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**This notice is important and requires your immediate attention. If you are in any doubt about the contents of this notice, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent professional advice.**

Foundation Asset Management (HK) Limited (the “Manager”) accepts full responsibility for the accuracy of the information contained in this notice and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief at the date hereof, there are no other facts the omission of which would make any statement misleading and that opinions expressed in this notice have been arrived at after due and careful consideration.

Investments involve risks, including the loss of principal. You are advised to consider your investment objectives and circumstances in determining the suitability of an investment in the Sub-Fund. An investment in the Sub-Fund may not be suitable for everyone.

SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

## **Foundation China Equity Fund**

## **Foundation Global Income and Growth Fund**

(each a “Sub-Fund” and collectively the “Sub-Funds”)

*(each a sub-fund of Foundation Fund Series (the “Trust”), a Hong Kong umbrella unit trust, authorised under Section 104 of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong)*

### **Notice to Unitholders**

**All capitalised terms in this notice shall have the same meaning as in the Explanatory Memorandum of the Trust and the Sub-Fund (the “Explanatory Memorandum”) dated July 2021, unless otherwise stated.**

Dear Unitholders,

We, the Manager of the Trust and the Sub-Funds, wish to inform you that, with effect from 27<sup>th</sup> August 2021 (the “Effective Date”), the investment strategy of the Sub-Funds will be changed as set out below (the “Changes”).

#### **1. Use of financial derivative instruments (“FDIs”)**

Currently, the offering documents of the Sub-Funds disclose that:

- (i) Foundation China Equity Fund may invest in FDIs for hedging purposes only.

- (ii) Foundation Global Income and Growth Fund may invest in FDIs for hedging and non-hedging (i.e. investment) purposes.

From the Effective Date, the investment strategy in relation to FDIs will be revised such that:

- (i) Foundation China Equity Fund may invest in FDIs, including swaps (as mentioned in section 1 above), for non-hedging (i.e. investment) purposes as well as for hedging purposes.
- (ii) The investment strategy of each Sub-Fund will be revised to clarify that the FDIs in which each Sub-Fund may use will include swaps.

For the avoidance of doubt, the net derivative exposure of each Sub-Fund will remain up to 50% of its Net Asset Value.

## **2. Securities lending transactions**

Currently, the Manager does not enter into any securities lending transactions in respect of the Sub-Funds.

From the Effective Date, the investment strategy of each Sub-Fund will be amended such that the Manager may, on behalf of each 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. All securities lending transactions will only be carried out in the best interest of the Sub-Fund and as set out in the relevant securities lending agreement. Such transactions may be terminated at any time by the Manager at its absolute discretion. Please refer to the sub-section "Securities Financing Transactions" under "Investment Objective, Strategy and Restrictions" in the main body of the Explanatory Memorandum for the details of the arrangements.

As part of the securities lending transactions, a 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. Please refer to the section the paragraph headed "The Trustee" in the section "Management of the Trust" in the main body of the Explanatory Memorandum with regards to the extent of the Trustee's responsibility for the safekeeping of the assets of the Trust and the appointment of agents. The valuation of the collateral generally takes place on trading day T. If the value of the collateral falls below 100% of the value of the securities lent on any trading day T, the Manager will call for additional collateral on trading day T, and the borrower will have to deliver additional collateral to make up for the difference in securities value by 4 p.m. on trading day T+2. 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 sub-section "Collateral" of Schedule 1 of this Prospectus. Information as required under the Code will be disclosed in the annual and interim financial reports.

To the extent a 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. The cost relating to securities lending transactions will be borne by the borrower.

The Explanatory Memorandum will be updated to include a summary of the Sub-Funds' collateral policy.

### **3. Risk factors**

The Sub-Funds will be subject to additional risks associated with Changes as set out below:

#### *Risk of investing in financial derivative instruments*

The Manager may for hedging or non-hedging (i.e. investment) purposes invest in financial derivative instruments subject to the investment restrictions applicable to the Sub-Fund as set out in the section headed “Investment Objective, Strategy and Restrictions”. These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to “Investment risks – Risk of investing in financial derivative instruments” and “Investment risks – Over-the-counter markets risk” under the section headed “Risk Factors” in the main body of the Explanatory Memorandum.

#### *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.

### **4. Reasons for changes and impact on the Sub-Funds**

The reasons for the changes is to improve the flexibility and efficiency of the Sub-Funds’ investments.

Other than as outlined in this Notice, the Manager does not expect the Changes to result in (i) any material change to the Sub-Funds nor their features; (ii) any material change nor increase in the overall risk profile of the Sub-Funds; (iii) any changes to the operation or manner in which the Sub-Funds are being managed; (iv) any material prejudice the rights or interests of Unitholders of the Sub-Funds; or (iv) any changes to the fee level or costs in managing the Sub-Funds following the implementation of the Changes.

### **5. General**

The revised Explanatory Memorandum and Product Key Facts Statements of the Sub-Funds reflecting the Changes will be made available on or around the Effective Date on the Manager’s website at [www.famfundgroup.com](http://www.famfundgroup.com) (this website has not been reviewed by the SFC) and at the Manager’s office during normal business hours on any day (excluding Saturdays, Sundays and public holidays).

If you have any questions or require further information, please contact the Manager during normal working hours at Suite 2703, Tower One, Lippo Centre, 89 Queensway, Hong Kong or by telephone at +852 2259 9200.

The Manager accepts responsibility for the information contained in this notice as being accurate at the date hereof.

**Foundation Asset Management (HK) Limited**

27<sup>th</sup> July 2021