

***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. Schroder Investment Management (Hong Kong) (the "Manager") Limited accepts full responsibility for the accuracy of the information contained in this letter and confirms, 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 misleading.***

Unless otherwise stated herein, capitalised terms in this letter shall have the same meaning(s) as defined in the Explanatory Memorandum of the Schroder China Equity Alpha Fund dated November 2017, as amended and supplemented from time to time (the "**Explanatory Memorandum**").

17 September 2018

Dear Unitholder

**Schroder Umbrella Fund II ("Fund") - Schroder China Equity Alpha Fund (the "Sub-Fund"):**

We are writing to inform you of certain changes relating to the Sub-Fund, which are summarised below. These changes will take effect from 19 October 2018 ("**Effective Date**").

**(A) Dilution and dilution adjustment**

The Sub-Fund is single priced and may suffer a reduction in value as a result of the transaction costs incurred in the purchase and sale of its underlying investments and the spread between the buying and selling prices of such investments caused by subscriptions, redemptions and/or switching in and out of the Sub-Fund. This is known as "dilution". In order to counter this and to protect unitholders' interests, with effect from the Effective Date, the Manager will apply "dilution adjustment" as part of its daily valuation policy. This will mean that in certain circumstances the Manager (if in its opinion in good faith it is in the interest of unitholders to do so) will make adjustments in the calculations of the net asset value per Unit, to counter the impact of dealing and other costs on occasions when these are deemed to be significant.

In the usual course of business the application of a dilution adjustment will be triggered mechanically and on a consistent basis.

The need to make a dilution adjustment will depend upon the net value of subscriptions, switching and redemptions received by the Sub-Fund for each Dealing Day. The Manager therefore reserves the right to make a dilution adjustment where the Sub-Fund experiences a net cash movement which exceeds a threshold set by the Manager from time to time of the previous Dealing Day's total net asset value.

The Manager may also make a discretionary dilution adjustment if, in its opinion, it is in the interest of existing unitholders to do so.

Where a dilution adjustment is made, it will increase the net asset value per Unit when there are net inflows into the Sub-Fund and decrease the net asset value per Unit when there are net outflows. The net asset value per Unit of each Unit Class in the Sub-Fund will be calculated separately but any dilution adjustment will, in percentage terms, affect the net asset value per Unit of each Unit Class identically.

As dilution is related to the inflows and outflows of money from the Sub-Fund, 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 make such dilution adjustments.

Because the dilution adjustment for the Sub-Fund will be calculated by reference to the costs of dealing in the underlying investments of the Sub-Fund, including any dealing spreads, which can vary with market conditions, this means that the amount of the dilution adjustment can vary over time but will not exceed 2% of the net asset value per Unit of the Sub-Fund on the relevant Valuation Day.

To reflect the relevant changes set out above, the Explanatory Memorandum of the Sub-Fund and the trust deed of the Fund ("**Trust Deed**") will be amended.

Save as described above, all other key features of the Sub-Fund, including fee level, fee structure, the way the Sub-Fund is managed and risk profile, remain unchanged. The costs incurred in relation to these changes including legal costs for amending the Explanatory Memorandum and the Trust Deed are estimated to be HKD 30,000 for the Sub-Fund and will be borne by the Sub-Fund.

(B) **Amendment of the definition of Business Day in the Explanatory Memorandum**

With effect from the Effective Date, the definition of Business Day in the Sub-Fund's Explanatory Memorandum will be amended to exclude days on which northbound trading via the Stock Connect is not available. As a result of this change, the definition of Dealing Day will also exclude any days on which northbound trading via the Stock Connect is not available.

There is currently a disparity between the days on which banks and stock exchanges in Hong Kong and mainland China are open for normal business and the days on which northbound trading via Stock Connect is available. As such, northbound Stock Connect holidays sometimes do not fall under the existing definition of Business Day used in the Explanatory Memorandum. As the Sub-Fund invests via Stock Connect, we feel that it is more accurate to align its dealing and settlement calendar in this way.

Please note that the Sub-Fund will have fewer Dealing Days as a result of this change. The Sub-Fund's settlement cycle will also be affected, as the timeframes for both payment of redemption and subscription proceeds are established by reference to the definition of Business Day.

Save for the above change, there are no changes to the features, fee level and risks profile of the Sub-Fund. There is no change in the operation and/or manner in which the Sub-Fund is being managed. This change will not materially prejudice the existing investors' rights or interests.

The costs incurred in relation to this change will be borne by the Sub-Fund.

(C) **Amendments to the Explanatory Memorandum pursuant to the revised Fund Manager Code of Conduct**

The Manager is licensed by the Hong Kong Securities and Futures Commission (the "SFC") for type 9 (asset management) regulated activity and accordingly is subject to regulation by the SFC, including the SFC's Fund Manager Code of Conduct (the "Fund Manager Code"). The SFC has revised the Fund Manager Code to include certain disclosure obligations on companies licensed by the SFC for type 9 regulated activity in relation to funds they manage. The disclosure obligations relate to leverage, securities lending, repurchase and reverse repurchase transactions, liquidity risk management and other risk management policies.

The Explanatory Memorandum of the Sub-Fund will be amended to reflect the requirements of the revised Fund Manager Code.

The amended Explanatory Memorandum (including the Product Key Fact Statement) of the Sub-Fund will be available on or around the Effective Date. Copies of the amended Explanatory Memorandum and Product Key Fact Statements will be available upon request from the office of the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong and will also be available on Schroders' website at [www.schroders.com.hk](http://www.schroders.com.hk). The website has not been reviewed by the SFC.

The amended Trust Deed of the Fund will be available on or around the Effective Date. Copies of the Trust Deed, as amended, may be obtained at a reasonable cost, and may be inspected free of charge during normal working hours at the offices of the Manager and the Trustee.

If you would like more information, please contact your usual professional advisor or Schroders Investor Hotline on (+852) 2869 6968.

Yours faithfully,

For and on behalf of

**Schroder Investment Management (Hong Kong) Limited**



Chris Durack

Chief Executive Officer, Hong Kong