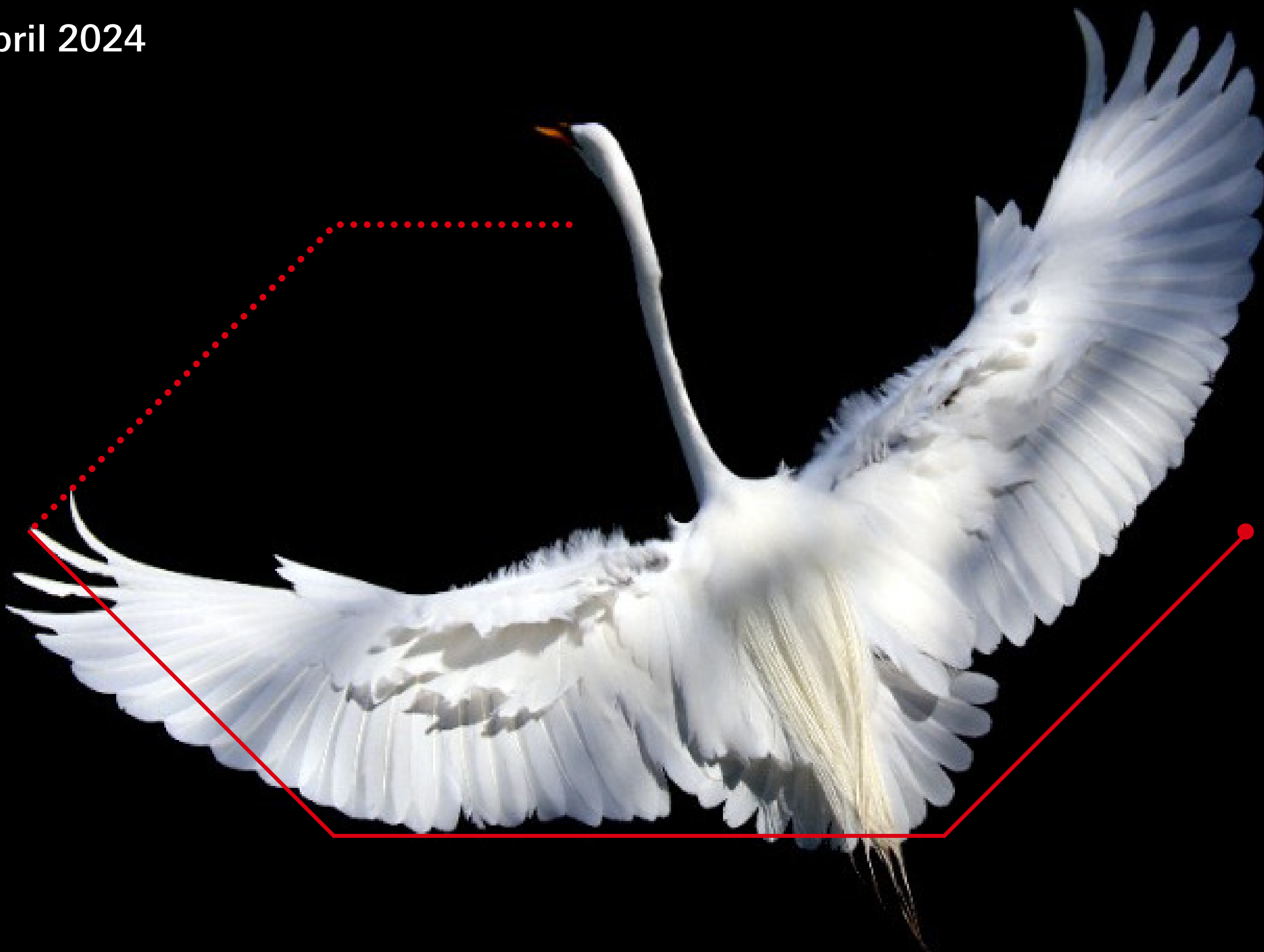
HSBC Managed Funds Series

HSBC Managed Stable Fund
HSBC Managed Stable Growth Fund
HSBC Managed Balanced Fund
HSBC Managed Growth Fund

Explanatory Memorandum

April 2024



HSBC Asset Management

HSBC MANAGED FUNDS SERIES

HSBC MANAGED STABLE FUND
HSBC MANAGED STABLE GROWTH FUND
HSBC MANAGED BALANCED FUND
HSBC MANAGED GROWTH FUND

EXPLANATORY MEMORANDUM

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IMPORTANT INFORMATION

Important: If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial advice. This Explanatory Memorandum has been written and authorised for distribution in Hong Kong Special Administrative Region ("Hong Kong") only. It does not constitute a distribution of information or an offer in any other jurisdiction.

Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objectives of a Fund will be achieved. Investors should read the Explanatory Memorandum, particularly the sections headed "General risks", "Asset class risks" and "Fund specific risks" before making their investment decisions.

When distributing a Fund to retail investors in Hong Kong then this Explanatory Memorandum must be accompanied by the relevant Fund's Product Key Facts Statements alongside a copy of the latest available annual financial report of the Fund and any subsequent semi-annual financial report (if available).

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

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

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

In particular, potential investors should note the following:-

- **United States**

  Units in the Funds have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") or under the securities laws of any state and the Funds have not been and will not be registered under the Investment Company Act 1940 (the "**Investment Company Act**"). This document may not be distributed, and the Units in the Funds may not be offered or sold within the United States or to US Persons (as specified under the US Person definition in the section headed "DEFINITIONS" of this Explanatory Memorandum).

- **Canada**

  The Units described in this Explanatory Memorandum may be distributed in Canada exclusively through HSBC Global Asset Management (Canada) Limited by way of exempt distribution to accredited investors as defined in National Instrument 45-106 Prospectus and Registration Exemption who qualify as permitted clients under National Instrument 31-103 - Registration Requirements, Exemptions and On-going Registrant Obligation. This Explanatory Memorandum may not be used to solicit, and will not constitute a solicitation of, an offer to buy Units in Canada unless such solicitation is made by HSBC Global Asset Management (Canada) Limited.

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

<u>Enquiries and Complaints</u>

Enquiries and complaints concerning the Funds (including information concerning subscription and redemption procedures and the current net asset value) should be directed to HSBC Investment Funds (Hong Kong) Limited (the "Manager") at (852) 2284 1118 or at Level 22, HSBC Main Building, 1 Queen's Road Central, Hong Kong. The Manager will respond to any enquiry or complaint as soon as practicable.

April 2024

DEFINITIONS

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

"Base Currency"	the currency in which the net asset value of a Fund is expressed and calculated
"Business Day"	a day on which banks in Hong Kong and regulated markets in countries or regions where a Fund is materially invested are normally open for business except Saturdays and Sundays, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in such markets are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee otherwise determine
"Class" or "Classes"	a separate class or classes of Units in a Fund
"Code"	Section I and Section II of the *SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products* or any handbook, guideline and code issued by the SFC, as may be amended from time to time.
"Connected Person"	shall unless otherwise specified have the meaning as set out in the Code, meaning, in relation to a company: (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or (c) any member of the group of which that company forms part; or (d) any director or officer of that company or of any of its Connected Persons as defined in (a), (b) or (c).
"Dealing Day"	each Business Day or such other day(s) as the Manager may determine with the consent of the Trustee.
"Fund" or "Funds"	HSBC Managed Growth Fund, HSBC Managed Balanced Fund, HSBC Managed Stable Fund and HSBC Managed Stable Growth Fund (each "Fund", collectively "Funds")
"Government and other public securities"	any investment issued by, or the payment of principal and interest on which is guaranteed by, a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies

“HKD”	Hong Kong dollar, the lawful currency of Hong Kong
“Investment Adviser”	The investment adviser of a Fund as appointed by the Manager and disclosed in the “Manager, Trustee and related service providers” section.
“Issue Price”	in respect of a Class of a Fund the price at which Units will be issued, as more fully described in the section “Unit prices”.
“Mainland China” or “Mainland”	all the customs territories of the People’s Republic of China, for the purposes of interpretation of this Explanatory Memorandum only, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan.
“Manager”	HSBC Investment Funds (Hong Kong) Limited.
“Redemption Price”	the price at which Units of a Class of Fund will be redeemed, as more fully described in the section “Unit prices”.
“RMB”	Renminbi, the lawful currency of Mainland China
“Sale and Repurchase Transactions”	transactions whereby a 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.
“Reverse Repurchase Transactions”	transactions whereby a Fund purchases securities from a counterparty of Repurchase Transactions and agrees to sell such securities back at an agreed price in the future.
“Securities Financing Transactions”	collectively Securities Lending transactions, Repurchase Transactions and Reverse Repurchase Transactions.
“Securities Market”	any stock exchange, OTC market or other securities market that is open to the international public and on which such securities are regularly traded.
“Securities Lending Transactions”	transactions whereby a Fund lends its securities to a security-borrowing counterparty for an agreed fee.
“SFC”	the Securities and Futures Commission of Hong Kong
“Sub-Investment Adviser”	the sub-investment adviser of a Fund as appointed by the Investment Adviser (subject to the approval of the Manager)

"Substantial Financial Institution"	an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK$2 billion or its equivalent in foreign currency.
"Trust Deed"	the trust deeds entered into between the Manager and the Trustee.
"Trustee"	HSBC Institutional Trust Services (Asia) Limited
"Underlying Funds"	the collective investment schemes in which a Fund may invest in, including unit trusts, mutual funds, and exchange traded funds
"Unit"	a unit in a Fund and, except where used in relation to a particular Class of Unit, a reference to Unit means and includes Units of all Classes
"Unitholder"	a person registered as a holder of a Unit
"USD"	United States dollar, the lawful currency of the United States of America
"US"	the United States of America (including the States and the District of Columbia), its territories, possessions and all other areas subject to its jurisdiction.
"US Law"	the laws of the US. US Law shall additionally include all applicable rules and regulations, as supplemented and amended from time to time, as promulgated by any US regulatory authority, including, but not limited to, the Securities and Exchange Commission and the Commodity Futures Trading Commission.
"US Person"	US Person ("USP") to whom Units of the Fund may not be offered or sold, for the purposes of this restriction, the term US Person shall mean the following: 1) an individual who is a resident of the US under any US Law. 2) a corporation, partnership, limited liability company, collective investment vehicle, investment company, pooled account, or other business, investment, or legal entity: a. created or organized under US Law; b. created (regardless of domicile of formation or organisation) principally for passive investment (e.g. an investment company, fund or similar entity excluding employee benefit or pension plans):

i. and owned directly or indirectly by one or more USPs who hold, directly or indirectly, in aggregate a 10% or greater beneficial interest, provided that any such USP is not defined as a Qualified Eligible Person under CFTC Regulation 4.7(a);

ii. where a USP is the general partner, managing member, managing director or other position with authority to direct the entity's activities;

iii. where the entity was formed by or for a USP principally for the purpose of investing in securities not registered with the SEC unless such entity is comprised of Accredited Investors, as defined in Regulation D, 17 CFR 230.501(a), and no such Accredited Investors are individuals or natural persons; or

iv. where more than 50% of its voting ownership interests or non-voting ownership interests are directly or indirectly owned by USPs;

c. that is an agency or branch of a non-US entity located in the US; or

d. that has its principal place of business in the US.

3) a trust:

a. created or organized under US Law; or

b. where, regardless of domicile of formation or organisation:

i. any settlor, founder, trustee, or other person responsible in whole or in part for investment decisions for the trust is a USP;

ii. the administration of the trust or its formation documents are subject to the supervision of one or more US courts; or

iii. the income of which is subject to US income tax regardless of source.

4) an estate of a deceased person:

a. who was a resident of the US at the time of death or the income of which is subject to US income tax regardless of source; or

b. where, regardless of the deceased person’s residence while alive, an executor or administrator having sole or shared investment discretion is a USP or the estate is governed by US Law.

5) an employee benefit or pension plan that is:

   a. established and administered in accordance with US Law; or

   b. established for employees of a legal entity that is a USP or has its principal place of business in the US.

6) a discretionary or non-discretionary or similar account (including a joint account) where:

   a. one or more beneficial owners is a USP or held for the benefit of one or more USPs; or

   b. the discretionary or similar account is held by a dealer or fiduciary organized in the US.

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

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

"Valuation Day"	for a Fund, the relevant Business Day or Dealing Day or such other day(s) as the Manager may from time to time determine in its absolute discretion
"Valuation Point"	for a Fund, around the close of business in the last relevant market to close on the relevant Valuation Day or such other time on that day or such other day as the Manager and the Trustee may from time to time determine

Section A: Overview of the Fund and Classes of Units

The Funds

The HSBC Managed Funds Series is made up of four unit trusts.

HSBC Managed Balanced Fund

The HSBC Managed Balanced Fund was established under Bahamas Law by a Trust Deed dated 18 January 1990, between HSBC Investment Funds (Hong Kong) Limited as Manager and HSBC International Trustee Limited as Trustee, as amended, supplemented and substituted from time to time.

The Trust Deed was amended in 5 March 1997 to permit a change of governing law. On the 17 March 1997, HSBC Trustee (Cayman) Limited was appointed as successor Trustee to HSBC International Trustee Limited, and at the same time, the governing law was changed to the law of the Cayman Islands.

HSBC Managed Stable Fund and HSBC Managed Growth Fund

The HSBC Managed Stable Fund and the HSBC Managed Growth Fund were established under the law of the Cayman Islands by two Trust Deeds, each dated 14 March 1997, between HSBC Investment Funds (Hong Kong) Limited as Manager and HSBC Trustee (Cayman) Limited as trustee, as amended, supplemented and substituted from time to time.

HSBC Managed Stable Growth Fund

The HSBC Managed Stable Growth Fund was established under the law of the Cayman Islands by a Trust Deed dated 16 May 2003, between HSBC Investment Funds (Hong Kong) Limited as Manager and HSBC Trustee (Cayman) Limited as trustee, as amended, supplemented and substituted from time to time.

Pursuant to four Deeds of Removal of the Trust to Another Jurisdiction and Replacement of Trustee each dated November 2018, the Funds were removed from the jurisdiction of the Cayman Islands to the jurisdiction of Hong Kong and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of HSBC Trustee (Cayman) Limited with effect from 18 January 2019. The Trust Deeds are currently governed by the laws of Hong Kong. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Trust Deeds. In the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deeds, the provisions of the Trust Deeds will prevail.

The Funds have been authorised by the SFC. SFC authorisation is not a recommendation or endorsement of the Funds nor does it guarantee the commercial merits of the Funds or the performance of the Funds. It does not mean that a Fund is suitable for all investors nor is it an endorsement of a Fund's suitability for any particular investor or class of investors.

The HSBC Managed Funds Series allows individual investors, and pension and provident funds and retirement schemes to receive professional investment management of their assets through "pooling" into one of the four funds. It is the intention of the investment advisers to manage these Funds as though they are discretionary pension funds under their control. Nevertheless, the Funds are also open to individual investors, particularly those who wish to make provision for their retirement. Each of the four Funds has a different investment policy and risk profile.

Trust Deed

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

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

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that the Trustee can certify in writing that in the opinion of the Trustee 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 from any responsibility to the Unitholders and (with the exception of the costs of preparing and executing the relevant supplemental deed) does not increase the costs and charges which will be payable out of the assets of any Fund or (ii) is necessary in order to comply with any fiscal, statutory, regulatory or official requirement or (iii) is made to correct a manifest error. In all other cases involving any material changes modifications require the sanction of an Extraordinary Resolution.

Meetings of Unitholders and Voting Rights

Meetings may be convened by the Trustee, the Manager or the Unitholders of at least 10 % or more in value of the Units in issue in the Fund in question. Unitholders will be given not less than 21 days' notice of any meeting.

Unitholders may appoint proxies, who need not themselves be Unitholders. The quorum for a meeting to pass an Extraordinary Resolution will be Unitholders present in person or by proxy and holding or representing Units representing not less than 25 % of the shares represented by the total number of Units for the time being in issue or, for an adjourned meeting, Unitholders present in person or by proxy whatever their number or the number of Units held by them. No business shall be transacted unless the requisite quorum is present at the commencement of the meeting.

On a poll every Unitholder present in person, by proxy or by representative has one vote for every Unit (including fractions) of which he is the holder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders. A poll may be demanded by the Chairman or one or more Unitholders present in person or by proxy representing 5% of Units in issue.

An Extraordinary Resolution is a resolution proposed as such and passed by a majority of

75 % of the total number of votes cast.

Reports and accounts

Financial year end of the Funds is on 31 July in each year. An annual financial report containing audited accounts will be made available to Unitholders as soon as possible, and in any event within four months, after the end of each financial year.

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

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

The Manager will notify Unitholders when and where the annual and semi-annual financial reports are available (in printed and electronic forms) each time they are published. Alternatively, the Manager may distribute hard copies directly to Unitholders. Regardless the latest annual financial reports and semi-annual financial reports will be available on the website of the Manager at www.assetmanagement.hsbc.com/hk[1], printed copies of the latest annual financial reports and semi-annual financial reports will be available at the offices of the Manager and provided to Unitholders upon their request.

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

As described under the heading "Amortised establishment costs" in the section "Charges and expenses", it should also be noted that the policy relating to amortisation of establishment expenses is not strictly in accordance with the HKFRS, which requires establishment expenses to be expended as incurred. This may result in the net asset value of the Funds from the daily valuation being higher than the net asset value of the Funds reported in the audited annual financial reports, which are prepared in accordance with HKFRS.

Investor Notice, Communication or Other Documents

Notice, communication or other documents required to be given to investors under this Explanatory Memorandum or the Trust Deeds may be disseminated either (i) in printed copies or (ii) through electronic means. The arrangements of each distributor may be different, please check with the distributor through which you invested in the Fund for details

[1] Please note that this website has not been reviewed by the SFC.

of the arrangements applicable to you.

Manager, Trustee and related service providers

Manager

HSBC Investment Funds (Hong Kong) Limited
Address: HSBC Investment Funds (Hong Kong) Limited, HSBC Main Building, 1 Queen's Road Central, Hong Kong

The Manager of the Fund is incorporated in and under the laws of Hong Kong. The directors comprise:

LAU, Ka Yin Joanne
HO, Wai Fun
TAM, Chun Pong Stephen
Edgar GEHRINGER
Address: all of HSBC Main Building, 1 Queen's Road Central, Hong Kong

The Manager is registered with SFC to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities (CE Number: AAL518). The Manager is a member of the HSBC Group.

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

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

Investment Advisers and Sub-Investment Advisers

The Manager has delegated its investment management duties for each Fund to an Investment Adviser. Such Investment Adviser may then appoint one or more Sub-Investment Adviser(s) (subject to the approval of the Manager) to provide discretionary or non-discretionary advice.

The Investment Adviser of the Funds is:

HSBC Global Asset Management (Hong Kong) Limited
Address: HSBC Global Asset Management (Hong Kong) Limited, HSBC Main Building, 1 Queen's Road Central, Hong Kong

The Sub-Investment Adviser of the Funds is:

HSBC Global Asset Management (UK) Limited
Address: 8 Canada Square, London E14 5HQ, United Kingdom

The Investment Adviser and Sub-Investment Adviser are all members of the HSBC Group.

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

The Manager may appoint a replacement Investment Adviser or discretionary Sub-Investment Adviser for a Fund at its discretion subject to necessary prior approval by the SFC and giving at least one month's prior notice to affected Unitholders in normal circumstances.

Trustee and Registrar

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

The Trustee of the Funds is incorporated with limited liability in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance (Cap.29 of the Laws of Hong Kong) and approved by the Mandatory Provident Fund Schemes Authority as trustee of registered mandatory provident Fund schemes under the Mandatory Provident Fund Schemes Ordinance (Cap.485 of the Laws of Hong Kong). The Trustee is an indirectly wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales.

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

The Trustee may, however, appoint any person or persons to be custodian of such securities. The Trustee shall be liable for the acts and omissions of its nominees, agents and delegates which are Connected Persons of the Trustee as if the same were the acts or omissions of the Trustee. The Trustee shall not be liable for the acts or omissions of a nominee, agent or delegate that is not a Connected Person of the Trustee provided that the Trustee has (i) exercised reasonable care and diligence in the selection, appointment and ongoing monitoring of such nominee, agent or delegate; and (ii) been satisfied that such nominee, agent or delegate retained remains suitably qualified and competent to provide the relevant service. Subject to the Trust Deeds, 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.

The Trustee shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of agent, nominee, delegate, custodian, co-custodian or sub-custodian which are appointed for the custody and/or safekeeping of any of the investments, cash, assets, collateral or other property comprised in the Funds (each a "Correspondent"). The Trustee shall be satisfied that each Correspondent retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Fund.

The Trustee also acts as the Registrar and will be responsible for maintaining the Funds' register.

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

The Trustee is entitled to the fees set out below under the section headed "Charges and Expenses" and to be reimbursed for other costs and expenses permitted under the relevant Trust Deeds.

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

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

The Trustee may retire in the circumstances set out in the relevant Trust Deeds.

Auditors

KPMG
Address: KPMG, Certified Public Accountants, 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

KPMG currently acts as auditors to the Funds. The Manager (with the approval of the Trustee) may appoint a replacement auditor at any point without prior notice to Unitholders.

Legal Advisers

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

Deacons currently acts as the main legal adviser of the Funds. However, the Manager may engage alternative legal advisers for specific legal advice pertaining to the Fund. Moreover, at the Manager's discretion, the main legal adviser of the Fund may be replaced at any point without prior notice to Unitholders.

Conflicts of interest

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

Besides, Connected Persons of the Manager, the Investment Adviser, the Sub-Investment Adviser and the Trustee and their respective delegates may be entering into business relationship such as acting as service providers, distributors to the Funds, for which the Funds may compensate them, or they may act as a counterparty for any transactions in relation to the Funds.

In such events, each will at all times have regard to its obligations under any agreements to which it is party or by which it is bound in relation to the Funds. In particular, but without limitation to its obligations to act in the best interests of the Unitholders when undertaking any dealings or investments where conflicts of interest may arise, each will respectively endeavour to ensure that such conflicts are managed and minimised so far as reasonably practicable and that measures are adopted that seek to ensure such conflicts are resolved fairly and taking into account the interests of Unitholders of the relevant Fund as a whole. In particular, any arrangement in relation to offer or sale of the Units of the Funds by Connected Persons will be on normal commercial terms negotiated at arm's length basis in the best interest of Unitholders of the relevant Funds as a whole.

The Funds may enter into transactions with the Manager, the Investment Advisers, the Sub-Investment Advisers (if any) and the Trustee or with any of their affiliates, or invest the assets of or reinvest the cash collateral received by the Funds in any investment products, issued shares or funds managed, launched or offered by any of the above-mentioned entities, provided that such transactions are carried out as if effected on normal commercial terms negotiated at arm's length and provided that the transactions comply with the requirements set out in the section headed “Transactions with Connected Persons”, any investment restrictions of the Funds, and the applicable corporate governance and conflicts of interest policy of the above mentioned entities. Subject to the requirements under the “Transactions with Connected Persons” and “Cash rebates and soft commissions” sections, affiliates of the HSBC Group may also provide broking services to a Fund and/or to other funds including acting as counterparties for certain forward foreign exchange and financial futures contracts.

For example, The Hongkong and Shanghai Banking Corporation Limited may provide foreign exchange services to a Fund for which it receives a fee out of the property of such Fund. At the same time, The Hongkong and Shanghai Banking Corporation Limited or any of its Connected Persons may also act as financial adviser, banker, derivatives counterparty or otherwise provide services to the issuer of investments that such Fund may invest in; act in the same transaction as agent for more than one client; have a material interest in the issue of the investments of such Funds; or earn profits from or have a financial or business interest in any of these activities.

The Investment Advisers or any affiliates acting in a fiduciary capacity with respect to client accounts may recommend to or direct clients to buy and sell Units of the Funds. If a client defaults on its obligation to repay indebtedness to the HSBC Group that is secured by Units in the Fund, and the HSBC Group forecloses on such interest, the HSBC Group would become a Unitholder of the Fund. As a consequence, the HSBC Group and its affiliates could hold a relatively large proportion of Units and voting rights in the Fund.

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

Termination of a Fund

Each Fund shall continue until it is terminated in one of the ways set out below provided that the Fund will automatically terminate on the date falling 80 years after the date of the relevant Trust Deed.

The Trustee may terminate a Fund:

a) if within 30 days of the Manager leaving office, no new Manager is appointed; or

b) if in the opinion of the Trustee the Manager is incapable of performing or fails to perform its duties satisfactorily or shall do any other thing which in the opinion of the Trustee is calculated to bring a Fund into disrepute or to be harmful to the interests of the Unitholders; or

c) if the Manager goes into liquidation or if a receiver is appointed over any of their assets and not discharged within 60 days; or

d) if a Fund ceases to be authorised or otherwise officially approved pursuant to the Securities and Futures Ordinance or if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or in advisable to continue a Fund.

The Manager may terminate a Fund:

a) if the aggregate net asset value of the Fund falls below HK$25 million (for the HSBC Managed Balanced Fund) or HK$70 million (for each of the HSBC Managed Stable Fund, the HSBC Managed Stable Growth Fund and the HSBC Managed Growth Fund).

b) if any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Fund.

In addition, the Fund may at any time be terminated by Extraordinary Resolution.

At least three months' notice will be given to affected Unitholders.

Upon the termination of a Fund, any unclaimed proceeds held by the Trustee may, at the expiration of twelve months from the date upon which the same were payable, be paid into a court of competent jurisdiction subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

The Funds

List of the Funds

The Funds are single fund trusts and each of which has a fund under it. This Explanatory Memorandum covers the following Funds:

- HSBC Growth Fund
- HSBC Balanced Fund
- HSBC Stable Growth Fund
- HSBC Stable Fund.

Each Fund is under a separate trust and has its own distinct investment policy.

General risks

Investors should consider the risks outlined in this section alongside the applicable risks in the "Asset class risks", and "Fund specific risks" sections before investing in a Fund. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not a Fund is suitable for them, they should obtain independent professional advice.

Market risks

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

Performance risks

There is no guarantee that the investment objective of a Fund can be achieved. There is no express or implied assurance as to the likelihood of achieving the investment objective for a Fund.

There is no guarantee that in any time period, particularly in the short term, a Fund's portfolio will achieve appreciation in terms of income or capital growth. A Fund's portfolio may be subject to market fluctuations and to all the risks inherent in all investments and markets. As a result, the price of Units may go down as well as up. Whilst the Manager intends to implement strategies designed to minimise potential losses, there can be no assurance that these strategies will be successful. Making an investment in a Fund is not the same as making a deposit in a bank. An investor may lose a substantial proportion or all of its investments in a Fund.

The prices of a Fund's Units depend on the market values of the Fund's investments and such prices as well as the income from Units can go down as well as up. Past performance of a Fund does not indicate future performance. Investment in a Fund is not capital guaranteed and is only suitable for investors who can leave their capital for medium to long-term investment.

A Fund's performance is subject to the risks associated with its investments and cash exposure including, among others, market, interest rate, currency, exchange rate, economic, credit, liquidity, counterparty, foreign securities and political risks.

Foreign exchange risks

Relative to the Base Currency

A Fund's assets and liabilities may be denominated in currencies different from the Fund's Base Currency. An investor's return (as measured in terms of the Base Currency) may be affected unfavourably by exchange control regulations or changes in the exchange rates between a Fund's Base Currency and other currencies.

Changes in currency exchange rates may influence the value of a Fund's Units, the dividends or interest earned and the gains and losses realised by a Fund. Exchange rates between currencies are determined by supply and demand in the currency exchange markets, the international balance of payments, governmental intervention, speculation and other economic and political conditions.

If the currency in which a security is denominated appreciates against the Base Currency of the Fund, the value of the security will increase in terms of the Fund's Base Currency. Conversely, a decline in the exchange rate of the currency in which a security is denominated would adversely affect the value of the security in terms of the Fund's Base Currency. Depending on this, in terms of the Fund's Base Currency, an investor (i) may suffer losses even if there are gains or no losses in the value of the non-Base Currency denominated underlying securities; or (ii) may suffer additional losses if the non-Base Currency denominated underlying investments of a Fund fall in value.

Further, dividends will be paid in the relevant Class Currency, which may involve currency conversion of the proceeds obtained from realisation of the Fund's assets. Currency conversion involves foreign exchange risks as the exchange rates are subject to fluctuations.

Liquidity risks

Liquidity risk exists within most financial products including the investments held by the Funds. This means that a delay may occur in receiving sales proceeds from the investments held by a Fund, and those proceeds may be less than recent valuations used to determine the net asset value of a Fund.

This risk is greater in exceptional market conditions or when large numbers of market participants are trying to sell their investments at the same time. In such cases, the Funds may also experience substantial redemptions of Units which could require the Manager to liquidate investments of the Funds more rapidly than otherwise desirable in order to raise the necessary cash to fund the redemptions. This could adversely affect the Redemption Price and, in such circumstances, the receipt of sale proceeds may be delayed and/or take place at lower prices.

Further, the Manager is entitled under certain circumstances to suspend dealings in the Units. In this event, valuation of the net asset value will be suspended, and any affected redemption applications and payment of redemption proceeds will be deferred. The risk of decline in net asset value of the Units during the period up to the redemption of the Units will be borne by the redeeming Unitholders.

Counterparty and settlement risks

Counterparty risk occurs when a party to a contract fails to honour and defaults on its obligations thereunder. Funds which are party to these risks can incur considerable losses.

Settlement risk occurs when a transaction is not completed as duly agreed between the parties. This may be due to an error or omission in the necessary settlement, clearing or registration processes or due to the lack of creditworthiness of one of the parties to the transaction.

Investment in Mainland Chinese debt securities may expose a Fund to counterparty default risks. Exchange traded debt securities may be subject to counterparty risk, although such risk is mitigated by a centralised clearing system. On the other hand, the degree of counterparty risk may be higher in the China Interbank Bond Market which is a quote-driven market where deals are negotiated between two counterparties through a trading system. The counterparty which has entered into a transaction with a Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

Investors should refer to the section headed "China Interbank Bond Market risks" for further details on the risks of the China Interbank Bond market.

Over-the-counter markets risks

There are special risks associated with financial derivatives instruments, participation notes, structured products and other investments traded on over-the-counter (OTC) markets. In general, there is less governmental regulation and supervision of transactions in the OTC markets (in which many different kinds of financial derivatives instruments and structured products are generally traded) than of transactions entered into on 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 in the OTC markets. Therefore, a Fund entering into OTC transactions will be subject to the risk that its direct counterparty will not perform its obligations under the transactions and that a Fund will sustain losses. The relevant Fund will only enter into transactions with counterparties in accordance with the counterparty policy and may seek to reduce counterparty exposure through the receipt of collateral in accordance with the counterparty policy. Both counterparty policy and collateral policy are set out in sub-section 5. "Counterparty policy and collateral policy" within the "Fund Restrictions" section. Regardless of the measures a Fund may seek to implement to reduce counterparty credit risk, however, there can be no assurance that a counterparty will not default or that a Fund will not sustain losses as a result.

Instruments traded on the OTC markets may be less liquid. From time to time, the counterparties with which a Fund effects transactions may cease making markets or quoting prices in certain instruments. In such instances, the Fund may be unable to enter into a desired transaction or to enter into an offsetting transaction with respect to an open position, which may adversely affect its performance.

Investor risks

The Manager may compulsorily redeem all or a portion of the Unitholder's Units in the Fund. Such compulsory redemption may create adverse tax and/or economic consequences to the Unitholder depending on the timing thereof. No person will have any obligation to reimburse any portion of an investor's losses upon termination of the Fund, compulsory redemption or otherwise.

Valuation risk

Valuation of the Funds' investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the net asset value of the Funds may be adversely affected.

Government or Central Banks' Intervention risks

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

Early Termination Risk

A Fund may be liquidated on the occurrence of certain events as set out in the section headed "Termination of Funds" in this *Explanatory Memorandum*.

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

Tax risks

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

Investors should refer to the tax disclosures in the section headed "Taxation" for further details including details on tax provisions.

Hedging risks

Hedging a risk typically attempts to preclude a Fund from both benefitting and suffering from any return associated with the hedged risk (e.g. currency risk between non-Base Currency assets and the Base Currency). If there is positive return associated with a hedged risk then a Fund's performance will fare relatively poorer than if it had not hedged the risk. Conversely, if there is negative return associated with a hedged risk then a Fund's performance will fare relatively better than if it had not hedged the risk.

There is no guarantee that the desired hedging instruments will be available or hedging techniques will achieve their desired result. In adverse situations, a Fund's hedging technique may become ineffective and a Fund may suffer significant losses.

Furthermore, the return of a hedge will be impacted by various factors including transaction costs and, for currency hedging, interest rate differentials between the currency being hedged and the currency it is being hedged into. These impacts may be significant depending on prevailing market conditions and they will be reflected in the net asset values of the relevant Funds. This may adversely affect the returns of investors in such Funds.

Hedging may involve the use of derivatives (e.g. forward contracts). Please refer to the "Derivatives risks" section for the associated risks.

Investing in Underlying Funds risks

A Fund may invest in shares or units in Underlying Funds. Investors should note that such investment may involve another layer of fees charged at the Underlying Fund level. This is because, in addition to the expenses and charges payable by a Fund as disclosed in this Explanatory Memorandum, a Fund will bear indirectly the fees charged by the managers and other service providers of the Underlying Funds, or will incur charges in subscribing for or redeeming shares in the Underlying Funds. Please refer to the section headed "Charges and expenses" for further details.

The Manager or the Investment Adviser will consider various factors in selecting the Underlying Funds, for example, the investment objective and strategy, level of fees and charges, the redemption frequency and liquidity of such funds. However, the Funds do not have control of the investments of the Underlying Funds and there is no assurance that the investment objective and strategy of the Underlying Funds will be successfully achieved.

Where Underlying Funds are not able to meet redemption requests of a Fund, such Fund will be subject to liquidity risks, and may suffer losses as a result of delays in receiving redemption proceeds.

Some Underlying Funds adopting liquid alternative strategies may use financial derivative instruments extensively for investment purposes and may have a net leveraged exposure of more than 100% of their respective net asset value. This will further magnify any potential negative impact of any change in the value of the underlying assets on the Underlying Funds and also increase the volatility of the Underlying Funds' price and may lead to significant losses which will have a negative impact to the net asset value of a Fund.

Underlying Funds may include those managed by the Manager, the Investment Adviser, the Investment Sub-Adviser or other entities of the HSBC Group. Where potential conflicts of interest arise, the Manager will endeavour to ensure that such conflicts are resolved fairly. Please refer to the section headed "Conflicts of Interest" for further details.

Cross-class liability risks

Multiple classes of Units may be issued in relation to a Fund, with particular assets and liabilities of the Fund attributable to particular Classes. Moreover, these assets and liabilities may be denominated in various currencies, introducing currency risk.

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

Prohibited Securities risks

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

Custody risks

Assets of a Fund are safe kept by the custodian (which may be the Trustee or a Correspondent thereof) and Unitholders are exposed to the risk of the custodian not being able to fully meet its obligation to restitute in a short time frame all of the assets of the Funds in the case of bankruptcy of the custodian. The assets of a Fund will be identified in the custodian's books as belonging to such Fund. Securities held by the custodian will be segregated from other assets of the custodian which mitigates the risk of non-restitution in case of bankruptcy. However, no such segregation applies to cash deposited with a bank which increases the risk of non-restitution in case of bankruptcy.
Further, the custodian may (with the prior consent in writing of the Trustee) appoint local Correspondents for the purpose of safekeeping assets in relevant local markets. Unitholders are exposed to the risk of the local Correspondents not being able to fully meet their obligation to restitute in a short time frame all of the assets of a Fund in the case of bankruptcy of the local Correspondent. In extreme circumstances, as the retroactive application of legislation and fraud or improper registration of title, a Fund may even be unable to recover all of its assets and the Trustee and the custodian may not be liable to make good any such loss (further details on the liability of the Trustee and its Correspondents is set out in the sub-section headed “Trustee and Registrar” of the “Manager, Trustee and related service providers” section). This risk may be greater where a Fund invests in markets where custody and settlement systems and controls are not fully developed.

Asset class risks

Equity risks

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

Risks of investing in small-cap/mid-cap Companies

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

Fixed income risks

Debt Securities risks

The principal factors that may affect the value of the Funds' debt securities holdings include: (i) changes in interest rates, (ii) the credit worthiness of the issuers of securities, (iii) unanticipated prepayment, and (iv) the decline of bond prices in general in the relevant bond market.

Credit ratings risks and credit rating agency risks

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

If assessments based on credit ratings do not reflect the credit quality of and the risks inherent in a security, investors may suffer losses, possibly greater than originally envisaged.

Downgrading risks

Debt securities may be subject to the risk of being downgraded (i.e. lowering of credit ratings assigned to the securities). In the event of downgrading in the credit ratings of a security or an issuer relating to a security, a Fund's investment value in such security may be adversely affected. The Manager or the Investment Adviser may or may not be able to dispose of the securities that are being downgraded. The risks disclosed in the paragraph in relation to low rated debt securities will generally apply.

Credit risks

Investment in fixed income securities is subject to the credit and default risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. Generally, a fixed income security that is lower rated or unrated will be subject to higher credit and default risk of the issuer than a higher rated fixed income security.

In the event that any issuer of such securities defaults, becomes insolvent or experiences financial or economic difficulties, the value of the securities will be adversely affected. A Fund may suffer losses in its investment in such securities. There is no certainty in the credit worthiness of issuers of debt securities. Unstable market conditions may mean there are increased instances of default amongst issuers. In case of default, a Fund may also encounter difficulties or delays in enforcing its rights against the issuers of securities as such issuers may be incorporated outside Hong Kong and subject to foreign laws.

The fixed income securities that a Fund invests in may be offered on an unsecured basis without collateral. In such circumstances, a Fund will rank equally with other unsecured creditors of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds obtained from the liquidation of the issuer's assets will be paid to holders of the fixed income securities only after all secured claims have been satisfied in full. A Fund is therefore fully exposed to the credit/insolvency risk of issuers as an unsecured creditor.

High yield fixed income securities risk

Some Funds may invest in higher yielding fixed income securities. These securities may be rated below “investment grade” and they may be subject to “Non-investment grade and unrated bond risks” outlined below. These securities face ongoing uncertainties and exposure to adverse financial or economic conditions, which could lead to the issuer’s inability to meet timely interest and principal payments. As such, they will be subject to a higher risk of the issuer’s default. If the issuer defaults, the return from investment in such securities will be adversely affected.

Below investment grade or unrated securities risks

A Fund may invest in securities which are rated below investment grade (in case of internationally recognised credit rating agencies) or rated AA or below (in case of Mainland China local credit rating agencies) or are unrated. Such securities are considered to have a higher risk exposure than securities which have a higher credit rating with respect to payment of interest and the return of principal, and may also have a higher chance of default. Low rated or unrated debt securities generally offer a higher current yield than higher grade issues. However, low rated or unrated debt securities involve higher risks and are more sensitive to adverse changes in general economic conditions and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers and changes in interest rates. Valuation of these securities is more difficult and thus a Fund’s price may be more volatile. Additionally, the market for below investment grade (in case of internationally recognised credit rating agencies) or AA or below (in case of Mainland China local credit rating agencies) or unrated debt securities generally is less active than that for higher quality securities and a Fund’s ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions.

Volatility and liquidity risks

The debt instruments in which a Fund invests may not be listed on a stock exchange or a Securities Market where trading is conducted on a regular basis. The debt securities in emerging markets may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, a Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, a Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and a Fund may suffer losses in trading such securities. The price at which the debt securities are traded may be higher or lower than the initial purchase price due to many factors including the prevailing interest rates.

Further, the bid and offer spreads of the price of debt instruments in which the Funds invest may be high, and the Funds may therefore incur significant trading costs and may even suffer losses when selling such investments.

Interest rate risks

Changes in market interest rates will affect the value of securities held by a Fund. Generally, the prices of debt instruments rise when interest rates fall, and vice versa. Long-term securities are generally more sensitive to changes in interest rates and, therefore, are subject to a greater degree of market price volatility. To the extent that a Fund holds long-term fixed income securities, its net asset value will be subject to a greater degree of fluctuation than if it held fixed income securities of a shorter duration. Fluctuations in interest rates may cause a Fund to suffer a loss in its investments if it disposes of such fixed income securities before their maturity.

Derivatives risks

Subject to a Fund's investment objective, policy and strategy, a Fund may use derivatives for hedging and/or investment purposes and such instruments may include futures, forwards (including non-delivery forwards), and swaps (including total return swaps and inflation swaps) as well as other financial derivative instruments.

Due to the inherent nature of financial derivative instruments, a Fund that uses financial derivative instruments as part of its investment strategy may involve risks different from, or possibly greater than, the risks associated with a fund that does not make use of financial derivatives. Specifically financial derivative instruments are subject to counterparty/credit risk, liquidity risk, valuation risk, volatility risk and OTC risk. Further, a financial derivative may include an element of leverage meaning that a small movement in the price of the underlying security, index, interest rate or currency may result in a substantial movement in the price of the financial derivative instrument. This may result in losses being magnified and losses may exceed the amount invested in the financial derivative instrument resulting in a significant loss to a Fund.

Collateral management and re-investment of cash collateral risks

Where a Fund enters into an OTC derivative transaction, collateral may be received from or provided to the relevant counterparty.

As of the date of this Explanatory Memorandum, the Funds may receive both non-cash collateral or cash collateral but cash collateral will not be reinvested.
In the event a Fund re-invests cash collateral in future, the relevant Fund will be exposed to the risk of a failure or default of the issuer of the relevant security in which the cash collateral has been invested. Notwithstanding that a Fund may only accept non-cash collateral which is highly liquid, the relevant Fund is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The relevant Fund is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Where collateral is provided by a Fund to the relevant counterparty, in the event of the insolvency of the counterparty, the relevant Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty.

Fund specific risks

Concentration Risk

A Fund's investments may be concentrated in one or more markets in specific industry sectors, instruments, geographical location, etc. The value of the Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

For Funds with geographical concentration, the value of the Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the specific geographical market.

Emerging and less developed markets securities risks

Emerging or developing markets may have relatively unstable governments, economies based on a less diversified industrial base and Securities Markets that trade a smaller number of securities. Companies in emerging markets may generally be smaller, less experienced and more recently organized than many companies in more developed markets.

Prices of securities traded in the Securities Markets of emerging or developing countries/regions tend to be volatile. Furthermore, foreign investors are often subject to restrictions in emerging or developing markets. These restrictions may require, among other things, governmental approval prior to making investments or repatriating income or capital, or may impose limits on the amount or type of securities held by foreigners or on the companies in which the foreigners may invest.

The economies of individual emerging markets may differ favourably or unfavourably from developed economies in such respects as growth of gross domestic product, rates of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payment position and may be based on a substantially less diversified industrial base. Further, the economies of developing markets generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries/regions with which they trade. These economies also have been, and may continue to be, adversely affected by economic conditions in the countries/regions with which they trade.

Risks of emerging market securities may include: greater social, economic and political uncertainty and instability; greater settlement and custody risks; more substantial governmental involvement in the economy; less governmental supervision and regulation; unavailability of currency hedging techniques; companies that are newly organized and small; differences in auditing and financial reporting standards, which may result in unavailability of material information about issuers; and less developed legal systems. In addition taxation of interest and dividend and capital gains received by non-residents varies among emerging and less developed markets and, in some cases may be comparatively high. There may also be less well-defined tax laws and procedures and such laws may permit retroactive taxation so that the Fund could in the future become subject to local tax liabilities that had not been anticipated in conducting investment activities or valuing assets.

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

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

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

The regulatory and legal framework for capital markets and joint stock companies in Mainland China may not be as well developed as those of developed countries/regions. The Mainland Chinese government's macro-economic policies and controls will have significant influence over the capital markets in Mainland China. A Fund may be subject to the risks associated with changes in fiscal policies, Mainland China laws and regulations (including tax laws) and such changes may have retrospective effect and may adversely affect a Fund.

Mainland Chinese accounting standards and practices may deviate significantly from international accounting standards. The settlement and clearing systems of the Mainland

Chinese securities markets may not be well tested and may be subject to increased risks of error or inefficiency.

The Mainland Chinese government's control of currency conversion and movements in the RMB exchange rates may adversely affect the operations and financial results of companies in Mainland China.

Mainland China tax risks

Various tax reform policies have been implemented by the Mainland Chinese government in recent years, and existing tax laws and regulations may be revised or amended in the future (including abolishing, revising or amending tax exemptions currently offered to foreign institutional investors). There is a possibility that the current tax laws, regulations and practice in Mainland China will be changed with retrospective effect in the future and any such change may have an adverse effect on the net asset value of a Fund.

Please refer to "Mainland China" under the section of "Taxes related to a Fund's assets" for details of the current tax laws, regulations and practices relating to the securities that Funds may invest in. In view of the details set out in the aforementioned section, the Manager, after taking professional tax advice, has decided to make provision for tax as follows:

- a Fund will make a Corporate Income Tax (CIT) provision of 10% on interest from its investments in debt securities issued by Mainland China tax resident enterprises, if it was not withheld at source nor borne by the bond issuers (except (i) interests from investments in Mainland China onshore bonds received during the Tax Exempt Period (as defined in "Mainland China" under the section of "Taxes related to a Fund's assets") and (ii) interest from Mainland China government bonds and local government bonds);

- a Fund will not withhold any amount of realised or unrealised capital gains derived from the disposal of or investment in Mainland China debt securities;

- a Fund will not withhold any amount for interest derived from Bank Deposits in Mainland China as CIT provision because CIT is withheld at source;

- a Fund will not withhold (or will not request the CAAP issuers to withhold) any amount of realised or unrealised gains on its investments in CAAPs as tax provisions;

- a Fund will not withhold any amount of realised or unrealised gains on its investments in China A-shares through the Stock Connect and China B-shares as tax provisions; and

- a Fund will make a VAT provision at 6% plus surcharge (if applicable) on interest from its investment in the relevant bonds provided that such VAT is not borne by the bond issuers (except (i) interests from investments in Mainland China onshore bonds received during the Tax Exempt Period and (ii) interest from Mainland China government bonds and local government bonds).

Investors should also be aware that changes in Mainland China taxation legislation could affect the amount of income which may be derived, and the amount of capital returned, from the investments of the Funds. Laws governing taxation will continue to change and may contain conflicts and ambiguities which may impact the value of a Fund.

RMB currency risks

Starting from 2005, the exchange rate of the RMB is no longer pegged to the US dollar. The RMB has now moved to a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. The daily trading price of the RMB against other major currencies in the inter-bank foreign exchange market is allowed to float within a narrow band around the central parity published by the People's Bank of China.

As the exchange rates are based primarily on market forces, the exchange rates for RMB against other currencies, including US dollars and HKD, are susceptible to movements based on external factors. It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and restrictions of the Mainland Chinese government. Trading in the RMB may be subject to possible delay in the settlement process. Further, future changes to foreign exchange control policies and restrictions of the Mainland Chinese government may adversely affect the operations and financial results of the companies invested in by a Fund, and the abilities of such companies to make payment of dividends declared in respect of China B-shares and China H-shares (as well as other equities issued by a Mainland Chinese company in a region other than Mainland China) and/or make repayment of the bonds they issued in a region other than Mainland China.

The possibility that the appreciation of RMB will be accelerated cannot be excluded. On the other hand, there can be no assurance that the RMB will not be subject to devaluation. A Fund's Base Currency may not be the RMB, but a Fund may invest in RMB denominated investments. Any devaluation of the RMB could adversely affect the value of investors' investments in a Fund (as measured in terms of the Fund's Base Currency).

China A-shares and B-shares risks

Insofar as a Fund obtains exposure to China A-shares or China B-shares, it will be subject to the following risks:

- The existence of a liquid trading market for China A-shares or China B-shares may depend on whether there is supply of, and demand for, such China A-shares or China B-shares. The price at which securities may be purchased or sold by a Fund and the net asset value of a Fund may be adversely affected if the trading market for China A-shares or China B-shares are limited or absent. The China A-share and China B-share market may be more volatile and unstable (for example, due to the risk of suspension of a particular stock or government intervention). Market volatility and settlement difficulties in the China A-share and China B-share market may also result in significant fluctuations in the prices of the securities traded on such market and thereby may affect the value of a Fund.

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

Risks associated with the ChiNext Board and/or the Science and Technology Innovation Board

A Fund may have exposure to stocks listed on the ChiNext Board of the Shenzhen Stock Exchange (the “ChiNext Board”) and/or the Science and Technology Innovation Board of the Shanghai Stock Exchange (the “STAR Board”).

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

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

Differences in regulation applicable to ChiNext Board and STAR Board - The rules and regulations regarding companies listed on ChiNext Board and STAR Board are less stringent in terms of profitability and share capital than those in the main boards.

Delisting risk - It may be more common and faster for companies listed on the ChiNext Board and/or STAR Board to delist. This may have an adverse impact on a Fund if the companies that it invests in are delisted.

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

Investments in the ChiNext Board and/or STAR Board may result in significant losses for a Fund and its investors.

China A-shares access products risks

A Fund may obtain exposure to China A-shares through investment in China A-shares access products (“CAAPs”), including equity linked notes and other similar equity linked securities and instruments. CAAPs are derivative instruments which are linked to China A-shares, and are intended to provide an economic performance that is equivalent to holding the underlying China A-shares.

Seeking exposure through CAAPs could lead to additional costs of investments. For example, investment in CAAPs is subject to the fees, charges and costs of issuers. As the availability of CAAPs is limited by applicable Mainland China regulations, the cost of investing in such products is subject to market supply and demand forces. Where the market supply is low relative to market demand, acquiring further CAAPs may involve a higher cost or a premium, which may adversely affect the Fund’s overall performance.

CAAPs may not be listed and are subject to the terms and conditions imposed by their issuer. These terms may lead to delays in implementing the Manager’s investment strategy due to restrictions on the issuer acquiring or disposing of the securities underlying the CAAPs. Investment in CAAPs can be illiquid as there is no active market in CAAPs. In order to meet realisation requests, a Fund relies upon the counterparty issuing the CAAPs to quote a price to unwind any part of the CAAPs. This price will reflect the market liquidity conditions and the size of the transaction.

By seeking exposure to investments in China A-shares through CAAPs, a Fund is taking on the credit risk of the issuer of the CAAPs. There is a risk that the issuer will not settle a transaction due to a credit or liquidity problem, or will otherwise default in its obligations under the CAAPs, thus causing a Fund to suffer a loss. In addition, in the case of a default, a Fund could become subject to adverse market movements while a Fund enters into a replacement transaction with a new counterparty.

An investment in a CAAP entitles the holder to certain cash payments calculated by reference to the China A-shares to which the CAAP is linked. It is not an investment directly in the China A-shares themselves. An investment in the CAAP does not entitle the holder of the CAAP to the beneficial interest in the China A-shares nor to make any claim against the company issuing the China A-shares.

Investment through CAAPs may lead to a dilution of performance of a Fund when compared to a fund investing directly in similar assets. In addition, when a Fund intends to invest in a particular China A-share through CAAPs, there is no guarantee that subsequent application monies for Units in a Fund can be immediately invested in such China A-share through CAAPs. This may impact on the performance of a Fund.

An issuer of a CAAP may deduct various charges, expenses or potential liabilities from the prices of the CAAP including but not limited to any actual or potential Mainland China tax liabilities (if any) determined by the CAAP issuer at its discretion and such deduction may not be refundable.

As at the date hereof, it is likely that a Fund will invest in the China A-shares market through CAAPs issued by institutions which have obtained the status as a qualified foreign investor ("QFI") in Mainland China; and certain restrictions imposed by the Mainland Chinese government on QFIs may have an adverse effect on a Fund's liquidity and performance. QFIs are subject to restrictions on the maximum stake which can be held in any one listed company. A Fund will generally invest in CAAPs that are realisable on each Dealing Day under normal market conditions, subject to the credit risk of the counterparty. If the CAAPs cannot be realised on each Dealing Day, a Fund may be subject to additional liquidity risks.

Fluctuation in the exchange rate between the denomination currency of the underlying shares and the CAAPs will affect the value of the CAAPs, the redemption amount and the distribution amount on the CAAPs.

For the purpose of investment restriction monitoring, CAAPs will be treated as an equity investment in China A-shares instead of being classified as a derivative in determining the appropriate limits.

Stock Connect risks

The Shanghai-Hong Kong Stock Connect programme and the Shenzhen-Hong Kong Stock Connect programme (collectively, the "Stock Connect") are recently announced and are novel in nature. The Stock Connect enables Hong Kong and overseas investors to directly access eligible China A-shares through Hong Kong brokers. It is subject to regulations promulgated by regulatory authorities and implementation rules (e.g. trading rules) made by the stock exchanges in Mainland China and Hong Kong. The Stock Connect is subject to quota limitations.

New regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect.

It should be noted that the regulations are untested and there is no certainty as to how they will be applied, and their application may have retrospective effects. Moreover, the current regulations are subject to change. There can be no assurance that the Stock Connect will not be abolished. A Fund, which may invest in Mainland China markets through the Stock Connect, may be adversely affected as a result of such changes.

China Interbank Bond Market risks

Certain Funds may invest in bonds traded on the China Interbank Bond Market (the "**CIBM**") via the CIBM Initiative (as defined below) and/or the Bond Connect (as defined below) and/or other means as may be permitted by the relevant regulations from time to time.

Overview of the China Interbank Bond Market (CIBM) Initiative

Since February 2016, the People's Bank of China ("**PBOC**") has permitted foreign institutional investors to invest in CIBM ("**CIBM Initiative**") subject to meeting any other rules and regulations as promulgated by Mainland China authorities, i.e., the PBOC and the State Administration of Foreign Exchange ("**SAFE**"). As at the date of this Explanatory Memorandum, the rules and regulations that a Fund must abide by include:

- Appointing an onshore settlement agent who will be responsible for making relevant filings and account opening with relevant authorities.

- Generally only repatriating cash out of the Mainland China in a currency ratio approximately proportionate to the currency ratio of remitted cash into the Mainland China.

There are currently no quota restrictions. Such rules and regulations may be amended from time to time.

Overview of the Bond Connect

Since July 2017, mutual bond market access between Hong Kong and Mainland China ("**Bond Connect**") was established by China Foreign Exchange Trade System & National Interbank Funding Centre ("**CFETS**") and Hong Kong Exchanges and Clearing Limited (amongst others). Bond Connect is governed by rules and regulations as promulgated by Mainland China authorities. As at the date of this Explanatory Memorandum, the rules and regulations that a Fund must abide by include:

- Appointing CFETS or other institutions recognised by the PBOC as registration agents to apply for registration with the PBOC.

- Transacting via an offshore custody agent recognised by the Hong Kong Monetary Authority (currently, the Central Moneymarkets Unit).

There are currently no quota restrictions. Such rules and regulations may be amended from time to time.

Trading through Bond Connect is performed through newly developed trading platforms and operational systems. There is no assurance that such systems will function properly or will continue to be adapted to changes and developments in the market. In the event that the relevant systems fail to function properly, trading through Bond Connect may be disrupted. The Fund's ability to trade through Bond Connect (and hence to pursue its investment strategy) may therefore be adversely affected. In addition, where a Fund invests in the CIBM through Bond Connect, it may be subject to risks of delays inherent in the order placing and/or settlement systems.

Associated with investing in the CIBM risk

Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the CIBM may result in prices of certain debt securities traded on such market fluctuating significantly. A Fund investing in such market is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and a Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

To the extent that a Fund transacts in the CIBM, a Fund may also be exposed to risks associated with settlement procedures and default of counterparties. There are various transaction settlement methods in the CIBM, such as the delivery of security by the counterparty after receipt of payment by a Fund; payment by a Fund after delivery of security by the counterparty, or simultaneous delivery of security and payment by each party. Although the Investment Adviser may endeavour to negotiate terms which are favourable to a Fund (e.g. requiring simultaneous delivery of security and payment), there is no assurance that settlement risks can be eliminated. The counterparty which has entered into a transaction with a 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 CIBM Initiative, since trading is via an onshore settlement agent, a Fund is subject to counterparty risks of the onshore settlement agent.

For investments via either the CIBM Initiative or Bond Connect, since relevant filings, registration with PBOC and account opening has to be carried out by other third parties (e.g. settlement agent, offshore custody agent, registration agent, etc) then a Fund is subject to the risks of errors on their part. In addition, the CIBM is also subject to regulatory risks and the relevant rules and regulations on investment in the CIBM is subject to change which may have potential retrospective effect.

In the event that the relevant Chinese authorities suspend account opening or trading on the CIBM, a Fund's ability to invest in the CIBM will be limited and, after exhausting other trading alternatives, a Fund may suffer substantial losses as a result.

"Dim Sum" bond risks

Dim Sum bonds are bonds issued outside Mainland China but denominated in RMB. The Dim Sum bond market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the Dim Sum bond market as well as new issuances could be disrupted causing a fall in the net asset value of a Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalization of the offshore RMB (CNH) market by the relevant regulator(s).

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

A Fund may invest in instruments with loss-absorption features which are subject to greater risks when compared to traditional debt instruments as such instruments typically include terms and conditions which may result in them being partly or wholly written off, written down, or converted to ordinary shares of the issuer upon the occurrence of a pre-defined trigger event (e.g. when the issuer is near or at the point of non-viability or when the issuer's capital ratio falls to a specified level).

Such trigger events are likely to be outside of the issuer's control and commonly include a reduction in the issuer's capital ratio below a specified level or upon specific government or regulatory action being taken as a result of the issuer's ongoing financial viability. Trigger events are complex and difficult to predict and can result in a significant or total reduction in the value of such instruments, giving rise to consequential loss of the Fund. In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.

For example, a Fund may invest in contingent convertible securities, which are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), contingent convertible securities can be converted into shares of the issuing company, potentially at a discounted price, or the principal amount invested may be lost on a permanent or temporary basis. Contingent convertible securities are risky and highly complex instruments. Coupon payments on contingent convertible securities are discretionary and may at times also be ceased or deferred by the issuer. Trigger events can vary but these could include the capital ratio of the issuing company falling below a certain level, or the share price of the issuer falling to a particular level for a certain period of time.

Contingent convertible securities are also subject to additional risks specific to their structure including:

i. Trigger level risk

Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Investment Adviser of a Fund invested in contingent convertible securities to anticipate the trigger events that would require the debt to convert into equity or the write down to zero of principal investment and/or accrued interest. Trigger events may include: (i) a reduction in the issuing bank's Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios, (ii) a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible securities into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

ii. Coupon Cancellation risk

Coupon payments on some contingent convertible securities are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, contingent convertible securities may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

iii. Capital structure inversion risk

Contrary to the classic capital hierarchy, investors in contingent convertible securities may suffer a loss of capital when equity holders do not, for example when the loss absorption mechanism of a high trigger/write down of a contingent convertible security is activated. This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

iv. Call extension risk

Some contingent convertible securities are issued as perpetual instruments and only callable at pre-determined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual contingent convertible securities will be called on a call date. Contingent convertible securities are a form of permanent capital. The investor may not receive return of principal as expected on call date or indeed at any date.

v. Conversion risk

Trigger levels differ between specific contingent convertible securities and determine exposure to conversion risk. It might be difficult at times for the Investment Adviser of a Fund to assess how the contingent convertible securities will behave upon conversion. In case of conversion into equity, the Investment Adviser might be forced to sell these new equity shares since the investment policy of a Fund may not allow the holding of equity securities. Given the trigger event is likely to be some event depressing the value of the issuer's common equity, this forced sale may result in a Fund experiencing some loss.

vi. Valuation and write-down risk

Contingent convertible securities often offer attractive yield which may be viewed as a complexity premium. The value of contingent convertible securities may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, a Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

vii. Market Value fluctuations due to unpredictable factors

The value of contingent convertible securities is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the contingent convertible securities; (iii) general market conditions and available liquidity and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

viii. Liquidity risk

Contingent convertible securities are relatively new instruments and the outstanding amount and trading volume of contingent convertible securities tend to be small. In certain circumstances finding a buyer ready to invest in contingent convertible securities may be difficult and the seller may have to accept a significant discount to the expected value of the bond in order to sell it.

ix. Sector concentration risk

Contingent convertible securities are issued by banking and insurance institutions. The performance of a Fund which invests significantly in contingent convertible securities will depend to a greater extent on the overall condition of the financial services industry than for a Fund following a more diversified strategy.

x. Subordinated instruments

Contingent convertible securities will, in the majority of circumstances, be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of the contingent convertible securities, such as a Fund, against the issuer in respect of or arising under the terms of the contingent convertible securities shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

xi. Unknown risk

The structure of contingent convertible securities is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

Asset allocation strategy risk

The investments of a Fund may be periodically rebalanced and therefore the Fund may incur greater transaction costs than a fund employing a buy-and-hold allocation strategy.

Sovereign debt risks

The Funds' investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Funds to participate in restructuring such debts. The Funds may suffer significant losses when there is a default of sovereign debt issuers.

Eurozone risks

In light of ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, a Fund's investments in the region may be subject to higher volatility, liquidity, currency and default risks. Any adverse events, such as credit downgrade of a sovereign or exit of EU members from the Eurozone, may have a negative impact on the value of a Fund.

Collateralised and/or securitised products risks (such as asset-backed securities and mortgage-backed securities)

In general, asset-backed securities including asset-backed commercial papers ("**ABS**") and mortgage-backed securities ("**MBS**") are debt securities with interest and capital payments backed by a pool of financial assets such as mortgages and loans, with collateral backing often provided by physical assets such as residential or commercial property. Consequently, holders of ABS (such as a Fund) must rely solely on distributions on the underlying assets or proceeds thereof for payment.

Investment in ABS and MBS is subject to greater credit risk and interest rate risk compared to other debt securities due to, for example, a debtor's or obligor's default in paying the loan or other debt obligations constituting the underlying assets. If distributions on the underlying assets are insufficient to make payments on the ABS and MBS, no other assets will be available for payment of the deficiency and following realisation of the underlying assets, and the obligations of the issuer of the related security to pay such deficiency will be extinguished.

In addition, ABS and MBS are often exposed to extension and prepayment risks and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

Underlying assets are usually illiquid and private in nature and are subject to risks including those relating to their liquidity and market value. Prices of ABS and MBS are volatile and will generally fluctuate due to a variety of factors that are difficult to predict, including but not limited to changes in interest rates, prevailing credit spreads, general economic conditions, and the financial condition of the debtors or obligors of the underlying assets. The Fund will be subject to fluctuations in its value insofar as investment is made in ABS and MBS.

Real estate risks

Investments in Real Estate Investment Trusts ("**REITs**") will subject a Fund to risks associated with the direct ownership of real estate. These risks include, among others, possible declines in the value of real estate, risks related to general and local economic conditions, possible lack of availability of mortgage funds, overbuilding, extended vacancies of properties, increases in competition, real estate taxes and transaction, operating and foreclosure expenses, changes in zoning laws, costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; casualty or condemnation losses, uninsured damages from natural disasters and acts of terrorism, limitations on and variations in rents; and changes in interest rates. Further, the underlying assets of REITs may be relatively illiquid.

Insofar as a Fund directly invests in REITs any dividend policy at a Fund level may not be representative of the dividend policy of the relevant underlying REIT.

The legal structure of a REIT, its investment restrictions and the regulatory and taxation regimes to which it is subject will differ depending on the jurisdiction in which it is established.

Commodities risk

Exposure to commodities involves additional risks than those resulting from more standard asset classes such as equities and may subject a Fund to greater volatility than such investments. The value of commodities related instruments may be affected by the overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular commodity industry or the production and trading of commodities, such as natural events (e.g. drought, floods, weather, livestock disease), embargoes, tariffs and international economic, political and regulatory developments.

Risk associated with investing in exchange-traded commodities securities

Exchange-traded commodities securities are traded on stock exchanges in the same manner as other listed securities. The bid price and offer price at which the exchange-traded commodities securities are traded on stock exchanges are driven by factors such as the demand and supply of the securities, market liquidity and other market conditions. Therefore, the exchange-traded commodities securities may trade at a substantial premium or discount to the value of the underlying commodities.

Risks associated with exchange-traded commodities securities include counterparty/credit risk, greater liquidity risk and volatility risk. The liquidity of exchange-traded commodities securities may be severely reduced during volatile market conditions.

Investment in exchange-traded commodities securities will involve another layer of fees charged at the level of the exchange-traded commodities securities.

Portfolio holding information

Information relating to a Fund's portfolio, at each month end, is available to Unitholders at an appropriate time after that month end. Unitholders should contact the Manager for such information. A small charge may be levied for the provision of this information.

The Classes

Description of classes

Within each Fund, multiple Classes of Units may be issued.

All four Trust Deeds contain provisions designating five Classes of Units. The Manager will determine to which Class any Units issued shall belong.

The Classes of Units differ in a number of respects. Among the differences are that the distributions of income will not be made in respect of the Provident Class Units, Accumulation Units, "L" Class Units and "Z" Class Units of all Funds and the management fees charged to each Class of Unit are different (please refer to the section headed "Charges and Expenses").

The price of each "A" Class Unit, Provident Class Unit, Accumulation Unit, "L" Class Unit and "Z" Class Units is calculated to ensure that the respective interests of the holders of such Units in the assets of the Funds are maintained in the correct proportions, having regard to the different distribution policy and rates of management fees applicable to the different classes of units.

As at the date of this Explanatory Memorandum, the following Classes may be made available:

Class	Availability	Value of units		
		Currency	Minimum holding / Minimum subsequent subscription	Minimum partial redemption
"A" Class Units	Units available to retail investors	HKD	HK$10,000 or such lower value as determined by the Manager	HK$10,000 or such lower value as determined by the Manager
Accumulation Units	Units available to investors designated by the Manager	HKD	Nil	Nil
"L" Class Units	Units available to investors designated by the Manager	HKD	Nil	Nil
"Z" Class Units	Units available to investors making investment through a discretionary management agreement entered into with an HSBC group entity and to investors selected by the Manager at its discretion	HKD	Nil	Nil
Provident Class Units (also known as "P" Class Units)	Units available to investors designated by the Manager	HKD	Nil	Nil

The first "L" Class Unit may be issued to holders of Provident Class Units in the same Fund who switch their Provident Class Units into "L" Class Units. On the first Dealing Day, "L" Class Units are initially issued at the price of HK$10 or in case the first "L" Class Unit is issued to holder(s) of Provident Class Units in the same Fund who switch his or their Provident Class Units into "L" Class Units, then the initial Issue Price of "L" Class Units on the first Dealing Day shall equal to the Redemption Price per Provident Class Units prevailing on the first Dealing Day the first "L" Class Units are issued. After the first Dealing Day, the "L" Class Units are issued at the Issue Price applicable to "L" Class Units on the relevant Dealing Day.

"Z" Class Units will be issued on a day to be determined at the discretion of the Manager. On the first Dealing Day, "Z" Class Units will initially be issued at the price of HK$10.

The Units in relation to each Fund are valued in HK dollars, until such time as the Manager and the Trustee may resolve by Trust Deed that such currency is not suitable and decide that another currency shall be used in its place.
The Manager may create additional classes of units in the future.

Retail investors in Hong Kong can consult the Product Key Fact Statement of the relevant Fund for a list of Classes currently available to them. In addition, a full up-to-date list of launched Classes can be obtained from the registered office of the Manager.

Distributions and Reinvestment

For "A" Class Units of all Funds, all dividend income and interest arising is accumulated within the Funds and, at the discretion of the Manager, distributed at annual intervals approximately two months after the financial year end of the Funds. Unitholders may choose to have dividends reinvested automatically, in which event no initial charge will be applied. The Manager reserves the right not to reinvest the dividends and distributions for the Unitholders and the relevant proceeds will be paid to the Unitholders accordingly.

For Accumulation Units, Provident Class Units, “L” Class Units and "Z" Class Units of all Funds, all dividend income and interest arising is accumulated within the Funds and will not be distributed to the Unitholders.

Section B: Investment Management

Investment objective, policy and strategy

The Investment Objective, Policy and Strategy for each Fund is disclosed in the section "Appendix 1 – Fund Details".

Fund restrictions

1. Investment limitations

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

(a) the aggregate value of a Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available net asset value of the relevant Fund:

(i) investments in securities issued by that entity;

(ii) exposure to that entity through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to that entity arising from transactions of OTC financial derivative instruments.

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

(A) transacted on an exchange where the clearing house performs a central counterparty role; and

(B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 5.2(g) and (h) of this section "Fund restrictions".

(b) subject to sub-paragraphs 1(a) and 3.4(c) of this section "Fund restrictions", the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available net asset value of the relevant Fund:

(i) investments in securities issued by those entities;

(ii) exposure to those entities through underlying assets of financial derivative instruments; and

(iii) net counterparty exposure to those entities arising from transactions of OTC financial derivative instruments.

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

The requirements under this sub-paragraph 1(b) will also apply in the case of sub-paragraphs 5.2(g) and (h) of this section "Fund restrictions".

(c) the value of the Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available net asset value of the relevant Fund provided that the 20% limit may be exceeded in the following circumstances:

(i) cash held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or

(ii) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or

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

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

(d) the Fund's holding of any ordinary shares exceeding 10% of any ordinary shares issued by any single entity.

(e) the value of the Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a Securities Market, exceeding 15% of the latest available net asset value of such Fund.

(f) the value of the Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available net asset value of such Fund (save that the Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

(g)

(i) the value of the Fund's investment in Underlying Funds which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available net asset value; and

(ii) the value of the Fund's investment in units or shares in each Underlying Funds which is either eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) or schemes authorized by the SFC exceeding 30% of its latest available net asset value unless the Underlying Fund is authorized by the SFC, and the name and key investment information of the Underlying Fund are disclosed in this Explanatory Memorandum, provided that:

A) no investment may be made in an Underlying Funds the investment objective of which is to invest primarily in any investment prohibited under Chapter 7 of the Code

B) where an Underlying Fund's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, a Fund may invest in Underlying Fund(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and exchange traded funds satisfying the requirements in the Note under "Investment in other schemes" of Chapter 7 of the Code in compliance with sub-paragraphs 1(g)(i) and (ii) of this section "Fund restrictions";

C) the Underlying Fund's objective may not be to invest primarily in other collective investment scheme(s);

D) all initial charges and redemption charges on the Underlying Fund(s) must be waived if the Underlying Fund is managed by the Manager or its Connected Persons; and

E) the Manager or any person acting on behalf of the Fund or the Manager may not obtain a rebate on any fees or charges levied by an Underlying Fund or its management company, or any quantifiable monetary benefits in connection with investments in any Underlying Fund.

For the avoidance of doubt:

(aa) unless otherwise provided under the Code, the diversification requirements under sub-paragraphs 1(a), (b), (d) and (e) of this section "Fund restrictions" do not apply to investments in Underlying Funds by a Fund;

(bb) exchange traded funds are considered and treated as collective investment schemes for the purposes of and subject to the requirements in this sub-paragraph 1(g); and the investments by a Fund in exchange traded funds shall be subject to sub-paragraph 1(e) of this section "Fund restrictions";

(cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) apply respectively; and

(dd) where a Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this section "Fund restrictions" provided that the index is in compliance with the requirements under 8.6(e) of the Code.

2. Investment prohibitions

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

(a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;

(b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs that are listed on a stock exchange;

(c) make short sales unless (i) the liability of the relevant Fund to deliver securities does not exceed 10% of its latest available net asset value; (ii) the security which is to be sold short is actively traded on a Securities Market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;

(d) carry out any naked or uncovered short sale of securities;

(e) subject to sub-paragraph 1(e) of this section "Fund restrictions", lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, Reverse Repurchase Transactions in compliance with the requirements as set out in the Code are not subject to the limitations in this sub-paragraph 2(e);

(f) acquire any asset or engage in any transaction which involves the assumption of any liability by the relevant Fund which is unlimited. For the avoidance of doubt, the liability of Unitholders of a Fund is limited to their investments in that Fund;

(g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class;

(h) invest in any security where a call is to be made for any sum unpaid on that security, except with the consent of the Trustee and, unless the call could be met in full out of cash or near cash from the Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 3.5 and 3.6 of this section "Fund restrictions".

3. Derivatives restrictions

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

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

(b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;

(c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and

(d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

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

3.2 A Fund may also acquire financial derivative instruments for non-hedging purposes ("**investment purposes**") subject to the limit that such Fund's net exposure relating to these financial derivative instruments ("**net derivative exposure**") does not exceed the amount specified in 6(b) of this section "Fund restrictions" provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 3.1 will not be counted towards the limit referred to in this sub-paragraph 3.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

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

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

(a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with Substantial Financial Institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;

(b) the counterparties to transactions of OTC financial derivative instruments or their guarantors are Substantial Financial Institutions or such other entity acceptable to the SFC;

(c) subject to sub-paragraphs 1(a) and (b) of this section "Fund restrictions", a Fund's net counterparty exposure to a single entity arising from transactions of OTC financial derivative instruments may not exceed 10% of its latest available net asset value provided that the exposure of the Fund to a counterparty of OTC financial derivative instruments may be lowered by the collateral received (if applicable) by the Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the OTC financial derivative instruments with that counterparty, if applicable; and

(d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee (or such other valuation agent appointed by the Manager) ("Valuation Agent") independent of the issuer of the financial derivative instruments through such measures as may be established from time to time. In the opinion of the Manager, the financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative. Further, the Manager shall ensure that the Valuation Agent should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

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

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

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

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

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

4. Securities Financing Transactions restrictions

The Manager will not enter into Securities Financing Transactions (including Securities Lending, Repurchase Transactions or Reverse Repurchase Transactions or similar OTC transactions) in respect of a Fund. Prior approval will be obtained from the SFC and at least one month's prior notice will be given to Unitholders if there is a change in such intention.

5. <u>Counterparty policy and collateral policy</u>

5.1. Counterparty policy

When transacting in OTC financial derivative instruments (or Securities Financing Transactions if permitted in future), the Manager has counterparty selection policies and control measures to manage the credit risks of counterparties which shall include amongst other considerations, fundamental creditworthiness (e.g. ownership structure, financial strength) and commercial reputation of specific legal entities in conjunction with the nature and structure of proposed trading activities, external credit ratings of the counterparty, the regulatory supervision applied to the relevant counterparty, country of origin of the counterparty and legal status of the counterparty.

The counterparties will be entities with legal personality typically located in OECD jurisdictions (but may also be located outside such jurisdictions). The counterparties to OTC financial derivative instruments will be Substantial Financial Institutions. Whereas the counterparties to Securities Financing Transactions (if permitted in future) will be financial institutions which are subject to ongoing prudential regulation and supervision.

The counterparties must have a minimum credit rating of Baa1 or BBB+ or equivalent, or must be deemed by the Manager to have an implied rating of Baa1 or BBB+ or equivalent assigned by an internationally recognised credit agency (e.g. Standard & Poor's or Moody's). Alternatively an unrated counterparty will be acceptable where the Manager is indemnified or guaranteed against losses suffered as a result of a failure by the counterparty, by an entity which has and maintains a rating of Baa1 or BBB+ or equivalent assigned by an internationally recognised credit agency (e.g. Standard & Poor's or Moody's).

Transactions in OTC derivative transactions (or Securities Financing Transactions if permitted in future) will at all times be governed by approved HSBC Group standard documentation such as a legally enforceable bilateral International Swaps and Derivatives Association ("**ISDA**") (and an accompanying Credit Support Annex ("**CSA**") where it has been agreed that collateral will form part of the transaction).

5.2. Collateral policy

Under the investment advisory agreements, the Investment Adviser and discretionary Sub-Investment Adviser (if any) has the authority to manage the investment and reinvestment of the assets of a Fund, including but not limited to agree the terms for collateral arrangements, duly advising the Manager of what arrangements have been made, for purposes of managing counterparty risk where transactions in OTC financial derivative instruments have been executed (or Securities Financing Transactions if permitted in future). The Manager, Investment Adviser and discretionary Sub-Investment Adviser (if any) have appropriate systems, operational capabilities and legal expertise for proper collateral management.

As of the date of this Explanatory Memorandum, the Funds may receive both non-cash collateral or cash collateral but cash collateral will not be reinvested. However, the criteria set out below applies to all assets received by a Fund as collateral including the reinvestment of cash collateral in the event that the Funds reinvest such cash collateral in future:

(a) **Nature:** Collateral may include both cash and non-cash collateral. Cash collateral may include cash, cash equivalents and money market instruments. Non-cash collateral may comprise of government or corporate bonds whether long/short term bonds, listed or traded in any regulated markets.

Collateral does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

(b) **Credit quality:** the collateral is of high credit quality (i.e. at least rated A3 or A- or equivalent by an internationally recognised credit agency (e.g. Standard & Poor's or Moody's)). In the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that the Manager reasonably believes would undermine the effectiveness of the collateral, the Manager will take all practical steps to require the counterparty to replace such collateral as soon as practicable.

(c) **Liquidity:** any collateral received other than cash should be highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a robust price that is close to pre-sale valuation.

(d) **Valuation:** collateral is valued daily by an entity that is independent from the counterparty on a mark-to-market basis.

(e) **Haircut policy:** the collateral is subject to a prudent haircut policy. Haircuts will take into account the characteristics of the assets such as the credit standing or the price volatility. Assets that exhibit high price volatility will not be accepted by a Fund as collateral unless suitably conservative haircuts are in place. Haircuts are reviewed by the Manager on an ongoing basis to ensure that they remain appropriate for eligible collateral taking into account collateral quality, liquidity and price volatility.

(f) **Correlation:** collateral received by the Fund is issued by an entity that is independent from the counterparty and is one that is expected not to display a high correlation with the performance of the counterparty such that the effectiveness of the collateral would be undermined.

(g) **Diversification:** collateral must be sufficiently diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The exposures of a Fund to the collateral issuers are monitored in accordance with the relevant restrictions on exposure to a single entity and/or entities within the same group as set out in the sub-section "Fund restrictions".

(h) **Reinvestment of collateral:** Non-cash collateral will not be sold, reinvested or pledged. Cash collateral may be reinvested. Reinvested cash collateral will remain sufficiently diversified subject to the applicable restrictions in respect of collateral set out in the "Fund restrictions" section and shall comply with the requirements set out in 8.2(f) and 8.2(n) of the Code.

Reinvested cash collateral may only be placed on short-term deposit, invested in high quality money market instruments and money market funds authorized under 8.2 of the UT 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 this sub-section "Fund restrictions". For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, the Manager will take into account the credit quality, the liquidity profile of the money market instruments and such other factors as the Manager considers relevant;

Cash collateral received is not allowed to be further engaged in any securities financing transactions. Further, when the cash collateral received is reinvested into other investments, such investments are not allowed to be engaged in any securities financing transactions.

(i) **Encumbrances and Enforceability:** the collateral is free of prior encumbrances and collateral (subject to any net-off or set-off, if applicable) is capable of being fully enforced by the Manager / Fund at any time without further recourse to the counterparty.

(j) **Safe-keeping of collateral**: Any non-cash assets received by a Fund from a counterparty on a title transfer basis should be held by the Trustee or a Correspondent. This is not applicable in the event that there is no title transfer in which case the collateral will be held by a third party custodian which is unrelated to the provider of the collateral. A description of collateral holdings of each Fund will be disclosed in its semi-annual and annual reports as required under Appendix E of the Code. Assets provided by a Fund on a title transfer basis shall no longer belong to the 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.

6. Borrowing and leverage restrictions

The expected maximum level of leverage of each Fund is as follows:

a) Cash borrowing

No borrowing shall be made in respect of a Fund which would result in the principal amount for the time being of all borrowings made pursuant to the Trust Deed for the account of the relevant Fund exceeding an amount equal to 10% of the net asset value of the relevant Fund provided always that back-to-back loans do not count as borrowing.

The Trustee shall be entitled on the instruction of the Manager to charge or pledge in any manner all or any part of a Fund for the purposes of securing any borrowing and interest and expenses thereof.

b) Leverage from the use of financial derivative instruments

A Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) may be up to 50% of the Fund's latest available net asset value.

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

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

7. Fund specific restrictions

Additional restrictions specific to a Fund may be disclosed in the section "Appendix 1 – Fund Details".

8. Breaches

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

Liquidity risk management

The Manager has established a liquidity risk management policy with the aim to enable it to identify, monitor, manage and mitigate the liquidity risks of the Funds and to ensure that the liquidity profile of the investments of the Funds will facilitate compliance with the Funds' obligation to meet redemption requests. Such policy, combined with the governance framework in place and the liquidity management tools of the Manager, also seeks to achieve fair treatment of Unitholders and safeguard the interests of remaining or existing Unitholders in case of sizeable redemptions or subscriptions.

The Manager's liquidity risk management policy takes into account the investment strategy; the dealing frequency; the underlying assets' liquidity (and whether they are priced at fair value); and the ability to enforce redemption limitations of the Funds.

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

The Manager's risk management function is independent from the investment portfolio management function and is responsible for performing monitoring of the Funds' liquidity risk in accordance with the Manager's liquidity risk management policy. Exceptions on liquidity risk related issues are escalated to the Manager's Risk Management Committee with appropriate actions properly documented.

The Manager may employ one or more tools to manage liquidity risks including, but not limited to:

- the Manager is entitled, with the approval of the Trustee, to limit the number of Units redeemed on any Dealing Day to 10% of the total net asset value of the relevant Fund (subject to the conditions under the heading entitled "Restrictions on redemptions");

- the Manager may, if it considers it in the interest of Unitholders, when the net subscription or redemption requests in the Fund exceed a predefined threshold, require the Trustee to adjust the Issue Price/Redemption Price in order to mitigate the effects of transaction costs, in particular but not limited to, bid-offer spreads, brokerage, taxes and government charges (for further details see the section headed "Anti-dilution"; and/or

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

Transactions with Connected Persons

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

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

Cash rebates and soft commissions

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

The Manager may enter into soft commission arrangements for the provision to the Manager or Connected Persons of goods and services which are of demonstrable benefit to the Unitholders provided that (i) the brokerage rates do not exceed customary institutional full service brokerage rates and the execution of transactions for a Fund is consistent with best execution standards, (ii) periodic disclosure is made in the annual report of the Fund or the relevant Fund in the form of a statement describing the soft dollar policies and practices of the Manager, including a description of goods and services received by it, and (iii) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer.

For the avoidance of doubt (and without prejudice to the generality of the foregoing) the following goods and services may be considered as of such benefit to Unitholders: research and advisory services; economic and political analysis; portfolio analysis (including valuation and performance measurement); market analysis, data and quotation services; computer hardware and software incidental to the above goods and services; clearing and custodian services; and investment-related publications.

Section C: Investing in a Fund

Valuation and prices

Valuation policy of the Funds

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

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

(A) The value of any quoted investment shall be calculated by reference to the price appearing to the Manager to be the last traded price or (if no last traded price is available) midway between the latest available market dealing offered price and the latest available market dealing bid price on the Securities Market on which the investment is quoted, listed or ordinarily dealt in for such amount of such quoted investment as the Manager may consider in the circumstances to provide a fair criterion, provided that:-

(i) If a quoted investment is quoted, listed or normally dealt in on more than one Securities Market, the Manager shall adopt the price or, as the case may be, middle quotation on the Securities Market which, in their opinion, provides the principal market for such investment.

(ii) In the case of any quoted investment which is quoted, listed or normally dealt in on a Securities Market but in respect of which, for any reason, prices on that Securities Market may not be available at any relevant time, the value thereof shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee.

(iii) There shall be taken into account interest accrued on interest-bearing investments up to (but not including) the date as at which the valuation is made, unless such interest is included in the quoted or listed price.

(B) The value of any unquoted investment shall be the initial value thereof ascertained as hereinafter provided or the value thereof as assessed on the latest revaluation thereof made in accordance with the provisions hereinafter contained. For this purpose:-

(i) The initial value of an unquoted investment shall be the amount expended out of the property of the Fund in the acquisition thereof (including in each case the amount of the stamp duties, commissions and other expenses incurred in the acquisition thereof and the vesting thereof in the Trustee for the purposes of the Fund).

(ii) The Manager may at any time with the approval of the Trustee and shall at such times or at such intervals as the Trustee may request cause a revaluation to be made of any unquoted investment by a professional person approved by the Trustee as qualified to value such unquoted investment.

(C) Cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the value thereof.

(D) (i) The value of each unit, share or other interest in any Underlying Fund (other than unit, share or other interest in an Underlying Fund quoted, listed, traded or normally dealt in on a Securities Market) shall be the net asset value per unit, share or other interest as at the same day the net asset value of the Fund is calculated, or if such Underlying Fund is not valued as at the same day, the last published net asset value per unit, share or other interest in such Underlying Fund (where available) or (if the same is not available) the latest available bid price or offer price for such a unit, share or other interest at or immediately preceding the valuation point.

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

(E) Notwithstanding the above, the Manager may adjust, with the consent of the Trustee, the value of any investment if having regard to currency, applicable rate of interests, maturity, marketability and other considerations they deem relevant, they consider that such adjustment is required to reflect the fair value thereof.

Unit Prices

The Issue Price or Redemption Price of each Class of Units for any relevant Dealing Day will, subject as provided below in the “Anti-dilution” section, be determined by dividing the net asset value of such Class of Units by the number of Units of such Class then in issue. The resulting amount will be rounded to one hundredth of a Hong Kong Dollar, with 0.005 of a Hong Kong Dollar rounded up, for the Issue Price and Redemption Price.

Anti-dilution

Where subscription and redemption do not balance each other, trading costs may be incurred in order to buy or sell the underlying investments to accommodate dealing requests. Adjustments on unit prices (commonly known as “swing pricing”) seek to protect the Unitholders from dilution and mitigate the effects of transaction costs in trading underlying investments, in particular but not limited to, bid-offer spreads, brokerage, taxes and government charges. If the amount of the net subscription or net redemption would materially impact the existing Unitholders in the relevant Fund, investors subscribing or redeeming on the relevant Dealing Day shall bear the associated trading cost (as reflected in the adjusted unit prices) and such cost will not fall on the relevant Fund and affect the non-dealing Unitholders. Accordingly, if the Manager considers it in the interest of Unitholders, it may, when the net subscription or redemption requests exceed a threshold determined by the Manager, require the Trustee to adjust the Issue price /Redemption Price in order to mitigate the effects of transaction costs (as set out above). Under normal market conditions, the swing pricing adjustment rate will not exceed 2%. However, the swing pricing adjustment rate may, on a temporary basis, be significantly higher than the stated maximum adjustment rate during exceptional market conditions such as periods of high volatility, reduced asset liquidity and market stress.

Publication of prices

The Issue Price / Redemption Price of “A” Class Units will be published daily on the website www.assetmanagement.hsbc.com/hk. Please note that this website has not been reviewed by the SFC. The Issue Price / Redemption Price of each Class of Units can also be obtained from the Manager.

Suspension of calculation of net asset value

The Manager may, after consultation with the Trustee, having regard to the best interests of Unitholders, declare a suspension of the determination of the net asset value of any Fund for the whole or any part of any period during which:

(a) there is a closure of or the restriction or suspension of trading on any securities market on which a substantial part of the investments of that Fund is normally traded or a breakdown in any of the means normally employed by the Manager in ascertaining the prices of investments;

(b) for any other reason the prices of a substantial part of the investments held or contracted for by the Manager for the account of a Fund cannot, in the opinion of the Manager after consultation with the Trustee, reasonably be ascertained; or

(c) circumstances exist as a result of which, in the opinion of the Manager after consultation with the Trustee, it is not reasonably practicable to realise any investments held or contracted for the account of the Fund or

(d) the remittance or repatriation of funds which will or may be involved in the redemption of, or in the payment for, the investments of that Fund or the subscription or redemption of units is delayed or cannot, in the opinion of the Manager, after consultation with the Trustee, be carried out promptly at normal rates of exchange.

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

Whenever the Manager declares such a suspension it shall immediately notify the SFC of the suspension and immediately and at least once a month during the period of such suspension, publish a notice on the Manager's website www.assetmanagement.hsbc.com/hk (the website has not been reviewed by the SFC) and/or notify Unitholders and all those (whether Unitholders or not) whose applications to subscribe for or redeem Units shall have been affected by such suspension stating that such declaration has been made.

No Units in an affected Fund may be created, issued or redeemed during such a period of suspension.

Prevention of market timing and other Unitholder protection mechanisms

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

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

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

Unit dealing

Subscriptions

Units of a Fund or a Class in a Fund may be offered for the first time during an Initial Offer Period. Where an Initial Offer Period applies it is specified in the relevant Appendix. After such Initial Offer Period, subscription applications will be dealt with on each Dealing Day.

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

Applications for Units may be made by such means (including electronic means) with the required information and supporting documents as from time to time determined by the Manager and/or the Trustee. Investors should be reminded that if they choose to send application forms by facsimile or other electronic means, they bear their own risk of the forms being illegible or not being received. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a Unitholder or an investor for any loss resulting from non-receipt or illegibility of any orders sent by facsimile 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.

The minimum value of Units of any Class of any Fund that a Unitholder may apply for at initial investment must meet or exceed the minimum holding as detailed under the "Description of classes" section. Any subsequent subscription to the same Class of Units by the Unitholder must meet or exceed the minimum subsequent subscription as detailed under the "Description of classes" section. The Manager may in its discretion agree to accept a lesser amount from time to time than either the minimum holding or minimum subsequent subscription, whether generally or in a particular case.

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

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

All holdings will be in registered form and certificates will not be issued unless it is approved by the Manager. Evidence of title will be the entry on the Register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Application monies representing smaller fractions of a Unit will be retained by the Fund.

A maximum of 4 persons may be registered as joint Unitholders.

All subscription applications must be signed by Unitholders except for those sent via electronic means, as determined by the Manager and/or the Trustee.

Cut-off

During the Initial Offer Period (if applicable), subscription applications should be made on, and in accordance with the instructions on the application form and be received by the Manager or the Trustee by 4:00 p.m. (Hong Kong time) on the last day of the Initial Offer Period (or such other time as the Manager may from time to time determine).

Following the close of the Initial Offer Period or where no Initial Offer Period applies, subscription applications should be made on, and in accordance with the instructions on the application form and be received by the Manager or the Trustee by 4:00 p.m. (Hong Kong time) on a Dealing Day (or such other time as the Manager may from time to time determine) if they are to be dealt on that Dealing Day. Subscription applications received after that time will be dealt with on the next Dealing Day.

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

Price

Units of a Class will be issued at the Issue Price on the applicable Dealing Day, as calculated in the manner set out in the section headed “Unit Prices”.

Investors will pay the Issue Price of such Units on the applicable Dealing Day. An initial charge may be charged when issuing Units. Further details of the initial charge are given in the section headed “
Charges and expenses”.

Settlement

During the Initial Offer Period (if applicable), payment for Units issued for cash shall be due and subscription monies in cleared funds must be received by 4:00 p.m. (Hong Kong time) on the last day of the Initial Offer Period (or such other time as the Manager may from time to time determine). The Manager has discretion to accept subscription moneys received after close of the Initial Offer Period. If payment is not cleared within the above timeframe, or such other time as the Manager shall determine and notify the relevant applicant, the Manager reserves the right to cancel the transaction.

Following the close of the Initial Offer Period or where no Initial Offer Period applies, payment for Units issued for cash shall be due and subscription monies in cleared funds must be received forthwith upon submitting the subscription application, unless otherwise agreed by the Manager. In any event, if payment is not cleared within 4 Business Days following the relevant Dealing Day, or such other time as the Manager shall determine and notify the relevant applicant, the Manager reserves the right to cancel the transaction.

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

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

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

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

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

Restrictions on subscriptions

At the discretion of the Manager (and subject to the requirement of relevant regulations, the Fund, or Class(es) may be closed to new subscriptions without any prior notice from the Manager. However, Unitholders may continue to redeem their holdings in accordance with the procedures below, even when the Fund or Class is closed to new subscriptions. Furthermore, at the discretion of the Manager, the Fund or Class which was previously closed to new subscription may be re-opened for new subscriptions without any prior notice to existing Unitholders.

In addition, Units may not be issued during any period in which the determination of the net asset value of the Fund is suspended (for details see the section headed “Suspension of calculation of net asset value”).

Redemptions

Redemption notices will be dealt with on each Dealing Day.

In order for redemption notices to be dealt with, the relevant redemption notice form (available from the Manager) must be received in a manner satisfactory to the Manager or the Trustee and in accordance with the redemption procedures set out below.

A redemption request may be made by such means (including electronic means) with the required information and supporting documents as from time to time determined by the Manager and/or the Trustee. Investors should be reminded that if they choose to send redemption forms by facsimile or other electronic means, they bear their own risk of the redemption forms being illegible or not being received. Investors should therefore for their own benefit confirm with the Manager the receipt of the redemption forms. Neither the Manager nor the Trustee shall be responsible to a Unitholder or an investor for any loss resulting from non-receipt or illegibility of any orders sent by facsimile 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.

The minimum value of units of any Class of any Fund that a Unitholder may request a partial redemption must meet or exceed the minimum partial redemption (as detailed under the "Description of classes" section). The Manager may in its discretion agree to redeem a lesser amount from time to time than the minimum partial redemption, whether generally or in a particular case.

If a request for redemption will result in a Unitholder holding Units of a Class less than the minimum holding amount for that Class (as detailed under the "Description of classes" section), the Manager may refuse to accept such redemption request.

All redemption notices must be signed by Unitholders except for those sent via electronic means, as determined by the Manager and/or the Trustee.

Cut-off

Redemption notices should be made on, and in accordance with the instructions on the redemption notice form and be received by the Manager or the Trustee by 4:00 p.m. (Hong Kong time) on a Dealing Day (or such other time as the Manager may from time to time determine) if they are to be dealt on that Dealing Day. Redemption notices received after that time will be dealt with on the next Dealing Day.

Price

Units of a Class will be redeemed at the Redemption Price on the applicable Dealing Day, as calculated in the manner set out in the section headed "Unit prices".

There is currently no redemption charge.

Settlement

Redemption proceeds will not be paid to any redeeming Unitholder until (a) the written redemption request has been received by the Trustee, (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee and (c) receipt of all required documents by the Trustee for the purpose of verification of identity and the source of funds. Redemption proceeds will be paid to the registered Unitholder requesting such redemption only and will not be paid to third parties. Please also see the section headed "Anti-money laundering regulations".

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

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

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

Restrictions on redemptions

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

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

Compulsory redemption

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

(i) who is an "Ineligible Investor" (i.e. any person, corporation, or other entity to whom Units of the Fund may not be offered or sold, as disclosed under the section "Important information");

(ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to be relevant) which might result in the Manager, the Trustee, the Fund, a Fund or any Class of Units incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee, the Fund, a Fund or any Class of Units to any additional regulation which they or any of them might not otherwise have incurred or suffered or been subject to; or

(iii) in breach of any applicable law or applicable requirements of any country/region or governmental authority.

If it comes to the notice of the Manager or the Trustee that Units are owned directly or beneficially by any Restricted Person, the Manager or the Trustee may give a request for the transfer or the redemption of such Units.

<u>Switching Units</u>

Unitholders have the right (subject to any suspension in the determination of the net asset value of a Fund) to switch all or part of their Units of a certain Class of a Fund into Units of any other Class (whether in the same Fund or another Fund by giving notice to the Manager or the Trustee in writing or through such other means (including electronic means) as determined by the Manager and/or the Trustee, provided that such Class of a Fund or other Fund is open for new subscription and available for switching).

Switching is subject to limitations as the Manager may from time to time impose (including but not limited to the minimum holding requirement and investor eligibility requirement of the relevant Class of the Fund as detailed under the “Description of classes” section). No switching will be made if as a result thereof a Unitholder would hold less than the minimum holding requirement. Subscribers should contact the relevant intermediary or the Manager before making an application for switching. When dealing through an intermediary, investors also need to follow the terms of the intermediary.

Unitholders should be reminded that if they choose to send the notices by facsimile or other electronic means, they bear their own risk of the notices being illegible or not being received. Unitholders should therefore for their own benefit confirm with the Manager the receipt of the notices. Neither the Manager nor the Trustee shall be responsible to a Unitholder or an investor for any loss resulting from non-receipt or illegibility of any notices sent by facsimile 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.

All switching notices must be signed by Unitholders except for those sent via electronic means, as determined by the Manager and/or the Trustee.

Cut-off

Switching notices should be received by the Manager or the Trustee by 4:00 p.m. (Hong Kong time) on a Dealing Day (or such other time as the Manager may from time to time determine) if they are to be dealt on that Dealing Day. Switching notices received after that time will be dealt with on the next Dealing Day.

Switching rate

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

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

where:-

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

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

R = the Redemption Price of the Existing Class on the relevant Dealing Day on which the switch-out is to take effect;

S = the Issue Price of the New Class on the Dealing Day on which the switch-in is to take effect; and

SF = a switching fee for the benefit of the Manager (or its agents), applicable as follows:

(i) Where the New Class is another class in the same Fund as the Existing Class, the Manager does not currently intend to levy a switching fee. Under the Trust Deeds, the maximum rate of the switching fee is 1 per cent of the Issue Price per unit of the New Class (which is equivalent to 0.99 per cent of the switch-out proceeds).

(ii) Where the New Class is any class of another Fund, the current switching fee is up to 1 per cent of the switch-out proceeds. Investors should be aware that switching between the Funds is an additional service provided by the Manager which is executed by a redemption and subscription under the terms set out within this Explanatory Memorandum including charging an initial charge (which is referred to as a switching fee in this context). Consequently, the maximum rate of the switching fee is the maximum initial charge on the issue of units of the New Class.

Settlement

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

Transferring 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 holder of the Units transferred until the name of the transferee is entered in the Register of Unitholders in respect of such Units.

Anti-money laundering regulations

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

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

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

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

(b) the exercise of any of the rights of a Fund, its service providers and other members of the HSBC Group under this section.

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

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

Charges and expenses

Charges and expenses apply to the Funds and their Unit Classes where appropriate, for their investment management, distribution and for the operating services required.

There are three types of charges and expenses:

1. Initial charge and switching fee
2. Ongoing charges
3. Other charges.

Initial charge and switching fee

The Manager (or its authorised distributors) is entitled to deduct an initial charge from the total subscription amount and then issue units based on the net subscription amount (i.e. the total subscription amount less the initial charge). The Manager currently charges an initial charge of up to 3.00% of the total subscription amount for each Fund. Under the Trust Deeds, the maximum rate of the initial charge is up to 5.5 per cent of the Issue Price (which is equivalent to 5.21 per cent of the total subscription amount).

The Manager does not currently intend to levy an initial charge for issue of “L” Class Units, "Z" Class Units or Provident Class Units.

Currently, the Manager is not retaining the initial charge and has shared the initial charge with its authorised distributors who will retain the full initial charge.

The rate of switching fee is set out in “Switching Rate” under the “Switching Units” section above. Currently, the Manager is not retaining the switching fee and has shared the switching fee with its authorised distributors who will retain the full switching fee. The Manager may waive such fee.

Ongoing charges

Ongoing charges consist of:

- Management fee
- Trustee fee
- Other ongoing expenses
- Costs of investing in units or shares of Underlying Funds
- Amortised establishment costs

Ongoing charges may vary over time. Retail investors in Hong Kong can consult the Product Key Fact Statement of the relevant Fund for a list of classes currently available to them alongside the ongoing charges figure (calculated on such basis as disclosed in the relevant Product Key Fact Statement).

Management fees

The Manager is entitled to receive management fees as follow:

	Annual Management Fees(4)	
	Current fee	Maximum fee
"A" Class Unit	1.50%(1)	2.50%(2) / 1.50%(3)
Provident Class Unit	0.75%(1)	2.50%(2) / 1.50%(3)
Accumulation Unit	1.45%(1)	3.50%(2) / 2.50%(3)
"L" Class Unit	1.20% (1)	3.50%(2) / 3.50%(3)
"Z" Class Unit	0% (1)	2.50%(2) / 1.50%(3)

Note:

(1) Applicable to all four Funds.

(2) Only applicable to the HSBC Managed Stable Fund, the HSBC Managed Stable Growth Fund and the HSBC Managed Growth Fund.

(3) Only applicable to the HSBC Managed Balanced Fund.

(4) In respect of Accumulation Unit and “L” Class Unit, the management fees include an additional management fee. The additional management fee is currently 0.7% per annum for Accumulation Unit and 0.45% per annum for “L” Class Unit. The additional management fees payable in respect of each of Accumulation Class Units and “L” Class Units shall not exceed 1% per annum, except with the approval of unitholders of such Class of Units. Such additional management fee will be applied to cover any expenses relating to administration, trustee and custodian fees of those investment funds, retirement schemes and pooled funds which invest in the four Funds. In the unlikely event that a Fund shall have no Manager, the Trustee will continue to charge the additional management fee for the same purposes as disclosed above.

The Manager may share any amounts it is entitled to retain as manager of the Funds with any persons who distribute or otherwise procure subscriptions to the Funds.

The fee of the Investment Adviser is borne by the Manager.

Any increase in the annual fee from the current level up to the maximum level allowed under the Trust Deeds will only be implemented after giving 1 month's notice to unitholders.

Trustee fee

The Trust Deeds allow the Trustee to receive an annual fee for its services not exceeding 0.25% per year of the net asset value of each Fund, accrued on and calculated as at each Valuation Day. The Trustee proposes to charge an annual fee at the rate of 0.07% per year. Any increase in the annual fee from the current level up to the maximum level allowed under the Trust Deeds will only be implemented after giving 1 month's notice to unitholders.

The Trustee is also entitled to various transaction and processing fees and to be reimbursed for all out of pocket expenses (including transfer agency fees, sub-custody fees and expenses) properly incurred by it in the performance of its duties.

Other ongoing expenses

Each Fund will bear the cost of:

(a) all stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and expenses, registration fees and expenses, transaction fees of the Trustee or its Connected Persons, custodian or sub-custodian and proxy fees and expenses, collection fees and expenses, insurance and security costs, and any other costs, charges or expenses payable in respect of the acquisition, holding and realisation of any investment or other property or any cash, deposit or loan (including the claiming or collection of income or other rights in respect thereof and including any fees or expenses charged or incurred by the Trustee or the Manager or any Connected Person in the event of the Trustee or the Manager or such Connected Person rendering services or effecting transactions giving rise to such fees or expenses),

(b) the fees and expenses of the Auditors and the Registrar,

(c) fees charged by the Trustee in connection with valuing the assets of the Fund or any part thereof, calculating the Issue Price and Redemption Price of units and preparing financial statements,

(d) all legal charges incurred by the Manager or the Trustee in connection with the Fund,

(e) out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties,

(f) the expenses of or incidental to the preparation of deeds supplemental to the Trust Deeds,

(g) the expenses of holding meetings of unitholders and of giving notices to unitholders,

(h) the costs and expenses of obtaining and maintaining a listing for the units on any stock exchange or exchanges selected by the Manager and approved by the Trustee and/or in obtaining and maintaining any approval or authorisation of the Fund or in complying with any undertaking given, or agreement entered into in connection with, or any rules governing such listing approval or authorisation, and

(i) without prejudice to the generality of the foregoing, all costs incurred in publishing the Issue Price and Redemption Price of units, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deeds (including the Auditors' fees), the expenses of preparing and printing any explanatory memorandum, and any other expenses, deemed by the Manager to have been incurred in compliance with or in connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts.

Costs of investing in units or shares of Underlying Funds

These are the costs associated with a Fund holding units or shares of Underlying Funds - including their ongoing charges and any one-off costs (if permitted under applicable regulations).

The payment of these costs will be taken in accordance with each specific Underlying Funds' payment schedule as articulated in their prospectus as permitted by applicable regulations.

If a Fund's aggregate investments in all Underling Fund(s) is less than 20% of the investing Fund's net asset value, then the costs of investing in units or shares of Underlying Funds may not be included in the published ongoing charges figure of the Fund.

Amortised establishment costs

The cost of establishment of a Fund may be amortised over a certain number of financial years of the Fund commencing from the first Valuation Day, unless otherwise determined by the Manager with the approval of the Trustee.

If the Fund is wound-up prior to the expenses being fully amortised, such unamortised amount will be borne by the Fund prior to its termination.

As at the date of this Explanatory Memorandum, all the establishment costs have been fully amortised.

Other charges and expenses

Other charges and expenses may not be included in the published ongoing charges figure but are borne by the Fund or the relevant Fund. They include:

a. all stamp and other duties, taxes and governmental charges (including withholding tax and capital gains tax).

b. brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and expenses, registration fees and expenses, and any other costs, charges or expenses payable in respect of the acquisition, holding and realisation of any investment or other property or any cash, deposit or loan (including the claiming or collection of income or other rights in respect thereof and including any fees or expenses charged or incurred by the Trustee or the Manager or any Connected Person in the event of the Trustee or the Manager or such Connected Person rendering services or effecting transactions giving rise to such fees or expenses)

c. costs incurred for the holding of financial derivative instruments e.g. margin calls, costs incurred from swap transactions; and

d. value of goods or services received by the management company or any connected person in exchange for placing of dealing orders e.g. soft commissions or similar arrangement.

Taxation

The following statements regarding taxation are based on advice received by the Funds regarding the law and practice in force in the relevant jurisdictions at the date of this Explanatory Memorandum. Investors should be aware that levels and bases of taxation are subject to change and that the value of any relief from taxation depends upon the individual circumstances of the taxpayer.

Taxes on Unitholders and Unitholder tax disclosures

Investors should consult their professional advisers on the consequences to them of acquiring, holding, redeeming, transferring or selling units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors will vary with the law and practice of the investors' country/region of citizenship, residence, domicile or incorporation and their personal circumstances.

Hong Kong

Under present Hong Kong law and practice:-

a) No tax will be payable by Unitholders in Hong Kong in respect of dividends or other income payments of a Fund or in respect of any gains arising on a sale, redemption or other disposal of Units of a Fund, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong and the gains are Hong Kong sourced and not otherwise of capital nature. Ascertaining the source and the classification of a gain as revenue or capital will depend on the particular facts and circumstances of the Unitholders.

b) No Hong Kong stamp duty is payable by Unitholders in relation to the issuance of Units, the redemption of Units or sales or transfer of Units effected by extinguishing the Units or the sale or transfer is to the Manager who subsequently re-sells the Units within two months thereof. Other types of sales or purchases or transfers of the Units by Unitholders should be liable to Hong Kong stamp duty of 0.13% (borne by each of the buyer and seller) on the higher of the consideration amount or market value. In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of Units, unless specifically exempted.

Payments to Unitholders

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

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

Automatic Exchange of Information

Automatic exchange of information **("AEOI")** is an umbrella term covering a number of inter-governmental and multi-lateral agreements concerning information sharing between states (or region) to promote tax transparency.

Investors should consult their own tax advisors regarding AEOI requirements with respect to their own situation. In particular, investors who hold their units through intermediaries should confirm the AEOI compliance status of those intermediaries.

Foreign Account Tax Compliance Act

The US Foreign Account Tax Compliance Act ("**FATCA**") requires non-U.S. (foreign) financial institutions ("**FFI**") to report certain investor information to the US authorities. Under sections 1471 through 1474 of the U.S. Internal Revenue Code if an FFI is not compliant with FATCA then a 30% withholding tax may be imposed on certain payments to FFIs. Currently this withholding tax only applies to payments that constitute interest, dividends and other types of income from U.S. sources (such as dividends paid by a U.S. corporation).

Hong Kong has signed an Intergovernmental Agreement ("IGA") Model 2 with the U.S. and the Funds intend to comply with the terms of the IGA and local implementing regulations.

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

As at the date of the Explanatory Memorandum, the Funds are treated as a "Non-reporting IGA FFIs" under IGA Model 2 with the U.S. This means that the Manager will act as "FATCA sponsoring entity" and carry out FATCA obligations on behalf of the Funds.

Common Reporting Standard

Hong Kong's Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") and subsequent legislative amendments set the legislative framework for the implementation in Hong Kong of the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the "**CRS**").

The CRS rules as implemented by Hong Kong require the Funds to, amongst other things: (i) register the Funds' status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its account (i.e., investors) to identify whether any accounts are considered "Reportable Accounts" for CRS purposes; and (iii) report to the IRD certain information on such Reportable Accounts. Broadly, CRS contemplates 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 reportable jurisdiction. Under the Ordinance, details of investors, including but not limited to their name, address, date and place of birth, jurisdiction of residence, tax identification numbers, account number, account balance/value, distribution income and sale/redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant jurisdictions of tax residence.

The investor agrees to provide the Manager with any documentation or account information to enable the Manager to comply with the requirements and obligations imposed on the Manager pursuant to the regulatory requirements (including FATCA and AEOI legislation). To the extent required by the Manager, the investor hereby consents to the disclosure and reporting of any tax related information to any local or foreign regulatory or tax authority ("**Tax Authority**") where the provision of that information to such person or regulatory authority is required to ensure compliance by the Fund manager with its obligations under the regulatory requirements (including FATCA and the AEOI legislation) or to avoid being subject to withholding tax or other liabilities under the regulatory requirements (including FATCA and AEOI legislation). Upon request by the Manager, the investor hereby agrees to obtain a written waiver or consent from the "substantial owners" or "controlling persons" and to provide those consents to the Manager to permit it to disclose and report relevant information to any local or foreign Tax Authority pursuant to the regulatory requirements (including FATCA and AEOI legislation). The terms "substantial owners" and "controlling persons" shall have the meaning as defined under local or foreign tax laws, regulatory guidance or intergovernmental cooperation agreements. The potential consequences for failure to comply with requests for the requested information, failure to respond to requests for waivers or consents for tax information disclosure, and/or failure to respond to requests to obtain waivers or consents from substantial owners or controlling persons, include, but are not limited to: (i) the Manager's right to take whatever actions that are necessary to comply with the local or foreign tax reporting obligations and the regulatory requirements (including FATCA and AEOI legislation); (ii) the Manager's ability to withhold an amount from certain payments made to the investor's account that is sufficient to discharge any liabilities, costs, expenses, taxes, withholdings or deductions incurred or suffered by the Manager due to the representations, actions or inactions (directly or indirectly) by the investor; (iii) the Manager's right to pay relevant taxes to the appropriate tax authority; (iv) the Manager's right to refuse to provide certain services; and (v) the Manager's right, to the extent permitted by applicable laws and the Fund's constitutional documents, to compulsorily redeem or withdraw the investor concerned. The Manager shall at all times observe relevant legal requirements and shall act in good faith and on reasonable grounds. The investor agrees to inform, or respond to any request from, the Manager, if there are any changes to tax information previously provided.

Taxes on the Funds

Hong Kong

During such period that a Fund is authorised by the SFC pursuant to section 104 of the Securities and Futures Ordinance then, under present Hong Kong law and practice a Fund is not expected to be subject to Hong Kong profits tax in respect of any of its authorised activities.

Mainland China

Under Mainland China CIT law, if a Fund is considered Mainland China tax resident, it will be subject to CIT at 25% on its worldwide taxable income. If a Fund is considered non-Mainland China resident but has a permanent establishment ("PE") in Mainland China, the profits attributable to that PE would be subject to Mainland China CIT at 25%. If the Funds are non-Mainland China resident without PE in Mainland China, Mainland China-sourced income derived by them from the investment in Mainland China securities would in general be subject to 10% Mainland China CIT withholding in Mainland China, unless exempt or reduced under specific tax circulars or relevant tax treaty.

It is the intention of the Manager that the affairs of the Funds will be such that they are not Mainland China tax resident enterprises and have no PE in Mainland China for Mainland China CIT purposes, although this cannot be guaranteed.

For tax disclosures on investment in Mainland China securities, please refer to the sub-section headed “Mainland China” of the below section on “Taxes related to a Fund’s assets”.

Taxes related to a Fund’s assets

In many markets a Fund as a foreign investment fund, may be subject to non-recoverable tax, levies, duties or charges imposed by the authorities in such market on income and gains (either by withholding or direct assessment) in relation to the investment returns it realises from its holdings of shares and securities in those markets. Where practicable a Fund will make claims under the relevant double tax treaties and the domestic law of the countries/regions concerned in order to minimise the impact of local taxation on the investment return and to obtain the best return for its Unitholders. Those claims will be made on the basis of the understanding of the validity of such claims given the information available from the Fund’s depositaries, external advisers and other sources as to the interpretation and application of the relevant legal provisions by the tax authorities in the country/region concerned.
The Manager may, upon taking tax advice, at its discretion, arrange with the Trustee to provide for potential tax liabilities in respect of the Funds’ investments for the purpose of meeting the Funds’ tax liabilities.

Investors should note that any tax provision, if made, may be excessive or inadequate to meet actual tax liabilities on investments made by the Fund. In the event that it is satisfied (based on tax advice) that part of the tax provisions are not required, the Manager will arrange with the Trustee to release such provisions back into the Fund, forming part of the Fund’s assets. On the other hand, any amount by which the tax provisions fall short of the tax liability incurred or is expected to be incurred by the Fund shall be debited and deducted from the Fund’s assets which will adversely affect the net asset value of a Fund.

Any tax provision, if made, will be reflected in the net asset value of a Fund at the time of debit or release of such provision and thus will only impact on Units which remain in a Fund at the time of debit or release of such provision. Units which are redeemed prior to the time of debit of such provision will not be affected by reason of any insufficiency of the tax provision. Likewise, such Units and the Unitholders who have redeemed will not benefit from any release of excess tax provisions.

Investors may be advantaged or disadvantaged depending upon the final tax outcome as and when they subscribed and/or redeemed the Units of a Fund. Investors should note that no Unitholders who have redeemed their Units in a Fund before the release of any excess tax provision shall be entitled to claim in whatsoever form any part of the tax provision or withholding amounts released to a Fund, which amount will be reflected in the value of Units in a Fund.

A Fund will seek to claim concessionary tax treatment and account for tax on a reasonable efforts basis, given the tax law and practice at that date. Any change in tax law or practice in any country/region where a Fund is registered, marketed and invested could affect the value of a Fund’s investments in the affected country/region. In particular, where retrospective changes to tax law or practice are applied by the legislature or tax authorities in a particular country/region these may result in a loss for current Unitholders in the affected Fund. The Funds do not offer any warranty as to the tax position of returns from investments held in a particular market nor of the risk of a retrospective assessment to tax in a particular market or country/region. This risk is particularly pertinent when a Fund invests in emerging markets. including Mainland China. Investors and potential investors should refer to the “Mainland China tax risks” section as well as the section below related to Mainland China.

Mainland China

By investing in China A-shares, B-shares, H-shares, Bank Deposits and RMB denominated fixed income securities (including corporate and government bonds) issued inside or outside Mainland China as well as equivalents such as CAAPs (“Mainland China Securities”), a Fund may be subject to taxes imposed by Mainland China.

CIT

If a Fund is a non-Mainland China resident without PE in Mainland China (i.e. foreign investor), the Mainland China-sourced income derived by it from the investment in Mainland China Securities would in general be subject to 10% Mainland China CIT withholding in Mainland China, unless exempt or reduced under specific tax circulars or relevant tax treaty.

Bank deposits

Interest derived by foreign investors from bank deposits in Mainland China is subject to 10% Mainland China CIT by way of withholding which may be reduced under applicable tax treaty subject to filing with the in-charge Mainland China tax authority.

Fixed income investments

Interest derived from Mainland China debt securities other than government bonds[2] (including those issued by foreign enterprises but deemed as Mainland China tax residents[3]) by a foreign investor is subject to 10% Mainland China CIT by way of withholding unless the rate is reduced under applicable tax treaty subject to filing with the in-charge Mainland China tax authority.

In November 2018, the Ministry of Finance (“MOF”) and the State Taxation Administration of the People’s Republic of China (“STA”) jointly issued [Caishui [2018] No. 108] ("Circular 108”) which provides that foreign institutional investors are exempted from Mainland China CIT in respect of bond interest income received from 7 November 2018 to 6 November 2021 (“Tax Exempt Period”) from investments in the Mainland China onshore bond market. According to the Public Notice no. 34 (“Public Notice no. 34”) issued by MOF and STA in November 2021, the Tax Exempt Period has further extended to 31 December 2025. Such exemption does not apply to interest income derived by a permanent establishment of the foreign institutional investors in Mainland China. There is still lack of clear guidance in respect of CIT applicable to interest income derived by the Funds from Mainland China onshore debt securities, in particular, whether interest income received before 7 November 2018 is subject to CIT and whether the tax exemption under Public Notice no. 34 will continue to be available upon expiry.

There are no specific rules governing Mainland China CIT on capital gains derived by

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[2] Interest from government bonds are generally exempt from Mainland China CIT. These only refer to government bonds issued by the Mainland China Ministry of Finance, or State Council approved local government bonds issued in 2009 or subsequent years.

[3] A company is regarded as Mainland China tax resident company if it is incorporated in Mainland China or effectively managed in Mainland China. “Effective management” is defined as the overall management and control over the operation, business, personnel, accounting and assets of a company.

foreign investors from the trading of debt securities in Mainland China. Based on current interpretation of the STA and professional tax advice, the Manager does not intend to provide for any Mainland China CIT in respect of the capital gains derived by a Fund from disposal of debt securities in Mainland China.

In light of the uncertainty on the CIT treatment on capital gains on debt securities trading in Mainland China and for the purpose of meeting this potential tax liability of a Fund for capital gains from debt securities in Mainland China, the Manager reserves the right to provide for CIT on such gains or income and withhold the tax from the account of a Fund based on new developments and interpretation of the relevant regulations (after taking professional tax advice).

Equity investments

Pursuant to the Official Reply of the State Taxation Administration of the People's Republic of China on Issues Concerning Levying Corporate Income Tax on Dividends of B Shares and Other Shares Derived by Non-resident Enterprises, where Mainland China resident enterprises that have shares (A-shares, B-shares and overseas shares) publicly issued and listed in and outside of Mainland China pay dividends to non-resident enterprise shareholders, CIT at the rate of 10% shall be withheld and paid on dividends from 2008 onwards. The rate of 10% may be reduced under applicable tax treaty subject to filing with the in-charge Mainland China tax authority.

Pursuant to Circulars on the Taxation Policy of the Pilot Programme for the Mutual Stock Market Access between Shanghai/Shenzhen and Hong Kong Stock Markets, in respect of trading through the Stock Connect:

- CIT shall be temporarily exempted on the gains derived by Hong Kong market investors (including corporate investors) from the transfer of China A-shares listed on the Shanghai/Shenzhen Stock Exchange; and
- Hong Kong market corporate investors are required to pay tax on dividends of China A-shares at a temporary tax rate of 10%, which will be withheld and paid to the relevant Mainland China tax authority by the respective listed companies.

VAT

On 23 March 2016, the MOF and the STA jointly released Circular Notice on Overall Implementation of Transforming Business Tax to Value-added Tax on a Pilot Basis ("Circular 36") on the full transformation of Business Tax to VAT (the "B2V Reform"). Circular 36 took effect on 1 May 2016 and officially transforms the financial services industry from Business Tax to VAT. After the issuance of Circular 36, the MOF and STA issued various supplementary circulars, including Circular Caishui [2016] No. 140, Circular Caishui [2017] No. 2 and Circular Caishui [2017] No. 56 which specifically address the VAT treatment of asset management products.

Interest income

Based on the interpretation of the relevant tax regulations and circulars upon seeking tax advice, coupon interest derived by a Fund from Mainland China onshore non-government bonds and offshore bonds issued by Mainland China tax resident companies ("**relevant bonds**") should be subject to VAT at 6% plus local surcharges (if applicable) from 1 May 2016.

Circular 108 provides that foreign institutional investors are exempted from Mainland China VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the Mainland China onshore bond market. According to the Public Notice no. 34, the Tax Exempt Period has further extended to 31 December 2025. Such exemption does not apply to interest income derived by a permanent establishment of the foreign institutional investors in Mainland China.

There is still lack of clear guidance in respect of VAT applicable to interest income derived by the Funds from Mainland China onshore debt securities, in particular, whether interest income received before 7 November 2018 is subject to VAT and whether the tax exemption under Public Notice no. 34 will continue to be available upon expiry.

Interest income from bank deposit in Mainland China is not subject to Mainland China VAT.

Dividends

Dividends are not subject to Mainland China VAT.

Capital gains

Pursuant to Circular 36, gains realised from the trading of marketable securities in Mainland China would generally be subject to VAT at 6% plus surcharge (if applicable), unless specifically exempted. Pursuant to Caishui [2016] No. 70, which is a supplementary notice to Circular 36, gains realised by institutional investors outside Mainland China recognized by the PBOC from the investment in the interbank local currency market are exempt from VAT. In addition, pursuant to Circular 36 and Caishui [2016] 127 (tax circular on Shenzhen-Hong Kong stock connect), VAT shall be exempted on the gains derived by Hong Kong market investors (including corporate and individual investors) from the trading of China A-shares through the Stock Connect.

Surcharges (if applicable)

If VAT is payable on interest and/or capital gains, there may be also surcharges (which include City Construction and Maintenance Tax, Education Surcharge, Local Education Surcharge) to be charged on top of the 6% VAT payable. There may also be other levies imposed in some locations. However, overseas investors are no longer subject to surcharges starting from 1 September 2021.

Stamp duty

Stamp duty under Mainland China laws generally applies to the conclusion and receipt of dutiable documents listed in Mainland China Provisional Rules on Stamp Duty. Stamp duty is payable at 0.1% by the transferor of China A-shares and B-shares.

Under Circulars on the Taxation Policy of the Pilot Programme for the Mutual Stock Market Access between Shanghai and Hong Kong Stock Markets, Hong Kong market investors trading through Shanghai-Hong Kong Stock Connect are required to pay stamp duty arising from the sale and purchase of China A-shares and the transfer of China A-shares by way of succession and gift in accordance with the prevailing Mainland China taxation regulations. The same rules apply to Hong Kong market investors trading through Shenzhen-Hong Kong Stock Connect. In addition, Caishui [2016] 127 provides temporary stamp duty exemption on stock borrowing and returning related to covered short selling of stocks by Hong Kong market investors through the Stock Connect.

Tax provisions – Mainland China CIT and VAT

In view of the foregoing, the Manager, after taking professional tax advice, has decided that:

- a Fund will make a CIT provision of 10% on interest from its investments in debt securities issued by Mainland China tax resident enterprises, if it was not withheld at source nor borne by the bond issuers (except (i) interests from investments in Mainland China onshore bonds received during the Tax Exempt Period and (ii) interest from Mainland China government bonds and local government bonds);

- a Fund will not withhold any amount of realised or unrealised capital gains derived from the disposal of or investment in Mainland China debt securities;

- a Fund will not withhold any amount for interest derived from Bank Deposits in Mainland China as CIT provision because CIT is withheld at source;

- a Fund will not withhold (or will not request the CAAP issuers to withhold) any amount of realised or unrealised gains on its investments in CAAPs as tax provisions;

- a Fund will not withhold any amount of realised or unrealised gains on its investments in China A-shares through the Stock Connect as tax provisions; and

- a Fund will make a VAT provision at 6% plus surcharge (if applicable) on interest from its investment in the relevant bonds provided that such VAT is not borne by the bond issuers (except (i) interests from investments in Mainland China onshore bonds received during the Tax Exempt Period and (ii) interest from Mainland China government bonds and local government bonds).

The Manager may, upon taking professional tax advice, at its discretion, arrange with the Trustee to change the tax provisions in regard to potential Mainland China tax liabilities in respect of a Fund's investments in Mainland China based on new developments and interpretation of the relevant regulations from time to time, for the purpose of meeting a Fund's tax liabilities in respect of or arising out of any Mainland China taxes, charges and duties set out above.

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 be changed with retrospective effect in the future. Such changes may impact the tax provisioning policy and tax position of a Fund and could have a material adverse impact on the net asset value of a Fund, thereby causing significant losses to investors. Investors should seek their own tax advice on their Mainland China tax position with regard to their investment in a Fund.

Investors should refer to the risk factor headed "**Error! Reference source not found.**" in the section headed "Fund specific risk" for further risk disclosures in Mainland China taxation.

Appendix 1 – Fund Details

The following chart illustrates the difference in asset allocation among the Funds. Obviously however, the Investment Adviser will use its investment expertise to adjust each of the portfolios as it thinks appropriate, bearing in mind market conditions and the risk profile of the particular Fund.

HSBC Managed Stable Fund	HSBC Managed Stable Growth Fund	HSBC Managed Balanced Fund	HSBC Managed Growth Fund

bias towards towards bonds and cash

bias equities

HSBC Managed Stable Fund

Base Currency

HKD

Investment objective, policy and strategy

The objective of the Fund is to achieve long term stable capital growth by investing in a diversified portfolio with a bias towards global bonds and fixed income instruments through direct investment and/or other collective investment schemes that the Fund may invest in.

The Fund may invest around 55% to 85% of its net asset value in global debt securities, bonds, money market instruments, deposits and cash. The remainder of the assets (i.e. 15% to 45% of the Fund's net asset value) may be invested in global equities and equity-related investments. The intended asset allocation aforesaid is for indication only and may be changed as and when the Manager considers appropriate. The asset allocation approach will look to favour assets where the Manager believes future returns will be most suitable to the overall portfolio objectives in terms of risk and return. This will take into account valuation levels, the macro background and other relevant market factors. The asset allocation will be altered over time in the light of market developments. Under normal market circumstances, the Fund may invest up to 20% of its net asset value in bank deposits and/or cash (excluding the cash positions caused by subscription and redemption). However, under exceptional market circumstances (including but not limited to market crash or major crisis), the Fund's bank deposit and/or cash level may temporarily be up to 100% of its net asset value.

The Fund may not invest more than 10% of its net asset value in debt securities rated below investment grade (i.e. rated below Baa3 / BBB- by Moody's, Standard & Poor's, or any other internationally recognised credit rating agency or rated AA or below by Mainland China local credit rating agency) or unrated debt securities. For this purpose, the credit rating of the debt securities refers to the credit rating assigned to such securities, or their issuers or holding companies.

The Fund may invest less than 30% of its net asset value in debt instruments with loss-absorption features (e.g. contingent convertible debt securities).

The Fund may invest in aggregate up to 100% of its net asset value in units or shares of collective investment schemes. For schemes authorised by the SFC, or eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time), the Fund's holding in each such scheme may not exceed 30% of the Fund's net asset value. For non-eligible schemes not authorised by the SFC, the total investment in all such schemes may not exceed 10% of the Fund's net asset value.

The Fund may invest less than 30% of its net asset value in onshore Mainland China securities and less than 40% of its net asset value in offshore Mainland China securities via direct investment and/or other collective investment schemes that the Fund may invest in, provided that the Fund's aggregate investment in onshore and offshore Mainland China securities is up to 40% of its net asset value. For onshore Mainland China equities and bonds, the Fund may invest via Stock Connect, CIBM Initiative, Bond Connect (as the case may be) and/or other means as may be permitted by the relevant regulations from time to time.

The Manager selects collective investment schemes that may contribute to achieve the Fund's investment objective, and the selection of collective investment schemes should not be limited by region, country, industry sector, market capitalization or debt securities grading that such schemes invest in. The underlying investments of the collective investment schemes include equities, fixed income and money market instruments, bank deposits and cash.

Until 27 May 2024: While the collective investment schemes in which the Fund invests may have exposure to derivatives, such schemes will not use derivatives extensively for investment purposes.

From 28 May 2024: The Fund may invest less than 20% of its net asset value in collective investment schemes which may use financial derivative instruments extensively for investment purposes.
From 28 May 2024: The Fund may invest up to 10% of its net asset value in commodities, mainly through exchange-traded commodities securities, collective investment schemes and/or financial derivative instruments such as derivatives on commodities. The Fund will not invest directly in commodities.

From 28 May 2024: The Fund may invest up to 10% of its net asset value in liquid alternative investment strategies, mainly through collective investment schemes.

The Fund may also invest in financial derivative instruments (including embedded financial derivatives) for investment and hedging purposes, subject to the provisions set out under the section "Fund Restrictions".

HSBC Managed Stable Growth Fund

Base Currency

HKD

Investment objective, policy and strategy

The objective of the Fund is to achieve long-term capital growth by investing in a diversified portfolio with a mixture of global equities and global bonds and fixed income instruments through direct investment and/or other collective investment schemes that the Fund may invest in.

The Fund may invest around 35% to 65% of its net asset value in global debt securities, bonds, money market instruments, deposits and cash. The remainder of the assets (i.e. 35% to 65% of the Fund's net asset value) may be invested in global equities and equity-related investments. The intended asset allocation aforesaid is for indication only and may be changed as and when the Manager considers appropriate. The asset allocation approach will look to favour assets where the Manager believes future returns will be most suitable to the overall portfolio objectives in terms of risk and return. This will take into account valuation levels, the macro background and other relevant market factors. The asset allocation will be altered over time in the light of market developments. Under normal market circumstances, the Fund may invest up to 15% of its net asset value in bank deposits and/or cash (excluding the cash positions caused by subscription and redemption). However, under exceptional market circumstances (including but not limited to market crash or major crisis), the Fund's bank deposit and/or cash level may temporarily be up to 100% of its net asset value.

The Fund may not invest more than 10% of its net asset value in debt securities rated below investment grade (i.e. rated below Baa3 / BBB- by Moody's, Standard & Poor's, or any other internationally recognised credit rating agency or rated AA or below by Mainland China local credit rating agency) or unrated debt securities. For this purpose, the credit rating of the debt securities refers to the credit rating assigned to such securities, or their issuers or holding companies.

The Fund may invest less than 30% of its net asset value in debt instruments with loss-absorption features (e.g. contingent convertible debt securities).

The Fund may invest in aggregate up to 100% of its net asset value in units or shares of collective investment schemes. For schemes authorised by the SFC, or eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time), the Fund's holding in each such scheme may not exceed 30% of the Fund's net asset value. For non-eligible schemes not authorised by the SFC, the total investment in all such schemes may not exceed 10% of the Fund's net asset value.

The Fund may invest less than 30% of its net asset value in onshore Mainland China securities and less than 40% of its net asset value in offshore Mainland China securities via direct investment and/or other collective investment schemes that the Fund may invest in, provided that the Fund's aggregate investment in onshore and offshore Mainland China securities is up to 40% of its net asset value. For onshore Mainland China equities and bonds, the Fund may invest via Stock Connect, CIBM Initiative, Bond Connect (as the case may be) and/or other means as may be permitted by the relevant regulations from time to time.

The Manager selects collective investment schemes that may contribute to achieve the

Fund's investment objective, and the selection of collective investment schemes should not be limited by region, country, industry sector, market capitalization or debt securities grading that such schemes invest in. The underlying investments of the collective investment schemes include equities, fixed income and money market instruments, bank deposits and cash.

Until 27 May 2024: While the collective investment schemes in which the Fund invests may have exposure to derivatives, such schemes will not use derivatives extensively for investment purposes.

From 28 May 2024: The Fund may invest less than 20% of its net asset value in collective investment schemes which may use financial derivative instruments extensively for investment purposes.

From 28 May 2024: The Fund may invest up to 10% of its net asset value in commodities, mainly through exchange-traded commodities securities, collective investment schemes and/or financial derivative instruments such as derivatives on commodities. The Fund will not invest directly in commodities.

From 28 May 2024: The Fund may invest up to 10% in liquid alternative investment strategies, mainly through collective investment schemes.

The Fund may also invest in financial derivative instruments (including embedded financial derivatives) for investment and hedging purposes, subject to the provisions set out under the section "Fund Restrictions".

HSBC Managed Balanced Fund

Base Currency

HKD

Investment objective, policy and strategy

The objective of this Fund is to achieve long-term capital growth by investing in a diversified portfolio with a mixture of global equities and global bonds and fixed income instruments through direct investment and/or other collective investment schemes that the Fund may invest in.

The Fund may invest around 55% to 85% of its net asset value in equities and equity-related investments. The remainder of the assets (i.e. 15% to 45% of the Fund's net asset value) may be invested in global debt securities, bonds, money market instruments, cash instruments and cash. The intended asset allocation aforesaid is for indication only and may be changed as and when the Manager considers appropriate. The asset allocation approach will look to favour assets where the Manager believes future returns will be most suitable to the overall portfolio objectives in terms of risk and return. This will take into account valuation levels, the macro background and other relevant market factors. The asset allocation will be altered over time in the light of market developments. Under normal market circumstances, the Fund may invest up to 15% of its net asset value in bank deposits and/or cash (excluding the cash positions caused by subscription and redemption). However, under exceptional market circumstances (including but not limited to market crash or major crisis), the Fund's bank deposit and/or cash level may temporarily be up to 100% of its net asset value.

The Fund may not invest more than 10% of its net asset value in debt securities rated below investment grade (i.e. rated below Baa3 / BBB- by Moody's, Standard & Poor's, or any other internationally recognised credit rating agency or rated AA or below by Mainland China local credit rating agency) or unrated debt securities. For this purpose, the credit rating of the debt securities refers to the credit rating assigned to such securities, or their issuers or holding companies.

The Fund may invest less than 30% of its net asset value in debt instruments with loss-absorption features (e.g. contingent convertible debt securities).

The Fund may invest in aggregate up to 100% of its net asset value in units or shares of collective investment schemes. For schemes authorised by the SFC, or eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time), the Fund's holding in each such scheme may not exceed 30% of the Fund's net asset value. For non-eligible schemes not authorised by the SFC, the total investment in all such schemes may not exceed 10% of the Fund's net asset value.

The Fund may invest less than 30% of its net asset value in onshore Mainland China securities and less than 40% of its net asset value in offshore Mainland China securities via direct investment and/or other collective investment schemes that the Fund may invest in, provided that the Fund's aggregate investment in onshore and offshore Mainland China securities is up to 40% of its net asset value. For onshore Mainland China equities and bonds, the Fund may invest via Stock Connect, CIBM Initiative, Bond Connect (as the case may be) and/or other means as may be permitted by the relevant regulations from time to time.

The Manager selects collective investment schemes that may contribute to achieve the

Fund's investment objective, and the selection of collective investment schemes should not be limited by region, country, industry sector, market capitalization or debt securities grading that such schemes invest in. The underlying investments of the collective investment schemes include equities, fixed income and money market instruments, bank deposits and cash.

Until 27 May 2024: While the collective investment schemes in which the Fund invests may have exposure to derivatives, such schemes will not use derivatives extensively for investment purposes.

From 28 May 2024: The Fund may invest less than 20% of its net asset value in collective investment schemes which may use financial derivative instruments extensively for investment purposes.

From 28 May 2024: The Fund may invest up to 10% of its net asset value in commodities, mainly through exchange-traded commodities securities, collective investment schemes and/or financial derivative instruments such as derivatives on commodities. The Fund will not invest directly in commodities.

From 28 May 2024: The Fund may invest up to 10% of its net asset value in liquid alternative investment strategies, mainly through collective investment schemes.

The Fund may also invest in financial derivative instruments (including embedded financial derivatives) for investment and hedging purposes, subject to the provisions set out under the section "Fund Restrictions".

HSBC Managed Growth Fund

Base Currency

HKD

Investment objective, policy and strategy

The objective of the Fund is to achieve long-term capital growth by investing in a diversified portfolio with a bias towards global equities through direct investment and/or other collective investment schemes that the Fund may invest in.

The Fund may normally invest a minimum of 90% of its net asset value in equities and equity-related investments. The remainder of the assets may invest in global debt securities, bonds, money market instruments, cash instruments and cash. The intended asset allocation aforesaid is for indication only and may be changed as and when the Manager considers appropriate. The asset allocation approach will look to favour assets where the Manager believes future returns will be most suitable to the overall portfolio objectives in terms of risk and return. This will take into account valuation levels, the macro background and other relevant market factors. The asset allocation will be altered over time in the light of market developments. Under normal market circumstances, the Fund may invest up to 10% of its net asset value in bank deposits and/or cash (excluding the cash positions caused by subscription and redemption). However, under exceptional market circumstances (including but not limited to market crash or major crisis), the Fund's bank deposit and/or cash level may temporarily be up to 100% of its net asset value.

The Fund may not invest more than 10% of its net asset value in debt securities rated below investment grade (i.e. rated below Baa3 / BBB- by Moody's, Standard & Poor's, or any other internationally recognised credit rating agency or rated AA or below by Mainland China local credit rating agency) or unrated debt securities. For this purpose, the credit rating of the debt securities refers to the credit rating assigned to such securities, or their issuers or holding companies.

The Fund may invest less than 30% of its net asset value in debt instruments with loss-absorption features (e.g. contingent convertible debt securities).

The Fund may invest in aggregate up to 100% of its net asset value in units or shares of collective investment schemes. For schemes authorised by the SFC, or eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time), the Fund's holding in each such scheme may not exceed 30% of the Fund's net asset value. For non-eligible schemes not authorised by the SFC, the total investment in all such schemes may not exceed 10% of the Fund's net asset value.

The Fund may invest less than 30% of its net asset value in onshore Mainland China securities and less than 40% of its net asset value in offshore Mainland China securities via direct investment and/or other collective investment schemes that the Fund may invest in, provided that the Fund's aggregate investment in onshore and offshore Mainland China securities is up to 40% of its net asset value. For onshore Mainland China equities and bonds, the Fund may invest via Stock Connect, CIBM Initiative, Bond Connect (as the case may be) and/or other means as may be permitted by the relevant regulations from time to time.

The Manager selects collective investment schemes that may contribute to achieve the Fund's investment objective, and the selection of collective investment schemes should not be limited by region, country, industry sector, market capitalization or debt securities grading that such schemes invest in. The underlying investments of the collective investment schemes include equities, fixed income and money market instruments, bank deposits and cash.

Until 27 May 2024: While the collective investment schemes in which the Fund invests may have exposure to derivatives, such schemes will not use derivatives extensively for investment purposes.

From 28 May 2024: The Fund may invest less than 20% of its net asset value in collective investment schemes which may use financial derivative instruments extensively for investment purposes.

From 28 May 2024: The Fund may invest up to 10% of its net asset value in commodities, mainly through exchange-traded commodities securities, collective investment schemes and/or financial derivative instruments such as derivatives on commodities. The Fund will not invest directly in commodities.

From 28 May 2024 : The Fund may invest up to 10% of its net asset value in liquid alternative investment strategies, mainly through collective investment schemes.

The Fund may invest up to 50% of its net asset value in the equities or equity related securities of companies which are domiciled in, based in, carry out the larger part of their business activities, or are listed on the stock exchange, in Hong Kong.
The Fund may also invest in financial derivative instruments (including embedded financial derivatives) for investment and hedging purposes, subject to the provisions set out under the section “Fund Restrictions”.

Each Fund is of course subject to market fluctuations and to the risks inherent in all investments, and the price of units of any Fund and the income from them may go down as well as up.