ABCI Dynamic Income Fund

a sub-fund of

ABCI Investment Funds

EXPLANATORY MEMORANDUM

5 July 2018

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IMPORTANT INFORMATION FOR INVESTORS

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

ABCI Investment Funds (the "Trust") is an umbrella unit trust established under the laws of Hong Kong by the Trust Deed between ABCI Asset Management Limited as manager (the "Manager") and BOCI – Prudential Trustee 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://am.abci.com.hk/funds (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 (10/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong) and the Manager will respond in writing within 14 Business Days.

DIRECTORY

Manager	ABCI Asset Management Limited 農銀國際資產管理有限公司 10/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
Trustee and Registrar	BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司 12/F & 25/F, Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong
Custodian	Bank of China (Hong Kong) Limited 中國銀行(香港)有限公司 14/F, Bank of China Tower 1 Garden Road Central Hong Kong
Legal Counsel to the Manager	Simmons & Simmons 13th Floor One Pacific Place 88 Queensway 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 RMB.
"**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.
"**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).
"**Custodian**"	means Bank of China (Hong Kong) 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.
"**EUR**"	means the Euro, the currency of member states of the European Union which have adopted it.

“**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 ABCI Asset Management 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.
“**PRC**” or “**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.
“**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 BOCI – Prudential Trustee Limited, in its capacity as the registrar of each Sub-Fund.
“**RMB**” or “**¥**”	means Renminbi Yuan, the lawful currency for the time being and from time to time of the PRC.
“**RQFII**”	means a renminbi qualified foreign institutional investor approved pursuant to the relevant PRC regulations (as amended from time to time).
“**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.

"**Trust**"	means ABCI Investment Funds.
"**Trust Deed**"	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 27 November 2014, and as amended and/or supplemented from time to time.
"**Trustee**"	means BOCI – Prudential Trustee Limited in its capacity as trustee of the Fund 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

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

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

MANAGEMENT OF THE TRUST

The Manager

The Manager of the Trust is ABCI Asset Management Limited.

The Manager is a limited liability company incorporated in Hong Kong on 3 January 2011. It is currently licensed by the SFC for Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO with CE number BAA046. The Manager is a subsidiary of ABC International Holdings Limited.

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

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

The directors of the Manager are as follows:

Dr. Cao Yi

Dr. Cao received his bachelor in engineering and science from Tsinghua University, master of philosophy in finance from Graduate School of PBC and doctor of philosophy in economics from Fudan University. Dr. Cao began his career at the People's Bank of China (PBOC). Between 1999 and 2002, Dr. Cao worked for the Guangzhou Branch of the PBOC and the Central Sub-Branch of the PBOC in Shenzhen. During the period of 2002-2008, Dr. Cao held various positions at China Southern Asset Management Co., Ltd, including Deputy General Manager of Market Developments, Director of Channels Department, as well as Director of Channel Services The First Division. From 2008 until April 2013, Dr. Cao worked for Penghua Fund Management Co., Ltd as Deputy CEO. Since March 2013, Dr. Cao has been the Deputy CEO of ABC International Holdings Limited.

Lee Yat Chun

Mr. Lee is a Director of ABCI Asset Management Limited. Mr. Lee graduated from the Curtin University of Technology, Australia with a Master degree in Finance. Mr. Lee has over 10 years of investment management experience. Prior to joining the ABCI Asset Management Limited, Mr. Lee worked for China Everbright Securities (HK) Limited and Haitong International Asset Management Limited, responsible for performing securities analysis, asset allocation and investment strategies analysis. Mr. Lee is a Responsible Officer of ABCI Asset Management Limited for carrying on types 4 and 9 regulated activities pursuant to the SFO.

Li Lu

Ms. Li is a Director and the Head of ABCI Asset Management Limited. Ms. Li received her bachelor's degree in economics from University of International Business and Economics and a Master of Business Administration Degree from The Hong Kong University of Science and

Technology, and she holds the Chartered Financial Analyst designation. Ms. Li has over 11 years of working experience in the financial industry with extensive experience in all aspects of asset management business operations. Ms. Li joined China Construction Bank Corporation in 2001 and joined CITIC Securities International Investment Management (HK) Limited in 2011. Ms. Li is a Responsible Officer of ABCI Asset Management Limited for carrying on types 4 and 9 regulated activities pursuant to the SFO.

Luo Pei

Ms. Luo is a Director of ABCI Asset Management Limited. Ms. Luo received her bachelor's degree in economics from University of International Business & Economics and a Master of Commerce Degree in Finance from The University of New South Wales. Ms. Luo joined the People's Bank of China in 1996 and joined ABC International Holdings Limited in 2010.

The Trustee and Registrar

The Trustee and Registrar of the Trust is BOCI-Prudential Trustee Limited, which is a registered trust company in Hong Kong.

The Trustee is a joint venture founded by BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited. BOC Group Trustee Company Limited is owned by Bank of China (Hong Kong) Limited and BOC International Holdings Limited, which are subsidiaries of Bank of China Limited.

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

Subject to applicable regulatory requirements, the Trustee may appoint any person or persons (including a Connected Person of the Trustee) as custodian, nominee or agent 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 and diligence in the selection, appointment and monitoring of such Correspondent; (b) be satisfied that such Correspondent retained remain suitably qualified and competent to provide the relevant custodial services to the Trust; and (c) be responsible 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.

The Trustee shall not be liable for: (A) 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; or (B) the custody or control of any investments, assets or other property which is under the custody or held by or on behalf of a lender in respect of any borrowing made by the Trustee at the request of the Manager for the purposes of the Trust or any Sub-Fund.

In no circumstances shall the Trustee be liable for losses in respect of investments and other property or assets forming part of the assets of the Trust or any Sub-Fund not registered in the name of or not deposited with or not held to the order of the Trustee or its delegate or nominee.

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.

The Custodian

Bank of China (Hong Kong) Limited has been appointed as the custodian of the Trust.

The Custodian was incorporated in Hong Kong on 16 October, 1964. As a locally incorporated licensed bank, it was re-structured to the present form since 1 October 2001 by combining the businesses of ten of the twelve banks in Hong Kong originally belonging to the Bank of China Group. In addition, it holds shares in Chiyu Banking Corporation Limited, which is incorporated in Hong Kong, as well as BOC Credit Card (International) Limited.

BOC Hong Kong (Holdings) Limited was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in the Custodian, its principal operating subsidiary. After a successful global IPO, BOC Hong Kong (Holdings) Limited began trading on the Main Board of the Stock Exchange of Hong Kong Limited on 25 July 2002 with stock code "2388" and became a Hang Seng Index constituent stock on 2 December 2002.

With a network of some 230 branches, servicing more than 600,000 corporates and 2 million retail customers, the Custodian is the second largest banking group in Hong Kong. It offers a full range of banking services, including global custody and also fund-related services for institutional clients.

Pursuant to a custodian agreement, the Custodian will act as the custodian of the Trust's assets, which will be held directly by the Custodian or through its agents, sub-custodians, or delegates pursuant to the custodian agreement.

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

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

(a) the value of the Sub-Fund's holding of securities issued by any single issuer may not exceed 10% of its Net Asset Value;

(b) the Sub-Fund may not hold more than 10% of any ordinary shares issued by any single issuer;

(c) the value of the Sub-Fund's holding of securities which are not listed, quoted nor dealt in on a market (being any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded) may not exceed 15% of its Net Asset Value;

(d) notwithstanding (a) and (b) above, up to 30% of the Net Asset Value of the Sub-Fund may be invested in Government and other public securities of the same issue;

(e) subject to (d), the Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues;

(f) the Sub-Fund may invest in options and warrants for hedging purposes, and the value of the Sub-Fund's investment in warrants and options not held for hedging purposes in terms of the total amount of premium paid may not exceed 15% of its total Net Asset Value;

(g) the Sub-Fund may enter into financial futures contracts for hedging purposes, and

(h) the Sub-Fund may enter into futures contracts on an unhedged basis provided that the net total aggregate value of contract prices, whether payable to or by the Sub-Fund under all outstanding futures contracts, together with the aggregate value of holdings of physical commodities (including gold, silver, platinum or other bullion) and commodity based investments (excluding, for this purpose, shares in companies engaged in producing, processing or trading in commodities) may not exceed 20% of the total Net Asset Value of the Sub-Fund;

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

    (1) the value of units or shares in underlying schemes which are neither recognised jurisdiction schemes (as defined under the Code) nor authorised by the SFC, held for the account of the Sub-Fund, may not exceed 10% of the Net Asset Value of the Sub-Fund; and

    (2) the Sub-Fund may invest in one or more underlying schemes which are either recognised jurisdiction schemes or authorised by the SFC, but the value of the

units or shares held for the account of the Sub-Fund in each such underlying scheme may not exceed 30% of the 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 Appendix relating to that Sub-Fund,

provided that:

(A) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by the investment restrictions set out in Chapter 7 of the Code, and where that underlying scheme's objective is to invest primarily in investments restricted by the provisions set out in Chapter 7 of the Code, such holdings may not be in contravention of the relevant limitation;

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

(C) the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, and

(j) ordinary shares issued by a single issuer held for the account of the Sub-Fund, when aggregated with other holdings of ordinary shares issued by the same issuer held for the account of all other Sub-Funds under the Trust may not collectively exceed 10% of the ordinary shares issued by such issuer,

save to the extent that any approval, permission or waiver in respect of any of the above restrictions has been obtained from the SFC and as set out in the relevant Appendix.

For the purposes of this section:

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

- Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

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, collectively the directors and officers of the Manager 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)) (and in the case of investments in such shares or REITs, such investments shall comply with the investment limits set out in (a), (b), (c) and (i) above, where applicable);

(3) make short sales if as a consequence the Sub-Fund's liability to deliver securities would exceed 10% of its Net Asset Value (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);

(4) write uncovered options;

(5) write a call option on the Sub-Fund's portfolio investments if the aggregate of the exercise prices of all such call options would exceed 25% of the Net Asset Value of the Sub-Fund;

(6) make a loan out of the assets of the Sub-Fund without the prior written consent of the Trustee except to the extent that the acquisition of an investment or the making of a deposit (within the applicable investment restrictions) might constitute a loan;

(7) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person without the prior written consent of the Trustee;

(8) acquire any asset which involves the assumption by the Sub-Fund of any liability which is unlimited; or

(9) apply any part of the assets of the Sub-Fund in the acquisition of any security where a call is to be made for any sum unpaid on that security unless that call could be met in full out of cash or near cash by the Sub-Fund's portfolio the amount of which has not already been taken into account for the purposes of (5) above.

The Manager may cause to borrow up to 25% of the latest available Net Asset Value of a Sub-Fund unless otherwise stated in the relevant Appendix. Up to 50% of the assets of any Sub-Fund may be charged or pledged as security for any such borrowings.

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

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

Each Sub-Fund authorised by the SFC investing in RMB "Dim Sum" bonds (i.e. fixed income instruments issued outside of the PRC but denominated in RMB) is required to comply with the following investment restrictions in respect of holding of deposits (unless such holding is not substantial (i.e. not more than 30% of the Sub-Fund's Net Asset Value) and the Sub-Fund will only hold deposits temporarily or under extreme market conditions):

- the aggregate value of a Sub-Fund's holding of instruments and deposits issued by a single issuer may not exceed 10% of the total Net Asset Value of the Sub-Fund except:
    - where the issuer is a substantial financial institution and the total amount does not exceed 10% of the issuer's issued capital and published reserves, the limit may be increased to 25%; or
    - in respect of any deposit of less than US$1,000,000 or its equivalent in the Base Currency of the Sub-Fund, where a Sub-Fund cannot otherwise diversify as a result of its size.

Securities Lending

The Trustee may, at the request of the Manager, enter into securities lending arrangements in respect of a Sub-Fund. Please refer to relevant Appendix for the policy regarding securities lending of each Sub-Fund.

Securities lending transactions will only be entered into:-

(a) if the Manager is satisfied that the borrower will provide sufficient assets as collateral for the borrowed securities of a value equivalent to or in excess of the borrowed securities and such collateral to be quality, liquid collateral; and

(b) through the agency of a recognised clearing system or a financial institution acceptable to the Manager which engages in this type of transaction.

Further, details of the arrangements are as follows:-

(a) the income received from such securities lending after deduction of any fees or commission payable will be credited to the account of the relevant Sub-Fund (and will not be shared with any operating party) and such income will be disclosed in its annual financial reports;

(b) each borrower is expected to have a minimum credit rating of A2 assigned by Moody’s or equivalent, or deemed to have an implied rating of A2 (or equivalent); alternatively, an unrated borrower will be acceptable where the relevant Sub-Fund is indemnified against losses caused by the borrower, by an entity which has a minimum credit rating of A2 (or equivalent);

(c) the Trustee, upon the instruction of the Manager, will take collateral, which will be cash or liquid securities with value greater than or equal to the value of the securities lent, and the collateral agent (who may be the Trustee or a third party to be appointed by the Trustee at the direction of the Manager or by the Manager directly, as may from time to time be agreed between them) will review its value on a daily basis to ensure that it is at least of a value equivalent to the borrowed securities, and such collateral must meet the collateral policies described below;

(d) up to 100% of the assets of the relevant Sub-Fund may be lent to one or more borrowers; 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 (the securities lending fee will be disclosed in the connected party transaction section of the relevant Sub-Fund’s annual financial reports).

Where securities are accepted as collateral, the Manager will have regard to any relevant considerations which include, but are not limited to:

- Liquidity – sufficiently liquid 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 – mark to market daily;
- Issuer credit quality – of high credit quality; collateral on assets that exhibit high price volatility may be accepted only if suitably conservative haircuts are in place;
- Diversification – must be appropriately diversified so as to avoid concentrated exposure to any single issuer. The counterparty or other investment limit/exposure of the collateral as a percentage of the Sub-Fund’s Net Asset Value must not contravene the investment restrictions or limitations set out in Chapter 7 of the Code;

- Correlation – correlation between the counterparty and the collateral received must be avoided;
- Management of operational and legal risks – there must be in existence appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – must be held by or to the order of the Trustee;
- Enforceability – must be readily accessible/enforceable by the Trustee without further recourse to the counterparty; and
- Not available for secondary recourse – collateral cannot be applied for any purpose except for the purpose of being used as collateral.

Where the aggregate value of all collateral held by a Sub-Fund represents 30% or more of its Net Asset Value, a description of holdings of collateral (including 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.

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.

If applicable, the Manager may suspend the issue of Units of a Sub-Fund if it does not have adequate RQFII quota to fully satisfy the application for creation of Units of the relevant Sub-Fund.

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 4:00 pm (Hong Kong time) on the last day of the relevant Initial Offer Period. After the Initial Offer Period, applications must be received by the relevant Dealing Deadline.

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 Trustee considers appropriate at the risk of the applicant.

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

Payment procedure

Subscription monies should be paid in the currency in which the relevant 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. 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 and 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 Sub-Fund (the "Existing Sub-Fund") into Units of any other Sub-Fund which has been authorised by the SFC (the "New Sub-Fund"). Switching will only be allowed to a class in the New Sub-Fund with the same class currency as the existing Units. 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). Switching between classes of the same Sub-Fund is not allowed.

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 3% 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"); 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, with the consent of the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to reflect the fair value of the investment;

(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 giving notice to the Trustee and having regard to the 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; or

(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 and the Trustee, reasonably, promptly and fairly be ascertained; or

(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; or

(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; or

(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; or

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

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

Such suspension will take effect forthwith upon the declaration thereof and thereafter there will be no determination of the Net Asset Value of the Sub-Fund until the Manager declares the suspension at an end, except that the suspension will terminate in any event on the day following the first 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, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice on the Manager's website http://am.abci.com.hk/funds (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://am.abci.com.hk/funds (this website has not been reviewed by the SFC).

EXPENSES AND CHARGES

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

Fees payable by Unitholders

The following fees and charges are payable by Unitholders:

Subscription Fee

Under the Trust Deed, the Manager is entitled to impose a subscription fee on the issue of Units of any Sub-Fund of up to a maximum of 5% of the Subscription 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 1% 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 2% per annum of the Net Asset Value of the relevant Sub-Fund. Any increase in the management fee in respect of a Sub-Fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders; and (ii) beyond this maximum level, is subject to approval by extraordinary resolution of the affected Unitholders. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

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

Performance fee

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

Trustee fee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund, the maximum rate of 0.5% per annum of the Net Asset Value of the relevant Sub-Fund, subject to a monthly minimum fee charged by Trustee. 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 is also entitled to a fee of RMB20,000 for the establishment of the first Sub-Fund and a further RMB20,000 for the establishment of each subsequent Sub-Fund.

The Trustee will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of their duties.

Fees payable to the Custodian

The Custodian is entitled to (among others) transaction charges at customary market rates and custody fees at different rates, largely depending on the markets where the Custodian is required to hold the Sub-Fund's assets. Such charges and fees will be calculated monthly and will be paid monthly in arrears, out of the assets of the Sub-Fund. The Custodian will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of their duties.

The Custodian will be paid a custody fee of up to 0.10% per annum of the Net Asset Value of the Sub-Fund.

Other charges and expenses

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

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

Establishment costs

The costs of establishing the Trust and the first Sub-Fund (i.e. the ABCI Dynamic Income Fund) are estimated to be approximately HK$1,200,000. 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).

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 Trust (or the relevant Sub-Fund) as a whole. 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 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 risk

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

Market risk

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

Concentration risk

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

Emerging market risk

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

Counterparty risk

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

Liquidity risk

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

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

Exchange rate risk

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

Restricted markets risk

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

Legal and compliance risk

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

Suspension risk

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

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

Early termination risk

Under the Trust Deed, a Sub-Fund may be terminated by the Manager or the Trustee in certain conditions and in the manner as described in “Termination of the Trust or any Sub-Fund” in the section entitled "General" in this Explanatory Memorandum. It is possible that, in the event of such termination, a Sub-Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will receive an amount less than the capital they originally invested.

Cross class liability risk

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

Cross Sub-Fund liability risk

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

Valuation and accounting risk

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

Performance fee risk

A performance fee may be charged for certain Sub-Funds. As the calculation of the Net Asset Value per Unit will take account of unrealised appreciation as well as realised gains, a performance fee may be paid on unrealised gains which may subsequently never be realised. The performance fee may also create an incentive for the Manager to make investments for the relevant Sub-Funds which are riskier than would be the case in the absence of a fee based on the performance of such Sub-Funds.

Risks relating to FATCA

The US Foreign Account Tax Compliance Act ("FATCA") provides that a 30% withholding tax will be imposed on certain payments to foreign financial institutions, such as the Trust and each Sub-Fund, including interests and dividends from securities of U.S. issuers and gross proceeds from the sale of such securities, unless the Trust and/or the Sub-Fund(s) disclose the name, address and taxpayer identification number of certain US persons that own, directly or indirectly, an interest in the Trust and the relevant Sub-Fund, as well as certain other information relating to any such interest. The US Internal Revenue Service (the "IRS") has released regulations and other guidance that provide for the phased implementation of the foregoing withholding and reporting requirements. The United States Department of the Treasury and Hong Kong has on 13 November 2014 entered into an intergovernmental agreement based on the Model 2 format ("Model 2 IGA"). The Model 2 IGA modifies the foregoing requirements but generally requires similar information to be disclosed to the IRS. The Trust and the first Sub-Fund have been registered with the IRS as Reporting Financial Institutions under a Model 2 IGA arrangement with Global Intermediary Identification Numbers MCWGQG.99999.SL.344 and H7FXX5.99999.SL.344 respectively, and an officer of the Manager is acting as the Responsible Officer for the Trust and the first Sub-Fund. Although the Trust and the Sub-Fund(s) will attempt to satisfy any obligations imposed on them to avoid the imposition of FATCA withholding tax, no assurance can be given that the Trust and the Sub-Fund(s) will be able to fully satisfy these obligations. If any Sub-Fund becomes subject to a withholding tax as a result of FATCA, the Net Asset Value of such Sub-Fund may be adversely affected and such Sub-Fund and its Unitholders may suffer material loss.

The Trust and the Sub-Fund(s)' ability to comply with FATCA will depend on each Unitholder providing the Trust and/or the Sub-Fund(s) with information that the Trust and/or the Sub-Fund(s) request concerning the Unitholder or its direct and indirect owners. Unitholders will be required to furnish appropriate documentation certifying as to their U.S. or non-U.S. tax status, together with such additional tax information as the Trust and/or the Sub-Fund(s) or their agents may from time to time request. Each Unitholder shall also be (a) required to inform the Trust and/or the Sub-Fund(s) or their agents as soon as possible of any change in any information provided in relation to its U.S. or non-U.S. tax status (including any circumstances that would result in a change in the taxpayer status of such Unitholder); and (b) requested to consent to the provision of such information by the Trust and/or the Sub-Fund(s) or their agents to tax authorities in order to meet applicable regulatory and legal requirements. If a Unitholder fails to provide the Trust and/or the Sub-Fund(s) with any information the Trust and/or the Sub-Fund(s) requests, the Trust and/or the Sub-Fund(s) may exercise their right to compulsorily redeem such Unitholder and/or apply withholdings to payment to such Unitholder. Any such compulsory redemption and/or withholdings will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

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

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

Investment risks

Risk of investing in fixed income instruments:

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

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

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

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

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

Risk of investing in 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 financial derivative instruments for hedging purposes. The use of derivatives exposes a sub-fund to additional risks, including: (a) volatility risk (derivatives 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 derivatives permits a high degree of leverage, there is risk that a relatively small movement in the price of a contract could result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin); (c) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of derivatives and transactions in over-the-counter derivatives may involve additional risk as there is no exchange market on which to close out an open position); (d) correlation risk (when used for hedging purposes there may be an imperfect correlation between the derivatives 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 derivatives 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 derivatives, especially over-the-counter derivatives, 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 financial derivative instruments. There is also no guarantee that the use of financial derivative instruments 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 financial derivative instruments and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets. Therefore, a Sub-Fund entering into transactions on OTC markets will be subject to the risk that its direct counterparty will not perform its obligations under the transactions.

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

Hedging risk

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

TAXATION

The following summary of 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 and compliance with US withholding requirements

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

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

The United States and a number of other jurisdictions have entered into IGAs. The United States Department of the Treasury and Hong Kong has on 13 November 2014 entered into an intergovernmental agreement based on the Model 2 format ("Model 2 IGA"). Under a Model 2 arrangement, financial institutions in Hong Kong (such as the Trust and each Sub-Fund) would register with the IRS to be subject to the terms of a FFI Agreement with the IRS and comply with the terms of such an agreement. Otherwise they will be subject to a 30% withholding tax on relevant US-sourced payments to them. The Model 2 IGA modifies the foregoing requirements but generally requires similar information to be disclosed to the IRS. However, withholding may apply to withholdable payments covered by FATCA if the Trust and each Sub-Fund cannot satisfy the applicable requirements and is determined to be non-FATCA compliant or if the Hong Kong government is found in breach of the terms of the agreed IGA.

The Trust and the first Sub-Fund have been registered with the IRS as Reporting Financial Institutions under a Model 2 IGA arrangement with Global Intermediary Identification Numbers MCWGQG.99999.SL.344 and H7FXX5.99999.SL.344 respectively. In order to protect Unitholders and avoid being subject to withholding under FATCA, it is the Manager's and the Trustee's intention to endeavour to satisfy the requirements imposed under FATCA. Hence it is possible that this may require the Trust and the Sub-Fund(s) (through their agents or service providers), to the extent permitted by applicable laws and regulations, to report information on the holdings or investment returns of any Unitholder to the IRS or the local authorities pursuant to the terms of an applicable IGA (as the case may be) and to require the compulsory redemption of Unitholders and/or apply withholdings to payment to such Unitholders who fail to provide the information and documents required to identify their status, or who are non-FATCA compliant financial institutions or who fall within other categories specified in the FATCA provisions and regulations. Any such compulsory redemption and/or withholdings will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

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

The FATCA provisions are complex and their interpretation and application are uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Nothing in this section constitutes or purports to constitute tax advice and Unitholders should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. All Unitholders should therefore consult their own tax and professional advisors regarding the FATCA requirements, possible implications and related tax consequences with respect to their own situation. In particular, Unitholders who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer the above mentioned withholding tax on their investment returns.

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 2017.

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://am.abci.com.hk/funds (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 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 require the sanction of an extraordinary resolution of the Unitholders affected or the SFC's approval. Any amendments to the Trust Deed will require prior approval from the SFC. Notice of any amendment or modification in respect of which the Trustee and the Manager shall have certified in accordance with the aforesaid will be given by the Manager unless such amendment or modification is not in the opinion of the Manager and the Trustee of material significance.

Meetings of Unitholders

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

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

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

Transfer of Units

Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee 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 RMB5 million; (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 RMB5 million; (b) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the Sub-Fund and which renders the Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Sub-Fund; or (c) if the Manager is unable to implement its investment strategy in respect of the Sub-Fund.

Prior notice of termination of the Trust or any Sub-Fund will be provided to Unitholders, 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.

Documents available for inspection

Copies of the Trust Deed, this Explanatory Memorandum, the Participation Agreement 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. 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. 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.

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: ABCI DYNAMIC INCOME FUND

This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the ABCI Dynamic Income Fund (the "Sub-Fund"), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to ABCI Dynamic Income 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 investment objective of the Sub-Fund is to achieve long-term appreciation of the capital through an income stream from a portfolio of RMB and USD fixed income instruments and preferred stocks globally (except in the PRC). There can be no assurance that the Sub-Fund will achieve its investment objective.

Investment Strategy

Asset Allocation

The Sub-Fund seeks to achieve its investment objective by investing 70% to 100% of its Net Asset Value in listed or unlisted fixed income instruments and preferred stocks with fixed income features. These instruments include but are not limited to:

- government bonds;
- central bank bills;
- fixed income instruments issued by corporations and financial institutions;
- preferred stocks issued by corporations and financial institutions, including preferred stocks with an embedded derivative feature. For example, there may be a call provision embedded option in a preferred stock that would give the issuer the right (but not the obligation) to redeem the preferred stock before its scheduled maturity; and
- "Dum Sum" bonds, i.e. fixed income instruments issued outside of the PRC but denominated in RMB.

The Sub-Fund may also hold up to 30% of its Net Asset Value in RMB and/or USD cash and cash equivalents where it considers it is in the interest of the Sub-Fund to do so, for example following a large amount of subscription or to look for better investment opportunities.

Investments of the Sub-Fund may be denominated in RMB or USD. There is no geographical criterion on the place of issue of the instruments or their issuers, except that the Sub-Fund will not invest in securities issued in the PRC. The Sub-Fund may invest up to 100% of the Net Asset Value in emerging markets.

Investments in instruments (including preferred stocks) with non-viability / loss absorption convertible features will not exceed 30% of the Sub-Fund's Net Asset Value. Such investments may be subject to compulsory conversion by the issuer into ordinary shares upon the occurrence of a trigger event which may be out of the issuer's control, for example when the tier 1 capital adequacy ratio of an issuer (which is a bank) falls below a certain level, and the Sub-Fund may hold ordinary shares as a result. The Sub-Fund will dispose of such ordinary shares within 30 calendar days, unless, due to unusual market conditions (such as lack of liquidity), the Sub-Fund is unable to dispose of such ordinary shares, in which case the Sub-Fund will dispose of such securities as soon as practicable.

The Sub-Fund may use both exchange-traded and over-the-counter financial derivative instruments, including, but not limited to, futures, forwards, swaps and options, for hedging purposes only. The Sub-Fund has no intention to invest in structured deposits, structured products, or to take any short positions or use any leverage for hedging or non-hedging purposes, or to invest in financial derivative instruments for non-hedging purposes, and the Manager will not enter into any securities lending, repurchase / reverse repurchase or similar over-the-counter transactions in respect of the Sub-Fund. If this changes in the future, prior approval of the SFC will be sought and not less than one month's written notice will be provided to Unitholders before the Sub-Fund enters into any such transaction.

The Sub-fund will not invest in asset backed securities (including asset backed commercial papers and mortgage backed securities).

The Sub-Fund does not have a requirement on the credit rating of the fixed income instruments or preferred stocks. The Manager will allocate between investment grade fixed income instruments and high yield bonds (i.e. below investment grade bonds and bonds not rated by international credit rating agencies) within the Sub-Fund's fixed income instruments in response to the market outlook. Up to 100% of the Sub-Fund's Net Asset Value may be invested in high yield bonds and/or in preferred stocks which are or whose issuers are below investment grade or unrated. The Manager will allocate between fixed income instruments and preferred stocks in response to the market outlook.

Credit rating

A long-term fixed income instrument or preferred stock 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. A short-term fixed income instrument or preferred stock 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. 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.

Fixed income and preferred stocks portfolio construction

In constructing the Sub-Fund's fixed income and preferred stocks portfolio, the Manager conducts research on prevailing macroeconomic policies and market valuation trends so as to make asset allocation decisions that are attuned to prevailing market conditions. Macroeconomic analysis conducted by the Manager includes analysis on the gross domestic product growth, consumer price index growth, and other economic indicators. Moreover, return analysis and risk control on fixed income instruments and preferred stocks is implemented in the following dimensions: (i) adjusting the duration according to the interest rate projection, (ii) adjusting the yield curve structure, (iii) projecting the credit spread trend, and (iv) sector selection and security selection.

(i) Adjusting the duration according to the interest rate projection

In general, 90% of the price movement of fixed income instruments comes from shifts in the yield curve. By analysing the macroeconomic indicators (including but not limited to GDP, industrial production growth, credit growth, fixed assets investment, consumption, foreign trade balance, fiscal budget balance, price index and exchange rate) and macroeconomic policies (including but not limited to monetary policy, fiscal policy, sector policy, foreign trade policy and exchange rate policy), the Manager seeks to project the interest rate trend and adjust the average duration to enhance the portfolio return.

(ii) Adjusting the yield curve structure

Through quantitative analysis on the yield curve structure, the Manager seeks to estimate the yield curve shape and determine the portfolio structure accordingly, with an aim to maximise the expected return.

(iii) Projecting the credit spread trend

By analysing the credit risk, taxation, liquidity and market risk, the Manager seeks to project the credit spread among treasury bonds, corporate bonds and other fixed income instruments and preferred stocks so as to pick up the return coming from the spread change.

(iv) Sector selection and security selection

Through credit analysis, liquidity analysis and fundamental analysis, the Manager seeks to adjust the allocation among credit products within different rating spectrum to seek better risk-adjusted returns and identify undervalued securities.

Investment Restrictions

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

Available Classes

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

Class A (for the retail public in Hong Kong): Class A (RMB), Class A (USD) and Class A (EUR)

Class I (for institutional investors, professional investors and other investors as determined by the Manager): Class I (RMB), Class I (USD) and Class I (EUR)

Initial Offer Period

The Initial Offer Period of the Sub-Fund will commence at 9:00 a.m. (Hong Kong time) on 19 December 2016 and end at 4:00 p.m. (Hong Kong time) on 19 December 2016 (or such other dates or times as the Manager may determine).

The initial Subscription Price is RMB100 per Unit in respect of RMB Class A Units and RMB Class I Units, USD10 per Unit in respect of USD Class A Units and USD Class I Units, and EUR10 per Unit in respect of EUR Class A Units and EUR Class I Units.

The Manager may decide to close the Sub-Fund to further subscriptions before the end of the Initial Offer Period without any prior or further notice if the total subscription amount reaches the equivalent of RMB145 million (including subscription in USD and EUR).

The Manager may decide not to issue any Units in the event that less than the equivalent of RMB1 million (including subscription in USD and EUR) 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 Prices of RMB Class A Units and RMB Class I Units will be calculated and quoted in the Base Currency of the Sub-Fund, being RMB.

The Subscription Prices of USD Class A Units and USD Class I Units will be calculated in the Base Currency of the Sub-Fund, then be converted into the class currency at the exchange rate agreed by the Manager and the Trustee.

The Subscription Prices of EUR Class A Units and EUR Class I Units will be calculated in the Base Currency of the Sub-Fund, then be converted into the class currency at the exchange rate agreed by the Manager and the Trustee.

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 Prices of RMB Class A Units and RMB Class I Units will be calculated, quoted and paid in the Base Currency of the Sub-Fund, being RMB. The Redemption Prices of USD Class A Units, USD Class I Units, EUR Class A Units and EUR Class I Units will be calculated in the Base Currency of the Sub-Fund, and quoted and paid in the respective class currency based on the RMB/USD and the RMB/EUR exchange rate agreed by the Manager and the Trustee (as appropriate).

Investment Minima

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

	Class A (RMB) Units	Class A (USD) Units	Class A (EUR) Units	Class I (RMB) Units	Class I (USD) Units	Class I (EUR) Units
Minimum initial investment	RMB10,000	USD2,000	EUR2,000	RMB5,000,000	USD1,000,000	EUR1,000,000
Minimum subsequent investment	RMB10,000	USD2,000	EUR2,000	RMB1,000,000	USD200,000	EUR200,000
Minimum Holding	RMB10,000	USD2,000	EUR2,000	RMB5,000,000	USD1,000,000	EUR1,000,000
Minimum redemption amount	RMB10,000	USD2,000	EUR2,000	RMB1,000,000	USD200,000	EUR200,000

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://am.abci.com.hk/funds (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 (RMB, USD and EUR) Units and Class I (RMB, USD and EUR) Units
Subscription fee	Up to 5% of the Subscription Price
Redemption fee	Nil
Switching fee	Up to 2% of the Redemption Price of each Unit switched

Fees payable by the Sub-Fund

	Class A (RMB, USD and EUR) Units	Class I (RMB, USD and EUR) Units
Management fee	0.60% per annum of the Net Asset Value of the Sub-Fund	0.50% per annum of the Net Asset Value of the Sub-Fund
Performance fee	Nil	Nil
Trustee fee	Up to 0.175% per annum of the Net Asset Value of the Sub-Fund Subject to a minimum monthly fee of RMB40,000	Up to 0.175% per annum of the Net Asset Value of the Sub-Fund Subject to a minimum monthly fee of RMB40,000
Custodian fee	Up to 0.10% per annum of the Net Asset Value of the Sub-Fund	Up to 0.10% per annum of the Net Asset Value 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, 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 fixed income instruments

Interest rate risk

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

Credit risk

Investment in fixed income instruments is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the fixed income instruments 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 fixed income instruments 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 fixed income instruments, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

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 high yield bonds

High yield bonds (i.e. below investment grade bonds and bonds not rated by international credit rating agencies) entail a higher degree of credit risk and liquidity risk. It is more likely that income or capital payments may not be made when due and the risk of default is greater. The amounts that may be recovered after any default may be smaller or zero, and the Sub-Fund may incur additional expenses if it tries to recover its losses through bankruptcy or other similar proceedings.

The market for these fixed income securities may be less liquid and less active, making it more difficult to sell the securities. Valuation of these securities is more difficult, and therefore, the relevant securities' price may be more volatile. This may affect the Sub-Fund's ability to acquire or dispose of such securities at their intrinsic value.

The value of lower rated or unrated fixed income instruments is also affected by investors' perceptions. When economic conditions appear to be deteriorating, lower rated or unrated fixed income instruments may decline in market value more than investment grade fixed income instruments due to investors' heightened concerns and perceptions over credit quality and increase in the default risk of such lower or unrated fixed income instruments. As a result, the value of the Sub-Fund's investments may be adversely affected and investors may suffer substantial losses of their investments.

Risks associated with preferred stocks

Preferred stocks typically entitle holders to a fixed (but not guaranteed) dividend, paid in priority to ordinary shares. Because of their income nature, preferred stocks are subject to risks of fixed income instruments, including interest rate risk, credit risk, downgrading risk and credit rating risk, as described above.

Investments in preferred stocks may also be subject to general market risks related to equity securities, which is the risk that the value of the investments 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. 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 Sub-Fund and, consequently, the Net Asset Value per Unit.

Preferred stocks may also be less liquid compared to ordinary shares or fixed income instruments, and the Sub-Fund will be subject to liquidity risks. If the issuer of a preferred stock fails, the Sub-Fund as a holder of preferred stocks will have a junior claim to creditors and holders of fixed income instruments issued by such issuer, and may be unable to recover the amount invested.

Preferred stocks may have a call provision embedded which gives the issuer the right to redeem before its scheduled maturity at a pre-set value. Such feature limits the upside of the Sub-Fund's investments and may disrupt the income stream of the Sub-Fund.

Preferred stocks may also be subject to compulsory conversion by the issuer into ordinary shares upon the occurrence of a trigger event, for example where the tier 1 capital adequacy ratio of an issuer (which is a bank) falls below a certain level, it may convert preferred stocks into ordinary shares according to their terms of issue, and the Sub-Fund may hold equities securities as a result. Although the Manager will try to sell the ordinary shares within 30 days (except under unusual conditions), this may affect the implementation of the investment objective. Please also refer to "Risks associated with instruments with non-viability / loss absorption convertible features" below.

Risks associated with instruments with non-viability / loss absorption convertible features

Up to 30% of the Net Asset Value may be invested in instruments that absorb losses upon the occurrence of a predetermined event (known as a trigger event). For example, these securities can be converted into shares of the issuer, potentially at a discounted price. The principal amount invested may be lost on a permanent or temporary basis.

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. 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 instruments 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 / fixed dividend payment cancellation

Coupon / fixed dividend payments on some instruments with non-viability / loss absorption convertible features 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 / fixed dividend payments or payment of any passed missed payments. Coupon / fixed dividend 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 / fixed dividend payments, these instruments may be volatile and their price may decline rapidly in the event that coupon / fixed dividend payments are suspended.

Capital structure inversion risk

Contrary to the classic capital hierarchy, investors in instruments with non-viability / loss absorption convertible features may suffer a loss of capital when equity holders do not (for example, when the loss absorption mechanism of an instrument 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 of these instruments 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 some loss.

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 instruments with non-viability / loss absorption convertible features 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.

Sector concentration risk

Instruments with non-viability / loss absorption convertible features are issued by banking and insurance institutions. The performance of the Sub-Fund may depend to a greater extent on the overall condition of the financial services industry than for funds following a more diversified strategy.

Subordinated instruments

Instruments with non-viability / loss absorption convertible features 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 of instruments with non-viability / loss absorption convertible features

The structure of instruments with non-viability / loss absorption convertible features 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>"Dim Sum" bond market risks</u>

The "Dim Sum" bond market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the "Dim Sum" bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of 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 offshore RMB (CNH) market by the relevant regulator(s).

<u>Risk associated with fixed income instruments rated below investment grade or unrated / liquidity risk</u>

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

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

Investment in fixed income instruments and preferred stocks 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.

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.

RMB currency risk

It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Since 1994, the conversion of RMB into US dollar has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate. On 21 July, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the People's Bank of China decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. From April 2012 onwards, the trading band limit of RMB against the US dollar is enlarged from 0.5% to 1%. However it should be noted that the PRC government's policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact the Sub-Fund. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future. Any depreciation of the RMB will decrease the value of RMB-denominated assets the Sub-Fund may hold and of any dividends that the Sub-Fund may receive from such investments, which may have a detrimental impact on the Net Asset Value of the Sub-Fund, and vice versa.

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

Currency conversion risks

Investors may invest in the Sub-Fund in RMB, USD as well as EUR. There is no guarantee that RMB will not depreciate. Although the Manager intends to effect foreign exchange hedging on behalf of the Sub-Fund to mitigate the potential risk of loss arising from the conversion between RMB, USD and EUR, there is also no guarantee that such hedging activities will be effective.

Investors should take into account the potential risk of loss in respect of subscriptions, redemptions and dividends arising from fluctuations in value between RMB, USD and EUR.

Subscription funds in RMB/USD/EUR may be converted into RMB/USD (as the case may be) at the applicable exchange rate and subject to the applicable spread. Similarly, the Manager may convert redemption proceeds and dividends. In such case an investor may enjoy a gain in RMB/USD terms but suffer a loss when converting funds into the currency of the relevant Class. Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

In calculating the Net Asset Value per Unit of a non-RMB class, the Manager will apply the CNH rate (i.e. the exchange rate for the offshore RMB market in Hong Kong). The CNH rate may be at a premium or discount to the exchange rate for the onshore RMB market in the PRC (i.e. the CNY exchange rate) and there may be significant bid and offer spreads. Consequently, there may be significant trading costs incurred and investing in classes of Units denominated in a non-RMB currency exposes investors to potential loss. The value of the Sub-Fund thus calculated may be subject to fluctuation.

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 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. 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 fixed income instruments and preferred stocks 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 fixed income instruments or preferred stocks within the Sub-Fund's portfolio.

The ability of the issuers of fixed income instruments or preferred stocks 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.

Dividends payable out of capital or effectively out of capital risk

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.

Reports and accounts

The first accounts for the Sub-Fund cover the period to 31 December 2017.

Distribution policy

The Manager will declare dividends on an annual basis (i.e. each December), for those Unitholders holding Units as at each 31 December. However, the rate of distribution is not guaranteed and is subject to the discretion of the Manager. 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://am.abci.com.hk/funds (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.

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 will be paid to Unitholders at their own risk and expense by telegraphic transfer in RMB (for RMB Class A Units and RMB Class I Units), USD (for USD Class A Units and USD Class I Units) or EUR (for EUR Class A Units and EUR Class I Units) normally within one calendar month after the declaration of such distribution by the Manager.