Investment Funds offered by DBS Bank (Hong Kong) Limited, Private Banking, Treasures Private Client & Institutional Banking Group

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Get to know Investment Funds

Introduction to Investment Funds

Definition of investment funds

A fund is a pool of money put together by individual investors. The fund is managed by a fund manager. Subject to the fund's objectives, the fund manager invests this capital in a range of investment instruments available in one or various markets.

When investors invest in a fund, they receive units or shares of the fund. A unit represents a part of the fund's net asset value (NAV). The NAV-per-unit of a fund is the total assets minus liabilities divided by the number of units issued.

Net asset value (NAV) per unit is fund's net assets per unit issued.

Forms of investment funds

They take various legal forms in different countries and have a range of names. For example:

- Investment Fund
- Investment Trust
- Mutual Fund
- Unit Trust

This list is not exhaustive. There is a legal distinction between funds that are set up on a contractual basis and therefore are not legal entities (e.g. unit trusts), and those that are corporations with their own legal personality. The aim of all forms is collective investment.

Risks of investing in Investment Funds (not exhaustive)

General Risks

An investment fund may own securities of different types, or from different asset classes – equities, bonds, money market instruments, derivatives – depending on the fund's investment objective.

Funds have different kinds of risks, depending on the securities they own and how they are structured and/or regulated. Below is a summary of the various types of general investment risks that may be applicable to a fund. Please note that the list of risks factors below is not exhaustive.

Investors should understand that all investments involve risks and there can be no guarantee against loss resulting from an investment in any fund, nor can there be any assurance that a fund's investment objectives will be attained.

An investment fund's offering materials or a manager's disclosure documents describe the various risks and conflicts of interest relating to the specific investment fund and to its operations. You should read these documents carefully.

- Market Risk

  This is the general risk applicable to all investments that the value of the fund may fluctuate. Where the value of the underlying asset of a fund changes, the value of the fund will go up and down, depending on the performance of the underlying asset. For non-option derivatives, the absolute size of the fluctuation in value of a fund will be very similar to the fluctuation in value of the underlying asset. In the case of options, the absolute change in value of a fund will not necessarily be similar to the change in value of the underlying.

- Foreign Currency Risk

  Since the fund manager values the portfolio holdings of each of its funds in a pre-determined currency, changes in currency exchange rates adverse to those currencies may affect the value of such holdings.

- Currency Hedging Risk

  Funds may issue currency hedged classes of units designated in currencies other than the fund's base currency. Adverse exchange rate fluctuations between the base currency of the fund and the class currency of the relevant

currency hedged class may result in a decrease in return and/or loss of capital for unit holders. The manager will try to mitigate this usually by hedging the foreign currency exposure of the currency hedged class units into the base currency of the fund or into the currency or currencies in which the assets of the fund are denominated. However, over-hedged or under-hedged positions may arise and there can be no assurance that these currency hedged class units will be hedged at all times or that the manager will be successful in employing the hedge.

- Counterparty Risk

  Funds may enter into transactions with counterparties, thereby exposing them to the counterparties' credit worthiness and their ability to perform and fulfill their financial obligations. This risk may arise at any time the funds' assets are deposited, extended, committed, invested or otherwise exposed through actual or implied contractual agreements.

- Credit Risk

  Funds may be adversely affected if any of the institutions with which money is deposited suffers insolvency or other financial difficulties (default). Credit risk also arises from the uncertainty about the ultimate repayment of principal and interest bond or other debt instrument investments. In both cases the entire deposit or purchase price of the debt instrument is at risk of loss if there is no recovery after default. The risk of default is usually greatest with bonds and debt instruments that are classed as 'sub-investment' grade, generally known as high yield.

  For RQFII fund, it may also encounter difficulties or delays in enforcing its rights against issuers incorporated in the Mainland China and therefore not subject to the laws of Hong Kong.

- Interest Rate Risk

  All funds that invest in debt securities or money market instruments are subject to interest rate risk. A fixed income security's value will generally increase in value when interest rates fall and decrease in value when interest rates rise. Interest rate risk is the chance that such movements in interest rates will negatively affect a security's value, hence the net asset value of the fund holding it.

- Liquidity Risk

  Reduced liquidity may have an adverse impact on market price and the fund's ability to sell particular securities when necessary to meet the fund's liquidity needs or in response to a specific economic event such as the deterioration in the creditworthiness of an issuer.

- Equity Risk

  The value of funds that invest in equity and equity related securities will be affected by economic, political, market, and issuer specific changes. Such changes may adversely affect securities, regardless of company specific performance. Additionally, different industries, financial markets, and securities can react differently to these changes.

- Warrants Risk

  Investments in and holding of warrants may result in increased volatility of the net asset value of certain funds, which may make use of warrants, and accordingly is accompanied by a higher degree of risk.

Key Risk in Specific Funds Categories

- RMB Funds Risk

  For RMB funds that do not have access to invest directly in Mainland China, the return and performance of the fund may be adversely affected due to the limited choice of available underlying investments denominated in RMB outside Mainland China. For RMB funds with a significant portion of non-RMB denominated underlying investments, there is a possibility of not receiving the full amount in RMB upon redemption if the issuer is not able to obtain sufficient amount of RMB in a timely manner due to the exchange controls and restrictions applicable to the currency.

  Classes denominated in RMB will generally be valued with reference to offshore RMB ("CNH") rather than onshore RMB ("CNY"). While CNH and CNY represent the same currency, they are traded in different and separate markets which operate independently. As such CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY.

- Renminbi Qualified Foreign Institutional Funds Risk

The RQFII policy and rules are relatively new and there may be uncertainty as to their implementation and such policy and rules are subject to changes and interpretation by Mainland China authorities. The uncertainty and change of the laws and regulations on the Mainland China (including the RQFII policy and rules) may adversely impact RQFII funds.

Since RQFII funds invest in a single country (Mainland China), the concentration risk rise which may result in greater volatility than a more diversified portfolios which comprise broad-based global investments.

And RQFII funds are subject to risks and uncertainties associated with the current Chinese tax laws applicable to underlying investments made by the fund. Even if RQFII funds have made tax provision in respect of potential tax liability that may arise from their investments, the provision may not be sufficient or may even be excessive. Any shortfall between the reserves and actual tax liabilities may have to be covered by the fund's assets and may adversely affect the fund's asset value.

For RQFII funds investing in unrated or non-investment graded fixed income securities are generally subject to higher credit risk and lower liquidity, which may result in greater fluctuations in fund value. RQFII funds investing in fixed income securities with local Mainland China credit ratings bear higher risk since the local rating process on the Mainland China may lack transparency and the rating standards may be significantly different from those adopted by internationally recognized credit rating agencies. For RQFII fund, as Mainland China's bond market is still in a stage of development and the bid and offer spread of RMB fixed securities may be high, it may incur significant trading costs and may suffer losses when selling such investments. And in the absence of a regular and active secondary market, the RQFII fund manager may not be able to sell its fixed securities at prices the fund manager considers advantageous and may need to hold the fixed securities until their maturity. If sizable redemption requests are received, the fund may need to liquidate its fixed securities at a discount to satisfy such requests and the fund may suffer losses as a result.

For RQFII funds, any increase in interest rates or changes in macro-economic policies on the Mainland China (including monetary and fiscal policies) may adversely impact the value of the fund's bonds or debt instruments portfolio.

Investments acquired by the RQFII funds will primarily be denominated in RMB whereas the classes of units may be denominated in other currencies. When calculating the value of the non-RMB denominated or settled assets or the subscription/redemption prices of units of a non-RMB denominated class, the exchange rate for CNH will be applied, which may be at a premium or discount to the exchange rate for CNY. This exposes investors to movements of the exchange rate between the currency of the class of units they invest in and the currency in which the assets of the fund are held. Investors may suffer losses depending on the exchange rate movements of RMB relative to HK dollars or such other currencies.

- High Yield Bond Funds Risk

Some funds may invest in higher-yielding securities rated lower than investment grade or that are unrated. Accordingly, an investment in these funds is accompanied by a higher degree of credit risk (i.e. a higher risk of issuer default). Below investment grade securities such as, for example, high yield debt securities, may be considered a high risk strategy and can include securities that are unrated and/or in default. Lower-quality, higher-yielding securities may also experience greater price volatility when compared to higher-quality, lower-yielding securities. Investments in lower-quality, higher-yielding securities are more vulnerable to economic cycles as compared to investments in higher-quality, lower-yielding securities since (i) investors become more risk averse and (ii) default risk tends to rise for companies with poorer rated securities during economic downturns or in times of higher interest rates. Funds that invest primarily in high-yield bonds are subject to the risks described above and the net asset value of that fund may decline or be negatively affected if there is a default of any of the high-yield bonds the fund has invested in or if interest rates change. The special features and risks of high-yield bond funds may also include: (i) capital growth risk –some high-yield bond funds may have fees and/or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; (ii) dividend distributions – some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment; and (iii) other key risks that may relate to the relevant fund including concentration of investments in particular types of specialized debt or a specific geographical region or sovereign securities.

- Derivative Risk

In accordance with the investment limits and restrictions, funds may use derivatives to hedge market, interest rate and currency risk, and for the purposes of efficient portfolio management. The use of derivatives may expose the funds to a higher degree of risk.

These risks may include credit risk with regard to counterparties with whom the funds trade, the risk of settlement default, lack of liquidity of the derivatives, imperfect tracking between the change in value of the derivative and the change in value of the underlying asset that the relevant fund is seeking to track and greater transaction costs than investing in the underlying assets directly.

These risks also include delivery failure, default by other party or the inability to close out a position because the trading market becomes illiquid. Some derivative instruments are particularly sensitive to changes in interest rates. The risk of loss to a fund for a swap transaction on a net basis depends on which party is obliged to pay the net amount to the other party. If the counterparty is obliged to pay the net amount to the fund, the risk of loss to the fund is the loss of the entire amount that the fund is entitled to receive; if the fund is obliged to pay the net amount, the fund's risk of loss is limited to the net amount due. OTC derivative instruments involve a higher degree of risk as OTC markets are less liquid and less regulated.

Derivative contracts can be highly volatile, and the amount of initial margin is generally small relative to the size of the contract so that transactions may be leveraged in terms of market exposure. A relatively small market movement may have a potentially larger impact on derivatives than on standard bonds or equities. Leveraged derivative positions can therefore increase Fund volatility.

- Emerging Market Risk

  Investing in developing countries and emerging markets may involve a higher level of risks than in developed countries. Such risks, which can have adverse effects on the value of the investments, may include: (a) investment and repatriation restrictions; (b) limited investor information and less stringent investor disclosure requirements; (c) accounting, auditing and financial reporting standards may be less rigorous than international standards (d) less liquid securities markets than in more developed countries (e) nationalisation, expropriation or confiscatory taxation; (f) limited regulation of the securities markets; (g) foreign exchange controls or other local governmental laws or restrictions; (h) higher risk of adverse effects from deflation and inflation; currency fluctuations; (i) the possibility of limited legal recourse for the fund; and (j) less developed custodial and/or settlement systems.

Fees and charges

Chargeable Fees

The management fee is the cost of having your assets professionally managed. The fee pays for the general operation of the fund, including selecting which securities your money (along with that of the other investors in the fund) is invested into, doing all the paperwork needed and providing information about the fund's holdings and performance.

Management fee structures vary from fund to fund, but they are typically based on a percentage of assets under management. For example, a mutual fund's management fee could be stated as 1% of assets under management.

Subscription Fees

The subscription fee is the initial subscription charge paid upfront. This primarily covers the expenses incurred for services rendered, such as cost of setting up account, providing updated market information and reimbursing professional intermediaries.

Redemption Fees

Some funds charge a redemption fee in order to discourage investors from short term trading. Redemption fee often (but not necessarily) takes a sliding scale, i.e. the sooner the investor redeems, the higher the fee at redemption. This sliding scale usually would reduce down to 0% redemption fee after 3 to 5 years. Redemption fees usually do not go to the investment company, but are credited to the fund's assets for the benefits of existing investors.

Other Fees

Some funds may charge performance fees/carried interest. Moreover, each fund would have fees charged by its service providers, e.g. the trustee/custodian, administrator, etc. There are also other out-of-pocket expenses directly charged to the fund.

Investment alternatives that you may consider

Product Descriptions	Listed or OTC traded Single Securities / Bonds	ETFs of Listed or OTC traded Single Securities / Bonds	Structured Products with fund related solutions as underlying
Payoff	Same as funds	Same as funds	Similar payoff stream as if he/she had invested in the underlying funds, depend on the product structure
Product Liquidity	Liquid subject to certain conditions	Liquid subject to certain conditions	Liquid subject to certain conditions
Worst Case Scenario	100% loss	100% loss	100% loss

The content of this Product Booklet (including the product nature, description and risks) may not be applicable to all or any of the investment alternatives herein. So please obtain the Product Booklet(s) for the investment alternative(s) that you are interested in from your Relationship Manager and transact over that/those investment alternative(s) ***only after*** you have carefully read and fully understood the Product Booklet(s) for that/those investment alternative(s).