

IMPORTANT: This letter requires your attention. If you have any questions about the content of this letter, you should seek independent professional advice. Schroder Investment Management (Hong Kong) Limited (“the Manager”) accepts full responsibility for the accuracy of the information contained in this document 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 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 Asset Income Fund dated December 2016, as amended and supplemented from time to time (the “**Explanatory Memorandum**”).

9 December 2016

Dear Unitholders

SCHRODER UMBRELLA FUND II (the “Fund”) - SCHRODER CHINA ASSET INCOME FUND (the “Sub-Fund”)

We are writing to inform you of the following changes to the Fund and the Sub-Fund:

(A) Change of Investment Objective and Policy – Direct Exposure to China A-Shares through Shenzhen-Hong Kong Stock Connect

Change of Investment Objective and Policy

The investment policy of the Sub-Fund has been revised to provide flexibility to the Sub-Fund to invest directly in eligible China A-Shares via the Shenzhen-Hong Kong Stock Connect (“**Shenzhen-Hong Kong Stock Connect**”) in addition to investment via the Shanghai-Hong Kong Stock Connect. The Sub-Fund’s exposure to China A-shares through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect has also been revised to be less than 50% of its net asset value.

Shenzhen-Hong Kong Stock Connect

The Shenzhen-Hong Kong Stock Connect comprises a Northbound Shenzhen Trading Link and a Southbound Hong Kong Trading Link under the Shenzhen-Hong Kong Stock Connect. Under the Northbound Shenzhen Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and a securities trading service company established by The Stock Exchange of Hong Kong Limited (“**SEHK**”), may be able to trade eligible China A-Shares listed on the Shenzhen Stock Exchange (“**SZSE**”) by routing orders to SZSE. Under the Southbound Hong Kong Trading Link under the Shenzhen-Hong Kong Stock Connect investors in mainland China will be able to trade certain stocks listed on the SEHK.

Under the Shenzhen-Hong Kong Stock Connect, the Sub-Fund, through their Hong Kong brokers may trade certain eligible shares listed on the SZSE. These include any constituent stock of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index which has a market capitalisation of RMB6 billion or above and all SZSE-listed shares of companies which have issued both China A-Shares and H-Shares, except the following:

- SZSE-listed shares which are not traded in RMB; and
- SZSE-listed shares which are included in the “risk alert board”.

At the initial stage of the Northbound Shenzhen Trading Link, investors eligible to trade shares that are listed on the ChiNext Board of SZSE under the Northbound Shenzhen Trading Link will be limited to institutional professional investors as defined in the relevant Hong Kong rules and regulations.

Risks associated with the Shenzhen-Hong Kong Stock Connect

Please note that investments through the Shenzhen-Hong Kong Stock Connect are subject to similar risks as those applicable to the Shanghai-Hong Kong Stock Connect, such as quota limitations, suspension risk, operational risk, restrictions on selling imposed by front-end monitoring, recalling of eligible stocks, clearing and settlement risk and regulatory risk. When investing in eligible China A-Shares through the Shenzhen-Hong Kong Stock Connect, the Sub-Fund will also be subject to the risk associated with small- and mid-capped companies and risks associated with the Small and Medium Enterprise Board and/or the ChiNext Board of the SZSE.

Further, the Sub-Fund's investments through Northbound trading under the Shenzhen-Hong Kong Stock Connect will not be covered by Hong Kong's Investor Compensation Fund.

Immaterial Change

The Manager considers the use of the Shenzhen-Hong Kong Stock Connect as an additional means in accessing the China A-Share market and as such, the change to the investment policy as set out above is considered as an immaterial change.

Since there is no increase in the Sub-Fund's aggregate direct and indirect exposure to China A-Shares and China B-Shares (i.e. less than 50%), the Manager believes that there will be no increase in the overall risk profile of the Sub-Fund following the change. As such, the Securities and Futures Commission ("SFC")'s prior approval and one month's prior written notice to Unitholders are not required for such change.

For the avoidance of doubt, any changes in the investment objective and/or policy of the Sub-Fund which are not immaterial changes will be subject to the requirements of the Code on Unit Trusts and Mutual Funds issued by the SFC.

Please refer to the latest Explanatory Memorandum (including Key Facts Statement) of the Sub-Fund for further information on the risks involved.

(B) Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the "**Ordinance**") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("**AEOI**"). The AEOI requires financial institutions ("**FI**") in Hong Kong to collect information relating to non-Hong Kong tax residents holding accounts with FIs, and to file such information with the Hong Kong Inland Revenue Department ("**IRD**") who in turn will exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a Competent Authority Agreement ("**CAA**"); however, the Sub-Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Sub-Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Sub-Fund and/or its agents shall collect and provide to the IRD tax information relating to unitholders and prospective investors.

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

By investing in the Sub-Fund and/or continuing to invest in the Sub-Fund, unitholders acknowledge that they may be required to provide additional information to the Sub-Fund, the Manager and/or the Sub-Fund's agents in order for the Sub-Fund to comply with AEOI. The unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

Each unitholder and prospective investor should consult its own professional advisor(s) on the administrative and substantive implications of AEOI on its current or proposed investment in the Sub-Fund.

(C) Amendments to the Explanatory Memorandum

Please refer to the latest Explanatory Memorandum, which has been revised to reflect the above changes, for further information.

The revised Explanatory Memorandum and Product Key Facts Statement are available upon request from the office of the Manager at Level 33, Two Pacific Place, 88 Queensway, Hong Kong and are also available on Schroders' website at www.schroders.com.hk. The website is not authorised by the SFC.

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
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