the Manager will assess the credit risks of the fixed income security based on quantitative and qualitative fundamentals, including but not limited to the issuer's leverage, operating margin, return on capital, interest coverage, operating cash flows, industry outlook, the firm's competitive position and corporate governance etc. to ensure that the fixed income security is of sound credit quality.

The Sub-Fund will not invest in "Dim Sum" bonds, convertible bonds, and/or debt instruments with loss-absorption features ("LAP") (including contingent convertible bonds (Additional Tier 1 and Tier 2 Capital Instruments), senior non-preferred debt securities, instruments issued under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules and other similar instruments that may be issued by banks or other financial institutions).

The Sub-Fund may engage in sale and repurchase transactions for up to 50% of its Net Asset Value. In addition, the Sub-Fund may borrow up to 10% of its Net Asset Value for the purpose of investment and meeting redemption requests or defraying operating expenses.

Cash collateral obtained in sale and repurchase transactions will only be reinvested in bonds which are of good quality and sufficiently liquid consistent with the Sub-Fund's investment objective and strategy, selected by the Manager at its discretion. The associated risks would be properly mitigated and addressed by the Manager.

The reinvestment of cash received by the Sub-Fund under sale and repurchase transactions together with the Sub-Fund's net derivative exposure shall not in aggregate exceed 50% of the Sub-Fund's Net Asset Value.

The Sub-Fund may invest in FDIs for hedging or investment purposes to the extent permitted by the investment restrictions in Chapter 7 of the Code and the Explanatory Memorandum (FDIs will not be used extensively for investment purposes).

#### RQFII regime

Under current regulations in the PRC, foreign investors can invest only in the domestic securities market through certain qualified foreign institutional investors that have obtained status as a QFII or a RQFII from the CSRC to remit foreign freely convertible currencies (in the case of a QFII) and RMB (in the case of a RQFII) into the PRC for the purpose of investing in the PRC's domestic securities markets.

The Manager has obtained RQFII status pursuant to the relevant PRC regulations (the "RQFII Regulations").

All of the Sub-Fund's assets in the PRC (including onshore PRC cash deposits and its onshore bond portfolio) will be held by the PRC Custodian (directly or through the PRC Custodian's Delegate) in accordance with the terms of the RQFII Custody Agreement. One or more securities account(s) shall be opened with CSDCC or a relevant depository in the joint names of the Manager (as the RQFII holder) and the Sub-Fund. One or more RMB special deposit account(s) shall be established and maintained with the PRC Custodian's Delegate in the joint names of the Manager (as the RQFII holder) and the Sub-Fund. The PRC Custodian's Delegate shall, in turn, have a cash clearing account with CSDCC for trade settlement according to applicable regulations.

Repatriations in RMB conducted by the Manager as RQFII on behalf of the Sub-Fund are not subject to any restrictions, lock-up periods or prior approval.

There are specific risks associated with the RQFII regime and investors' attention is drawn to the risk factors under "Risks related to the RQFII regime" in the section entitled "Additional Risk Factors" below.



### *Investment in China Inter-bank Bond Market via Foreign Access regime*

Pursuant to the “Announcement (2016) No 3” issued by the PBOC (中國人民銀行公告 [2016]第 3 號) on 24 February 2016, foreign institutional investors can invest in China Inter-bank Bond Market (“**Foreign Access Regime**”) subject to other rules and regulations as promulgated by the Mainland Chinese authorities, i.e., PBOC and the SAFE. Such rules and regulations may be amended from time to time and include (but are not limited to):

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

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

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

There are specific risks associated with the China Inter-bank Bond Market and investors’ attention is drawn to the risk factors under “Risks related to the China Inter-bank Bond Market” in the section entitled “Additional Risk Factors” below.

### *Sale and Repurchase Transactions and Collateral Policy*

Sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund.

For sale and repurchase transactions, the Manager will select independent counterparties approved by the Manager with credit rating of BBB- or above (by Moody’s or Standard & Poor’s, or any other equivalent ratings by internationally recognised credit rating agencies) or which are SFC-licensed corporations or are registered institutions with the Hong Kong Monetary Authority. Counterparties of sale and repurchase transactions may be connected persons of the Manager. The Manager shall ensure that the relevant requirements under the heading entitled “Conflicts of Interest” in the section “General” are complied with.

Any incremental income generated will be credited to the account of the Sub-Fund after deducting any fees charged by parties operating such transactions.

It is the intention of the Manager to sell the securities for cash equal to the market value of the securities provided to the counterparty, subject to appropriate haircut (if applicable). The collateral received by the Sub-Fund under sale and repurchase transactions will only be cash which will be valued at face value. The Sub-Fund will not receive non-cash collateral under sale and repurchase transactions. Cash obtained in sale and repurchase transactions will be used for meeting redemption requests, defraying operating expenses or re-invested.

Notwithstanding the provisions in the section headed “INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS” in the main body of this Explanatory Memorandum, the Sub-Fund may reinvest the cash collateral received from sale and repurchase transactions in investments other than those set out in 7.36(j) of the Code if the following requirements are met:

1. the re-investment, together with the Sub-Fund's net derivative exposure, do not in aggregate exceed 50% of the Sub-Fund's net asset value;
2. the re-investment is consistent with the Sub-Fund's investment objective and strategies;
3. the re-investment is limited to securities which are sufficiently liquid and of good quality; and
4. the re-investment is subject to the corresponding investment restrictions and limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and complies with Notes (3) and (4) to 7.36(j) of the Code.

Collateral the ownership of which is transferred to a Sub-Fund will be held by the Trustee or a Correspondent. Collateral (subject to any net-off or set-off, if applicable) is capable of being fully enforced by the Manager / Sub-Fund at any time without further recourse to the counterparty.

Assets provided by a Sub-Fund on a title transfer basis shall no longer belong to the Sub-Fund. The counterparty may use those assets at its absolute discretion. Assets provided to a counterparty other than on a title transfer basis shall be held by the Trustee or a Correspondent.

### **Investment Restrictions**

No waivers from the investment restrictions set out in the main body of the Explanatory Memorandum have been sought or granted by the SFC.

### **Available classes**

The Sub-Fund currently has the following classes of Units which are available to investors:

- Class A USD
- Class A RMB
- Class A HKD
- Class I USD
- Class I RMB
- Class I HKD
- Class S USD\*

*\*Class S Shares are available for subscription by the following categories of investors:*

- i. *investors whose underlying investors may otherwise be charged with duplicate fees, including but not limited to fund-of-funds (which may be managed by the Manager or its Connected Persons) or repackaging notes; and*
- ii. *current employees of the Manager or its affiliates at the time of subscription who submit dealing orders directly without going through any distribution channels.*

*The Manager will determine a person's eligibility to subscribe for Class S Shares and will have the absolute discretion to decline any subscription application for Class S Shares as it sees fit.*

The Manager may in future determine to issue additional Classes.

### **Initial Subscription Price**

The initial Subscription Price for such classes is as follows:

- Class A USD: USD 10 per Unit
- Class A RMB: RMB 10 per Unit
- Class A HKD: HKD 10 per Unit
- Class I USD: USD 10 per Unit
- Class I RMB: RMB 10 per Unit
- Class I HKD: HKD 10 per Unit
- Class S USD: USD 10 per Unit

### **Dealing procedures**

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

<i>Dealing Day</i>	each Business Day.
<i>Dealing Deadline</i>	4:00 pm (Hong Kong time) on the relevant Dealing Day

Investors should note that subscription monies in respect of the Sub-Fund must be paid in the currency of denomination of the relevant class of Units. Redemption proceeds will be paid to redeeming Unitholders in the currency of denomination of the relevant class of Units.

### **Payment of redemption proceeds**

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the currency of denomination of the relevant class of Units by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless the market(s) in which a substantial portion of the Sub-Fund's investments is made is subject to legal or regulatory requirements (such as foreign currency controls) which render the payment of the redemption proceeds within the aforesaid time period not practicable, but in such a case the SFC's prior approval will be sought before extending the time frame for payment, and such

extended time frame should reflect the additional time needed in light of the specific circumstances in the market(s) in question.

### Restrictions on redemption

In respect of the Sub-Fund, the provision “the Manager is entitled to limit the number of Units of a sub-fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) 10% of the total number of Units of the relevant sub-fund in issue”, under the section headed “Restrictions on redemption” in the main body of the Explanatory Memorandum, shall not apply. The Manager will not limit the number of Units of the Sub-Fund which may be redeemed on any Dealing Day.

### Investment Minima

The following investment minima apply to the Sub-Fund:

	<b>Class A USD</b>	<b>Class A RMB</b>	<b>Class A HKD</b>	<b>Class I USD</b>	<b>Class I RMB</b>	<b>Class I HKD</b>	<b>Class S USD</b>
<i>Minimum initial investment</i>	USD1,000	RMB10,000	HKD10,000	USD1,000,000	RMB10,000,000	HKD10,000,000	USD 1
<i>Minimum subsequent investment</i>	USD1,000	RMB10,000	HKD10,000	USD100,000	RMB1,000,000	HKD1,000,000	USD 1
<i>Minimum holding</i>	USD1,000	RMB10,000	HKD10,000	USD1,000,000	RMB10,000,000	HKD10,000,000	USD 1
<i>Minimum redemption amount</i>	USD1,000	RMB10,000	HKD10,000	USD100,000	RMB1,000,000	HKD1,000,000	USD 1

The Manager may in its discretion accept applications for subscription or redemption below the applicable minimum amounts on a case-by-case basis.

### Publication of Net Asset Value

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

### Expenses and Charges

The following are the actual fees and charges payable in respect of the Sub-Fund. Maximum fees permitted to be charged on one months' notice to Unitholders are set out under the section entitled "Expenses and Charges" in the main body of this Explanatory Memorandum.

Fees payable by Unitholders

	<u><b>Class A</b></u>	<u><b>Class I</b></u>	<u><b>Class S</b></u>
<i>Subscription fee</i>	up to 3% of the subscription amount	up to 3% of the subscription amount	nil
<i>Redemption fee</i>	nil	nil	nil
<i>Switching fee</i>	1% of the redemption proceeds payable in respect of the Units being switched		nil

Fees payable by the Sub-Fund

	<u><b>Class A</b></u>	<u><b>Class I</b></u>	<u><b>Class S</b></u>
<i>Management fee</i>	1.00% per annum of the Net Asset Value of the relevant class of Units	0.75% per annum of the Net Asset Value of the relevant class of Units	nil
<i>Performance fee</i>	nil		
<i>Trustee fee</i>	Up to 0.12%*, subject to a monthly minimum of RMB25,000 or equivalent in USD		

Establishment and other costs

The costs of establishing the Sub-Fund have been fully amortized. The Sub-Fund was revamped on 21st December 2022 and the related costs, approximately USD15,000, were charged to the Sub-Fund and amortized over a period of 1 year from 21st December 2022 (or such other period as determined by the Manager after consultation with the auditors).

**Additional Risk Factors**

The following risk factors are specific to the Sub-Fund. Investors should also note the risk factors applicable to all sub-funds, including the Sub-Fund, which are set out in the section entitled "Risk Factors" in the main body of this Explanatory Memorandum.

Investment risk

Investors should be aware that investment in the Sub-Fund is subject to normal market fluctuations and other risks inherent in the underlying assets into which the Sub-Fund may invest. There can be no assurance that any appreciation in value of investments will occur. There is no guarantee of repayment of principal.

Whilst it is the intention of the Manager to implement strategies which are designed to achieve the investment objective, there can be no assurance that these strategies will be successful. The Manager may not be successful in selecting the best-performing securities or investment techniques. Accordingly, there is a risk that investors may not recoup the original amount invested in the Sub-Fund or may lose a substantial part or all of their initial investment.

#### Market risk

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

#### Risk of investing in fixed income securities

##### *Interest rate risk*

The Sub-Fund's investments in fixed income securities are subject to interest rate risk. Generally, the value of fixed income securities is expected to be inversely correlated with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Long-term fixed income securities in general are subject to higher sensitivity to interest rate changes than short-term fixed income securities. Any increase in interest rates may adversely impact the value of the Sub-Fund's fixed income portfolio.

##### *Credit risk and risk of credit rating downgrades*

Investment in fixed income securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest, and the value of the Sub-Fund is affected by the credit worthiness of its underlying investments. In the event of a default or credit rating downgrading of the fixed income securities (or the issuers thereof) held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who are incorporated outside of Hong Kong and therefore not subject to the laws of Hong Kong.

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

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all. This may adversely affect the value of the Sub-Fund.

##### *Risks associated with fixed income securities which are unrated or rated below investment grade*

The Sub-Fund may invest in fixed income securities rated below investment grade as rated by an internationally recognised credit agency or rated BB+ or below by a Mainland credit rating agency, or which are unrated. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated fixed income securities.

##### *Credit rating risk*

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

### *Credit rating agency risk*

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

### *Valuation risk*

Valuation of the Sub-Fund's investments may involve uncertainties and judgemental 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 need to be adjusted and may be adversely affected. The value of debt securities may be affected by changing market conditions or other significant events affecting valuation. For example, in the event of the credit rating downgrade of an issuer, the value of the relevant fixed income security may decline rapidly and the value of the Sub-Fund may be adversely affected.

### *Sovereign debt obligations*

By investing in debt obligations of governmental entities, the Sub-Fund will be exposed to the direct or indirect consequences of political, social and economic changes in various countries. Political changes or adverse situations in a particular country may affect the ability and willingness of a particular government to make or provide for timely payments of its debt obligations. The sovereign issuer may also request the Sub-Fund to participate in restructuring such debts. The country's economic status, as reflected, among other things, in its inflation rate, the amount of its external debt and its gross domestic product, will also affect the government's ability to honour its obligations.

The ability of governments to make timely payments on their debt obligations is likely to be influenced strongly by the issuer's balance of payments, including export performance, and its access to international credits and investments. To the extent that a particular country receives payment for its exports in currencies other than the currency of the relevant debt obligation, such country's ability to make debt payments in the currency of the relevant debt obligation could be adversely affected. To the extent that a particular country develops a trade deficit, such country will need to depend on continuing loans from foreign governments, supranational entities or private commercial banks, aid payments from foreign governments and on inflows of foreign investment. The access of a particular country to these forms of external funding may not be certain, and a withdrawal of external funding could adversely affect the capacity of such country to make payments on its debt obligations. In addition, the cost of servicing debt obligations can be affected by a change in global interest rates since the majority of these debt obligations carry interest rates that are adjusted periodically based upon global rates.

The Sub-Fund's portfolio may comprise debt obligations of governmental entities and supranational entities, for which a limited or no established secondary market exists. Reduced secondary market liquidity may have an adverse effect on the market price and the Sub-Fund's ability to dispose of particular instruments when necessary to meet liquidity requirements or in response to specific economic events such as deterioration in the creditworthiness of the issuer. Reduced secondary market liquidity for such debt obligations may also make it more difficult to obtain accurate market quotations for the purpose of determining the Net Asset Value of the Sub-Fund. Market quotations are generally available on many sovereign debt obligations only from a limited number of dealers and may not necessarily represent firm bids of those dealers or prices for actual sales.

The holder of certain sovereign debt obligations may have limited legal recourse in the event of a default with respect to such obligations. For example, remedies from defaults on certain debt obligations of governmental entities, unlike those on private debt, must, in some cases, be pursued in the courts of the defaulting party itself. Legal recourse therefore may be significantly diminished. Bankruptcy, moratorium and other similar laws applicable to issuers of sovereign debt obligations

may be substantially different from those applicable to issuers of private debt obligations. The political context, expressed as the willingness of an issuer of sovereign debt obligations to meet the terms of the debt obligation, for example, is of considerable importance.

In addition, investment in debt obligations of supranational entities is subject to the additional risk that one or more member governments may fail to make required capital contributions to a particular supranational entity and, as a result, such supranational entity may be unable to meet its obligations with respect to its debt obligations.

The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

#### *Corporate debt obligations*

Investment in debt obligations issued by companies and other entities, is subject to the risk that a particular issuer may not fulfil its payment or other obligations in respect of such debt obligations. Additionally, an issuer may experience an adverse change in its financial condition which may in turn result in a decrease in the credit rating assigned to such issuer and its debt obligations, possibly below investment grade. Such adverse change in financial condition or decrease in credit rating(s) may result in increased volatility in the price of an issuer's debt obligations and negatively affect liquidity, making any such debt obligation more difficult to sell.

#### Concentration risk

The Sub-Fund's investments are concentrated in Greater China. This may result in greater volatility than portfolios which comprise broad-based global investments. The value of the Sub-Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the Greater China market.

#### Emerging market risk

The Sub-Fund will invest in emerging markets, which are subject to increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility.

#### Risks associated with the PRC

##### *Economic, political and social risks*

The economy of China, which has been in a state of transition from a planned economy to a more market oriented economy, differs from the economies of most developed countries in many respects, including the level of government involvement, its state of development, its growth rate, control of foreign exchange, and allocation of resources.

Although the majority of productive assets in China are still owned by the PRC government at various levels, in recent years, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the economy of China and a high level of management autonomy. The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government has implemented various measures from time to time to control inflation and restrain the rate of economic growth.

For more than 20 years, the PRC government has carried out economic reforms to achieve decentralisation and utilisation of market forces to develop the economy of the PRC. These reforms have resulted in significant economic growth and social progress. There can, however, be no



assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. Any such adjustment and modification of those economic policies may have an adverse impact on the securities market in the PRC as well as the underlying Securities of the Sub-Fund. Further, the PRC government may from time to time adopt corrective measures to control the growth of the PRC economy which may also have an adverse impact on the capital growth and performance of the Sub-Fund.

Political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including expropriation of assets, confiscatory taxes or nationalisation of some or all of the property held by the underlying issuers of the fixed income instruments in the Sub-Fund's portfolio.

#### *PRC laws and regulations risk*

The regulatory and legal framework for capital markets and joint stock companies in the PRC may not be as well developed as those of developed countries. PRC laws and regulations affecting securities markets are relatively new and evolving, and because of the limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations.

#### *Accounting and reporting standards risk*

Accounting, auditing and financial reporting standards and practices applicable to PRC companies may be different to those standards and practices applicable to countries that have more developed financial markets. For example, there are differences in the valuation methods of properties and assets and in the requirements for disclosure of information to investors.

#### *Changes in PRC taxation risk*

The PRC Government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of PRC companies and foreign investors in such companies.

#### RMB currency risk

##### *RMB is not freely convertible and subject to exchange controls and restrictions*

It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Since 1994, the conversion of RMB into US dollar has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate. On 21 July, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. However it should be noted that the PRC government's policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact the Sub-Fund. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future. Any depreciation of the RMB will decrease the value of RMB-denominated assets the Sub-Fund may hold and of any

dividends that the Sub-Fund may receive from such investments, which may have a detrimental impact on the Net Asset Value of the Sub-Fund, and vice versa.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of SAFE. On the other hand, the existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Nevertheless, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of the RMB to foreign currency.

*Investors may be adversely affected by movements of exchange rates between the RMB and other currencies*

With respect to investors who invest in classes denominated in RMB and whose assets and liabilities are predominantly in Hong Kong dollars or in currencies other than RMB should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB. There is no guarantee that the RMB will appreciate in value against the HK\$ or any other currency, or that the strength of the RMB may not weaken. In such case an investor may enjoy a gain in RMB terms but suffer a loss when converting funds from RMB back into HK\$ (or any other currency).

#### Liquidity risk

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

Liquidity risk also includes the risk that the Sub-Fund will not be able to pay redemption proceeds within the allowable time period because of unusual market conditions, an unusually high volume of redemption requests, or other uncontrollable factors. To meet redemption requests, the Sub-Fund may be forced to sell investments, at an unfavourable time and/or conditions.

Investment in fixed income securities will be especially subject to the risk that during certain periods, the liquidity of particular issuers or industries, or all securities within a particular investment category, will shrink or disappear suddenly and without warning as a result of adverse economic, market or political events, or adverse investor perceptions whether or not accurate.

To the extent that Sub-Fund transacts in the bond market in China, China's bond market is still in a stage of development and the bid and offer spread of their debt instruments, may be high and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments. In the absence of a regular and active secondary market, the Sub-Fund may not be able to sell its bond holdings at prices the Manager considers advantageous and may need to hold the bonds until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its listed bonds at a discount in order to satisfy such requests and the Sub-Fund may suffer losses. The Manager seeks to control the liquidity risk of the Sub-Fund's bond portfolio by a series of internal management measures in order to meet Unitholders' redemption requests.

#### Derivatives risk

Although financial derivatives instruments will not be extensively used for investment purposes, the Sub-Fund may use derivatives for investment, hedging, risk management, and efficient portfolio management purpose. Such derivative instruments may include, but not limited to, futures, forwards, swaps, swaptions and options. An illiquid market may adversely affect the prices of these instruments and therefore the value of the Sub-Fund. In particular, over-the-counter derivatives are normally less liquid than exchange traded derivatives. The use of derivatives for investment purposes exposes the Sub-Fund to abnormal risks as compared to funds that do not invest in derivatives, including: (1) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of derivatives and transactions in over-the-counter derivatives may involve additional risk as there is no exchange market on which to close out an open position); (2) correlation risk (when used for hedging purposes there may be an imperfect correlation between the derivatives and the investments or market sectors being hedged); (3) counterparty risk (the Sub-Fund is exposed to the risk of loss resulting from a counterparty's failure to meet its contractual obligations); (4) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the derivative contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (5) settlement risk (the risk faced when one party to a transaction has performed its contractual obligations but the other party has yet to perform its reciprocal obligations under such transaction).

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of the Sub-Fund. Moreover, the use of financial derivative instruments for hedging may become ineffective, and the Sub-Fund may suffer substantial loss.

#### Foreign currency risk

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

#### Operational and settlement risks

The Sub-Fund is subject to operational risks that may arise from any breaches by the Manager's investment management staff of the Manager's operational policies or technical failures of communication and trading systems. Whilst the Manager has in place internal control systems, operational guidelines and contingency procedures to reduce the chances of such operational risks, there is no guarantee events beyond the control of the Manager (such as unauthorised trading, trading errors or system errors) will not occur. The occurrence of any such events may adversely affect the value of the Sub-Fund.

To the extent that Sub-Fund transacts in the inter-bank bond market in China, the Sub-Fund may also be exposed to risks associated with settlement procedures. Any significant delays in the settlement of transactions or the registration of a transfer may affect the ability to ascertain the value of the Sub-Fund's portfolio and adversely affect the Sub-Fund.

#### Risks associated with the RQFII regime

##### *RQFII systems risk*

The current RQFII Regulations include rules on investment restrictions applicable to the Sub-Fund. Transaction sizes for RQFIIs are relatively large (with the corresponding heightened risk of exposure to decreased market liquidity and significant price volatility leading to possible adverse effects on the timing and pricing of acquisition or disposal of securities).

Onshore PRC securities acquired by a RQFII for the account of the Sub-Fund are registered in the name of “Bosera Asset Management (International) Co., Limited – Bosera China Opportunities Bond Fund” in accordance with the relevant rules and regulations, and maintained in electronic form via securities account(s) with the CSDCC or a relevant depository. The account is required to bear the name of “Bosera Asset Management (International) Co., Limited” as this is the name under which the RQFII is approved by the relevant regulator. The RQFII selects PRC brokers (each a “**PRC Broker**”) to act on its behalf in the onshore PRC securities markets as well as the PRC Custodian (directly or through its delegate) to maintain its assets in custody in accordance with the terms of the RQFII Custody Agreement.

In the event of any default of either a PRC broker or the PRC Custodian (directly or through its delegate) in the execution or settlement of any transaction or in the transfer of any funds or securities in the PRC, the Sub-Fund may encounter delays in recovering its assets which may in turn impact the net asset value of the Sub-Fund.

The rules and restrictions under RQFII regulations generally apply to the RQFII as a whole and not simply to the investments made by the Sub-Fund. If SAFE changes the RQFII, it may affect the Manager’s ability to effectively pursue the investment strategy of the Sub-Fund. On the other hand, SAFE is vested with the power to impose regulatory sanctions if the RQFII or the RQFII Custodian violates any provision of the RQFII Regulations. Any violations could result in the revocation of the RQFII status or other regulatory sanctions and may adversely impact on the RQFII status made available for investment by the Sub-Fund.

The regulations which regulate investments by RQFIIs in the PRC and the repatriation of capital from RQFII investments are relatively new. The application and interpretation of such investment regulations are therefore relatively untested and there is no certainty as to how they will be applied as the PRC authorities and regulators have been given wide discretion in such investment regulations and there is no precedent or certainty as to how such discretion may be exercised now or in the future.

#### *PRC Custodian’s Delegate and PRC Brokers risk*

Onshore PRC assets acquired by the Sub-Fund through the Manager’s RQFII status will be maintained by the PRC Custodian’s Delegate in electronic form via a securities account with the CSDCC and a cash account with the PRC Custodian’s Delegate.

The RQFII also selects one or more PRC Brokers to execute transactions for the Sub-Fund in the PRC markets. The Sub-Fund may incur losses due to the acts or omissions or insolvency of the PRC Brokers or the PRC Custodian’s Delegate in the execution or settlement of any transaction or in the transfer of any funds or securities. Subject to the applicable laws and regulations in the PRC, the Manager will make arrangements to ensure that the PRC Brokers and PRC Custodian’s Delegate have appropriate procedures to properly safe-keep the Sub-Fund’s assets.

According to the RQFII Regulations and market practice, the securities and cash accounts for the Sub-Fund in the PRC are to be maintained in the joint names of the Manager as the RQFII holder and the Sub-Fund. Although it is the Manager’s understanding that the assets in such securities account belong to the Sub-Fund, there can be no assurance that the Sub-Fund can in all circumstances enforce its rights, as the RQFII Regulations are subject to the interpretation of the relevant authorities in the PRC.

Investors should note that cash deposited in the cash account of the Sub-Fund with the PRC Custodian’s Delegate will not be segregated but will be a debt owing from the PRC Custodian’s Delegate to the Sub-Fund as a depositor. Such cash will be co-mingled with cash belong to other clients of the PRC Custodian’s Delegate. In the event of bankruptcy or liquidation of the PRC Custodian’s Delegate, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash account, and the Sub-Fund will become an unsecured creditor, ranking *pari passu* with

all other unsecured creditors, of the PRC Custodian's Delegate. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer losses.

#### *Repatriation risk*

Repatriations by RQFIs conducted in RMB for a fund such as the Sub-Fund are not subject to any restrictions, lock-up periods or prior approval. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests from Unitholders.

#### Risks associated with onshore China bonds

##### *Mainland China sovereign debt risk*

The Sub-Fund's investments may include sovereign debt securities and such investments involve special risks. The Chinese governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A Chinese governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the Chinese governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject. Chinese governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearage on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a Chinese governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the Chinese governmental entity, which may further impair such debtor's ability or willingness to service its debt on a timely basis. Consequently, governmental entities may default on their sovereign debt. Holders of Mainland China sovereign debt, including the Sub-Fund, may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. As at the date of this Explanatory Memorandum, there is no bankruptcy proceeding by which sovereign debt on which a Chinese governmental entity has defaulted may be collected in whole or in part. The Sub-Fund's recourse against a defaulting sovereign is limited.

In addition, a lowering of the credit rating of the Chinese government may also affect the liquidity of its sovereign debt securities, making it more difficult to sell. In general, fixed income instruments that have a lower credit rating or that are non-rated will be more susceptible to the credit risk of the issuers. In the event of a credit rating downgrade of the Chinese government, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

#### *Settlement risks*

Settlement procedures in Mainland China are less developed and less reliable and may involve the Sub-Fund's delivery of securities, or transfer of title to securities, before receipt of payment for their sale. The Sub-Fund may be subject to a risk of substantial loss if a securities firm defaults in the performance of its responsibilities. The Sub-Fund may incur substantial losses if its counterparty fails to pay for securities the Sub-Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Sub-Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays

could result in substantial losses for the Sub-Fund if investment opportunities are missed or if the Sub-Fund is unable to acquire or dispose of a security as a result.

To the extent that the Sub-Fund transacts in the inter-bank bond market in Mainland China, the Sub-Fund may also be exposed to risks associated with settlement procedures and default of counterparties. All trades settled through CSDCC are on delivery versus payment basis. If a counterparty defaults in delivering the securities, the trade may be cancelled and this may adversely affect the value of the Sub-Fund.

The Sub-Fund may invest in the Chinese bond market via the exchange market and all bond trades will be settled through the CSDCC. If a counterparty defaults in payment or delivery obligation, a trade may be delayed and this may adversely affect the value of the Sub-Fund.

#### Risks associated with China Inter-bank Bond Market

Market volatility and potential lack of liquidity due to low trading volume of certain fixed income securities in the Mainland inter-bank bond market may result in prices of certain fixed income securities traded on such market fluctuating significantly. The Sub-Fund is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

The Sub-Fund is also exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

For investments via the Foreign Access Regime, the relevant filings, registration with the PBOC and account opening have to be carried out via an onshore settlement agent, offshore custody agent, registration agent or other third parties (as the case may be). As such, the Sub-Fund is subject to the risks of default or errors on the part of such third parties.

Investing in the Mainland inter-bank bond market via Foreign Access Regime is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant Mainland Chinese authorities suspend account opening or trading on the Mainland inter-bank bond market, the Sub-Fund's ability to invest in the Mainland inter-bank bond market will be adversely affected. In such event, the Sub-Fund's ability to achieve its investment objective will be negatively affected.

In addition, there is no specific guidance by the Mainland tax authorities on the treatment of income tax and other tax categories payable in respect of trading in Mainland inter-bank bond market by foreign institutional investors via the Foreign Access Regime. By investing in the Mainland inter-bank bond market, the Sub-Fund may be at risk of being subject to Mainland Chinese taxes. There is a possibility that the current tax laws, rules, regulations and practice in Mainland China and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Sub-Fund.

#### Mainland taxation risk

It should be noted that there is a possibility of the Mainland China tax rules, regulations and practice being changed and taxes being applied retrospectively. In view of the prevailing tax treatment as discussed in the section headed "Mainland China taxation" in the main body of the Explanatory Memorandum, based on professional and independent tax advice, the Sub-Fund (i) will make

relevant provision of 10% on interest derived from Mainland Chinese fixed income securities if withholding income tax ("WHT") is not withheld at source at the time when such income is received (where WHT is already held at source, no provision will be made) and (ii) will not make tax provision on the gross unrealised and realised capital gains derived from disposal of fixed income securities that may be subject to Mainland China tax. In the event that actual tax is collected by the State Administration of Taxation of the PRC to make payments reflecting tax liabilities for which no provisions has been made or that there is any shortfall between any provision made and the actual tax liabilities, the Net Asset Value of the Sub-Fund may be adversely affected, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities or the amount of such shortfall (as the case may be). In this case, the additional tax liabilities will only impact Shares in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund. On the other hand, if the actual tax liabilities are lower than any provision made so that there is an excess in the tax provision amount, investors who have redeemed their Shares before the SAT's ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager's overprovision. In this case, the then existing Unitholders and subsequent Unitholders may benefit if the difference between the tax provision and the actual tax liabilities can be returned to the account of the Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Shares in the Sub-Fund before the return of any overprovision to the account of the Sub-Fund will not be entitled or have any right to claim any part of such overprovision. As a result, investors may be advantaged or disadvantaged depending on the final rules of the relevant Mainland China tax authorities and when they subscribed and/or redeemed their Shares. Upon any future resolution of the above-mentioned tax exemption or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the tax provision policy as it considers necessary.

#### Risks relating to sale and repurchase transactions

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

Cash collateral received from sale and repurchase transactions may be reinvested. If the Sub-Fund reinvests cash collateral, such re-investment is subject to investment risks including the potential loss of principal.

#### Dividends risk

There is no assurance that the Sub-Fund will declare to pay dividends or distributions. The ability of the Sub-Fund to pay distributions also depends on interest payments made by issuers of onshore PRC fixed income instruments net of any PRC dividend withholding tax or provision for withholding tax and the level of fees and expenses payable by the Sub-Fund. Investors will not receive any interest payments, dividends or other distributions directly from the PRC issuers of the PRC fixed income instruments within the Sub-Fund's portfolio.

The ability of the issuers of onshore PRC fixed income instruments to make interest payments is based on numerous factors, including their current financial condition and general economic conditions. There can be no assurance that such companies will be able to honour payment obligations.

Investors may not therefore receive any distributions.

#### Distributions out of capital risk

The Manager may at its discretion pay dividends out of income or capital (or effectively out of capital) (or partly one and partly the other), and furthermore any charges, fees and expenses may be paid out of the assets of the Sub-Fund. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the Sub-Fund's capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Unit of the relevant class. The Manager may amend its distribution policy with respect to distributions out of capital (and/or effectively out of capital) of the Sub-Fund subject to the SFC's prior approval and by giving not less than one month's prior notice to Unitholders.

## **Financial Reports**

The first financial report for the Sub-Fund cover the period to 31 December 2014.

## **Risks relating to FATCA**

FATCA provides that a 30% withholding tax will be imposed on certain payments to FFIs, such as the Sub-Fund, including interests and dividends from securities of US issuers and gross proceeds from the sale of such securities, unless the Sub-Fund discloses the name, address and taxpayer identification number of certain US persons that own, directly or indirectly, an interest in the Sub-Fund, as well as certain other information relating to any such interest. The IRS has released regulations and other guidance that provide for the phased implementation of the foregoing withholding and reporting requirements. The United States Department of the Treasury and Hong Kong have on 13 November 2014 signed a Model 2 IGA (the "HK IGA"). The HK IGA modifies the foregoing requirements but generally requires similar information to be disclosed to the IRS. Under the HK IGA arrangements, FFIs in Hong Kong (such as the Sub-Fund) would register with the IRS to be subject to the terms of a FFI with the IRS and comply with the terms of such FFI Agreement. Otherwise, they will be subject to a 30% withholding tax on relevant US source payments to them.

The Sub-Fund has registered with the IRS, agreeing to be subject to and comply with the terms of a FFI Agreement and be treated as a Reporting Financial Institution under the HK IGA. Although the Sub-Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of FATCA withholding tax, no assurance can be given that the Sub-Fund will be able to fully satisfy these obligations. If the Sub-Fund becomes subject to a withholding tax as a result of FATCA, the Net Asset Value of the Sub-Fund may be adversely affected and the Sub-Fund and its Unitholders may suffer material loss.

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

Please also refer to the sub-section entitled "FATCA and compliance with US withholding requirements" under the section headed "TAXATION" in the main body of this Explanatory Memorandum for further details on FATCA and related risks.

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

## **Distribution policy**



The Manager may in its discretion make cash distributions to Unitholders out of income or capital (or partly out of income and partly out of capital) of the Sub-Fund at such times as the Manager considers appropriate. The Manager may in its discretion also make cash distributions to Unitholders 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 distributions which is in effect a payment out of capital.

The Manager has discretion as to whether or not the Sub-Fund will make any distribution of dividends, the frequency of distribution and amount of dividends. However, there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed. Cash distribution will be paid to Unitholders at their own risk and expense by telegraphic transfer in the currency of the relevant class of Units normally within one calendar month after the declaration of such distribution by the Manager.

Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the Sub-Fund's capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Unit of the relevant class.

The composition of dividends payable (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital), if any, for the last 12 months are available from the Manager on request and are also published on the Manager's website [www.bosera.com.hk](http://www.bosera.com.hk) (this website has not been reviewed by the SFC). The Manager may amend the Sub-Fund's distribution policy with respect to the distribution out of capital (or effectively out of capital) of the Sub-Fund subject to the SFC's prior approval and by giving not less than one month's prior notice to Unitholders.