



# INCOME PARTNERS

## INCOME PARTNERS INVESTMENT FUND

(the “Fund”)

## INCOME PARTNERS RMB BOND FUND

(the “Sub-Fund”)

### NOTICE TO UNITHOLDERS

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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.

31 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**”), unless an alternative effective date is specified below.

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) 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) enhanced disclosure relating to the liquidity risk management policies of the Sub-Fund and a summary of the liquidity tools (which are also currently described in the Explanatory Memorandum) that may be employed by the Manager to manage liquidity risks;
  - (vii) 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
  - (viii) 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 and Enhanced Disclosure of the Sub-Fund's Investment Objective and Policies*

The Manager has made the following clarifications and enhanced disclosures in relation to the Sub-Fund's investment objectives and policies, which each 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:

- (i) The Sub-Fund's investment objective currently provides that it will, amongst other things, invest primarily in PRC Bonds (as defined in Appendix 1 of the Explanatory Memorandum) which carry a credit rating grade of at least BBB- or equivalent ("**Designated Credit Rating**") assigned by one of the local rating agencies recognized



by the relevant authorities in the PRC. However, up to 10% of the Sub-Fund's Net Asset Value may be invested in PRC Bonds which are rated below the Designated Credit Rating or are unrated (“**Higher Default Bonds**”).

The Manager has clarified in the Explanatory Memorandum that the above requirement for the Sub-Fund to invest primarily in PRC Bonds with at least a Designated Credit Rating, or up to 10% of the Sub-Fund's NAV being invested in Higher Default Bonds shall not apply to Chinese government bonds, policy bank bonds, Chinese local government bonds, and Chinese central bank bills (which are typically unrated).

- (ii) The Manager has also enhanced disclosures regarding the Sub-Fund's existing investment policy. In addition to investing all or substantially all of its assets in RMB-denominated fixed income securities issued within the PRC through the Manager's RQFII quota, the Manager has clarified that the Sub-Fund also makes such investments in the China interbank bond market through Bond Connect and through direct access to the China interbank bond market and may, accordingly, gain direct exposure to RMB-denominated fixed income securities issued within the PRC by investing up to 100% of the Sub-Fund's Net Asset Value via Bond Connect and/or the direct access to the China interbank bond market. A description of the Bond Connect scheme and direct access to the China interbank bond market has also been inserted for Unitholders' information.

*(c) Resumption and Reduction in Management Fee*

Since 1 August 2018, the Manager has waived the Management Fee payable by all Unitholders chargeable to the Sub-Fund. From 1 February 2020 onwards, the Management Fee payable by all Unitholders will be charged in accordance with the Explanatory Memorandum of the Sub-Fund, as amended from time to time, until further notice.

The Management Fee payable by Unitholders in respect of Class 2 Units is currently an annual rate of 1.25%, expressed as a percentage of the Net Asset Value of Class 2 Units.

The Manager has decided to reduce the management fee from 1.25% to 0.80% as of 1 February 2020, after taking into account the performance of the Sub-Fund.

*(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) *Updates to Disclosures regarding Foreign Account Tax Compliance (“FATCA”), OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters - Common Reporting Standard (“Common Reporting Standards”), Hong Kong Taxation and PRC Taxation*

Existing disclosures in relation to the following matters have been updated to reflect the existing legal and/or regulatory framework and requirements relating to FATCA and Common Reporting Standards each as further described in the Explanatory Memorandum under the sections titled “Foreign Account Tax Compliance (commonly known as “FATCA”) and “The OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters - Common Reporting Standard (the “Common Reporting Standard” or “CRS”)”.

Existing disclosures relating to Hong Kong taxation have also been updated to reflect the existing applicable tax rates with respect to profits tax (if applicable to a Unitholder) and stamp duty in Hong Kong.

In addition, existing disclosures relating to PRC taxation have also been updated to reflect (i) the availability of self-assessments for Hong Kong tax residents in relation to the assessment of withholding income tax on their interest income derived from the PRC and (ii) the temporary exemption of specified bond interest income derived by foreign institutions from being subject to value added tax, each as described in further detail in Appendix 1 of the Explanatory Memorandum under the heading “PRC Taxation”.

- (f) *Enhanced Disclosure relating to Anti-Money Laundering Regulations*

The Manager has updated its disclosure relating to anti-money laundering to reflect certain requirements under existing anti-money laundering regulations in Hong Kong including elaboration on the types of investors who may not be subject to detailed verification in respect of identity and source of payment of application monies.



(g) *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.

(h) *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.

(i) *Enhanced Disclosure under Bond Connect Scheme and China Interbank Bond Market Risk Factor and Credit Ratings Risk*

The Manager has 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, as well as enhanced disclosure relating to its credit ratings risk factor.

(j) *New Credit Rating Agency Risk*

The Manager has included an additional risk factor regarding the credit appraisal system in mainland China. That is, the rating methodologies employed in mainland China may be different from those employed in other markets and credit ratings given by mainland Chinese rating agencies may therefore not be directly comparable with those given by other international rating agencies.

## 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 dated 23 June 2014 (the “**Principal Deed**”) (as supplemented by a supplemental deed dated 28 November 2018, together with the Principal Deed, the “**Amended Principal Deed**”), by way of an amended and restated deed dated 31 December 2019 (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 Amended Principal 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 Amended Principal 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 Amended Principal 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](http://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](mailto: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 RMB Bond Fund**