

Issuer: Foundation Asset Management (HK) Limited

May 2022

- This statement provides you with key information about this product.
- This statement is a part of the fund's Explanatory Memorandum.
- You should not invest in this product based on this statement alone.

### Quick facts

<b>Manager:</b>	Foundation Asset Management (HK) Limited		
<b>Trustee:</b>	ICBC (Asia) Trustee Company Limited		
<b>Custodian:</b>	Industrial and Commercial Bank of China (Asia) Limited		
<b>Ongoing charges over a year*:</b>	Class A: 1.95% (with performance fees) <sup>+</sup> Class A: 1.83% (without performance fees) Class QD#: 1.20% (with performance fees) <sup>+</sup> Class QD#: 1.09% (without performance fees)		
<b>Dealing frequency:</b>	Daily (Hong Kong business days)		
<b>Base currency:</b>	HKD		
<b>Classes available:</b>	Class A HKD, Class A HKD (dist), Class A RMB, Class A USD, Class QD USD		
<b>Dividend policy:</b>	For Class A HKD (dist): Subject to the Manager's discretion, dividends will be declared on a semi-annual basis on such date which is within a reasonable time period after the end of March and the end of September of each year. There is no guarantee that any distributions will be made and there is no target level of distribution payout.  For all other classes, it is the current intention of the Manager that distributions will not be made.		
<b>Financial year end of this fund:</b>	31 December		
<b>Minimum investment:</b>		Initial	Additional
	Class A HKD	HKD50,000	HKD1,000
	Class A HKD (dist)	HKD50,000	HKD1,000
	Class A RMB	RMB50,000	RMB1,000
	Class A USD	USD6,500	USD130
	Class QD USD	USD10,000,000	USD1,000,000

### What is this product?

The Foundation China Equity Fund (the "Sub-Fund") is a sub-fund of Foundation Fund Series which is a unit trust established by a trust deed dated 20 September 2018 (as amended and restated) as an umbrella fund

\* The ongoing charges figure is based on the expenses reported on the latest annual report for the year ended 31 December 2021 expressed as a percentage of the Sub-Fund's average net asset value over the same period. This figure may vary from year to year. A single ongoing charges figure is published for all Class A Units, which have the same fee structure. Amortized portion of the set-up costs (based on amortization over first 5 accounting periods) and the management fee is included in the ongoing charges figure.

<sup>+</sup> The ongoing charges over a year (with performance fee) was calculated based on the amount of performance fee reported on the latest annual report divided by the net assets as at the end of the financial year.

<sup>#</sup> The ongoing charges figure for these share classes are estimates only as the share class has not been launched, and are based on ongoing charges figure for a reference share class. The actual figures may be different upon actual operation of the share class and the figure may vary from year to year.

under the laws of Hong Kong.

## Objectives and Investment Strategy

### Objective

The investment objective of the Sub-Fund is to maintain a consistent value-investing approach with a focus on liquidity and high return by primarily investing in equities issued by companies that are incorporated in China or companies which have significant operations in or derive a significant portion of revenue or profits from China. There can be no assurance that the Sub-Fund will achieve its investment objective.

### Strategy

The Sub-Fund seeks to achieve its investment objective by investing primarily (at least 70% of the Sub-Fund's Net Asset Value) in equity securities listed in the Hong Kong and China markets that are incorporated in China or companies which have significant operations in or derive a significant portion of revenue or profits from China (including through investments in depository receipts, such as American Depositary Receipts, and swaps). The Sub-Fund may invest less than 50% in A-shares and B-shares listed in Shanghai and/or Shenzhen. Exposure to A-shares and B-shares may be obtained in different ways, including indirect exposure, such as through investing in swaps, exchange traded funds ("ETFs") and/or other funds that invest in the relevant PRC listed shares, and direct exposure (in the case of A-shares, such as via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (together, the "Stock Connect") and/or other relevant programmes when such other relevant programmes become available). Investments in ETFs by the Sub-Fund are considered and treated as listed securities for the purposes of and subject to the requirements in Chapters 7.1, 7.1A and 7.2 of the Code.

There is no restriction on market capitalizations or industries in relation to the equity securities in which the Sub-Fund may invest.

The Sub-Fund will be actively managed and will focus on three core investment strategies: value recovery, growth-at-a-reasonable-price equity and index futures hedging.

The Sub-Fund's portfolio may also temporarily include cash and cash equivalents, up to 100% of its Net Asset Value, under exceptional circumstances (such as in the event of market crashes, major crisis or to mitigate the risk of potential sharp reversals and fall in the equity or bond markets) for cash flow management.

The Sub-Fund may invest in financial derivative instruments, including swaps, for hedging and non-hedging (i.e. investment) purposes only. The Manager will not enter into any securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of the Sub-Fund.

### Securities lending transactions

The Manager may, on behalf of the Sub-Fund, enter into securities lending transactions, for less than 30% of the Sub-Fund's Net Asset Value. The Manager will be able to recall the securities lent out at any time.

As part of the securities lending transactions, the Sub-Fund must receive cash and/or non-cash collateral of at least 100% of the value of the securities lent (interests, dividends and other eventual rights included). The collateral will be marked-to-market on a daily basis and be safekept by the Trustee or an agent appointed by the Trustee. Non-cash collateral received may not be sold, re-invested or pledged. Any reinvestment of cash collateral received shall be subject to the requirements as set out in the Code. To the extent the Sub-Fund undertakes securities lending transactions, all revenues (net of direct and indirect expenses as reasonable and normal compensation for the services rendered by the Manager, a securities lending agent and/or other service providers in the context of such transactions to the extent permitted by applicable legal and regulatory requirements) shall be returned to the Sub-Fund.

## Use of derivatives

The Sub-Fund's net derivative exposure may be up to 50% of its Net Asset Value.

## What are the key risks?

Investment involves risks. Please refer to the Explanatory Memorandum for details including the risk factors.

### 1. Investment risk

- The Sub-Fund is an investment fund and the Sub-Fund's investment portfolio may fall in value due to any of the key risk factors below. There is no guarantee of the repayment of principal. Therefore your investment in the Sub-Fund may suffer losses.

### 2. Concentration risk

- The Sub-Fund is subject to concentration risk as a result of the concentration of its investments in the Hong Kong and China markets. The Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments. The value of the Sub-Fund may also be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax or regulatory event affecting the Hong Kong and China markets.
- Securities exchanges in the Hong Kong and China markets may have the right to suspend or limit trading in any security traded on the relevant exchange. All these may have a negative impact on the Sub-Fund.

### 3. Risk of investing in equity securities

- The Sub-Fund's investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.
- The Sub-Fund may invest in small and mid-capitalisation companies. The stocks of such companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general.

### 4. Risks associated with depositary receipts

- Exposure to depositary receipts including American Depositary Receipts ("ADRs") may generate additional risks compared to a direct exposure to the underlying stocks, including the risk of non-segregation of the underlying stocks from the depositary bank's own assets and liquidity risks (as depositary receipts are often less liquid than the underlying stock). These may negatively affect the performance and/or liquidity of the Sub-Fund. Also, depositary receipts holders generally do not have the same right as the direct shareholders of the underlying stocks. The performance of depositary receipts may also be impacted by the related fees.

### 5. Risks associated with the Stock Connect

- The relevant rules and regulations on the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (collectively, the "Stock Connect") are subject to change which may have potential retrospective effect. The Stock Connect is subject to quota limitations. Where a suspension in the trading through the programme is effected, the fund's ability to invest in A-shares through the programme will be adversely affected. Due to the difference in trading days, on days when the PRC market is open but the Hong Kong market is closed, the fund may be subject to a risk of price fluctuations in A-shares as the fund will not be able to trade through the Stock Connect. In such event, the fund's ability to achieve its investment objective could be negatively affected.

### 6. Risks associated with investment in mainland China, China A-Shares and B-shares

- The Sub-Fund invests in the mainland China which is an emerging market. Investing in emerging markets involves increased risks and special consideration not typically associated with investment in more developed markets such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a higher

degree of volatility.

- High market volatility and potential settlement difficulties in the China A-Share and B-share market may also result in significant fluctuations in the prices of the securities traded on such market and thereby may adversely affect value of the Sub-Fund.
- Securities exchanges in mainland China typically have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on the Sub-Fund.

#### **7. RMB currency risk**

- The Sub-Fund may have exposure to investments which are denominated in RMB. The RMB is not freely convertible and subject to exchange controls and restrictions. Investors whose assets and liabilities are predominantly in currencies other than RMB should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB as well as associated fees and charges. There is no guarantee that RMB will not depreciate. Any depreciation of the RMB could adversely affect the value of the investor's investment in the Sub-Fund.
- Assets of the Sub-Fund denominated in RMB are valued with reference to the CNH rate. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.
- Payments of redemptions proceeds in RMB may be delayed under exceptional circumstances (e.g. due to exchange controls and restrictions applicable to RMB).

#### **8. Foreign exchange risk**

- An investment in the Sub-Fund may involve exchange rate risk. The investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund (which is HKD). Also, a class of units may be designated in a currency other than the base currency of the Sub-Fund. Fluctuations in the exchange rates between such currencies and the base currency as well as associated fees and charges may have an adverse impact on the performance of the Sub-Fund.

#### **9. PRC tax risk**

- There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of capital gains realised by a foreign investor on its investments in the PRC (which may have retrospective effect). Any increased tax liabilities on the Sub-Fund may adversely affect the Sub-Fund's value. Having consulted professional and independent tax advisor, the Manager will not make any tax provision for gross realised or unrealised capital gains derived from trading of A-Shares via Stock Connect.

#### **10. Risks associated with performance fee charged by the Sub-Fund**

- Performance fees may encourage the Manager to make riskier investments than would be the case in the absence of a performance-based incentive system. The increase in Net Asset Value which is used as a basis for the calculation of performance fees, may comprise of both realised gains and unrealised gains as at the end of the calculation period, and as a result, performance fees may be paid on unrealised gains which may subsequently never be realised by the Sub-Fund.
- The Sub-Fund does not apply any equalisation in the calculation of performance fee, therefore there may be circumstances where an investor may either be advantaged or disadvantaged as a result of the performance fee calculation methodology. Specifically, in the event of the Sub-Fund's outperformance, an investor may be subject to a performance fee regardless of whether a loss in investment capital has been suffered by the investor.

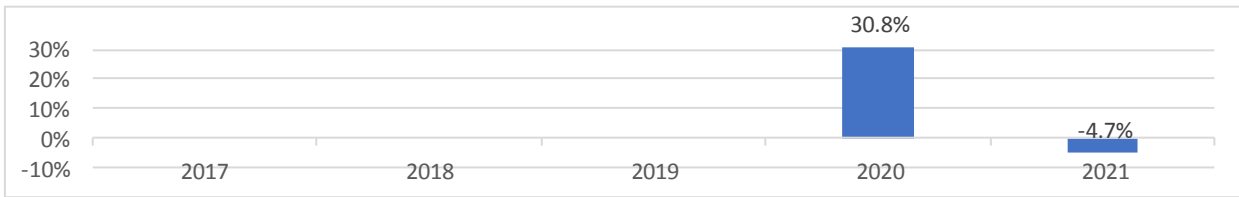
#### **11. Derivative risk**

- The Sub-Fund may from time to time invest in financial derivative instruments for hedging or non-hedging (i.e. investment) purposes. The use of such derivatives exposes the Sub-Fund to additional risks, including volatility risk, valuation risk, leverage risk, liquidity risk, correlation risk, counterparty/credit risk, legal risk, over-the-counter transaction risk and settlement risk. The leverage element/component of financial derivative instruments can result in a loss significantly greater than the amount invested in the such derivatives by the Sub-Fund. Exposure to financial derivative instruments may lead to a high risk of significant loss by the Sub-Fund.

## **12. Securities lending transactions risk**

- Counterparty risk: The borrower may fail to return the securities in a timely manner or at all. The Sub-Fund may as a result suffer from a loss or delay when recovering the securities lent out. This may restrict the Sub-Fund's ability in meeting delivery or payment obligations from redemption requests.
- Collateral risk: As part of the securities lending transactions, the Sub-Fund must receive at least 100% of the valuation of the securities lent as collateral marked-to-market on a daily basis. However, there is a risk of shortfall of collateral value due to inaccurate pricing of the collateral, adverse market movements in the collateral value, change of value of securities lent. This may cause significant losses to the Sub-Fund if the borrower fails to return the securities lent out. The Sub-Fund may also be subject to liquidity and custody risk of the collateral, as well as legal risk of enforcement.
- Operational risk: By undertaking securities lending transactions, the Sub-Fund is exposed to operational risks such as delay or failure of settlement. Such delays and failure may restrict the Sub-Fund's ability in meeting delivery or payment obligations from redemption requests.

## How has the fund performed?



- Past performance information is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of the performance is based on the calendar year end, NAV-to-NAV, with dividend reinvested.
- The figures show by how much Class A USD increased or decreased in value during the calendar year being shown. Performance data has been calculated in US\$ including ongoing charges and excluding subscription fee and redemption fee you might have to pay.
- Where no past performance is shown there was insufficient data available in that year to provide performance.
- Sub-Fund launch date: 10 July 2019
- Class A USD launch date: 10 July 2019
- Class A USD is selected as the representative class because it has the longest history.

## Is there any guarantee?

This Sub-Fund does not have any guarantees. You may not get back the full amount of money you invest.

## What are the fees and charges?

Charges which may be payable by you

You may have to pay the following fees when dealing in the units of the Sub-Fund.

**Fee**

**What you pay**

**Class A Units and Class QD Units**

<b>Subscription fee</b>	Up to 5% of the subscription price
<b>Redemption fee*</b>	NIL
<b>Switching fee*</b>	1% of the redemption price of the units being switched
<p>Ongoing fees payable by the Sub-Fund</p> <p>The following expenses will be paid out of the Sub-Fund. They affect you because they reduce the return you get on your investments.</p> <p style="text-align: center;"><b>Annual rate (as a % of the class of Units' Net Asset Value)</b></p>	
<b>Management fee*</b>	Class A Units: 1.50% Class QD Units: 0.75%
<b>Performance fee</b>	<ul style="list-style-type: none"> <li>• The performance fee to be paid by the Sub-Fund is 15% of the amount by which the increase in Net Asset Value per unit during the relevant performance period exceeds the High Water Mark.</li> <li>• High Water Mark is the higher of (i) the initial subscription price and (ii) the Net Asset Value per unit as at the end of the relevant performance period in respect of which a performance fee was last paid. Where a performance fee is payable for a performance period, the Net Asset Value per unit on the last valuation day of that performance period will be set as the High Water Mark for the next performance period.</li> <li>• Performance fee accrues on each valuation day if the Net Asset Value per unit exceeds the High Water Mark. On each valuation day, the performance fee accrual made (if any) on the previous valuation day will be reversed and a new performance fee accrual will be calculated. If the Net Asset Value per unit is lower than or equal to the High Water Mark, any performance fee accrual will be reversed and no performance fee will be accrued.</li> <li>• Each performance period corresponds to the financial year of the Sub-Fund.</li> <li>• For details and illustrative examples of the performance fee calculation, please refer to the "Expenses and Charges" section of the Explanatory Memorandum.</li> </ul>
<b>Trustee fee*</b>	0.125% per annum
<b>Custodian fee*</b>	Up to 0.025% per annum of the month-end market value of investments held in custody for the Sub-Fund
	Subject to a monthly minimum fee (Trustee fee and Custodian fee collectively) of HKD32,000.

**Other fees**

You may have to pay other fees when dealing in the Units of the Sub-Fund.

\* You should note that some fees may be increased, up to a specified permitted maximum, by giving affected unitholders at least one month's prior notice. For details please refer to the section headed "Expenses and Charges" in the Explanatory Memorandum.

**Additional information**

- You generally buy and redeem units at the Sub-Fund's next-determined Net Asset Value after the Trustee receives your request, directly or via a distributor, in good order at or before 4:00 pm (Hong Kong time), being the Sub-Fund's dealing cut-off time. Before placing your subscription orders or redemption request, please check with your distributor for the distributor's internal dealing cut-off time (which may be earlier than the Sub-Fund's dealing cut-off time).
- The Sub-Fund's Net Asset Value and the latest subscription and redemption prices of units are available on the Manager's website [www.famfundgroup.com](http://www.famfundgroup.com) (this website has not been reviewed by the SFC) on each business day. For the performance of other share classes, investors need to refer to the Manager's website.
- Investors may obtain information on the distributor(s) appointed in respect of the Sub-Fund by referring to the Manager's website.

**Important**

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.