



INCOME PARTNERS

INCOME PARTNERS STRATEGY FUND (the “Fund”)

INCOME PARTNERS MANAGED VOLATILITY HIGH YIELD BOND FUND (the “Sub-Fund”)

NOTICE TO UNITHOLDERS

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

23 December 2019

Dear Unitholders,

We, Income Partners Asset Management (HK) Limited (the “**Manager**”), are writing to inform you of the below listed changes to the Fund and the Sub-Fund with effect from the date hereof (the “**Effective Date**”).

Capitalised terms used in this letter have the meaning given in the Explanatory Memorandum unless otherwise defined or the context requires otherwise.

1. Changes to the Explanatory Memorandum

- (a) *Updates to Comply with the Overarching Principles Section and Section II - Code on Unit Trusts and Mutual Funds of the Securities and Futures Commission’s Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Unstructured Investment Products*

The Sub-Fund, the Manager and Cititrust Limited (the “**Trustee**”) are subject to regulatory requirements under the Overarching Principles Section and Section II - Code on Unit Trusts and Mutual Funds of the Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Unstructured Investment Products (the “**Code**”) issued by the Securities and Futures Commission (the “**SFC**”) with respect to, amongst other things, the Sub-Fund’s operations, management and administration and investments.

In January 2019, the SFC issued an updated version of the Code which contained various new and updated regulatory and disclosure requirements relevant to the Sub-Fund.

The Explanatory Memorandum has been revised to reflect and comply with such new and updated requirements under the Code. Unitholders should note that such revisions do not result in any material change to the Sub-Fund’s operations, investment objective, strategy or policies, (ii) do not affect or increase the overall risk profile of the Sub-Fund and (iii) do not cause a material adverse impact on Unitholders’ rights or interests.

A summary of the key changes made to the Explanatory Memorandum for the purposes of compliance with the Code is set out below:



- (i) amending the investment restrictions of the Sub-Fund to reflect the requirements under the Code that are applicable to the Sub-Fund;
- (ii) updating the borrowing restrictions of the Sub-Fund to reflect the corresponding requirements under the Code, such that the Manager may borrow up to 10% of the latest Net Asset Value of the Sub-Fund (instead of the previous limit of up to 25% of the latest Net Asset Value of the Sub-Fund) to acquire investments, to meet redemption requests or to pay expenses relating to the relevant Sub-Fund;
- (iii) setting out the parameters for the Sub-Fund's use of financial derivative instruments as prescribed by the Code, including the types of financial derivative instruments that may be acquired and the ways in which such financial derivative instruments may be settled. For the avoidance of doubt, such changes do not affect the types of financial derivative instruments and the purpose for which financial derivative instruments are currently used by the Sub-Fund;
- (iv) stating that the net derivative exposure of the Sub-Fund may be up to 50% of its Net Asset Value;
- (v) stating that, apart from contingent convertible bonds, the Sub-Fund will not invest in other instruments with loss-absorption features. The risk factor associated with investment in contingent convertible bonds has also been enhanced accordingly. For the avoidance of doubt, this change does not affect the Sub-Fund's existing limit of investing in not more than 10% of its Net Asset Value in contingent convertible bonds;
- (vi) updating the procedures relating to the suspension of the determination of Net Asset Value of the Sub-Fund or of any Class of Units and/or the issuance, conversion and/or the redemption of Units, such that the Manager may, having regard to the best interests of Unitholders, declare such a suspension in consultation with the Trustee;
- (vii) enhanced disclosure relating to the liquidity risk management policies of the Sub-Fund;
- (viii) enhanced disclosure regarding transactions carried out by the Sub-Fund with connected persons (as defined in the Code) and the Sub-Fund's required practices regarding cash rebates and soft dollars; and
- (ix) enhanced disclosure regarding deposits of the Sub-Fund that are held by the Trustee, the Manager, an investment delegate of the Sub-Fund or a connected person (as defined in the Code) of any such person, which shall be maintained in a manner that is in the best interests of Unitholders, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with the ordinary and normal course of business.

(b) Clarification of Existing Investment Policy

Currently, the Sub-Fund may invest at least 40% of its Net Asset Value in debt instruments issued by or fully guaranteed by governments and/or government-related entities in the PRC and/or (ii) listed or unlisted corporations in any jurisdiction which are domiciled in or derive substantial revenue from or have significant business economic/operational activities in the PRC. In addition, the Sub-Fund may invest not more than 10% of its Net Asset Value in each of (i) debt securities through traded on the Bond Connect Scheme and



(ii) urban investment bonds issued by issued by local government financing vehicles and traded in the Mainland China listed bond market and China interbank bond market).

The Manager has clarified that, for the avoidance of doubt, the Sub-Fund will not in aggregate invest more than 20% of its Net Asset Value in the Mainland China market. Unitholders should note that this clarification does not result in any material change to the Sub-Fund's operations, investment objective, strategy or policies, (ii) does not affect or increase the overall risk profile of the Sub-Fund and (iii) does not cause a material adverse impact on Unitholders' rights or interests.

(c) Establishment of New Classes of Units

The Manager has determined to establish new classes of Units, namely Class 2X RMB (USD Exposure) (Distribution) Units and Class 2X RMB (USD Exposure) (Accumulation) Units (the collectively, the “**New Units**”). The New Units will be available for subscription as of the date of this notice.

Details of the initial offer prices, minimum initial subscription amounts, minimum subsequent subscription amounts, minimum redemption amounts and minimum holding amounts relating to the New Units are set out in the Explanatory Memorandum and Product Key Facts Statement.

(d) Update to Subscription Procedures, Redemption Procedures and Conversion Procedures

- (i) Existing Unitholders who wish to apply for additional Units in the Sub-Fund are currently required to send completed Application Forms to the Processing Agent by post or by facsimile to the business address or facsimile number (as applicable) stated on the Application Form. From the Effective Date, such existing Unitholders may instead submit the completed Application Form relating to any additional Units in the Sub-Fund by facsimile or SWIFT (or other electronic means of transmission as agreed with the Processing Agent) to the Processing Agent to the facsimile number or SWIFT details stated in the Application Form. Existing Unitholders are not required to submit the original Application Form to the Processing Agent in such instances.
- (ii) Existing Unitholders who wish to apply to redeem Units in the Sub-Fund are currently required to send completed Redemption Forms to the Processing Agent by post or facsimile to the business address or facsimile number (as applicable) stated on the Redemption Form. From the Effective Date, such Unitholders may also send completed Redemption Forms to the Processing Agent by SWIFT (or other electronic means of transmission as agreed with the Processing Agent) according to the SWIFT details stated in the Redemption Form. Originals of the Redemption Form are not required to be submitted to the Processing Agent if facsimile or SWIFT transmission (or other electronic means of transmission) are being used.
- (iii) Existing Unitholders who wish to apply to convert Units in the Sub-Fund are currently required to send completed Conversion Forms to the Processing Agent by post or by facsimile to the business address or facsimile number (as applicable) stated on the Conversion Form. From the Effective Date, such Unitholders may also send completed Conversion Forms to the Processing Agent by SWIFT (or other electronic means of transmission as agreed with the Processing Agent) according to the SWIFT details



stated in the Conversion Form. Originals of the Conversion Form are not required to be submitted to the Processing Agent if facsimile or SWIFT transmission (or other electronic means of transmission) are being used.

- (iv) The risks associated with Unitholders sending Application Forms, Redemption Forms or Conversion Forms by facsimile or SWIFT (or other agreed electronic means of instructions), which may not be completely reliable or secure mediums of communication, have also been updated accordingly.

(e) *Updated Definitions of “China” or “PRC” and New Definitions of “Mainland China” or “Mainland”*

From the Effective Date:

- (i) the definition of “China” and “PRC” for the purposes of the Explanatory Memorandum has been amended to mean the People’s Republic of China, including Mainland China, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan District (instead of the previous definition which did not refer to Mainland China and also excluded Hong Kong Special Administrative Region and Taiwan); and
- (ii) a new defined term of “Mainland China” and “China” for the purposes of the Explanatory Memorandum shall mean all customs territory of the People’s Republic of China, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan.

Corresponding references throughout the Explanatory Memorandum have been amended accordingly for such purposes, but do not result in any material change to the Sub-Fund’s operations, investment objective, strategy or policies, (ii) do not affect or increase the overall risk profile of the Sub-Fund and (iii) do not cause a material adverse impact on Unitholders’ rights or interests.

(f) *Update of Directors of the Manager*

The list of directors of the Manager under the section titled “Directory of the Parties” of the Explanatory Memorandum has been updated to include Mr. Fai Hung Ma.

(g) *Enhanced Disclosure relating to the Manager’s Regulatory, Operations and Valuation Review Committee*

The Manager has enhanced its disclosure relating to its existing practice of reviewing the valuation policies and procedures with respect to the Sub-Fund. That is, its valuation policies and procedures with respect to the Sub-Fund are periodically reviewed (at least annually) by the Manager’s Regulatory, Operations and Valuation Review Committee, which is primarily composed of a majority of external personnel (such as legal advisers and fund fiduciary personnel) and is functionally independent body from other investment management and valuation departments of the Manager.

(h) *Enhanced Disclosure under Bond Connect Scheme and China Interbank Bond Market Risk Factor*



The Manager has also enhanced disclosure of the regulatory risks, including tax risks, associated with investments made via the Bond Connect Scheme and China interbank bond market in accordance with the Sub-Fund's existing investment objectives, policies and strategy.

2. Adoption of Amended and Restated Trust Deed

In order to also reflect and comply with relevant updated regulatory requirements under the Code, the Manager and the Trustee have also amended the existing trust deed dated 25 April 2018 (the "**Original Trust Deed**") entered into between them in respect of the Sub-Fund (and as supplemented by a supplemental deed dated 13 November 2018 (together with the Original Trust Deed, the "**Revised Trust Deed**")), by way of an amended and restated trust deed dated 23 December 2019 (together with the Revised Trust Deed, the "**Amended and Restated Trust Deed**").

The Trustee has certified that the amendments contained in the Amended and Restated Trust Deed do not materially prejudice the interests of Unitholders and do not to any material extent release the Trustee or the Manager or any other person from any liability to the Unitholders and do not increase the costs and charges payable from the Trust Fund (other than the costs, charges, fees and expenses incurred in connection with the Amended and Restated Trust Deed).

A summary of the key changes in the Amended and Restated Trust Deed are set out below:

- (i) updating the parameters under which the Sub-Fund may engage in securities lending and reverse and repurchase transactions, including but not limited to counterparty requirements, collateralization requirements and securities recall requirements in line with the provisions of the Code. For the avoidance of doubt, the Manager does not currently intend to enter into any securities lending or reverse repurchase transactions or other similar over-the-counter transactions in respect of the Sub-Fund, although such transactions are and have been permitted under the Amended and Restated Trust Deed (and previously, the Revised Trust Deed);
- (ii) updating the parameters regarding the Sub-Fund's use of financial derivative instruments, including the types of financial derivative instruments that may be acquired and the ways in which such financial derivative instruments may be settled. For the avoidance of doubt, such changes do not affect the types of financial derivative instruments and the purposes for which financial derivative instruments are currently used by the Sub-Fund;
- (iii) updating the parameters for the Sub-Fund's taking of collateral in relation to financial derivative instruments and securities lending and reverse repurchase transactions, including but not limited to, the requirements of permissible collateral and restrictions on the reinvestment of collateral in line with the provisions of the Code. For the avoidance of doubt, the Sub-Fund currently does not take collateral with respect to financial derivative instruments or otherwise, although it is and has been permitted to do so under the Amended and Restated Trust Deed (and previously, the Revised Trust Deed);
- (iv) updating the borrowing restrictions of the Sub-Fund to comply with the corresponding requirements under the Code, such that the Manager may borrow up



to 10% of the latest Net Asset Value of the Sub-Fund (instead of the previous limit of up to 25% of the latest Net Asset Value of the Sub-Fund) to acquire investments, to meet redemption requests or to pay expenses relating to the relevant Sub-Fund;

- (v) updating the procedures relating to the suspension of the determination of Net Asset Value of the Sub-Fund or of any Class of Units and/or the issuance, conversion and/or the redemption of Units, such that the Manager may, having regard to the best interests of Unitholders, declare such a suspension in consultation with the Trustee;
- (vi) amending provisions regarding transactions that may be carried out by the Sub-Fund with connected persons (as defined in the Code) and the Sub-Fund's required practices regarding cash rebates and soft dollars as prescribed by the Code;
- (vii) updating provisions relating to deposits of the Sub-Fund that are held by the Trustee, the Manager, an investment delegate of the Sub-Fund or a connected person (as defined in the Code) of any such person, which shall be maintained in a manner that is in the best interests of Unitholders, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with the ordinary and normal course of business in accordance with the Code;
- (viii) amending the investment restrictions of the Sub-Fund set out under the section headed "Investment Restrictions" to reflect the investment restrictions prescribed by the Code;
- (ix) setting out certain additional miscellaneous obligations of the Manager required under the Code;
- (x) setting out certain additional miscellaneous obligations of the Trustee required under the Code; and
- (xi) providing that the Amended and Restated Trust Deed may be amended without consulting Unitholders if the Trustee certifies in writing that such amendment is necessary to make possible compliance with regulatory requirements (in addition to the existing circumstance of making possible compliance with fiscal, statutory or official requirements (whether or not having the force of law), in accordance with the Code.

In addition, the Amended and Restated Trust Deed has also been updated to reflect the operational arrangements of the Trustee in allotting distribution amounts in the account held on trust for the Sub-Fund.

The Revised Trust Deed and the Amended and Restated Trust Deed can be inspected free of charge during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the office of the Manager (see address below) and a copy may be obtained from the Manager address at a reasonable fee.

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The Product Key Facts Statement ("KFS") of the Sub-Fund will be amended as well to reflect the changes set out above, where applicable.



A copy of the revised Explanatory Memorandum and revised KFS for the Sub-Fund (the “**Amended Offering Documents**”) encompassing the changes set out above will be available on the Manager’s website (www.incomepartners.com) on or after the Effective Date. The Manager’s website has not been reviewed by the Securities and Futures Commission. Marked-up copies of the Amended Offering Documents will be available upon request on or after the Effective Date.

This letter is a summary only and does not set out in detail all revisions made in the Amended Offering Documents. Unitholders should carefully review the Amended Offering Documents in their entirety together with this letter and are urged to seek independent professional assistance if they are in any doubt as to the contents thereof.

If you have any queries on the content of this notice, please contact Lorraine Tang by telephone on +852 2169-2100, by email at marketing@incomepartners.com or by post to Income Partners Asset Management (HK) Limited, Suite 3311-3313, Two International Finance Centre, 8 Finance Street, Central, Hong Kong SAR.

The Manager accepts full responsibility for the accuracy of the information contained in the Notice.

For and on behalf of

Income Partners Managed Volatility High Yield Bond Fund