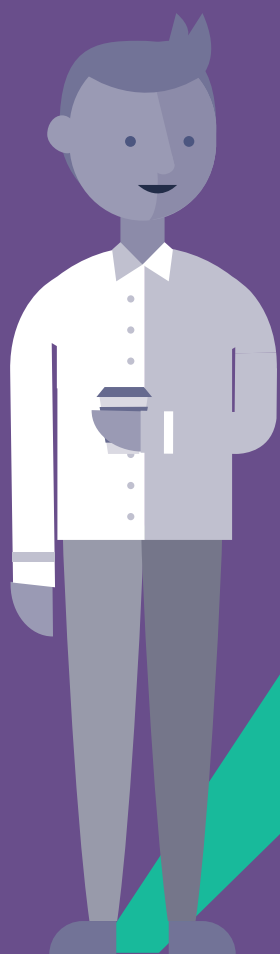


# Principal Prosperity Series Principal Asia Pacific High Dividend Equity Fund

Explanatory Memorandum



## IMPORTANT NOTES:

1. Principal Prosperity Series consists of sub-funds (the “Sub-Funds”) investing in equities and/or debt securities located in developed markets or in emerging markets. Such investments carry market, credit, liquidity, currency, regulatory and other associated risks that can cause portfolio values to be very volatile.
2. Generally, emerging market investments carry higher risks due to risks associated with higher volatility, inadequate liquidity and additional regulatory risks. As such, the Sub-Funds that predominantly invest into such markets may be considered speculative and they carry significant risk.
3. Some of the Sub-Funds may carry significant risks arising from credit, counterparty and liquidity issues through investment in high yielding debt securities. Investors may suffer significant loss in the value of their investment in the Sub-Funds when portfolio holdings fall below investment grade or when counterparties default on their obligations.
4. Some of the Sub-Funds may have concentrated exposures in one or a select few markets making them riskier than diversified funds.
5. The Sub-Funds may enter into financial futures contracts, financial option contracts and currency forward contracts or invest in structured investments which may involve additional risks including market, counterparty or default risks, exposing the Sub-Funds to losses.
6. The investment decision is yours but you should not invest unless the intermediary who sells it to you has advised you that it is suitable for you and explained why, including how, buying it would be consistent with your investment objectives.

8 May 2020

**This Notice is important and requires your immediate attention. If you are in any doubt about the contents of this Notice, you should seek independent professional advice.**

**Principal Asset Management Company (Asia) Limited (“PAMC (Asia)”, “we”, “us” or “our”) accepts full responsibility for the accuracy of the information contained in this Notice and confirms, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other material facts the omission of which would make any statement herein misleading as at the date of issuance.**

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Dear Unitholder,

**Re: Principal Prosperity Series (the “Fund”)  
- Principal Asia Pacific High Dividend Equity Fund (the “Sub-Fund”)**

Thank you for your continuous support. We would like to inform you of the following changes in respect of the Fund and the Sub-Fund.

**1. Changes in relation to the Restrictions on Realisation of the Sub-Fund**

As background, having regard to the best interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the total net asset value or the total number of Units of any Sub-Fund realised on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to Units representing 10% of the total net asset value or the total number of Units of the relevant Sub-Fund in issue, respectively.

The Manager would like to clarify that in practice, the Manager, with the approval of the Trustee, would opt to limit the realisation of any Sub-Fund on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the latest available total net asset value of such Sub-Fund instead of 10% of the total number of Units of such Sub-Fund in issue.

The above change shall take effect from 15 June 2020.

**2. Miscellaneous amendments under the section “Liquidity Risk Management”**

Details of the liquidity risk management tools the Manager may utilise under the section “Liquidity Risk Management” are revised to align with the restrictions set out in the section “Restrictions on Realisation”. The references to the section “Redemption of Units” and section “Restrictions on Redemption” in the section “Liquidity Risk Management” of the Explanatory Memorandum (English version) are also revised to “Realisation of Units” and “Restrictions on Realisation” respectively.

The above change shall take immediate effect.

**3. Fees and costs in connection with the proposed changes to the Explanatory Memorandum**

The fees and costs in connection with the above changes (including amendments to the Explanatory Memorandum) will be borne by the Manager.

All changes described above will not have any adverse impact on Unitholders.

\* \* \*

The above changes will be reflected in the enclosed First Addendum (the “First Addendum”) to the Explanatory Memorandum. The First Addendum should be read in conjunction with and forms part of the Explanatory Memorandum. Please read the First Addendum carefully.

Terms used in this Notice have the same meanings as in the latest version of the Explanatory Memorandum of the Fund, unless otherwise specified in this Notice.

The First Addendum and the latest version of the Explanatory Memorandum will be available on our website at [www.principal.com.hk](http://www.principal.com.hk) or you may request a copy of it by contacting our customer service hotline at (852) 2117 8383.

If you have any queries relating to the above, please contact our customer service hotline above.

**Principal Asset Management Company (Asia) Limited**

**PRINCIPAL PROSPERITY SERIES (THE “FUND”)  
PRINCIPAL ASIA PACIFIC HIGH DIVIDEND EQUITY FUND (THE “SUB-FUND”)  
First Addendum to the Explanatory Memorandum**

This First Addendum should be read in conjunction with and forms part of the Explanatory Memorandum of the Fund dated January 2020 (the “Explanatory Memorandum”). All capitalized terms used in this First Addendum shall have the same meaning as given to them in the Explanatory Memorandum, unless the context otherwise stated.

Principal Asset Management Company (Asia) Limited accepts responsibility for the information contained in this First Addendum as being accurate at the date of publication and has taken all reasonable care to ensure that to the best of its knowledge and belief there are no other material facts the omission of which would make any statement of fact or opinion herein misleading.

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

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By this First Addendum, the Explanatory Memorandum shall be amended as follows:

1. With effect from 15 June 2020, the following sentence shall be added after the first sentence in the second paragraph under the section headed “Restrictions on Realisation” on page 7 of the Explanatory Memorandum:

“In practice, the Manager, with the approval of the Trustee, would opt to limit the realisation of any Sub-Fund on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the latest available total net asset value of such Sub-Fund instead of 10% of the total number of Units of such Sub-Fund in issue.”

2. With immediate effect, the reference to the section titled “Redemption of Units” under the third paragraph under the section titled “Liquidity Risk Management” on page 18 of the Explanatory Memorandum (English version) shall be revised to reference the section titled “Realisation of Units”.

3. With immediate effect, the first bullet point of the last paragraph under the section titled “Liquidity Risk Management” on page 18 of the Explanatory Memorandum shall be deleted in its entirety and replaced by the following:

“ • the Manager may, with the approval of the Trustee, limit the total net asset value or the total number of Units of any Sub-Fund realised on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to Units representing 10% of the total net asset value or the total number of Units of such Sub-Fund in issue, respectively (subject to the restrictions and actual practice set out in the section titled “Restrictions on Realisation”); and”

Except as amended by this First Addendum, the Explanatory Memorandum remains in full force and effect.

**Principal Asset Management Company (Asia) Limited**

8 May 2020

2 January 2020

**This Notice is important and requires your immediate attention. If you are in any doubt about the contents of this Notice, you should seek independent professional advice.**

**Principal Asset Management Company (Asia) Limited (“PAMC (Asia)”, “we”, “us” or “our”) accepts full responsibility for the accuracy of the information contained in this Notice and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other material facts the omission of which would make any statement misleading as at the date of issuance.**

---

Dear Unitholder,

**Re: Principal Prosperity Series (the “Fund”)  
- Principal Asia Pacific High Dividend Equity Fund (the “Sub-Fund”)**

Thank you for your continuous support. We would like to inform you of the following changes in respect of the Fund and the Sub-Fund, which will take immediate effect.

**1. Changes in relation to the Revised Fund Manager Code of Conduct**

As background, the Manager is licensed by the Hong Kong Securities and Futures Commission (the “SFC”) for type 4 (advising on securities) and type 9 (asset management) regulated activities and accordingly is subject to regulation by the SFC, including the SFC’s Fund Manager Code of Conduct (the “Fund Manager Code”). The SFC has revised the Fund Manager Code to include certain disclosure obligations on companies licensed by the SFC for type 9 regulated activity in relation to funds they manage.

The Explanatory Memorandum of the Fund has been revised to reflect the requirements of the revised Fund Manager Code which include enhanced disclosure of information relating to the licensing status of the Manager, the Manager’s intention of not engaging in any securities lending, repurchase agreement and reverse repurchase transactions in respect of any Sub-Fund, no leverage being incurred from the use of financial derivative instruments, conflicts of interest and risk management process.

**2. Changes in relation to the Revised SFC’s Code on Unit Trusts and Mutual Funds**

The Fund is authorised by the SFC in Hong Kong and accordingly is subject to the SFC’s Code on Unit Trusts and Mutual Funds (“UTMF Code”). The SFC has revised the UTMF Code with an aim to update the regulatory regime for SFC-authorized funds and address the risks posed by financial innovation and other developments. The Trust Deed will be amended by way of Amended and Restated Trust Deed and the Explanatory Memorandum will be amended by way of revised Explanatory Memorandum (“Revised Explanatory Memorandum”) to reflect the requirements under the revised UTMF Code and the Guide on Practices and Procedures for Application for Authorization of Unit Trusts and Mutual Funds (the “Guide”).

The following key changes (“Changes”) are made to the Trust Deed and/or the Explanatory Memorandum (where applicable) to reflect the requirements under the revised UTMF Code:

- (i) enhanced definition of “connected persons” to align with the wordings as provided in the revised UTMF Code;
- (ii) additional obligations of the Trustee under Chapter 4 of the revised UTMF Code;
- (iii) amendments to reflect the Manager’s discretion to limit the realisation requests;

- (iv) enhanced disclosures in respect of the Manager's obligations in relation to valuation;
- (v) amendments to reflect the requirements under the revised Code on suspension of dealings of units;
- (vi) amendments to the core requirements of the investment and borrowing limitations and prohibitions under Chapters 7 and 8 of the revised UTMF Code;
- (vii) enhanced disclosures in respect of cash rebates and soft commissions to reflect that the delegate and sub-delegate of the Manager will also be subject to the relevant restrictions;
- (viii) enhanced disclosures in respect of the preparation of financial reports and accounts;
- (ix) enhanced disclosures in respect of the publication of Net Asset Value per Unit of each Sub-Fund;
- (x) additional disclosures in respect of the arrangements in handling unclaimed proceeds of Unitholders where the Fund or any Sub-Fund is being terminated;
- (xi) additional disclosures in respect of the liquidity risk management;
- (xii) enhanced disclosures in respect of conflicts of interests;
- (xiii) enhanced disclosures in respect of the investment objectives and policies of the Sub-Fund to reflect that it may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purpose in order to align with the disclosures in the existing product key fact statements ("KFS") regarding the use of certain financial derivative instruments;
- (xiv) additional disclosures on the net derivative exposure of the Sub-Fund being up to 50% of its Net Asset Value and the risk associated with financial derivative instruments; and
- (xv) additional disclosures on liquidity risk and custodial risk as applicable to the Sub-Fund.

The sub-section headed "Investment Strategy" under the "Objective and Investment Strategy" in the KFS of the Sub-Fund has been updated to disclose that it may also enter into currency forward contracts for hedging purposes to clarify the investments in certain financial derivative instruments as permissible under the revised UTMF Code. In addition, the section headed "Use of derivatives / investment in derivatives" in the KFS of the Sub-Fund has also been updated to align with the disclosure requirement as provided in the KFS illustrative templates for general funds. Given that the Sub-Fund may enter into financial futures contracts, financial option contracts and currency forward contracts for hedging purposes, its net derivative exposure may be up to 50% of its net asset value.

### 3. Other miscellaneous updates

Previous addenda have been incorporated into the Explanatory Memorandum of the Fund. Apart from the changes set out above, other changes have also been made to the Explanatory Memorandum of the Fund including but not limited to:-

- (i) update to the directors of Manager;
- (ii) update to the address of the legal adviser to the Manager;
- (iii) enhancement of the definitions of "Dealing Day", "Valuation Day" and "Valuation Point";
- (iv) addition of definition of "UTMF Code";
- (v) removal of outdated information relating to the total assets under management of the Manager and its delegate;
- (vi) update to disclosures relating to the taxation in Hong Kong and China;
- (vii) additional disclosures in respect of Foreign Account Tax Compliance Act and the relevant risk applicable to the Sub-Fund;
- (viii) additional disclosures in respect of Automatic Exchange of Financial Account Information;
- (ix) additional disclosures in respect of risks associated with investment/exposure to RMB currency and/or Mainland China and the risk associated with investment in China A-Shares through stock connect programmes as applicable to the Sub-Fund; and
- (x) other editorial amendments and miscellaneous changes.

4. **Fees and costs in connection with the proposed changes to the Revised Explanatory Memorandum, KFS and the Trust Deed**

The fees and costs in connection with the above changes (including amendments to the Explanatory Memorandum) will be borne by the Fund.

\* \* \*

All changes described above will not have any adverse impact on Unitholders.

Please note that all information provided herein is qualified in its entirety by the Explanatory Memorandum and the Trust Deed. The changes described above are in summary form only and are not meant to be an exhaustive list of the amendments made to the Explanatory Memorandum and Trust Deed. Unitholders should note that there are other ancillary and editorial changes and updates to the Explanatory Memorandum and Trust Deed and as such, should review the latest Explanatory Memorandum and Trust Deed for further details on the changes made.

You may access the updated Explanatory Memorandum and Product Key Facts Statement on our website at [www.principal.com.hk](http://www.principal.com.hk) or request a copy of it by contacting our customer service hotline at 2117 8383. The Trust Deed (as amended from time to time) may be inspected free of charge during normal working hours at our office. You may also obtain a copy of the Trust Deed upon payment of a reasonable fee.

Terms used in this Notice have the same meaning as in the latest version of the Explanatory Memorandum of the Fund, unless otherwise specified in this Notice.

If you have any queries relating to the above, please contact our customer service hotline above.

**Principal Asset Management Company (Asia) Limited**



## Important Information for Investors

**Important - Investment in the Sub-Funds may involve a high degree of risk and may not be suitable for all investors. Investors may suffer significant loss in the values of their investment in the Sub-Funds. You should consider your own investment objectives before making an investment and read carefully the investment objectives and policies and risk factors of the Sub-Funds in this Explanatory Memorandum. If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent financial advice.**

This Explanatory Memorandum comprises information relating to the Principal Prosperity Series, an umbrella open-ended unit trust originally established as an exempted trust under the laws of the Cayman Islands by a trust deed dated 24 October 2002 made between Principal Fund Management (Hong Kong) Limited as manager and HSBC Trustee (Cayman) Limited as trustee, as amended by four supplemental deeds dated 21 July 2003, 28 September 2004, 10 December 2007 and 30 October 2015, respectively. By a deed of retirement and appointment dated 12 January 2006, Principal Trust Company (Asia) Limited replaced HSBC Trustee (Cayman) Limited as the trustee of the Principal Prosperity Series. By a deed of retirement and appointment dated 23 August 2007, Principal Asset Management Company (Asia) Limited replaced Principal Fund Management (Hong Kong) Limited as the manager of the Principal Prosperity Series. By a deed of variation dated 30 October 2015, the Trustee declared that from 30 November 2015 the Fund shall take effect in accordance with the laws of Hong Kong. With effect from such date, the Fund shall be subject to and governed by the laws of Hong Kong. The Trust Deed has been amended and restated to reflect the provisions of the revised UTMF Code with effect from 1 January 2020.

The Manager accepts responsibility for the information contained in this Explanatory Memorandum as being accurate at the date of publication. 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 such date. This Explanatory Memorandum may from time to time be updated. Intending applicants for Units should ask the Manager if any supplements to this Explanatory Memorandum or any later Explanatory Memorandum has been issued.

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 Fund and the initial Sub-Fund have been authorised by the Securities and Futures Commission (“SFC”) in Hong Kong. The SFC’s authorization is not a recommendation or endorsement of the Fund or the Sub-Fund nor does it guarantee the commercial merits of the Fund or the Sub-Fund or its performance. It does not mean the Fund or the Sub-Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. In granting such authorisation, the SFC takes no responsibility for the financial soundness of the Fund or the Sub-Fund or the accuracy of any of the statements made or opinions expressed in this Explanatory Memorandum and such authorisation does not imply that investment in the Fund is recommended by the SFC.

Unless otherwise disclosed in the relevant Appendix in relation to a Sub-Fund, no action has been taken to permit an offering of Units or the distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

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 US Person (as defined in Regulation S under such Act); and
- (b) the Fund has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

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

January 2020

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## Administration

### Manager

Principal Asset Management Company (Asia) Limited  
30/F Millennium City 6  
392 Kwun Tong Road  
Kwun Tong, Kowloon

### Directors of the Manager

Cheong Wee Yee  
Binay Chandgothia

### Delegate of the Manager

Principal Global Investors, LLC  
801, Grand Avenue, Des Moines,  
Iowa, 50392 USA

### Sub-Delegate of the Manager (for Principal Asia Pacific High Dividend Equity Fund)

Principal Global Investors (Hong Kong) Limited  
Unit 1001-2 Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

### Trustee and Registrar

Principal Trust Company (Asia) Limited  
30/F Millennium City 6  
392 Kwun Tong Road  
Kwun Tong, Kowloon

### Legal Advisers to the Manager

Baker & McKenzie  
14th Floor, One Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

### Auditors

KPMG  
8/F, Prince's Building  
10 Chater Road Central  
Hong Kong

### Website

[www.principal.com.hk](http://www.principal.com.hk)

## Definitions

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

<b>Accumulation Class Units – Institutional</b>	in respect of a Sub-Fund, means such class of Units in respect of which, unless otherwise determined by the Manager, income receivable after the date of issue thereof shall be accumulated and reflected in the price of the Units
<b>Business Day</b>	means a day (other than a Saturday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise
<b>Connected Person</b>	means in relation to a company: <ul style="list-style-type: none"><li>(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of the company or being able to exercise, directly or indirectly, 20% or more of the total votes in that company; or</li><li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or</li><li>(c) any member of the group of which that company forms part; or</li><li>(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c) above</li></ul>
<b>Dealing Day</b>	means such days on which Units may be subscribed or redeemed, as are described in the Appendices for the relevant Sub-Funds
<b>Fund</b>	means Principal Prosperity Series, an open-ended umbrella Hong Kong unit trust
<b>Income Class Units</b>	in respect of a Sub-Fund, means such class of Units in respect of which, unless otherwise determined by the Manager, income receivable after the date of issue thereof shall be distributed in accordance with the terms of the Trust Deed
<b>Issue Price</b>	means in respect of each Sub-Fund the price per Unit as disclosed in the relevant Appendix
<b>Offer Period</b>	means the initial period during which the Units of the relevant Sub-Fund are being offered to investors as described in the relevant Appendix
<b>Manager</b>	means Principal Asset Management Company (Asia) Limited
<b>Net Asset Value</b>	means the net asset value of the Fund or a Sub-Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed “Valuation”
<b>Realisation Price</b>	means the price, at which Units will be realised as more fully described in the section headed “Payment of Realisation Proceeds” and in the Appendices
<b>SFC</b>	means the Securities and Futures Commission of Hong Kong
<b>Sub-Fund</b>	means a sub-fund of the Fund
<b>Trust Deed</b>	means the trust deed establishing the Fund dated 24 October 2002, as amended from time to time
<b>Trustee</b>	means Principal Trust Company (Asia) Limited in its capacity as trustee of the Fund
<b>Unit</b>	means a Unit in a Sub-Fund
<b>Unitholder</b>	means a person registered as a holder of a Unit
<b>USD or US\$</b>	means the currency of the United States of America
<b>UTMF Code</b>	the SFC’s Code on Unit Trusts and Mutual Funds, as amended from time to time
<b>Valuation Day</b>	means such days on which the Net Asset Value and the Net Asset Value per Unit is to be calculated, as are described in the Appendix for the relevant Sub-Fund
<b>Valuation Point</b>	means, unless otherwise specified in the Appendix for the relevant Sub-Fund, such time on the relevant Valuation Day as the Manager with the approval of the Trustee may from time to time determine to calculate the Net Asset Value

## Introduction

Principal Prosperity Series is an open-ended umbrella unit trust governed by the laws of Hong Kong. The Sub-Funds available are described in the Appendix/Appendices to this Explanatory Memorandum. The Manager may create further Sub-Funds in future.

## Management of the Fund

### Manager

Principal Asset Management Company (Asia) Limited is the manager of the Fund. It is a company incorporated in Hong Kong in 1997 and is a subsidiary of the Principal Financial Group, Inc. which is a Fortune 500 company listed on the New York Stock Exchange. Principal Asset Management Company (Asia) Limited is specialized in portfolio management and asset management businesses. Principal Asset Management Company (Asia) Limited is devoted to providing reliable and quality services to its clients and is committed to be a professional fund management house. Principal Asset Management Company (Asia) Limited is also the investment manager for a number of mandatory provident fund schemes and approved pooled investment funds in Hong Kong. Principal Asset Management Company (Asia) Limited is licensed by the Securities and Futures Commission in Hong Kong for type 4 (advising on securities) and type 9 (asset management) regulated activities with CE number AFA235, subject to the licensing condition that for type 9 (asset management) regulated activities, it shall not provide a service of managing a portfolio of futures contracts for another person.

Principal Asset Management Company (Asia) Limited has delegated the discretionary investment management of the Fund to Principal Global Investors, LLC. Principal Global Investors, LLC is registered with the Securities and Exchange Commission under the USA regime. Principal Global Investors, LLC has sub-delegated its discretionary investment management function for Principal Asia Pacific High Dividend Equity Fund to Principal Global Investors (Hong Kong) Limited, which is regulated by the SFC.

### The Trustee

The Trustee of the Fund is Principal Trust Company (Asia) Limited, which is a trust company incorporated in Hong Kong. The Trustee will also be responsible for the registrar function of the Fund.

Principal Trust Company (Asia) Limited is a member of the Principal Financial Group and has full access to a diversified network of financial services expertise in a variety of specialties including investment funds, mutual funds, pension and insurance plans. The registered address of Principal Trust Company (Asia) Limited is 30/F Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon.

Under the Trust Deed, the Trustee shall take into custody or under its control all the investments, cash and other property forming part of the assets of the Fund and hold them in trust for the unitholders of the Fund in accordance with the provisions of the Trust Deed and, to the extent permitted by law, the cash and registrable assets of the Fund shall be registered in the name or to the order of the Trustee and be dealt with as the Trustee may think proper for the purpose of providing for the safekeeping thereof.

The Trustee shall segregate the property of the Fund from the property of:

- (a) the Manager, any delegates of the Manager and their respective Connected Persons;
- (b) the Trustee and any nominees, agents or delegates throughout the custody chain; and
- (c) other clients of the Trustee and nominees, agents or delegates throughout the custody chain, unless held in omnibus account with adequate safeguards in line with international standards and best practices to ensure that the property of Trust Fund is properly recorded with frequent and appropriate reconciliations being performed.

The Trustee has put in place appropriate measures to verify ownership of the assets of the Trust Fund.

The Trustee is required to:

- (a) take reasonable care to ensure that the cash flows of the Fund are properly monitored;
- (b) fulfill such other duties and requirements imposed on the Trustee as set out in the UTMF Code, and exercise due skill, care and diligence in discharging its obligations and duties appropriate to the nature, scale and complexity of the Fund; and
- (c) establish clear and comprehensive escalation mechanisms to deal with potential breaches detected in the course of discharging its obligations and report material breaches to the SFC in a timely manner.

## Investment Objective

Details of the investment objective and other information specific to a Sub-Fund are set out in the relevant Appendix in relation to such Sub-Fund.

## Offering

Units of a Sub-Fund will be offered for the first time at the Issue Price during the Initial Offer Period set out in the relevant Appendix relating to such Sub-Fund. Thereafter units of a Sub-Fund may be offered in the manner as described in the relevant Appendix.

The Manager may appoint one or more distributors (“authorised distributors”) to distribute the Fund and/or any particular Sub-Fund and to receive applications for Units and requests for realisation of Units. Authorised distributors may fix an earlier cut-off time for submitting such applications and requests and for payments of application monies other than those specified by the Manager or the Trustee as described above. Any investor who makes an application for Units or request for realisation of Units through an authorised distributor must comply with the cut-off time specified by the relevant authorised distributor provided that such cut-off time shall not be later than any relevant deadline specified by the Manager or the Trustee.

Any fees payable to authorised distributors in relation to services provided by authorised distributors in respect of the Fund shall be borne by the Manager.

## Purchase of Units

### Application Procedure

Unless otherwise disclosed in the Appendix relating to a Sub-Fund or otherwise agreed by the Manager or an authorised distributor, to purchase Units an investor should:-

- (a) complete the application form enclosed with this Explanatory Memorandum and return the original form to the Manager or an authorised distributor; or
- (b) fax the completed application form to the Manager or an authorised distributor.

Fax orders must always be followed by an original completed application form. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager or an authorised distributor. Investors should therefore for their own benefit confirm with the Manager or an authorised distributor safe receipt of a form.

Payment should be made at the time of application. If payment is not cleared within 7 Business Days after the Dealing Day of which the relevant units are issued, the Manager reserves the right to cancel the subscription at any time thereafter. Under such circumstances, the applicant may be required to settle the difference between the Subscription Price and the Realisation Price of the Units concerned.

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.

The Manager, at its discretion, is entitled to impose a preliminary charge on the offer price of each Unit. The Manager may retain the benefit of such charge or may re-allow or pay all or part of the preliminary charge (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine.

### Payment Procedure

Subscription monies should normally be paid in USD. Arrangements can be made for applicants to pay for Units in most other major currencies and in such cases, the Trustee or the Manager shall use such currency exchange rates as they may from time to time determine. The cost of currency conversion will be borne by the applicant.

Payments should be made in one of the ways set out in the Application Form. Payment by cheque is likely to cause delay in receipt of cleared funds. Any costs of transfer of application monies to a Sub-Fund will be payable by the applicant.

Details of payments by telegraphic transfer are set out in the Application Form enclosed.

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

### General

All holdings will be registered and certificates will not be issued. Evidence of title will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of Units may be issued calculated to 2 decimal places. Application monies representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. The Manager reserves the right to reject any application in whole or in part. A maximum of 4 persons may be registered as joint Unitholders.

## Realisation of Units

### Realisation Procedure

Unitholders who wish to realise their Units may do so on any Dealing Day by submitting a realisation request to the Manager or through an authorised distributor before the Dealing Deadline for the relevant Sub-Fund, as defined in the relevant Appendix.

A realisation request must be given in writing or by such other means as agreed by the Manager from time to time and must specify the name of the relevant Sub-Fund and the value or number of Units to be realised, the name(s) of the registered holder(s), and give payment instructions for the realisation proceeds. Unless otherwise agreed by the Manager, the original of any realisation request given by facsimile should be forwarded to the Manager. Neither the Manager nor the Trustee shall be responsible to a Unitholder for any loss resulting from non-receipt of any realisation request sent by facsimile by a Unitholder or an authorised distributor on behalf of a Unitholder.

A Unitholder shall not be entitled hereunder to realise part only of his holding of Units in relation to a Sub-Fund if thereby his holding would be reduced to less than the minimum holding for that Sub-Fund.

### Payment of Realisation Proceeds

The realisation price on any Dealing Day shall be the price per Unit ascertained by dividing the Net Asset Value of the relevant Sub-Fund as at the Valuation Point in respect of the Dealing Day on which the realisation request is received by the Manager by the number of Units in issue immediately prior to such Dealing Day, such realisation price being rounded down to 2 decimal places, 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 shall be retained by the relevant Sub-Fund. Such price shall be calculated in the base currency of the relevant Sub-Fund and quoted by the Manager in such base currency and in such other currency or currencies at the Manager's discretion (with prior notice to the Trustee) by converting such price to its equivalent in such other currency or currencies at the same rate as the Manager shall apply in calculating the Net Asset Value as at the Valuation Point.

The Manager may at its option impose a realisation charge in respect of the Units to be realised. The realisation charge, if any, is described in the relevant Appendix. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the realisation charge to be imposed (within the permitted limit).

The amount due to a Unitholder on the realisation of a Unit pursuant to the paragraphs above shall be the realisation price per Unit, less any realisation charge, any fiscal and sale charges and any rounding adjustment in respect thereof. The fiscal and sale charges (if any), as well as the rounding adjustment aforesaid in relation to the realisation of any Units shall be retained as part of the relevant Sub-Fund. The realisation charge shall be retained by the Manager.

Realisation proceeds will not be paid to any realising Unitholder until (a) unless otherwise agreed by the Manager, the written original of the realisation request duly signed by the Unitholder has been received by the Manager and (b) where realisation proceeds are to be paid by telegraphic transfer, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Manager.

Realisation proceeds will normally be paid by cheque posted, at the risk of the person entitled thereto, within one week and in any event not later than one month, of the Dealing Day on which the realisation is effected or, if later, after original duly completed realisation documentation has been received by the Manager. At the request and expense of the realising Unitholder, the realisation proceeds can be paid by telegraphic transfer.

Realisation proceeds can be paid in a currency other than the base currency of the relevant Sub-Fund at the request and expense of the Unitholder. In such circumstances, the Trustee or the Manager shall use such currency exchange rates as it may from time to time determine. The cost of currency conversion will be borne by the relevant Unitholder.

### Restrictions on Realisation

The Manager may suspend the realisation of Units or delay the payment of realisation proceeds 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).

Having regard to the best interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the total net assets value or the total number of Units of any Sub-Fund realised on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to Units representing 10% of the total net asset value or the total number of Units of the relevant Sub-Fund in issue, respectively. In this event, the limitation will apply pro rata so that all Unitholders wishing to realise Units of the same Sub-Fund on that Dealing Day will realise the same proportion of such Units, and Units not realised (but which would otherwise have been realised) will be carried forward for realisation, subject to the same limitation, and will have priority on the next Dealing Day. If requests for realisation are so carried forward, the Manager will inform the Unitholders concerned within seven days of such Dealing Day that their realisation request has been carried forward.

## Compulsory Realisation Powers

The Trust Deed gives the Manager the power to realise compulsorily Units in certain circumstances, including in the event of any person holding Units (i) in breach of the law or requirements of any country or governmental authority or (ii) in any circumstances which in the opinion of the Manager might result in the Fund, any Sub-Fund, the Trustee, the Manager or any person connected with either of them incurring any liability to taxation or suffering any other pecuniary disadvantage which the Fund or a Sub-Fund might not otherwise have incurred or suffered. The Trustee shall, at the Manager's request, exercise the power to compulsorily realise all (or any part) of the Units of any unitholder on any Dealing Day, if in its absolute discretion, the power becomes exercisable. The power shall be exercisable upon the Dealing Day following the giving of not less than 14 days' notice to a Unitholder of its intended exercise and Units subject to such a notice shall be realised at the applicable Realisation Price.

## Conversion between Sub-Funds

Where there are two or more Sub-Funds, Unitholders have the right (subject to the prior approval of the Manager and to any suspension in the determination of the Net Asset Value of the Sub-Fund in which the Units to be switched from are currently held (the "Existing Sub-Fund")) to convert all or part of their Units in any Sub-Fund into Units in another Sub-Fund (the "New Sub-Fund") by giving notice in writing to the Manager prior to the Dealing Deadline for the Existing Sub-Fund. Any conversion request received after such Dealing Deadline will be held over and dealt with on the next Dealing Day.

The rate at which the whole or any part of a holding of Units in the Existing Sub-Fund will be converted on any Dealing Day for the Existing Sub-Fund (the "relevant Dealing Day") into Units of the New Sub-Fund will be determined in accordance with the following formula:

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

where:-

- N = the number of Units in the New Sub-Fund to be issued, provided that amounts lower than the smallest fraction of a Unit of the new class shall be ignored and shall be retained by the New Sub-Fund;
- E = the number of Units in the Existing Sub-Fund to be converted;
- R = the Realisation Price per Unit of the Existing Sub-Fund on the relevant Dealing Day on which conversion is to take effect less any realisation charge imposed by the Manager;
- F = the currency conversion factor determined by the Manager for the relevant Dealing Day as representing the effective rate of exchange between the base currency of the Existing Sub-Fund and the base currency of the New Sub-Fund;
- S = the Subscription Price per Unit of the New Sub-Fund on the Dealing Day for the New Sub-Fund coincident with or next following the relevant Dealing Day; and
- SF = the conversion fee not exceeding 1% of the Subscription Price per Unit of the New Sub-Fund.

If there is, at any time during the period from the time as at which the Realisation Price per Unit of the Existing Sub-Fund is calculated up to the time at which any necessary transfer of funds from the Existing Sub-Fund to the New Sub-Fund takes place, an officially announced devaluation of any currency in which any investment of the Existing Sub-Fund is denominated or normally traded, the Realisation Price shall be reduced as the Manager considers appropriate to take account of the effect of that devaluation and the number of Units of the New Sub-Fund to be allotted to any relevant unitholder pursuant to a conversion request shall be recalculated in accordance with the formula set out above as if that reduced Realisation Price had been the Realisation Price ruling for realisations of Units of the Existing Sub-Fund on the relevant Dealing Day.

The Manager has the discretion not to process a conversion request if as a result a Unitholder would hold less than the minimum holding of Units of the relevant class in any Sub-Fund.

## Valuation

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

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies and subject as provided in paragraph (f) below, all calculations based on the value of investments quoted, listed, traded or dealt in on any securities market shall be made by reference to the last traded price or (if no last traded price is available) midway between the latest available market dealing offered price and the latest available market dealing bid price on the principal stock exchange for such investments, at or immediately preceding the Valuation Point, and in determining such prices the Manager and the Trustee shall be entitled to use and rely on electronic price feeds from such source or sources as they may from time to time determine;



- (b) subject as provided in paragraphs (c) and (f) below, the value of each interest in any collective investment scheme shall be the last published net asset value per Unit or share in such collective investment scheme (where available) or (if the same is not available) the last published bid price for such Unit or share at or immediately preceding the Valuation Point;
- (c) if no net asset value, bid and offer prices or price quotations are available as provided in paragraphs (a) and (b) above, the value of the relevant investment shall be determined from time to time in such manner as the Manager shall determine;
- (d) the value of any investment which is not listed or ordinarily dealt in on a market shall be the initial value thereof equal to the amount expended out of the relevant Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investment;
- (e) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the value thereof;
- (f) notwithstanding the foregoing, the Manager may with the prior consent in writing of the Trustee adjust the value of any investment or permit some other method of valuation to be used with due skill, care and diligence and in good faith if, having regard to relevant circumstances, the market value of the investment is unavailable, or the Manager considers that the market value of the investment is not reliable or reflective of an exit price upon current sale; and
- (g) the value of any investment (whether of a security or cash) otherwise than in the base currency of the relevant Sub-Fund shall be converted into such base currency at the rate (whether official or otherwise) which the Manager shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

#### **Calculation of Issue and Realisation Prices**

The issue price of a Unit of a Sub-Fund on a Dealing Day is the net asset value per Unit of such Sub-Fund provided that the Manager may add an allowance (for the benefit of the relevant Sub-Fund) for fiscal and purchase charges (not exceeding 0.25%) which might be payable to buy investments for the account of the relevant Sub-Fund, the resultant amount being rounded up to the nearest cent.

The realisation price of a Unit of a Sub-Fund on a Dealing Day is the net asset value per Unit of such Sub-Fund provided that the Manager may deduct an allowance (for the benefit of the relevant Sub-Fund) for fiscal and sale charges (not exceeding 0.25%) which might be payable to sell investments for the account of the relevant Investment Fund, the resultant amount being rounded down to the nearest cent.

The net asset value of a Sub-Fund is calculated by valuing the assets of such Sub-Fund and deducting the liabilities attributable to such Sub-Fund in accordance with the Trust Deed.

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

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

- (a) there is a closure of or the restriction or suspension of trading on any securities market on which a substantial part of the investments of the relevant Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager or the Trustee (as the case may be) in ascertaining the prices of investments or the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit in the relevant Sub-Fund; or
- (b) for any other reason the prices of investments of the relevant Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of the relevant Sub-Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders; or
- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the relevant Sub-Fund or the issue or realisation of Units in the relevant Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange.

Such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value of the relevant Sub-Fund until the Manager shall declare the suspension at an end, except that the suspension shall terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension shall have ceased to exist and (ii) no other condition under which suspension is authorised shall exist. The Manager will regularly review any such prolonged suspension and take all necessary steps to resume normal operations as soon as practicable.

Whenever the Manager declares such a suspension it shall, immediately after any such declaration and at least once a month during the period of such suspension, publish a notice in the South China Morning Post and Hong Kong Economic Times.

No Units in the relevant Sub-Fund may be issued, realised or converted during such a period of suspension.

## Investment and Borrowing Restrictions

The assets in the Sub-Funds may be invested only in the investments permitted under and in accordance with UTMF Code issued by the SFC.

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager for the Fund. A summary of these restrictions appears below:-

Unless otherwise disclosed in the Appendix for each Sub-Fund and agreed by the SFC, each of the Sub-Fund(s) is subject to the following principal investment restrictions:-

- (a) The aggregate value of each Sub-Fund's investments in, or exposure to, any single entity through the following may not exceed 10% of the Net Asset Value of a Sub-Fund:
  - (1) investments in securities issued by that entity;
  - (2) exposure to that entity through underlying assets of financial derivative instruments; and
  - (3) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in paragraphs (a), (b) and (4) will not apply to financial derivative instruments that are:

- (1) transacted on an exchange where the clearing house performs a central counterparty role; and
  - (2) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis;
- (b) Subject to paragraphs (a) and (4), the aggregate value of each Sub-Fund's investments in, or exposure to, entities within the same group through the following may not exceed 20% of its total net asset value:
    - (1) investments in securities issued by those entities;
    - (2) exposure to those entities through underlying assets of financial derivative instruments; and
    - (3) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of paragraphs (b) and (c), entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards are generally regarded as "entities within the same group";

- (c) The value of each Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of its total net asset value, except under the following circumstances:
  - (1) cash held before the launch of each Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (2) cash proceeds from liquidation of investments prior to the merger or termination of each Sub-Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
  - (3) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

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

- (d) a Sub-Fund may not hold more than 10% of any ordinary shares issued by any single entity;
- (e) not more than 15% of the Net Asset Value of a Sub-Fund may consist of securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded;
- (f) (1) the value of the Sub-Fund's investment in units or shares in other collective investment schemes (namely "underlying schemes") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) or not authorized by the SFC may not in aggregate exceed 10% of its total net asset value;

- (2) the value of the Sub-Fund's investment in units or shares in each underlying scheme which is either eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or scheme authorized by the SFC may not exceed 30% of its total net asset value, unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the offering document of the Sub-Fund,

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

- (g) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the UTMF Code;
- (h) each Sub-Fund may not invest in physical commodities unless otherwise approved by the Commission on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (i) notwithstanding paragraphs (a), (b) and (d), not more than 30% of the Net Asset Value of a Sub-Fund may consist of government and other public securities of a single issue;
- (j) subject to paragraph (i) above, a Sub-Fund may be fully invested in Government and other public securities issued by a single issuer provided that it holds Government and other public securities of at least six different issues. For the avoidance of doubt, government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise; and
- (k) the liability of Unitholders must be limited to their investments in a Sub-Fund.

The Manager shall not on behalf of any Sub-Fund(s):-

- (i) invest in a security of any class in any company or body if any director or officer of the Manager individually own 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;
- (ii) invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies and interests in real estate investment trusts (REITs));
- (iii) make short sales if as a consequence the liability of such Sub-Fund to deliver securities would exceed 10% of the total Net Asset Value of such Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);
- (iv) lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person;
- (v) acquire any asset or engage in any transaction for the account of that Sub-Fund which involves the assumption of any liability by the Trustee which is unlimited;
- (vi) apply any part of the relevant Sub-Fund in the acquisition of any investments where a call is due to be made for any sum unpaid unless such call could be met in full out of cash or near cash forming part of such Sub-Fund which has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments and shall not be entitled without the consent of the Trustee to apply any part of the relevant Sub-Fund in the acquisition of any other investment which is in the opinion of the Trustee likely to involve the Trustee in any liability (contingent or otherwise).

In respect of investments in financial derivative instruments ("FDI"), the Manager shall observe the following restrictions:

- (1) the Sub-Funds may acquire FDI for hedging purposes. For the purposes of this paragraph (1), FDIs are generally considered as being acquired for hedging purposes if they meet all the following criteria:
- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions;

- (2) the Sub-Funds may also acquire FDIs for non-hedging purposes subject to the limit that the Sub-Fund's exposure relating to these FDIs ("**net derivative exposure**") does not exceed 50% of its total Net Asset Value;
- (3) subject to paragraphs (2) and (4), the Sub-Fund may invest in FDIs provided that the exposure to the underlying assets of the FDIs, together with the other investments of the Sub-Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in paragraphs (a), (b), (c), (f), (g), (i), (j) and (ii) above;
- (4) the FDIs invested by the Sub-Fund should be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the restrictions under Chapter 7 of the UTMF Code;
- (5) the Manager shall at all times take reasonable steps to enable the Sub-Fund to meet all the payment and delivery obligations incurred by the Sub-Fund under transactions in FDIs (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in FDIs are adequately covered on an ongoing basis. For the purpose of this paragraph (5), assets that are used to cover the Sub-Fund's payment and delivery obligations incurred under transactions in FDIs should be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes;
- (6) subject to paragraph (5), a transaction in FDIs which gives rise to a future commitment or contingent commitment of a Sub-Fund should be covered as follows:
  - (a) in the case of FDIs transactions which will, or may at the Sub-Fund's discretion, be cash settled, the Sub-Fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
  - (b) in the case of FDIs transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Sub-Fund should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Sub-Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation; and
- (7) the requirements under paragraphs (1) to (6) shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an "embedded financial derivative" is a financial derivative instrument that is embedded in another security.

As at the date of this Explanatory Memorandum, the Manager does not have any intention to enter into any securities lending, repurchase agreement and reverse repurchase transactions in respect of any Sub-Fund, unless otherwise disclosed in the Appendix of the relevant Sub-Fund. If the Manager subsequently determines that a securities lending, repurchase agreement and reverse repurchase transactions shall be entered into in respect of a Sub-Fund, prior written notice will be given to Unitholders and this Explanatory Memorandum will be updated to contain the relevant details.

A Sub-Fund will not incur any leverage arising from the use of any financial derivative instruments.

The Manager may borrow up to 10% of the latest available Net Asset Value of each Sub-Fund. The assets of a Sub-Fund may be charged or pledged as security for any such borrowings. In addition, the assets of a Sub-Fund may be charged to secure a guarantee given in favour of Unitholders in such Sub-Fund.

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. The Manager is not required to sell investments if any of the investment restrictions are exceeded as a result of changes in the value of the relevant Sub-Fund's investments, reconstructions or amalgamations, payments out of the assets of the Sub-Fund or realisation of Units but for so long as such limits are exceeded the Manager will not acquire any further investments subject to the relevant restriction and will take all reasonable steps to restore the position so that the limits are no longer exceeded.

## Expenses and Charges

The current rates of management fee and trustee fee for each Sub-Fund are set out in the relevant Appendix. The maximum level of the management fee is 2.5% per annum of the Net Asset Value of the Sub-Fund and the maximum level of the trustee fee is 1% per annum of the Net Asset Value of the Sub-Fund. The Manager will give 3 months' prior notice to affected Unitholders should there be any increase in the management and/or trustee fee from the current level up to the maximum levels. Any increase above the maximum level will only be implemented following the consent of affected Unitholders at an extraordinary general meeting.

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, each one of the Sub-Fund(s) will bear such costs in proportion to its respective Net Asset Value. Such costs include but are not limited to the costs of investing and realising the investments of the Sub-Fund(s), the fees and expenses of custodians of the assets of the Fund, the fees and expenses of the 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.

The costs of establishment of the Fund and each Sub-Fund will be disclosed in the relevant Appendix. If further Sub-Funds are launched, such costs will be allocated amongst the Sub-Funds according to their respective Net Asset Values except for those costs which the Manager shall decide to pay out of its own resources. If any Sub-Fund is wound-up prior to the expenses being fully amortised, such unamortised amount will be borne by the relevant Sub-Fund before its termination.

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

Neither the Manager, delegate and sub-delegate of the Manager nor any of its Connected Persons will receive cash commissions or other rebates from brokers or dealers in respect of transactions for the account of a Sub-Fund.

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

### **Taxation**

Each prospective Unitholder should inform himself of, and where appropriate take advice on, the taxes applicable to the acquisition, holding and realisation of Units by him under the laws of the places of his citizenship, residence and domicile.

#### **Hong Kong**

##### The Fund/Sub-Funds

###### 1. Profits Tax

As the Fund/ Sub-Funds have been authorised, as a collective investment scheme under Section 104 of the Securities and Futures Ordinance, profits of the Fund/ Sub-Funds are exempt from Hong Kong Profits Tax under Section 26A(1A)(a)(i) of the Inland Revenue Ordinance.

###### 2. Stamp duty

Hong Kong Stamp Duty is ordinarily payable, inter alia, on the sale or purchase of Hong Kong stock. "Hong Kong stock" is defined in the Stamp Duty Ordinance ("SDO") as "stock" (as further defined in the SDO) the transfer of which is required to be registered in Hong Kong.

No Hong Kong Stamp Duty is payable by the Fund/ Sub-Funds on an issue of Units, as well as on redemption of Units where the redemption is effected by extinguishing the Units.

##### The Unitholders

###### 1. Profits Tax

Unitholders should not be subject to Hong Kong Profits Tax in respect of income distributions of the Fund/Sub-Funds or in respect of any capital gains arising on a sale, redemption or other disposal of Units in accordance with the practice of the Inland Revenue Department (the "IRD") (as at the date of this Explanatory Memorandum), except that Hong Kong Profits Tax (which is currently charged at the rate of 16.5% for corporations, and 15% for individuals or unincorporated business) may arise on any gains or profits sourced in Hong Kong made on the sale, redemption or other disposal of the Units where such transactions form part of a trade, profession or business carried on by a Unitholder in Hong Kong and such Units are not capital assets to the Unitholder. Unitholders should seek advice from their own professional advisers as to their particular tax position.

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

###### 2. Stamp duty

No Hong Kong Stamp Duty is payable by a Unitholder in relation to an issue of Units or on the redemption of Units where the sale or transfer of the Units is effected by extinguishing the Units.

Other types of sales or purchases or transfers of the Units by the Unitholders should be liable to Hong Kong Stamp Duty at 0.1% (borne by each of the buyer and seller) on the higher of the consideration amount or market value.

## China

By investing in China shares (including but not limited to China A-Shares and China B-Shares), onshore and offshore RMB denominated debt securities issued by PRC tax resident enterprises, (“China Securities”), a Sub-Fund may be subject to taxes imposed by the PRC.

Income (including interest income and capital gains) derived from the Sub-Fund’s investments in debt securities issued by non-PRC tax resident issuers outside China should not be subject to PRC taxes.

### 1. Corporate Income Tax (“CIT”)

If the Fund or a Sub-Fund is considered as a PRC tax resident enterprise, it will be subject to PRC CIT at 25% on its worldwide taxable income; if the Fund or Sub-Fund is considered as a non-PRC tax resident enterprise with an establishment or place of business (“PE”) in China, the profits and gains attributable to that PE would be subject to PRC CIT at 25%.

It is the intention of the Manager to manage and operate the affairs of the Manager, the Fund and each Sub-Fund such that they should not be treated as tax resident enterprises of the PRC or non-PRC tax resident enterprises with PE in China for PRC CIT purposes, although this cannot be guaranteed. As such, it is expected that the Fund or Sub-Fund would only be subject to CIT at a rate of 10% on a withholding basis (“WIT”) in China to the extent the Fund or Sub-Fund directly derives PRC sourced income in respect of its investments in China Securities.

#### (a) *Dividends and Interest*

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, non-PRC tax resident enterprises without PE in China are subject to PRC WIT, generally at a rate of 10%, to the extent it directly derives PRC sourced passive income (such as dividend income or interest income) arising from investment in China Securities. In that respect, interests, dividends and profit distributions from PRC tax resident enterprises received by the Sub-Fund is generally subject to PRC WIT at a rate of 10%, unless such WIT is subject to reduction or exemption in accordance with the laws and regulations or applicable tax treaty.

In respect of interest, under the PRC CIT Law and regulations, interest derived from government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council is exempt from PRC income tax. In addition, Caishui [2018] No.108 (“Notice 108”) deals with the PRC taxation rules in relation to foreign investors investing into PRC onshore bond market. Under Notice 108, CIT is temporarily exempted on bond interest income arising in the period from 7 November 2018 to 6 November 2021 derived by foreign investors without any taxable presence in the PRC.

Further, under the Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the “PRC-HK Arrangement”), the PRC WIT charged on interest received by Hong Kong resident holders of debt instruments issued by PRC tax resident enterprises will be 7% of the gross amount of the interest, if the Hong Kong tax resident holders are the beneficial owners of the interest under the PRC-HK Arrangement and other relevant conditions are satisfied, subject to the agreement of the PRC tax authorities. In practice, due to the practical difficulties in demonstrating that an investment fund is the beneficial owner of the interest received, such investment fund is generally not entitled to the reduced PRC WIT rate of 7%. As such, the prevailing rate of 10% should be applicable to the Sub-Fund.

In respect of dividends, pursuant to the PRC-HK Arrangement, the PRC WIT charged on dividends received by Hong Kong tax resident holders of shares issued by PRC tax resident enterprises will be 5% of the gross amount of the dividends, if the Hong Kong tax resident holders are the beneficial owners of the dividends, directly hold at least 25% of the equity of the company paying the dividends and meet other relevant treaty conditions. Due to the investment restriction, the relevant Sub-Fund will not hold more than 10% of any ordinary shares issued by any single issuer. In this connection, dividends derived from China A-Shares will not benefit from the reduced PRC WIT rate of 5% and the prevailing PRC WIT tax rate of 10% is applicable to the relevant Sub-Fund.

The Manager will make a WIT provision of 10% for the account of the relevant Sub-Fund on dividends and interest if the WIT is not withheld at source.

#### (b) *Capital gains*

For a foreign enterprise that is not a PRC tax resident enterprise and has no PE in China, a 10% PRC WIT would be imposed on the China-sourced capital gains derived by it, unless exempt or reduced under the laws and regulations or relevant tax treaty entered into by China.

i) Trading of A-Shares via Stock Connect (“Stock Connect”)

Caishui [2014] No.81 (“Notice 81”) deals with the PRC taxation rules in relation to Shanghai-Hong Kong Stock Connect. Under Notice 81, CIT, business tax (replaced by value-added tax), and individual income tax are temporarily exempted on gains realized by Hong Kong market investors (including the relevant Sub-Fund) on the trading of A shares through Shanghai-Hong Kong Stock Connect. In addition, dividends will be subject to 10% PRC WIT and the company distributing the dividend has the withholding obligation.

Caishui [2016] No.127 (“Notice 127”) deals with the PRC taxation rules in relation to Shenzhen-Hong Kong Stock Connect. Under Notice 127, CIT, value-added tax and individual income tax are temporarily exempted on gains realised by Hong Kong market investors (including the relevant Sub-Fund) on the trading of A shares through Shenzhen-Hong Kong Stock Connect. In addition, dividends are subject to 10% PRC WIT and the company distributing the dividend has the withholding obligation. At the time when Shenzhen-Hong Kong Stock Connect was launched, business tax had already been fully replaced by value added tax.

ii) Trading of PRC B-shares

Under current PRC tax laws and regulations, there are no specific rules or regulations governing the taxation of a gain on disposal of B-shares. Hence, the tax treatment for investment in B-Shares is governed by the general tax provisions of the CIT Law. Under such general tax provisions, the Sub-Fund could be technically subject to 10% PRC WIT on the PRC sourced capital gains, unless exempt or reduced under relevant double tax treaties.

However, for B-Shares invested by the Sub-Fund directly, there may be practical difficulty for the PRC tax authorities to impose and collect PRC WIT on such capital gains. The 10% PRC WIT has not been strictly enforced by local tax bureau on capital gains realised by non-PRC tax resident enterprises from the trading of B-shares with sales and purchase effected through stock exchanges.

iii) Trading of onshore and offshore RMB denominated debt securities issued by PRC tax resident enterprise

Under current PRC tax law, there are no specific rules or regulations governing the taxation of gain on disposal of debt securities issued by PRC tax resident enterprises. Under the general tax provision, the Sub-Fund would potentially be subject to 10% PRC WIT on the PRC-sourced capital gains, unless exempt or reduced under relevant double tax treaties.

Based on the verbal interpretation of the State Tax Administration and the local PRC tax authorities, capital gains realised by foreign investors from investment in PRC debt securities issued by PRC tax resident enterprises should not be treated as PRC sourced income and thus should not be subject to PRC WIT. There are no specific written tax regulations issued by the PRC tax authorities to confirm that gains on disposal of PRC debt securities are non-PRC sourced and hence not subject to PRC WIT. However, in practice, the PRC tax authorities have not actively enforced the collection of PRC WIT in respect of gains derived by non-PRC tax resident enterprises from the trading of debt securities.

iv) Tax Provision

It should be noted that the existing tax laws, regulations and practices may be revised or amended in the future, with the possibility that such changes will be applied with retrospective effect. In order to meet the potential tax liability for capital gains, the Manager reserves the right to provide for PRC WIT on such gains or income and withhold the tax for the account of the Sub-Fund. However, having consulted a professional and independent tax adviser, pursuant to Notice No. 81 and the aforementioned practical enforcement of tax collection, the Manager has determined not to make PRC WIT provision for gross realised or unrealised capital gains derived by the Sub-Fund from trading of China Securities.

If the Sub-Fund is subject to tax in respect of which the Manager has not made any provision, investors should note that the net asset value of the Sub-Fund may be reduced, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the Sub-Fund. On the other hand, if the actual tax liabilities are lower than the tax provision made (if any), Unitholders who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

2. Value Added Tax (“VAT”)

(a) *Interest*

Caishui [2016] No.36 (“Notice 36”) deals with the PRC taxation rules on VAT. Under Notice 36, interest on government bonds is exempt.

Notice 36 does not specifically exempt VAT on interest earned by non-financial institutions. However, Notice 108 temporarily exempts VAT on bond interest income arising in the period from 7 November 2018 to 6 November 2021 derived by foreign investors without any taxable presence in the PRC. In the event VAT exemption on bond interest derived by foreign investors under Notice 108 would not be extended by 6 November 2021, interest on corporate bonds in theory should be subject to 6% VAT.

(b) *Dividends*

Dividend income or profit distributions on equity investments derived from China are not included in the taxable scope of VAT.

(c) *Capital gains*

Notice 36 stipulates that gains derived by taxpayers from the trading of marketable securities would be subject to VAT at 6%. It also stipulates that VAT is temporarily exempt on capital gains derived by Hong Kong market investors (including the Sub-Fund) on the trading of A-Shares through Shanghai-Hong Kong Stock Connect.

For marketable securities other than those trading through a Qualified Foreign Institutional Investors or Stock Connect, Notice 36 provides that VAT at 6% should be levied on the difference between the selling and buying prices of those marketable securities. However, capital gains derived from trading of offshore marketable securities (e.g. China H-shares) in general are regarded as not subject to VAT as the purchase and disposal are often concluded and completed outside China.

Where VAT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as a sum of surtaxes of 12% of 6% VAT payable (or an additional 0.72%).

3. Stamp duty

Stamp duty under PRC law generally applies to the execution and receipt of all taxable documents listed in the PRC's Provisional Rules on Stamp Duty. Stamp duty is levied on the execution or receipt in China of certain documents, including contracts for the sale of China A-Shares and China B-Shares traded on the PRC stock exchanges, at the rate of 0.1%. In the case of contracts for sale of China A-Shares and China B-Shares, such stamp duty is currently imposed on the seller but not on the purchaser.

4. General

It is possible that the current tax laws, regulations and practice in the PRC will change, including the possibility of taxes being applied retrospectively, and that such changes may result in higher taxation on PRC investments than currently contemplated.

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in China will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the relevant Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in China which a Sub-Fund invests in, thereby reducing the income from, and/or value of the Units. For further details relating to the associated risks, please refer to the risk factor headed "PRC tax risk with respect to capital gains" in the Appendix for the relevant Sub-Fund.

Unitholders should seek independent professional advice on their positions with regard to the investment in any Sub-Fund.

## Financial Reports and Accounts

The Fund's financial year end is on 30 June in each year. Audited annual reports in USD will be made available to Unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited semi-annual reports are also made available to Unitholders by the Manager within two months after 31 December in each year, the first of such reports to be made up for the period ending 31 December 2003. The annual reports must be prepared in compliance with internationally recognized accounting standards and the interim reports must apply the same accounting policies and method of computation as are applied in the annual reports of the Fund. The annual audited reports and unaudited semi-annual reports will be published in English and Chinese and contain a statement of the Net Asset Value of each Sub-Fund and of the investments comprising its portfolio.

Unitholders will be notified of where they can obtain the printed and electronic copies of the latest audited annual reports or the unaudited semi-annual reports once they are available. Such notices will be sent to Unitholders as soon as practicable and in any event within four months after the end of each financial year as in the case of audited annual reports and within two months after 31 December in each year as in the case of unaudited semi-annual reports. Once issued, such reports will be available in softcopy from the website [www.principal.com.hk](http://www.principal.com.hk) and in hardcopy for inspection free of charge at anytime during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the office of the Manager. Investors should note that the above website does not form part of the Explanatory Memorandum and its contents have not been reviewed by the SFC (other than the contents which are required to be and have been authorized by the SFC pursuant to the Securities and Futures Ordinance such as retirement products).



## Distribution of Income

The distribution policy of a Sub-Fund will be set out in the relevant Appendix.

## Voting Rights

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

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

## Publication of Prices

The Net Asset Value per Unit of each Sub-Fund at each Valuation Day will be calculated and published daily on the website [www.principal.com.hk](http://www.principal.com.hk). The website has not been reviewed by the SFC.

## Transfer of Units

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

## Trust Deed

The Fund was originally established under the laws of the Cayman Islands by a Trust Deed dated 24 October 2002 made between Principal Fund Management (Hong Kong) Limited as manager and HSBC Trustee (Cayman) Limited as trustee, as amended by four supplemental deeds dated 21 July 2003, 28 September 2004, 10 December 2007 and 30 October 2015 respectively. By a deed of retirement and appointment dated 12 January 2006, Principal Trust Company (Asia) Limited replaced HSBC Trustee (Cayman) Limited as the trustee of the Fund. By a deed of retirement and appointment dated 23 August 2007, Principal Asset Management Company (Asia) Limited replaced Principal Fund Management (Hong Kong) Limited as the manager of the Fund. By a deed of variation dated 30 October 2015, the Trustee declared that from 30 November 2015 the Fund shall take effect in accordance with the laws of Hong Kong. With effect from that date, the Fund shall be subject to and governed by the laws of Hong Kong. The Trust Deed was further amended by an Amended and Restated Trust Deed dated 1 January 2020 to reflect the latest regulatory changes applicable to the Fund.

## Termination of the Fund or any Sub-Fund

The Fund shall continue for a period of 100 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Fund may be terminated by the Trustee in the following events (provided that the Trustee shall certify that in its opinion, the proposed termination is in the interest of Unitholders) namely if (a) within 30 days of the Manager leaving office, no new manager is appointed or (b) if in the opinion of the Trustee the Manager is incapable of performing or fails to perform its duties satisfactorily or (c) if the Manager goes into liquidation or (d) if the Trustee desires to retire and the Manager fails to find a new trustee qualified to act as trustee in the place of the retiring Trustee. The Trustee may also terminate the Fund if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund.

The Fund or any Sub-Fund may be terminated by the Manager (a) if on any date, in relation to any Sub-Fund, the aggregate net asset value of the Units outstanding in respect of such Sub-Fund shall be less than USD2 million or (b) if any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable, in consultation with the SFC to continue the Fund or such Sub-Fund or (c) if the Fund and/or any Sub-Fund (as the case may be) shall cease to be authorised or otherwise officially approved by the SFC. Three months' notice of any termination will be given to Unitholders. Furthermore, at any time the Unitholders of any Sub-Fund may authorise termination of such Sub-Fund by Extraordinary Resolution.

Upon the Fund or any Sub-Fund being terminated, any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve months from the date upon which the same were payable be paid into court subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

## Liquidity Risk Management

The Manager has established a liquidity risk management policy with the aim of enabling it to identify, monitor, manage and mitigate the liquidity risk of the Sub-Funds and seeking to ensure that the liquidity profile of the investments of the Sub-Funds will facilitate compliance with the Sub-Funds' obligation to meet investors' redemption requests and the fair treatment of investors.

The Manager's liquidity risk management policy takes account of the investment strategy, the dealing frequency, the expected redemption patterns and the liquidity profile of the underlying assets of the Sub-Funds and the overall liquidity of the market, as well as the ability to enforce redemption limitations of the Sub-Funds.

Before investments are made in the underlying securities of a Sub-Fund, the Manager will consider the size of the issue or the issuer of the relevant underlying securities and the proportion of the intended investment. The liquidity risk management policy involves monitoring the profile of investments held by the Sub-Funds and analysing the liquidity in the underlying securities on an on-going basis with the aim to ensure that such investments are appropriate to the redemption policy as stated under the section titled "Redemption of Units", and will facilitate compliance with the Sub-Funds' obligation to meet redemption requests. The liquidity risk management policy also provides for periodic stress testing on the liquidity risk of the Sub-Funds.

The Manager's liquidity risk management function is independent from the investment portfolio management function and is responsible for monitoring of the Sub-Funds' liquidity risk in accordance with the Manager's liquidity risk management policy. The liquidity risk management function is overseen by senior management who are responsible for liquidity risk management.

In performing its liquidity risk management function, the Manager may utilise one or more liquidity risk management tools on an on-going basis, including, but not limited to:-

- the Manager may, with the approval of the Trustee, limit the number of Units of any Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total net asset value of such Sub-Fund (subject to the restrictions set out in the section titled "Restrictions on Redemption"); and
- the Manager may, in certain circumstances with the consent of the Unitholders concerned, effect a redemption payment to the redeeming Unitholders in specie or in kind rather than in cash (for further details, see the section titled "Realisation of Units" of the Appendix of the relevant Sub-Fund).

## Documents Available for Inspection

Copies of the Trust Deed and the latest annual and semi-annual 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 at 30/F Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon.

## Enquiries and Complaints

If you have any enquires or complaints, please contact our customer service hotline at (852) 2117 8383 or email to Investors-Asia@principal.com or send to the office of the Manager. All the enquiries and complaints would be handled as soon as reasonably practicable.

## Anti-Money Laundering Regulations

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering, the Manager and/or the Trustee may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:-

- (a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or
- (b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

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

## Foreign Account Tax Compliance Act (“FATCA”)

The Hiring Incentives to Restore Employment Act (the “Hire Act”) was signed into US law in March 2010. It includes provisions generally known as Foreign Account Tax Compliance Act (“FATCA”). FATCA imposes a 30% withholding tax on certain types of income from US sources, including dividends and interest from securities of US issuers with effect from 1 July 2014. The objective of FATCA is to impose obligations on non-US financial institutions to identify and appropriately report on the assets held by US taxpayers outside the United States as a safeguard against US tax evasion.

On 13 November 2014, Hong Kong entered into an intergovernmental agreement (“IGA”) with the United States to implement FATCA for all Hong Kong based financial institutions adopting “Model 2” IGA arrangements. Hong Kong financial institutions, including the Fund and the Sub-Funds are required to report to the US tax authorities (the “IRS”) the details of assets held by US taxpayers with those financial institutions and payments made to nonparticipating foreign financial institutions (“NPFFI”) during 2015 and 2016. Pursuant to the IGA, the Fund is classified as a deemed-compliant foreign financial institution as it has elected to be sponsored by the Manager, Principal Asset Management Company (Asia) Limited. The Manager has registered with the IRS as a sponsoring entity and been assigned the Global Intermediary Identification Number (“GIIN”) E2QA10.00000.SP.344 in that capacity and has agreed to carry out the FATCA responsibilities of the Fund, including registration of the Sub-Funds with the IRS which has assigned a GIIN to each Sub-Fund. Under the terms of the IGA, the Fund as a deemed-compliant foreign financial institution is not subject to any US withholding taxes, unless it is considered to be in substantial non-compliance with the relevant requirements under FATCA or the IGA.

The Manager, on behalf of the Fund, is required to obtain mandatory evidence from each new Unitholder as to whether it is a US person or a NPFFI within the meaning of IGA. The Manager is also required to identify any existing Unitholder as a US person or a NPFFI within the meaning of the IGA based on the records the Fund holds.

Further, the Manager on behalf of the Fund is required to disclose such information as may be required under the IGA and FATCA to the IRS in relation to any Unitholder who is considered to have become a US person or a NPFFI within the meaning of the IGA.

Investors should consult their own tax advisers regarding any potential obligations and implications that the IGA or FATCA, may impose on them and the Fund.

In addition, as the Fund does not pay US source income to Unitholders, the Fund is not required to withhold any US taxes from distribution or redemption payments unless Hong Kong agrees before any prescribed deadline with the IRS that such withholding should be applied.

**Investors are advised to refer to the risk factor headed “Risks associated with Foreign Account Tax Compliance Act” in the Appendix of the relevant Sub-Fund for risks associated with the Foreign Account Tax Compliance Act.**

## Automatic Exchange of Financial Information

Financial institutions in Hong Kong and many other jurisdictions are required to identify account holders who are reportable foreign tax residents under the laws, regulations and international agreements for the implementation of automatic exchange of financial account information (“AEOI”), and report the information of account holders and controlling persons of certain entity account holders (including but not limited to their names, addresses, dates of birth, places of birth/incorporation, jurisdiction(s) of tax residence, tax identification number(s) in the relevant jurisdiction(s) and account information (including but not limited to their account balance, income, and payments to the account holders) (collectively, the “Reportable Information”) to the local tax authority where the financial institutions operate. The local tax authority, in respect of a reportable foreign tax resident, will provide the Reportable Information of the reportable foreign tax resident to the tax authority of the country of tax residence of the reportable foreign tax resident on a regular, annual basis.

The Fund is a Hong Kong financial institution for AEOI purposes. As required under AEOI of Hong Kong, the Fund will use for the purposes of AEOI the Reportable Information of any individual or entity, in the capacity as a Unitholder, that is considered under AEOI to be an “account holder” or “controlling person” of an “account holder” (where applicable). The Reportable Information may be transmitted to the IRD for transfer to the tax authority of another jurisdiction.

The Fund may, to the extent not prohibited by applicable law including AEOI, engage, employ or authorise any individual or entity (including but not limited to third-party service providers, the Trustee’s or the Manager’s affiliates, subsidiaries, associated entities, and any of their branches and offices) (each, for purposes of this section, an “authorised person”) to assist the Fund with the fulfilment of its obligations under AEOI, and to act on the Fund’s behalf in relation to its obligations under AEOI. The Fund and its authorised persons may share with each other any information of any “account holder” and “controlling person” of an “account holder” (where applicable) of the Fund.

The Fund and/or any of its authorised person(s) may require any “account holder” under AEOI to provide a valid self-certification form and such other information (including the Reportable Information and any documentary evidence) which the Fund and/or any of its authorised person(s) may require from time to time for the implementation of AEOI (collectively, the “Required Information”). In addition, where the “account holder” is an entity, the Fund and/or its authorised person(s) may require the Required Information of its “controlling person(s)”.

Where required by AEOI and to the extent not prohibited by applicable law, the Fund will not accept any applicant or make any payment to any “account holder” (in the capacity of a Unitholder) before receiving the Required Information. “Account holders” and “controlling persons” must update the Fund and/or any of its authorised person(s) about any changes in the information they have previously provided to the Fund and/or any of its authorised person(s). If the Fund and/or any of its authorised person(s) do not receive the Required Information in respect of an “account holder” or a “controlling person”, the Fund and/or any of its authorised person(s) may be required to report such person based on the information they have.

**Unitholders and any other “account holders” and “controlling persons” should consult their own tax advisers regarding the possible implications of AEOI on their participation and holding interests in the Fund and the information that may be required to be provided and disclosed to the Fund and/or any of its authorised person(s), and where applicable, to the IRD and other tax authorities. The application of the AEOI rules and the information that may be required to be reported and disclosed are subject to change. Please see the IRD website ([https://www.ird.gov.hk/eng/tax/dta\\_aeoi.htm](https://www.ird.gov.hk/eng/tax/dta_aeoi.htm)) for more information about AEOI in Hong Kong. Any discussion of tax considerations herein is not intended or written to be tax advice to any person and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any domestic or foreign tax penalties that may be imposed on such person.**

## Conflicts of Interest

The Manager, its delegated investment manager and its sub-delegates, if any, (collectively “the Delegates”) and the Trustee 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 of them may, in the course of business, have potential conflicts of interest with the Fund. Each will, at all times, have regard in such event to its obligations to the Fund; its obligation under the Trust Deed and other contractual agreements in relation to the Fund, and will endeavour to ensure that such conflicts are resolved fairly. In any event, the Trustee has a fiduciary duty to the Unitholders and at all times act in a manner consistent with its fiduciary obligation. The Trustee shall exercise due care to ensure that the assets of the Fund are segregated from its personal assets and take reasonable care to protect the interest of Unitholders. The Manager shall ensure that all investment opportunities will be fairly allocated and any such transactions will be carried out on normal commercial terms negotiated at arm’s length, executed on best terms and are in the best interest of Unitholders.

The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest including conducting all transactions in good faith at arm’s length and in the best interests of the Fund on normal commercial terms. If conflicts arise, each will at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are resolved fairly and taking into account investors’ interests. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

Subject to the restrictions and requirements applicable from time to time, the Manager, the Delegates or any of their respective Connected Persons may deal with any Sub-Fund as principal provided that dealings are effected on best available terms negotiated and on an arm’s length basis and in the best interests of the Unitholders. Any transactions between a Sub-Fund and the Manager, the Delegates or any of their Connected Persons as principal may only be made with the prior written consent of the Trustee. All such transactions shall be disclosed in the Fund’s annual report.

In effecting transactions for the account of any Sub-Fund with brokers or dealers connected to the Manager, subdelegates of the Manager or their Connected Persons, the Manager shall ensure that it complies with the following requirements:

- (a) such transactions should be on arm’s length terms;
- (b) the Manager must use due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (c) transaction execution must be consistent with applicable best execution standards;
- (d) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
- (e) the Manager must monitor such transactions to ensure compliance with its obligations; and
- (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the annual report of the Fund.

If cash forming part of the Fund’s assets is deposited with the Trustee, the custodian, the Manager, the Delegates or with any Connected Persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders, having regard to the prevailing rate for deposits of similar type, size and term, negotiated at arm’s length in accordance with ordinary and normal course of business.

The Manager may enter into trades for the account of the Fund with the accounts of other clients of the Manager or its affiliates (“cross trades”). Such cross trades will only be undertaken where the sale and purchase decisions are in the best interests of both clients and fall within the investment objective, restrictions and policies of both clients, the cross trades are executed on arm’s length terms at current market value, the reasons for such cross trades are documented prior to execution, and such activities are disclosed to both clients. Cross trades may also be entered into between house accounts (i.e. account owned by the Manager or any of its Connected Persons over which it can exercise control and influence) and client accounts in accordance with applicable laws and regulations.

The Delegates manage an extensive range of domestic and international equity, fixed income securities and derivatives for a variety of clients including pension funds, retirement plans, mutual funds and large institutional clients. The Delegates have adopted policy and procedures to govern their activities to seek best price and execution for transactions in the Sub-Funds managed by the Delegates. The Delegates maintain separate and distinct trading policies and procedures for its Equity (“Equity Trading Policies and Procedures”), and Fixed Income Trading departments (“FI Trading Policies and Procedures”) (collectively, the “Trading Policies”). The Trading Policies include trading policies and procedures with respect to order aggregations and allocations, trade errors, and IPOs, among others. The Delegates maintain a separate soft dollar policy and procedures to govern soft dollar activities.

Employees of the Trustee are required to act in accordance with its code of ethics policy. The policy serves as the foundation for ethical behaviour across the company, in particular, setting out policies and procedures on fair dealing, acceptance of gifts and entertainment and preventing conflicts of interests. In addition employees of the Manager and the Delegates are also required to comply with their insider trading policy and code of ethics. The principal objectives of the code of ethics are to provide policies and procedures consistent with applicable laws and regulations, including Rule 204A-1 under U.S Investment Advisers Act of 1940 (where applicable); and to prevent conflicts of interests or the appearance of such conflicts when officers, directors, supervised persons, employees and other persons of them own or engage in transactions involving securities.

## **Risk Management Process**

To identify, monitor, measure and manage the risks associated with the Fund, taking into account the nature, scale and complexity of the business of the Manager and the investment objective and strategy of each Sub-Fund, the Manager has formalized an internal control policy and employed a comprehensive risk management process in line with the above criteria and considerations. Such policy/process includes investment compliance monitoring, on-going monitoring of (i) the Fund’s investment and asset allocation; (ii) the performance of the Fund; and (iii) the qualification of the service providers appointed.

## Appendix I

### Introduction

The first Sub-Fund of the Fund is Principal Asia Pacific High Dividend Equity Fund.

### Investment Objectives and Policies

The primary investment objective of Principal Asia Pacific High Dividend Equity Fund is to achieve high current income through investing in a diversified portfolio of listed securities in the Asia Pacific region, including but not limited to the following countries: Australia, China, Hong Kong, Indonesia, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan and Thailand. The Manager does not currently intend to invest in Japan but may do so in the future if suitable investment opportunities arise. The Manager will focus on companies which demonstrate strong corporate fundamentals and offer the potential for superior dividend yields. The Principal Asia Pacific High Dividend Equity Fund will also seek to achieve capital appreciation with relatively moderate to high volatility commensurate with investing in equities.

The Principal Asia Pacific High Dividend Equity Fund may also on an ancillary basis from time to time hold cash, deposits and instruments with floating or fixed rates such as certificates of deposits, bankers' acceptances and commercial paper.

The Principal Asia Pacific High Dividend Equity Fund may enter into any financial futures contracts, financial option contracts and currency forward contracts for hedging purposes. The Principal Asia Pacific High Dividend Equity Fund's net derivative exposure may be up to 50% of its Net Asset Value.

### Charges and Expenses

#### Management Fees

In respect of the Income Class Units, the Manager is entitled to receive in arrears a monthly management fee in relation to the Sub-Fund, accrued on and calculated as at each Dealing Day, at the rate of 1.4% per annum of the Net Asset Value of such class of Units in the Sub-Fund.

In respect of the Accumulation Class Units – Institutional, the Manager is entitled to receive in arrears a monthly management fee in relation to the Sub-Fund, accrued on and calculated as at each Dealing Day, at the rate of 1.15% per annum of the Net Asset Value of such class of Units in the Sub-Fund.

The Manager is also entitled to receive a preliminary charge on the issue of Units in the Sub-Fund of up to 5% of the issue price of such Units.

On realisation of the Units by the Unitholders, the Manager is also entitled to receive a realisation charge of up to 1% of the realisation price of such Units.

On switching of the Units by the Unitholders, the Manager is entitled to receive a conversion charge on the conversion of Units in the Sub-Fund of up to 1% of the conversion price of such Units.

#### Trustee Fees

The Trustee is entitled to receive a trustee fee in relation to the Sub-Fund calculated and accrued as at each Dealing Day and payable monthly in arrears, equal to a percentage of the Net Asset Value of the Sub-Fund but subject to a minimum fee of USD15,000 per annum in relation to the Sub-Fund.

The current rate of the trustee and administration fee in relation to the Sub-Fund is as follows:

<u>Net Asset Value of the Sub-Fund</u>	<u>Rate of Trustee Fee</u>
On the first USD40 million	0.125% per annum
On the excess above USD40 million	0.08% per annum

In addition, the Trustee is entitled to receive a valuation fee and an annual registrar fee of USD2,000 payable on a pro-rata basis at the end of each month.

## General

The 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 particular Sub-Fund, each Sub-Fund will bear such costs in proportion to its respective net asset value.

The issue and realisation price of Units of the Sub-Fund may reflect an allowance for fiscal, purchase and sales charges (not exceeding 0.25% respectively) as provided under the section above headed “Calculation of Issue and Realisation Prices”.

The costs of establishment of the Fund and this Sub-Fund are approximately US\$60,000. Such costs will be borne by the Sub-Fund and amortised over a period of 5 years.

## Classes of Units

The following classes of Units are available for issue under the Sub-Fund:

- Income Class Units; and
- Accumulation Class Units – Institutional

Both the Income Class Units and Accumulation Class Units – Institutional of the Sub-Fund are currently offered to investors. The Accumulation Class Units – Institutional are offered to institutional investors only. All Units are denominated in U.S. Dollars.

## Subscription of Units

Units will be available for subscription on each Dealing Day, being every Business Day.

### Issues of Units

Units will be available for subscription on each Dealing Day. Subscriptions received by the Manager prior to 4:00 p.m. (Hong Kong time) (the “Dealing Deadline”) on a Dealing Day will be dealt with on that Dealing Day. Where subscriptions are received after such time or on a day which is not a Dealing Day, they will be carried forward and dealt with on the next Dealing Day.

The issue price of units of the Sub-Fund on a Dealing Day will be calculated by reference to the Net Asset Value per Unit of the Sub-Fund as at 6:00 p.m. Hong Kong time (the “Valuation Point”) on that Dealing Day and will be quoted as being inclusive of a preliminary charge of up to 5%.

### Subscription and Payment Procedure

Investors should refer to the above section “Purchase of Units” of the Explanatory Memorandum for details of the subscription and payment procedures.

### Minimum Investment and Initial Charge

In respect of the Income Class Units, the minimum initial investment in the Sub-Fund is US\$2,000 (inclusive of the preliminary charge). There is no minimum subsequent investment requirement.

In respect of the Accumulation Class Units – Institutional, the minimum initial investment in the Sub-Fund is US\$1,000,000 (inclusive of the preliminary charge). There is no minimum subsequent investment requirement.

The Manager, at its discretion, is entitled to a preliminary charge of up to 5% of the issue price of each Unit. The Manager may re-allow or pay all or part of the preliminary charge (and any other fees it receives) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine.

The Manager has an absolute discretion to accept or reject in whole or in part any subscription for Units. In the event that a subscription is rejected, subscription monies will be returned without interest by cheque through the post at the risk of the person(s) entitled thereto. No Units in the Sub-Fund will be issued where the determination of the Net Asset Value of the Sub-Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” above).

## Realisation of Units

Subject as mentioned below, any Unitholder may redeem the Unitholder’s Units on any Dealing Day in whole or in part. The Manager may levy a realisation charge of up to 1% of the realisation price per Unit.

Investors should refer to the above section “Realisation of Units” of the Explanatory Memorandum for details of the realisation procedures. A realisation request received by the Manager prior to the Dealing Deadline on a Dealing Day will be dealt with on that Dealing Day. Realisation requests received after such time or on a day which is not a Dealing Day will be carried forward and dealt with on the next Dealing Day.

Units realised on a Dealing Day will be realised at a price calculated by reference to the Net Asset Value per Unit of the Sub-Fund as at the Valuation Point on that Dealing Day. The Manager is entitled to a realisation charge of up to 1% of the realisation price of each Unit. **If at any time during the period from the time as at which the realisation price is calculated and the time at which realisation monies are converted out of any other currency into the base currency of the Sub-Fund there is a devaluation or depreciation of that currency, the amount payable to any relevant realising Unitholder may be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation.**

Subject to the respective realising unitholder’s prior consent having been obtained, the Manager has a discretion to effect a realisation payment to any or all realising unitholders in specie or in kind rather than in cash. The circumstances in which the Manager envisages exercising this discretion include, without prejudice to the generality of the foregoing, a situation where substantial realisation requests are received by the Sub-Fund which will make it impracticable to realise the underlying securities in order to fund the realisation payments. In making realisation payments in specie or in kind, the Manager will use the same valuation procedures used in determining the Net Asset Value of the Sub-Fund (see “Valuation” above) when determining the value to be attributed to the relevant securities to be transferred or assigned or otherwise made available to the realising unitholders. Realising unitholders will receive securities of a value equal to the realisation payment to which they would otherwise be entitled. Realising unitholders receiving the realisation payment in specie or in kind will be responsible for all custody and other costs involved in changing the ownership of the relevant securities from the Sub-Fund to the realising unitholder and for all ongoing custody costs in respect of such securities.

## Dividend Policy

### Income Class Units

For Income Class Units, the Manager at present intends to distribute all income (other than any realized gain on sale of investments, unrealized gain on investment and foreign exchange gain) or any part thereof received by the Sub-Fund attributable to such Units on a monthly basis. However, this is not a guarantee that such distributions will be made or that there will be a target level of income distribution for the Sub-Fund. The level and frequency of the income distributed by the Sub-Fund does not necessarily indicate the total return and income of the Sub-Fund.

The Manager intends to adopt a mechanism (the “**Mechanism**”) to smooth out any fluctuation in the level of distributions in respect of the Income Class Units of the Sub-Fund in each annual distribution cycle (i.e. from 1 July to 30 June of each year). Generally, the Mechanism is to reserve an amount of income from the underlying assets of the Sub-Fund during periods when the income received from the underlying assets are higher than the expected annualized dividend yield. In subsequent periods when the income from the underlying assets are lower than the expected annualized dividend yield, the income reserved from the previous periods may be utilised as dividends payments for the Sub-Fund. However, each dividend payment of the Sub-Fund will take into account the actual dividend yield, which will be constantly adjusted to reflect the latest information pertaining to the underlying assets of the Sub-Fund (including earning results and dividend announcements of the underlying stocks). Accordingly, where there is a significant decline in the market in a subsequent period, notwithstanding income from the earlier periods has been reserved, the level of dividend payments in subsequent periods may be lower than the level of dividend payments in the preceding periods in the annual distribution cycle. In the worst case scenario, the Manager may determine that no dividends payments will be made during subsequent periods of the annual distribution cycle. Accordingly, there is no guarantee that the level of dividend payments throughout the annual distribution cycle will be maintained at the same or similar level and there is no guarantee of regular distributions by the Sub-Fund.

The Manager may, in accordance with Clause 19.5 of the Trust Deed of the Fund, at its discretion determine to deduct all or any part of the fees as well as fund expenses from the capital of the Sub-Fund. In this regard, the fees as well as the fund expenses are all paid out of capital resulting in an increase in distributable income for the payment of dividend by the Sub-Fund and therefore the Sub-Fund would be considered to be effectively paying dividends out of capital.

However, the Manager may determine at his absolute discretion that no distribution shall be made (whether by way of interim distribution or final distribution) in respect of the Income Class Units.

Subject to receipt of dividend yields from the Sub-Fund’s underlying investments, where distributions payable to a Unitholder exceed US\$100, it will normally be paid by cheque by post (in US dollars, unless the Unitholder instructs otherwise), at the risk of the Unitholder entitled thereto, within eight weeks following the end of the relevant distribution period. Unitholders may also receive distribution payments through telegraphic transfer (after deduction of the relevant bank charges) by giving prior written instructions to the Manager.

Unitholders may by giving written instructions to the Manager elect to reinvest distributions to which they are entitled in subscribing for further Units in the Sub-Fund. Any distributions currently below US\$100 will automatically be reinvested in additional units for the account of the Unitholder entitled thereto.



The Manager may at its discretion pay dividend out of gross income while paying all or part of the fees and expenses attributable to the Income Class Units out of the capital of such Units, resulting in an increase in distributable income for the payment of dividends by the Income Class Units and therefore, the Sub-Fund may effectively pay dividend paid out of capital.

Investors should note that payment of dividend effectively out of capital amounts to a return or withdrawal of part of his/her original investment in the Income Class Units or from any capital gains attributable to that original investment. Any distributions involving payment of dividends effectively out of the capital of the Income Class Units may result in an immediate reduction of its net asset value per Unit.

Income equalisation policy is adopted for the Income Class Units. Income equalisation is a fund accounting policy that aims to ensure that the level of dividends (if any) distributed for a Unit in respect of a distribution period is not affected by changes in the number of Units in the Sub-Fund (e.g. due to subscription or redemption of Units) during such distribution period. Income equalisation policy will not affect Unitholders who hold their Units for an entire distribution period.

In relation to the subscription of a Unit, income equalisation policy generally means the Issue Price of a Unit may be deemed to include an amount of income (if any) accrued to the Unit from the date of last distribution to the date when the subscribed Unit is issued to the Unitholder. This effectively means that the first dividend payment of the subscribed Unit may include a repayment of an amount of capital to the Unitholder.

In relation to the realisation of a Unit, income equalisation policy generally means that the realisation proceeds receivable by an outgoing Unitholder will include a sum of income (if any) accrued to such Unit of the Sub-Fund from the date of last distribution to the date when the Unit is cancelled during a distribution period.

Subject to prior approval of the SFC, the Manager may amend the above-mentioned dividend policy in the future by giving the affected Unitholders not less than one (1) month's notice of such change.

The composition of the dividends (i.e. the relative amounts (i) paid out of net distribution income and (ii) effectively paid out of capital) for the last 12 months for the Income Class Units are available from the Manager on request and are also available from the website [www.principal.com.hk](http://www.principal.com.hk). The website has not been reviewed by the SFC.

#### **Accumulation Class Units – Institutional**

For Accumulation Class Units – Institutional, the Manager at present does not intend to make distributions in respect of such Units, and any income received by the Sub-Fund attributable to such Units will be reinvested in the Sub-Fund and reflected in the price of such Units.

#### **Risk Factors**

The Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units and the income from them may go down as well as up.

Investors' attention is drawn to the following risk factors:

The performance of the Sub-Fund is subject to a number of risk factors, including those set out below:

- (a) Political, economic and social risks — All financial markets may at times be adversely affected by changes in political, economic and social conditions.
- (b) Emerging markets — Various countries in which the Sub-Fund may invest are considered as emerging markets. As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The securities markets of some of the emerging countries in which the Sub-Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. Accounting, auditing and financial reporting standards in some of the emerging markets in which the Sub-Fund's assets may be invested may be less vigorous than international standards. As a result, certain material disclosures may not be made by some companies.
- (c) Currency risk — The performance of the Sub-Fund may be affected by movements in the exchange rate between the currencies in which the Sub-Fund's assets are held and the base currency of the Sub-Fund.

The Sub-Fund will have exposure to fluctuations in currency exchange rates where it invests directly or indirectly in securities denominated in currencies other than US dollars. It may, in part, seek to offset the risks associated with such exposure through foreign exchange transactions. The markets in which foreign exchange transactions are effected are highly volatile, highly specialised and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currency.

- (d) Diversification risk — The Sub-Fund will invest in the Asia region. Although the Sub-Fund’s portfolio will be well diversified in terms of the number of holdings, investors should be aware that the Sub-Fund is likely to be more volatile than a broad-based fund, such as a global equity fund, as it is more susceptible to fluctuations in value resulting from adverse conditions in market or in regions in which they invest.
- (e) Market risk — The Sub-Fund’s investments are subject to the risks inherent in all securities, including the fact that the value of holdings may go down as well as up. In particular, dividend yields from the Sub-Fund’s investments may fluctuate up or down as a result of changes in the dividend policy of the underlying companies in which the Sub-Fund is invested. Such changes will impact on the level of dividends available for distribution by the Sub-Fund.
- (f) Concentration risk — The Sub-Fund’s investments may be concentrated in the markets of smaller economies and the investment performance is sensitive to movements in these markets. Therefore, the performance of the Sub-Fund may differ significantly in direction and degree from the overall global stock market performance. As a result, the Sub-Fund/investors may be adversely impacted.
- (g) Dividends paid effectively out of capital — In respect of any Sub-Fund which has Income Class Units, the Manager may at its discretion pay dividend out of gross income while paying all or part of the fees and expenses attributable to the Income Class Units out of the capital of such Units, resulting in an increase in distributable income for the payment of dividends by the Income Class Units and therefore, the Sub-Fund may effectively pay dividend out of capital. This amounts to a return or withdrawal of part of an unitholder’s original investment in the Income Class Units or from any capital gains attributable to that original investment. Any distributions involving payment of dividends effectively out of the capital of the Income Class Units may result in an immediate reduction of its net asset value per Unit.
- (h) Termination risk — Under the terms of the Trust Deed, the Manager may early terminate the Fund or a Sub-Fund in various circumstances including, but without limitation to, if (a) on any date, in relation to any Sub-Fund, the aggregate net asset value of the Units outstanding in respect of such Sub-Fund shall be less than USD2 million or (b) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable, in consulting with the SFC to continue the Fund or such Sub-Fund or (c) the Fund and/or any Sub-Fund is no longer authorised by the SFC. On termination of the Fund or a Sub-Fund, the assets comprised therein will be sold, investors will receive distribution of the net cash proceeds which may be less than the amount they original invested. Please see the section titled “Termination of the Fund or any Sub-Fund” for further details.
- (i) Liquidity risk — The Sub-Fund may invest in instruments where the volume of transactions may fluctuate significantly depending on market sentiment. There is a risk that investments made by the Sub-Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, there may be no willing buyer and the investments cannot be readily sold at the desired time or price, and the Sub-Fund may have to accept a lower price to sell the investments or may not be able to sell the investments at all. An inability to sell a portfolio position can adversely affect the Net Asset Value of the Sub-Fund 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.
- (j) Custodial risk — Custodians or sub-custodians may be appointed in local markets for the purpose of safekeeping assets in those markets. Where the Sub-Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Sub-Fund may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Sub-Fund may take a longer time to recover its assets or, in extreme cases, be unable to recover its assets. The costs borne by the Sub-Fund in investing and holding investments in such markets will be generally higher than in an organized securities market, which may adversely affect the NAV of the Sub-Fund and investors may as a result suffer loss.
- (k) Risks associated with Foreign Account Tax Compliance Act (“FATCA”) — The Fund intends to fully comply with the legislation and the obligations imposed on it by FATCA and meet its obligation under the IGA (as defined below) with the US government. However, no assurance can be given that the Fund will be able to fully achieve this and avoid being subject to US withholding taxes. In the event that Hong Kong as a jurisdiction is deemed not to meet its obligations, or if the Fund as a Hong Kong financial institution is deemed by the Hong Kong and/or US government not to be meeting its obligations in the future, the Fund may become subject to additional US withholding taxes, which could materially impact US sourced income (including predominantly interests, dividends and certain derivative payments). Investors should consult their legal, tax and financial advisers to determine their status under the FATCA regime before making any decision to invest in the Fund and the Sub-Funds.

(l) Risks associated with investments/exposure to RMB currency and/or Mainland China

- (i) RMB currency and conversion risks — RMB is currently not freely convertible and is subject to exchange controls and restrictions. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Sub-Fund.

Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

Under exceptional circumstances, payment of redemptions and/or distribution payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

- (ii) PRC tax risk with respect to capital gains — The Sub-Fund may be subject to the potential tax liability for capital gains arising from disposal of PRC securities (including A-Shares and debt instruments) issued by PRC tax resident enterprises. Having consulted a professional and independent tax adviser, the Manager currently does not make any capital gains tax provision on the gross unrealised and realised capital gains derived from trading of PRC securities by the Sub-Fund. However, the Manager reserves the right to make a provision for the potential capital gains tax in respect of investments in the PRC in the future.

There is possibility of the PRC tax rules, regulations and practice being changed and taxes being applied retrospectively. There is no assurance that current tax concessions and exemptions will not be abolished in the future. As such, there is a risk that the Sub-Fund may have tax liabilities which were not provided for, which may potentially cause substantial loss to the Sub-Fund. The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the tax provision policy of the Sub-Fund accordingly.

The actual applicable tax rate imposed or the actual amount of tax liability assessed by PRC tax authorities may differ from the capital gains tax provision made by the Manager and may change from time to time.

Investors should note that if the actual applicable tax rate or liability levied by the PRC tax authorities is more than the capital gains tax provision (if any) the Net Asset Value of such Sub-Fund may decrease more than anticipated as the Sub-Fund will, directly or indirectly, have to bear the additional tax liabilities. In this case, the additional tax liabilities will only impact units in issue at the relevant time, and the then existing investors and subsequent investors will be disadvantaged as such investors will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in such Sub-Fund.

On the other hand, if the actual applicable tax rate or liability levied by the PRC tax authorities is less than the capital gains tax provision (if any) so that there is an excess in the tax provision amount, investors who have redeemed the units before the PRC tax authorities' ruling or guidance in this respect will be disadvantaged as they would have borne the loss from the overprovision and will not be entitled to or have any right to claim any part of such overprovision. In this case, the then existing and new investors may benefit if the difference between the capital gains tax provision and the actual applicable tax rate or liability can be returned to the account of the Sub-Fund as assets thereof. Investors will be advantaged or disadvantaged depending on the final tax liabilities, the level of capital gains tax provision and timing of their subscription or redemption.

(m) Risks associated with investment in China A-Shares through stock connect programmes

- (i) Legal and regulatory risk — The Sub-Fund may invest in China A-Shares through stock connect programmes which aim to achieve mutual stock market access between Mainland China and Hong Kong such as Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. Stock Connect programmes are novel in nature and the relevant rules and regulations will be subject to change which may have potential retrospective effect.
- (ii) Trading risks — Trading in China A-Shares through Stock Connect programmes is subject to quota limitations, operational risks, risks arising from differences in trading days and restrictions on selling imposed by front-end monitoring and recalling of eligible stocks. Further, investments through such programmes are not covered by Hong Kong's Investor Compensation Fund. Where a suspension in the trading through a programme is effected, the Sub-Fund's ability to invest in China A-shares or access the PRC market through such programme will be adversely affected. In such events, the Sub-Fund's ability to achieve its investment objective could be negatively affected, which may adversely affect the Net Asset Value of the Sub-Fund and investors may as a result suffer loss.

(n) Risks associated with financial derivative instruments

The Sub-Fund may utilize financial derivative instruments for the purposes of hedging. Financial derivative instruments include instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Derivatives may allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark or index. Therefore, many of the risks applicable to trading the assets of the Sub-Fund may also be applicable to

derivatives trading. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose the Sub-Fund to the possibility of a loss exceeding the original amount invested.

Other risks inherent in the use of derivatives include, but are not limited to (a) the dependence on the Manager's ability to correctly predict the direction of interest rates, currencies exchange rates and securities prices; (b) the imperfect correlation between the returns of the derivative instruments used for hedging and the returns of the securities they hedge; (c) the fact that skills needed to use these strategies are different from those needed to select portfolio securities; (d) the possible absence of a liquid secondary market for any particular derivative instrument at any time; (e) the default of the counterparty on the terms of the derivative contract; (f) the risk of mispricing or improper valuation of derivatives; and (g) the risk of higher volatility of the returns as derivatives usually have a leverage component.

**THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF ALL THE RISKS INVOLVED IN THIS OFFERING. POTENTIAL INVESTORS MUST READ THE ENTIRE EXPLANATORY MEMORANDUM AND MUST CONSULT THEIR OWN PROFESSIONAL ADVISERS, BEFORE DECIDING TO INVEST IN THE SUB-FUND.**



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