HSBC Investment Funds Trust

Explanatory Memorandum

February 2026

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HSBC INVESTMENT FUNDS TRUST

EXPLANATORY MEMORANDUM

February 2026

HSBC Asian Bond Fund
HSBC China Momentum Fund
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HSBC Asian High Yield Bond Fund

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IMPORTANT INFORMATION

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

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

HSBC INVESTMENT FUNDS TRUST (the "**Fund**") was originally constituted as a Cayman Islands unit trust by a trust deed dated 13 November 1995 between HSBC Investment Funds (Hong Kong) Limited as manager and HSBC Trustee (Cayman) Limited as trustee. Pursuant to a Deed of Removal of the Trust to Another Jurisdiction and Replacement of Trustee dated 4 July 2017, the Fund was removed from the jurisdiction of the Cayman Islands to the jurisdiction of Hong Kong Special Administrative Region ("**Hong Kong**") and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of HSBC Trustee (Cayman) Limited with effect from 29 August 2017. The Trust Deed is currently governed by the laws of Hong Kong. The Fund is managed by HSBC Investment Funds (Hong Kong) Limited (the "**Manager**").

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

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

Units issued after the date hereof are offered on the basis only of the information contained in this Explanatory Memorandum, the Product Key Facts Statements of the Sub-Funds and any addendum or addenda issued by the Manager expressly in conjunction with the issue of this Explanatory Memorandum or the Product Key Facts Statements of the Sub-Funds. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorised and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of the Units shall not in any way constitute a representation that the information and representations given herein or in such documents are correct as at any time subsequent to the date of this Explanatory Memorandum or such documents. This Explanatory Memorandum and the Product Key Facts Statements of the Sub-Funds may from time to time be updated and intending applicants of Units should enquire of the Manager as to the issue of any later Explanatory Memorandum or Product Key Facts Statements.
No action has been taken to permit an offering of Units of the Fund or the Sub-Funds or the distribution of the Explanatory Memorandum and the Product Key Facts Statements of the Sub-Funds in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, the Explanatory Memorandum and the Product Key Facts Statements of the Sub-Funds may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, Units of the Sub-Funds may not be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised. Receipt of this Explanatory Memorandum or the Product Key Facts Statements of the Sub-Funds does not constitute an offer of Units of the Sub-Funds in those jurisdictions in which it is illegal to make such an offer.

In particular, potential investors should note the following:-

- **United States**

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

- **Canada**

  This Explanatory Memorandum does not constitute, and may not be used for, a solicitation of an offer to buy Units in Canada or to Canadian residents by any party, with the exception of agreed and approved 3rd party distributors in Canada. For the avoidance of doubt, the Units may be solicited or offered to Canadian non-residents providing that their registered addresses are not in Canada.

- **Mainland China**

  Applicable to: HSBC Asian Bond Fund and HSBC Asian High Yield Bond Fund

  The Sub-Funds have been registered with the China Securities Regulatory Commission ("**CSRC**") for offering to investors in the Mainland China under the Mainland-Hong Kong Mutual Recognition of Funds regime (CSRC's approval for registration does not indicate that the CSRC makes any substantive judgment or guarantee on the investment value and market prospect of the Sub-Funds, nor does it indicate that there is no risk in investing in the Sub-Funds). Class B Units of the Sub-Funds may be issued from time to time at the Manager's discretion. Such Units are available to investors in Mainland China only and will not be offered in Hong Kong.

Potential applicants for Units in the Fund and existing Unitholders 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 or regions of their incorporation, citizenship, residence or domicile and which might be relevant to the subscription, holding or disposal of Units in the Fund.

Enquiries and complaints

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

February 2026

DEFINITIONS

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

"AUD"	Australian dollar, the lawful currency of Australia
"Base Currency"	the currency in which the net asset value of a Sub-Fund is expressed and calculated
"Base Currency Hedged Unit Class"	a Currency Hedged Unit Class offered for Sub-Funds which may have (or will have) material exposure to assets which are denominated in a currency (or currencies) which is (or are) different to the Sub-Fund's Base Currency. Further information is disclosed in the "Class features and naming convention" section.
"Business Day"	a day on which The Stock Exchange of Hong Kong Limited is open for normal trading and the regulated markets in countries or regions where a Sub-Fund is materially invested are normally open for business or such other day or days as the Manager and the Trustee may determine
"CAD"	Canadian dollar, the lawful currency of Canada
"Class" or "Classes"	a separate class or classes of Units in a Sub-Fund of the Fund
"Class Currency"	the currency of account of a Class specified by the Manager
"Code"	Section I and Section II of the *SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products* or any handbook, guideline and code issued by the SFC, as may be amended from time to time.
"Connected Person"	shall unless otherwise specified have the meaning as set out in the Code, meaning, in relation to a company: (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or (c) any member of the group of which that company forms part; or (d) any director or officer of that company or of any of its Connected Persons as defined in (a), (b) or (c).
"Currency Hedged Unit Class"	Currency Hedged Unit Classes seek to minimise the effect of currency fluctuations between the Class Currency of the Class and the Base Currency of the relevant Sub-Fund. Hedging is achieved by the Sub-Fund entering into foreign currency transactions such as currency forward transactions, currency futures or other forms of financial derivative instruments. Currency positions are not actively managed but rather applied passively at the level of the Currency Hedged Unit Class. Depending on the currency exposure of a Sub-Fund's underlying assets and its objective then a Currency Hedged Unit Class will either be classified as a Base Currency Hedged Unit Class or a Portfolio Currency Hedged Unit Class.
"CSRC"	the China Securities Regulatory Commission.
"Dealing Day"	each Business Day or such other day(s) as the Manager may determine with the consent of the Trustee.
"EUR"	Euro, the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the relevant laws and treaties as amended from time to time
"Fund"	HSBC Investment Funds Trust
"Government and other public securities"	any investment issued by, or the payment of principal and interest on which is guaranteed by, a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies
"HKD"	Hong Kong dollar, the lawful currency of Hong Kong

"Investment Adviser"	The investment adviser of a Sub-Fund as appointed by the Manager and disclosed in the "Manager, Trustee and related service providers" section.
"Issue Price"	in respect of a Class of a Sub-Fund the price at which Units will be issued, as more fully described in the section "Unit prices".
"Mainland China" or "Mainland"	all the customs territories of the People's Republic of China, for the purposes of interpretation of this Explanatory Memorandum only, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan.
"Manager"	HSBC Investment Funds (Hong Kong) Limited.
"NZD"	New Zealand dollar, the lawful currency of New Zealand.
"OTC"	over-the-counter
"PBOC"	the People's Bank of China
"Portfolio Currency Hedged Unit Class"	a Currency Hedged Unit Class offered for Sub-Funds where the underlying portfolio will consist of assets which are wholly, or almost wholly, denominated in the Sub-Fund's Base Currency and/or the underlying portfolio of assets are hedged (either wholly, or almost wholly) to the Sub-Fund's Base Currency or which aims to obtain a return calculated in their Base Currency whilst the underlying assets are denominated in a currency (or currencies) which is (or are) different to the Sub-Fund's Base currency. Further information is disclosed in the "Class features and naming convention" section.
"QFII"	Qualified Foreign Institutional Investor approved pursuant to the relevant Mainland China laws and regulations, as may be promulgated and/or amended from time to time.
"Redemption Price"	the price at which Units of a Class of Sub-Fund will be redeemed, as more fully described in the section "Unit prices".
"Registrar"	HSBC Institutional Trust Services (Asia) Limited
"RMB"	Renminbi, the lawful currency of Mainland China
"RQFII"	Renminbi Qualified Foreign Institutional Investor approved pursuant to the relevant Mainland China laws and regulations, as may be promulgated and/or amended from time to time.
"SAFE"	the State Administration of Foreign Exchange.
"Repurchase Transactions"	transactions whereby a Sub-Fund sells its securities to a counterparty of Reverse Repurchase Transactions and agrees to buy such securities back at an agreed price with a financing cost in the future.
"Reverse Repurchase Transactions"	transactions whereby a Sub-Fund purchases securities from a counterparty of Repurchase Transactions and agrees to sell such securities back at an agreed price in the future.
"Securities Financing Transactions"	collectively Securities Lending transactions, Repurchase Transactions and Reverse Repurchase Transactions.
"Securities Market"	any stock exchange, OTC market or other securities market that is open to the international public and on which such securities are regularly traded.
"Securities Lending"	transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee.
"SFC"	the Securities and Futures Commission of Hong Kong
"Sub-Fund" or "Sub-Funds"	a separate sub-fund or sub-funds of the Fund as covered by this Explanatory Memorandum in accordance with the disclosure in the section "The Sub-Funds"
"Sub-Investment Adviser"	the sub-investment adviser of a Sub-Fund as appointed by the Investment Adviser (subject to the approval of the Manager) and disclosed in the "Appendix 1 – Sub-Fund Details" section.
"Substantial Financial Institution"	an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK$2 billion or its equivalent in foreign currency.

“Trust Deed”	the trust deed dated 13 November 1995 entered into between the Manager and the Trustee as amended, supplemented and substituted from time to time
“Trustee”	HSBC Institutional Trust Services (Asia) Limited
“Underlying Funds”	the collective investment schemes in which a Sub-Fund may invest in, including unit trusts, mutual funds, and exchange traded funds
“Unit”	a unit in a Sub-Fund of the Fund and, except where used in relation to a particular Class of Unit, a reference to Unit means and includes Units of all Classes
“Unitholder”	a person registered as a holder of a Unit
“USD”	United States dollar, the lawful currency of the United States of America
“US”	the United States of America (including the States and the District of Columbia), its territories, possessions and all other areas subject to its jurisdiction.
“US Law”	the laws of the US. US Law shall additionally include all applicable rules and regulations, as supplemented and amended from time to time, as promulgated by any US regulatory authority, including, but not limited to, the Securities and Exchange Commission and the Commodity Futures Trading Commission.
“US Person”	US Person (“USP”) to whom Units of the Fund may not be offered or sold, for the purposes of this restriction, the term US Person shall mean the following:

1) an individual who is a resident of the US under any US Law.

2) a corporation, partnership, limited liability company, collective investment vehicle, investment company, pooled account, or other business, investment, or legal entity:

   a. created or organized under US Law;

   b. created (regardless of domicile of formation or organisation) principally for passive investment (e.g. an investment company, fund or similar entity excluding employee benefit or pension plans):

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

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

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

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

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

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

3) a trust:

   a. created or organized under US Law; or
   b. where, regardless of domicile of formation or organisation:
      i. any settlor, founder, trustee, or other person responsible in whole or in part for investment decisions for the trust is a USP;
      ii. the administration of the trust or its formation documents are subject to the supervision of one or more US courts; or
      iii. the income of which is subject to US income tax regardless of source.

4) an estate of a deceased person:

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

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

5) an employee benefit or pension plan that is:

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

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

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

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

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

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

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

"Valuation Day" for a Sub-Fund, the relevant Business Day or Dealing Day or such other day(s) as the Manager may from time to time determine in its absolute discretion

"Valuation Point" for a Sub-Fund, around the close of business in the last relevant market to close on the relevant Valuation Day or such other time on that day or such other day as the Manager and the Trustee may from time to time determine

SECTION A: OVERVIEW OF THE FUND, SUB-FUNDS AND CLASSES OF UNITS

The Fund

HSBC INVESTMENT FUNDS TRUST (the "**Fund**") was originally constituted as a Cayman Islands unit trust by a trust deed dated 13 November 1995 between HSBC Investment Funds (Hong Kong) Limited as manager and HSBC Trustee (Cayman) Limited as trustee. Pursuant to a Deed of Removal of the Trust to Another Jurisdiction and Replacement of Trustee dated 4 July 2017, the Fund was removed from the jurisdiction of the Cayman Islands to the jurisdiction of Hong Kong and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of HSBC Trustee (Cayman) Limited with effect from 29 August 2017. The Trust Deed is currently governed by the laws of Hong Kong. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Trust Deed. In the event of any conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed will prevail.

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

Trust Deed

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

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

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

Meetings of Unitholders and voting rights

Meetings of Unitholders may be convened by the Manager or the Trustee, and Unitholders of 10% or more in value of the Units in issue of a Class, Sub-Fund or the Fund may also require a meeting to be convened to discuss resolutions specific to them. 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 (as defined in the Trust Deed) ("**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. On a poll every 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. A poll may be demanded by the Chairman or one or more Unitholders present in person or by proxy representing 5% in value of the Units for the time being in issue.

An Extraordinary Resolution is a resolution proposed as such and passed by a majority of 75% of the total number of votes cast.

The Trust Deed contains provisions for the holding of separate meetings of holders of Units in different Sub-Funds and different classes where only the interests of holders in a particular Sub-Fund or class are affected.

Financial Reports

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

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

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

The latest annual reports and semi-annual reports will be available on the website of the Manager at www.assetmanagement.hsbc.com.hk[1], within four months of the end of the financial year, and within two months of 31 January each year. Printed copies of the latest annual reports and semi-annual reports will also be available at the offices of the Manager and

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

provided to Unitholders upon their request. Please note that, where a number 8 or above typhoon signal or black rainstorm warning is hoisted or other similar event occurs at any time during a Business Day, the office of the Manager shall not be open for such purpose.

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

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

Investor Notice, Communication or Other Documents

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

Manager, Trustee and related service providers

Manager

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

The Manager of the Fund is HSBC Investment Funds (Hong Kong) Limited, a company incorporated in and under the laws of Hong Kong. Directors of the Manager:

LAU, Ka Yin Joanne
HO, Wai Fun
CHEN Wai Nga Sylvia
Edgar GEHRINGER
Michael, CROSS
HUNG Yee Ting, Jasmine

Address: all of HSBC Main Building, 1 Queen's Road Central, Hong Kong

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

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

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

Investment Adviser and Sub-Investment Advisers

The Manager has delegated its investment management duties for each Sub-Fund to an Investment Adviser: Such Investment Adviser may then appoint one or more Sub-Investment Adviser(s) (subject to the approval of the Manager) to provide discretionary or non-discretionary advice. The specific Investment Adviser and Sub-Investment Adviser(s) with discretionary investment functions (if applicable) for each Sub-Fund is disclosed in the section "Appendix 1 – Sub-Fund Details".

The Investment Adviser is a member of the HSBC Group.

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

As of the date of this Explanatory Memorandum, there is no Sub-Investment Adviser.

The fees of the Investment Adviser and Sub-Investment Adviser (if any) will be borne by the Manager.

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

Trustee and Registrar

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

The Trustee of the Fund is incorporated with limited liability in Hong Kong in 1974. It is registered as a trust company under Section 78(1) of the Hong Kong Trustee Ordinance (Cap.29), is an approved trustee under the Mandatory Provident Fund Schemes Ordinance (Cap.485). The Trustee is an indirectly wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales. The Trustee is licensed by the SFC to carry out type 13 regulated activity (providing depositary services for relevant collective investment schemes under the Securities and Futures Ordinance and has a Trust or Company Service Provider ("TCSP") License under Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap.615).

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

Subject to the terms of the Trust Deed, the Trustee shall remain liable for any act or omission of any agent, nominee, custodian or joint custodian (other than Euro-clear Clearing System Limited or Cedel, S.A. or any other depositary, institutions or clearing system which may from time to time be approved by SFC).

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

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

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

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

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

The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed.

The Trustee may not be entitled to retire voluntarily except upon the appointment of a new trustee. In the event of the Trustee desiring to retire, the Manager shall find a qualified corporation under any applicable law and by a supplemental deed replace the Trustee. The Manager shall as soon as practicable thereafter give notice to the Unitholders specifying the name and the address of the new trustee.

Auditors

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

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

Legal Advisers

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

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

Conflicts of Interest

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

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

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

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

For example, The Hongkong and Shanghai Banking Corporation Limited may provide foreign exchange services to the Fund and/or the Sub-Fund for which it receives a fee out of the property of such Fund and/or Sub-Fund. At the same time, The Hongkong and Shanghai Banking Corporation Limited or any of its Connected Persons may also act as financial adviser, banker, derivatives counterparty or otherwise to provide services to the issuer of the investments that such Fund and/or Sub-Fund may invest in; act in the same transaction as agent for more than one client; have a material interest in the issue of the investments of such Fund and/or Sub-Fund; or earn profits from or have a financial or business interest in any of these activities. Also, the Manager may be restricted from investing in certain securities due to internal and regulatory restrictions applicable to HSBC Group, and as a result, the Fund and/or the Sub-Funds may be subject to additional investment restrictions.

The Fund and/or the Sub-Funds may invest in underlying funds and/or ETFs sponsored and/or managed by members of the HSBC Group. It is therefore possible that any of them may, in the course of their business, have potential conflicts of interest with the Fund and/or the Sub-Funds. When undertaking any investments where conflicts of interest may arise, each will respectively endeavour to ensure that such conflicts are resolved fairly. When selecting underlying funds and/or ETFs, the Manager, the Investment Adviser, the Sub-Investment Adviser (if any) may not consider the whole universe of unaffiliated funds and/or ETFs available, even though there may be unaffiliated funds and/or ETFs that may be more appropriate for the Fund and/or the Sub-Funds or that have superior returns. Where the Fund and/or the Sub-Funds invest in any underlying funds and/or ETFs, the Manager may not obtain a rebate on any fees or charges levied by the underlying funds and/or ETFs or their management company. Where the Fund and/or the Sub-Funds invest in any underlying funds and/or ETFs managed by the Manager or its Connected Persons, all initial charges on the underlying funds and/or ETFs shall be waived. However, the members of the HSBC Group providing services to the underlying funds and/or ETFs may benefit from additional fees when the Fund and/or the Sub-Fund invests in such underlying funds and/or ETFs. Where a large portion of the Fund and/or the Sub-Fund is held by other funds sponsored and/or managed by members of the HSBC Group, redemption by such other funds may lead to redemption in the relevant Fund and/or Sub-Fund and adversely impact the Fund and/or Sub-Fund.

Where the Manager and/or member(s) of the HSBC Group provide seed capital for the Fund and/or the Sub-Fund, they may obtain portfolio holding of such Fund and/or Sub-Fund for the limited purposes of hedging seed capital, risk management, and for regulatory reporting purposes. In such event, each will at all times have regard to its obligations under its regulatory requirements and/or any agreements to which it is party or by which it is bound in relation to the Fund and/or the Sub-Fund. In particular, but without limitation to its obligations to act in the best interests of the Unitholders when undertaking any dealings or investments where conflicts of interest may arise, each will respectively endeavour to ensure that such conflicts are resolved fairly. As the size of the Fund and/or the Sub-Fund increases, the relevant HSBC Group entity may withdraw all or some of its seed capital in accordance with its seed policy (the purpose of which is to manage the timing of any withdrawal in the best interests of the remaining Unitholders).

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

Cross-trades between the Fund/the Sub-Funds and/or other funds managed by the Manager or members of the HSBC Group may be undertaken where the Manager considers that, as part of its portfolio management, cross-trades between such funds would be in the best interests of the Unitholders to achieve the investment objective and policy of the relevant Fund and/or Sub-Fund. By conducting cross-trades, the Manager may achieve trading efficiencies and savings for the benefit of the Unitholders. In conducting transactions, the Manager will ensure that the trades are executed on arm’s length terms at current market value and the reason for such trades shall be documented prior to execution, in accordance with all applicable laws and regulations (including the Fund Manager Code of Conduct as published and revised by the Securities and Futures Commission from time to time).

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

Termination of the Fund (or a Sub-Fund or Class thereof)

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

The Fund will automatically terminate on the day falling 80 years from the date of its establishment on 13 November, 1995.

1. The Trustee may terminate the Fund if:-

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

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

    c. the Fund ceases to be authorised or otherwise officially approved pursuant to the Securities and Futures Ordinance orif any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund; or

    d. The Manager ceases to manage the Fund and the Trustee fails to appoint a successor Manager within a period of 30 days.

2. The Manager may terminate the Fund if:-

    a. at any time on or after 31 May, 1997, the aggregate net asset value of the Fund falls below USD50 million; or

    b. any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Fund and/or a Sub-Fund.

3. The Manager may terminate any Sub-Fund if at any time on or after 31 May, 1997, the net asset value of that Sub-Fund falls below USD10 million.

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

At least three months' notice will be given to affected Unitholders regarding termination of the Fund or any Sub-Fund.

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

The Sub-Funds

List of available Sub-Funds

The Fund is an umbrella fund and currently offers Units in the following Sub-Funds covered by this Explanatory Memorandum:

- HSBC Asian Bond Fund
- HSBC China Momentum Fund
- HSBC China Growth Fund
- HSBC Asian High Yield Bond Fund

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

General risks

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

Market risks

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

Performance risks

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

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

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

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

Foreign exchange risks

Relative to the Base Currency

A Sub-Fund's assets and liabilities and/or a class of Units may be denominated in currencies different from the Sub-Fund's Base Currency. An investor's return (as measured in terms of the Base Currency) may be affected unfavourably by exchange control regulations or changes in the exchange rates between the Sub-Fund's Base Currency and other currencies.
Changes in currency exchange rates may influence the value of a Sub-Fund's Units, the dividends or interest earned and the gains and losses realised by a Sub-Fund. Exchange rates between currencies are determined by supply and demand in the currency exchange markets, the international balance of payments, governmental intervention, speculation and other economic and political conditions.

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

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

Relative to the Class Currency

For those investors investing in a Class with Class Currency other than the Base Currency which is not a Currency Hedged Unit Class then the above disclosure should be read giving reference to Class Currency of the Class instead of the Base Currency of the Sub-Fund.

Currency Hedged Unit Classes

For those investors investing in a Currency Hedged Unit Class then any reference to an increase or decrease in the Base Currency should be read as an equivalent increase or decrease in the Class Currency of the Currency Hedged Unit Class insofar as the Class is effectively hedged.

Further details may be found in the "Currency Hedged Unit Classes" section.

Currency conversion risks for RMB denominated Classes and investments in RMB

A Sub-Fund will need to convert cash (at the applicable exchange rate and subject to the applicable spread) into or out of RMB in the following circumstances:

(1) Conversion of RMB settled subscriptions into another currency for investment.
(2) Conversion of cash in a Sub-Fund into RMB for the purposes of settling RMB settled redemptions.
(3) Conversion of available RMB into another currency in the course of investing.
(4) Conversion of available cash into RMB in the course of investing.

Such transactions could incur considerable currency conversion costs. Further, as RMB is not freely convertible and is subject to exchange controls and restrictions, currency conversion is subject to availability of RMB at the relevant time. A Sub-Fund may not be able to invest according to its intended strategy in the event that there is insufficient RMB available to it. A Sub-Fund's payment of redemption proceeds or dividends/payouts may be delayed in the event that there is insufficient RMB available to it (for a period not exceeding one calendar month of receipt of a properly documented redemption request).

The RMB is traded in both the onshore and offshore markets. While both onshore RMB ("**CNY**") and offshore RMB ("**CNH**") represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. When calculating the net asset value of a Unit Class with a RMB Class Currency (and hence the Issue Price/Redemption Price of such Class), the Manager will apply the CNH rate. Any divergence between CNH and CNY may adversely impact investors.

For investors with a non-RMB Home Currency who invest in RMB Currency Hedged Unit Classes, they will be exposed to the RMB and any associated foreign exchange risk. Currency Hedged Unit Classes are not recommended for such investors. There is no guarantee that the value of RMB against the investor's Home Currency will not depreciate. Any depreciation of RMB could adversely affect the value of such investors' investment in RMB denominated Currency Hedged Unit Classes. Investors should read the "Currency Hedged Unit Classes" section for further details.

Liquidity risks

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

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

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

Over-the-counter markets risks

There are special risks associated with financial derivatives instruments, participation notes, structured products and other investments traded on over-the-counter (OTC) markets. In general, there is less governmental regulation and supervision of transactions in the OTC markets (in which many different kinds of financial derivatives instruments and structured products are generally traded) than of transactions entered into on organized exchanges. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets. Therefore, a Sub-Fund entering into OTC transactions will be subject to the risk that its direct counterparty will not perform its obligations under the transactions and that a Sub-Fund will sustain losses. The relevant Sub-Fund will only enter into transactions with counterparties which it believes to be creditworthy, and may reduce the exposure incurred in connection with such transactions through the receipt of letters of credit or collateral from certain counterparties. Regardless of the measures a Sub-Fund may seek to implement to reduce counterparty credit risk, however, there can be no assurance that a counterparty will not default or that a Sub-Fund will not sustain losses as a result.

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

Certain instruments traded on the OTC markets (such as customised financial derivatives and structured products) can be illiquid. Liquidity relates to the ability of a Sub-Fund to sell an investment in a timely manner. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments. Investment of the Sub-Fund's assets in relatively illiquid investments may restrict the ability of a Sub-Fund to dispose of its investments at a price and time that it wishes to do so. There is no regulated market for such transactions and the bid and offer prices will be established solely by dealers or counterparties in these transactions. In order to realize an investment in the OTC markets, a Sub-Fund may need to request the counterparties to quote a price for the relevant instrument. This price may depend on, among other things, the market liquidity condition and the size of the transactions.

Investor risks

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

Valuation risks

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

Government or central banks' intervention risks

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

Early termination risks

The Fund or any of its Sub-Funds may be liquidated on the occurrence of certain events as set out in the section headed "Termination of the Fund (or a Sub-Fund or Class thereof)" in this Explanatory Memorandum.In the event of the early termination of a Sub-Fund, the Sub-Fund would have to distribute to the Unitholders their pro rata interest in the assets of the Sub-Fund. It is possible that at the time of such sale or distribution, certain investments held by the Sub-Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the Unitholders.

Tax risks

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

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

Distribution/payout out of capital risks

Under the Trust Deed, distributions/payouts of a Sub-Fund may be paid from capital (including capital gains) of the Sub-Fund. The Manager may in its discretion distribute/make payouts from capital if the income generated from a Sub-Fund's investments attributable to the relevant Class of Units during the relevant period is insufficient to pay distributions/payouts as declared. The Manager may also at its discretion pay dividend/payouts out of gross income while charging/paying all or part of a Sub-Fund's fees and expenses to/out of the capital of a Sub-Fund (resulting in an increase in distributable income for the payment of dividends/payout by the Sub-Fund), and thereby effectively pay distributions/payouts out of capital of the Sub-Fund.

In addition, for certain Currency Hedged Unit Classes, the dividend distribution amount and the net asset value may be adversely affected by differences in the interest rates of the Class Currency of the Currency Hedged Unit Classes and the Sub-Fund's Base Currency. Also, for certain Currency Hedged Unit Classes, differences in interest rates may result in an increase in the amount of dividend distribution paid out of capital and hence a greater erosion of capital than other non-hedged Classes.

Investors should note that the payment of distributions/payouts out of capital or effectively out of capital represents a return or withdrawal of part of the amount they originally invested or from any capital gains attributable to the original investment.

Any distributions/payouts involving payment out of a Sub-Fund's capital or effectively out of a Sub-Fund's capital will result in an immediate reduction in the net asset value per Unit (or adjusted net asset value per Unit) of the relevant Class (and hence the Issue Price/Redemption Price of the relevant Class).

Hedging risks

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

In addition, for certain Currency Hedged Unit Classes, the distribution amount and the net asset value may be adversely affected by differences in the interest rates of the Class Currency of the Currency Hedged Unit Classes and the Sub-Fund's Base Currency. Also, for certain Currency Hedged Unit Classes, differences in interest rates may result in an increase in the amount of distribution paid out of capital and hence a greater erosion of capital than other non-hedged Classes (see "Distribution/payout out of capital risks" section).

There is no guarantee that the desired hedging instruments will be available or hedging techniques will achieve their desired result. There can be no assurance that any currency hedging strategy will fully and effectively eliminate the currency exposure of a Sub-Fund. In adverse situations, a Sub-Fund's hedging technique may become ineffective and a Sub-Fund may suffer significant losses.

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

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

Investing in Underlying Funds risks

A Sub-Fund may invest in shares or units in Underlying Funds and securities investment funds in Mainland China which are authorised by the CSRC for investment by the retail public in Mainland China, to obtain exposure to underlying assets, such as equity and bonds. Investors should note that such investment may involve another layer of fees charged at the Underlying Fund level. This is because, in addition to the expenses and charges payable by a Sub-Fund as disclosed in this Explanatory Memorandum, a Sub-Fund will bear indirectly the fees charged by the managers and other service providers of the Underlying Funds, or will incur charges in subscribing for or redeeming shares in the Underlying Funds. Please refer to the section headed "Charges and expenses" for further details.

The Manager will consider various factors in selecting the Underlying Funds, for example, the investment objective and strategy, level of fees and charges, the redemption frequency and liquidity of such funds. However, a Sub-Fund does not have control of the investments of the Underlying Funds and there is no assurance that the investment objective or strategy of an underlying fund will be successfully achieved.

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

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

Cross-class liability risks

Multiple classes of Units may be issued in relation to a Sub-Fund of the Fund, with particular assets and liabilities of the Sub-Fund attributable to particular Classes. For instance, Sub-Funds offering Currency Hedged Unit Classes will have assets and liabilities related to the hedge which are attributable to the relevant Currency Hedged Unit Classes. Moreover, these assets and liabilities may be denominated in various currencies, introducing currency risk (including RMB currency risk for which the “RMB currency risks” section and “Currency conversion risks for RMB denominated Classes and investments in RMB” section should be considered).

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

Prohibited securities risks

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

Custody risks

Assets of a Fund are safe kept by the Trustee and Unitholders are exposed to the risk of the Trustee not being able to fully meet its obligation to restitute in a short time frame all of the assets of the Fund in the case of bankruptcy of the Trustee. The assets of a Sub-Fund will be identified in the Trustee's books as belonging to such Sub-Fund. Securities held by the Trustee will be segregated from other assets of the Trustee which mitigates the risk of non-restitution in case of bankruptcy. However, no such segregation applies to cash which increases the risk of non-restitution in case of bankruptcy.

Further, the Trustee may appoint local Correspondents for the purpose of safekeeping assets in relevant local markets. Unitholders are exposed to the risk of the Correspondents not being able to fully meet their obligation to restitute in a short time frame all of the assets of a Sub-Fund in the case of bankruptcy of the Correspondent. In extreme circumstances, such as fraud, a Sub-Fund may even be unable to recover all of its assets and the Trustee may not be liable to make good any such loss (further details on the Trustee’s liability is set out in the sub-section headed “Trustee and Registrar” of the “Manager, Trustee and related service providers” section). This risk may be greater where a Sub-Fund invests in markets where custody and settlement systems and controls are not fully developed.

Reliance on the same group risk

The Trustee (also acting as the Registrar), the Manager, the Investment Adviser and the Sub-Investment Adviser (if any) are subsidiaries of HSBC Holdings plc (the “HSBC Group”). Whilst these are separate legal entities and operationally independent, in the event of a financial catastrophe or the insolvency of any member of the HSBC Group, there may be adverse implications for the business of the HSBC Group as a whole or other members of the HSBC Group which could affect the provision of services to the Fund and/or the Sub-Funds. In such event the Net Asset Value of the Fund and/or the Sub-Funds may be adversely affected and its operation disrupted. It should be noted that the Trustee, the Manager, the Investment Adviser and the Sub-Investment Adviser (if any) are presently members of the HSBC Group. As such, although all transactions will be at arm’s length, conflicts of interest in respect of the Fund and/or the Sub-Funds may arise from time to time amongst any of them whilst they belong to the HSBC Group. The Manager and each of its Connected Persons will have regard to its obligations to the Fund, the Sub-Funds and Unitholders and will endeavour to ensure such conflicts are resolved fairly. The attention of investors is drawn to the section headed “Conflicts of interest” for further details.

Asset class risks

Equity risks

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

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

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

Fixed income risks

Debt securities risks

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

Credit ratings risks and credit rating agency risks

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. The credit ratings assigned by credit rating agencies are a generally accepted barometer of credit risk of a fixed income security. They are, however, subject to certain limitations. For example, the rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is often a time lag in updating the credit ratings in response to recent credit events.
In addition, a Sub-Fund may invest in securities the credit ratings of which are assigned by Mainland Chinese local credit rating agencies. However, the rating criteria and methodology used by such agencies may be different from those adopted by most of the established international credit rating agencies. Therefore, such rating system may not provide an equivalent standard for comparison with securities rated by international credit rating agencies. Investors should be cautious when they refer to ratings assigned by Mainland Chinese local credit agencies, noting the differences in rating criteria mentioned above. If assessments based on credit ratings do not reflect the credit quality of and the risks inherent in a security, investors may suffer losses, possibly greater than originally envisaged.

Downgrading risks

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

Credit risks

Investment in fixed income securities is subject to the credit and default risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. On the other hand, the value of a Sub-Fund may be affected if any of the financial institutions with which the cash is invested or deposited suffers insolvency or other financial difficulties.

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

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

High yield fixed income securities risk

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

Non-investment grade and unrated bond risks

A Sub-Fund may invest in securities which are rated below investment grade (in case of internationally recognised credit rating agencies) or rated BB+ or below (in case of Mainland China local credit rating agencies) or are unrated. Such securities are considered to have a higher risk exposure than securities which have a higher credit rating with respect to payment of interest and the return of principal, and may also have a higher chance of default. The amounts that may be recovered after any default may be smaller or zero and the relevant Sub-Fund may incur additional expenses if it tries to recover its losses through bankruptcy or other similar proceedings. Low rated or unrated debt securities generally offer a higher current yield than higher grade issues. However, low rated or unrated debt securities involve higher risks and are more sensitive to adverse changes in general economic conditions and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers and changes in interest rates. Valuation of these securities is more difficult and thus a Sub-Fund's price may be more volatile. Additionally, the market for below investment grade (in case of internationally recognised credit rating agencies) or BB+ or below (in case of Mainland China local credit rating agencies) or unrated debt securities generally is less active than that for higher quality securities and a Sub-Fund's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions.

Volatility and liquidity risks

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

Further, the bid and offer spreads of the price of fixed income instruments in which a Sub-Fund invests may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments.

Interest rate risks

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

Derivatives risks

Certain Sub-Funds make more extensive use of financial derivative instruments for investment purposes as well as for hedging purposes. Investors should refer to the investment objectives and policies of the relevant Sub-Funds for information on which of the Sub-Funds may have more extensive use of financial derivative instruments.

The financial derivative instruments that may be used by the Sub-Funds include futures, forwards (including non-delivery forwards), and swaps (including total return swaps and inflation swaps) as well as other financial derivative instruments. Due to the inherent nature of financial derivative instruments, those Sub-Funds that use financial derivative instruments as part of their investment strategies may involve risks different from, or possibly greater than, the risks associated with typical equity and bond funds. While the use of financial derivatives may aim to achieve return enhancement and investment objectives of the Sub-Funds, financial derivative instruments are subject to counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of a financial derivative instrument may result in losses in excess of the amount invested in the financial derivative instruments by the Sub-Fund. Exposure to financial derivative instruments may lead to a high risk of significant loss by the Sub-Fund.

The price of financial derivative instruments can be very volatile because a small movement in the price of the underlying security, index, interest rate or currency may result in a substantial movement in the price of the financial derivative instrument. In addition, financial derivative instruments are subject to a variety of other risks, including liquidity risk (e.g. when particular derivative instruments become difficult to purchase or sell), credit risk (e.g. when an issuer or counterparty fails to honour its obligations under the derivative contract, or a lowering of the credit rating of an instrument leading to decreased liquidity of the instrument) and the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty. The Sub-Funds may obtain collateral from the counterparty. Such collateral may include cash, securities issued or guaranteed by any OECD or European Union government, government agencies or any other public or supranational bodies or organisations or any other issuer which is, in the opinion of the Manager, of similar standing and certificates of deposit with maturity of no more than one year.

Swaps risks

A Sub-Fund may invest and trade in swaps, "synthetic" or derivative instruments, certain types of options and other customised financial instruments issued by banks, brokerage firms and other financial institutions. A swap is an agreement between a Sub-Fund and a financial intermediary whereby cash payments are periodically exchanged between the parties based upon changes in the price of an underlying asset (such as an equity security, an index of securities or another asset or group of assets with a readily determinable value). Swaps and other derivatives are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and credit worthiness of the counterparty. Swaps and other forms of derivative instruments are not guaranteed by an exchange or clearing house or regulated by any governmental authority. It may not be possible to dispose of or close out a swap or other derivative position without the consent of the counterparty, and the Sub-Fund may not be able to enter into an offsetting contract in order to cover this risk.

A Sub-Fund may enter into a total return swap in which one party receives interest payments on a reference asset plus any capital gains and losses over the payment period, while the other receives a specified fixed or floating cash flow unrelated to the credit worthiness of the reference asset, especially where the payments are based on the same notional amount. The reference asset may be any index or basket of assets.

Futures risks

Transactions in futures carry a high degree of risk. The amount of the initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact which may work for or against the investor. The placing of certain orders which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders.

Options risks

Transactions in options also carry a high degree of risk. Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obliged either to settle the option in cash or to acquire or deliver the underlying investment. If the option is "covered" by the seller holding a corresponding position in the underlying investment, the risk may be reduced.

Risks relating to Securities Lending transactions

Securities Lending transactions may involve the risk that the borrower may fail to return the securities lent out in a timely manner. In this event, the relevant Sub-Fund could experience delays in recovering its securities and may possibly incur a capital loss. The value of the collateral may fall below the value of the securities lent out.

Collateral management and re-investment of cash collateral risks

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

As of the date of this Explanatory Memorandum, the Sub-Fund may receive both non-cash or cash collateral.

In the event a Sub-Fund re-invests cash collateral, the relevant Sub-Fund will be exposed to the risk of a failure or default of the issuer of the relevant security in which the cash collateral has been invested.

Notwithstanding that a Sub-Fund may accept non-cash collateral which is highly liquid, the relevant Sub-Fund is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The relevant Sub-Fund is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

Finance charges received by a Sub-Fund under a Securities Lending transaction may be reinvested in order to generate additional income. Similarly cash collateral received by a Sub-Fund may also be reinvested in order to generate additional income. In both circumstances, the relevant Sub-Fund will be exposed to market risk in respect of any such investments and may incur a loss in reinvesting the financing charges and cash collateral it receives. Such a loss may arise due to a decline in the value of the investment made. A decline in the value of investment of the cash collateral would reduce the amount of collateral available to be returned by the relevant Sub-Fund to the Securities Lending counterparty at the conclusion of the Securities Lending contract. The relevant Sub-Fund would be required to cover the difference in value between the collateral originally received and the amount available to be returned to the counterparty, thereby resulting in a loss to the relevant Sub-Fund.

Sub-Fund specific risks

Concentration risks

A Sub-Fund's investment may be concentrated in specific industry sectors, instruments, geographical location etc. The value of a Sub-Fund may be more volatile than that of a sub-fund having a more diverse portfolio of investments.

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

Emerging and less developed markets securities risks

Emerging or developing markets may have relatively unstable governments, economies based on a less diversified industrial base and Securities Markets that trade a smaller number of securities. Companies in emerging markets may generally be smaller, less experienced and more recently organized than many companies in more developed markets. Prices of securities traded in the Securities Markets of emerging or developing countries/regions tend to be volatile. Furthermore, foreign investors are often subject to restrictions in emerging or developing markets. These restrictions may require, among other things, governmental approval prior to making investments or repatriating income or capital, or may impose limits on the amount or type of securities held by foreigners or on the companies in which the foreigners may invest.

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

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

Mainland China market risks

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

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

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

RMB currency risks

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

As the exchange rates are based primarily on market forces, the exchange rates for RMB against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and restrictions of the Chinese government. Trading in the RMB may be subject to possible delay in the settlement process.

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

Mainland China tax risks

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

Please refer to “Mainland China” under the section of “Taxes on the Fund/Sub-Funds” for details of the current tax laws, regulations and practices relating to the securities that Sub-Funds may invest in. In view of the details set out in the aforementioned section, the Manager, after taking professional tax advice, has decided to make provision for tax as follows

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

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

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

- a Sub-Fund will not withhold (or will not request the issuers of Equity Linked Notes and other similar equity linked securities and instruments (collectively referred to as “**ELN**”) to withhold) any amount of realised or unrealised gains on its investments in ELNs as tax provisions;

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

- a Sub-Fund will make a VAT provision at 6% plus surcharge (if applicable) on interest from its investment in the relevant bonds provided that such VAT is not borne by the bond issuers (except (i) interests from investments in Mainland China onshore bonds received during the Tax Exempt Period (as defined in the sub-section headed “Mainland China” under the section “Taxes related to a Sub-Fund’s assets” below) and (ii) interest from Mainland China government bonds and local government bonds issued before 8 August 2025).

China A-shares risks

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

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

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

Equity Linked Notes and other similar securities and instruments risks

A Sub-Fund may obtain exposure to China A-shares through investment in Equity Linked Notes and other similar equity linked securities and instruments (collectively referred to as "**ELN**"). In particular, under the current regulations in Mainland China, the Sub-Funds' investment in China A-shares listed on the markets in Mainland China is likely to be indirect by acquiring ELN issued by institutions permitted to invest in the China A-share markets.

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

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

By seeking exposure to investments in certain listed securities through ELN, the Sub-Funds are taking on the credit risk of the issuer of the ELN. There is a risk that the issuer will not settle a transaction due to a credit or liquidity problem, thus causing the Sub-Funds to suffer a loss. In addition, in the case of a default, the Sub-Funds could become subject to adverse market movements while a Sub-Fund enters into a replacement transaction with a new counterparty.

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

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

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

As at the date hereof, it is likely that the Sub-Funds will invest in the China A-share market through ELN issued by institutions which have obtained the QFII status in Mainland China; and certain restrictions imposed by the Chinese government on QFIIs may have an adverse effect on the Sub-Funds' liquidity and performance. QFIIs are subject to restrictions on the maximum stake which can be held in any one listed company. The Sub-Funds will generally invest in ELN that is realisable on each Dealing Day under normal market conditions, subject to the credit risk of the counterparty. If the ELN cannot be realised on each Dealing Day, a Sub-Fund may be subject to additional liquidity risks.

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

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

Stock Connect risks

The Shanghai-Hong Kong Stock Connect programme and the Shenzhen-Hong Kong Stock Connect programme (collectively, the "Stock Connect") are recently announced and are novel in nature. They enable Hong Kong and overseas investors to directly access eligible China A-shares through Hong Kong brokers. They are subject to regulations promulgated by regulatory authorities and implementation rules (e.g. trading rules) made by the stock exchanges in Mainland China and Hong Kong. The Stock Connect is subject to daily quota which does not belong to the Sub-Funds and can only be utilised on a first-come-first serve basis.

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

It should be noted that the regulations are untested and there is no certainty as to how they will be applied, and their application may have retrospective effects. Moreover, the current regulations are subject to change. There can be no assurance that the Stock Connects will not be abolished. Where a suspension in the trading through the programme is effected, the Sub-Funds, which may invest in China A-shares or the Mainland China market through the Stock Connects, may be adversely affected as a result of such changes. In such event, the Sub-Funds' ability to achieve their investment objectives could be negatively affected.

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

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

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

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

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

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

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

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

China Interbank Bond Market risks

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

Overview of the CIBM Initiative

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

- Appointing an onshore settlement agent who will be responsible for making relevant filings and account opening with relevant authorities.
- Generally only repatriating cash out of the Mainland China in a currency ratio approximately proportionate to the currency ratio of remitted cash into the Mainland China.

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

Overview of the Bond Connect

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

- Appointing CFETS or other institutions recognised by the PBOC as registration agents to apply for registration with the PBOC.
- Transacting via an offshore custody agent recognised by the Hong Kong Monetary Authority (currently, the Central Moneymarkets Unit).

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

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

Risks associated with investing in the CIBM

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

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

For investments via the CIBM Initiative, since trading is via an onshore settlement agent, a Sub-Fund is subject to counterparty risks of the onshore settlement agent.

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

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

Convertible bonds risks

Convertible bonds are a hybrid between debt and equity which give an investor an option to exchange the bond for a pre-determined number of shares at a given price and a specified future date. As such, convertibles will be exposed to equity movement and greater volatility than straight bond investments.

Convertible bonds are subject to risks which typically apply to bonds including interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments. The value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. If the credit quality of the convertible bonds deteriorates or the issuer of the convertible bonds defaults, the performance of the Sub-Fund will be adversely affected. On the other hand, the prices of convertible bonds will be affected by the changes in the price of the underlying equity securities which, in turn, may have an unfavourable impact on the net asset value of the Sub-Fund.

"Dim Sum" bond risks

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

Urban Investment Bonds risks

A Sub-Fund may invest in bonds issued by Mainland China local government financing vehicles (LGFVs), i.e. also known as "**Urban Investment Bonds**". This may subject a Sub-Fund to additional risks.

In view of limitations on directly raising funds, local governments in Mainland China have set up numerous entities known as "Local Government Financing Vehicles" (LGFVs) to borrow and fund local development, public welfare investment and infrastructure projects. LGFV bonds have grown rapidly in size in recent years and have become a significant bond sector in Mainland China.

Many LGFVs invest in urban development projects which involve substantial initial investment through high financial leverage and this causes cash flow mismatch for the LGFVs. In such cases LGFVs may not be able to service debts solely through their own operating revenue, and local governments may need to offer financial subsidies to the LGFVs to ensure on-going debt-servicing. However, a LGFV may not be able to get adequate subsidies from its local government (for example in regions of low local revenue and heavy debt burden) and its local government is not obligated to subsidise the LGFV. In some cases LGFVs will take on further borrowing to pay existing debts and this can result in liquidity risks if re-financing costs increase.

Worsening financial conditions may lead to credit rating downgrade. Recent cases of downgrading have led to investor concerns that the financial conditions of some LGFVs may be deteriorating. Downgrading in turn leads to higher financing costs for the LGFVs, making it more difficult for the LGFVs to sustain their debts.

Local governments may be seen to be closely connected to Urban Investment Bonds, as they are shareholders of the LGFVs issuing such bonds. However, Urban Investment Bonds are typically not guaranteed by the relevant local governments or the central government of Mainland China. As such, local governments or the central government of Mainland China are not obligated to support any LGFVs in default. The LGFVs' ability to repay debts depends on the financial condition of the LGFVs, and the extent to which the relevant local governments are prepared to support such LGFVs. However, slower revenue growth at some local governments may constrain their capacity to provide support, while regulatory constraints may also limit local governments' ability to inject land reserves into LGFVs. Further, local governments have taken on debt in various other forms, and recent analyses show that increased financing activities have posed a risk to local government finances.

Although in some cases collateral such as land is provided, in case of default of a LGFV, it may be difficult for bond holders (such as a Sub-Fund) to enforce its right to the collateral. In most cases, collateral is not provided, and the bond holders will be fully exposed to the credit/insolvency risk of LGFVs as an unsecured creditor. In the event that the LGFVs default on payment of principal or interest of the Urban Investment Bonds, a Sub-Fund could suffer substantial loss and the net asset value of a Sub-Fund could be adversely affected.

Though most LGFVs disclose basic financial information regularly (e.g. through audited annual report and credit rating report), timely disclosure of other relevant information, such as material asset allocation and capital injection, is still uncertain. Imperfect disclosure of financial information could lead to biased investment judgment, adding to the risks for investment in LGFV securities.

Bonds issued by LGFVs normally have lower liquidity than other government issued fixed income instruments (such as Central Bank Notes / Bills and Treasury Bonds), and a Sub-Fund's investment in bonds issued by LGFVs is subject to liquidity risk as disclosed in the paragraphs under "Liquidity Risk" in this section.

LGFVs take on loans in a substantial amount from Mainland Chinese banks, and the total outstanding loans have risen rapidly in recent years. This has led the China Banking Regulatory Commission to require banks to limit their holdings of bonds sold by LGFVs. If LGFVs default on their repayment obligations, this may in turn pose a risk to the stability of the banking system in Mainland China.

It was announced that the National Audit Office would start a nationwide assessment of government liabilities in order to address concerns about rising debts from local development projects. However, there is no assurance that the extent of local government debts can be comprehensively and accurately assessed.

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

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

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

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

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

i. *Trigger level risk*

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

ii. Coupon cancellation risk

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

iii. *Capital structure inversion risk*

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

iv. Call extension risk

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

v. Conversion risk

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

vi. Valuation and write-down risk

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

vii. Market value fluctuations due to unpredictable factors

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

viii. Liquidity risk

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

ix. Sector concentration risk

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

x. Subordinated instruments

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

xi. Unknown risk

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

Asset allocation strategy risks

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

Sovereign debt risk

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

In addition, a Sub-Fund may invest in securities issued or guaranteed by the government of a country with a sovereign credit rating below investment grade. The performance and value of the Sub-Fund could deteriorate should there be any adverse credit events in the sovereign and this impact may be particularly strong if a downgrade of the sovereign credit rating or a default or bankruptcy of a sovereign occurs.

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

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

Investment in ABS and MBS is subject to greater credit risk and interest rate risk compared to other debt securities due to, for example, a debtor's or obligor's default in paying the loan or other debt obligations constituting the underlying assets. If distributions on the underlying assets are insufficient to make payments on the ABS and MBS, no other assets will be available for payment of the deficiency and following realisation of the underlying assets, and the obligations of the issuer of the related security to pay such deficiency will be extinguished.
In addition, ABS and MBS are often exposed to extension and prepayment risks and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

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

Real estate risks

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

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

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

Portfolio holding information

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

Reference performance benchmark

The reference performance benchmark for each Sub-Fund is disclosed in the section "Appendix 1 – Sub-Fund Details".

The reference performance benchmarks are shown for comparison purposes only.

Unitholders should be aware that a Sub-Fund might not be managed to their reference performance benchmark and that investment returns may deviate materially from the performance of the specified benchmark.

Unitholders should also be aware that reference performance benchmark may change over time and that this Explanatory Memorandum will be updated accordingly.

The Classes

Description of classes

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

Classes of Units have equal rights and are, upon issue, entitled to participate equally, in proportion to their value, in the profits (such as the distribution of dividends) and liquidation proceeds relating to the relevant Sub-Fund of the class.

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

Class	**Availability**	**Value of Units**		
		Currency *(for omitted currencies the value will be equivalent to the stated USD value denominated in the omitted currency)*	**Minimum holding / Minimum subsequent subscription**	**Minimum partial redemption**
Class A	Units available to retail investors	USD	1,000*	1,000*
		HKD	10,000	10,000
		AUD	1,500	1,500
		CAD	1,000	1,000
		EUR	850	850
		GBP	650	650
		RMB	10,000	10,000
		SGD	1,000	1,000
Class I	Units available to institutional investors	USD	1,000,000**	100,000

	and private client investors (in each case as designated by the Manager) or such other clients as the Manager may select at its discretion.	HKD	10,000,000***	1,000,000
		SGD	1,000,000	100,000
Class Z	Units available to institutional investors making investment through a discretionary management agreement entered into with an HSBC Group entity and to investors selected by the Manager at its discretion.	USD	Nil	Nil

** Except HSBC China Momentum Fund for which is USD 3,000.*
*** Except for the minimum subsequent subscription of HSBC Asian Bond Fund which is USD 100,000.*
**** Except for the minimum subsequent subscription of HSBC Asian Bond Fund which is HKD 1,000,000.*

In addition, Class B Units may be issued and made available to investors in Mainland China only (through the "Mainland -Hong Kong Mutual Recognition of Funds" regime) and will not be offered in Hong Kong. Specific details in relation to such Units will be set out in the relevant Sub-Funds' offering documents applicable to investors in Mainland China.

Each unit class above may be offered with various different features including accumulation features, distribution features, payout features and currency features. Each feature is denoted by additive suffixes to the class name as outlined below.

The Manager may create additional Classes of Units in the future at its discretion and without prior notification to Unitholders.

Units will be initially issued at 10.000 in the currency of denomination of the class or such other price as determined by the Manager. The prices quoted are exclusive of applicable initial charges.

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

Class features and naming convention

Accumulation Units

Capital-Accumulation Units normally do not declare any dividends/payouts and instead retain all net income, capital and capital gains within the price of the Units.

These Classes are suffixed by a "C", for example "Class AC".

Distribution Units

Distribution Units may be offered with the following dividend declaration/payment frequencies and are indicated with the following suffixes:

	Annual	**Semi-annual**	**Quarterly**	**Monthly**
Suffix	"D"	"S"	"Q"	"M"
Example for Class A	AD	AS	AQ	AM

In addition to the different dividend declaration/payment frequencies, distribution Units may be offered with the below dividend calculation methodologies and associated identifier suffixes.

The Manager has discretion to issue any Units with the below identifier suffix from time to time:

Suffix **For illustrative purposes, each of the possible dividend frequencies is shown below on Class A Units.**	**Calculation Methodology** **The usual method for calculating dividends is described below. The Manager may decide, at their discretion, to change or amend any of the calculation methodologies at any time.**
N/A Examples: Class AD Class AS Class AQ Class AM	It is intended that substantially all investment income (net of fees and expenses[1] and net of withholding taxes) attributable to such class of Units will be declared as a dividend.
"1" Examples: Class AD1 Class AS1 Class AQ1 Class AM1	It is intended that substantially all investment income (gross of fees and expenses[1] and net of withholding taxes) attributable to such class of Units will be declared as a dividend. Investors should be aware that fees and expenses[1] will be charged to capital. As a result it may be considered that such classes of Units are effectively distributing capital gains, if any, and capital attributable to such Units. Distribution of capital represents a withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment and may result in an immediate reduction in the net asset value per Unit (or adjusted net asset value per Unit) of the relevant Class (and hence the Issue Price/Redemption Price of the relevant Class).
"2" Examples:	It is intended that the class of Units will declare a dividend based upon the estimated annualised yield of the relevant Sub-Fund's underlying portfolio which is attributable to the class of Units.

Class AD2 Class AS2 Class AQ2 Class AM2	The Manager will review the estimated annualised yield at least semi-annually. However, the Manager may decide, at its discretion, to make adjustments to the dividend rate at any time to reflect changes in the estimated annualised yield of the Sub-Fund's portfolio. Investors should be aware that this dividend policy will pay out dividends gross of fees and expenses[1] and may pay out dividends gross of withholding taxes. The estimate of a Sub-Fund's underlying portfolio yield will not necessarily equal the income received by the class of Units and may result in distribution of both realised and unrealised capital gains, if any, and capital attributable to such Units. Distribution of capital represents a withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Such distributions may result in an immediate reduction in the net asset value per Unit (or adjusted net asset value per Unit) of the relevant Class (and hence the Issue Price/Redemption Price of the relevant Class).
"3" For illustrative purposes, the Classes below are AUD Portfolio Currency Hedged Unit Classes: Examples: Class AD3H-AUD Class AS3H-AUD Class AQ3H-AUD Class AM3H-AUD	This type of class of Units will only be offered on Sub-Funds which offer Currency Hedged Unit Classes. Please refer to the section headed "Currency Hedged Unit Classes" for more information on currency hedged classes. It is intended that the class of Units will declare a dividend based upon: (i) the estimated annualised yield of the relevant Sub-Fund's underlying portfolio which is attributable to the class of Units and (ii) an estimate of the interest rate carry (which could be positive or negative) and which is based upon the interest rate differential between the Sub-Fund's Base Currency and the Class Currency of the class of Units. A negative interest rate differential will result in a reduction of the dividend payment and may result in no dividends being paid. The Manager will review the estimated annualised yield at least semi-annually. However, the Manager may decide, at its discretion, to make adjustments to the dividend rate at any time to reflect changes in the estimated annualised yield of the Sub-Fund's portfolio. Investors should be aware that this dividend policy will pay out dividends gross of fees and expenses[1] and may pay out dividends gross of withholding taxes. The estimate of Sub-Fund's underlying portfolio yield will not necessarily equal income received by the class of Units and the estimate of the interest rate carry does not represent income received by the class of Units. Therefore this may result in distribution of capital gains, if any, and could result in distribution of capital attributable to such Units. Distribution of capital represents a withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Such distributions may result in an immediate reduction in the net asset value per Unit (or adjusted net asset value per Unit) of the relevant Class (and hence the Issue Price/Redemption Price of the relevant Class). This type of Class of Units is only intended for investors whose "**Home Currency**" (which is the main currency an investor uses on a day-to-day basis) is the same as the Class Currency of the Class of Units. These Classes of Units are available through certain distributors and may only be available to certain investors who meet eligibility criteria as decided by the Manager.

[1] *"Fees and expenses" refers to those described in the section headed "*Charges and expenses*".*

Unitholders should be aware that for Classes with the identifier suffix "1", "2" and "3" the distribution of dividends may be made out of income and/or capital gains and/or capital. Dividends may therefore impact their tax position and accordingly investors are encouraged to seek appropriate tax advice in relation to investment in the different Classes of Units. Investors should note that the payment of dividends out of capital represents a return or withdrawal of part of the amount they originally invested or from any capital gains attributable to the original investment. Investors should be aware of the effect of such distribution and pay attention to the relevant risks disclosed under the section headed "General risks". The composition of the latest dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the last 12 months is available from the Manager on request and on the website www.assetmanagement.hsbc.com/hk[2].

Notwithstanding the aforesaid, the Manager may from time to time determine the amount of dividend distribution and the dividend distribution interval in respect of any Class of Units of any Sub-Fund by giving notice to the Trustee. The Manager may also determine at its absolute discretion that no dividend distribution shall be made in respect of any dividend distribution interval and there is no guarantee on regular distribution of dividends. The cost of remittance and other expenses in relation to the dividend distribution payments will be borne by the relevant investors. Please see the sub-section "Payments to unitholders" in the "Taxation" section for further details.

Payment of dividend distributions will normally be made within seven Dealing Days of the declaration date.

Dividends of a Class of Units declared, if any, shall be distributed among the Unitholders of the relevant Class of Units rateably in accordance with the number of Units held by them on the record date as determined by the Manager in respect of the corresponding dividend distribution. For the avoidance of doubt, only Unitholders whose names are entered on the register of Unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding dividend distribution. Any payment of dividend distributions will only be made in the Class Currency of the relevant Class of Units.

All dividend distributions will be paid in cash and Unitholders do not have the option to automatically re-invest them into the Sub-Fund. In accordance with the "Switching Units" section, Unitholders that no longer wish to receive dividends may want to consider switching their Units to another available Class e.g. a capital-accumulation Class of the same Sub-Fund.

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

If there is a change to the dividend policy, prior approval will be sought from the SFC (if required) and affected investors will receive at least one month's prior written notification.

Payout Units

Payout Units pay out an amount which is not based on investment income or estimated yield of a Sub-Fund and instead determine the payout amount using another such basis as further set out below.

Payout Units may be offered with the following announcement/payment frequencies and are indicated with the following suffixes:

	Annual	**Semi-annual**	**Quarterly**	**Monthly**
Suffix	"D"	“S”	"Q"	"M"
Example for Class A	AD	AS	AQ	AM

Payout Units may be offered with either a fixed or flexible payout basis which is indicated through the inclusion of a suffix of either a “-FIX#” (where # represents a number indicating the pre-determined annualized fixed percentage of the fixed payout Unit); or “-FLX”. Investors should read the “Fixed Payout Units” and “Flexible Payout Units” section below for further information.

Fixed Payout Units

Units with a fixed payout may be offered for a Sub-Fund. Investors should be aware of the following:

- Fixed payout Units pay out a pre-determined fixed percentage of their net asset value or adjusted net asset value at a pre-determined frequency. Investments in the fixed payout Units are not an alternative to a savings account or fixed interest paying investment. **The pre-determined fixed percentage does not reflect either the actual or expected income or performance of the relevant Sub-Fund**.

- Consequently, fixed payout Units are expected to payout capital gains and/or capital and may do so over a prolonged or indefinite period. Paying-out of capital represents a withdrawal of investors’ initial investment. **This may result in a substantial erosion of an investor’s initial investment over the long term. Over the very long term an investor’s initial investment may be nearly, or even completely, exhausted.**

- Fixed payout Classes do not distribute a fixed amount and the constant percentage of payout results in higher absolute payout when the net asset value of the relevant fixed payout Class is high, and lower absolute payout when the net asset value of the relevant fixed payout Class is low.

- A positive payout does not imply a positive return. Payments will continue even when a Sub-Fund has not earned income and experiences capital losses. This will result in a more rapid fall in the value of the Unit Class than would occur if fixed payouts were not being paid. The rate and frequency is pre-determined and is not subject to the Manager’s ongoing discretion. However, payout will only be announced on a Dealing Day of the Sub-Fund. Should a scheduled payout fall on an unanticipated non-Dealing Day of the Sub-Fund (due to a suspension of calculation of the net asset value as set out under the section headed “Suspension of calculation of net asset value”) then such payout will be deferred until the next Dealing Day.

The table below sets out illustrative example Classes and describes how the payout amount would be set accordingly:

Suffix **For illustrative purposes, each of the possible payout frequencies is shown below on Class A Units.**	Frequency	Payout Amount **The set levels shown are indicative only and other amounts may be set.**
"5" Examples: Class AD-FIX5 Class AS-FIX5 Class AQ-FIX5 Class AM-FIX5	 Annual Semi-annual Quarterly Monthly	The Class periodically pays out 5% of the net asset value or adjusted net asset value of the announcement day (net of the amount paid out) on an annualized basis. The annualized percentage will be converted to a periodic percentage by simply dividing it by the number of periods. E.g. for monthly classes the amount will be 5% / 12 = 0.417%.
"7" Examples: Class AD-FIX7 Class AS-FIX7 Class AQ-FIX7 Class AM-FIX7	 Annual Semi-annual Quarterly Monthly	The Class periodically pays out 7% of the net asset value or adjusted net asset value of the announcement day (net of the amount paid out) on an annualized basis The annualized percentage will be converted to a periodic percentage by simply dividing it by the number of periods. E.g. for monthly classes the amount will be 7% / 12 = 0.583%.
"9" For illustrative purposes, the Classes below are AUD Portfolio Currency Hedged Unit Classes: Examples: Class AD-FIX5H-AUD Class AS-FIX5H-AUD Class AQ-FIX5H-AUD Class AM-FIX5H-AUD	 Annual Semi-annual Quarterly Monthly	The Class periodically pays out 9% of the net asset value or adjusted net asset value of the announcement day (net of the amount paid out) on an annualized basis The annualized percentage will be converted to a periodic percentage by simply dividing it by the number of periods. E.g. for monthly classes the amount will be 9% / 12 = 0.75%.

Flexible Payout Units

Units with a flexible payout may be offered for a Sub-Fund. Such Units pay out an amount using the calculation methodology set out below:

Illustrative example Classes	**Calculation methodology** **The usual method for calculating payouts is described below. The Manager may decide, at their discretion, to change or amend any of the calculation methodologies at any time.**
For illustrative purposes, the below example classes are Class A Units. Class AD-FLX Class AS-FLX Class AQ-FLX Class AM-FLX For illustrative purposes, the below example classes are AUD Portfolio Currency Hedged Classes. Class AD-FLXH-AUD Class AS-FLXH-AUD Class AQ-FLXH-AUD	It is intended that the Class of Units will announce a payout with reference to: (i) the long-term expected income and net capital gains (both realised and unrealised) of the relevant Sub-Fund's underlying portfolio ("Expected Return") which is attributable to the Class of Units; and (ii) (for Currency Hedged Unit Classes only) an estimate of the interest rate carry (which could be positive or negative) and which is based upon the interest rate differential between the Sub-Fund's Base Currency and the Class Currency of the Class of Units. A negative interest rate differential will result in a reduction of the payout payment and may result in no payout being paid. The Manager will review the payout rate at least annually. However, the Manager may decide, at its discretion, to make adjustments to the payout rate at any time to reflect changes in Expected Return. Payouts may be paid gross of fees and expenses* and may be paid gross of taxes. **Important information** This Class of Units deliberately pay out of net capital gains (both realised and unrealised). In addition, this Class of Units will pay out of capital (or effectively out of capital) to the extent that:

Class AM-FLXH-AUD		i. Fees and expenses and taxes are charged to capital; ii. Short-medium term market cycles result in performance temporarily falling short of the Expected Return (which is a *long-term* forecast). In this regard, where an investor's investment horizon is shorter than the Expected Return's time horizon, it may lead to them realising their investment during such a period. This would result in the price return of their investment suffering from both (a) the return falling short of the Expected Return; and (b) erosion of capital due to both (i) and (ii); and iii. The actual long term performance is less than the Expected Return. Consequently, this Class of Units may pay out of capital over a prolonged or indefinite period. Paying-out of capital represents a withdrawal of investors' initial investment. **This may result in a substantial erosion of an investor's initial investment over the long term. Over the very long term an investor's initial investment may be nearly, or even completely, exhausted.** These Classes of Units may only be available through certain distributors and may only be available to certain investors who meet eligibility criteria as decided by the Manager.

** "Fees and expenses" refers to those described in the sub-section headed "Ongoing charges" in the "Charges and expenses" section.*

Notwithstanding the aforesaid, the Manager may from time to time determine the amount of payout and the payout interval in respect of any Flexible Payout Units of any Sub-Fund by giving notice to the Trustee. The Manager may also determine at its absolute discretion that no payout shall be made in respect of any payout interval and there is no guarantee on regular payouts.

Payments

Unitholders should be aware that payout Units are expected to payout capital gains and/or capital. Payout may therefore impact their tax position and accordingly investors are encouraged to seek appropriate tax advice in relation to investment in the different Classes of Units. Investors should note that the payment of payout out of capital represents a return or withdrawal of part of the amount they originally invested or from any capital gains attributable to the original investment. Investors should be aware of the effect of such payout and pay attention to the relevant risks disclosed under the section headed "General risks". The composition of the latest payout of such Classes (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the last 12 months is available from the Manager on request and on the website www.assetmanagement.hsbc.com/hk[3].

The payout amount will be periodically announced on a Dealing Day in respect of each fixed payout Unit of the relevant Sub-Fund. The announcement day will also be the ex-payout day meaning that Units subscribed from this day will not be eligible for the forthcoming payout. As of the date of this Explanatory Memorandum, the announcement day shall typically be the last Dealing Day of the month, quarter, semi-annual or annual period. The exact dates for the current calendar year are available on the website www.assetmanagement.hsbc.com/hk[4]. Should a scheduled payout fall on an unanticipated non-Dealing Day of the Sub-Fund (due to a suspension of calculation of the net asset value as set out under the section headed "Suspension of calculation of net asset value") then such payout will be deferred until the next Dealing Day.

Payout of a Class of Units declared, if any, shall be distributed among the Unitholders of the relevant Class of Units rateably in accordance with the number of Units held by them on the record date which is the Business Day prior to the announcement day. Payouts (if any) will only be made in the Class Currency of the relevant Class of Units.
All payouts will be paid in cash and Unitholders do not have the option to automatically re-invest the payouts into the Sub-Fund. In accordance with the "Switching Units" section, Unitholders that no longer wish to receive payouts may want to consider switching their Units to another available Class e.g. a capital-accumulation Class of the same Sub-Fund.

The cost of remittance and other expenses and taxes in relation to the payout payments will be borne by the relevant investors. Please see the sub-section "Payments to unitholders" in the "Taxation" section for further details.

Payment of payouts will normally be made within seven Dealing Days of the announcement date.

If there is a change to the payout policy, prior approval will be sought from the SFC (if required) and affected investors will receive at least one month's prior written notification.

Consolidation of Payout Class Units

In the event that the Issue Price/Redemption Price of a Payout Class is lower than 50% of its initial Issue Price in its Class Currency, if the Manager considers it is in the interests of Unitholders of the relevant Sub-Fund, the Manager may, with the consent of the Trustee, decide to consolidate such Units. This means that a certain number of Units are combined to equal a single Unit with equivalent value.

This will cause a reduction in the number of Units an investor holds and Unitholders will have less votes when conducting resolutions on a poll. Investors should read the "Meetings of Unitholders and voting rights" section for further details on voting.

Unitholders will be given at least one months' written notice prior to any consolidation of Units.

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

Class Currency

Each class will have a Class Currency which may or may not be different from the Base Currency of the Sub-Fund. For non-Currency Hedged Unit Classes (see below) the currency of denomination will be indicated by a hyphen and three letter currency code which is in addition to the suffix indicating whether a Class is an accumulation Unit, distribution Unit or payout Unit.

Examples:

AC-USD
AD-HKD
AM1-GBP
AQ2-EUR
AM-FLX-AUD
AM-FIX7-CAD

Currency Hedged Unit Classes

Within a Sub-Fund, separate Portfolio Currency Hedged Unit Classes or Base Currency Hedged Unit Classes may be issued. Both types of Currency Hedged Unit Class seek to minimise the effect of currency fluctuations between the Class Currency of the Unit Class and the Base Currency of the relevant Sub-Fund.

Whether a Sub-Fund offers Portfolio Currency Hedged Unit Classes or Base Currency Hedged Unit Classes depends on the potential currency exposure of a Sub-Fund's underlying assets and its objective, as described below. Investors should be aware that the implementation of Currency Hedged Unit Classes by the Manager (or such other party to be appointed by the Manager from time to time) is separate from the various strategies the Investment Advisers may seek to implement at a Sub-Fund level to manage currency risks within each Sub-Fund.

Movements in currency exchange rates can materially impact investment returns and investors should ensure they fully understand the difference between investment in Portfolio Currency Hedged Unit Classes or Base Currency Hedged Unit Classes versus investment in those Unit Classes which are neither Portfolio Currency Hedged Unit Classes nor Base Currency Hedged Unit Classes.

Currency Hedged Unit Classes are not recommended for investors whose Home Currency is different to the Class Currency of the Currency Hedged Unit Class. Investors who choose to convert their Home Currency to the Class Currency of a Currency Hedged Unit Class and subsequently invest in such a Unit Class should be aware that they may be exposed to higher currency risks and may suffer material losses as a result of exchange rate fluctuations between the Class Currency of the Currency Hedged Unit Class and their Home Currency.

There can be no assurance or guarantee that the Manager (or such other party to be appointed by the Manager from time to time) will be able to successfully implement passive currency hedging for Currency Hedged Unit Classes at any time or at all. Furthermore, investors should note that there may be occasions when a Currency Hedged Unit Class is either under-hedged or over-hedged which may be due to factors which cannot be controlled such as investor trade activity, volatility in the Issue Price/Redemption Price of the Class and/or currency volatility.

Any transaction costs and gains or losses from currency hedging shall be accrued to and therefore reflected in the Issue Price/Redemption Price of the relevant Currency Hedged Unit Class. Currency Hedged Unit Classes will be hedged irrespective of whether the target currency is declining or increasing in value.

Investors should also refer to the section headed "Hedging risks".

Portfolio Currency Hedged Unit Classes and Base Currency Hedged Unit Classes are identifiable as follows:

Portfolio Currency Hedged Unit Class	**Base Currency Hedged Unit Class**
Suffixed by "H" followed by the standard international currency acronym into which the sub-fund's Base Currency is hedged.	Suffixed by "O" followed by the standard international currency acronym into which the sub-fund's Base Currency is hedged.
Example: ACH-EUR means Class A, Capital-Accumulation, Euro Portfolio Currency Hedged Unit Class.	Example: ACO-EUR means Class A, Capital-Accumulation, Euro Base Currency Hedged Unit Class.

Subscriptions and redemptions are settled only in the Class Currency of the Portfolio Currency Hedged Unit Class or Base Currency Hedged Unit Class.

Portfolio Currency Hedged Unit Classes

Portfolio Currency Hedged Unit Classes are offered for Sub-Funds:

i. where the underlying portfolio will consist of assets which are wholly, or almost wholly, denominated in the Sub-Fund's Base Currency and/or the underlying portfolio of assets are hedged (either wholly, or almost wholly) to the Sub-Fund's Base Currency; or

ii. which aims to obtain a return calculated in their Base Currency whilst the underlying assets are denominated in a currency (or currencies) which is (or are) different to the Sub-Fund's Base currency.

Base Currency Hedged Unit Classes

Base Currency Hedged Unit Classes are offered for Sub-Funds which may have (or will have) material exposure to assets which are denominated in a currency (or currencies) which is (or are) different to the Sub-Fund's Base Currency. Subject to the investment objective and policies of a Sub-Fund, such exposure may or may not be material in actuality for prolonged or temporary periods.

Base Currency Hedged Unit Classes seek to provide a return in its Class Currency which is consistent with the return on a Unit Class with a Class Currency which is the same as the Sub-Fund's Base Currency. However, the returns may differ due to various factors including interest rate differentials between the Class Currency of the Base Currency Hedged Unit Class and the Sub-Fund's Base Currency and transaction costs.

Investors in the Base Currency Hedged Unit Classes will be exposed to currency exchange rate movements of the underlying portfolio currencies against the Sub-Fund's Base Currency rather than being exposed to the underlying portfolio currencies against the Class Currency of the Unit Class. Investors should be aware that investment in Base Currency Hedged Unit Classes may result in the investor taking speculative currency positions, which may be volatile and may have a material impact on an investor's returns.

For example, in the case of a EUR Base Currency Hedged Unit Class of an emerging market local debt sub-fund (which invests in assets denominated in emerging market currencies and operates with a USD Base Currency) where the return to be hedged is the return in USD, the Manager (or such other party to be appointed by the Manager from time to time) will, following a EUR subscription into the EUR Base Currency Hedged Unit Class, convert EUR to USD whilst entering into a USD/EUR currency forward transaction with the aim of creating a Base Currency hedged currency exposure. This means an investor in this Base Currency Hedged Unit Class will be exposed to the movement of the underlying portfolio currencies (emerging market currencies) relative to USD rather than being exposed to the underlying portfolio currencies (emerging market currencies) relative to EUR. There is no guarantee that the underlying portfolio currencies will appreciate against the Sub-Fund's Base Currency and depending upon currency movements, an investor's return may be less than if they had invested in a non-Base Currency Hedged Unit Class.

SECTION B: INVESTMENT MANAGEMENT

Investment objective and policy

The Investment Objective and Policy for each Sub-Fund is disclosed in the section “Appendix 1 – Sub-Fund Details”.

Fund restrictions

1. Investment limitations

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

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

a. investments in securities issued by that entity;

b. exposure to that entity through underlying assets of financial derivative instruments; and

c. net counterparty exposure to that entity arising from transactions of OTC financial derivative instruments.

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

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

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

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

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

(i) investments in securities issued by those entities;

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

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

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

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

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

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

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

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

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

(d) the Sub-Fund’s holding of any ordinary shares (when aggregated with all other Sub-Funds’ holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity.

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

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

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

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

provided that:

(A) no investment may be made in any Underlying Fund the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;

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

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

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

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

For the avoidance of doubt:

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

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

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

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

2. Investment prohibitions

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

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

(b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);

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

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

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

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

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

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

3. Derivatives restrictions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Securities Financing Transactions restrictions and policy

4.1 A Sub-Fund may engage in Securities Financing Transactions, provided that they are in the best interests of Unitholders of such Sub-Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the Securities Financing Transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

4.2 Where it is disclosed in the "Appendix 1 – Sub-Fund Details", a Sub-Fund may engage in Securities Lending transactions subject to the maximum limit disclosed in the investment policy of the Sub-Fund. Under a Securities Lending transaction, a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee subject to a commitment from that counterparty that it will return equivalent securities on a specified future date or when requested to do so by the relevant Sub-Fund. The types of assets that may be subject to Securities Lending transactions include equity securities, fixed income securities, collective investment schemes and money market instruments.

A Sub-Fund is expected to retain the rights of beneficial ownership as to the loaned securities, including voting rights and rights to interest or other distributions, and will generally have the right to regain record ownership of loaned securities to exercise such beneficial rights.

4.2 A Sub-Fund shall have at least 100% collateralization in respect of the Securities Financing Transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

4.3 All revenues arising from Securities Financing Transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the Securities Financing Transactions, shall be returned to the relevant Sub-Fund. Such direct and indirect expenses shall include fees and expenses payable to Securities Lending agents engaged for the relevant Sub-Fund from time to time and also the Manager for its oversight work. Currently, in respect of Securities Lending transactions, the Securities Lending agents may receive 15% of the gross revenue from the Securities Lending transactions for its services related to Securities Lending transactions and the Manager may receive up to 10% of the gross revenue from the Securities Lending transactions as compensation for the oversight work undertaken in relation to Securities Lending transactions. The remainder of the gross revenue from the Securities Lending transactions is received by the relevant Sub-Fund taking part in the Securities Lending transactions. The Securities Lending agents engaged for a Sub-Fund may be connected persons of the Manager, the Investment Advisers or the Sub-Investment Advisers, and their fees and expenses will be at normal commercial rates and will be borne by the relevant Sub-Fund in respect of which the relevant party has been engaged.

Information on the revenues generated under such transactions shall be disclosed in the annual and interim financial reports of the relevant Sub-Fund, along with entities to whom direct and indirect operational costs and fees relating to such transactions are paid. These entities may include the Manager, the Investment Advisers, the Sub-Investment Advisers or any of their connected persons.

4.4 A Sub-Fund shall only enter into a Securities Financing Transaction if the terms of such Securities Financing Transaction include the power for the Sub-Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the Securities Financing Transaction or terminate the Securities Financing Transaction(s) into which it has entered.

5. Counterparty policy and collateral policy

5.1 Counterparty policy

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

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

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

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

5.2 Collateral policy

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

As of the date of this Explanatory Memorandum, the Sub-Funds may receive both non-cash collateral or cash collateral. However, the criteria set out below applies to all assets received by a Sub-Fund as collateral including the reinvestment of cash collateral:

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

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

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

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

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

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

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

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

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

   Reinvested cash collateral may only be placed on short-term deposit, invested in high quality money market instruments and money market funds authorized under 8.2 of the UT Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in this section "Fund restrictions". For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, the Manager will take into account the credit quality, the liquidity profile of the money market instruments and such other factors as the Manager considers relevant;

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

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

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

6. Borrowing and leverage restrictions

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

a) Cash borrowing

No borrowing shall be made in respect of a Sub-Fund which would result in the principal amount for the time being of all borrowings made pursuant to the Trust Deed for the account of the relevant Sub-Fund exceeding an amount equal to 10% of the net asset value of the relevant Sub-Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, Securities Lending transactions and Repurchase Transactions in compliance with the requirements as set out in the Code are not borrowings for the purpose of, and are not subject to the limitations in this paragraph.

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

b) Leverage from the use of financial derivative instruments

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

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

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

7. Sub-Fund specific restrictions

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

8. Breaches

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

Liquidity risk management

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

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

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

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

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

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

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

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

Transactions with Connected Persons

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

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

Cash rebates and soft commissions

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

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

Subject to the applicable legal and regulatory requirements (e.g. the requirements stated in the above paragraph), the Manager may engage in commission sharing arrangements (“CSA”) programme where the Manager may effect transactions through brokers who agree to allocate a portion of eligible commissions into a pool that can be used to pay for research expenses. The CSA programme allows the Manager to use a portion of client brokerage commissions to obtain research or other products or services that can benefit Unitholders. When the Manager uses client brokerage commissions to obtain research or other products or services through a CSA programme, the Manager receives a benefit because it does not have to produce or pay for the research, products or services. As a result, the Manager has an incentive to select or recommend a broker-dealer that participates in the CSA programme based on its own interest in receiving the research or other products or services, rather than on the clients’ interest in receiving the most favorable execution.

For the avoidance of doubt (and without prejudice to the generality of the foregoing) the following goods and services may be considered as of such benefit to Unitholders: research and advisory services; economic and political analysis; portfolio analysis (including valuation and performance measurement); market analysis, data and quotation services; computer hardware and software incidental to the above goods and services; clearing and custodian services; and investment-related publications. Such goods and services may not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries, or direct money payments.

SECTION C: INVESTING IN A SUB-FUND

Valuation and prices

Valuation policy of Sub-Funds

For the purpose of valuation of different types of investments, the Trust Deed provides (inter alia) that:

(a) The value of any investment (other than an interest in a collective investment scheme) shall be calculated by reference to the price appearing to the Manager to be the last traded price or (if no last traded price is available) midway between the latest available market dealing offer price and the latest available market dealing bid price on the Securities Market on which the investment is quoted, listed or ordinarily dealt in for such amount of such investment as the Manager may consider in the circumstances to provide a fair criterion;

(b) The value of any investment which is not quoted listed or ordinarily dealt in on a Securities Market shall be the initial value of such investment ascertained as provided in the Trust Deed or the value of such investment as assessed on the latest revaluation thereof made in accordance with the Trust Deed;

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

(d) Subject as provided in the Trust Deed, the value of each unit, share or other interest in any collective investment scheme shall be the last published net asset value per unit, share or other interest in such collective investment scheme (where available) or (if the same is not available) a price calculated by aggregating the last published bid price for such a unit, share or other interest and the last published offer price therefor (excluding any preliminary or initial charge included in such offer price) and dividing the result of two.

The net asset value of any Sub-Fund is calculated by valuing the assets of that Sub-Fund and deducting the liabilities attributable to that Sub-Fund.

The Trust Deed permits the Manager, with the consent of the Trustee, to adjust the value of any investment or permit some other method of valuation to be used if the Manager considers that such adjustment or other method of valuation is required to reflect more fairly the value of the relevant investment.

Unit Prices

The net asset value of a Class of Units of a Sub-Fund as at any Valuation Point shall be determined as follows:

(a) by calculating the net asset value of the Sub-Fund as at that time excluding any assets or liabilities which are specifically attributable to any particular Class of Units related to such Sub-Fund;

(b) by apportioning the resulting amount between the Classes of Units related to such Sub-Fund by reference to the respective net asset values of each such Class immediately prior to the relevant Valuation Point; and

(c) by deducting the liabilities and adding any assets specifically attributable to the relevant Class of Units.

The net asset value of a Class will be calculated in the Base Currency of the Sub-Fund and converted to the relevant Class Currency at a rate determined as the Trustee and the Manager may agree.

The Issue Price/Redemption Price of each Class of Units for any relevant Dealing Day will, subject as provided below in the "Anti-dilution" section, be determined by dividing the net asset value of such Class of Units as at the Valuation Point relating to that Dealing Day by the number of Units of such Class then in issue. The resulting amount will be rounded to 3 decimal places (in such manner as determined by the Manager) for the Issue Price/Redemption Price.

Class B Units may be issued and made available to investors in Mainland China only and will not be offered in Hong Kong. Details in relation to the prices at which such Units are issued and redeemed will be set out in the relevant Sub-Funds' offering documents applicable to investors in Mainland China.

Anti-dilution

If the Manager considers it in the interest of Unitholders, it may, when the net subscription or redemption requests in a Sub-Fund exceed a predefined threshold require the Trustee to temporarily adjust the Issue Price/Redemption Price ("**Swing Pricing**") in order to mitigate the effects of transaction costs caused by subscriptions/redemptions of Units, in particular but not limited to, bid-offer spreads, brokerage, taxes and government charges. The management fee and trustee fee will continue to be calculated on the basis of the unadjusted net asset value of the relevant Sub-Fund.

Adopting the Swing Pricing mechanism means if on a particular Dealing Day the net subscription (redemption) exceeds the predefined threshold, the net asset value will have upward (downward) adjustment to protect existing Unitholders. All transactions on that Dealing Day will adopt the adjusted net asset value. If the Issue Price/Redemption Price is adjusted upward (downward), subscribing (redeeming) investors will pay more (receive less) for each Unit.

Under normal market conditions, the Manager expects that the Swing Pricing adjustment will not exceed 2%. However, the Swing Pricing rate may be significantly higher in special circumstances, for example, when a tax or levy higher than in normal rates is imposed on the Sub-Fund by a regulator or tax authority or where market spreads widen due to a financial crisis.

Publication of prices

The Issue Price/Redemption Price of each Class that is offered to retail investors in Hong Kong will be published daily on the website www.assetmanagement.hsbc.com/hk[5]. The Issue Price/Redemption Price of each Class can be obtained from the Manager.

Suspension of calculation of net asset value

The Manager may, after consultation with the Trustee, declare a suspension of the determination of the net asset value of any 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 that Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager in ascertaining the prices of investments or (b) for any other reason the prices of investments of that Sub-Fund cannot, in the opinion of the Manager after consultation with the Trustee, reasonably be ascertained or (c) circumstances exist as a result of which, in the opinion of the Manager after consultation with the Trustee, it is not reasonably practicable to realise any investments of that Sub-Fund 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 that Sub-Fund or the subscription or realisation of Units is delayed or cannot, in the opinion of the Manager after consultation with the Trustee, be carried out promptly at normal rates of exchange. Such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the net asset value of that 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. Whenever the Manager shall declare such a suspension it shall, immediately after any such declaration and at least once a month during the period of such suspension, publish a notice on the Manager's website www.assetmanagement.hsbc.com/hk (the website has not been reviewed by the SFC).

Prevention of market timing and other Unitholder protection mechanisms

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

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

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

Unit dealing

Subscriptions

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

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

Applications for Units may be made by such means (including electronic means) with the required information and supporting documents as from time to time determined by the Manager and/or the Trustee. Investors should be reminded that if they choose to send application forms by facsimile or other electronic means, they bear their own risk of the forms being illegible or not being received. Investors should therefore for their own benefit confirm with the Manager the receipt of the forms. Neither the Manager nor the Trustee shall be responsible to a Unitholder or an investor for any loss resulting from non-receipt or illegibility of any orders sent by facsimile or other electronic means, or for any loss caused in respect of any action taken as a consequence of such application believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent.

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

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

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

All holdings will be in registered form and certificates will not be issued. 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 rounded to 3 decimal places, or otherwise determined by the Manager after consulting the Trustee, will be issued. Application monies representing smaller fractions of a Unit will be retained by the Sub-Fund.

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

A maximum of 4 persons may be registered as joint Unitholders.
All subscription applications must be signed by Unitholders except for those sent via electronic means, as determined by the Manager and/or the Trustee.

Cut-off

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

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

Subscription applications may also be sent through distributors appointed specifically for the purpose of distributing the Sub-Fund. Different distributors may have different cut-off times and investors should contact such distributors for details. Such distributors may also have the discretion to decide which Sub-Fund(s) and/or Classes of Units are available for subscription by investors through the relevant distributors, and whether applications for such subscription can be accepted by the relevant distributors on a Dealing Day on which severe weather conditions persist. Investors should pay attention to the arrangements of the distributors concerned.

Price

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

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

Settlement

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

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

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

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

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

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

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

Restrictions on subscriptions

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

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

The Manager may from time to time with the approval of the Trustee make arrangements for the issue of Units in exchange for consideration in specie in the form of investments vested in the Trustee for the account of the relevant Sub-Fund.

Redemptions

Redemption notices will be dealt with on each Dealing Day.

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

A redemption request may be made by such means (including electronic means) with the required information and supporting documents as from time to time determined by the Manager and/or the Trustee. Investors should be reminded that if they choose to send redemption forms by facsimile or other electronic means, they bear their own risk of the redemption forms being illegible or not being received. Investors should therefore for their own benefit confirm with the Manager the receipt of the redemption forms. Neither the Manager nor the Trustee shall be responsible to a Unitholder or an investor for any loss resulting from non-receipt or illegibility of any orders sent by facsimile or other electronic means, or for any loss caused in respect of any action taken as a consequence of such application believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent.

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

If a request for redemption will result in a Unitholder holding Units of a Class less than the minimum holding amount for that Class (as detailed under the “Description of classes” section), the Manager may deem such request to have been made in respect of all Units of the relevant Class held by that Unitholder.

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

Cut-off

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

Redemption notices may also be sent through distributors appointed specifically for the purpose of distributing the Sub-Fund. Different distributors may have different cut-off times and investors should contact such distributors for details. Such distributors may also have the discretion as to whether redemption notices can be accepted by the relevant distributors on a Dealing Day on which severe weather conditions persist. Investors should pay attention to the arrangements of the distributors concerned.

Price

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

There is currently no redemption charge.

Settlement

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

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

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

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

Restrictions on redemptions

The Manager may suspend the redemption of Units and/or delay the payment of redemption proceeds during any period in which the determination of the net asset value of the Sub-Fund is suspended after consultation with the Trustee (for details see the section headed “Suspension of calculation of net asset value”).

With a view to protecting the interests of Unitholders, the Manager may, with the approval of the Trustee, limit the number of Units of such Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation of Units) to 10% of the total net asset value of the relevant Sub-Fund. In this event, the limitation will apply pro rata so that all Unitholders wishing to redeem their Units on that Dealing Day will redeem the same proportion of such Units and Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, on the next Dealing Day without prejudice to the right of the Unitholders to revoke any part of the redemption requests not effected on the relevant Dealing Day. If requests for redemption are so carried forward, the Manager will within 7 days of such Dealing Day inform the Unitholders concerned. Any part of a redemption request to which effect is not given by reason of the exercise of this power will be treated as if the request had been made with priority in respect of the next Dealing Day and all following Dealing Days (in relation to which the Manager have the same power) until the original request has been satisfied in full.

Switching Units

Unitholders have the right (subject to any suspension in the determination of the net asset value of any relevant Sub-Fund) to switch all or part of their Units of a certain Class of a Sub-Fund into Units of any other Class (whether in the same Sub-Fund or another Sub-Fund by giving notice to the Manager or the Trustee in writing or through such other means (including electronic means), as determined by the Manager and/or the Trustee, provided that such Class of the Sub-Fund or other Sub-Fund is open for new subscription and available for switching). Switching is subject to limitations as the Manager may from time to time impose (including but not limited to the minimum holding requirement and investor eligibility requirement of the relevant Class of the Sub-Fund as detailed under the “Description of classes” section). Unitholders should be reminded that if they choose to send the notices by facsimile or other electronic means, they bear their own risk of the notices being illegible or not being received. Unitholders should therefore for their own benefit confirm with the Manager the receipt of the notices. Neither the Manager nor the Trustee shall be responsible to a Unitholder or an investor for any loss resulting from non-receipt or illegibility of any notices sent by facsimile or other electronic means, or for any loss caused in respect of any action taken as a consequence of such application believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent.

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

Certain classes of Units are only available to investors and intermediaries selected by the Manager of the Sub-Funds at its discretion. Subscribers should contact the relevant intermediary or the Manager before making an application for switching. When dealing through an intermediary, investors also need to follow the terms of the intermediary.

Cut-off

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

Switching notices may also be sent through distributors appointed specifically for the purpose of distributing the Sub-Fund. Different distributors may have different cut-off times and investors should contact such distributors for details. Such distributors may also have the discretion as to whether switching notices can be accepted by the relevant distributors on a Dealing Day on which severe weather conditions persist. Investors should pay attention to the arrangements of the distributors concerned.

Switching rate

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

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

where:-

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

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

F = the currency conversion factor determined by the Manager for the relevant Dealing Day as representing the effective rate of exchange between the Class Currency of Units of the Existing Class and the Class Currency of Units of the New Class;

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

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

SF = a switching fee (as described in the section headed “Charges and expenses”)

No switching will be made if as a result thereof a Unitholder would hold less than the minimum holding of Units of any relevant Class.

Settlement

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

Transferring Units

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

Anti-money laundering regulations and sanction laws

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

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

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

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

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

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

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

Charges and expenses

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

There are three types of charges and expenses:

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

Initial charge and switching fee

The Manager (or its authorised distributors) is entitled to deduct an initial charge from the total subscription amount and then issue Units based on the net subscription amount (i.e. the total subscription amount less the initial charge). The Manager currently charges an initial charge as follows:

Sub-Fund type	Per cent of the total subscription amount
Equity Fund *Applies to:* • *HSBC China Momentum Fund* • *HSBC China Growth Fund*	Up to 4.50%
Bond Fund *Applies to:* • *HSBC Asian Bond Fund;* • *HSBC Asian High Yield Bond Fund*	Up to 3.00%
Multi-Asset Fund • *Applies to: Nil*	Up to 3.00%

Under the Trust Deed, the maximum rate of the initial charge is up to 6% of the Issue Price inclusive of such initial charge (which is equivalent to 6% of the total subscription amount).

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

Under the Trust Deed, the Manager may charge a switching fee not exceeding 2.0% of the Issue Price of the New Class (which is equivalent to 1.96% of the switch-out proceeds). Currently, the switching fee is up to 1.0% of the switch-out proceeds. The Manager is currently not retaining the switching fee and has shared the switching fee with its authorised distributors who will retain the full switching fee.

Ongoing charges

Ongoing charges consist of:
- Management fee
- Trustee fee
- Other ongoing expenses
- Costs of investing in units or shares of Underlying Funds
- Amortised establishment costs
- Operating currency hedging fees

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

Management fee

The current management fee for each Sub-Fund and its Classes of Units is disclosed in the section “Appendix 1 – Sub-Fund Details” and stated as an annualised percentage of the net asset value of a Class. The management fee is accrued as at each Valuation Day and payable monthly in arrears.

Currently, no performance fee is charged by the Manager.

The Manager will give three months’ prior notice to Unitholders should there be any increase of the management fee from the current level up to the maximum level of 2.5% per annum of the net asset value of a Class of Units.

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

Trustee Fee

The current trustee fee for each Sub-Fund is disclosed in the section “Appendix 1 – Sub-Fund Details” and stated as an annualised percentage of the net asset value of a Sub-Fund. The trustee fee is accrued as at each Valuation Day and payable monthly in arrears.

The Trustee will give one month’s prior notice to Unitholders should there be any increase of the trustee fee from the current level up to the maximum level of 0.25% per annum of the net asset value of a Sub-Fund.

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

Other ongoing expenses

Each Sub-Fund will bear the cost of:

a. transaction fees of the Trustee, custodian or sub-custodian and proxy fees and expenses, collection fees and expenses, insurance and security costs;

b. the fees and expenses of the Auditors and the Registrar;

c. fees charged by the Trustee in connection with valuing the assets of the Sub-Fund or any part thereof, calculating the Issue Price/Redemption Price of Units of the Sub-Fund and preparing financial statements;

d. all legal and professional fees and charges incurred by the Manager and/or the Trustee in connection with the Sub-Fund (including the fees and charges of the legal counsel, and fees and charges incurred in conducting legal proceedings or applying to any court for any purposes related to the Sub-Fund) and other professional fees and charges (including any professional fees and charges in relation to agreeing and/or contesting taxation liabilities or recoveries to be paid out of or into the Sub-Fund, or preparation or issuance of any accounts, statements or reports in relation to the Sub-Fund or any income, revenue, expenses, assets and/or liabilities of the Sub-Fund, or any costs of using benchmark or fees charged by rating agencies);

e. out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties;

f. the expenses of or incidental to the preparation of deeds supplemental to the Trust Deed;

g. the expenses of holding meetings of Unitholders and of giving notices to Unitholders;

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

i. without prejudice to the generality of the foregoing, all costs incurred in publishing the Issue Price/Redemption Price of Units of the Sub-Fund, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deed (including the Auditors' fees and Trustee's fee), the expenses of preparing and printing any offering document, and any other expenses, deemed by the Manager, after consulting the Trustee, to have been incurred in compliance with or in connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts.

Costs of investing in units or shares of Underlying Funds

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

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

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

Amortised establishment costs

The costs and expenses incurred by the Manager and the Trustee in establishing the HSBC Asian Bond Fund, the HSBC Asian High Yield Bond Fund, the HSBC China Momentum Fund and the HSBC China Growth Fund have been fully amortised.

Operating currency hedging fees

The Manager will charge the Currency Hedged Unit Classes* a fee of up to 0.10% per annum of the net asset value of the relevant Class in relation to the administration of the hedge. This does not include the transaction costs incurred when entering into hedging contracts.

**except class AM3H-AUD and class AM3H-EUR of both HSBC Asian High Yield Bond Fund and HSBC Asian Bond Fund to which no operating currency hedging fees apply.*

Other charges and expenses

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

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

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

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

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

Taxation

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

Taxes on Unitholders and Unitholder tax disclosures

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

Hong Kong

Under present Hong Kong law and practice:-

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

b) No Hong Kong stamp duty is payable by Unitholders in relation to the issuance of Units, the redemption of Units or the sale or transfer of the Unit effected by extinguishing the Units or the sale or transfer is to the Manager who subsequently re-sells the Units within two months thereof. Other types of sales or purchases or transfers of the Units by Unitholders should be liable to

Hong Kong Stamp Duty of 0.1% (borne by each of the buyer and seller) on the higher of the consideration amount or market value. In addition, a fixed duty of HK$5.00 is currently payable on instrument of transfer of Units, unless being specifically exempt.

Payments to unitholders

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

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

Automatic Exchange of Information

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

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

Foreign Account Tax Compliance Act

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

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

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

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

Common Reporting Standard

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

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

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

Taxes on the Fund / Sub-Funds

Hong Kong

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

Mainland China

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

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

For tax disclosures on investment in Mainland China Securities, please refer to the sub-section headed "Mainland China" of the below section on "Taxes related to a Sub-Fund's assets".

Taxes related to a Sub-Fund's assets

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

The Manager may, upon taking tax advice, at its discretion, arrange with the Trustee to provide for potential tax liabilities in respect of the Sub-Funds' investments for the purpose of meeting the Sub-Funds' tax liabilities.

Investors should note that any tax provision, if made, may be excessive or inadequate to meet actual tax liabilities on investments made by the Sub-Fund. In the event that it is satisfied (based on tax advice) that part of the tax provisions are not required, the Manager will arrange with the Trustee to release such provisions back into the Sub-Fund, forming part of the Sub-Fund's assets. On the other hand, any amount by which the tax provisions fall short of the tax liability incurred or is expected to be incurred by the Sub-Fund shall be debited and deducted from the Sub-Fund's assets which will adversely affect the net asset value of a Sub-Fund. For details of the tax provision policy for investment in Mainland China related securities (if any) of a Sub-Fund, please refer to the sub-section "Tax provisions – Mainland China CIT and VAT" in this section.

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

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

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

Mainland China

By investing in China A-shares, B-shares, H-shares, bank deposits and RMB denominated fixed income securities (including corporate and government bonds) issued inside or outside Mainland China as well as equivalents such as ELNs ("**Mainland China Securities**"), a Sub-Fund may be subject to taxes imposed by Mainland China.

CIT

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

Bank deposits

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

Fixed income investments

Interest derived from Mainland China debt securities other than government bonds[6] (including those issued by foreign enterprises but deemed as Mainland China tax residents[7]) by a foreign investor is subject to 10% Mainland China CIT by way of withholding unless the rate is reduced under applicable tax treaty subject to proper filing with the in-charge Mainland China tax authority.

In November 2018, the Ministry of Finance ("**MOF**") and the State Taxation Administration of the People's Republic of China ("**STA**") jointly issued [Caishui [2018] No. 108] ("**Circular 108**") which provides that foreign institutional investors are exempted from Mainland China CIT in respect of bond interest income received from 7 November 2018 to 6 November 2021 ("**Tax Exempt Period**") from investments in the Mainland China onshore bond market. According to the Public Notice no. 34 issued by MOF and STA in November 2021, the Tax Exempt Period has been extended to 31 December 2025. MOF and STA issued Public Notice no.5 in January 2026 to further extend the Tax Exempt Period to 31 December 2027. Such exemption does not apply to interest income derived by a permanent establishment of the foreign institutional investors in Mainland China. There is still lack of clear guidance in respect of CIT applicable to interest income derived by the Sub-Funds from Mainland China onshore debt securities, in particular, whether interest income received before 7 November 2018 is subject to CIT and whether the CIT exemption will continue to be available upon expiry.

There are no specific rules governing Mainland China CIT on capital gains derived by foreign investors from the trading of debt securities in Mainland China. Based on current interpretation of the STA and professional tax advice, the Manager does not intend to provide for any Mainland China CIT in respect of the capital gains derived by a Sub-Fund from disposal of debt securities in Mainland China.

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

Equity investments

In respect of equity interest investments such as China A-shares, the MOF, the STA and the CSRC have promulgated circulars in 2014 to clarify the relevant CIT liabilities:-

(i) Pursuant to *Circular Concerning the Temporary Exemption of Corporate Income Tax for Gains Derived by QFII and RQFII from Transfer of Domestic Shares and Other Equity Interest Investment in China*:

- CIT shall be temporarily exempted on the gains derived by QFIIs and RQFIIs from the transfer of domestic shares and other equity interest investment in Mainland China with effect from 17 November 2014; and
- CIT shall be imposed on such gains derived by QFIIs and RQFIIs before 17 November 2014 in accordance with the tax laws.

This circular is applicable to QFIIs and RQFIIs without any establishment or place in Mainland China or the income derived by the QFIIs and RQFIIs are not effectively connected with their establishment or place in Mainland China.

Pursuant to *Circular of State Taxation Administration of the People's Republic of China on Issues Concerning the Withholding and Payment of Corporate Income Tax on Dividends and Interests Paid to QFII by PRC Resident Enterprise*, Mainland China-sourced dividends derived by QFII is subject to 10% CIT withholding. The CIT shall be withheld and paid by the enterprise that pays the dividends.

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

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

- CIT shall be temporarily exempted on the gains derived by Hong Kong market investors (including corporate investors) from the transfer of China A-shares listed on the Shanghai/Shenzhen Stock Exchange; and

- Hong Kong market corporate investors are required to pay tax on dividends of China A-shares at a rate of 10%, which will be withheld and paid to the relevant Mainland China tax authority by the respective listed companies.

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

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

VAT

On 23 March 2016, the MOF and the STA jointly released *Circular Notice on Overall Implementation of Transforming Business Tax to Value-added Tax on a Pilot Basis* ("**Circular 36**") on the full transformation of Business Tax to VAT (the "**B2V Reform**"). Circular 36 took effect on 1 May 2016 and officially transforms the financial services industry from Business Tax to VAT. After the issuance of Circular 36, the MOF and STA issued various supplementary circulars, including Circular Caishui [2016] No. 140, Circular Caishui [2017] No. 2 and Circular Caishui [2017] No. 56 which specifically address the VAT treatment of asset management products. The Mainland China Value-Added Tax Law issued on 25 December 2024 and the Implementation Regulations of the PRC VAT Law issued on 25 December 2025 have come into effect on 1 January 2026 which set up basic principle of PRC VAT. The detailed VAT treatment on overseas investors may change from time to time.

Interest income

Based on the interpretation of the relevant tax regulations and circulars upon seeking tax advice, coupon interest derived by a Sub-Fund from Mainland China onshore non-government bonds, offshore bonds issued by Mainland China tax resident companies and government issued on/ after 8 August 2025 ("**relevant bonds**") should be subject to VAT at 6% plus local surcharges (if applicable) from 1 May 2016.

Circular 108 provides that foreign institutional investors are exempted from Mainland China VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the Mainland China onshore bond market. According to the Public Notice no. 34 issued by MOF and STA in November 2021, the Tax Exempt Period has been extended to 31 December 2025. MOF and STA issued Public Notice no.5 in January 2026 to further extend the Tax Exempt Period to 31 December 2027. Such exemption does not apply to interest income derived by a permanent establishment of the foreign institutional investors in Mainland China.

There is still lack of clear guidance in respect of VAT applicable to interest income derived by the Sub-Funds from Mainland China onshore debt securities, in particular, whether interest income received before 7 November 2018 is subject to VAT and whether the VAT exemption will continue to be available upon expiry.

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

Dividends or profits

Dividends or profits distributed on equity investment are not subject to Mainland China VAT.

Capital gains

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

Surcharges (if applicable)

If VAT is payable on interest and/or capital gains, there may be also surcharges (which include City Construction and Maintenance Tax, Education Surcharge, Local Education Surcharge) to be charged on top of the 6% VAT payable. There may also be other levies imposed in some locations.

Stamp duty

Stamp duty under Mainland China laws generally applies to the conclusion and receipt of dutiable documents listed in Mainland China Provisional Rules on Stamp Duty. Stamp duty is payable at 0.1%, which has been reduced to 0.05% since 28 August 2023, by the transferor of China A-shares and B-shares.

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

Tax provisions – Mainland China CIT and VAT

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

- a Sub-Fund will make a CIT provision of 10% on interest from its investments in debt securities issued by Mainland China tax resident enterprises, if it was not withheld at source nor borne by the bond issuers (except (i) interests from investments in Mainland China onshore bonds received during the Tax Exempt Period and (ii) interest from Mainland China government bonds and local government bonds);
- a Sub-Fund will not withhold any amount of realised or unrealised capital gains derived from the disposal of or investment in Mainland China debt securities;
- a Sub-Fund will not withhold any amount for interest derived from bank deposits in Mainland China as CIT provision because CIT is withheld at source;
- a Sub-Fund will not withhold (or will not request the ELN issuers to withhold) any amount of realised or unrealised gains on its investments in ELNs as tax provisions;

- a Sub-Fund will not withhold any amount of realised or unrealised gains on its investments in China A-shares through the Stock Connect as tax provisions; and
- a Sub-Fund will make a VAT provision at 6% plus surcharge (if applicable) on interest from its investment in the relevant bonds provided that such VAT is not borne by the bond issuers (except (i) interests from investments in Mainland China onshore bonds received during the Tax Exempt Period and (ii) interest from Mainland China government bonds and local government bonds issued before 8 August 2025).

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

There is a possibility that the current tax laws, rules, regulations and practice in Mainland China and/or the current interpretation or understanding thereof may be changed with retrospective effect in the future. Such changes may impact the tax provisioning policy and tax position of a Sub-Fund and could have a material adverse impact on the net asset value of a Sub-Fund, thereby causing significant losses to investors. Investors should seek their own tax advice on their Mainland China tax position with regard to their investment in a Sub-Fund.

Investors should refer to the risk factor headed "Mainland China tax risks" in the section headed "Sub-Fund specific risks" for further risk disclosures in Mainland China taxation.

APPENDIX 1 – SUB-FUND DETAILS

HSBC Asian Bond Fund

Investment Adviser

HSBC Global Asset Management (Hong Kong) Limited

Base Currency

USD

Investment objective and policy

Investment objective

To achieve a reasonably high income whilst maintaining a prudent policy of capital conservation through primarily investing in fixed interest securities within the Asian region.

Investment policy

It will normally invest in a broad spread of quoted bonds. It may also invest in government bonds, other unquoted fixed-interest securities, monetary instruments and may hold cash on deposit pending reinvestment, if the Manager considers this course of action appropriate to the goal of maximising capital growth.

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

At least 70% of the net asset value of the Sub-Fund will be invested in bonds issued in or issued by issuers established in the regions referred to in the Sub-Fund's name, or in bonds denominated in the currency/currencies referred to or relating to the regions referred to in the Sub-Fund's name.

The Sub-Fund may invest less than 20% of its net asset value in bonds traded on the China Interbank Bond Market in Mainland China via the CIBM Initiative and/or Bond Connect and/or other means as may be permitted by the relevant regulations from time to time. For the avoidance of doubt, the total investment in Mainland China market shall be less than 20% of the Sub-Fund's net asset value.

The Sub-Fund may invest less than 30% of its net asset value in debt instruments with loss-absorption features (e.g. contingent convertible debt securities). The Sub-Fund may invest up to 10% of its net assets in contingent convertible securities.

The Sub-Fund can enter into Securities Lending transactions for up to 29% of its net assets, however, it is expected that this will not exceed 25%.

The Manager will not enter into Repurchase Transactions or Reverse Repurchase Transactions or similar OTC transactions in respect of the Sub-Fund.

Reference performance benchmark

Markit iBoxx USD Asia Bond

Management fee and trustee fee

Class of Units	**A**	**I**	**Z**
Management fee (%)	1.00	0.55	0.00
Trustee fee (%)	0.07	0.07	0.07

Each Class may incur additional fees and expenses which are not disclosed in the above table. Further details are provided in the "Charges and expenses" section.

Applicable risks

- All risks described in full in the "General risks" section.
- All risks described in full in the "Fixed income risks", "Derivatives risks", "Risks relating to Securities Lending transactions" and "Collateral management and re-investment of cash collateral risks" sub-sections in the "Asset class risks" section.
- The following risks described in full in the "Sub-Fund specific risks" section:
    - Concentration risks
    - Emerging and less developed markets securities risks
    - Mainland China market risks
    - RMB currency risks
    - Mainland China tax risks
    - China Interbank Bond Market risks
    - Convertible bonds risks
    - "Dim Sum" bond risks

- Urban Investment Bonds risks
- Risks associated with investments in debt instruments with loss-absorption features
- Sovereign debt risk
- Collateralised and/or securitised products risks (such as asset-backed securities and mortgage-backed securities)

Suitability

The Manager considers the Sub-Fund to be a “non-complex” product. The Sub-Fund may be suitable for investor types that can afford the risks involved, including retail investors (subject to each investor’s individual circumstances) with a medium to long term investment horizon.

Investors should consult an authorised distributor of the Sub-Fund to determine if the Sub-Fund is suitable for their individual circumstances. Potential investors should review this Explanatory Memorandum in its entirety prior to making a decision to invest.

HSBC China Momentum Fund

Investment Adviser

HSBC Global Asset Management (Hong Kong) Limited

Base Currency

USD

Investment objective and policy

Investment objective

The Sub-Fund aims to achieve long-term capital appreciation by investing in securities issued by or linked to the companies that are positioned to benefit from the strong economic growth and rising investment opportunities in Mainland China.

Investment policy

The Sub-Fund seeks long-term capital growth through a portfolio of investments in equity and equity related securities of Mainland Chinese companies or companies deriving a significant proportion of their revenue from operations in Mainland China. The Sub-Fund may invest in shares and securities linked to the shares of Mainland China related companies listed or quoted in Mainland China, Hong Kong Special Administrative Region ("**Hong Kong**") and other jurisdictions, including, for example, A- and B-shares (and such other securities as may be available) listed on stock exchanges in Mainland China, and H-shares and shares of red-chip companies listed on the Hong Kong Stock Exchange. The Sub-Fund will invest at least 70% of its net asset value in the above-mentioned securities.

The Sub-Fund may invest up to 100% in H-shares and red-chips, up to 30% in B-shares, and up to 50% of its net asset value invested in China A-shares and equity linked instruments linked to China A-shares. This allocation is indicative only and may be changed from time to time depending on market conditions and the availability of appropriate investment opportunities.

As of the date of this Explanatory Memorandum, the Sub-Fund and the Manager are not Qualified Foreign Institutional Investors (QFIIs) in Mainland China. However, the Sub-Fund will invest in the China A-share market indirectly through Equity Linked Notes and other similar equity linked securities and instruments issued by institutions that have obtained the QFII status (collectively referred to as "**ELN**"). Where the Sub-Fund invests in the China A-share market through ELN that are not listed nor quoted on a market that is open to the international public and on which the ELN are regularly traded, such ELN should comprise no more than 15% of the Sub-Fund's net asset value.

The Sub-Fund may also directly invest in China A-shares through the Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (collectively the "**Stock Connects**"), subject to applicable quota limitations.

The maximum total investment in China A-shares (including all types of investments) is 50% of the Sub-Fund's net asset value. The following table illustrates the maximum investment in China A-shares through different channels as a percentage of the Sub-Fund's net asset value:

Type of investment	**Maximum investment**
Indirect investment through ELN linked to China A-shares	50%
Direct investment through the Stock Connects	30%

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

The Sub-Fund can enter into Securities Lending transactions for up to 29% of its net assets, however, it is expected that this will not exceed 25%.

The Manager will not enter into Repurchase Transactions or Reverse Repurchase Transactions or similar OTC transactions in respect of the Sub-Fund.

Reference performance benchmark

MSCI China 10/40 Net

Management fee and trustee fee

Class of Units	**A**	**I**	**Z**
Management fee (%)	1.75	0.85	0.00
Trustee fee (%)	0.07	0.07	0.07

Each Class may incur additional fees and expenses which are not disclosed in the above table. Further details are provided in the "Charges and expenses" section.

Applicable risks

- All risks described in full in the "General risks" section.
- All risks described in full in the "Equity risks", "Derivatives risks", "Risks relating to Securities Lending transactions" and "Collateral management and re-investment of cash collateral risks" sub-sections in the "Asset class risks" section.
- The following risks described in full in the "Sub-Fund specific risks" section:

- Concentration risks
- Emerging and less developed markets securities risks
- Mainland China market risks
- RMB currency risks
- Mainland China tax risks
- China A-shares risks
- Equity Linked Notes and other similar securities and instruments risks
- Stock Connect risks
- Risks associated with the ChiNext Board and/or the Science and Technology Innovation Board

Suitability

The Manager considers the Sub-Fund to be a “non-complex” product. The Sub-Fund may be suitable for investor types that can afford the risks involved, including retail investors (subject to each investor’s individual circumstances) with a long term investment horizon.

Investors should consult an authorised distributor of the Sub-Fund to determine if the Sub-Fund is suitable for their individual circumstances. Potential investors should review this Explanatory Memorandum in its entirety prior to making a decision to invest.

HSBC China Growth Fund

Investment Adviser

HSBC Global Asset Management (Hong Kong) Limited

Base Currency

USD

Investment objective and policy

Investment objective

The Sub-Fund seeks long-term capital growth by mainly investing in a portfolio of equities issued by companies located in Mainland China or deriving a preponderant part of their income and/or assets from Mainland China, and instruments linked to such investments. The Sub-Fund will be actively managed, aiming to achieve the investment objective without reference to market index weightings.

Investment policy

The securities which the Sub-Fund will invest in may be listed or traded on one or more recognized exchanges located in Mainland China or the Hong Kong Special Administrative Region ("**Hong Kong**"). To some extent the Sub-Fund may also invest in securities listed or traded on recognised exchanges located outside Mainland China and Hong Kong. There are no capitalisation restrictions, and it is anticipated that the Sub-Fund will seek to invest across a range of capitalisations.

The Sub-Fund may invest in A- and B-shares (and such other securities as may be available) listed on stock exchanges in Mainland China, H-shares and shares of red-chip companies listed on the Hong Kong Stock Exchange or on other exchanges outside of Mainland China (including but not limited to shares of Mainland Chinese private enterprises deriving a preponderant part of their income and/or assets from Mainland China ("P-chip companies")), shares of other companies deriving a preponderant part of their income and/or assets from Mainland China and securities linked to such shares. The Sub-Fund will invest at least 70% of its total net asset value in A-, B- and H-shares, shares of red-chip companies, shares of companies deriving a preponderant part of their income and/or assets from Mainland China and securities linked to such shares.

As of the date of this Explanatory Memorandum, the Sub-Fund and the Manager are not Qualified Foreign Institutional Investors (QFIIs) in Mainland China. However, the Sub-Fund will invest in the China A-share market indirectly through Equity Linked Notes and other similar equity linked securities and instruments issued by institutions that have obtained the QFII status (collectively referred to as "**ELN**"). Where the Sub-Fund invests in the China A-share market through ELN that are not listed nor quoted on any stock exchange or over-the-counter market or other organized securities market that is open to the international public and on which the ELN are regularly traded, such ELN should comprise no more than 15% of the Sub-Fund's net asset value.
The Sub-Fund may also directly invest in China A-shares through the Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (collectively the "**Stock Connects**"), as and when it is eligible to participate in such programme, subject to applicable quota limitations.

The following table illustrates the Sub-Fund's maximum investment in China A-shares as a percentage of the Sub-Fund's net asset value:

Type of investment	**Maximum investment**
Indirect investment through ELN linked to China A-shares*	30%
Direct investment through the Stock Connects*	70%

**The maximum total investment in China A-shares including all types of investments is 70% of the Sub-Fund's net asset value.*

The investment portfolio held by the Sub-Fund will comprise mainly of equities and equity-related investments. The portfolio may also include deposits and other money market instruments up to 49% of the net asset value of the Sub-Fund. The intended asset allocation aforesaid is for indication only and may be changed as and when the Manager considers appropriate. The Sub-Fund may have up to 30% of its assets invested in equity linked instruments linked to China A-shares.

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

The Sub-Fund can enter into Securities Lending transactions for up to 29% of its net assets, however, it is expected that this will not exceed 25%.

The Manager will not enter into Repurchase Transactions or Reverse Repurchase Transactions or similar OTC transactions in respect of the Sub-Fund.

Reference performance benchmark

MSCI China All Shares Index Net (USD)

Management fee and trustee fee

Class of Units	**A**	**I**	**Z**
Management fee (%)	1.50	0.75	0.00
Trustee fee (%)	0.07	0.07	0.07

Each Class may incur additional fees and expenses which are not disclosed in the above table. Further details are provided in the "Charges and expenses" section.

Applicable risks

- All risks described in full in the "General risks" section.
- All risks described in full in the "Equity risks", "Derivatives risks", "Risks relating to Securities Lending transactions" and "Collateral management and re-investment of cash collateral risks" sub-sections in the "Asset class risks" section.
- The following risks described in full in the "Sub-Fund specific risks" section:
    - Concentration risks
    - Emerging and less developed markets securities risks
    - Mainland China market risks
    - RMB currency risks
    - Mainland China tax risks
    - China A-shares risks
    - Equity Linked Notes and other similar securities and instruments risks
    - Stock Connect risks
    - Risks associated with the ChiNext Board and/or the Science and Technology Innovation Board

Suitability

The Manager considers the Sub-Fund to be a "non-complex" product. The Sub-Fund may be suitable for investor types that can afford the risks involved, including retail investors (subject to each investor's individual circumstances) with a long term investment horizon.

Investors should consult an authorised distributor of the Sub-Fund to determine if the Sub-Fund is suitable for their individual circumstances. Potential investors should review this Explanatory Memorandum in its entirety prior to making a decision to invest.

HSBC Asian High Yield Bond Fund

Investment Adviser

HSBC Global Asset Management (Hong Kong) Limited

Base Currency

USD

Investment objective and policy

Investment objective

The Sub-Fund aims to achieve a higher level of income and capital appreciation through investing primarily in a diversified portfolio of higher yielding fixed income securities including investment grade, non-investment grade and unrated bonds that are primarily denominated in USD, traded or issued by issuers in the Asian markets.

Investment policy

The Sub-Fund will normally invest in a broad range of fixed income securities and instruments including government bonds, corporate bonds, convertible bonds, monetary instruments and may hold cash on deposit pending reinvestment.

In order to achieve its investment objective, the Sub-Fund will invest in high-yield securities including, but not limited to, investment grade and non-investment grade bonds and other similar securities (rated and unrated).

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

The Sub-Fund may invest less than 20% of its net asset value in bonds traded on the China Interbank Bond Market in Mainland China via the CIBM Initiative and/or Bond Connect and/or other means as may be permitted by the relevant regulations from time to time. For the avoidance of doubt, the total investment in Mainland China market shall be less than 20% of the Sub-Fund's net asset value.

The Sub-Fund may invest less than 30% of its net asset value in debt instruments with loss-absorption features (e.g. contingent convertible debt securities). The Sub-Fund may invest up to 10% of its net assets in contingent convertible securities.

The Sub-Fund can enter into Securities Lending transactions for up to 29% of its net assets, however, it is expected that this will not exceed 25%.

The Manager will not enter into Repurchase Transactions or Reverse Repurchase Transactions or similar OTC transactions in respect of the Sub-Fund.

Reference performance benchmark

70% JP Morgan ACI Corporate Non Investment Grade;

20% JP Morgan ACI Sovereign (Indonesia, Mongolia, Pakistan, Philippines, Sri Lanka and Vietnam only); and

10% JP Morgan ACI Quasi Sovereign (Indonesia, Mongolia, Pakistan, Philippines, Sri Lanka and Vietnam only).

Management fee and trustee fee

Class of Units	**A**	**I**	**Z**
Management fee (%)	1.25	0.85	0.00
Trustee fee (%)	0.07	0.07	0.07

Each Class may incur additional fees and expenses which are not disclosed in the above table. Further details are provided in the "Charges and expenses" section.

Applicable risks

- All risks described in full in the "General risks" section.
- All risks described in full in the "Fixed income risks", "Derivatives risks", "Risks relating to Securities Lending transactions" and "Collateral management and re-investment of cash collateral risks" sub-sections in the "Asset class risks" section.
- The following risks described in full in the "Sub-Fund specific risks" section:
  - Concentration risks
  - Emerging and less developed markets securities risks
  - Mainland China market risks
  - RMB currency risks

- Mainland China tax risks
- China Interbank Bond Market risks
- Convertible bonds risks
- Dim Sum" bond risks
- Urban Investment Bonds risks
- Risks associated with investments in debt instruments with loss-absorption features
- Sovereign debt risk
- Collateralised and/or securitised products risks (such as asset-backed securities and mortgage-backed securities)

Suitability

The Manager considers the Sub-Fund to be a "non-complex" product. The Sub-Fund may be suitable for investor types that can afford the risks involved, including retail investors (subject to each investor's individual circumstances) with a medium to long term investment horizon.

Investors should consult an authorised distributor of the Sub-Fund to determine if the Sub-Fund is suitable for their individual circumstances. Potential investors should review this Explanatory Memorandum in its entirety prior to making a decision to invest.