E Fund (HK) US Dollar Money Market Fund

E Fund (HK) Asia High Yield Bond Fund

E Fund (HK) Hong Kong Dollar Money Market Fund

E Fund (HK) Short-Duration Bond Fund

E Fund (HK) Asia Bond Fund

and

E Fund (HK) Multi-Income Bond Fund

sub-funds of

E Fund Unit Trust Fund

EXPLANATORY MEMORANDUM

---

1 May 2023

CONTENTS

IMPORTANT INFORMATION FOR INVESTORS

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

E Fund Unit Trust Fund (the "Trust") is an umbrella unit trust established under the laws of Hong Kong by the Trust Deed between E Fund Management (Hong Kong) Co., Limited as manager (the "Manager") and CCB (Asia) Trustee Company Limited as trustee (the "Trustee").

A product key facts statement which contains the key features and risks of each of the Sub-Funds is also issued by the Manager and such product key facts statement shall form part of this Explanatory Memorandum, and shall be read, in conjunction with, this Explanatory Memorandum.

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

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

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

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

In particular:

(a) the Units have not been registered under the United States Securities Act of 1933 (as amended) and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a U.S. Person ("U.S. Person" being defined as (i) an individual who is a United States citizen, a U.S. green card holder, or a resident of the United States for U.S. federal income tax purposes, (ii) a corporation or partnership organised under the laws of the United States or any political subdivision thereof, or (iii) an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source); and

(b) the Trust has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

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

Any investor enquiries or complaints should be submitted in writing to the Manager's office (Suites 3501-02, 35/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong) and the Manager will respond in writing within 14 Business Days.

DIRECTORY

Manager	E Fund Management (Hong Kong) Co., Limited Suites 3501-02, 35/F Two International Finance Centre 8 Finance Street Central Hong Kong
Trustee and Registrar	CCB (Asia) Trustee Company Limited G/F, 6 Des Voeux Road Central, Central, Hong Kong
Legal Counsel to the Manager	Simmons & Simmons 30th Floor One Taikoo Place 979 King's Road Hong Kong
Auditors	Ernst & Young 22/F CITIC Tower 1 Tim Mei Avenue Central, Hong Kong

DEFINITIONS

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

"**Appendix**"	means an appendix to this Explanatory Memorandum containing information in respect of a particular Sub-Fund.
"**Base Currency**"	means, in respect of a Sub-Fund unless otherwise specified in the relevant Appendix, the USD.
"**Business Day**"	means unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Trustee and the Manager may agree from time to time, provided that where, as a result of a typhoon number 8 signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open for normal banking business on any day is reduced, such day shall not be a Business Day unless the Trustee and the Manager determine otherwise.
"**CCDCC**"	means China Central Depository & Clearing Co., Ltd.
"**Code**"	means the Code on Unit Trusts and Mutual Funds issued by the SFC (as amended from time to time).
"**Connected Person**"	has the meaning as set out in the Code which at the date of the Explanatory Memorandum means, in relation to a company: (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); (c) any member of the group of which that company forms part; or (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).
"**CSDCC**"	means the China Securities Depository and Clearing Co., Ltd.
"**Custodian**"	means CCB (Asia) Trustee Company Limited.
"**Dealing Day**"	means, in respect of any Sub-Fund, the days on which Units of that Sub-Fund may be subscribed or redeemed, as specified in the relevant Appendix.
"**Dealing Deadline**"	means, in respect of any Sub-Fund, such time on the relevant Dealing Day or any other Business Day as the Manager may from time to time with the approval of the Trustee determine in relation to the subscription and redemption of Units, as specified in the relevant Appendix.

“**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 recognised accounting standards.
“**FDI**”	means financial derivative instrument.
“**Government and other Public Securities**”	has the meaning as set out in the Code.
“**Hong Kong**”	means the Hong Kong Special Administrative Region of the People’s Republic of China.
“**Hong Kong Dollars**” or “**HKD**”	means the currency of Hong Kong.
“**Hong Kong Stock Exchange**”	means The Stock Exchange of Hong Kong Limited.
“**IFRS**”	means International Financial Reporting Standards issued by the International Accounting Standards Board.
“**Initial Offer Period**”	means, in respect of a Sub-Fund, the period during which Units in that Sub-Fund will be offered for subscription at a fixed price, as specified in the relevant Appendix.
“**Manager**”	means E Fund Management (Hong Kong) Co., Limited.
“**Net Asset Value**”	means, in relation to any Sub-Fund or class of Units, the net asset value of such Sub-Fund or class, as the context may require, in accordance with the provisions of the Trust Deed.
“**PBOC**”	means the People’s Bank of China.
“**PRC**” or “**China**” or “**Mainland China**”	means the People’s Republic of China, excluding for the purposes of interpretation of this Explanatory Memorandum only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan.
“**QFI**”	means a qualified foreign institutional investor approved pursuant to the relevant PRC mainland laws and regulations as may be promulgated and/or amended from time to time, including both qualified foreign institutional investor (QFII) (i.e.: QFI to make investment in PRC mainland domestic securities and futures market by remitting foreign currencies) and/or RMB qualified foreign institutional investors (RQFII) (i.e.: QFI to make investment in PRC mainland domestic securities and futures market by remitting offshore RMB), as the case may be, or as the context may require, the QFII/RQFII regime.
“**Redemption Price**”	means the price per Unit at which Units of the relevant class will be redeemed, which price shall be ascertained in accordance with the section headed “Redemption of Units” below.
“**Registrar**”	means CCB (Asia) Trustee Company Limited, in its capacity as the registrar of each Sub-Fund.

“**reverse repurchase transactions**”	means transactions whereby a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.
“**RMB**”	means Renminbi Yuan, the lawful currency for the time being and from time to time of the PRC.
“**sale and repurchase transactions**”	means transactions whereby a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future.
“**securities financing transactions**”	means, collectively, securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.
“**securities lending transactions**”	means transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee.
“**SFC**”	means the Securities and Futures Commission of Hong Kong.
“**SFO**”	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.
“**Sub-Fund**”	means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed and with respect to which one or more separate classes of Units is issued.
“**Subscription Price**”	means the price per Unit at which Units of a particular class will be issued, which price shall be ascertained in accordance with the section headed “Subscription of Units” below.
“**substantial financial institution**”	has the meaning as set out in the Code.
“**Trust**”	means E Fund Unit Trust Fund.
“**Trust Deed**”	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 20 September 2017, and as amended and/or supplemented from time to time.
“**Trustee**”	means CCB (Asia) Trustee Company Limited in its capacity as trustee of the Trust and each Sub-Fund.
“**Unit**”	means a unit of the class to which it relates and except where used in relation to a particular class of Unit, a reference to Units means and includes Units of all classes.
“**Unitholder**”	means a person registered as a holder of a Unit.
“**US dollars**” or “**USD**”	means the currency of the United States of America.
“**Valuation Day**”	means, such days as are described in the relevant Appendix of the relevant Sub-Fund.

"**Valuation Point**" means the close of business in the last relevant market to close on a relevant Valuation Day or such other time on that day or such other day as the Manager and the Trustee may determine from time to time either generally or in relation to a particular Sub-Fund or Class of Units and as specified in the relevant Appendix.

INTRODUCTION

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

The Trust has been established as an umbrella fund and separate and distinct Sub-Funds may be established by the Manager and the Trustee within the Trust from time to time. Each Sub-Fund has its own investment objective and policies. More than one class of Units may be offered in relation to a particular Sub-Fund, which may have different terms, including different currencies of denomination. A separate portfolio of assets will not be maintained for each class. All classes of Units relating to the same Sub-Fund will be commonly invested in accordance with such Sub-Fund's investment objective and policies. In addition, each class of Units may be subject to different minimum initial and subsequent subscription amounts and holding amounts, and minimum redemption and switching amounts. Investors should refer to the relevant Appendix for the available classes of Units and the applicable minimum amounts.

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

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

MANAGEMENT OF THE TRUST

The Manager

The Manager of the Trust is E Fund Management (Hong Kong) Co., Limited.

The Manager was incorporated with limited liability in August 2008 in Hong Kong and is licensed to conduct Types 1 (Dealing in Securities), 4 (Advising on Securities) and 9 (Asset Management) Regulated Activities under Part V of the SFO with CE number ARO593. It is principally engaged in fund management and the provision of investment advisory services to corporations, institutions and individual investors.

The Manager is a wholly owned subsidiary of E Fund Management Co., Limited which was established on 17 April 2001. The parent company of the Manager is a fund management company licensed with China Securities Regulatory Commission and at the end of June 2019, assets under the parent company of the Manager's management exceeded RMB1,200 billion, making it as one of the three largest asset managers in China, and is also qualified for managing investment portfolios for both the National Council for Social Security Fund and Ministry of Labour and Social Security of China Decree 23 compliant enterprise annuity schemes.

The Manager undertakes the management of the assets of the Trust and retains discretionary powers in the management of a Sub-Fund unless otherwise specified in the relevant Appendix. The Manager may appoint sub-manager(s) or investment adviser(s) in relation to specific Sub-Fund(s). Unitholders shall be given not less than one month's prior notice should there be any new appointments of any sub-manager(s) or investment adviser(s) with discretionary investment powers. The remuneration of such sub-manager(s) and investment adviser(s) will be borne by the Manager.

The directors of the Manager are as follows:

Ma Jun

Mr. Ma Jun, Master of Business Administration (EMBA). He is currently the Executive Vice President of E Fund Management Co., Ltd., member of the Fixed Income Investment Committee, the Chairman of E Fund Management (Hong Kong) Co., Ltd., the Person-in-Charge of RMB Qualified Foreign Investor (RQFII) business, Responsible Officer (RO) of dealing in securities, Responsible Officer (RO) of advising on securities, Responsible Officer (RO) of asset management, and member of Product Approval Committee. Mr Ma has previously served under the Sales Department of Junan Securities Co., Ltd., he has also served as Deputy General Manager of the Investment Department of Shenzhen Zhongda Investment Co., Ltd., Analyst of GF Securities Co., Ltd. He has also served various roles in E Fund Management Co., Ltd. as Fund Manager, General Manager of the Fixed Income Department, General Manager of the Cash Management Department, and General Manager of the Fixed Income Head Office, Assistant to the President, Director of Fixed Income Department, Chief Investment Officer of Fixed Income. He was also Director of E Fund Asset Management Co., Ltd.

Chen Rong

Ms. Chen Rong, PhD in Economics. She is currently a Deputy General Manager-level senior management of E Fund Management Co., Ltd., Director of E Fund International Holdings Co., Ltd., Director of E Fund Management (Hong Kong) Co., Ltd., Supervisor of E Fund Asset Management Co., Ltd., and Supervisor of E Fund Overseas Investment (Shenzhen) Co., Ltd. Ms. Chen has previously served under the Statistical Research Department of the People's Bank of China Guangzhou Branch, she has also served various roles in E Fund Management Co., Ltd. as Manager of the Operation Support Department, Assistant to the General Manager of the Accounting Department, Deputy General Manager of the Accounting Department, General Manager of the Accounting Department, General Manager of the Investment Risk Management Department, Assistant to the President, Secretary of the board of directors, Director of Financial Centre of the company.

Lou Lizhou

Ms. Lou Lizhou, Master of Business Administration (EMBA), Master of Economics. She is currently the Deputy General Manager-level senior management of E Fund Management Co., Ltd., member of the FOF Investment Committee, the Chairman of E Fund Asset Management Co., Ltd. and Director of E Fund Management (Hong Kong) Co., Ltd. Ms. Lou has previously served various roles in United Securities Co., Ltd. as Analyst of the Securities Business Department, Analyst of the Research Department, Senior Manager of the Brokerage Business Department. She has also served various roles in E Fund Management Co., Ltd. as the Manager of the Sales Support Center, the Assistant General Manager of the Marketing Department, the Deputy General Manager of the Marketing Department, and the General Manager of Guangzhou branch, the Manager of Beijing branch, Assistant to President, General Manager of E Fund Asset Management Co., Ltd.

Wu Xinrong

Mr. Wu Xinrong, Master of Engineering. He is currently the Executive Vice President of E Fund Management Co., Ltd., member of the Equity Investment Committee, and Director of E Fund Management (Hong Kong) Co., Ltd. Mr. Wu has previously served various roles in E Fund Management Co., Ltd. as Analyst, Manager of Investment Management Department, Fund Manager, Deputy General Manager of the Fund Investment Department, Deputy General Manager of the Research Department, General Manager of the Research Department, General Manager of the Fund Investment Department, General Manager of the Public Fund Investment Department, General Manager of the Equity Investment Head Office, Assistant to the President, Director of Equity Investment Department, Director of E Fund International Holdings Co., Ltd.

Yang Dongmei

Ms. Yang Dongmei, Master of Business Administration and Master of Economics. She is currently a Deputy General Manager-level senior management, Secretary of the Board of Directors, General Manager of the Marketing Department, General Manager of the Global Investment Department of E Fund Management Co., Ltd., and the Director of E Fund Management (Hong Kong) Co., Ltd. She has previously served various roles in GF Securities Co., Ltd. under the Investment and Finance Department and was Head of Market Research Department of the Development Research Center. She has also served as Senior Researcher of the Research Department under China Southern Securities Co. Ltd. She has also served under China Merchants Fund Management Co., Ltd as Senior Manager of Institutional Wealth Management Department and Senior Manager of Equity Investment Department. She has also served various roles in E Fund Management Co., Ltd. as Marketing Specialist, Assistant General Manager of Marketing Department and Vice General Manager of Marketing Department.

Gaohui Huang

Ms. Huang Gaohui, MBA degree in Finance and she has eighteen years' financial industry experience. Prior to joining E Fund Management (Hong Kong) Co., Limited, Ms. Huang was a Marketing Manager at Guotai Junan Securities Co., Ltd. and Head of Institutional Sales at Century Securities Co., Ltd. Ms. Huang moved to Hong Kong in January 2012 and she is the Chief Executive Officer for E Fund Management (Hong Kong) Co., Limited with responsibility for developing the its business.

Fan Yue

Mr. Fan Yue, Master of Business Administration. Mr. Fan is currently Deputy General Manager-level senior management of E Fund Management Co., Ltd. and the Director of E Fund Management (Hong Kong) Co., Ltd. He has served in the Shenzhen Branch of the Industrial and Commercial

Bank of China under International Business Department as section member, Office Manager and the Manager of the International Department of the China Securities Depository and Clearing Co., Ltd., Shenzhen Branch. He has also served under the Shenzhen Stock Exchange as Assistant Director of the Beijing Center, Deputy Director of the Listing Department, Deputy Director of the Fund and Bond Department.

The Trustee

The Trustee of the Trust is CCB (Asia) Trustee Company Limited. The Trustee was incorporated in Hong Kong on 18 March 2013. It is a registered trustee company under Section 78(1) of the Trustee Ordinance (Cap. 29). The Trustee is a wholly-owned subsidiary of China Construction Bank (Asia) Corporation Limited ("CCBA"). CCBA is a Hong Kong incorporated company and it is under the supervision of the Hong Kong Monetary Authority. The principal activities of the Trustee are the provision of trustee services, fund administration services, transfer agency services, and custody services. The Trustee also acts as Registrar of the Trust.

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

Subject to applicable regulatory requirements, the Trustee may appoint any person or persons (including a Connected Person of the Trustee) as custodian, nominee, agent or delegate of the Trustee, to hold all or any of the assets of any Sub-Fund, and may empower any such person to appoint, subject to no objection in writing from the Trustee, co-custodians, sub-custodians and/or delegates (each such custodian, nominee, agent, co-custodian, sub-custodian, and delegate a "Correspondent"). The Trustee shall (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of such Correspondent; (b) be satisfied that such Correspondent retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Trust; and (c) be liable for the acts and omissions of any Correspondent which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has discharged its obligations set out in (a) and (b) in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent which is not a Connected Person of the Trustee.

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

Subject as provided in the Trust Deed, the Trustee and its respective officers, employees, agents and delegates are entitled to be indemnified from the assets of the relevant Sub-Fund in respect of all liabilities and expenses incurred in relation to such Sub-Fund and against all actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted to be done in any way relating to such Sub-Fund, except to the extent that such liability, expense, action, proceeding, cost, claim or demand arises out of the fraud, negligence or wilful default of the Trustee or its officers, employees, agents or delegates.

The Manager is solely responsible for making investment decisions in relation to the Trust and/or each Sub-Fund and the Trustee (including its delegates) is not responsible and has no liability for any investment decision made by the Manager. The Trustee does not act as guarantor or offeror of the Units or any underlying investments of a Sub-Fund. The Trustee is not responsible for the preparation or issue of this Explanatory Memorandum. The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed.

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

INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS

Investment objective

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

Investment strategy

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

Investment and borrowing restrictions

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

(a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity through the following may not exceed 10% of the total Net Asset Value of the Sub-Fund, save as permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the Code;

(1) investments in securities issued by such entity;

(2) exposure to such entity through underlying assets of FDIs; and

(3) net counterparty exposure to such entity arising from transactions of over the-counter FDIs,

for the avoidance of doubt, the restrictions and limitations on counterparty as set out in sub-paragraphs (a) and (b) and Chapter 7.28(c) of the Code will not apply to FDIs that are: (i) transacted on an exchange where the clearing house performs a central counterparty role; and (ii) marked-to-market daily in the valuation of their FDI positions and subject to margining requirements at least on a daily basis;

(b) subject to (a) above and Chapter 7.28(c) of the Code, the aggregate value of the Sub-Fund's investments in, or exposure to entities within the same group through the following may not exceed 20% of the total Net Asset Value of the Sub-Fund;

(1) investments in securities issued by such entities;

(2) exposure to such entities through underlying assets of FDIs; and

(3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;

(c) the value of the Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of the total Net Asset Value of the Sub-Fund, unless:

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

(2) the cash is proceeds from liquidation of investments prior to the merger or termination of a Sub-Fund, whereby the placing of cash deposits with various financial institutions may not be in the best interest of investors; or

(3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of

cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

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

(d) ordinary shares issued by a single entity (other than Government and other Public Securities) held for the account of the Sub-Fund, when aggregated with other holdings of ordinary shares issued by the same entity held for the account of all other Sub-Funds under the Trust collectively may not exceed 10% of the nominal amount of the ordinary shares issued by the entity;

(e) not more than 15% of the total Net Asset Value of the Sub-Fund may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded;

(f) notwithstanding (a), (b), (d) and (e) above, where direct investment by a Sub-Fund in a market is not in the best interests of investors, a Sub-Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:

(1) the underlying investments of the subsidiary, together with the direct investments made by the Sub-Fund, must in aggregate comply with the requirements of Chapter 7 of the Code;

(2) any increase in the overall fees and charges directly or indirectly borne by the Unitholders or the Sub-Fund as a result must be clearly disclosed in the Explanatory Memorandum; and

(3) the Sub-Fund must produce the reports required by Chapter 5.10(b) of the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the Sub-Fund.

(g) notwithstanding (a), (b) and (d) above, not more than 30% of the total Net Asset Value of a Sub-Fund may be invested in Government and other Public Securities of the same issue, except for a Sub-Fund which has been authorised by the SFC as an index fund, this limit may be exceeded with the approval of the SFC;

(h) subject to (g) above, a Sub-Fund may invest all of its assets in Government and other Public Securities in at least six different issues, and subject to the approval of the SFC, a Sub-Fund which has been authorised by the SFC as an index fund may invest all of its assets in Government and other Public Securities in any number of different issues;

(i) unless otherwise approved by the SFC, the Sub-Fund may not invest in physical commodities;

(j) for the avoidance of doubt, exchange traded funds that are:

(1) authorised by the SFC under Chapter 8.6 or 8.10 of the Code; or

(2) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (a) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under Chapter 8.6 of the Code; or (b) the investment

objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

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

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

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

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

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

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

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

(C) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);

(3) where a Sub-Fund invests in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and

(4) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the manager of an underlying scheme, or any quantifiable monetary benefits in connection with investments in any underlying scheme;

(l) a Sub-Fund may invest 90% or more of its total Net Asset Value in a single collective investment scheme and may be authorised as a feeder fund by the SFC. In this case,

(1) the underlying scheme ("master fund") must be authorised by the SFC;

(2) the Explanatory Memorandum must state that:

i. the Sub-Fund is a feeder fund into the master fund;

ii. for the purpose of complying with the investment restrictions, the Sub-Fund (i.e. feeder fund) and its master fund will be deemed a single entity;

iii. the Sub-Fund (i.e. feeder fund)'s annual report must include the investment portfolio of the master fund as at the financial year-end date; and

iv. the aggregate amount of all the fees and charges of the Sub-Fund (i.e. feeder fund) and its master fund must be clearly disclosed;

(3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, Manager's annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Unitholders or by the Sub-Fund (i.e. feeder fund) may result, if the master fund in which the Sub-Fund (i.e. feeder fund) invests is managed by the same Manager or by its Connected Person;

(4) notwithstanding paragraph (k)(2)(c) above, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in paragraph (k); and

(m) if the name of the Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund should, under normal market circumstances, invest at least 70% of its total Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.

Each Sub-Fund shall not:

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

(2) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs)). In the case of investments in such shares and REITs, they shall comply with the investment restrictions and limitations set out in paragraphs (a), (b), (d), (e) and (k) above, where applicable;

(3) make short sales if as a result the Sub-Fund would be required to deliver securities exceeding 10% of the total Net Asset Value of the Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted). For the avoidance of doubt, a Sub-Fund is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations;

(4) subject to paragraph (e) above, lend or make a loan out of the assets of the Sub-Fund except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan, or assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;

(5) enter into any obligation on behalf of the Sub-Fund or acquire any asset or engage in any transaction for the account of the Sub-Fund which involves the assumption of any liability which is unlimited. The liability of Unitholders is limited to their investments in the relevant Sub-Fund; or

(6) apply any part of the Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the Sub-Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in FDIs for the purposes of the Chapter 7.29 and 7.30 of the Code.

Borrowing restrictions

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

Financial derivative instruments

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

Hedging Purposes

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

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

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

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

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

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

Non-hedging (investment) purposes

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

(a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by a Sub-Fund for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions;

(b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and

(c) FDIs acquired for hedging purposes will not be counted towards the 50% limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

Restrictions applicable to FDIs

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

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

(b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC on a case-by-case basis;

(c) subject to paragraphs (a) and (b) under the section headed "Investment and borrowing restrictions" above, the Sub-Fund's net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the total Net Asset Value of the Sub-Fund. The exposure of the Sub-Fund to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter FDIs with that counterparty, if applicable; and

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

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

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

(a) in the case of FDIs transactions which will, or may at the discretion of the Trustee or the Manager, be cash settled, the Sub-Fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

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

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

Securities Financing Transactions

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

(a) they are in the best interests of the Unitholders;

(b) the associated risks have been properly mitigated and addressed; and

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

Please refer to the "Investment Strategy" section in each relevant Appendix for the policy regarding such arrangements for each Sub-Fund.

A Sub-Fund which engages in securities financing transactions is subject to the following requirements:

- it shall have at least 100% collateralisation in respect of the securities financing transactions into which it enters to ensure there is no uncollateralised counterparty risk exposure arising from these transactions;

- all the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions to the extent permitted by applicable legal and regulatory requirements, shall be returned to the Sub-Fund;

- it shall ensure that it is able to at any time to recall the securities or the full amount of cash / collateral (as the case may be) subject to the securities financing transactions or terminate the securities financing transactions into which it has entered.

Further, details of the arrangements are as follows:

(a) each counterparty for such transactions should be a financial institution subject to ongoing prudential regulation and supervision. There are no requirements imposed by the Manager on country of origin or minimum credit rating of counterparties;

(b) the Trustee, upon the instruction of the Manager, will take collateral, which can be cash or non-cash assets fulfilling the requirements under "Collateral" below;

(c) except related to borrowing, for sale and repurchase transactions, it is the intention of the Manager to sell the securities for cash equal to the market value of the securities provided to the counterparty, subject to appropriate haircut. Unless otherwise stated in the relevant Appendix, cash obtained in sale and repurchase transactions will be used for meeting redemption requests or defraying operating expenses, but will not be re-invested;

(d) the maximum and expected level of a Sub-Fund's assets available for these transactions will be as set out in the relevant Appendix; and

(e) where any securities lending transaction has been arranged through the Trustee or a Connected Person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement.

Collateral

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

- Liquidity – collateral must be sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral;
- Haircut – collateral should be subject to prudent haircut policy which should be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and volatile markets. For the avoidance of doubt the price volatility of the asset used as collateral should be taken into account when devising the haircut policy. Other specific characteristics of the collateral, including, among others, asset types, issuer creditworthiness, residual maturity, price sensitivity, optionality, expected liquidity in stressed period, impact from foreign exchange, and correlation between

securities accepted as collateral and the securities involved in the transactions, should also be considered where appropriate;

- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the Sub-Fund's exposure to issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in Chapters 7.1, 7.1A, 7.1B, 7.4, 7.5, 7.11, 7.11A, 7.11B and 7.14 of the Code;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions in such a way that it would undermine the effectiveness of the collateral. Securities issued by the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee of the relevant Sub-Fund;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee of the Sub-Fund without further recourse to the issuer of the FDIs, or the counterparty of the securities financing transactions;
- Re-investment – unless otherwise specified in the relevant Appendix and subject to prior consultation with the SFC, and in compliance with the applicable laws and regulations, cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. Non-cash collateral received may not be sold, re-invested or pledged;

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

  (i) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Clauses 18.3(B) and 18.3(I);

  (ii) cash collateral received is not allowed to be further engaged in any securities financing transactions; and

  (iii) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions.

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

Subject to the requirements above, below is a summary of the collateral policy and criteria adopted by the Manager:

- eligible collateral include cash, cash equivalents, government bonds, supranational bonds, corporate bonds, stocks, funds and money market instruments. For money market funds, collateral received may only be cash, high quality money market instruments and may also include, in the case of reverse repurchase transactions, government securities receiving a favourable assessment on credit quality. For a debt security which itself does not have a credit rating, the Manager will assess the debt security by reference to the credit rating of the issuer, the guarantor or the keepwell provider;

- the issuer of collateral must be of high quality, with an investment grade rating. Securities rated with a non-investment grade credit rating is not eligible for collateral purpose. There is no criteria for country of origin of the counterparty;

- no maturity constraints will apply to the collateral received;

- regular stress tests are carried out under normal and exceptional liquidity conditions to enable an adequate assessment of the liquidity risks attached to the collateral;

- the haircut policy takes account of market volatility, the foreign exchange volatility between collateral asset and underlying agreement, liquidity and credit risk of the collateral assets, and the counterparty's credit risk (for each eligible security type). Haircuts shall be set to cover the maximum expected decline in the market price of the collateral asset (over a conservative liquidation horizon) before a transaction can be closed out. Cash collateral will not be subject to haircut;

- the collateral would be sufficiently diversified in terms of country, markets and issuers with a maximum exposure to a given issuer;

- the collateral received would be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty;

- collateral must be readily enforceable by the Trustee and may be subject to netting or set-off;

- except in relation to borrowing, cash collateral will generally not be used for reinvestment purposes unless otherwise determined by the Manager and notified to investors.

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

Money market funds

For each Sub-Fund which is authorised by the SFC as "money market funds" under Chapter 8.2 of the Code, the relevant Sub-Fund required to comply with the following investment restrictions:

(1) subject to the provisions below, the Sub-Fund may only invest in short-term deposits and high quality money market instruments, and up to 10% in money market funds authorised by the Commission under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the Commission and acceptable to the Commission;

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

For the purposes herein:

a. "weighted average maturity" is a measure of the average length of time to maturity of all the underlying securities in the Sub-Fund weighted to reflect the relative holdings in each instrument; and is used to measure the sensitivity of the Sub-Fund to changing money market interest rates; and

b. "weighted average life" is the weighted average of the remaining life of each Security held in Sub-Fund; and is used to measure the credit risk, as well as the liquidity risk,

provided that the use of interest rate resets in variable-notes or variable-rate notes generally should not be permitted to shorten the maturity of a Security for the purpose of calculating weighted average life, but may be permitted for the purpose of calculating weighted average maturity;

(3) notwithstanding the above, the aggregate value of the Sub-Fund's holding of instruments and deposits issued by a single entity may not exceed 10% of the Net Asset Value of the Sub-Fund except:

a. where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%; or

b. in the case of Government and other Public Securities, up to 30% may be invested in the same issue; or

c. in respect of any deposit of less than USD1,000,000 or its equivalent in the base currency of the Sub-Fund, where the Sub-Fund cannot otherwise diversify as a result of its size.

(4) notwithstanding paragraphs (b) and (c) under the section "Investment Restrictions" above, the aggregate value of the Sub-Fund's investments in entities within the same group through instruments and deposits may not exceed 20% of its total Net Asset Value except:

a. in respect of any cash deposit of less than USD1,000,000 or its equivalent in the base currency of the Sub-Fund, where the Sub-Fund cannot otherwise diversify as a result of its size; and

b. where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%;

(5) notwithstanding the borrowing limit as set out below, the Sub-Fund may borrow up to 10% of its total Net Asset Value but only on a temporary basis for the purpose of meeting redemption requests or defraying operating expenses;

(6) the value of the Sub-Fund's holding of investments in the form of asset-backed securities may not exceed 15% of its total Net Asset Value;

(7) subject to Chapter 7.32 to 7.38 of the Code, the Sub-Fund may engage in sale and repurchase and reverse repurchase transactions in compliance with the following requirements:

(1) the amount of cash received by the Investment Fund under sale and repurchase transactions may not in aggregate exceed 10% of its total Net Asset Value;

(2) the aggregate amount of cash provided to the same counterparty in reverse repurchase agreements may not exceed 15% of the Net Asset Value of the Sub-Fund;

(3) collateral received may only be cash, high quality money market instruments, and may also include, in the case of reverse repurchase transactions, government securities receiving a favourable assessment on credit quality; and

(4) the holding of collateral, together with other investments of the Sub-Fund, must not contravene the investment limitations and requirements set out under this section "Money Market Funds";

(8) the Sub-Fund may use FDIs for hedging purposes only;

(9) the currency risk of the Sub-Fund shall be appropriately managed and any material currency risk that arises from investments that are not denominated in the Base Currency shall be appropriately hedged;

(10) the Sub-Fund must hold at least 7.5% of its total Net Asset Value in daily liquid assets and at least 15% of its total Net Asset Value in weekly liquid assets.

For the purposes herein:

a. daily liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one Business Day; and (iii) amount receivable and due unconditionally within one Business Day on pending sales of portfolio securities; and

b. weekly liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five Business Days; and (iii) amount receivable and due unconditionally within five Business Days on pending sales of portfolio securities; and

(11) a Sub-Fund that offers a stable or constant net asset value or which adopts an amortized cost accounting for valuation of its assets may only be considered by the Commission on a case-by-case basis.

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

Leverage

Where a Sub-Fund employs leverage, the expected maximum level of leverage will be available from the Manager upon request.

The level of leverage is measured using the commitment approach, meaning it is expressed as a ratio between the market value of the equivalent position in the underlying assets of the FDIs (excluding derivative positions for hedging purposes) and the Net Asset Value. This approach allows netting of certain derivative positions.

SUBSCRIPTION OF UNITS

Initial issue of Units

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

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

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

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

Subsequent issue of Units

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

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

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

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

Application procedure

To subscribe for Units, an applicant should complete the application form supplied with this Explanatory Memorandum and return the original form (if the original is required by the Manager or the Trustee), together with the required supporting documents, to the Trustee via the authorised distributor or the Manager.

Applications for Units during the relevant Initial Offer Period, together with cleared funds, must be received by no later than such time (as stated in the relevant Appendix) on the last day of the relevant Initial Offer Period. After the Initial Offer Period, applications must be received by the relevant Dealing Deadline.

Unless otherwise agreed by the Manager or the Trustee, application forms may be sent by post, facsimile or other electronic means from time to time determined by the Manager or the Trustee. Subsequent applications may also be sent by post, facsimile or other electronic means from time to time determined by the Manager or the Trustee. The original application form is not required to be submitted unless otherwise required by the Manger or the Trustee. Applicants who choose to send an application form by fax or other electronic means bear the risk of the form not being received by the Trustee. Applicants should therefore, for their own benefit, confirm with the Trustee safe receipt of an application form. Neither the Manager nor the Trustee (nor any of their respective officers, employees, agents or delegates) will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by fax or other electronic means or for any loss caused in respect of any action taken as a consequence of such application believed in good faith to have originated from properly authorised persons.

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

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

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

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

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

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

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

Payment procedure

Subscription monies should be paid in the currency in which the relevant Sub-Fund is denominated. Payment details are set out in the application form.

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

General

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders in respect of each Sub-Fund. Unitholders should therefore be aware of the importance of ensuring that the Registrar is informed of any change to the registered details. Fractions of a Unit may be issued rounded down to the nearest 2 decimal places, unless otherwise specified in the Appendix of a relevant Sub-Fund. Subscription monies representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. A maximum of 4 persons may be registered as joint Unitholders.

REDEMPTION OF UNITS

Redemption procedure

Unitholders who wish to redeem their Units in a Sub-Fund may do so on any Dealing Day by submitting a redemption request to the Trustee via an authorised distributor or the Manager.

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

A redemption request may be sent by post, facsimile or other electronic means from time to time determined by the Manager or the Trustee. The redemption request must specify the name of the Sub-Fund, the class (if applicable) and the value or number of Units to be redeemed, the name(s) of the registered Unitholder(s) and give payment instructions for the redemption proceeds.

Unless otherwise requested by the Manager or the Trustee, the original of any redemption request is not required to be submitted. A Unitholder who chooses to send an application form by fax or other electronic means bears the risk of the form not being received by the Trustee. Unitholders should therefore, for their own benefit, confirm with the Trustee safe receipt of a redemption request. Neither the Manager nor the Trustee (nor any of their respective officers, employees, agents or delegates) will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any redemption request sent by fax or other electronic means or for any loss caused in respect of any action taken as a consequence of such request believed in good faith to have originated from properly authorised persons.

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

Payment of redemption proceeds

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

In determining the Redemption Price, the Manager is entitled to deduct an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are customarily incurred by the relevant Sub-Fund. Any such deducted amount will be retained by and form part of the assets of the relevant Sub-Fund.

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

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

Redemption proceeds will not be paid to any redeeming Unitholder until (a) unless otherwise agreed in writing by the Manager and the Trustee, the written original of the redemption request duly signed by the Unitholder has been received by the Trustee and (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee.

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

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

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

Restrictions on redemption

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

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

Compulsory redemption

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

SWITCHING

The Manager may from time to time permit Unitholders to switch some or all of their Units of any class of any Sub-Fund (the "Existing Sub-Fund") into Units of any class of any other Sub-Fund which has been authorised by the SFC (the "New Sub-Fund"). Unitholders may request such switching by giving notice to the Trustee via an authorised distributor or the Manager by post, facsimile or other electronic means from time to time determined by the Manager or the Trustee. Neither the Manager nor the Trustee (nor any of their respective officers, employees, agents or delegates) shall be responsible to any Unitholder for any loss resulting from the non-receipt or illegibility of a request for switching transmitted by facsimile, or for any loss caused in respect of any action taken as a consequence of instructions believed in good faith to have originated from the Unitholder. A request for the switching of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding specified for the New Sub-Fund (if any).

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 2% of the Redemption Price of the Units of the Existing Sub-Fund being switched. The switching fee will be deducted from the amount reinvested in the New Sub-Fund and will be paid to the Manager.

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

- redemption of the Units of the Existing Sub-Fund will be dealt with by reference to the Redemption Price on that Dealing Day (the "Switching Redemption Day");

- where the Existing Sub-Fund and the New Sub-Fund have different currencies of denomination, the redemption proceeds of Units of the Existing Sub-Fund, after deduction of any switching fee, shall be converted into the currency of denomination of the New Sub-Fund; and

- the redemption proceeds will be used to subscribe for Units of the New Sub-Fund at the relevant Subscription Price on the Dealing Day on which the Trustee receives cleared funds by the Dealing Deadline of the New Sub-Fund (the "Switching Subscription Day").

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

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

VALUATION

Valuation rules

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

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

(a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market will be valued by reference to the last traded price or “exchange close” price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed, traded or dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment, provided that if the Manager considers that the prices published on a securities market other than the principal market for such investment provides, in all circumstances, a fairer criterion of value in relation to any such investment, such prices may be adopted; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment or, if the Trustee so requires, by the Manager after consultation with the Trustee; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Trustee and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;

(b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed, traded or ordinarily dealt in on any securities market shall initially be the value equal to the amount expended on behalf of the Sub-Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Trustee on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Trustee and the Manager consider appropriate, quoted by a person, firm or institution making a market in such investments or otherwise approved by the Trustee as qualified to value such investments (which may, if the Trustee agrees, be the Manager);

(c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager in consultation with the Trustee, any adjustment should be made to reflect the value thereof;

(d) the value of any commodity or futures contract shall be ascertained in accordance with the following:

   (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Trustee, in consultation with the Manager, shall consider appropriate;

(ii) if any such price as referred to in (i) is not, in the opinion of the Trustee, ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;

(iii) the value of any futures contract (the "relevant Contract"), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined by the Trustee (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Sub-Fund in order to close the relevant Contract and the amount expended out of the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined by the Trustee (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Sub-Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended out of the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and

(iv) if the provisions of (i) and (ii) do not apply to the relevant commodity, then the value shall be determined in accordance with (b) above as if such commodity were an unquoted investment;

(e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the Sub-Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day or, if the Trustee so determines, if such collective investment scheme is not valued as at the same day as the Sub-Fund, shall be the last published net asset value per unit, share or other interest in such collective investment scheme, provided that if no net asset value and bid prices are available, the value thereof shall be determined from time to time in such manner as the Trustee shall determine in consultation with the Manager;

(f) notwithstanding paragraphs (a) to (e) above, the Manager may, in consultation with the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to reflect the fair value of the investment;

(g) the value of any investment (whether of a borrowing or other liability or an investment or cash) in a currency other than the Base Currency of the Sub-Fund or the currency of denomination of the relevant class will be converted into the Base Currency or the currency of denomination of such class (as the case may be) at the rate (whether official or otherwise) which the Trustee shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange;

(h) according to IFRS, the Sub-Fund should apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks according to the IFRS. Any such adjustments will be disclosed in the annual accounts, including a reconciliation. Otherwise, non-compliance with IFRS may result in the auditors issuing a qualified or an adverse opinion on the annual accounts depending on the nature and level of materiality of the non-compliance; and

(i) for the purposes of the above, a collective investment scheme which is listed and regularly traded on a securities market (other than a nominal listing) is deemed to be a quoted investment.

Suspension of calculation of Net Asset Value

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

(a) there is a closure of or the restriction or suspension of trading on any securities market or commodities market or futures exchange on which a substantial part of the investments of the Sub-Fund is normally listed, quoted, traded or dealt or a breakdown in any of the means normally employed in ascertaining the prices of investments of the relevant Sub-Fund;

(b) for any other reason the value of any of the investments or other assets of the Sub-Fund cannot, in the opinion of the Manager or the Trustee, reasonably, promptly and fairly be ascertained;

(c) there is a breakdown in the systems and/or means of communication normally employed in ascertaining the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit, Subscription Price or Redemption Price of the relevant class, or when for any other reason the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit, Subscription Price, or Redemption Price of the relevant class cannot be ascertained in a prompt or accurate manner;

(d) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise a substantial part of the investments of the relevant Sub-Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders;

(e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, a substantial part of the investments of the relevant Sub-Fund or the issue or redemption of Units in the Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange;

(f) where the Sub-Fund is invested in one or more collective investment schemes and the realisation of interest in any relevant collective investment scheme(s) (representing a substantial portion of the assets of the Sub-Fund) is suspended or restricted;

(g) the business operations of the Manager, the Trustee or any agent of the Manager or the Trustee in relation of the operations of Trust and/or the relevant Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes, or acts of God;

(h) when the Unitholders or the Manager have resolved or given notice to terminate that Sub-Fund;

(i) such other circumstance or situation exists as set out in the supplemental deed establishing a Sub-Fund; or

(j) the issue, redemption or transfer of Units of the relevant Sub-Fund or class would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

Such suspension will take effect forthwith upon the declaration thereof and thereafter there will be no determination of the Net Asset Value of the Sub-Fund until the Manager declares the suspension at an end, except that the suspension will terminate in any event on the day following the first

Dealing Day on which (i) the condition giving rise to the suspension ceases to exist and (ii) no other condition under which suspension is authorised exists.

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

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

Publication of Net Asset Value

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

EXPENSES AND CHARGES

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

Fees payable by Unitholders

The following fees and charges are payable by Unitholders:

Subscription Fee

Under the Trust Deed, the Manager is entitled to impose a subscription fee on the issue of Units of any Sub-Fund of up to a maximum of 3% of the Subscription Price.

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

Redemption fee

Under the Trust Deed, the Manager is entitled to impose a redemption fee on the redemption of Units of any Sub-Fund of up to a maximum of 3% of the Redemption Price of such Units.

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

Switching fee

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 2% of the Redemption Price of the Units of the Existing Sub-Fund being switched.

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

Fees payable by the Trust

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

Management fee

The Trust Deed provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages, the maximum amount of which is equal to 3% per annum of the Net Asset Value of the relevant Sub-Fund. Any increase in the management fee in respect of a Sub-Fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders; and (ii) beyond this maximum level, is subject to approval by extraordinary resolution of the affected Unitholders. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

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

Performance fee

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

Trustee fee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund, a Trustee Fee at 0.09% per annum of the Net Asset Value of the relevant Sub-Fund (unless otherwise specified in the relevant Appendix). Any increase in the trustee fee in respect of a Sub-Fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders; and (ii) beyond this maximum level, is subject to approval by extraordinary resolution of the affected Unitholders. The trustee fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

The Trustee will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses (including sub-custodian fees, if any) incurred in the course of their duties.

The Trustee fee is inclusive of fees payable to the Trustee acting as Registrar and Custodian.

Other charges and expenses

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

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

Establishment costs

The costs of establishing the Trust and the first two Sub-Funds (i.e. the E Fund (HK) US Dollar Money Market Fund and the E Fund (HK) Asia High Yield Bond Fund) are estimated to be approximately HK$600,000. These costs will be charged to the first Sub-Fund and amortised over the first 5 accounting periods of the Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

The costs for establishing the E Fund (HK) Hong Kong Dollar Money Market Fund are estimated to be approximately HK$200,000. These costs will be charged to the E Fund (HK) Hong Kong Dollar Money Market Fund and amortised over the first 5 accounting periods of this Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

The costs for establishing the E Fund (HK) Short-Duration Bond Fund are estimated to be approximately HK$200,000. These costs will be charged to the E Fund (HK) Short-Duration Bond and amortised over the first 5 accounting periods of this Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

The costs for establishing the E Fund (HK) Asia Bond Fund are estimated to be approximately HK$300,000. These costs will be charged to the E Fund (HK) Asia Bond Fund and amortised over the first 5 accounting periods of this Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

The costs for establishing the E Fund (HK) Multi-Income Bond Fund are estimated to be approximately HK$270,000. These costs will be charged to the E Fund (HK) Multi-Income Bond Fund and amortised over the first 5 accounting periods of this Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

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

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

Cash rebates and soft commissions

Neither the Manager nor any of its Connected Persons receives any cash commissions or other rebates from brokers or dealers in respect of transactions for the account of any Sub-Fund. However, the Manager and/or any of its Connected Persons with it reserve the right to effect transactions by or through the agency of another person (the "Agent") with whom the Manager and/or any of its Connected Persons has such an arrangement.

The Manager and/or any of its Connected Persons further reserve the right to effect transactions by or through the agency of another person with whom the Manager and/or any of its Connected Persons has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any of its Connected Persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision are of demonstrable benefit to the Unitholders. Any transactions executed through such party must be consistent with best execution standards and brokerage rates must not be in excess of customary institutional full-service brokerage rates. Periodic disclosure will be made in the relevant Sub-Fund's annual report in the form of a statement describing the Manager's soft dollar policies and practices, including a description of the goods and services received by the Manager. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

RISK FACTORS

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

General risks

Investment objective risk

There is no assurance that the investment objectives of a Sub-Fund will actually be achieved, notwithstanding the efforts of the Manager since changes in political, financial, economic, social and/or legal conditions are not within the control of the Manager. Accordingly, there is a risk that investors may not recoup the original amount invested in a Sub-Fund or may lose a substantial part or all of their initial investment. Investors should carefully consider whether they can afford to bear the risks of investing in the relevant Sub-Fund.

Investment risk

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

Market risk

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

Concentration risk

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

Emerging market risk

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

Counterparty risk

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

Liquidity risk

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

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

Exchange rate risk

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

Restricted markets risk

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

Legal and compliance risk

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

Suspension risk

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

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

Early termination risk

Under the Trust Deed, a Sub-Fund may be terminated by the Manager or the Trustee in certain conditions and in the manner as described in "Termination of the Trust or any Sub-Fund" in the section entitled "General" in this Explanatory Memorandum. It is possible that, in the event of such termination, a Sub-Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will receive an amount less than the capital they originally invested. There will also be costs arising from early termination, to be borne by Unitholders, in which case the Net Asset Value will be adversely affected.

Cross class liability risk

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

Cross Sub-Fund liability risk

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

Valuation and accounting risk

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

Foreign Account Tax Compliance Act ("FATCA") risks

As discussed in detail under the "Taxation" section, FATCA imposes new rules with respect to certain payments to the Sub-Funds. The Sub-Funds will endeavour to satisfy the requirements imposed under FATCA and the terms of the FFI Agreement to avoid any withholding tax. The Sub-Funds have agreed to be subject to the terms of an FFI Agreement and have registered with the US IRS to be treated as "reporting financial institutions under a Model 2 IGA". E Fund (HK) US Dollar Money Market Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number 1J5H74.99999.SL.344. E Fund (HK) Asia High Yield Bond Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number 95PR0Z.99999.SL.344. E Fund (HK) Hong Kong Dollar Money Market Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary

Identification Number 03Q8VY.99999.SL.344. E Fund (HK) Short-Duration Bond Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number WYF3WZ. 99999.SL.344. E Fund (HK) Asia Bond Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number 4XQM5L.99999.SL.344. E Fund (HK) Multi-Income Bond Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number KUBMEN.99999.SL.344.

Nevertheless, in the event that a Sub-Fund is not able to comply with the requirements imposed by FATCA or the terms of an FFI Agreement and such Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of such Sub-Fund may be adversely affected and the Trust and such Sub-Fund may suffer significant loss as a result.

In the event a Unitholder does not provide the requested information and/or documentation related to FATCA, whether or not that actually leads to FATCA compliance failures by the relevant Sub-Fund, or a risk of the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Trust and each of such relevant Sub-Fund reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, (i) reporting the relevant information of such Unitholder to the US IRS (subject to applicable laws or regulations in Hong Kong); (ii) withholding or deducting any reasonable amount from such Unitholder's redemption proceeds or other distribution proceeds to the extent permitted by applicable laws and regulations; (iii) deeming such Unitholder to have given notice to redeem all his Units in the relevant Sub-Fund; and/or (iv) bringing legal action against such Unitholder for losses suffered by the Trust or the relevant Sub-Fund as a result of such withholding tax. The Manager and/or Trustee in taking any such action or pursuing any such remedy must act in good faith and on reasonable grounds and in accordance with all applicable laws and regulations.

In cases where Unitholders invest in the Sub-Fund through an intermediary, Unitholders are reminded to check whether such intermediary is FATCA compliant and in accordance with all applicable laws and regulations. Each Unitholder and prospective investor should consult with his own tax advisor as to the potential impact of FATCA in its own tax situation and in respect of its investment in the Sub-Funds, as well as the potential impact of FATCA on the Sub-Funds.

<u>CSDR Cash Penalty Regime</u>

New rules under the settlement discipline regime introduced under Regulation (EU) No 909/2014 ("CSDR") which are intended to reduce the number of settlement fails within EU central securities depositories (such as Euroclear and Clearstream) entered into force on 1 February 2022. These measures include the introduction of a new cash penalties regime under which the participant within the relevant central securities depositary responsible for a settlement fail will be required to pay a cash penalty which is in turn distributed to the other participant. This is intended to serve as an effective deterrent for participants that cause settlement fails. In certain circumstances, such penalties and related expenses will be borne (either directly or indirectly) out of the assets of a Sub-Fund on whose behalf the in-scope transaction was entered into, thus resulting in increased operational and compliance costs being borne by the relevant Sub-Fund.

Investment risks

<u>Equity securities risk</u>

Certain Sub-Funds may engage in trading equity securities. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might suddenly and substantially decrease in value, due to factors such as the possibility of sudden or prolonged market declines and risks associated with individual companies. Market prices of equity securities as a group have dropped dramatically in a short period of time on several occasions in the past, and they may do so again in the future. Economic, political or issuer-specific changes may adversely affect individual companies. In addition, actual and perceived accounting irregularities may cause dramatic price declines in the equity securities of companies reporting such irregularities or which are the subject of rumours of accounting irregularities. These factors may adversely affect the relevant Sub-Fund and, consequently, the Net Asset Value per Unit.

Risk of investing in debt securities:

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

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

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

Below investment grade and unrated debt securities risk: A Sub-Fund may invest in debt securities which are below investment grade or which are non-rated. As mentioned above, such instruments are generally more susceptible to the credit risk of the issuers, and as a result such investments assume greater risks because of generally reduced liquidity and greater fluctuation in value. The valuation of these instruments may also be more difficult and thus the relevant Sub-Fund's prices may be more volatile.

Risks of credit rating downgrades: Credit rating of debt securities or that of their issuers may be downgraded, thus adversely affecting the value and performance of a Sub-Fund holding such investments.

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

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

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

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

Risk of investing in financial derivative instruments

Certain Sub-Funds may from time to time utilise FDIs for hedging purposes. The use of FDIs exposes a sub-fund to additional risks, including: (a) volatility risk (FDIs can be highly volatile and expose investors to a high risk of loss); (b) leverage risk (as the low initial margin deposits normally required to establish a position in FDIs permits a high degree of leverage, there is risk that a relatively small movement in the price of a contract could result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin); (c) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of FDIs and transactions in over-the-counter FDIs may involve additional risk as there is no exchange market on which to close out an open position); (d) correlation risk (when used for hedging purposes there may be an imperfect correlation between the FDIs and the investments or market sectors being hedged); (e) counterparty risk (the Sub-Fund is exposed to the risk of loss resulting from a counterparty's failure to meet its financial obligations); (f) valuation risks (the pricing relationships between FDIs and the underlying instruments on which they are based may not conform to anticipated or historical correlation patterns; it may also be difficult to value FDIs, especially over-the-counter FDIs, so their prices may be volatile); (g) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the derivative contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (h) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of a Sub-Fund which uses FDIs. There is also no guarantee that the use of FDIs for hedging purposes will be effective and the Sub-Funds may therefore be subject to substantial loss.

Over-the-counter markets risk

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

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

Hedging risk

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

Potential conflicts of interest

The Manager and its connected persons may act as the adviser or investment manager to other clients (including funds) now or in the future. They may additionally serve as consultants to partners or shareholders in other investment funds, companies and investment firms. Investors in a Sub-Fund should understand that certain investments may be appropriate for that Sub-Fund and also for other clients advised or managed by the Manager or its connected persons.

Investment decisions for the Sub-Fund and for such other clients are made with a view to achieving their respective investment objectives and after consideration of such factors as their current holdings, the current investment views of the Manager, availability of cash for investment, and the size of their positions generally.

The Manager or its connected persons may give advice and recommend securities to other managed accounts or investment funds, which may differ from advice given to, or securities recommended or bought for a Sub-Fund even though their investment objectives may be the same as or similar to that Sub-Fund's objectives.

The directors of the Manager, the Manager and their respective affiliates may also own Units in a Sub-Fund and hold, dispose or otherwise deal with such Units as well as hold or deal in any investments notwithstanding that similar investments may be held by or for the account of a Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with a Sub-Fund. Each will at all times have regard in such event to its obligations to such Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly and taking into account investors' interests. For more information, please refer to the section headed "General Information - Conflicts of Interest".

TAXATION

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

Hong Kong

During such period as the Trust and a Sub-Fund is authorised by the SFC as a collective investment scheme pursuant to Section 104 of the SFO, under the present tax law and practice in Hong Kong:

(a) the relevant Sub-Fund should be excluded from profits tax in Hong Kong;

(b) no tax should be payable by Unitholders of that Sub-Fund in Hong Kong (whether by way of withholding or otherwise) in respect of income distributions from the relevant Sub-Fund. In respect of any profits arising on a sale, redemption or other disposal of Units, Hong Kong profits tax may arise where such transactions form part of a trade or business carried on by Unitholders of that Sub-Fund in Hong Kong, and where the profits, not being regarded as capital in nature, arising in or derived from such trade or business and being sourced in Hong Kong. Unitholders of that Sub-Fund who are not acquiring the Units as part of a trade or business that they carry on in Hong Kong will not be liable to profits tax in respect of any profits from the disposal/redemption of Units; and

(c) no Hong Kong stamp duty should be payable where the sale or transfer of Units in that Sub-Fund is effected by selling the relevant Units back to the Manager, who then either extinguish the Units or re-sells the Units to another person within two months thereof.

Other types of sales or purchases or transfers of Units by the Unitholders in that Sub-Fund should be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and the seller) on the higher of the consideration amount or market value.

FATCA

Sections 1471 – 1474 of the US Internal Revenue Code of 1986, as amended ("US Code") (commonly known as the Foreign Account Tax Compliance Act or "FATCA") will impose new rules with respect to certain payments to non-United States persons, such as the Sub-Funds, including interest and dividends from securities of US issuers and gross proceeds from the sale of such securities. All such payments may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service ("US IRS") to identify certain United States persons (within the meaning of the US Code) that own, directly or indirectly, Units in the Sub-Funds. To avoid such withholding on payments made to it, a foreign financial institution (an "FFI"), such as the Sub-Funds (and, generally, other investment funds organised outside the US), generally will be required to enter into an agreement (an "FFI Agreement") with the US IRS under which it will agree to identify its direct or indirect owners who are United States persons and report certain information concerning such United States person owners to the US IRS.

In general, an FFI which does not sign an FFI Agreement and is not otherwise exempt will face a 30% withholding tax on "withholdable payments", including dividends, interest and certain derivative payments derived from US sources. In addition, starting from 1 January 2017, gross proceeds such as sales proceeds and return of principal derived from stocks and debt obligations generating US source dividends or interest will be treated as "withholdable payments." It is expected that certain non-U.S. source payments attributable to amounts that would be subject to FATCA withholding (referred to as "foreign passthru payments") may also be subject to FATCA withholding starting no earlier than 1 January 2017, though the US tax rules on "foreign passthru payments" are currently pending.

The Hong Kong government has entered into an intergovernmental agreement with the US on 13 November 2014 ("IGA") for the implementation of FATCA, adopting "Model 2" IGA arrangements. Under these "Model 2" IGA arrangements, FFIs in Hong Kong (such as the Sub-Funds) would be subject to the terms of an FFI Agreement with the US IRS, register with the US IRS and comply with the terms of an FFI Agreement. Otherwise they will be subject to a 30% withholding tax on relevant US-sourced payments and other "withholdable payments" paid to them.

It is expected that FFIs in Hong Kong (such as the Sub-Funds) complying with the terms of an 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 US accounts" (i.e. certain accounts of which the holders do not consent to FATCA reporting and disclosure to the US IRS), but may be required to withhold tax on withholdable payments made to non-compliant FFIs.

The Sub-Funds will endeavour to satisfy the requirements imposed under FATCA and the terms of the FFI Agreement to avoid any withholding tax. The Sub-Funds have agreed to be subject to the terms of an FFI Agreement and have registered with the US IRS to be treated as "reporting financial institutions under a Model 2 IGA". E Fund (HK) US Dollar Money Market Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number 1J5H74.99999.SL.344. E Fund (HK) Asia High Yield Bond Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number 95PR0Z.99999.SL.344. E Fund (HK) Hong Kong Dollar Money Market Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number 03Q8VY.99999.SL.344. E Fund (HK) Short-Duration Bond Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number WYF3WZ. 99999.SL.344. E Fund (HK) Asia Bond Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number 4XQM5L.99999.SL.344. E Fund (HK) Multi-Income Bond Fund has been registered with the US IRS as a reporting financial institution under a Model 2 IGA with a Global Intermediary Identification Number KUBMEN.99999.SL.344.

Provision by Unitholders of documentation under FATCA or other applicable laws

Each Unitholder (i) will be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Trust or a Sub-Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding (or mitigate backup withholding) in any jurisdiction from or through which the Trust or the relevant Sub-Fund receives payments and/or (B) to satisfy reporting or other obligations under US Code and the United States Treasury Regulations promulgated under the US Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction, (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certification or other information is no longer accurate, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction, including reporting obligations that may be imposed by future legislation or future applicable laws.

Power to disclose information to tax authorities

Subject to applicable laws and regulations in Hong Kong, the Trust, the relevant Sub- Fund, the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the US IRS), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, taxpayer identification number (if any), and certain information relating to the Unitholder's holdings, to enable the Trust or the relevant Sub-Fund to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under FATCA). Investors should refer to "Foreign Account Tax Compliance Act risks" in the section headed "Risk Factors" for disclosures regarding compliance with the regulations under the United States Foreign Account Tax Compliance Act and the IGA between the Hong Kong government and the US.

Please also refer to "Risks related to FATCA" in the section "Risk Factors".

Hong Kong requirements regarding tax reporting

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The AEOI requires financial institutions ("FI") in Hong Kong to collect information relating to non-Hong Kong tax residents holding accounts with FIs, and exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a Competent Authority Agreement ("CAA"); however, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Trust is a collective investment scheme within the definition set out in the SFO that is resident in Hong Kong, and is accordingly an investment entity with obligations to report as a financial institution in accordance with the Ordinance. This means that the Trust and/or its agents shall collect and provide to the Hong Kong Inland Revenue Department ("IRD") tax information relating to Unitholders and prospective investors.

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

By investing in the Sub-Fund(s) and/or continuing to invest in the Sub-Fund(s), Unitholders acknowledge that they may be required to provide additional information to the Trust, the Manager and/or the Trust's agents in order for the Trust to comply with AEOI. The Unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions. The failure of a Unitholder to provide any requested information, may result in the Trust, the Manager and/or other agents of the Trust taking any action and/or pursue remedies at their disposal including, without limitation, mandatory redemption or withdrawal of the Unitholder concerned in accordance with applicable laws and regulations, exercised by the Manager acting in good faith and on reasonable grounds.

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

GENERAL

Reports and accounts

The Trust's and each Sub-Fund's financial year end is on 31 December in each year. The first financial year end of the Trust is 31 December 2018.

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

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

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

Distribution policy

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

Distributions (if any) declared in respect of an interim accounting period or an accounting period, as described in the relevant Appendix, shall be distributed among the Unitholders of the relevant classes of Units rateably in accordance with the number of Units held by them on the record date in respect of such interim accounting period or accounting period, as the case may be. For the avoidance of doubt, only Unitholders whose names are entered on the register of Unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding interim accounting period or accounting period, as the case maybe.

Any payment of distributions will be made in the base currency or class currency of the relevant classes (as determined by the Manager or the Trustee) by direct transfer into the appropriate bank account or by cheque at the risk of the Unitholders (or in such other manner as may be agreed with the Manager and the Trustee). Any distribution which is not claimed for six years will be forfeited and become part of the assets of the relevant Sub-Fund.

Trust Deed

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

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

Modification of Trust Deed

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee and the Manager such modification (i) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee or the Manager or any other person from any responsibility to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Trust or the relevant Sub-Fund; or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law); or (iii) is made to correct a manifest error. In all other cases, modifications, alterations and additions involving material changes require the sanction of an extraordinary resolution of the Unitholders affected or the SFC's approval. To the extent an amendment to the Trust Deed requires prior approval from the SFC, the Manager will seek such prior approval from the SFC. Notice of any amendment or modification which is necessary to enable Unitholders to appraise the position of the Sub-Fund in accordance with any applicable law and regulation, in respect of which the Trustee and the Manager shall have certified in accordance with the aforesaid, will be given by the Manager.

Meetings of Unitholders

Meetings of Unitholders may be convened by the Manager or the Trustee. Unitholders holding 10% or more in value of the Units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting at which an extraordinary resolution is proposed, and not less than 14 days' notice of any other meeting.

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

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

Transfer of Units

Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee and duly stamped with adequate stamp duty before the form is passed to the Registrar. The transferor will be deemed to remain the Unitholder of the Units transferred until the name of the transferee is entered in the Register of Unitholders in respect of such Units.

Each instrument of transfer must relate to a single class of Units only. No Units may be transferred if, as a result, either the transferor or the transferee would hold Units having a value less than the minimum holding (if any) of the relevant class as set out in the relevant Appendix.

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

Termination of the Trust or any Sub-Fund

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

The Trust may be terminated on the occurrence of any of the following events: (a) any law shall be passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the Trust; (b) the Trustee shall be unable to find a person acceptable to the Trustee to act as the new manager within 30 days after the removal or retirement of the Manager; (c) the Trustee shall have decided to retire but within 3 months from the date of the Trustee giving its written notice to the Manager to retire as the Trustee, the Manager shall be unable to find a suitable person who is willing to act as trustee; (d) if the Trustee and the Manager agree that it is undesirable to continue the Trust and the affected Unitholders sanction the termination by way of extraordinary resolution; or (e) the affected Unitholders of the Trust determine, by extraordinary resolution, that the Trust should be terminated (in which case, such termination shall take effect from the date on which such extraordinary resolution is passed or such later date (if any) as the extraordinary resolution may provide).

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

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

The Trust may be terminated by the Manager in its absolute discretion by notice in writing to the Trustee: (a) if the aggregate Net Asset Value of the Units in all Sub-Funds outstanding shall be less than US$50,000,000; (b) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the Trust and which renders the Trust illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Trust; (c) if within a reasonable time and using commercially reasonable endeavours, the Manager shall be unable to find a person acceptable to the Manager to act as the new trustee after deciding to remove the Trustee for the time being pursuant to the provisions of the Trust Deed; or (d) if the Manager is unable to implement its investment strategy in respect of all Sub-Funds.

Any Sub-Fund may also be terminated by the Manager in its absolute discretion by notice in writing to the Trustee: (a) if the aggregate Net Asset Value of the Units in the Sub-Fund outstanding shall be less than US$50,000,000; (b) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the Sub-Fund and which renders the Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Sub-Fund; or (c) if the Manager is unable to implement its investment strategy in respect of the Sub-Fund.

Prior notice of termination of the Trust or any Sub-Fund will be provided to Unitholders, the notice period of which will be determined in accordance with the Code. Such notice to Unitholders is subject to the SFC's prior approval.

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

Documents available for inspection

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

Anti-Money Laundering Regulations

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

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

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

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

Liquidity risk management

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

On an on-going basis, the Manager's risk management function will assess each Sub-Fund's liquidity position against internal liquidity indicators. The Manager considers a range of quantitative metrics and qualitative factors in arriving at a liquidity assessment. The Manager can break down the underlying liquidity of investments based on average or total days to liquidate, so it can determine the time horizon and cost needed to liquidate positions. Pre-trade analysis can be carried out in order to avoid potentially exceeding a security's daily volume and thereby influencing its price.

Where a Sub-Fund is unable to meet the indicators, the risk management function will consider whether additional analysis is needed to be performed and whether further action should be taken to manage the liquidity risk of the Sub-Fund. Policies have been put in place and documentation will be maintained on the assessments. The Manager will also perform liquidity stress testing on the Sub-Funds on an ongoing basis. The liquidity risk management policies and procedures will be reviewed periodically and as needed.

Conflicts of Interest

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

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

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

Cross-trades

Cross-trades between a Sub-Fund and other funds managed by the Manager or its affiliates may be undertaken when the Manager considers that, as part of its portfolio management, such cross-trades would be in the best interests of the Unitholders to achieve the investment objective, restrictions and policy of the relevant Sub-Fund. By conducting cross-trades, the Manager may achieve trading efficiencies and savings for the benefit of the Unitholders.

In conducting transactions, the Manager will ensure that the trades are executed on arm's length terms at current market value and the reasons for such trades shall be documented prior to execution, in accordance with the SFC's Fund Manager Code of Conduct.

Websites

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

APPENDIX 1: E FUND (HK) US DOLLAR MONEY MARKET FUND

This Appendix (which forms part of, and should be read together with the rest of, this Explanatory Memorandum) relates to the E Fund (HK) US Dollar Money Market Fund (the "Sub-Fund"), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to E Fund (HK) US Dollar Money Market Fund. Terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix.

For the purpose of the Sub-Fund, "Valuation Day" means each Dealing Day.

Investment Objective

The Sub-Fund's sole objective is to invest in short-term deposits and high quality money market instruments. The Sub-Fund seeks to achieve a return in US Dollars in line with prevailing money market rates, with primary considerations of both capital security and liquidity. There can be no assurance that the Sub-Fund will achieve its investment objective.

Investment Strategy

Indicative asset allocation

The indicative asset allocation of the Sub-Fund is as follows:

70% - 100% of the Net Asset Value of the Sub-Fund	US Dollars-denominated and settled short-term deposits and high quality money market instruments
0 – 30% of the Net Asset Value of the Sub-Fund	Non-US Dollars-denominated and settled short-term deposits and high quality money market instruments

The Sub-Fund seeks to achieve its investment objective by investing primarily (i.e. not less than 70% of its Net Asset Value) in US Dollars-denominated and settled short-term deposits and high quality money market instruments issued by governments, quasi-governments, international organisations, financial institutions. The Sub-Fund may invest up to 30% of its Net Asset Value in non USD-denominated deposits and high quality money market instruments. High quality money market instruments include debt securities, commercial papers, certificates of deposits and commercial bills. Debt securities invested by the Sub-Fund include but are not limited to government bonds, fixed and floating rate bonds. The Sub-Fund will only invest in debt securities rated investment grade or above by an independent rating agency, e.g. Fitch, Moody's, Standard and Poor's, or onshore China bonds with a minimum credit rating of BBB- as rated by one of the credit rating agencies in China. A short-term debt security is considered investment grade if its credit rating is A-3 or higher by Standard & Poor's or F3 or higher by Fitch Ratings or P-3 or higher by Moody's or equivalent rating as rated by one of the international credit rating agencies, or onshore China bonds with a minimum credit rating of AA+ as rated by one of the credit rating agencies in China.

There is no specific geographical allocation of the country of issue of the high quality money market instruments or deposits, except that the Sub-Fund may not invest more than 20% of its Net Asset Value in emerging markets (including in onshore China markets). Countries or regions in which the Sub-Fund may invest in include Hong Kong, Singapore, the European Union and the United States. and China (onshore and offshore markets). The Sub-Fund may invest in onshore China debt securities via the Bond Connect (as defined below).

The aggregate value of the Sub-Fund's holding of instruments and deposits issued by a single entity will not exceed 10% of the total Net Asset Value of the Sub-Fund except: (i) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%; or (ii) in the case of Government and other Public Securities, up to 30% may be invested in the same issue; or (iii) in respect of any deposit of less than USD1,000,000, where the Sub-Fund cannot otherwise diversify as a result of its size. Not more than 10% of the Sub-Fund's Net Asset Value will be invested in securities issued or guaranteed by a single sovereign issuer (including its government, a public or local authority) with a credit rating below investment grade or is unrated.

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

The Sub-Fund may enter into sale and repurchase transactions for up to 10% of its Net Asset Value but only on a temporary basis for the purpose of meeting redemption requests or defraying operating expenses. The Sub-Fund will not write any options. Other than sale and repurchase transactions, the Sub-Fund will enter into other FDIs for hedging purposes only.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund. Please refer to the section "Investment Objective, Strategy and Restrictions" – "Securities Financing Transactions" in this Explanatory Memorandum for requirements and the Sub-Fund's policies regarding sale and repurchase transactions.

The Sub-Fund currently has no intention to invest in structured deposits, structured products or over-the-counter securities, or to take any short positions, and the Manager will not enter into any securities lending, reverse repurchase or other similar over-the-counter transactions in respect of the Sub-Fund. The Sub-Fund will not invest in collateralised and/or securitised securities (including asset backed commercial papers and mortgage backed securities). If any of this changes in the future, prior approval of the SFC will be sought (if required) and not less than one month's notice will be provided to Unitholders before the Sub-Fund enters into any such transaction.

Investment via the Northbound Trading Link under Bond Connect

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

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

- the "Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong (Decree No.1 [2017])" (內地與香港債券市場互聯互通合作管理暫行辦法(中國人民銀行令[2017]第 1 號)) issued by the PBOC on 21 June 2017;

- the "Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect" (中國人民銀行上海總部"債券通"北向通境外投資者准入備案業務指引) issued by the Shanghai Head Office of PBOC on 22 June 2017; and

- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank bond market through the northbound trading of

Bond Connect ("Northbound Trading Link"). There will be no investment quota for Northbound Trading Link.

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

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

Investment Restrictions

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

Base Currency

The Base Currency of the Sub-Fund is USD.

Available Classes

Units in the following Classes are currently available for issue to investors:

- Class A (accumulation) (USD)
- Class A (accumulation) (RMB)
- Class A (accumulation) (hedged RMB)
- Class A (accumulation) (HKD)
- Class A (accumulation) (hedged HKD)
- Class A (distribution) (USD)
- Class A (distribution) (RMB)
- Class A (distribution) (hedged RMB)
- Class A (distribution) (HKD)
- Class A (distribution) (hedged HKD)
- Class B (accumulation) (USD)
- Class B (accumulation) (RMB)
- Class B (accumulation) (hedged RMB)
- Class B (accumulation) (HKD)
- Class B (accumulation) (hedged HKD)

- Class B (distribution) (USD)
- Class B (distribution) (RMB)
- Class B (distribution) (hedged RMB)
- Class B (distribution) (HKD)
- Class B (distribution) (hedged HKD)
- Class C (accumulation) (USD)
- Class C (accumulation) (HKD)
- Class C (distribution) (USD)
- Class C (distribution) (HKD)
- Class I (accumulation) (USD)
- Class I (accumulation) (RMB)
- Class I (accumulation) (hedged RMB)
- Class I (accumulation) (HKD)
- Class I (accumulation) (hedged HKD)
- Class I (distribution) (USD)
- Class I (distribution) (RMB)
- Class I (distribution) (hedged RMB)
- Class I (distribution) (HKD)
- Class I (distribution) (hedged HKD)

Initial Offer Period

The Initial Offer Period of the Sub-Fund commenced at 9:00 a.m. (Hong Kong time) on 7 November 2017 and ended at 5:00 p.m. (Hong Kong time) on 7 November 2017 (or such other dates or times as the Manager may determine).

The initial Subscription Price for Class A, Class B and Class I Units is USD100 per Unit for USD denominated Classes, RMB1,000 for RMB denominated Classes and HKD1,000 for HKD denominated Classes. The initial Subscription Price for Class C Units is USD100 per Unit for USD denominated Classes and HKD100 for HKD denominated Classes.

The Manager may decide not to issue any Units in the event that less than the equivalent of USD 50,000,000 is raised during the Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such event subscription monies paid by an applicant will be returned by cheque by post or by telegraphic transfer or by such other means as the Manager and the Trustee consider appropriate at the applicant’s risk (without interest and net of expenses) within 14 Business Days after the expiry of the Initial Offer Period.

Dealing Procedures

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

Dealing Day	each Business Day
Dealing Deadline	12:00 p.m. (Hong Kong time) on the relevant Dealing Day

The Subscription Price will be calculated and quoted in the Base Currency of the Sub-Fund.

Notwithstanding the description in the section "Subscription of Units" in this Explanatory Memorandum, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class of that Sub-Fund then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

Payment of redemption proceeds

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in USD by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request.

The Redemption Price will be calculated, quoted and paid in the Base Currency of the Sub-Fund.

Notwithstanding the description in the section "Redemption of Units" in this Explanatory Memorandum, the Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

The maximum interval between the receipt of a properly documented request for redemption of Units and the payment of the redemption money to the Unitholder 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 one calendar month not practicable. In such case, the extended time frame for the payment of redemption money shall reflect the additional time needed in light of the specific circumstances in the relevant market(s). Proper records will be kept by the Manager to demonstrate and justify this (e.g. the Sub-Fund is directly subject to or adversely affected by the restrictions which are beyond the reasonable control of the Manager) and Unitholders and the SFC will be properly and promptly informed.

Investment Minima

The following investment minima apply to the Sub-Fund:

Class A Units (accumulation) (USD)	Class C Units (accumulation) (USD)	Class I Units (accumulation) (USD)	Class A Units (accumulation) (RMB)	Class I Units (accumulation) (RMB)	Class A Units (accumulation) (HKD)	Class C Units (accumulation) (HKD)	Class I Units (accumulation) (HKD)
Class A Units (distribution) (USD)	Class C Units (distribution) (USD)	Class I Units (distribution) (USD)	Class A Units (distribution) (RMB)	Class I Units (distribution) (RMB)	Class A Units (distribution) (HKD)	Class C Units (distribution) (HKD)	Class I Units (distribution) (HKD)

	Class B Units (accumulation) (USD) Class B Units (distribution) (USD)			Class A Units (accumulation) (hedged RMB) Class A Units (distribution) (hedged RMB) Class B Units (accumulation) (RMB) Class B Units (distribution) (RMB) Class B Units (accumulation) (hedged RMB) Class B Units (distribution) (hedged RMB)	Class I Units (accumulation) (hedged RMB) Class I Units (distribution) (hedged RMB)	Class A Units (accumulation) (hedged HKD) Class A Units (distribution) (hedged HKD) Class B Units (accumulation) (HKD) Class B Units (distribution) (HKD) Class B Units (accumulation) (hedged HKD) Class B Units (distribution) (hedged HKD)		Class I Units (accumulation) (hedged HKD) Class I Units (distribution) (hedged HKD)
Minimum initial investment	USD100	USD1	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD1	HKD10,000
Minimum subsequent investment	USD100	USD1	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD1	HKD10,000
Minimum holding	USD100	USD1	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD1	HKD10,000
Minimum redemption amount	USD100	USD1	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD1	HKD10,000

The Manager may in its discretion agree to accept applications for subscription or redemption generally or in a particular case below the applicable minimum amounts.

Publication of Net Asset Value

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

Expenses and Charges

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

<u>Fees payable by Unitholders</u>

	Class A Units	Class B Units	Class C Units	Class I Units
Subscription fee	Up to 3% of the Subscription Price	Up to 1% of the Subscription Price	Up to 3% of the Subscription Price	Nil
Redemption fee	Nil	Nil	Nil	Nil
Switching fee	Nil	Nil	Nil	Nil

Fees payable by the Sub-Fund

	Class A Units	Class B Units	Class C Units	Class I Units
Management fee	0.20% per annum of the Net Asset Value of the Sub-Fund	0.40% per annum of the Net Asset Value of the Sub-Fund	0.60% per annum of the Net Asset Value of the Sub-Fund	0.05% per annum of the Net Asset Value of the Sub-Fund
Performance fee	Nil			
Trustee fee	0.05% per annum of the Net Asset Value of the Sub-Fund, inclusive of fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses			

The Manager may, in its absolute discretion, (i) share with intermediaries the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee and (ii) share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee to institutional investors (not being retail investors) provided that such fees and charges are those which the Manager is entitled to receive for its own benefit.

Additional Risk Factors

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

Investment risk

The purchase of a Unit in the Sub-Fund is not the same as placing funds on deposit with a bank or deposit-taking company. The Sub-Fund does not guarantee principal and the Manager has no obligation to redeem the Units at the offer value. The Sub-Fund does not have a constant Net Asset Value. The Sub-Fund is not subject to the supervision of the Hong Kong Monetary Authority.

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

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

Risk of investing in debt securities

Short-term debt instruments risk

As the Sub-Fund invests significantly in short-term debt instruments with short maturities, it means the turnover rates of the Sub-Fund’s investments may be relatively high and the transaction costs incurred as a result of the purchase or sale of short-term debt instruments may also increase which in turn may have a negative impact on the net asset value of the Sub-Fund.

Interest rate risk

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

Credit/counterparty risk

Investment in debt securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the debt securities held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

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

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of debt securities, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

Downgrading risk

Fixed income instruments with a credit rating may be subject to the risk of being downgraded. In the event of downgrading in the credit rating of an instrument or that of its issuer, the Sub-Fund's investment value in such instrument may be adversely affected. If the Sub-Fund continues to hold such securities, it will be subject to additional risk of loss. The Manager may or may not be able to dispose of the instruments that are being downgraded at a reasonable price or at all.

Sovereign debt risk

The Sub-Fund's 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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

Credit rating agency risk

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

Risk associated with PRC onshore bonds

PRC inter-bank bond market risk

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

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

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

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

Risks associated with Bond Connect

The relevant rules and regulations on Bond Connect are subject to change which may have potential retrospective effect. Where a suspension in the trading through Bond Connect is effected, the Sub-Fund's ability to access the PRC market through the programme will be adversely affected.

PRC sovereign debt risk

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

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

Settlement risks

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

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

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

Credit rating agency risk

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

Risks associated with bank deposits

Bank deposits are subject to the credit risks of the relevant financial institutions. The Sub-Fund's deposit may not be protected by any deposit protection schemes, or the value of the protection under the deposit protection schemes may not cover the full amount deposited by the Sub-Fund. Therefore, if the relevant financial institution defaults, the Sub-Fund may suffer losses as a result.

Risks relating to sale and repurchase agreements

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

Concentration risk

The Sub-Fund will invest primarily in the US Dollars instruments. The Sub-Fund is therefore likely to be more volatile than a broad-based fund that adopts a more diversified strategy.

Operational and settlement risks

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

Risk of investing in FDIs

The Manager may for hedging purposes invest in FDIs subject to the investment restrictions applicable to the Sub-Fund as set out in the section headed "Investment Objective, Strategy and Restrictions". These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to "Investment risks – Risk of investing in financial derivative instruments" and "Investment risks – Over-the-counter markets risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Hedging risk

The Manager may from time to time use hedging techniques, including investments in FDIs instruments, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to "Investment risks – Hedging risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Dividends risk

The Manager will declare dividends on an annual basis for distribution Class(es). However, the rate of distribution is not guaranteed and is subject to the discretion of the Manager. The Manager may change the Sub-Fund's dividend distribution policy (including for example the frequency of distribution) subject to the SFC's prior approval (where necessary) and by giving not less than one month's prior notice to Unitholders.

The rate of distribution depends on interest payments made by issuers of debt securities and deposits net of the level of fees and expenses payable by the Sub-Fund. Investors will not receive any interest payments, dividends or other distributions directly from the issuers of the debt securities within the Sub-Fund's portfolio.

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

RMB currency risk and RMB denominated Classes risk

RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub- Fund's or the investors' position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of investors' investments will be adversely affected. If investors convert HKD or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into HKD or any other currency, they may suffer a loss if RMB depreciates against HKD or other currency.

The Sub-Fund offers RMB denominated Classes of Units.

Where an investor subscribes for Units denominated in RMB, the Manager may (where appropriate) convert such subscriptions into a non- RMB currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager will sell the Sub-Fund's investments (which may be denominated in a non-RMB currency) and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds into RMB which may also affect the Sub-Fund's ability to meet redemption requests from Unitholders in RMB denominated Classes of Units or to make distributions, and may delay the payment of redemption proceeds or dividends under exceptional circumstances. As RMB is not freely convertible and is subject to exchange controls and restrictions, currency conversion is subject to availability of RMB at the relevant time. The Sub-Fund may not have sufficient RMB for its investments. Further, in case of sizeable redemption requests for the RMB Classes, the Manager has the absolute discretion to delay any payment in respect of redemption of the RMB Classes (for a period not exceeding one calendar month of receipt of a properly documented redemption request).

Non-RMB based investors who invest in RMB denominated Classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the RMB denominated Classes of Units.

The RMB is traded in both the onshore and offshore markets. While both onshore RMB ("CNY") and offshore RMB ("CNH") represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors. When calculating the Net Asset Value of Units of a RMB denominated Class, the Manager will apply the exchange rate for offshore RMB market in Hong Kong, i.e. the CNH exchange rate, which may be at a premium or discount to the exchange rate for onshore RMB market in mainland China, i.e. the CNY exchange rate. Consequently, there may be significant trading costs incurred and investors investing in Classes of Units denominated in RMB may suffer losses.

For unhedged RMB denominated Classes, since the Unit prices are denominated in RMB, but the Sub-Fund will have limited RMB denominated underlying investments and its base currency is USD, so even if the prices of underlying investments and/or value of the Base Currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the Base Currency more than the increase in the value of the underlying investments and/or the Base Currency.

Hedged RMB and HKD denominated Classes risk

For hedged RMB and HKD denominated Classes, investors have to bear the associated hedging costs which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB and HKD denominated Classes may be exposed to RMB and HKD currency exchange risk on an unhedged basis and in which case investors may be subject to the risks of investing in RMB and HKD denominated Classes on an unhedged basis as outlined in the paragraph above. Also there is no guarantee that the hedging strategy will fully and effectively eliminate the currency exposure.

Hedged RMB and HKD denominated Classes will hedge the Sub-Fund's Base Currency back to RMB and HKD respectively, on a best effort basis, with an objective to align the performance of the hedged RMB and HKD denominated Classes to that of the equivalent Class denominated in the Sub-Fund's Base Currency. This strategy may preclude the hedged RMB and HKD denominated Classes from benefiting from any potential gain resulting from the appreciation of the Base Currency against RMB and HKD respectively. Please refer to the risk factor headed "Hedging risk" in the main part of this Explanatory Memorandum.

Reports and accounts

The first financial reports for the Sub-Fund cover the period to 31 December 2018.

Distribution policy

For the distribution Class(es), the Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distributions will be made once per year for distribution classes of Units. However, there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed. The Sub-Fund will not pay dividends out of capital / effectively out of capital.

For the accumulation Class(es), no distribution will be made to Unitholders.

All distributions declared on the Sub-Fund will be automatically reinvested unless otherwise elected by the Unitholders, in which case the relevant proceeds will be paid to the Unitholders accordingly within one month of declaration.

The cash distribution (if any) will be paid to Unitholders at their own risk and expense by telegraphic transfer in USD normally within one calendar month after the declaration of such distribution by the Manager.

Fractions of Units

Notwithstanding the description in the section "Subscription of Units" – "General" in this Explanatory Memorandum, fractions of a Unit of the Sub-Fund may be issued rounded down to the nearest 4 decimal places.

APPENDIX 2: E FUND (HK) ASIA HIGH YIELD BOND FUND

This Appendix (which forms part of, and should be read together with the rest of, this Explanatory Memorandum) relates to the E Fund (HK) Asia High Yield Bond Fund (the "Sub-Fund"), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to E Fund (HK) Asia High Yield Bond Fund. Terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix.

For the purpose of the Sub-Fund, "Valuation Day" means each Dealing Day.

Investment Objective

The Sub-Fund's sole objective is to achieve long term capital growth through investing globally in a portfolio consisting primarily of high yield debt securities issued by or fully guaranteed by corporations with an Asia focus, which aim to generate a steady flow of income in addition to capital appreciation for the Sub-Fund, including debt securities issued in emerging markets. There can be no assurance that the Sub-Fund will achieve its investment objective.

Investment Strategy

Indicative asset allocation

The indicative asset allocation of the Sub-Fund is as follows:

At least 70% of the Net Asset Value of the Sub-Fund	High yield debt securities (including convertible bonds), which may be USD, EUR or HKD denominated or offshore RMB denominated ("Dim Sum" bonds), issued by or fully guaranteed by listed or unlisted corporations which have their main operations (or majority of assets) in or have their majority of their income derived from Asia. Up to 100% of the Net Asset Value may be invested in debt securities which are unrated or rated below investment grade. Such high yield debt securities may be issued or traded in developed markets or emerging markets.
Up to 30% of the Net Asset Value of the Sub-Fund in aggregate	• Onshore China exposure (up to 20% of the Net Asset Value) • Investment grade debt securities • Equity securities • Other collective investment schemes and money market funds • FDIs for investment purpose

Principal investments

The Sub-Fund will invest at least 70% of its Net Asset Value in a portfolio of high yield debt securities, which may be USD, EUR or HKD denominated or offshore RMB denominated ("Dim Sum" bonds, i.e. bonds issued outside China but denominated in RMB), issued by or fully guaranteed by listed or unlisted corporations which have their main operations (or majority of assets) in or have their majority of their income derived from Asia; and where the Manager believes such debt securities are being traded at significant discount to their underlying intrinsic values. For the avoidance of doubt, the issuers of the debt securities who have a majority of their income derived from Asia as mentioned above may be based in or outside Asia.

Up to 100% of the Net Asset Value may be invested in debt securities which are unrated or rated below investment grade by Fitch or Moody's or Standard and Poor's, including (not limited to) listed and unlisted bonds, government bonds, convertible and non-convertible bonds, fixed and floating rate bonds or other similar securities. A long-term debt security is considered investment grade if its credit rating is BBB- or higher by Standard & Poor's and Fitch Ratings or Baa3 or higher by Moody's or equivalent rating as rated by an international credit rating agency. A short-term debt security is considered investment grade if its credit rating is A-3 or higher by Standard & Poor's or F3 or higher by Fitch Ratings or P-3 or higher by Moody's or equivalent rating as rated by an international credit rating agency. For the purpose of the Sub-Fund, "unrated" refers to where neither the instrument itself nor its issuer has a credit rating assigned by international credit rating agencies. For a debt security which itself does not have a credit rating, the Manager will assess the debt security by reference to the credit rating of the issuer, the guarantor or the keepwell provider.

High yield debt securities may be issued or traded in developed markets or emerging markets. There is no set proportion between investments in developed markets and emerging markets, therefore investments in emerging markets may be up to 100% of the Net Asset Value.

Up to 100% of the Sub-Fund's Net Asset Value may be invested in convertible bonds (issued and/or guaranteed by issuers such as corporations, financial institutions and banks). The Sub-Fund's expected total maximum investments in debt instruments with loss-absorption features ("LAP") e.g. contingent convertible bonds ("CoCos") and senior non-preferred debts will be up to 30% of its Net Asset Value. CoCos may have non-viability and/or loss absorption convertible features, i.e. they are subject to compulsory conversion out of the issuer's control. They are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level, and may be compulsorily redeemed upon the occurrence of a trigger event which may be out of the issuer's control. They are risky and highly complex investment instruments. Under certain circumstances CoCos can be converted into shares of the issuing company, potentially at a discounted price, or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. In the event convertible bonds are converted into shares resulting in deviation from the indicative asset allocation, the Manager will arrange for the shares to be sold within 10 Business Days. Senior non-preferred debts, also known as non-preferred senior (NPS) or Tier 3 debts, are unconditional, senior and unsecured obligations issued by a financial institution, and rank pari passu amongst themselves and senior to subordinated notes, but junior to senior preferred notes and any claims benefiting from legal or statutory preferences.

The Sub-Fund will not invest more than 10% of its Net Asset Value in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade and/or unrated.

The Sub-Fund will invest in a broadly diversified portfolio of debt securities with no fixed duration, term structure or industry sector weightings in the allocation of assets in developed markets. Selection of investments will be determined by the availability of attractive investment opportunities.

Under exceptional circumstances (e.g. market crash or major crisis) or adverse market conditions, the Sub-Fund may be invested temporarily up to 100% of its Net Asset Value in liquid assets such as bank deposits, certificates of deposit, commercial paper and treasury bills, and investments in investment grade debt securities may temporarily increase to up to 100%.

Other debt securities

The Sub-Fund may also invest up to 30% of its Net Asset Value in investment grade debt securities. Onshore China exposure will be up to 20% of the Net Asset Value, which may include investments in debt securities issued by or fully guaranteed by the PRC government and/or government related entities and urban investment bonds (城投債). Urban investment bonds are debt instruments issued by local government financing vehicles ("LGFVs") in the China listed bond and interbank bond market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.

Equity securities

The Sub-Fund may also invest less than 30% of its Net Asset Value in shares listed on Hong Kong, Singapore or U.S. stock exchanges (including American Depositary Receipts and preference shares). This includes any listed equities the Sub-Fund may hold as a result of the conversion of the convertible bonds, i.e. the Sub-Fund's aggregate exposure in equities will not exceed 30% of the Sub-Fund's Net Asset Value. The Sub-Fund will not hold equities that are unlisted.

Financial derivative instruments and other investments

The Sub-Fund may also invest in units in any unit trust or shares in any mutual fund corporation or any other collective investment scheme (including those managed by the Manager or its connected persons) authorised by the SFC or in recognised jurisdiction schemes and may hold cash, deposits, and other money market instruments (such as but not limited to treasury bills, commercial papers, certificates of deposit as considered appropriate by the Manager). The Sub-Fund will not invest more than 30% of its Net Asset Value in the above instruments/investments.

The Sub-Fund may invest up to 50% of the Net Asset Value in sale and repurchase transactions and borrow up to 10% of the Net Asset Value with a view to creating additional income.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund. Please refer to the section "Investment Objective, Strategy and Restrictions" – "Securities Financing Transactions" in the main body of this Explanatory Memorandum for requirements and the Sub-Fund's policies regarding sale and repurchase transactions.

Cash obtained in sale and repurchase transactions will be used for liquidity management, re-investment and hedging purposes. Notwithstanding the requirements on re-investment of collateral as described under the sub-section headed "Collateral" under the section "Investment Objective, Strategy and Restrictions" in the main body of this Explanatory Memorandum, the Sub-Fund may re-invest the cash collateral received from sale and repurchase transactions in investments other than those set out in 7.36(j) of the Code provided that the following requirements are met:

1. the re-investment, together with the Sub-Fund's net derivative exposure, do not in aggregate exceed 50% of the Sub-Fund's Net Asset Value;

2. the re-investment is consistent with the Sub-Fund's investment objective and strategies;

3. the re-investment is limited to securities which are sufficiently liquid and of good quality; and

4. the re-investment is subject to the corresponding investment restrictions and limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and complies with Notes (3) and (4) to 7.36(j) of the Code.

Re-investment of cash collateral received from sale and repurchase transactions in compliance with the above requirements shall not be subject to the limitation in 7.21 of the Code which allows borrowing of the Sub-Fund of up to 10% of the Net Asset Value.

The Sub-Fund may also invest in FDIs for hedging and investment purposes to the extent permitted by the Code and the provisions set out under the section "Investment Objective, Strategy and Restrictions" in the main body of this Explanatory Memorandum. The Sub-Fund will not invest in collateralised and/or securitised products (such as asset backed securities, mortgage backed securities and asset backed commercial papers). The Sub-Fund will not enter into any securities lending or reverse repurchase transactions or similar over-the-counter transactions. The Sub-Fund will not write options.

Investment Restrictions

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

Base Currency

The Base Currency of the Sub-Fund is USD.

Available Classes

Units in the following Classes are currently available for issue to investors:

- Class A (accumulation) (RMB)
- Class A (distribution) (RMB)
- Class A (accumulation) (USD)
- Class A (distribution) (USD)
- Class A (accumulation) (hedged RMB)
- Class A (distribution) (hedged RMB)
- Class A (accumulation) (HKD)
- Class A (distribution) (HKD)
- Class I (accumulation) (RMB)
- Class I (distribution) (RMB)
- Class I (accumulation) (USD)
- Class I1 (distribution) (USD)
- Class I2 (distribution) (USD)
- Class I (accumulation) (hedged RMB)
- Class I1 (distribution) (hedged RMB)
- Class I2 (distribution) (hedged RMB)
- Class I (accumulation) (HKD)
- Class I (distribution) (HKD)
- Class X (accumulation) (USD)

- Class X (accumulation) (hedged RMB)

- Class X (accumulation) (HKD)

Initial Offer Period

The Initial Offer Period of the Sub-Fund commenced at 9:00 a.m. (Hong Kong time) on 5 January 2018 and ended at 4:00 p.m. (Hong Kong time) on 5 January 2018 (or such other dates or times as the Manager may determine).

The initial Subscription Price is USD10 per Unit for USD denominated Classes, RMB100 for RMB denominated Classes and HKD100 for HKD denominated Classes.

The Manager may decide not to issue any Units in the event that less than the equivalent of USD 50,000,000 is raised during the Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such event subscription monies paid by an applicant will be returned by cheque by post or by telegraphic transfer or by such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses) within 14 Business Days after the expiry of the Initial Offer Period.

Dealing Procedures

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

Dealing Day	each Business Day
Dealing Deadline	4:00 pm (Hong Kong time) on the relevant Dealing Day

The Subscription Price will be calculated and quoted in the Base Currency of the Sub-Fund.

Notwithstanding the description in the section "Subscription of Units" in the main body of this Explanatory Memorandum, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class of that Sub-Fund then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

Payment of redemption proceeds

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the currency of the relevant Class by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request.

The Redemption Price will be calculated, quoted and paid in the Base Currency of the Sub-Fund.

Notwithstanding the description in the section "Redemption of Units" in the main body of this Explanatory Memorandum, the Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

The maximum interval between the receipt of a properly documented request for redemption of Units and the payment of the redemption money to the Unitholder 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 one calendar month not practicable. In such case, the extended time frame for the payment of redemption money shall reflect the additional time needed in light of the specific circumstances in the relevant market(s). Proper records will be kept by the Manager to demonstrate and justify this (e.g. the Sub-Fund is directly subject to or adversely affected by the restrictions which are beyond the reasonable control of the Manager) and Unitholders and the SFC will be properly and promptly informed.

Investment Minima

The following investment minima apply to the Sub-Fund:

	Class A Units (accumulation) (USD)	Class I Units (accumulation) (USD)	Class A Units (accumulation) (RMB)	Class I Units (accumulation) (RMB)	Class A Units (accumulation) (HKD)	Class I Units (accumulation) (HKD)
	Class A Units (distribution) (USD)	Class I1 Units (distribution) (USD)	Class A Units (distribution) (RMB)	Class I Units (distribution) (RMB)	Class A Units (distribution) (HKD)	Class I Units (distribution) (HKD)
		Class I2 Units (distribution) (USD)	Class A Units (accumulation) (hedged RMB)	Class I Units (accumulation) (hedged RMB)		Class X Units (accumulation) (HKD)
		Class X Units (accumulation) (USD)	Class A Units (distribution) (hedged RMB)	Class I1 Units (distribution) (hedged RMB)		
				Class I2 Units (distribution) (hedged RMB)		
				Class X Units (accumulation) (hedged RMB)		
Minimum initial investment	USD100	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD10,000
Minimum subsequent investment	USD100	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD10,000
Minimum holding	USD100	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD10,000
Minimum redemption amount	USD100	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD10,000

Note: The Manager will make an application to the China Securities Regulatory Commission for offering the Sub-Fund to retail investors in mainland China under northbound Mainland-Hong Kong Mutual Recognition of Funds regime. The Manager may issue Class M (RMB), Class M (hedged RMB) and Class M (USD) Units for the Sub-Fund in due course subject to applicable laws and regulations. Class M (RMB), Class M (hedged RMB) and Class M (USD) Units will be available to investors in mainland China (will be temporarily not offered to individual investors) only and will not be offered in Hong Kong. In respect of details in relation to Class M (RMB), Class M (hedged RMB) and Class M (USD) Units, please refer to the Sub-Fund's offering documents applicable to investors in mainland China.

The Manager may in its discretion agree to accept applications for subscription or redemption generally or in a particular case below the applicable minimum amounts.

Publication of Net Asset Value

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

Expenses and Charges

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

Fees payable by Unitholders

	All Classes
Subscription fee	Up to 3% of the Subscription Price
Redemption fee	Nil
Switching fee	Nil

Fees payable by the Sub-Fund

	Class A (accumulation) (RMB) **Class A (distribution) (RMB)** **Class A (accumulation) (hedged RMB)** **Class A (distribution) (hedged RMB)** **Class A (accumulation) (USD)** **Class A (distribution) (USD)** **Class A (accumulation) (HKD)** **Class A (distribution) (HKD)**	**Class I (accumulation) (RMB)** **Class I (distribution) (RMB)** **Class I (accumulation) (hedged RMB)** **Class I1 (distribution) (hedged RMB)** **Class I2 (distribution) (hedged RMB)** **Class I (accumulation) (USD)** **Class I1 (distribution) (USD)** **Class I2 (distribution) (USD)** **Class I (accumulation) (HKD)** **Class I (distribution) (HKD)**	**Class X (accumulation) (USD)** **Class X (accumulation) (hedged RMB)** **Class X (accumulation) (HKD)**
Management fee	1% per annum of the Net Asset Value of the Sub-Fund	0.5% per annum of the Net Asset Value of the Sub-Fund	0.25% per annum of the Net Asset Value of the Sub-Fund
Performance fee	Nil	Nil	Nil
Trustee fee	0.09% per annum of the Net Asset Value of the Sub-Fund, inclusive of	0.09% per annum of the Net Asset Value of the Sub-Fund, inclusive of	0.09% per annum of the Net Asset Value of the Sub-Fund,

	fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses	fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses	inclusive of fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses

The Manager may, in its absolute discretion, (i) share with intermediaries the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee and (ii) share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee to institutional investors (not being retail investors) provided that such fees and charges are those which the Manager is entitled to receive for its own benefit.

Additional Risk Factors

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

<u>Investment risk</u>

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

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

<u>Concentration risk</u>

The concentration of investments in Asia-related debt securities may subject the Sub-Fund to greater volatility than portfolios which comprise broad-based global investments. The value of the Sub-Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the Asia region.

<u>Risk of investing in debt securities</u>

Interest rate risk

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

Credit/counterparty risk

Investment in debt securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the debt securities held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

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

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of debt securities, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

Downgrading risk

Fixed income instruments with a credit rating may be subject to the risk of being downgraded. In the event of downgrading in the credit rating of an instrument or that of its issuer, the Sub-Fund's investment value in such instrument may be adversely affected. If the Sub-Fund continues to hold such securities, it will be subject to additional risk of loss. The Manager may or may not be able to dispose of the instruments that are being downgraded at a reasonable price or at all.

Sovereign debt risk

The Sub-Fund's 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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers

Risk associated with high yield (below investment grade or unrated) debt securities / liquidity risk

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

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

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

For unlisted bonds, in the absence of a regular and active secondary market, the Sub-Fund may not be able to sell its bond holdings at prices the Manager considers advantageous and may need to hold the bonds until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its listed bonds at a discount in order to satisfy such requests and the Sub-Fund may suffer losses. The Manager seeks to control the liquidity risk of the Sub-Fund's bond portfolio by a series of internal management measures in order to meet Unitholders' redemption requests.

Emerging market risk

The Sub-Fund may invest up to 100% of Net Asset Value in emerging markets (including up to 20% in Mainland China) which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. For instance, there have been instances of drastic policy changes in Mainland China including regulatory actions against particular companies or sectors, resulting in disruption of prices of the relevant companies as well as the broader financial market. It is difficult to predict when similar actions may be taken, and investors in the Mainland Chinese market such as the Sub-Fund may suffer significant financial losses as a result. Please refer to the risk factor headed "Emerging markets risk" under the section headed "Risk Factors" in the main part of this Explanatory Memorandum for details.

"Dim Sum" bonds risk

The offshore RMB ("CNH") bond market, also known as "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 the Sub-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 liberalisation of the CNH markets by the relevant regulators.

Convertible bonds risk

The Sub-Fund may invest up to 100% of the Sub-Fund's Net Asset Value in convertible bonds. Convertibles are a hybrid between debt and equity, permitting holders to convert into shares or stocks in the company issuing the bond at a specified future date. While convertible bonds generally offer lower interest or dividend yields than non-convertible debt securities of similar quality, the price of a convertible bond will normally vary with changes in the price of the underlying stock. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments. Prior to conversion, convertible bonds have the same general characteristics as non-convertible debt securities and the market value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. Investors should be prepared for exposure to equity movement and greater volatility than straight bond investments, with an increased risk of capital loss.

The values of convertible bonds may also be affected by changes in the credit rating, liquidity or financial condition of the issuer. The Sub-Fund may also be exposed to the credit and insolvency risks of the issuers of the bonds. Further, convertible bonds may have call provisions and other features which may give rise to the risk of a call and that the value and performance of the Sub-Fund may also be adversely affected as a result.

Investors should also note the interest rate risk associated with investments in debt instruments. Please refer to the risk factor headed "Interest rates risk" under the section headed "Risk Factors" in the main part of this Explanatory Memorandum for details.

Risks associated with investments in debt instruments with loss-absorption features (LAP)

Debt instruments with loss-absorption features are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of a pre-defined trigger events (e.g. when the issuer is near or at the point of non-viability or when the issuer's capital ratio falls to a specified level), which are likely to be outside of the issuer's control. Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments.

In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.

The Sub-Fund may invest in senior non-preferred debts. While these instruments are generally senior to subordinated debts, they may be subject to write-down upon the occurrence of a trigger event and will no longer fall under the creditor ranking hierarchy of the issuer. This may result in total loss of principal invested.

Risks associated with instruments with contingent convertible bonds ("CoCos")

Up to 30% of the Net Asset Value may be invested in CoCos. CoCos 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), CoCos will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. They are risky and highly complex investment instruments. Coupon payments on CoCos 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.

Trigger level risk

Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require the conversion 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 bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

Coupon cancellation

Coupon payments on some CoCos 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, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

Capital structure inversion risk

Contrary to the classic capital hierarchy, investors in CoCos may suffer a loss of capital when equity holders do not (for example, when the loss absorption mechanism of CoCos is activated). This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

Call extension risk

Some CoCos 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 convertible securities will be called on a call date. Such convertible securities are a form of permanent capital. The Sub-Fund may not receive return of principal as expected on call date or indeed at any date.

Conversion risk

Trigger levels differ between specific instruments, which determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the instruments will behave upon conversion. These instruments may be converted into shares potentially at a discounted price, or the principal amount invested may be lost. In case of conversion into equity, the Manager might be forced to sell these new equity shares. 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 the Sub-Fund experiencing loss of all investments in CoCos.

Valuation and write-down risk

Instruments subject to compulsory conversion with non-viability / loss absorption convertible features often offer attractive yield which may be viewed as a complexity premium. The value of such instruments may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

Market value fluctuations due to unpredictable factors

The value of CoCos 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 instruments; (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.

Liquidity risk

In certain circumstances finding a buyer ready to invest in CoCos may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

Sector concentration risk

CoCos are issued by banking and insurance institutions. Investment in CoCos may lead to an increased sector concentration risk. The performance of the Sub-Fund will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.

Subordinated instruments

CoCos may 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 such instruments, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the instruments shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

Novelty and untested nature

The structure of CoCos 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.

Risks relating to urban investment bonds

Urban investment bonds are issued by local government financing vehicles ("**LGFVs**"), such bonds are typically not guaranteed by local governments or the central government of China. In the event that the LGFVs default on payment of principal or interest of the urban investment bonds, the Sub-Fund could suffer substantial loss and the Net Asset Value of the Sub-Fund could be adversely affected.

Operational and settlement risks

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

Risks relating to sale and repurchase agreements

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

Risk of investing in financial derivative instruments

The Manager may, for hedging purposes only, invest in FDIs subject to the investment restrictions applicable to the Sub-Fund as set out in the section headed "Investment Objective, Strategy and Restrictions". These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to "Investment risks – Risk of investing in financial derivative instruments" and "Investment risks – Over-the-counter markets risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Hedging risk

The Manager may from time to time use hedging techniques, including investments in FDIs, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to "Investment risks – Hedging risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Dividends risk

The Manager will declare dividends for distribution Class(es). However, the rate of distribution is not guaranteed and is subject to the discretion of the Manager. The Manager may change the Sub-Fund's dividend distribution policy (including for example the frequency of distribution) subject to the SFC's prior approval (where necessary) and by giving not less than one month's prior notice to Unitholders.

The rate of distribution depends on interest payments made by issuers of debt securities and deposits net of the level of fees and expenses payable by the Sub-Fund. Investors will not receive any interest payments, dividends or other distributions directly from the issuers of the debt securities within the Sub-Fund's portfolio.

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

Foreign exchange risk

Because the Sub-Fund's assets and liabilities and/or the value of a Class of Units may be denominated in currencies different from the Sub-Fund's Base Currency, the Net Asset Value of the Sub-Fund may be affected unfavourably by exchange control regulations or changes in the exchange rates between the Sub-Fund's Base Currency and these currencies.

RMB currency risk and RMB denominated Classes risk

RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub- Fund's or the investors' position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of investors' investments will be adversely affected. If investors convert HKD or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into HKD or any other currency, they may suffer a loss if RMB depreciates against HKD or other currency.

The Sub-Fund offers RMB denominated Classes of Units.

Where an investor subscribes for Units denominated in RMB, the Manager may (where appropriate) convert such subscriptions into a non- RMB currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager will sell the Sub-Fund's investments (which may be denominated in a non-RMB currency) and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds into RMB which may also affect the Sub-Fund's ability to meet redemption requests from Unitholders in RMB denominated Classes of Units or to make distributions, and may delay the payment of redemption proceeds or dividends under exceptional circumstances. As RMB is not freely convertible and is subject to exchange controls and restrictions, currency conversion is subject to availability of RMB at the relevant time. The Sub-Fund may not have sufficient RMB for its investments. Further, in case of sizeable redemption requests for the RMB Classes, the Manager has the absolute discretion to delay any payment in respect of redemption of the RMB Classes (for a period not exceeding one calendar month of receipt of a properly documented redemption request).

Non-RMB based investors who invest in RMB denominated Classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the RMB denominated Classes of Units.

The RMB is traded in both the onshore and offshore markets. While both onshore RMB ("CNY") and offshore RMB ("CNH") represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors. When calculating the Net Asset Value of Units of a RMB denominated Class, the Manager will apply the exchange rate for offshore RMB market in Hong Kong, i.e. the CNH exchange rate, which may be at a premium or discount to the exchange rate for onshore RMB market in mainland China, i.e. the CNY exchange rate. Consequently, there may be significant trading costs incurred and investors investing in Classes of Units denominated in RMB may suffer losses.

For unhedged RMB denominated Classes, since the Unit prices are denominated in RMB, but the Sub-Fund will have limited RMB denominated underlying investments and its base currency is USD, so even if the prices of underlying investments and/or value of the Base Currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the Base Currency more than the increase in the value of the underlying investments and/or the Base Currency.

Hedged RMB denominated Classes risk

For hedged RMB denominated Classes, investors have to bear the associated hedging costs which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB denominated Classes may be exposed to RMB currency exchange risk on an unhedged basis and in which case investors may be subject to the risks of investing in RMB denominated Classes on an unhedged basis as outlined in the paragraph above. Also there is no guarantee that the hedging strategy will fully and effectively eliminate the currency exposure.

Hedged RMB denominated Classes will hedge the Sub-Fund's Base Currency back to RMB, on a best effort basis, with an objective to align the performance of the hedged RMB denominated Classes to that of the equivalent Class denominated in the Sub-Fund's Base Currency. This strategy may preclude the hedged RMB denominated Classes from benefiting from any potential gain resulting from the appreciation of the Base Currency against RMB. Please refer to the risk factor headed "Hedging risk" in the main part of this Explanatory Memorandum.

Eurozone and European country risk

The Sub-Fund may invest in securities issued by issuers based in or with substantial operations in the European Union (the "EU"). Investments in Europe may be subject to a number of risks arising from a recent financial crisis in Europe. In light of the ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, the Sub-Fund's investments in the region may be subject to higher volatility, liquidity, currency and default risks. While the governments of many European countries, the European Commission, the European Central Bank, the International Monetary Fund and other authorities are taking measures (such as undertaking economic reforms and imposing austerity measures on their citizens) to address the current fiscal conditions and concerns in Europe, these measures may not have the desired effect, and the future stability and growth of Europe is therefore uncertain. It is possible that a country may leave the Eurozone and return to a national currency, and as a result may leave the EU and/or that the Euro will cease to exist in its current form and/or lose its legal status in one or more countries in which it currently has such status. It is also possible that the credit rating of a country or sovereign may be downgraded. The effect of such potential events on the Sub-Fund which invests in instruments predominantly tied to Europe is impossible to predict. The impact of the above adverse events may be significant and may adversely affect the value of Sub-Fund investing in securities issued by issuers based in or with substantial operations in Europe, and investors may suffer significant loss.

Equity securities risks

Investment in equity securities is subject to general 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, issuer-specific factors, regional or global economic instability, currency and interest rate fluctuations. If the market value of equity securities in which the Sub-Fund invests goes down, its Net Asset Value may be adversely affected, and investors may suffer substantial losses.

Risk relating to depositary receipts

The Sub-Fund may invest in depositary receipts such as American Depositary Receipts (ADR) and such exposure may generate additional risks compared to a direct exposure to the corresponding underlying stocks. Depositary receipts are instruments that represent shares in companies trading outside the markets in which the depositary receipts are traded. Accordingly there is a risk that the underlying shares may be subject to political, inflationary, exchange rate or custody risks. In particular, as the consequence of the intervention of the depositary bank issuing the depositary receipt and the risk of non-segregation under applicable law of the depositary bank who hold the underlying stock as collateral and its own assets. Although segregation is an integral part of the depositary agreement regulating the issuance of the depositary receipts, there could be a risk that underlying shares would not be attributed to holders of depositary receipts in case of bankruptcy of the depositary bank. In such case, the likeliest scenario would be the trading suspension and thereafter a freeze of the price of the depositary receipts impacted by such bankruptcy event. Bankruptcy events in respect of the depositary banks issuing the depositary receipts may negatively affect the performance and/or the liquidity of the Sub-Fund. There are fees related to depositary receipts, for example fees charged by banks for the custody of depositary receipts, which may impact the performance of the depositary receipts. Also, holders of depositary receipts are not direct shareholders of the underlying company and generally do not have voting and other shareholder rights as shareholders do. The Sub-Fund may also be subject to liquidity risk as depositary receipts are often less liquid than the corresponding underlying stocks.

Risk of investing in other funds

The Sub-Fund may invest in underlying funds to pursue its investment objective, and those underlying funds may not be regulated by the SFC. Further the Manager does 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 which may have a negative impact to the Net Asset Value of the Sub-Fund.

The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their investment managers. Some underlying funds may also impose fees or levies which may be payable by the Sub-Fund when it subscribes to or redeems out of such underlying funds. Whilst the Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Sub-Fund.

There is also no guarantee that the underlying funds the Sub-Fund invests in will have sufficient liquidity to meet the Sub-Fund's redemption requests. The Sub-Fund may therefore be subject to liquidity risk by investing in these underlying funds.

If the Sub-Fund invests in an underlying fund managed by the Manager or Connected Person of the Manager, all initial charges and redemption charges on these underlying funds must be waived, and the Manager, or any person acting on behalf of the Sub-Fund or the Manager, must not obtain rebate of any fees or charges levied by these underlying funds or its manager, or any quantifiable monetary benefits in connection with investments in any underlying funds. In case any conflict of interest may still arise out of such investments, the Manager will use its best endeavours to resolve it fairly. Please refer to the section headed "Conflicts of Interest" for details under the circumstances.

Exchange rate risk

Assets of the Sub-Fund may be denominated in currencies other than the Base Currency. The Sub-Fund may be adversely affected by changes in exchange rates between the currencies in which the assets of the Sub-Fund are held and the Base Currency. There may be a time lag between a subscription or redemption request and the corresponding foreign exchange conversion, which means the subscription monies or redemption proceeds may be subject to foreign exchange risk.

Distribution out of capital or effectively out of capital

For distribution Class(es), the Manager may, at its discretion, pay dividends out of the capital of the Sub-Fund. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of or effectively out of the Sub-Fund's capital may result in an immediate reduction of the Net Asset Value per unit.

The distribution amount and Net Asset Value of a hedged unit class may be adversely affected by differences in the interest rates of the class currency of the relevant hedged unit class and the Sub-Fund's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged unit classes.

Reports and accounts

The first financial reports for the Sub-Fund cover the period to 31 December 2018.

Distribution policy

For all distribution Class(es) other than Class I2 (distribution) (USD) and Class I2 (distribution) (hedged RMB), dividends will be distributed on a monthly basis, subject to the Manager's discretion. For Class I2 (distribution) (USD) and Class I2 (distribution) (hedged RMB), dividends will be distributed annually, subject to the Manager's discretion.

However, there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed. The Manager may at its discretion pay dividends out of the capital of the Sub-Fund. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital.

The compositions of the dividend (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months will be available from the Manager on request and also on the website http://www.efunds.com.hk (this website has not been reviewed by the SFC). Any changes regarding the policy on paying dividend out of capital or effectively out of capital will be subject to the SFC's prior approval and not less than one month's advance notice to Unitholders.

For the accumulation Class(es), no distribution will be made to Unitholders.

All distributions declared on the Sub-Fund will be automatically reinvested unless otherwise elected by the Unitholders, in which case the relevant proceeds will be paid to the Unitholders accordingly within one month of declaration.

The cash distribution (if any) will be paid to Unitholders at their own risk and expense by telegraphic transfer in the currency of the relevant Class normally within one calendar month after the declaration of such distribution by the Manager.

APPENDIX 3: E FUND (HK) HONG KONG DOLLAR MONEY MARKET FUND

This Appendix (which forms part of, and should be read together with the rest of, this Explanatory Memorandum) relates to the E Fund (HK) Hong Kong Dollar Money Market Fund (the "Sub-Fund"), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to E Fund (HK) Hong Kong Dollar Money Market Fund. Terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix.

For the purpose of the Sub-Fund, "Valuation Day" means each Dealing Day.

Investment Objective

The Sub-Fund's sole objective is to invest in short-term deposits and high quality money market instruments. The Sub-Fund seeks to achieve a return in Hong Kong Dollars in line with prevailing money market rates in Hong Kong, with primary considerations of both capital security and liquidity. There can be no assurance that the Sub-Fund will achieve its investment objective.

Investment Strategy

Indicative asset allocation

The indicative asset allocation of the Sub-Fund is as follows:

70% - 100% of the Net Asset Value of the Sub-Fund	Hong Kong Dollars-denominated and settled short-term deposits and high quality money market instruments
0 – 30% of the Net Asset Value of the Sub-Fund	Non-Hong Kong Dollars-denominated and settled short-term deposits and high quality money market instruments

The Sub-Fund seeks to achieve its investment objective by investing primarily (i.e. not less than 70% of its Net Asset Value) in Hong Kong Dollars-denominated and settled short-term deposits and high quality money market instruments issued by governments, quasi-governments, international organisations, financial institutions. The Sub-Fund may invest up to 30% of its Net Asset Value in non Hong Kong Dollars-denominated deposits and high quality money market instruments. High quality money market instruments include debt securities, commercial papers, certificates of deposits and commercial bills.

Debt securities invested by the Sub-Fund include but are not limited to government bonds, fixed and floating rate bonds. The Sub-Fund will only invest in debt securities rated investment grade or above by an independent rating agency, e.g. Fitch, Moody's, Standard and Poor's, or onshore China bonds with a minimum credit rating of BBB- as rated by one of the credit rating agencies in China. A short-term debt security is considered investment grade if its credit rating is A-3 or higher by Standard & Poor's or F3 or higher by Fitch Ratings or P-3 or higher by Moody's or equivalent rating as rated by one of the international credit rating agencies. The short-term deposits (e.g. certificates of deposits) invested by the Sub-Fund will be issued by investment grade-rated banks or substantial financial institutions.

There is no specific geographical allocation of the country of issue of the high quality money market instruments or deposits, except that the Sub-Fund may not invest more than 20% of its Net Asset Value in emerging markets (including in onshore China markets). Countries or regions in which the Sub-Fund may invest in include Hong Kong, Singapore, the European Union, the United States and China (onshore and offshore markets). The Sub-Fund may invest in onshore China debt securities via the Bond Connect (as defined below).

The aggregate value of the Sub-Fund's holding of instruments and deposits issued by a single entity will not exceed 10% of the total Net Asset Value of the Sub-Fund except: (i) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%; or (ii) in the case of Government and other Public Securities, up to 30% may be invested in the same issue; or (iii) in respect of any deposit of less than USD1,000,000, where the Sub-Fund cannot otherwise diversify as a result of its size. Not more than 10% of the Sub-Fund's Net Asset Value will be invested in securities issued or guaranteed by a single sovereign issuer (including its government, a public or local authority) with a credit rating below investment grade or is unrated.

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

The Sub-Fund may borrow up to 10% of its total Net Asset Value but only on a temporary basis for the purpose of meeting redemption requests or defraying operating expenses.

The Sub-Fund may enter into sale and repurchase transactions for up to 10% of its Net Asset Value but only on a temporary basis for the purpose of meeting redemption requests or defraying operating expenses. The Sub-Fund will not write any options. Other than sale and repurchase transactions, the Sub-Fund will enter into other FDIs for hedging purposes only.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund. Please refer to the section "Investment Objective, Strategy and Restrictions" – "Securities Financing Transactions" in this Explanatory Memorandum for requirements and the Sub-Fund's policies regarding sale and repurchase transactions.

The Sub-Fund currently has no intention to invest in structured deposits, structured products or over-the-counter securities, or to take any short positions, and the Manager will not enter into any securities lending, reverse repurchase or other similar over-the-counter transactions in respect of the Sub-Fund. The Sub-Fund will not invest in collateralised and/or securitised securities (including asset backed commercial papers and mortgage backed securities). If any of this changes in the future, prior approval of the SFC will be sought (if required) and not less than one month's notice will be provided to Unitholders before the Sub-Fund enters into any such transaction.

Investment via the Northbound Trading Link under Bond Connect

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

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

- the "Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong (Decree No.1 [2017])" (內地與香港債券市場互聯互通合作管理暫行辦法(中國人民銀行令[2017]第 1 號)) issued by the PBOC on 21 June 2017;

- the "Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect" (中國人民銀行上海總部"債券通"北向通境外投資者准入備案業務指引) issued by the Shanghai Head Office of PBOC on 22 June 2017; and

- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank bond market through the northbound trading of Bond Connect ("Northbound Trading Link"). There will be no investment quota for Northbound Trading Link.

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

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

Investment Restrictions

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

Base Currency

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

Available Classes

Units in the following Classes are currently available for issue to investors:

- Class A (accumulation) (USD)
- Class A (accumulation) (RMB)
- Class A (accumulation) (hedged RMB)
- Class A (accumulation) (HKD)
- Class A (distribution) (USD)
- Class A (distribution) (RMB)
- Class A (distribution) (hedged RMB)
- Class A (distribution) (HKD)
- Class B (accumulation) (USD)
- Class B (accumulation) (RMB)
- Class B (accumulation) (hedged RMB)
- Class B (accumulation) (HKD)
- Class B (distribution) (USD)

- Class B (distribution) (RMB)
- Class B (distribution) (hedged RMB)
- Class B (distribution) (HKD)
- Class C (accumulation) (USD)
- Class C (accumulation) (HKD)
- Class C (distribution) (USD)
- Class C (distribution) (HKD)
- Class I (accumulation) (USD)
- Class I (accumulation) (RMB)
- Class I (accumulation) (hedged RMB)
- Class I (accumulation) (HKD)
- Class I (distribution) (USD)
- Class I (distribution) (RMB)
- Class I (distribution) (hedged RMB)
- Class I (distribution) (HKD)

Initial Offer Period

The Initial Offer Period of the Sub-Fund commenced at 9:00 a.m. (Hong Kong time) on 17 December 2018 and ended at 5:00 p.m. (Hong Kong time) on 17 December 2018 (or such other dates or times as the Manager may determine).

The initial Subscription Price for Class A, Class B and Class I Units is USD100 per Unit for USD denominated Classes, RMB1,000 for RMB denominated Classes and HKD1,000 for HKD denominated Classes. The initial Subscription Price for Class C Units is USD100 per Unit for USD denominated Classes and HKD100 for HKD denominated Classes.

The Manager may decide not to issue any Units in the event that less than the equivalent of USD 50,000,000 is raised during the Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such event subscription monies paid by an applicant will be returned by cheque by post or by telegraphic transfer or by such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses) within 14 Business Days after the expiry of the Initial Offer Period.

Dealing Procedures

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

Dealing Day	each Business Day
Dealing Deadline	12:00 p.m. (Hong Kong time) on the relevant Dealing Day

The Subscription Price will be calculated and quoted in the Base Currency of the Sub-Fund.

Notwithstanding the description in the section "Subscription of Units" in this Explanatory Memorandum, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class of that Sub-Fund then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

Payment of redemption proceeds

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request.

The Redemption Price will be calculated, quoted and paid in the Base Currency of the Sub-Fund.

Notwithstanding the description in the section "Redemption of Units" in this Explanatory Memorandum, the Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

The maximum interval between the receipt of a properly documented request for redemption of Units and the payment of the redemption money to the Unitholder 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 one calendar month not practicable. In such case, the extended time frame for the payment of redemption money shall reflect the additional time needed in light of the specific circumstances in the relevant market(s). Proper records will be kept by the Manager to demonstrate and justify this (e.g. the Sub-Fund is directly subject to or adversely affected by the restrictions which are beyond the reasonable control of the Manager) and Unitholders and the SFC will be properly and promptly informed.

Investment Minima

The following investment minima apply to the Sub-Fund:

	Class A Units (accumulation) (USD) Class A Units (distribution) (USD) Class B Units (accumulation) (USD) Class B Units (distribution) (USD)	Class C Units (accumulation) (USD) Class C Units (distribution) (USD)	Class I Units (accumulation) (USD) Class I Units (distribution) (USD)	Class A Units (accumulation) (RMB) Class A Units (distribution) (RMB) Class A Units (accumulation) (hedged RMB) Class A Units (distribution) (hedged RMB) Class B Units (accumulation) (RMB) Class B Units (distribution) (RMB) Class B Units (accumulation) (hedged RMB) Class B Units (distribution) (hedged RMB)	Class I Units (accumulation) (RMB) Class I Units (distribution) (RMB) Class I Units (accumulation) (hedged RMB) Class I Units (distribution) (hedged RMB)	Class A Units (accumulation) (HKD) Class A Units (distribution) (HKD) Class B Units (accumulation) (HKD) Class B Units (distribution) (HKD)	Class C Units (accumulation) (HKD) Class C Units (distribution) (HKD)	Class I Units (accumulation) (HKD) Class I Units (distribution) (HKD)
Minimum initial investment	USD100	USD1	USD1,000	RMB1,000	RMB100,000	HKD1,000	HKD1	HKD100,000
Minimum subsequent investment	USD100	USD1	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD1	HKD10,000
Minimum holding	USD100	USD1	USD1,000	RMB1,000	RMB100,000	HKD1,000	HKD1	HKD100,000
Minimum redemption amount	USD100	USD1	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD1	HKD10,000

The Manager may in its discretion agree to accept applications for subscription or redemption generally or in a particular case below the applicable minimum amounts.

Publication of Net Asset Value

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

Expenses and Charges

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

Fees payable by Unitholders

	Class A Units	Class B Units	Class C Units	Class I Units
Subscription fee	Up to 3% of the Subscription Price	Up to 1% of the Subscription Price	Up to 3% of the Subscription Price	Nil
Redemption fee	Nil	Nil	Nil	Nil
Switching fee	Nil	Nil	Nil	Nil

Fees payable by the Sub-Fund

	Class A Units	Class B Units	Class C Units	Class I Units
Management fee	0.20% per annum of the Net Asset Value of the Sub-Fund	0.40% per annum of the Net Asset Value of the Sub-Fund	0.60% per annum of the Net Asset Value of the Sub-Fund	0.05% per annum of the Net Asset Value of the Sub-Fund
Performance fee	Nil			
Trustee fee	0.05% per annum of the Net Asset Value of the Sub-Fund, inclusive of fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses			

The Manager may, in its absolute discretion, (i) share with intermediaries the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee and (ii) share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee to institutional investors (not being retail investors) provided that such fees and charges are those which the Manager is entitled to receive for its own benefit.

Additional Risk Factors

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

Investment risk

The purchase of a Unit in the Sub-Fund is not the same as placing funds on deposit with a bank or deposit-taking company. The Sub-Fund does not guarantee principal and the Manager has no obligation to redeem the Units at the offer value. The Sub-Fund does not have a constant Net Asset Value. The Sub-Fund is not subject to the supervision of the Hong Kong Monetary Authority.

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

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

Risk of investing in debt securities

Short-term debt instruments risk

As the Sub-Fund invests significantly in short-term debt instruments with short maturities, it means the turnover rates of the Sub-Fund's investments may be relatively high and the transaction costs incurred as a result of the purchase or sale of short-term debt instruments may also increase which in turn may have a negative impact on the net asset value of the Sub-Fund.

Interest rate risk

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

Credit/counterparty risk

Investment in debt securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the debt securities held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

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

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of debt securities, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

Downgrading risk

Fixed income instruments with a credit rating may be subject to the risk of being downgraded. In the event of downgrading in the credit rating of an instrument or that of its issuer, the Sub-Fund's investment value in such instrument may be adversely affected. If the Sub-Fund continues to hold such securities, it will be subject to additional risk of loss. The Manager may or may not be able to dispose of the instruments that are being downgraded at a reasonable price or at all.

Sovereign debt risk

The Sub-Fund's 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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers

Risks associated with bank deposits

Bank deposits are subject to the credit risks of the relevant financial institutions. The Sub-Fund's deposit may not be protected by any deposit protection schemes, or the value of the protection under the deposit protection schemes may not cover the full amount deposited by the Sub-Fund. Therefore, if the relevant financial institution defaults, the Sub-Fund may suffer losses as a result.

Risks relating to sale and repurchase agreements

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

"Dim Sum" bonds risk

The offshore RMB ("CNH") bond market, also known as "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 the Sub-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 liberalisation of the CNH markets by the relevant regulators.

Risk associated with PRC onshore bonds

PRC inter-bank bond market risk

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

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

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

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

Risks associated with Bond Connect

The relevant rules and regulations on Bond Connect are subject to change which may have potential retrospective effect. Where a suspension in the trading through Bond Connect is effected, the Sub-Fund's ability to access the PRC market through the programme will be adversely affected.

PRC sovereign debt risk

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

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

Settlement risks

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

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

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

Credit rating agency risk

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

Concentration risk

The Sub-Fund will invest primarily in the Hong Kong Dollars instruments. The Sub-Fund is therefore likely to be more volatile than a broad-based fund that adopts a more diversified strategy.

Emerging market risk

The Sub-Fund may invest up to 20% of Net Asset Value in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Please refer to the risk factor headed "Emerging markets risk" under the section headed "Risk Factors" in the main part of this Explanatory Memorandum for details.

Operational and settlement risks

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

Risk of investing in financial derivative instruments

The Manager may for hedging purposes invest in FDIs subject to the investment restrictions applicable to the Sub-Fund as set out in the section headed "Investment Objective, Strategy and Restrictions". These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to "Investment risks – Risk of investing in financial derivative instruments" and "Investment risks – Over-the-counter markets risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Hedging risk

The Manager may from time to time use hedging techniques, including investments in FDIs, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to "Investment risks – Hedging risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Dividends risk

The Manager will declare dividends on an annual basis for distribution Class(es). However, the rate of distribution is not guaranteed and is subject to the discretion of the Manager. The Manager may change the Sub-Fund's dividend distribution policy (including for example the frequency of distribution) subject to the SFC's prior approval (where necessary) and by giving not less than one month's prior notice to Unitholders.

The rate of distribution depends on interest payments made by issuers of debt securities and deposits net of the level of fees and expenses payable by the Sub-Fund. Investors will not receive any interest payments, dividends or other distributions directly from the issuers of the debt securities within the Sub-Fund's portfolio.

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

RMB currency risk and RMB denominated Classes risk

RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub- Fund's or the investors' position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of investors' investments will be adversely affected. If investors convert HKD or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into HKD or any other currency, they may suffer a loss if RMB depreciates against HKD or other currency.

The Sub-Fund offers RMB denominated Classes of Units.

Where an investor subscribes for Units denominated in RMB, the Manager may (where appropriate) convert such subscriptions into a non- RMB currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager will sell the Sub-Fund's investments (which may be denominated in a non-RMB currency) and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds into RMB which may also affect the Sub-Fund's ability to meet redemption requests from Unitholders in RMB denominated Classes of Units or to make distributions, and may delay the payment of redemption proceeds or dividends under exceptional circumstances. As RMB is not freely convertible and is subject to exchange controls and restrictions, currency conversion is subject to availability of RMB at the relevant time. The Sub-Fund may not have sufficient RMB for its investments. Further, in case of sizeable redemption requests for the RMB Classes, the Manager has the absolute discretion to delay any payment in respect of redemption of the RMB Classes (for a period not exceeding one calendar month of receipt of a properly documented redemption request).

Non-RMB based investors who invest in RMB denominated Classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the RMB denominated Classes of Units.

The RMB is traded in both the onshore and offshore markets. While both onshore RMB ("CNY") and offshore RMB ("CNH") represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors. When calculating the Net Asset Value of Units of a RMB denominated Class, the Manager will apply the exchange rate for offshore RMB market in Hong Kong, i.e. the CNH exchange rate, which may be at a premium or discount to the exchange rate for onshore RMB market in mainland China, i.e. the CNY exchange rate. Consequently, there may be significant trading costs incurred and investors investing in Classes of Units denominated in RMB may suffer losses.

For unhedged RMB denominated Classes, since the Unit prices are denominated in RMB, but the Sub-Fund will have limited RMB denominated underlying investments and its base currency is USD, so even if the prices of underlying investments and/or value of the Base Currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the Base Currency more than the increase in the value of the underlying investments and/or the Base Currency.

Hedged RMB and USD denominated Classes risk

For hedged RMB and USD denominated Classes, investors have to bear the associated hedging costs which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB and USD denominated Classes may be exposed to RMB and USD currency exchange risk on an unhedged basis and in which case investors may be subject to the risks of investing in RMB and USD denominated Classes on an unhedged basis as outlined in the paragraph above. Also there is no guarantee that the hedging strategy will fully and effectively eliminate the currency exposure.

Hedged RMB and USD denominated Classes will hedge the Sub-Fund's Base Currency back to RMB and USD respectively, on a best effort basis, with an objective to align the performance of the hedged RMB and USD denominated Classes to that of the equivalent Class denominated in the Sub-Fund's Base Currency. This strategy may preclude the hedged RMB and USD denominated Classes from benefiting from any potential gain resulting from the appreciation of the Base Currency against RMB and USD respectively. Please refer to the risk factor headed "Hedging risk" in the main part of this Explanatory Memorandum.

PRC withholding taxation risk

Having taken and considered independent professional tax advice, the Manager makes:

(a) a provision for PRC withholding income tax ("WHT") for the account of the Sub-Fund on PRC sourced passive income (such as dividend income or interest income) arising from investments in PRC securities, to the extent that the 10% WHT on passive income has not been properly withheld at source;

(b) a provision in an amount equal to the total of (i) 6% PRC Value Added Tax ("VAT"), on the bond coupon interest of onshore RMB bonds (except PRC government bonds or local government bonds) received by the Sub-Fund; plus (ii) local surtaxes of 12% based on the VAT amount stated in (i).

The Sub-Fund does not make any withholding tax provision on the gross unrealised and realised capital gains derived by the Sub-Fund from trading of onshore RMB bonds. There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of capital gains realised on the Sub-Fund's investments in the PRC via Bond Connect. It should also be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively. There is a risk that taxes may be levied in future on the Sub-Fund for which no provision is made, which may potentially cause substantial loss to the Sub-Fund.

The Net Asset Value of the Sub-Fund may require further adjustment to take into account any retrospective application of new tax regulations and development, including change in interpretation of the relevant regulations by the PRC tax authorities. The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the withholding policy of the Sub-Fund accordingly, taking into account independent professional tax advice. The Manager will act in the best interest of the Sub-Fund at all times.

Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If no provision is made by the Manager in relation to all or part of the actual tax levied by the PRC tax authorities in future, investors should note that the Net Asset Value of the Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact

Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to those borne at the time of investment in the Sub-Fund. Even if tax provisions are made, the amount of such provisions may not be sufficient to meet the actual tax liabilities. Any shortfall between the provision and the actual tax liabilities, which will be debited from the Sub-Fund's assets, will adversely affect the Sub-Fund's Net Asset Value. The actual tax liabilities may be lower than the tax provision made. Depending on timing of their subscriptions and/or redemptions, Unitholders may be disadvantaged as a result of any shortfall of tax provision and will not have the right to claim any part of the overprovision (as the case may be).

Reports and accounts

The first financial reports for the Sub-Fund cover the period to 31 December 2019.

Distribution policy

For the distribution Class(es), the Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distributions will be made once per year for distribution classes of Units. However, there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed. The Sub-Fund will not pay dividends out of capital / effectively out of capital.

For the accumulation Class(es), no distribution will be made to Unitholders.

All distributions declared on the Sub-Fund will be automatically reinvested unless otherwise elected by the Unitholders, in which case the relevant proceeds will be paid to the Unitholders accordingly within one month of declaration.

The cash distribution (if any) will be paid to Unitholders at their own risk and expense by telegraphic transfer in HKD normally within one calendar month after the declaration of such distribution by the Manager.

Fractions of Units

Notwithstanding the description in the section "Subscription of Units" – "General" in this Explanatory Memorandum, fractions of a Unit of the Sub-Fund may be issued rounded down to the nearest 4 decimal places.

APPENDIX 4: E FUND (HK) SHORT-DURATION BOND FUND

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

For the purpose of the Sub-Fund, "Valuation Day" means each Dealing Day.

Investment Objective

The Sub-Fund's sole objective is to maximize total return through investing short duration bond markets globally in a portfolio consisting primarily of debt securities denominated in USD, EUR, HKD or offshore RMB ("Dim Sum" bonds) with maturity not longer than 3 years, excluding perpetual bonds, which aim to generate a steady flow of income in addition to capital appreciation for the Sub-Fund. There can be no assurance that the Sub-Fund will achieve its investment objective.

Investment Strategy

Indicative asset allocation

The indicative asset allocation of the Sub-Fund is as follows:

70% - 100% of the Net Asset Value of the Sub-Fund	• USD, EUR or HKD denominated or offshore RMB denominated ("Dim Sum" bonds) offshore debt securities (including convertible bonds) with maturity not longer than 3 years. Such debt securities may be issued or traded in developed markets or emerging markets. There is no requirement on the credit rating of the debt securities.
Up to 30% of the Net Asset Value of the Sub-Fund in aggregate	• Debt instruments with loss-absorption features e.g. contingent convertible bonds ("CoCos") and senior non-preferred debts • Perpetual bonds • Debt securities, other than perpetual bonds, with maturity longer than 3 years and up to 10 years • Collective investment schemes and money market instruments • Equity securities

Principal investments

The Sub-Fund will invest 70% to 100% of its Net Asset Value in a portfolio of USD, EUR or HKD denominated or offshore RMB denominated ("Dim Sum" bonds, i.e. bonds issued outside China but denominated in RMB) offshore debt securities, with maturity not longer than 3 years, issued or traded in the global debt securities markets; and where the Manager believes such debt securities are being traded at significant discount to their underlying intrinsic values. The average duration of the Sub-Fund's debt investments as a whole will be less than 3 years.

Debt securities may be issued or traded in developed markets or emerging markets. There is no set proportion between investments in developed markets and emerging markets, therefore investments in emerging markets may be up to 100% of the Net Asset Value.

Up to 100% of the Sub-Fund's Net Asset Value may be invested in convertible bonds issued and/or guaranteed by issuers such as corporations, financial institutions and banks. In the event convertible bonds are converted into shares resulting in deviation from the indicative asset allocation, the Manager will arrange for the shares to be sold within 10 Business Days.

The Sub-Fund will not invest more than 10% of its Net Asset Value in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade and/or unrated.

The Sub-Fund does not have requirement on the credit rating of the debt securities. The Sub-Fund may invest in debt securities rated investment grade, below investment grade or unrated debt securities. For the purpose of the Sub-Fund:

(i) a long-term debt security is considered investment grade if its credit rating is BBB- or higher by Standard & Poor's and Fitch Ratings or Baa3 or higher by Moody's or equivalent rating as rated by an international credit rating agency;

(ii) a short-term debt security is considered investment grade if its credit rating is A-3 or higher by Standard & Poor’s or F3 or higher by Fitch Ratings or P-3 or higher by Moody’s or equivalent rating as rated by an international credit rating agency; and

(iii) “unrated” refers to where neither the instrument itself nor its issuer has a credit rating assigned by international credit rating agencies.

The Sub-Fund will invest in a broadly diversified portfolio of debt securities with no fixed duration (but primarily with maturity of not longer than 3 years), term structure or industry sector weightings in the allocation of assets in developed markets. Selection of investments will be determined by the availability of attractive investment opportunities. The Sub-Fund’s investment horizon is not restricted geographically and the Sub-Fund may invest in global debt securities. Countries or regions in which the Sub-Fund may invest in include Hong Kong, Singapore, the European Union and the United States.

Under exceptional circumstances (e.g. market crash or major crisis) or adverse market conditions, the Sub-Fund may be invested temporarily up to 100% of its Net Asset Value in liquid assets such as bank deposits, certificates of deposit, commercial paper and treasury bills.

Other debt securities

The Sub-Fund may also invest up to 30% of the Net Asset Value in other debt securities, including perpetual bonds. Such debt securities, other than perpetual bonds, are expected to hold maturity longer than 3 years and up to 10 years. Perpetual bonds are bonds without a fixed maturity date.

The Sub-Fund may invest up to 20% of its Net Asset Value in onshore Mainland China debt securities via Bond Connect. For the avoidance of doubt, save as described in the foregoing sentence, the Sub-Fund will not otherwise invest in onshore Mainland China securities.

The Sub-Fund’s expected total maximum investments in debt instruments with loss-absorption features (“LAP”) e.g. contingent convertible bonds (“CoCos”) and senior non-preferred debts will be up to 30% of its Net Asset Value. CoCos may have non-viability and/or loss absorption convertible features, i.e. they are subject to compulsory conversion or may be written off entirely upon the occurrence of a trigger event which may be out of the issuer’s control. They are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level and may be compulsorily redeemed upon the occurrence of a trigger event which may be out of the issuer’s control. They are risky and highly complex investment instruments. Under certain circumstances CoCos can be converted into shares of the issuing company, potentially at a discounted price, or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. In the event CoCos are converted into shares resulting in deviation from the indicative asset allocation, the Manager will arrange for the shares to be sold within 10 business days. The Sub-

Fund may also invest in senior non-preferred debts. While these instruments are generally senior to subordinated debts, they may be subject to write-down upon the occurrence of a trigger event and will no longer fall under the creditor ranking hierarchy of the issuer. This may result in total loss of principal invested.

Investment via the Northbound Trading Link under Bond Connect

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

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

- the "Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong (Decree No.1 [2017])" (內地與香港債券市場互聯互通合作管理暫行辦法(中國人民銀行令[2017]第 1 號)) issued by the PBOC on 21 June 2017;

- the "Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect" (中國人民銀行上海總部"債券通"北向通境外投資者准入備案業務指引) issued by the Shanghai Head Office of PBOC on 22 June 2017; and

- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank bond market through the northbound trading of Bond Connect ("Northbound Trading Link"). There will be no investment quota for Northbound Trading Link.

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

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

Equity securities

The Sub-Fund may also invest up to 30% of its Net Asset Value in shares listed on Hong Kong, Singapore or U.S. stock exchanges (including American Depositary Receipts and preference shares). This includes any listed equities the Sub-Fund may hold as a result of the conversion of the convertible bonds, i.e. the Sub-Fund's aggregate exposure in equities will not exceed 30% of the Sub-Fund's Net Asset Value. The Sub-Fund will not hold equities that are unlisted.

FDIs and other investments

The Sub-Fund may invest in aggregate no more than 30% of its Net Asset Value in collective investment schemes, including ETFs, (including those managed by the Manager or its connected persons) authorised by the SFC or in recognised jurisdiction and in other collective investment schemes which are non-eligible schemes and not authorized by the SFC in accordance with the Code, among which no more than 20% of the Sub-Fund's Net Asset Value will be invested in collective investment schemes which invests in short duration bonds with maturity not longer than 3 years and investments in other collective investment schemes which are non-eligible schemes and not authorized by the SFC will not exceed 10% of the Sub-Fund's Net Asset Value. For the avoidance of doubt, investments in ETFs will be considered and treated as collective investment schemes for the purposes of the Code and all investments in collective investment schemes are subject to the requirements in 7.11, 7.11A and 7.11B of the Code. Where the Sub-Fund invests in collective investment schemes which are also managed by the Manager or its connected persons, all initial charges and redemption charges on the underlying schemes must be waived. The Sub-Fund may also hold cash, deposits, and other money market instruments (such as but not limited to treasury bills, commercial papers, certificates of deposit as considered appropriate by the Manager).

The Sub-Fund may invest up to 50% of the Net Asset Value in sale and repurchase transactions and reverse repurchase transactions, and through borrowing up to 10% of its Net Asset Value with a view to creating additional income.

For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund. Reverse repurchase transactions are transactions where the Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future. Please refer to the section "Investment Objective, Strategy and Restrictions" – "Securities Financing Transactions" in the main body of this Explanatory Memorandum for requirements and the Sub-Fund's policies regarding sale and repurchase transactions and reverse repurchase transactions.

Cash obtained in sale and repurchase transactions and reverse repurchase transactions will be used for liquidity management, re-investment and hedging purposes. Notwithstanding the requirements on re-investment of collateral as described under the sub-section headed "Collateral" under the section "Investment Objective, Strategy and Restrictions" in the main body of this Explanatory Memorandum, the Sub-Fund may re-invest the cash collateral received from sale and repurchase transactions in investments other than those set out in 7.36(j) of the Code provided that the following requirements are met:

1. the re-investment, together with the Sub-Fund's net derivative exposure, do not in aggregate exceed 50% of the Sub-Fund's Net Asset Value;

2. the re-investment is consistent with the Sub-Fund's investment objective and strategies;

3. the re-investment is limited to securities which are sufficiently liquid and of good quality; and

4. the re-investment is subject to the corresponding investment restrictions and limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and complies with Notes (3) and (4) to 7.36(j) of the Code.

Re-investment of cash collateral received from sale and repurchase transactions in compliance with the above requirements shall not be subject to the limitation in 7.21 of the Code which allows borrowing of the Sub-Fund of up to 10% of the Net Asset Value.

The Sub-Fund may also invest in FDIs for hedging and investment purposes to the extent permitted by the Code and the provisions set out under the section "Investment Objective, Strategy and Restrictions" in this Explanatory Memorandum. The Sub-Fund will not invest in collateralised and/or securitised products (such as asset backed securities, mortgage backed securities, asset backed commercial papers and structured products). The Sub-Fund will not enter into any securities lending or similar over-the-counter transactions. The Sub-Fund will not write options.

Investment Restrictions

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

Base Currency

The Base Currency of the Sub-Fund is USD.

Available Classes

Units in the following Classes are currently available for issue to investors:

- Class A (accumulation) (RMB)
- Class A (distribution) (RMB)
- Class A (accumulation) (USD)
- Class A (distribution) (USD)
- Class A (accumulation) (hedged RMB)
- Class A (distribution) (hedged RMB)
- Class A (accumulation) (HKD)
- Class A (distribution) (HKD)
- Class B (accumulation) (RMB)
- Class B (distribution) (RMB)
- Class B (accumulation) (USD)
- Class B (distribution) (USD)
- Class B (accumulation) (hedged RMB)
- Class B (distribution) (hedged RMB)
- Class B (accumulation) (HKD)
- Class B (distribution) (HKD)
- Class B (accumulation) (hedged HKD)
- Class B (distribution) (hedged HKD)
- Class I (accumulation) (RMB)

- Class I (distribution) (RMB)
- Class I (accumulation) (USD)
- Class I (distribution) (USD)
- Class I (accumulation) (hedged RMB)
- Class I (distribution) (hedged RMB)
- Class I (accumulation) (HKD)
- Class I (distribution) (HKD)
- Class X (accumulation) (USD)
- Class X (accumulation) (hedged RMB)
- Class X (accumulation) (HKD)

Class B Units are available for investment by retail investors who invest through distributors submitting dealing orders via distribution channels or distributors specified by the Manager.

Initial Offer Period

The Initial Offer Period of Class B Units of the Sub-Fund commenced at 9:00 a.m. (Hong Kong time) on 23 June 2020 and ended at 4:00 p.m. (Hong Kong time) on 23 June 2020 (or such other dates or times as the Manager may determine).

The initial Subscription Price is USD10 per Unit for USD denominated Classes, RMB100 for RMB denominated Classes and HKD100 for HKD denominated Classes.

Dealing Procedures

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

Dealing Day	each Business Day
Dealing Deadline	4:00 pm (Hong Kong time) on the relevant Dealing Day

The Subscription Price will be calculated and quoted in the Base Currency of the Sub-Fund.

Notwithstanding the description in the section "Subscription of Units" in the main body of this Explanatory Memorandum, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class of that Sub-Fund then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

Payment of redemption proceeds

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the currency of the relevant Class by telegraphic transfer, within 7 Business

Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request.

The Redemption Price will be calculated, quoted and paid in the Base Currency of the Sub-Fund.

Notwithstanding the description in the section "Redemption of Units" in the main body of this Explanatory Memorandum, the Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

The maximum interval between the receipt of a properly documented request for redemption of Units and the payment of the redemption money to the Unitholder 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 one calendar month not practicable. In such case, the extended time frame for the payment of redemption money shall reflect the additional time needed in light of the specific circumstances in the relevant market(s). Proper records will be kept by the Manager to demonstrate and justify this (e.g. the Sub-Fund is directly subject to or adversely affected by the restrictions which are beyond the reasonable control of the Manager) and Unitholders and the SFC will be properly and promptly informed.

Investment Minima

The following investment minima apply to the Sub-Fund:

	Minimum initial investment	*Minimum subsequent investment*	*Minimum holding*	*Minimum redemption amount*
Class A Units (accumulation) (USD)	USD100	USD100	USD100	USD100
Class A Units (distribution) (USD)				
Class B Units* (accumulation) (USD)	USD1	USD1	USD1	USD1
Class B Units* (distribution) (USD)				
Class I Units (accumulation) (USD)	USD100,000	USD100,000	USD100,000	USD100,000
Class I Units (distribution) (USD)				
Class X Units (accumulation) (USD)	USD1,000	USD1,000	USD1,000	USD1,000
Class A Units (accumulation) (RMB)	RMB1,000	RMB1,000	RMB1,000	RMB1,000
Class A Units (distribution) (RMB)				
Class A Units (accumulation) (hedged RMB)				
Class A Units (distribution) (hedged RMB)				
Class B Units* (accumulation) (RMB)	RMB1	RMB1	RMB1	RMB1

Class B Units* (distribution) (RMB)				
Class B Units* (accumulation) (hedged RMB)				
Class B Units* (distribution) (hedged RMB)				
Class I Units (accumulation) (RMB)	RMB800,000	RMB800,000	RMB800,000	RMB800,000
Class I Units (distribution) (RMB)				
Class I Units (accumulation) (hedged RMB)				
Class I Units (distribution) (hedged RMB)				
Class X Units (accumulation) (hedged RMB)	RMB10,000	RMB10,000	RMB10,000	RMB10,000
Class A Units (accumulation) (HKD)	HKD1,000	HKD1,000	HKD1,000	HKD1,000
Class A Units (distribution) (HKD)				
Class B Units* (accumulation) (HKD)	HKD1	HKD1	HKD1	HKD1
Class B Units* (distribution) (HKD)				
Class B Units* (accumulation) (hedged HKD)				
Class B Units* (distribution) (hedged HKD)				
Class I Units (accumulation) (HKD)	HKD800,000	HKD800,000	HKD800,000	HKD800,000
Class I Units (distribution) (HKD)				
Class X Units (accumulation) (HKD)	HKD10,000	HKD10,000	HKD10,000	HKD10,000

** Class B Units are available for investment by retail investors who invest through distributors submitting dealing orders via distribution channels or distributors specified by the Manager.*

Note: The Manager will make an application to the China Securities Regulatory Commission for offering the Sub-Fund to retail investors in mainland China under northbound Mainland-Hong Kong Mutual Recognition of Funds regime. The Manager may issue Class M (RMB), Class M (hedged RMB) and Class M (USD) Units for the Sub-Fund in due course subject to applicable laws and regulations. Class M (RMB), Class M (hedged RMB) and Class M (USD) Units will be available to investors in mainland China (will be temporarily not offered to individual investors) only and will not be offered in Hong Kong. In respect of details in relation to Class M (RMB), Class M (hedged RMB) and Class M (USD) Units, please refer to the Sub-Fund's offering documents applicable to investors in mainland China.

The Manager may in its discretion agree to accept applications for subscription or redemption generally or in a particular case below the applicable minimum amounts.

Publication of Net Asset Value

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

Expenses and Charges

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

Fees payable by Unitholders

	All Classes
Subscription fee	Up to 3% of the Subscription Price
Redemption fee	Nil
Switching fee	Nil

Fees payable by the Sub-Fund

	Class A (accumulation) (RMB) Class A (distribution) (RMB) Class A (accumulation) (hedged RMB) Class A (distribution) (hedged RMB) Class A (accumulation) (USD) Class A (distribution) (USD) Class A (accumulation) (HKD) Class A (distribution) (HKD)	**Class B (accumulation) (RMB) Class B (distribution) (RMB) Class B (accumulation) (hedged RMB) Class B (distribution) (hedged RMB) Class B (accumulation) (USD) Class B (distribution) (USD) Class B (accumulation) (HKD) Class B (distribution) (HKD) Class B (accumulation) (hedged HKD) Class B (distribution) (hedged HKD)**	**Class I (accumulation) (RMB) Class I (distribution) (RMB) Class I (accumulation) (USD) Class I (distribution) (USD) Class I (accumulation) (HKD) Class I (distribution) (HKD)**	**Class I (accumulation) (hedged RMB) Class I (distribution) (hedged RMB)**	**Class X (accumulation) (USD) Class X (accumulation) (hedged RMB) Class X (accumulation) (HKD)**
Management fee	0.75% per annum of the Net Asset	1.00% per annum of the Net Asset	0.25% per annum of the Net Asset	0.50% per annum of the Net Asset	0.15% per annum of the Net Asset

	Value of the Sub-Fund	Value of the Sub-Fund	Value of the Sub-Fund	Value of the Sub-Fund	Value of the Sub-Fund
Performance fee	Nil	Nil	Nil	Nil	Nil
Trustee fee	0.08% per annum of the Net Asset Value of the Sub-Fund, inclusive of fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses				

The Manager may, in its absolute discretion, (i) share with intermediaries the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee and (ii) share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee to institutional investors (not being retail investors) provided that such fees and charges are those which the Manager is entitled to receive for its own benefit.

Additional Risk Factors

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

Investment risk

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

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

Risk of investing in debt securities

Interest rate risk

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

Credit/counterparty risk

Investment in debt securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the debt securities held by the Sub-Fund, valuation of the Sub-Fund’s portfolio may become more difficult, the Sub-Fund’s value will be adversely affected and investors may suffer a substantial loss as a result.

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

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of debt securities, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

Credit rating risk and downgrading risk

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. Fixed income instruments with a credit rating may be subject to the risk of being downgraded. In the event of downgrading in the credit rating of an instrument or that of its issuer, the Sub-Fund's investment value in such instrument may be adversely affected. If the Sub-Fund continues to hold such securities, it will be subject to additional risk of loss. The Manager may or may not be able to dispose of the instruments that are being downgraded at a reasonable price or at all.

Valuation risk

Valuation of the Sub-Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the NAV calculation of the Sub-Fund.

Sovereign debt risk

The Sub-Fund's 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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers

<u>Risk associated with high yield (below investment grade or unrated) debt securities / liquidity risk</u>

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

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

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

For unlisted bonds, in the absence of a regular and active secondary market, the Sub-Fund may not be able to sell its bond holdings at prices the Manager considers advantageous and may need to hold the bonds until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its listed bonds at a discount in order to satisfy such requests and the Sub-Fund may suffer losses. The Manager seeks to control the liquidity risk of the Sub-Fund's bond portfolio by a series of internal management measures in order to meet Unitholders' redemption requests.

<u>Risk associated with PRC onshore bonds</u>

PRC inter-bank bond market risk

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

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

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

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

Risks associated with Bond Connect

The relevant rules and regulations on Bond Connect are subject to change which may have potential retrospective effect. Where a suspension in the trading through Bond Connect is effected, the Sub-Fund's ability to access the PRC market through the programme will be adversely affected.

PRC sovereign debt risk

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

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

Settlement risks

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

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

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

Credit rating agency risk

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

<u>Emerging market risk</u>

The Sub-Fund may invest up to 100% of Net Asset Value in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Please refer to the risk factor headed "Emerging markets risk" under the section headed "Risk Factors" in the main part of this Explanatory Memorandum for details.

“Dim Sum” bonds risk

The offshore RMB (“CNH”) bond market, also known as “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 the Sub-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 liberalisation of the CNH markets by the relevant regulators.

Risks of investing in other collective investment schemes/funds

The Sub-Fund may invest in other collective investment schemes (“underlying funds”) and will be subject to the risks associated with the underlying funds. The Sub-Fund does 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 which may have a negative impact to the Net Asset Value of the Sub-Fund.

The underlying funds in which the Sub-Fund may invest may not be regulated by the SFC. The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their investment managers. Some underlying funds may also impose fees or levies which may be payable by the Sub-Fund when it subscribes to or redeems out of such underlying funds. Therefore there may be additional costs involved when investing into these underlying funds. Whilst the Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Sub-Fund.

There is also no guarantee that the underlying funds will always have sufficient liquidity to meet the Sub-Fund’s redemption requests as and when made. The Sub-Fund may therefore be subject to liquidity risk by investing in these underlying funds.

If the Sub-Fund invests in an underlying fund managed by the Manager or Connected Person of the Manager, all initial charges on these underlying funds must be waived, and the Manager must not obtain rebate of any fees or charges levied by these underlying funds. In case any conflict of interest may still arise out of such investments, the Manager will use its best endeavours to resolve it fairly. Please refer to the section headed “Conflicts of Interest” for details under the circumstances.

Convertible bonds risk

The Sub-Fund may invest up to 100% of the Sub-Fund’s Net Asset Value in convertible bonds. Convertibles are a hybrid between debt and equity, permitting holders to convert into shares or stocks in the company issuing the bond at a specified future date. While convertible bonds generally offer lower interest or dividend yields than non-convertible debt securities of similar quality, the price of a convertible bond will normally vary with changes in the price of the underlying stock. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments. Prior to conversion, convertible bonds have the same general characteristics as non-convertible debt securities and the market value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. Investors should be prepared for exposure to equity movement and greater volatility than straight bond investments, with an increased risk of capital loss.

The values of convertible bonds may also be affected by changes in the credit rating, liquidity or financial condition of the issuer. The Sub-Fund may also be exposed to the credit and insolvency risks of the issuers of the bonds. Further, convertible bonds may have call provisions and other features which may give rise to the risk of a call and that the value and performance of the Sub-Fund may also be adversely affected as a result.

Investors should also note the interest rate risk associated with investments in debt instruments. Please refer to the risk factor headed “Interest rates risk” under the section headed “Risk Factors” in the main part of this Explanatory Memorandum for details.

Risks associated with investments in debt instruments with loss-absorption features (LAP)

Debt instruments with loss-absorption features are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of a pre-defined trigger events (e.g. when the issuer is near or at the point of non-viability or when the issuer’s capital ratio falls to a specified level), which are likely to be outside of the issuer’s control. Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments.

In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.

Risks associated with instruments with contingent convertible bonds (“CoCos”)

Up to 30% of the Net Asset Value may be invested in CoCos. CoCos 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), CoCos will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. They are risky and highly complex investment instruments. Coupon payments on CoCos 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.

Trigger level risk

Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require the conversion 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 bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

Coupon cancellation

Coupon payments on some CoCos 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, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

Capital structure inversion risk

Contrary to the classic capital hierarchy, investors in CoCos may suffer a loss of capital when equity holders do not (for example, when the loss absorption mechanism of CoCos is activated). This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

Call extension risk

Some CoCos 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 convertible securities will be called on a call date. Such convertible securities are a form of permanent capital. The Sub-Fund may not receive return of principal as expected on call date or indeed at any date.

Conversion risk

Trigger levels differ between specific instruments, which determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the instruments will behave upon conversion. These instruments may be converted into shares potentially at a discounted price, or the principal amount invested may be lost. In case of conversion into equity, the Manager might be forced to sell these new equity shares. 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 the Sub-Fund experiencing loss of all investments in CoCos.

Write-down/write-off risk

In some cases, the issuer of CoCos may cause the convertible security to be written-down or written-off in value based on the specific terms of the individual security if a pre-specified trigger event occurs. Therefore, upon the occurrence of a trigger event, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

Valuation risk

Instruments subject to compulsory conversion with non-viability / loss absorption convertible features often offer attractive yield which may be viewed as a complexity premium. The value of such instruments may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets.

Market value fluctuations due to unpredictable factors

The value of CoCos 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 instruments; (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.

Liquidity risk

In certain circumstances finding a buyer ready to invest in CoCos may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

Sector concentration risk

CoCos are issued by banking and insurance institutions. Investment in CoCos may lead to an increased sector concentration risk. The performance of the Sub-Fund will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.

Subordinated instruments

CoCos may 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 such instruments, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the instruments shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

Novelty and untested nature

The structure of CoCos 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.

<u>Risks associated with perpetual bonds</u>

There are risks associated with perpetual bonds. The Sub-Fund is subject to perpetual credit risk and counterparty risk exposure. As time progresses, issuers of such perpetual bonds can encounter financial difficulties, and may even shut down. Perpetual bonds may also be subject to call risk as the issuers can recall them. Perpetual bonds are subject to interest risk as the perpetual bond may be locked in interest which is significantly lower than the prevailing interest rate. Under such circumstances, the Sub-Fund could earn more money by holding a different bond than the perpetual bond. However, unlike for other bonds that have a maturity date when the issuer returns the principal, for perpetual bonds, to swap out an old perpetual bond for a newer, higher interest bond, the Sub-Fund must sell the existing bond on the secondary market, at which time it may be worth less than the purchase price as the Sub-Fund may need to discount the offer price based on the interest rate difference. As selling in the secondary market is the only option available, perpetual bonds may therefore be subject to liquidity risk and the bid-ask spread will be high.

<u>Operational and settlement risks</u>

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

<u>Risks relating to sale and repurchase agreements</u>

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

<u>Risk relating to reverse repurchase transactions</u>

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

Risk of investing in financial derivative instruments

The Manager may, for hedging or investment purposes, invest in FDIs subject to the investment restrictions applicable to the Sub-Fund as set out in the section headed “Investment Objective, Strategy and Restrictions”. These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to “Investment risks – Risk of investing in financial derivative instruments” and “Investment risks – Over-the-counter markets risk” under the section headed “Risk Factors” in the main body of this Explanatory Memorandum.

Hedging risk

The Manager may from time to time use hedging techniques, including investments in FDIs, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to “Investment risks – Hedging risk” under the section headed “Risk Factors” in the main body of this Explanatory Memorandum.

Dividends risk

The Manager will declare dividends on an annual basis for distribution Class(es). However, the rate of distribution is not guaranteed and is subject to the discretion of the Manager. The Manager may change the Sub-Fund’s dividend distribution policy (including for example the frequency of distribution) subject to the SFC’s prior approval (where necessary) and by giving not less than one month’s prior notice to Unitholders.

The rate of distribution depends on interest payments made by issuers of debt securities and deposits net of the level of fees and expenses payable by the Sub-Fund. Investors will not receive any interest payments, dividends or other distributions directly from the issuers of the debt securities within the Sub-Fund’s portfolio.

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

Foreign exchange risk

Because the Sub-Fund's assets and liabilities and/or the value of a Class of Units may be denominated in currencies different from the Sub-Fund’s Base Currency, the Net Asset Value of the Sub-Fund may be affected unfavourably by exchange control regulations or changes in the exchange rates between the Sub-Fund’s Base Currency and these currencies.

RMB currency risk and RMB denominated Classes risk

RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub- Fund’s or the investors’ position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of investors’ investments will be adversely affected. If investors convert HKD or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into HKD or any other currency, they may suffer a loss if RMB depreciates against HKD or other currency.

The Sub-Fund offers RMB denominated Classes of Units.

Where an investor subscribes for Units denominated in RMB, the Manager may (where appropriate) convert such subscriptions into a non- RMB currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager will sell the Sub-Fund's investments (which may be denominated in a non-RMB currency) and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds into RMB which may also affect the Sub-Fund's ability to meet redemption requests from Unitholders in RMB denominated Classes of Units or to make distributions, and may delay the payment of redemption proceeds or dividends under exceptional circumstances. As RMB is not freely convertible and is subject to exchange controls and restrictions, currency conversion is subject to availability of RMB at the relevant time. The Sub-Fund may not have sufficient RMB for its investments. Further, in case of sizeable redemption requests for the RMB Classes, the Manager has the absolute discretion to delay any payment in respect of redemption of the RMB Classes (for a period not exceeding one calendar month of receipt of a properly documented redemption request).

Non-RMB based investors who invest in RMB denominated Classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the RMB denominated Classes of Units.

The RMB is traded in both the onshore and offshore markets. While both onshore RMB ("CNY") and offshore RMB ("CNH") represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors. When calculating the Net Asset Value of Units of a RMB denominated Class, the Manager will apply the exchange rate for offshore RMB market in Hong Kong, i.e. the CNH exchange rate, which may be at a premium or discount to the exchange rate for onshore RMB market in mainland China, i.e. the CNY exchange rate. Consequently, there may be significant trading costs incurred and investors investing in Classes of Units denominated in RMB may suffer losses.

For unhedged RMB denominated Classes, since the Unit prices are denominated in RMB, but the Sub-Fund will have limited RMB denominated underlying investments and its base currency is USD, so even if the prices of underlying investments and/or value of the Base Currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the Base Currency more than the increase in the value of the underlying investments and/or the Base Currency.

Hedged RMB denominated Classes risk

For hedged RMB denominated Classes, investors have to bear the associated hedging costs which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB denominated Classes may be exposed to RMB currency exchange risk on an unhedged basis and in which case investors may be subject to the risks of investing in RMB denominated Classes on an unhedged basis as outlined in the paragraph above. Also there is no guarantee that the hedging strategy will fully and effectively eliminate the currency exposure.

Hedged RMB denominated Classes will hedge the Sub-Fund's Base Currency back to RMB, on a best effort basis, with an objective to align the performance of the hedged RMB denominated Classes to that of the equivalent Class denominated in the Sub-Fund's Base Currency. This strategy may preclude the hedged RMB denominated Classes from benefiting from any potential gain resulting from the appreciation of the Base Currency against RMB. Please refer to the risk factor headed "Hedging risk" in the main part of this Explanatory Memorandum.

Eurozone and European country risk

The Sub-Fund may invest in securities issued by issuers based in or with substantial operations in the European Union (the "EU"). Investments in Europe may be subject to a number of risks arising from a recent financial crisis in Europe. In light of the ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, the Sub-Fund's investments in the region may be subject to higher volatility, liquidity, currency and default risks. While the governments of many European countries, the European Commission, the European Central Bank, the International Monetary Fund and other authorities are taking measures (such as undertaking economic reforms and imposing austerity measures on their citizens) to address the current fiscal conditions and concerns in Europe, these measures may not have the desired effect, and the future stability and growth of Europe is therefore uncertain. It is possible that a country may leave the Eurozone and return to a national currency, and as a result may leave the EU and/or that the Euro will cease to exist in its current form and/or lose its legal status in one or more countries in which it currently has such status. It is also possible that the credit rating of a country or sovereign may be downgraded. The effect of such potential events on the Sub-Fund which invests in instruments predominantly tied to Europe is impossible to predict. The impact of the above adverse events may be significant and may adversely affect the value of Sub-Fund investing in securities issued by issuers based in or with substantial operations in Europe, and investors may suffer significant loss.

Equity securities risks

Investment in equity securities is subject to general 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, issuer-specific factors, regional or global economic instability, currency and interest rate fluctuations. If the market value of equity securities in which the Sub-Fund invests goes down, its Net Asset Value may be adversely affected, and investors may suffer substantial losses.

Risk relating to depositary receipts

The Sub-Fund may invest in depositary receipts such as American Depositary Receipts (ADR) and such exposure may generate additional risks compared to a direct exposure to the corresponding underlying stocks. Depositary receipts are instruments that represent shares in companies trading outside the markets in which the depositary receipts are traded. Accordingly there is a risk that the underlying shares may be subject to political, inflationary, exchange rate or custody risks. In particular, as the consequence of the intervention of the depositary bank issuing the depositary receipt and the risk of non-segregation under applicable law of the depositary bank who hold the underlying stock as collateral and its own assets. Although segregation is an integral part of the depositary agreement regulating the issuance of the depositary receipts, there could be a risk that underlying shares would not be attributed to holders of depositary receipts in case of bankruptcy of the depositary bank. In such case, the likeliest scenario would be the trading suspension and thereafter a freeze of the price of the depositary receipts impacted by such bankruptcy event. Bankruptcy events in respect of the depositary banks issuing the depositary receipts may negatively affect the performance and/or the liquidity of the Sub-Fund. There are fees related to depositary receipts, for example fees charged by banks for the custody of depositary receipts, which may impact the performance of the depositary receipts. Also, holders of depositary receipts are not direct shareholders of the underlying company and generally do not have voting and other shareholder rights as shareholders do. The Sub-Fund may also be subject to liquidity risk as depositary receipts are often less liquid than the corresponding underlying stocks.

Distribution out of capital or effectively out of capital

For distribution Class(es), the Manager may, at its discretion, pay dividends out of the capital of the Sub-Fund. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of or effectively out of the Sub-Fund's capital may result in an immediate reduction of the Net Asset Value per unit.

The distribution amount and Net Asset Value of a hedged unit class may be adversely affected by differences in the interest rates of the class currency of the relevant hedged unit class and the Sub-Fund's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged unit classes.

Reports and accounts

The first financial reports for the Sub-Fund cover the period to 31 December 2020.

Distribution policy

For the distribution Class(es), dividends will be distributed on a monthly basis, subject to the Manager's discretion. However, there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed. The Manager may at its discretion pay dividends out of the capital of the Sub-Fund. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital.

The compositions of the dividend (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months will be available from the Manager on request and also on the website http://www.efunds.com.hk (this website has not been reviewed by the SFC). Any changes regarding the policy on paying dividend out of capital or effectively out of capital will be subject to the SFC's prior approval and not less than one month's advance notice to Unitholders.

For the accumulation Class(es), no distribution will be made to Unitholders.

All distributions declared on the Sub-Fund will be automatically reinvested unless otherwise elected by the Unitholders, in which case the relevant proceeds will be paid to the Unitholders accordingly within one month of declaration.

The cash distribution (if any) will be paid to Unitholders at their own risk and expense by telegraphic transfer in the currency of the relevant Class normally within one calendar month after the declaration of such distribution by the Manager.

APPENDIX 5: E FUND (HK) ASIA BOND FUND

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

Investment Objective

The investment objective of the Sub-Fund is to generate income and long term capital growth.

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

Investment Strategy

The Sub-Fund seeks to achieve its objective by investing primarily (at least 70% of its net asset value ("NAV")) in Asian debt securities, which may include investment grade, non-investment grade, unrated debt securities and convertibles. The Sub-Fund will invest less than 70% in emerging markets in Asia. The Sub-Fund will invest in a portfolio of fixed and floating rate debt securities and debt obligations issued by government and government-related issuers, and/or corporate entities located throughout Asia. The Sub-Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank.

A long-term debt security is considered investment grade if its credit rating is BBB- or higher by Standard & Poor's and Fitch Ratings or Baa3 or higher by Moody's or equivalent rating as rated by an international credit rating agency. A short-term debt security is considered investment grade if its credit rating is A-3 or higher by Standard & Poor's or F3 or higher by Fitch Ratings or P-3 or higher by Moody's or equivalent rating as rated by an international credit rating agency.

For debt securities where the credit rating is only designated by a mainland China credit rating agency, a long-term debt security is considered investment grade if it has a minimum credit rating of BBB-. A short-term debt security is considered investment grade if it has a minimum credit rating of A-3. It should be noted that the credit appraisal system in the Mainland and the rating methodologies employed in the Mainland may be different from those employed in other markets.

For the purpose of the Sub-Fund, "unrated" refers to where neither the instrument itself nor its issuer has a credit rating assigned by international credit rating agencies. For a debt security which itself does not have a credit rating, the Manager will assess the debt security by reference to the credit rating of the issuer, the guarantor or the keepwell provider.

Asian debt securities shall include debt issued or guaranteed by Asian governments, local authorities/public authorities and corporates denominated in hard currencies (i.e. globally traded major currencies). Asian corporate issuers mean issuers or guarantors which (i) have their registered offices or headquarters located in an Asian country or (ii) carry out their business activities predominantly (by revenue, profit, asset or production) in Asia. The Sub-Fund may invest significantly in any one region or country, for example, Mainland China, Hong Kong and Singapore.

The Sub-Fund may invest up to 30% of its NAV in Mainland China through the Bond Connect (as defined below) or directly (also referred to as CIBM direct).

The Sub-Fund may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation up to 30% of its NAV.

Ancillary investments

The Sub-Fund may also invest up to 30% of its NAV in the following: (i) equity securities (including the exposure of equity securities result from the conversion or exchange of a preferred stock or debt obligation as mentioned above); (ii) "Dim Sum" bonds (i.e. bonds issued outside of Mainland China but denominated in RMB); and (iii) contingent convertible bonds ("CoCos"). For the avoidance of doubt, the Sub-Fund's expected total maximum investments in debt instruments with loss-absorption features e.g. CoCos, AT1 capital and TLAC senior bonds issued by commercial banks, which may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s) will be up to 30% of its NAV.

The Sub-Fund may also utilise financial derivative instruments ("FDIs") for hedging, efficient portfolio management and/or investment purposes to the extent permitted by Chapter 7 of the SFC's Code on Unit Trusts and Mutual Funds (the "Code").

The Sub-Fund may also, in accordance with the investment restrictions, invest up to 30% of its NAV in securities-linked assets or currencies such as structured notes of any Asian country or deriving its value from another security, including structured products.

The Sub-Fund may invest up to 30% of its NAV in urban investment bonds (城投債), which are debt instruments issued by Mainland local government financing vehicles (the "LGFVs"). These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects. The Sub-Fund will not invest in collateralised and/or securitised products (such as asset backed securities, mortgage backed securities and asset backed commercial papers).

The Sub-Fund may also invest no more than 30% of the NAV in money market funds which are either authorised by the SFC or eligible scheme (as defined by the SFC) in accordance with the Code, and may hold cash or cash equivalents, to the extent not invested in accordance with the above, for cash management purpose, except under exceptional circumstances (e.g. market crash or major crisis), the Sub-Fund may invest temporarily up to 100% of the NAV in liquid assets such as bank deposits, certificates of deposit, commercial paper and treasury bills for cash flow management.

The Sub-Fund may conduct securities lending, sale and repurchase and/or reverse repurchase transactions (collectively, "securities financing transactions") in aggregate for up to 30% of its NAV. Such sale and repurchase and reverse repurchase transactions will be conducted over-the-counter. The details of the policies regarding the securities financing transactions are set out in the section "Investment Objective, Strategy and Restrictions" of this Explanatory Memorandum.

The Sub-Fund will invest no more than 10% of its NAV in debt securities that are issued and/or guaranteed by a single sovereign issuer which is below investment grade and/or unrated.

The Sub-Fund currently has no intention to invest in structured deposits, or to take any short positions. If any of this changes in the future, prior approval of the SFC will be sought (if required) and not less than one month's notice will be provided to Unitholders before the Sub-Fund enters into any such transaction.

Investment via the Northbound Trading Link under Bond Connect

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

Bond Connect is governed by rules and regulations as promulgated by the PRC authorities.

Such rules and regulations may be amended from time to time and include (but are not limited to):

- the "Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong (Decree No.1 [2017])" (內地與香港債券市場互聯互通合作管理暫行辦法(中國人民銀行令[2017]第 1 號)) issued by the PBOC on 21 June 2017;

- the "Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect" (中國人民銀行上海總部"債券通"北向通境外投資者准入備案業務指引) issued by the Shanghai Head Office of PBOC on 22 June 2017; and

- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank bond market through the northbound trading of Bond Connect ("Northbound Trading Link"). There will be no investment quota for Northbound Trading Link.

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

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

Investment Restrictions

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

Base Currency

The Base Currency of the Sub-Fund is USD.

Available Classes

Units in the following Classes are currently available for issue to investors:

For the retail public in Hong Kong:

- Class A (accumulation) RMB Units;
- Class A (distribution) RMB Units;
- Class A (accumulation) (hedged) RMB Units;
- Class A (distribution) (hedged) RMB Units;
- Class A (accumulation) USD Units;
- Class A (distribution) USD Units;

- Class A (accumulation) (hedged) USD Units; and
- Class A (distribution) (hedged) USD Units.

For institutional investors, professional investors and other investors as determined by the Manager:

- Class I (accumulation) RMB Units;
- Class I (distribution) RMB Units;
- Class I (accumulation) (hedged) RMB Units;
- Class I (distribution) (hedged) RMB Units;
- Class I (accumulation) USD Units;
- Class I (distribution) USD Units;
- Class I (accumulation) (hedged) USD Units; and
- Class I (distribution) (hedged) USD Units.

Initial Offer Period

The Initial Offer Period of the Sub-Fund commenced at 9:00 a.m. (Hong Kong time) on 23 June 2020 and ended at 4:00 p.m. (Hong Kong time) on 23 June 2020 (or such other dates or times as the Manager may determine).

The initial Subscription Price is USD10 per Unit for USD denominated Classes and RMB100 for RMB denominated Classes.

The Manager may decide not to issue any Units in the event that less than the equivalent of USD10,000,000 is raised during the Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such event subscription monies paid by an applicant will be returned by cheque by post or by telegraphic transfer or by such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses) within 14 Business Days after the expiry of the Initial Offer Period.

Dealing Procedures

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

Dealing Day	each Business Day
Dealing Deadline	4:00 pm (Hong Kong time) on the relevant Dealing Day

The Issue Price of Class A USD Units and Class I USD Units will be calculated and quoted in the Base Currency of the Sub-Fund, and the Issue Price of Class A RMB Units and Class I RMB Units will be calculated and quoted in RMB.

Notwithstanding the description in the section "Subscription of Units" in this Explanatory Memorandum, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class of that Sub-Fund then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

Valuation Day

Each Dealing Day will be a Valuation Day.

Payment of Redemption Proceeds

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in USD by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless legal or regulatory requirements (such as foreign currency controls) to which the Sub-Fund is subject render the payment of the redemption proceeds within the aforesaid time period not practicable.

Notwithstanding the description in the section “Redemption of Units” in this Explanatory Memorandum, the Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

It is only in exceptional circumstances where 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 making the payment of the redemption proceeds within one calendar month not practicable, the Sub-Fund would have a longer redemption payment period exceeding one calendar month in light of the specific circumstances in the relevant markets. In such a case, proper records will be kept by the Manager to demonstrate and justify this (e.g. the Sub-Fund is directly subject to or adversely affected by the restrictions which are beyond the reasonable control of the Manager) and Unitholders and the SFC will be properly and promptly informed. In any event, the redemption proceeds will be paid to Unitholders as soon as possible after the receipt of the proceeds by the Sub-Fund.

Investment Minima

The following investment minima apply to the Sub-Fund:

	Class A Units (accumulation) (USD) Class A (distribution) (USD) Class A Units (accumulation) (hedged USD) Class A Units (distribution) (hedged USD)	Class A Units (accumulation) (RMB) Class A Units (distribution) (RMB) Class A Units (accumulation) (hedged RMB) Class A Units (distribution) (hedged RMB)	Class I Units (accumulation) (USD) Class I (distribution) (USD) Class I Units (accumulation) (hedged USD) Class I Units (distribution) (hedged USD)	Class I Units (accumulation) (RMB) Class I Units (distribution) (RMB) Class I Units (accumulation) (hedged RMB) Class I Units (distribution) (hedged RMB)
Minimum initial investment	USD10	RMB100	USD100,000	RMB1,000,000

Minimum subsequent investment	Units with aggregate minimum value of USD10	Units with aggregate minimum value of RMB100	USD100,000	RMB1,000,000
Minimum holding	USD10	RMB100	USD100,000	RMB1,000,000
Minimum redemption amount	USD10	RMB100	USD100,000	RMB1,000,000

The Manager may in its discretion agree to accept applications for subscription or redemption generally or in a particular case below the applicable minimum amounts.

Publication of Net Asset Value

For Units offered in Hong Kong, the latest Issue Price and Redemption Price in respect of Units or the Net Asset Value per Unit of the Sub-Fund are available on the Manager's website www.efunds.com.hk (this website has not been reviewed by the SFC) on each Dealing Day.

Expenses and Charges

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

Fees payable by Unitholders

	All Classes
Subscription fee	Up to 3% of the Issue Price
Redemption fee	Nil
Switching fee	Nil

Fees payable by the Sub-Fund

	Class A (accumulation) (RMB) **Class A (distribution) (RMB)** **Class A (accumulation) (hedged RMB)** **Class A (distribution) (hedged RMB)** **Class A (accumulation) (USD)** **Class A (distribution) (USD)** **Class A (accumulation) (hedged USD)** **Class A (distribution) (hedged USD)**	**Class I (accumulation) (RMB)** **Class I (distribution) (RMB)** **Class I (accumulation) (hedged RMB)** **Class I (distribution) (hedged RMB)** **Class I (accumulation) (USD)** **Class I (distribution) (USD)** **Class I (accumulation) (hedged USD)** **Class I (distribution) (hedged USD)**
Management fee	Up to 3%, current rate being 1% per annum of the Net Asset Value of the Sub-Fund	Up to 3%, current rate being 0.5% per annum of the Net Asset Value of the Sub-Fund
Trustee fee	0.08% per annum of the Net Asset Value of the Sub-Fund per annum of the Net Asset Value of the Sub-Fund, inclusive of fees payable to the Trustee	

	acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses
Establishment costs	The cost of establishing the Sub-Fund, including the updating of and addition of this Appendix to this Explanatory Memorandum, inception fees, the costs of seeking and obtaining the authorisation by the SFC and all relevant legal and printing costs was approximately HK$300,000. Such establishment costs will be borne by the Sub-Fund and amortised over the first 5 accounting periods of the Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

The Manager may, in its absolute discretion, (i) share with intermediaries the payment of all or any portion of the subscription fee, redemption fee and/or management fee and (ii) share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee and/or management fee to institutional investors (not being retail investors) provided that such fees and charges are those which the Manager is entitled to receive for its own benefit.

Additional Risk Factors specific to the Sub-Fund

The following risk factors are specific to the Sub-Fund. Investors should also note the relevant risk factors set out in the section entitled "Risk Factors" in the main body of this Explanatory Memorandum.

<u>Risk of investing in debt securities</u>

Interest rate risk

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

Credit/counterparty risk

Investment in debt securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the debt securities held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

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

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of debt securities, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-

Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

Credit rating risk and downgrading risk

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. Fixed income instruments with a credit rating may be subject to the risk of being downgraded. In the event of downgrading in the credit rating of an instrument or that of its issuer, the Sub-Fund's investment value in such instrument may be adversely affected. If the Sub-Fund continues to hold such securities, it will be subject to additional risk of loss. The Manager may or may not be able to dispose of the instruments that are being downgraded at a reasonable price or at all.

Valuation risk

Valuation of the Sub-Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the NAV calculation of the Sub-Fund.

Sovereign debt risk

The Sub-Fund's 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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers

<u>Emerging market risk</u>

The Sub-Fund may invest less than 70% of Net Asset Value in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Please refer to the risk factor headed “Emerging markets risk” under the section headed “Risk Factors” in the main part of this Explanatory Memorandum for details.

<u>Risk associated with high yield (below investment grade or unrated) debt securities / liquidity risk</u>

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

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

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

For unlisted bonds, in the absence of a regular and active secondary market, the Sub-Fund may not be able to sell its bond holdings at prices the Manager considers advantageous and may need to hold the bonds until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its listed bonds at a discount in order to satisfy such requests and the Sub-Fund may suffer losses. The Manager seeks to control the liquidity risk of the Sub-Fund's bond portfolio by a series of internal management measures in order to meet Unitholders' redemption requests.

Convertible bonds risk

Convertibles are a hybrid between debt and equity, permitting holders to convert into shares or stocks in the company issuing the bond at a specified future date. While convertible bonds generally offer lower interest or dividend yields than non-convertible debt securities of similar quality, the price of a convertible bond will normally vary with changes in the price of the underlying stock. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments. Prior to conversion, convertible bonds have the same general characteristics as non-convertible debt securities and the market value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. Investors should be prepared for exposure to equity movement and greater volatility than straight bond investments, with an increased risk of capital loss.

The values of convertible bonds may also be affected by changes in the credit rating, liquidity or financial condition of the issuer. The Sub-Fund may also be exposed to the credit and insolvency risks of the issuers of the bonds. Further, convertible bonds may have call provisions and other features which may give rise to the risk of a call and that the value and performance of the Sub-Fund may also be adversely affected as a result.

"Dim Sum" bonds risk

The offshore RMB ("CNH") bond market, also known as "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 the Sub-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 liberalisation of the CNH markets by the relevant regulators.

Risk associated with PRC onshore bonds

PRC inter-bank bond market risk

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

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

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

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

Risks associated with Bond Connect

The relevant rules and regulations on Bond Connect are subject to change which may have potential retrospective effect. Where a suspension in the trading through Bond Connect is effected, the Sub-Fund's ability to access the PRC market through the programme will be adversely affected.

Settlement risks

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

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

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

Credit rating agency risk

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

Risks associated with urban investment bonds

Urban investment bonds are issued by LGFVs, such bonds are typically not guaranteed by local governments or the central government of the Mainland. In the event that the LGFVs default on payment of principal or interest of the urban investment bonds, the Sub-Fund could suffer substantial loss and the NAV of the fund could be adversely affected.

Risk of investing in other funds

The Sub-Fund may invest in underlying funds which are authorised by the SFC or eligible schemes (as defined by the SFC) to pursue its investment objective. The Manager does 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 which may have a negative impact to the Net Asset Value of the Sub-Fund.

The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their investment managers. Some underlying funds may also impose fees or levies which may be payable by the Sub-Fund when it subscribes to or redeems out of such underlying funds. Whilst the Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Sub-Fund.

There is also no guarantee that the underlying funds the Sub-Fund invests in will have sufficient liquidity to meet the Sub-Fund's redemption requests. The Sub-Fund may therefore be subject to liquidity risk by investing in these underlying funds.

If the Sub-Fund invests in an underlying fund managed by the Manager or Connected Person of the Manager, all initial charges and redemption charges on these underlying funds must be waived, and the Manager, or any person acting on behalf of the Sub-Fund or the Manager, must not obtain rebate of any fees or charges levied by these underlying funds or its manager, or any quantifiable monetary benefits in connection with investments in any underlying funds. In case any conflict of interest may still arise out of such investments, the Manager will use its best endeavours to resolve it fairly. Please refer to the section headed "Conflicts of Interest" for details under the circumstances.

<u>Risks associated with investments in debt instruments with loss-absorption features (LAP)</u>

Debt instruments with loss-absorption features are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of a pre-defined trigger 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), which are likely to be outside of the issuer's control. Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments.

In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.

<u>Risks associated with instruments with contingent convertible bonds ("CoCos")</u>

CoCos 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), CoCos will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. They are risky and highly complex investment instruments. Coupon payments on CoCos 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.

Trigger level risk

Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require the conversion 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 bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

Coupon cancellation

Coupon payments on some CoCos 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, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

Capital structure inversion risk

Contrary to the classic capital hierarchy, investors in CoCos may suffer a loss of capital when equity holders do not suffer the same (for example, when the loss absorption mechanism of CoCos is activated). This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

Call extension risk

Some CoCos 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 convertible securities will be called on a call date. Such convertible securities are a form of permanent capital. The Sub-Fund may not receive return of principal as expected on call date or indeed at any date.

Conversion risk

Trigger levels differ between specific instruments, which determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the instruments will behave upon conversion. These instruments may be converted into shares potentially at a discounted price, or the principal amount invested may be lost. In case of conversion into equity, the Manager might be forced to sell these new equity shares. 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 the Sub-Fund experiencing loss of all investments in CoCos.

Write-down/write-off risk

In some cases, the issuer of CoCos may cause the convertible security to be written-down or written-off in value based on the specific terms of the individual security if a pre-specified trigger event occurs. Therefore, upon the occurrence of a trigger event, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

Valuation risk

Instruments subject to compulsory conversion with non-viability / loss absorption convertible features often offer attractive yield which may be viewed as a complexity premium. The value of such instruments may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets.

Market value fluctuations due to unpredictable factors

The value of CoCos 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 instruments; (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.

Liquidity risk

In certain circumstances finding a buyer ready to invest in CoCos may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

Sector concentration risk

CoCos are issued by banking and insurance institutions. Investment in CoCos may lead to an increased sector concentration risk. The performance of the Sub-Fund will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.

Subordinated instruments

CoCos may 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 such instruments, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the instruments shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

Novelty and untested nature

The structure of CoCos 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.

Risk of investing in financial derivative instruments

The Manager may, for hedging or investment purposes, invest in financial derivative instruments subject to the investment restrictions applicable to the Sub-Fund as set out in the section headed "Investment Objective, Strategy and Restrictions". These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to "Investment risks – Investing in financial derivatives instruments ("FDI") and collateral risk" and "Investment risks – Over-the-counter markets risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Hedging risk

The Manager may from time to time use hedging techniques, including investments in financial derivative instruments, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to "Investment risks – Hedging risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Risks associated with securities financing transactions

Risks relating to securities lending transactions

Securities lending transactions may involve the risk that the borrower may fail to return the securities lent out in a timely manner and the value of the collateral may fall below the value of the securities lent out.

Risks relating to sale and repurchase transactions

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

Risks relating to reverse repurchase transactions

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

Concentration risk

The Sub-Fund's investments are concentrated in Asia and it may invest significantly in any one region or country. The Sub-Fund's focus in Asia subjects it to greater concentration risk. The Sub-Fund may be more volatile than a broadly-based fund such as a global or regional investment fund as it is more susceptible to fluctuation in value resulting from adverse conditions in a single market. The value of the Sub-Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory events affecting the Asian markets or a particular Asian jurisdiction.

Currency Risks

Assets held by the Sub-Fund may be denominated in various currencies that are different from the Base Currency and performance of the Sub-Fund may be strongly influenced by movements in exchange rates. The Manager may seek to hedge against fluctuations in the relative values of the portfolio positions. Such investments require consideration of certain risks which include, among other things, trade balances and imbalances and related economic policies, unfavourable currency exchange rate fluctuations, impositions of exchange control regulation by governments, withholding taxes, policies of governments with respect to possible nationalisation of their industries, political difficulties, including expropriation of assets, confiscatory taxation and economic or political instability. Such techniques may not be possible or practicable in all cases, in which case the Sub-Fund may be adversely affected by changes in exchange rates.

Dividends risk

There is no assurance that the Sub-Fund will declare to pay dividends or distributions. The ability of the Sub-Fund to pay distributions also depends on dividends declared and paid by issuers of the securities which the Sub-Fund has invested and the level of fees and expenses payable by the Sub-Fund. The ability of the issuers of securities to make dividend payments and the level of dividends, if any, declared by the issuers of securities are based on numerous factors, including their current financial condition, general economic conditions and, where applicable, their dividend policies. There can be no assurance that such companies will be able to honour payment obligations, declare dividends or make other distributions.

The Manager may, in its discretion, pay distributions (1) out of capital or (2) out of gross income while charging/paying all or part of the Sub-Fund's fees and expenses to/out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of distributions by the Sub-Fund and therefore, the Sub-Fund may effectively pay distributions out of capital. This may reduce the capital that the Sub-Fund has available for investment in future and may constrain capital growth.

Payments or dividends out of capital and/or effectively out of capital amounts to a return or withdrawal of part of the amount investors originally invested or from any capital gains attributable to that original investment. Any distributions involving payment of distributions out of or effectively out of the Sub-Fund's capital may result in an immediate decrease in the Net Asset Value.

The distribution amount and the Net Asset Value of the hedged unit classes may be adversely affected by the differences in the interest rates of the reference currency of the hedged unit classes and the Sub-Fund's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged unit classes.

RMB currency risk and RMB denominated Classes risk

RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub- Fund's or the investors' position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of investors' investments will be adversely affected. If investors convert HKD or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into HKD or any other currency, they may suffer a loss if RMB depreciates against HKD or other currency.

The Sub-Fund offers RMB denominated Classes of Units.

Where an investor subscribes for Units denominated in RMB, the Manager may (where appropriate) convert such subscriptions into a non- RMB currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager will sell the Sub-Fund's investments (which may be denominated in a non-RMB currency) and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds into RMB which may also affect the Sub-Fund's ability to meet redemption requests from Unitholders in RMB denominated Classes of Units or to make distributions, and may delay the payment of redemption proceeds or dividends under exceptional circumstances. As RMB is not freely convertible and is subject to exchange controls and restrictions, currency conversion is subject to availability of RMB at the relevant time. The Sub-Fund may not have sufficient RMB for its investments. Further, in case of sizeable redemption requests for the RMB Classes, the Manager has the absolute discretion to delay any payment in respect of redemption of the RMB Classes (for a period not exceeding one calendar month of receipt of a properly documented redemption request).

Non-RMB based investors who invest in RMB denominated Classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the RMB denominated Classes of Units.

The RMB is traded in both the onshore and offshore markets. While both onshore RMB ("CNY") and offshore RMB ("CNH") represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors. When calculating the Net Asset Value of Units of a RMB denominated Class, the Manager will apply the exchange rate for offshore RMB market in Hong Kong, i.e. the CNH exchange rate, which may be at a premium or discount to the exchange rate for onshore RMB market in mainland China, i.e. the CNY exchange rate. Consequently, there may be significant trading costs incurred and investors investing in Classes of Units denominated in RMB may suffer losses.

For unhedged RMB denominated Classes, since the Unit prices are denominated in RMB, but the Sub-Fund will have limited RMB denominated underlying investments and its base currency is USD, so even if the prices of underlying investments and/or value of the Base Currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the Base Currency more than the increase in the value of the underlying investments and/or the Base Currency.

Hedged RMB denominated Classes risk

For hedged RMB denominated Classes, investors have to bear the associated hedging costs which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB denominated Classes may be exposed to RMB currency exchange risk on an unhedged basis and in which case investors may be subject to the risks of investing in RMB denominated Classes on an unhedged basis as outlined in the paragraph above. Also there is no guarantee that the hedging strategy will fully and effectively eliminate the currency exposure.

Hedged RMB denominated Classes will hedge the Sub-Fund's Base Currency back to RMB , on a best effort basis, with an objective to align the performance of the hedged RMB denominated Classes to that of the equivalent Class denominated in the Sub-Fund's Base Currency. This strategy may preclude the hedged RMB denominated Classes from benefiting from any potential gain resulting from the appreciation of the Base Currency against RMB . Please refer to the risk factor headed "Hedging risk" in the main part of this Explanatory Memorandum.

Reports and Accounts

The first financial reports for the Sub-Fund cover the period to 31 December 2020.

Distribution Policy

For distribution Classes (Class A USD (distribution), Class A RMB (distribution), Class A USD (hedged) (distribution), Class A RMB (hedged) (distribution), Class I USD (distribution), Class I RMB (distribution), Class I USD (hedged) (distribution) and Class I RMB (hedged) (distribution)), the Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distributions will be made once per year for distribution Classes of Units.

The Manager may at its discretion pay dividends out of the capital of the Sub-Fund. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital.

For accumulation Classes (Class A USD (accumulation), Class A RMB (accumulation), Class A USD (hedged) (accumulation), Class A RMB (hedged) (accumulation), Class I USD (accumulation), Class I RMB (accumulation), Class I USD (hedged) (accumulation) and Class I RMB (hedged) (accumulation)), no distributions will be made to Unitholders.

APPENDIX 6: E FUND (HK) MULTI-INCOME BOND FUND

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

For the purpose of the Sub-Fund, "Valuation Day" means each Dealing Day.

Investment Objective

The Sub-Fund's objective is to achieve long term capital growth through investing globally in a portfolio consisting primarily of debt securities denominated in USD, EUR, HKD or offshore RMB ("CNH"), which aim to generate a steady flow of income in addition to capital appreciation for the Sub-Fund. There can be no assurance that the Sub-Fund will achieve its investment objective.

Investment Strategy

Principal investments

The Sub-Fund will invest at least 70% of its Net Asset Value in a portfolio of USD, EUR or HKD denominated or CNH denominated ("Dim Sum" bonds, i.e. bonds issued outside China but denominated in RMB) offshore debt securities issued or traded in the global debt securities markets, including in developed markets and emerging markets. Investments in emerging markets may constitute up to 100% of Net Asset Value.

The Sub-Fund will invest in a broadly diversified portfolio of debt securities with no fixed duration, term structure, geographical (subject to the limit in onshore RMB bonds stated below) or industry sector weightings. Selection of debt investments will be determined by the availability of attractive investment opportunities, where the Manager believes such debt securities are being traded at significant discount to their underlying intrinsic values.

The Sub-Fund may invest less than 30% of its Net Asset Value in onshore RMB bonds, via the Bond Connect (as defined below), the CIBM Regime (as defined below) and/or the Manager's QFI status. The Sub-Fund's total investments via QFI (in bonds and in equities as discussed below) will be less than 30% of its Net Asset Value.

The debt securities in which the Sub-Fund may invest shall include, but are not limited to, listed and unlisted bonds, government bonds, convertible bonds, fixed and floating rate bonds and high-yield bonds.

The Sub-Fund may invest all its assets in investment grade debt securities, or in debt securities which are unrated or rated below investment grade. For debt securities other than onshore RMB bonds, (i) a long-term debt security is considered investment grade if its credit rating is BBB- or higher by Standard & Poor's and Fitch Ratings or Baa3 or higher by Moody's or equivalent rating as rated by an international credit rating agency; and (ii) a short-term debt security is considered investment grade if its credit rating is A-3 or higher by Standard & Poor's or F3 or higher by Fitch Ratings or P-3 or higher by Moody's or equivalent rating as rated by an international credit rating agency. For onshore RMB bonds, investment grade bonds have a minimum credit rating of BBB- as rated by one of the credit rating agencies in China. For the purpose of the Sub-Fund, "unrated" refers to where neither the instrument itself nor its issuer has a credit rating assigned by international credit rating agencies. For a debt security which itself does not have a credit rating, the Manager will assess the debt security by reference to the credit rating of the issuer, the guarantor or the keepwell provider.

Up to 100% of the Sub-Fund's Net Asset Value may be invested in convertible bonds (issued and/or guaranteed by issuers such as corporations, financial institutions and banks), including up to 20% in contingent convertible bonds ("CoCos"). CoCos may have non-viability and/or loss absorption convertible features, i.e. they are subject to compulsory conversion out of the issuer's control. They are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level, and may be compulsorily redeemed upon the occurrence of a trigger event which may be out of the issuer's control. They are risky and highly complex investment instruments. Under certain circumstances CoCos can be converted into shares of the issuing company, potentially at a discounted price, or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. In the event convertible bonds are converted into shares resulting in deviation from the indicative asset allocation, the Manager will arrange for the shares to be sold within 10 Business Days.

The Sub-Fund will not invest more than 10% of its Net Asset Value in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade and/or unrated.

Under exceptional circumstances (e.g. market crash or major crisis) or adverse market conditions, the Sub-Fund may be invested temporarily up to 100% of its NAV in liquid assets such as bank deposits, certificates of deposit, commercial paper and treasury bills for cash flow management.

Investment via the Northbound Trading Link under Bond Connect

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

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

- the "Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong (Decree No.1 [2017])" (內地與香港債券市場互聯互通合作管理暫行辦法(中國人民銀行令[2017]第 1 號)) issued by the PBOC on 21 June 2017;

- the "Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect" (中國人民銀行上海總部"債券通"北向通境外投資者准入備案業務指引) issued by the Shanghai Head Office of PBOC on 22 June 2017; and

- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank bond market through the northbound trading of Bond Connect ("Northbound Trading Link"). There will be no investment quota for Northbound Trading Link.

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

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

Investment via the CIBM Regime

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

- the “Implementation Rules for Filing by Foreign Institutional Investors for Investment in Interbank Bond Markets” (境外機構投資者投資銀行間債券市場備案管理實施細則) issued by the Shanghai Head Office of PBOC on 27 May 2016;

- the “Circular concerning the Foreign Institutional Investors’ Investment in Interbank bond market in relation to foreign currency control” (國家外匯管理局關於境外機構投資者投資銀行間債券市場有關外匯管理問題的通知) issued by SAFE on 27 May 2016; and

- any other applicable regulations promulgated by the relevant authorities.

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

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

<u>Equity securities</u>

The Sub-Fund may also invest less than 30% of its Net Asset Value in shares of companies listed in Hong Kong, Singapore, Taiwan, the United States or Mainland China (including American Depositary Receipts and preference shares). Investments may be made in A-Shares listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange directly through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect or the Manager’s QFI status. This includes any listed equities the Sub-Fund may hold as a result of the conversion of the convertible bonds (including CoCos), i.e. the Sub-Fund’s aggregate exposure in equities will be less than 30% of the Sub-Fund’s Net Asset Value. The Sub-Fund will not hold equities that are unlisted.

<u>Financial derivative instruments and other investments</u>

The Sub-Fund may invest up to 50% of its Net Asset Value in sale and repurchase transactions. For the purpose of the Sub-Fund, sale and repurchase transactions are transactions where the Sub-Fund sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund.

For sale and repurchase transactions, the Manager will seek to appoint independent counterparties approved by the Manager with credit rating of BBB- or above (by Moody's or Standard & Poor's, or any other equivalent ratings by recognised credit rating agencies) or which are SFC-licensed corporations or are registered institutions with the Hong Kong Monetary Authority. Any incremental income generated will be credited to the account of the Sub-Fund after deducting any fees charged by parties operating such transactions. It is the intention of the Manager to sell the securities for cash equal to the market value of the securities provided to the counterparty.

Cash obtained in sale and repurchase transactions will be used for liquidity management, re-investment and hedging purposes. Notwithstanding the requirements on re-investment of collateral as described under the sub-section headed “Collateral” under the section “Investment Objective, Strategy and Restrictions” in the main body of this Explanatory Memorandum, the Sub-Fund may re-invest the cash collateral received from sale and repurchase transactions in investments other than those set out in 7.36(j) of the Code provided that the following requirements are met:

1. the re-investment, together with the Sub-Fund’s net derivative exposure, do not in aggregate exceed 50% of the Sub-Fund’s Net Asset Value;

2. the re-investment is consistent with the Sub-Fund’s investment objective and strategies;

3. the re-investment is limited to securities which are sufficiently liquid and of good quality; and

4. the re-investment is subject to the corresponding investment restrictions and limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and complies with Notes (3) and (4) to 7.36(j) of the Code.

Re-investment of cash collateral received from sale and repurchase transactions in compliance with the above requirements shall not be subject to the limitation in 7.21 of the Code which allows borrowing of the Sub-Fund of up to 10% of the Net Asset Value.

The Sub-Fund may also invest in financial derivative instruments for hedging and investment purposes to the extent permitted by Chapter 7 of the Code and the provisions set out under the section “Investment Restrictions” in this Explanatory Memorandum.

The Sub-Fund may also invest in units in any unit trust or shares in any mutual fund corporation or any other collective investment scheme (including those managed by the Manager or its connected persons) authorised by the SFC or in recognised jurisdiction schemes and may hold cash, deposits, and other money market instruments (such as but not limited to treasury bills, commercial papers, certificates of deposit as considered appropriate by the Manager). The Sub-Fund will invest less than 30% of its Net Asset Value in the above instruments/investments.

The Sub-Fund will not invest in collateralised and/or securitised products (such as asset backed securities, mortgage backed securities and asset backed commercial papers). The Sub-Fund will not enter into any securities lending or reverse repurchase transactions or similar over-the-counter transactions. The Sub-Fund will not write options.

Investment Restrictions

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

Base Currency

The Base Currency of the Sub-Fund is USD.

Available Classes

Units in the following Classes are currently available for issue to investors:

- Class A (accumulation) (RMB)
- Class A (distribution) (RMB)
- Class A (accumulation) (USD)
- Class A (distribution) (USD)
- Class A (accumulation) (hedged RMB)
- Class A (distribution) (hedged RMB)
- Class A (accumulation) (HKD)
- Class A (distribution) (HKD)
- Class I (accumulation) (RMB)
- Class I (distribution) (RMB)
- Class I (accumulation) (USD)
- Class I (distribution) (USD)
- Class I (accumulation) (hedged RMB)
- Class I (distribution) (hedged RMB)
- Class I (accumulation) (HKD)
- Class I (distribution) (HKD)
- Class X (accumulation) (USD)
- Class X (accumulation) (hedged RMB)
- Class X (accumulation) (HKD)

Initial Offer Period

The Initial Offer Period of the Sub-Fund commenced at 9:00 a.m. (Hong Kong time) on 20 October 2021 and ended at 4:00 p.m. (Hong Kong time) on 20 October 2021 (or such other dates or times as the Manager may determine).

The initial Subscription Price is USD10 per Unit for USD denominated Classes, RMB100 for RMB denominated Classes and HKD100 for HKD denominated Classes.

The Manager may decide not to issue any Units in the event that less than the equivalent of USD 10,000,000 is raised during the Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such event subscription monies paid by an applicant will be returned by cheque by post or by telegraphic transfer or by such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses) within 14 Business Days after the expiry of the Initial Offer Period.

Dealing Procedures

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

Dealing Day	each Business Day
Dealing Deadline	4:00 pm (Hong Kong time) on the relevant Dealing Day

Notwithstanding the description in the section "Subscription of Units" in the main body of this Explanatory Memorandum, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

Payment of redemption proceeds

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the currency of the relevant Class by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request.

Notwithstanding the description in the section "Redemption of Units" in the main body of this Explanatory Memorandum, the Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 3 decimal places (0.0005 and above being rounded up; below 0.0005 being rounded down).

The maximum interval between the receipt of a properly documented request for redemption of Units and the payment of the redemption money to the Unitholder 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 one calendar month not practicable. In such case, the extended time frame for the payment of redemption money shall reflect the additional time needed in light of the specific circumstances in the relevant market(s). Proper records will be kept by the Manager to demonstrate and justify this (e.g. the Sub-Fund is directly subject to or adversely affected by the restrictions which are beyond the reasonable control of the Manager) and Unitholders and the SFC will be properly and promptly informed.

Investment Minima

The following investment minima apply to the Sub-Fund:

Class A Units (accumulation) (USD)	Class I Units (accumulation) (USD)	Class A Units (accumulation) (RMB)	Class I Units (accumulation) (RMB)	Class A Units (accumulation) (HKD)	Class I Units (accumulation) (HKD)
Class A Units (distribution) (USD)	Class I Units (distribution) (USD)	Class A Units (distribution) (RMB)	Class I Units (distribution) (RMB)	Class A Units (distribution) (HKD)	Class I Units (distribution) (HKD)

		Class X Units (accumulation) (USD)	Class A Units (accumulation) (hedged RMB) Class A Units (distribution) (hedged RMB)	Class I Units (accumulation) (hedged RMB) Class I Units (distribution) (hedged RMB) Class X Units (accumulation) (hedged RMB)		Class X Units (accumulation) (HKD)
Minimum initial investment	USD100	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD10,000
Minimum subsequent investment	USD100	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD10,000
Minimum holding	USD100	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD10,000
Minimum redemption amount	USD100	USD1,000	RMB1,000	RMB10,000	HKD1,000	HKD10,000

Publication of Net Asset Value

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

Expenses and Charges

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

<u>Fees payable by Unitholders</u>

	All Classes
Subscription fee	Up to 3% of the Subscription Price
Redemption fee	Nil
Switching fee	Nil

<u>Fees payable by the Sub-Fund</u>

	Class A (accumulation) (RMB) **Class A (distribution) (RMB)** **Class A (accumulation) (hedged RMB)** **Class A (distribution) (hedged RMB)**	**Class I (accumulation) (RMB)** **Class I (distribution) (RMB)** **Class I (accumulation) (hedged RMB)** **Class I (distribution) (hedged RMB)**	**Class X (accumulation) (USD)** **Class X (accumulation) (hedged RMB)** **Class X (accumulation) (HKD)**

	Class A (accumulation) (USD) **Class A (distribution) (USD)** **Class A (accumulation) (HKD)** **Class A (distribution) (HKD)**	**Class I (accumulation) (USD)** **Class I (distribution) (USD)** **Class I (accumulation) (HKD)** **Class I (distribution) (HKD)**	
Management fee	1% per annum of the Net Asset Value of the Sub-Fund	0.5% per annum of the Net Asset Value of the Sub-Fund	0.25% per annum of the Net Asset Value of the Sub-Fund
Performance fee	Nil	Nil	Nil
Trustee fee	0.08% per annum of the Net Asset Value of the Sub-Fund, inclusive of fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses	0.08% per annum of the Net Asset Value of the Sub-Fund, inclusive of fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses	0.08% per annum of the Net Asset Value of the Sub-Fund, inclusive of fees payable to the Trustee acting as Custodian and the Registrar, exclusive of sub-custodian fees (if any) and out-of-pocket expenses

The Manager may, in its absolute discretion, (i) share with intermediaries the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee and (ii) share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee to institutional investors (not being retail investors) provided that such fees and charges are those which the Manager is entitled to receive for its own benefit.

Additional Risk Factors

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

<u>Investment risk</u>

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

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

Risk of investing in debt securities

Interest rate risk

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

Credit/counterparty risk

Investment in debt securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the debt securities held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

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

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of debt securities, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

Downgrading risk

Fixed income instruments with a credit rating may be subject to the risk of being downgraded. In the event of downgrading in the credit rating of an instrument or that of its issuer, the Sub-Fund's investment value in such instrument may be adversely affected. If the Sub-Fund continues to hold such securities, it will be subject to additional risk of loss. The Manager may or may not be able to dispose of the instruments that are being downgraded at a reasonable price or at all.

Sovereign debt risk

The Sub-Fund's 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 Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers

Risk associated with high yield (below investment grade or unrated) debt securities / liquidity risk

The Sub-Fund may invest substantially in high yield debt securities, which are debt securities rated below investment grade or unrated and instruments where the volume of transactions may fluctuate significantly depending on market sentiment. There is a risk that investments made by the Sub-

Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, there may be no willing buyer and the investments cannot be readily sold at the desired time or price, and the Sub-Fund may have to accept a lower price to sell the investments or may not be able to sell the investments at all. An inability to sell a portfolio position can adversely affect the Sub-Fund's value or prevent the Sub-Fund from being able to take advantage of other investment opportunities.

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

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

For unlisted bonds, in the absence of a regular and active secondary market, the Sub-Fund may not be able to sell its bond holdings at prices the Manager considers advantageous and may need to hold the bonds until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its listed bonds at a discount in order to satisfy such requests and the Sub-Fund may suffer losses. The Manager seeks to control the liquidity risk of the Sub-Fund's bond portfolio by a series of internal management measures in order to meet Unitholders' redemption requests.

Emerging market risk

The Sub-Fund may invest in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custodian risk and the likelihood of a high degree of volatility. Please refer to the risk factor headed "Emerging markets risk" under the section headed "Risk Factors" in the main part of this Explanatory Memorandum for details.

"Dum Sum" bonds risk

The offshore RMB ("CNH") bond market, also known as "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 the Sub-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 liberalisation of the CNH markets by the relevant regulators.

Risk associated with PRC onshore bonds

PRC inter-bank bond market risk

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

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

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

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

Risks associated with Bond Connect

The relevant rules and regulations on Bond Connect are subject to change which may have potential retrospective effect. Where a suspension in the trading through Bond Connect is effected, the Sub-Fund's ability to invest in Treasury Bonds and Policy Bank Bonds or access the PRC market through the programme will be adversely affected. In such event, the Sub-Fund will have to increase its reliance on the CIBM Regime, and its ability to achieve its investment objective could be negatively affected.

PRC sovereign debt risk

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

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

Settlement risks

Settlement procedures in China are less developed and less reliable and may involve the Sub-

Fund's delivery of Securities, or transfer of title to Securities, before receipt of payment for their sale. The Sub-Fund may be subject to a risk of substantial loss if a securities firm defaults in the performance of its responsibilities. The Sub-Fund may incur substantial losses if its counterparty fails to pay for Securities the Sub-Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Sub-Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of Securities. Such delays could result in substantial losses for the Sub-Fund if investment opportunities are missed or if the Sub-Fund is unable to acquire or dispose of a security as a result.

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

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

Credit rating agency risk

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

Convertible bonds risk

The Sub-Fund may invest up to 100% of the Sub-Fund's Net Asset Value in convertible bonds. Convertibles are a hybrid between debt and equity, permitting holders to convert into shares or stocks in the company issuing the bond at a specified future date. While convertible bonds generally offer lower interest or dividend yields than non-convertible debt securities of similar quality, the price of a convertible bond will normally vary with changes in the price of the underlying stock. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments. Prior to conversion, convertible bonds have the same general characteristics as non-convertible debt securities and the market value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. Investors should be prepared for exposure to equity movement and greater volatility than straight bond investments, with an increased risk of capital loss.

The values of convertible bonds may also be affected by changes in the credit rating, liquidity or financial condition of the issuer. The Sub-Fund may also be exposed to the credit and insolvency risks of the issuers of the bonds. Further, convertible bonds may have call provisions and other features which may give rise to the risk of a call and that the value and performance of the Sub-Fund may also be adversely affected as a result.

Investors should also note the interest rate risk associated with investments in debt instruments. Please refer to the risk factor headed "Interest rates risk" under the section headed "Risk Factors" in the main part of this Explanatory Memorandum for details.

Risks associated with instruments with contingent convertible bonds ("CoCos")

Up to 20% of the Net Asset Value may be invested in CoCos. CoCos 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), CoCos will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. They are risky and highly complex investment instruments. Coupon payments on CoCos 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.

Trigger level risk

Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require the conversion 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 bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

Coupon cancellation

Coupon payments on some CoCos 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, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

Capital structure inversion risk

Contrary to the classic capital hierarchy, investors in CoCos may suffer a loss of capital when equity holders do not (for example, when the loss absorption mechanism of CoCos is activated). This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

Call extension risk

Some CoCos 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 convertible securities will be called on a call date. Such convertible securities are a form of permanent capital. The Sub-Fund may not receive return of principal as expected on call date or indeed at any date.

Conversion risk

Trigger levels differ between specific instruments, which determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the instruments will behave upon conversion. These instruments may be converted into shares potentially at a discounted price, or the principal amount invested may be lost. In case of conversion into equity, the Manager might be forced to sell these new equity shares. 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 the Sub-Fund experiencing loss of all investments in CoCos.

Valuation and write-down risk

Instruments subject to compulsory conversion with non-viability / loss absorption convertible features often offer attractive yield which may be viewed as a complexity premium. The value of such instruments may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

Market value fluctuations due to unpredictable factors

The value of CoCos 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 instruments; (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.

Liquidity risk

In certain circumstances finding a buyer ready to invest in CoCos may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

Sector concentration risk

CoCos are issued by banking and insurance institutions. Investment in CoCos may lead to an increased sector concentration risk. The performance of the Sub-Fund will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.

Subordinated instruments

CoCos may 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 such instruments, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the instruments shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

Novelty and untested nature

The structure of CoCos 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.

<u>Operational and settlement risks</u>

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

<u>Risks relating to sale and repurchase agreements</u>

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

Risk of investing in financial derivative instruments

The Manager may, for hedging purposes only, invest in financial derivative instruments subject to the investment restrictions applicable to the Sub-Fund as set out in the section headed "Investment Objective, Strategy and Restrictions". These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to "Investment risks – Risk of investing in financial derivative instruments" and "Investment risks – Over-the-counter markets risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Hedging risk

The Manager may from time to time use hedging techniques, including investments in financial derivative instruments, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to "Investment risks – Hedging risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum.

Dividends risk

The Manager will declare dividends on an annual basis for distribution Class(es). However, the rate of distribution is not guaranteed and is subject to the discretion of the Manager. The Manager may change the Sub-Fund's dividend distribution policy (including for example the frequency of distribution) subject to the SFC's prior approval (where necessary) and by giving not less than one month's prior notice to Unitholders.

The rate of distribution depends on interest payments made by issuers of debt securities and deposits net of the level of fees and expenses payable by the Sub-Fund. Investors will not receive any interest payments, dividends or other distributions directly from the issuers of the debt securities within the Sub-Fund's portfolio.

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

Foreign exchange risk

Because the Sub-Fund's assets and liabilities and/or the value of a Class of Units may be denominated in currencies different from the Sub-Fund's Base Currency, the Net Asset Value of the Sub-Fund may be affected unfavourably by exchange control regulations or changes in the exchange rates between the Sub-Fund's Base Currency and these currencies.

RMB currency risk and RMB denominated Classes risk

RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub- Fund's or the investors' position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of investors' investments will be adversely affected. If investors convert HKD or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into HKD or any other currency, they may suffer a loss if RMB depreciates against HKD or other currency.

The Sub-Fund offers RMB denominated Classes of Units.

Where an investor subscribes for Units denominated in RMB, the Manager may (where appropriate) convert such subscriptions into a non- RMB currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager will sell the Sub-Fund's investments (which may be denominated in a non-RMB currency) and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds into RMB which may also affect the Sub-Fund's ability to meet redemption requests from Unitholders in RMB denominated Classes of Units or to make distributions, and may delay the payment of redemption proceeds or dividends under exceptional circumstances. As RMB is not freely convertible and is subject to exchange controls and restrictions, currency conversion is subject to availability of RMB at the relevant time. The Sub-Fund may not have sufficient RMB for its investments. Further, in case of sizeable redemption requests for the RMB Classes, the Manager has the absolute discretion to delay any payment in respect of redemption of the RMB Classes (for a period not exceeding one calendar month of receipt of a properly documented redemption request).

Non-RMB based investors who invest in RMB denominated Classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the RMB denominated Classes of Units.

The RMB is traded in both the onshore and offshore markets. While both onshore RMB ("CNY") and offshore RMB ("CNH") represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors. When calculating the Net Asset Value of Units of a RMB denominated Class, the Manager will apply the exchange rate for offshore RMB market in Hong Kong, i.e. the CNH exchange rate, which may be at a premium or discount to the exchange rate for onshore RMB market in mainland China, i.e. the CNY exchange rate. Consequently, there may be significant trading costs incurred and investors investing in Classes of Units denominated in RMB may suffer losses.

For unhedged RMB denominated Classes, since the Unit prices are denominated in RMB, but the Sub-Fund will have limited RMB denominated underlying investments and its base currency is USD, so even if the prices of underlying investments and/or value of the Base Currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the underlying investments and/or the Base Currency more than the increase in the value of the underlying investments and/or the Base Currency.

<u>Hedged RMB denominated Classes risk</u>

For hedged RMB denominated Classes, investors have to bear the associated hedging costs which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB denominated Classes may be exposed to RMB currency exchange risk on an unhedged basis and in which case investors may be subject to the risks of investing in RMB denominated Classes on an unhedged basis as outlined in the paragraph above. Also there is no guarantee that the hedging strategy will fully and effectively eliminate the currency exposure.

Hedged RMB denominated Classes will hedge the Sub-Fund's Base Currency back to RMB, on a best effort basis, with an objective to align the performance of the hedged RMB denominated Classes to that of the equivalent Class denominated in the Sub-Fund's Base Currency. This strategy may preclude the hedged RMB denominated Classes from benefiting from any potential gain resulting from the appreciation of the Base Currency against RMB. Please refer to the risk factor headed "Hedging risk" in the main part of this Explanatory Memorandum.

Eurozone and European country risk

The Sub-Fund may invest in securities issued by issuers based in or with substantial operations in the European Union (the "EU"). Investments in Europe may be subject to a number of risks arising from a recent financial crisis in Europe. In light of the ongoing concerns on the sovereign debt risk of certain countries within the Eurozone, the Sub-Fund's investments in the region may be subject to higher volatility, liquidity, currency and default risks. While the governments of many European countries, the European Commission, the European Central Bank, the International Monetary Fund and other authorities are taking measures (such as undertaking economic reforms and imposing austerity measures on their citizens) to address the current fiscal conditions and concerns in Europe, these measures may not have the desired effect, and the future stability and growth of Europe is therefore uncertain. It is possible that a country may leave the Eurozone and return to a national currency, and as a result may leave the EU and/or that the Euro will cease to exist in its current form and/or lose its legal status in one or more countries in which it currently has such status. It is also possible that the credit rating of a country or sovereign may be downgraded. The effect of such potential events on the Sub-Fund which invests in instruments predominantly tied to Europe is impossible to predict. The impact of the above adverse events may be significant and may adversely affect the value of Sub-Fund investing in securities issued by issuers based in or with substantial operations in Europe, and investors may suffer significant loss.

Equity securities risks

Investment in equity securities is subject to general 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, issuer-specific factors, regional or global economic instability, currency and interest rate fluctuations. If the market value of equity securities in which the Sub-Fund invests goes down, its Net Asset Value may be adversely affected, and investors may suffer substantial losses.

Risks of investing in A-Shares

Securities markets in the PRC may be less liquid than other leading stock markets. The Sub-Fund may suffer substantial losses if it is not able to dispose of investments at a time it desires. The A-Share market may also be more volatile with potential settlement difficulties, which may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Sub-Fund.

PRC securities exchanges typically have the right to suspend or limit trading in any security traded on the relevant exchange. A-Shares are also subject to trading band limits, which means that the prices of stocks may not necessarily reflect their underlying value. A suspension will also render it impossible for the Manager to liquidate positions and can thereby expose the Sub-Fund to significant losses. The government or the regulators may also implement policies that may affect the financial markets. Such factors may affect the performance of the Sub-Fund, and the subscription and redemption of Units may also be disrupted.

Stocks listed on the PRC stock exchanges may have a high price-earnings ratio. Such high valuation may not be sustainable. Investment in the Sub-Fund may be subject to higher risk of over-valuation of A-Shares.

Risks associated with the Stock Connect

The relevant rules and regulations on Stock Connect are subject to change which may be retrospective. The programme is subject to quota limitations which may restrict the Sub-Fund's ability to invest in A-Shares through the programme on a timely basis. Where a suspension in the trading through the program is effected, the Sub-Fund's ability to access the PRC market (and hence its ability to pursue its investment strategy) will be adversely affected. In such event, the Sub-Fund's ability to achieve its investment objective could be negatively affected.

QFI risks

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

Mainland China securities acquired by a QFI for the account of the Sub-Fund are registered in the joint names of the Manager (as the QFI holder) and the Sub-Fund in accordance with the relevant rules and regulations, and maintained in electronic form via a securities account with the CCDCC or CSDCC. The account is required to bear the name of the Manager as this is the name under which the QFI is approved by the relevant regulator. The QFI selects a Mainland China broker (the "Mainland China Broker") to act on its behalf in each of the two securities markets in Mainland China as well as the QFI custodian (the "QFI Custodian") to maintain its assets in custody.

In the event of any default of either the relevant Mainland China Broker or the QFI Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities in Mainland China, the Sub-Fund may encounter delays in recovering its assets which may in turn adversely impact the Net Asset Value of the Sub-Fund.

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

QFI Custodian and Mainland China Brokers risk: Mainland China assets acquired by the Sub-Fund through the Manager's QFI status will be maintained by the QFI Custodian in electronic form via securities account(s) with the CCDCC or CSDCC or relevant depositories and special deposit account(s) with the QFI Custodian.

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

Investors should note that cash deposited in the special deposit account(s) of the Sub-Fund with the QFI Custodian will not be segregated but will be a debt owing from the QFI Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash belonging to other clients of the QFI Custodian. In the event of bankruptcy or liquidation of the QFI Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such special deposit account, and the Sub-Fund will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of the QFI Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer losses.

Repatriation risk: Repatriations by QFIs in respect of a fund such as the Sub-Fund conducted in RMB are permitted daily and are not subject to any lock-up periods or prior approval. There is no assurance, however, that Mainland China rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any new restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests.

PRC withholding taxation risk

Having taken and considered independent professional tax advice, the Manager makes:

(a) a provision for PRC withholding income tax ("WHT") for the account of the Sub-Fund on PRC sourced passive income (such as dividend income or interest income) arising from investments in PRC securities, to the extent that the 10% WHT on passive income has not been properly withheld at source;

(b) a provision in an amount equal to the total of (i) 6% PRC Value Added Tax ("VAT"), on the bond coupon interest of onshore RMB bonds (except PRC government bonds or local government bonds) received by the Sub-Fund; plus (ii) local surtaxes of 12% based on the VAT amount stated in (i).

The Sub-Fund does not make any withholding tax provision on the gross unrealised and realised capital gains derived by the Sub-Fund from trading of onshore RMB bonds. There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of capital gains realised on the Sub-Fund's investments in the PRC via Bond Connect or the CIBM Regime. It should also be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively. There is a risk that taxes may be levied in future on the Sub-Fund for which no provision is made, which may potentially cause substantial loss to the Sub-Fund.

The Net Asset Value of the Sub-Fund may require further adjustment to take into account any retrospective application of new tax regulations and development, including change in interpretation of the relevant regulations by the PRC tax authorities. The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the withholding policy of the Sub-Fund accordingly, taking into account independent professional tax advice. The Manager will act in the best interest of the Sub-Fund at all times.

Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If no provision is made by the Manager in relation to all or part of the actual tax levied by the PRC tax authorities in future, investors should note that the Net Asset Value of the Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to those borne at the time of investment in the Sub-Fund. Even if tax provisions are made, the amount of such provisions may not be sufficient to meet the actual tax liabilities. Any shortfall between the provision and the actual tax liabilities, which will be debited from the Sub-Fund's assets, will adversely affect the Sub-Fund's Net Asset Value. The actual tax liabilities may be lower than the tax provision made. Depending on timing of their subscriptions and/or redemptions, Unitholders may be disadvantaged as a result of any shortfall of tax provision and will not have the right to claim any part of the overprovision (as the case may be).

Risk relating to depositary receipts

The Sub-Fund may invest in depositary receipts such as American Depositary Receipts (ADR) and such exposure may generate additional risks compared to a direct exposure to the corresponding underlying stocks. Depositary receipts are instruments that represent shares in companies trading outside the markets in which the depositary receipts are traded. Accordingly there is a risk that the underlying shares may be subject to political, inflationary, exchange rate or custody risks. In particular, as the consequence of the intervention of the depositary bank issuing the depositary receipt and the risk of non-segregation under applicable law of the depositary bank who hold the underlying stock as collateral and its own assets. Although segregation is an integral part of the depositary agreement regulating the issuance of the depositary receipts, there could be a risk that underlying shares would not be attributed to holders of depositary receipts in case of bankruptcy of the depositary bank. In such case, the likeliest scenario would be the trading suspension and thereafter a freeze of the price of the depositary receipts impacted by such bankruptcy event. Bankruptcy events in respect of the depositary banks issuing the depositary receipts may negatively affect the performance and/or the liquidity of the Sub-Fund. There are fees related to depositary receipts, for example fees charged by banks for the custody of depositary receipts, which may impact the performance of the depositary receipts. Also, holders of depositary receipts are not direct shareholders of the underlying company and generally do not have voting and other shareholder rights as shareholders do. The Sub-Fund may also be subject to liquidity risk as depositary receipts are often less liquid than the corresponding underlying stocks.

Risk of investing in other funds

The Sub-Fund may invest in underlying funds to pursue its investment objective, and those underlying funds may not be regulated by the SFC. Further the Manager does 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 which may have a negative impact to the Net Asset Value of the Sub-Fund.

The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their investment managers. Some underlying funds may also impose fees or levies which may be payable by the Sub-Fund when it subscribes to or redeems out of such underlying funds. Whilst the Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Sub-Fund.

There is also no guarantee that the underlying funds the Sub-Fund invests in will have sufficient liquidity to meet the Sub-Fund’s redemption requests. The Sub-Fund may therefore be subject to liquidity risk by investing in these underlying funds.

If the Sub-Fund invests in an underlying fund managed by the Manager or Connected Person of the Manager, all initial charges on these underlying funds must be waived, and the Manager must not obtain rebate of any fees or charges levied by these underlying funds. In case any conflict of interest may still arise out of such investments, the Manager will use its best endeavours to resolve it fairly. Please refer to the section headed “Conflicts of Interest” for details under the circumstances.

Distribution out of capital or effectively out of capital

For distribution Class(es), the Manager may, at its discretion, pay dividends out of the capital of the Sub-Fund. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of or effectively out of the Sub-Fund’s capital may result in an immediate reduction of the Net Asset Value per unit.

The distribution amount and Net Asset Value of a hedged unit class may be adversely affected by differences in the interest rates of the class currency of the relevant hedged unit class and the Sub-Fund’s base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged unit classes.

Reports and accounts

The first accounts for the Sub-Fund cover the period to 31 December 2022.

Fractions of Units

Notwithstanding the description in the section “Subscription of Units” – “General” in the main body of this Explanatory Memorandum, fractions of a Unit of the Sub-Fund may be issued rounded down to the nearest 3 decimal places.

Distribution policy

For the distribution Class(es), dividends will be distributed on a monthly basis, subject to the Manager’s discretion. However, there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed. The Manager may at its discretion pay dividends out of the capital of the Sub-Fund. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital.

The compositions of the dividend (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months will be available from the Manager on request and also on the website http://www.efunds.com.hk (this website has not been reviewed by the SFC). Any changes regarding the policy on paying dividend out of capital or effectively out of capital will be subject to the SFC’s prior approval (where applicable) and not less than one month’s advance notice to Unitholders.

For the accumulation Class(es), no distribution will be made to Unitholders.

All distributions declared on the Sub-Fund will be automatically reinvested unless otherwise elected by the Unitholders, in which case the relevant proceeds will be paid to the Unitholders accordingly within one month of declaration.

The cash distribution (if any) will be paid to Unitholders at their own risk and expense by telegraphic transfer in the currency of the relevant Class normally within one calendar month after the declaration of such distribution by the Manager.