

**IMPORTANT: This letter is important and requires your immediate attention. If you have any questions about the content of this letter, you should seek independent professional advice. The directors of Baring Fund Managers Limited (the “Manager”) accept full responsibility for the accuracy of the information contained in this letter and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this letter misleading at the date of issuance.**

12 October 2016

To: All Unitholders in the Baring Korea Trust and Baring European Growth Trust

Dear Unitholder

## **NOTICE OF CHANGES TO THE BARING KOREA TRUST AND BARING EUROPEAN GROWTH TRUST (each a “Trust” and collectively the “Trusts”)**

We are writing to you as an investor in the Trusts to give you notice of some changes we are making to the Trusts. This letter serves as a formal notice of these changes which are intended to take effect from 12 December 2016 (the “Effective Date”). **Although you do not need to take any action, we recommend that you read this letter.**

The changes set out in this letter follow a review we have undertaken of the Trusts in order to improve and modernise the way the Trusts are run. We feel the changes will better reflect market practice, will allow the Trusts to be managed more efficiently and will benefit investors in the Trusts as set out below.

### **Change to the pricing of the Trusts (dual to single pricing)**

The pricing of Units in the Trusts is currently carried out on a dual pricing basis. This means that two Unit prices are calculated each day:

- the “offer” price, which is applied when Units are purchased by investors; and
- the “bid” price, which is applied when Units are sold by investors.

The difference between these prices is called the bid/offer spread. The offer price is higher than the bid price, but both prices will change almost constantly depending on the value of the underlying assets in a fund. The bid/offer spread is also a reflection of liquidity: larger funds and those investing in very liquid investments such as shares in blue chip companies will usually trade on narrower spreads than smaller funds, or those holding assets such as emerging markets securities. The spread takes into account the difference between the buying and selling prices that the fund manager pays when buying and selling assets, and aims to protect the Trusts’ existing investors from the costs of other investors buying and selling Units in the fund.

From the Effective Date, the pricing of Units in the Trusts will be carried out on a single pricing basis. This means that a single price is applied to any transaction in Units whether the investor is purchasing or selling Units.

The single price is based on the mid-market valuation of the underlying investments plus other assets less liabilities, which is known as the net asset value (the “NAV”) of the Trust. The NAV is calculated in accordance with the rules of the regulator, the Financial Conduct Authority, the Trust Deeds and the Prospectus of the Trusts.

The price of a Unit is the NAV of the Trust divided by the number of Units of the relevant class in issue, adjusted by any dilution adjustment (further explained below). This has the effect that, subject to any initial charge, and any redemption charge (no redemption charge is currently charged within the Trusts), both the purchase and sale price of a Unit will be the same at a particular valuation point.

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## **Introduction of a Dilution Adjustment to the Trusts**

The purpose of dilution adjustment is to protect investors from the costs of other investors buying and selling Units in the Trusts. This use of a single price means that when an investor purchases Units in the Trusts the price they pay may be lower than the price the Trusts would have to pay if it were to buy the equivalent value of underlying assets. When a Unitholder sells Units, the Unit price they receive may be higher than the price at which the Trusts can sell assets to meet the redemption. The effect of this mis-match, coupled with various dealing charges, taxes and commissions is to slightly reduce the value of the Trusts for existing or continuing Unitholders in the Trusts. This effect is called “dilution”.

We take steps to protect Unitholders against this dilution by adjusting the price of a Unit away from the mid-market based price (calculated by dividing the NAV of the Trust by the number of Units of the relevant class in issue), either up to a value representing the buying value of these investments in the case of a large net purchase or down to a value representing the selling value in the case of a large net sale. We are able to adjust the extent to which the price is swung by reference to the overall trend of deals and take into consideration the likely dealing costs being incurred because of actual transactions in the Trusts. This is known as a “dilution adjustment”.

Currently, the Manager may make a dilution adjustment in the following circumstances:

1. where the net asset value of a Trust is in continuing decline; and/or
2. where a Trust is experiencing large levels of net purchases or net sales relative to its size. In such cases dilution adjustments may be made by moving, or ‘swinging’, the price of a Trust away from a middle-market based price, i.e. representing the average of the buying and selling value of the investments the Trust holds, either up to a value representing the buying value of these investments in the case of a large subscription or down to a value representing the selling value in the case of a large redemption. The Manager would normally seek to adjust, or swing, the price in this way when the effect of a net inflow or outflow on any one day exceeds 0.06% per Unit of the net asset value of the Trusts, as measured on a middle-market basis (i.e. on an net asset value per Unit valuation of the Trusts) using the average of the buying and selling values of the investments held by the Trusts.

If a dilution adjustment is required then, based on historical data and future projections, the estimated amount of the adjustment is likely to be up to 1% of the price of a Unit.

You should note that as dilution is directly related to inflows and outflows of monies from a Trust it is not possible to accurately predict whether dilution will occur at any future point in time. Consequently it is also not possible to accurately predict how frequently the Manager will need to apply a dilution adjustment. Unitholders should be aware that dilution adjustment may not always, or fully, prevent the dilution of a Trusts’ assets.

We believe that moving to a single price and using dilution adjustment for the Trusts will provide a greater level of simplicity to investors purchasing and/or selling Units at a particular valuation point as the price of a Unit will be the same for both sets of investors.

## **Updates to the Trust Deeds and offering documents**

From the Effective Date, the Trust Deeds, the Prospectus and the Product Key Facts Statements of the Trusts will be amended to reflect the above changes where appropriate.

In addition, the Trust Deeds will also be amended to reflect the following changes:

- (1) updates to the reference from “Financial Services Authority”, the “FSA” and “the New Collective Investment Schemes Sourcebook” to “Financial Conduct Authority”, the “FCA” and “the Collective Investment Schemes Sourcebook” respectively and consequential amendments to the definitions section in the Trust Deeds. These amendments are made to reflect regulatory updates; and
- (2) updates to the provisions regarding the determination of net asset value to modernise and update the language in line with the industry standard model.

A copy of these documents will be available from the Hong Kong Representative at the address listed below. You may also access the Prospectus and the Product Key Facts Statements of the Trusts on Baring's website at [www.barings.com](http://www.barings.com). Please note that the website has not been authorised by the SFC and may contain information which is not targeted to Hong Kong investors.

**Action to be taken**

The updates described above will not result in any change in the investment objective and policy of the Trusts, the risk profiles of the Trusts, the level of fees payable by the Trusts and the Unitholders, and do not materially prejudice the interests of Unitholders. Aside from the operational change that comes with the updates described above, we do not anticipate any further operational impact on Unitholders of the Trusts and the manner in which the Trusts are managed.


If you do not agree with the above changes, you may redeem your Units or switch to any other SFC-authorized<sup>1</sup> Barings fund free of charge until the Effective Date in accordance with the provisions of the Prospectus. Please note that we will not impose any charges in respect of your redemption and/or switching instructions. However, your bank or financial adviser may charge you a redemption, switching or transaction fees in respect of such instructions. You are advised to contact your bank, distributor or financial adviser should you have any questions.

The costs incurred in connection with the above updates will be borne by the Manager.

There is no action required on your part and these changes will be implemented on 12 December 2016.

Should you have any questions with regard to the contents of this letter, please contact Baring Asset Management (Asia) Limited, the Hong Kong Representative, by telephone on (852) 2841 1411, by e-mail at [HK.Mutual.Fund.Sales@barings.com](mailto:HK.Mutual.Fund.Sales@barings.com), or by letter at the following address: 19th Floor, Edinburgh Tower, 15 Queen's Road Central, Hong Kong. Alternatively you may wish to speak to your Financial Adviser.

Yours sincerely



David Stevenson  
Director

For and on behalf of  
Baring Fund Managers Limited

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<sup>1</sup> SFC authorization is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.