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***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) Limited being the manager of the following funds 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.***

30 December 2019

Dear Unitholder

**Schroder Umbrella Fund II (“Fund”) and the following sub-fund (“Sub-Fund”):**

- **Schroder Asian Asset Income Fund**

We are writing to inform you of certain changes to the Fund and the Sub-Fund.

**A. Background**

The Fund and the Sub-Fund are subject to the Code on Unit Trusts and Mutual Funds (“**Code**”) issued by the Securities and Futures Commission in Hong Kong (“**SFC**”). The Code has been revised. The Trust Deed has been amended by way of a 17<sup>th</sup> supplemental deed (“**Supplemental Deed**”) and the Explanatory Memorandum (“**Revised Explanatory Memorandum**”) and the Products Key Facts Statement of the Sub-Fund (“**KFS**”) have been amended to reflect the requirements under the revised Code.

**B. Changes pursuant to the revised Code**

The following key changes have been made to the Trust Deed and/or the Explanatory Memorandum (where applicable) to reflect the requirements under the revised Code:

1. Trustee and Manager - additional obligations of the Trustee and the Manager under Chapters 4 and 5 respectively of the revised Code.
2. Investment Restrictions: Core Requirements - amendments to the core requirements of the investment limitations and prohibitions under Chapter 7 of the revised Code, including but not limited to amendments in relation to the following: spread of investments, restrictions on investment in commodities, restrictions on making loans, limitations on borrowing, financial derivative instruments, securities financing transactions and collateral etc.

A summary of the key revised investment restrictions/requirements pursuant to the revised Code are set out in Annexure A enclosed with this Notice.

3. Other Amendments – other amendments and enhancement of disclosures to reflect the requirements of the revised Code including the following:
- (a) amendments to reflect the requirements under the revised Code on transactions with connected persons and soft dollars arrangements;
  - (b) enhanced disclosures on arrangements in handling unclaimed proceeds of Unitholders where the Sub-Fund is terminated;
  - (c) enhanced disclosures on custody arrangements; and
  - (d) enhanced disclosures on valuation policies and suspension of calculation of net asset value.

Please refer to the Revised Explanatory Memorandum and the Supplemental Deed for further details.

### **C. Amendments to the investment policy of the Sub-Fund**

Currently, the Sub-Fund may utilize financial derivative instruments for the purpose of hedging, although the Manager is not obligated to do so. There can be no assurance that any financial derivative instruments employed by the Manager will achieve desired results. Any financial derivative instrument used for investment purposes is subject to the investment restrictions applicable to the Sub-Fund.

With effect from 30 January 2020, the investment policy of the Sub-Fund will be amended to allow the Sub-Fund to utilize financial derivative instruments for the purposes of hedging and investment although the Manager is not obligated to do so (“**Investment Policy Change**”).

Enhanced disclosures are made that the Sub-Fund’s net derivative exposure may be up to 50% of its net asset value. The risks associated with financial derivative instruments will be enhanced to reflect the expansion of use of financial derivative instruments of the Sub-Fund.

Enhancement of disclosure have also been made to provide that the Sub-Fund may invest up to 20% of its net asset value in debt instruments with loss-absorption features such as contingent convertible bonds, Additional Tier 1 and Tier 2 capital notes, Tier 1 and Tier 2 capital notes, capital security bonds and total loss-absorbing capacity bonds and the associated risks.

### **D. Miscellaneous update and changes**

In addition to the changes set out above, the Explanatory Memorandum and KFS of the Sub-Fund and/or Trust Deed (where applicable) have also been amended to include the following changes:

- (i) update on the profiles of the Schroder Group and the Directors of the Manager;
- (ii) the change of the Service Provider;
- (iii) enhancement of risk disclosures;
- (iv) update on the arrangement for redemption and valuation;
- (v) update on disclosures relating to the Automatic Exchange of Financial Account Information; and
- (vi) other miscellaneous update and changes.

## **E. Implication of changes**

As a result of the Investment Policy Change, the Sub-Fund will be managed in accordance with the new investment policy. The Investment Policy Change does not have a material adverse impact on your rights or interests. Save as disclosed in this Notice the changes set out above will not result in any material change to the investment objective and risk profile of the Sub-Fund. There will be no increase in the fees payable out of the assets of the Sub-Fund as a result of the changes. The changes will also not result in a change in the manner in which the Fund and the Sub-Fund currently operate or are being managed save as disclosed in this Notice.

## **F. Availability of Documents**

Copies of the Revised Explanatory Memorandum and KFS of the Sub-Fund will be available upon request free of charge.

Copy of the Trust Deed, as amended, may be obtained from the Manager at a cost of HK\$300 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

## **G. Enquiries**

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

Yours faithfully,



Amy Cho  
Chief Executive Officer, Hong Kong

## ANNEXURE A

## SUMMARY OF KEY REVISED INVESTMENT RESTRICTIONS

The key amendments to the investment restrictions are as follows:

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following may not exceed 10% of its latest available net asset value:
  - (i) investments in securities issued by that entity;
  - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.
- (b) subject to the requirements under the revised Code, the aggregate value of the Sub-Fund's investments in, or exposure to, entities within the same group (i.e. generally, entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards) through the following may not exceed 20% of its latest available net asset value:
  - (i) investments in securities issued by those entities;
  - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.
- (c) the value of the Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of its latest available net asset value provided that the 20% limit may be exceeded in certain circumstances specified in the revised Code.
- (d) the Sub-Fund may not invest in physical commodities unless otherwise approved by the SFC and disclosed in the investment policies of the Sub-Fund.
- (e) subject to the requirements under the revised Code, the Sub-Fund may not lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements under the revised Code are not subject to the limitations in this paragraph.
- (f) the maximum borrowing of the Sub-Fund has been reduced to 10% of its latest available net asset value. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements under the revised Code are not subject to the limitations in this paragraph.
- (g) the Sub-Fund may acquire financial derivative instruments for hedging purposes.
- (h) the Sub-Fund may also acquire financial derivative instruments for non-hedging purposes in accordance with its investment objective and policy subject to the limit that such Sub-Fund's net exposure relating to these financial derivative instruments ("**net derivative exposure**") does not exceed 50% of its latest available net asset value, provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time.

Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time. In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the Sub-Fund are converted into their equivalent positions in their underlying assets. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes will not be counted towards the 50% limit so long as there is no residual derivative exposure arising from such hedging arrangement.