

Issuer: Zeal Asset Management Limited

July 2022

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

Quick facts

Manager:	Zeal Asset Management Limited
Trustee and Custodian:	BOCI-Prudential Trustee Limited
Ongoing charges over a year[#]:	2.95%
Dealing frequency:	Daily (Hong Kong business days)
Base currency:	Hong Kong Dollars (HKD)
Dividend policy:	For HKD Units (Distribution) and USD Units (Distribution): Subject to the Manager's discretion, dividends will be declared on a monthly basis on such date which is within a reasonable time period after the end of each month. Distributions may be paid out of capital or effectively out of capital of the fund. There is no guarantee that any distributions will be made and there is no target level of distribution payout. Any distributions payable (if any) will be automatically reinvested unless otherwise elected by the unitholder. For all other classes of units, it is the current intention of the Manager that distributions of income will not be made from the Fund.

Financial year end of this fund: 31 March

Minimum investment:	Initial	Additional
HKD Units	HKD50,000	HKD1,000
HKD Units (Distribution)	HKD50,000	HKD1,000
USD Units	USD6,500	USD130
USD Units (Distribution)	USD6,500	USD130

[#] A single ongoing charges figure is published for all classes of Units offered to the public, which have the same fee structure. It is an annualized figure based on the ongoing charges incurred by the fund from 19 March 2021 to 31 March 2022 (based on the information in the latest annual report) divided by the average net assets over the same period. Please note that adjustments have been made to the ongoing charges figure as follows:—

- only the amortized portion of the set-up costs (based on amortization over first 5 accounting periods) is included in the ongoing charges figure instead of the all set-up costs in the annual report;
- normal management fee rate was used for the whole reporting period instead of waiver of management fee from 19 March to 30 June 2021 in the annual report; and
- as disclosed in the Explanatory Memorandum, when the Net Asset Value of the fund is HKD120 million or below, the Manager may, at its discretion and out of its own pocket, reimburse to the fund certain fees and expenses incurred by the fund. The ongoing charges figure has taken into account an estimate of reimbursements by the Manager to the fund such that the ongoing charges figure will be around the level as disclosed above.

The actual figure may be different and may vary from year to year.

What is this product?

The ZEAL Property Fund[^] (the “**Fund**”) is a sub-fund of ZEAL Investment Series which is an umbrella fund constituted in the form of a unit trust established under the laws of Hong Kong.

[^] The Fund is not authorised by the SFC under the Code on Real Estate Investment Trusts.

Objectives and Investment Strategy

Objective

The investment objective of the Fund is to achieve long-term capital appreciation and generate steady income primarily by investing in a portfolio of instruments directly or indirectly related to property and real estate industry in Hong Kong and Mainland China.

Strategy

The Fund will invest primarily (i.e. at least 70% of its net asset value (“**NAV**”)) in the following asset classes:

- (1) Equities: Listed equity securities of Hong Kong or Mainland China companies[#] (including A-Shares and B-Shares) in the real estate industry (e.g. property developers) or are related to the real estate industry (e.g. property management companies), which the Manager believes have good fundamentals and are trading at attractive valuations. The Fund may invest in A-Shares via the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and derivative instruments (such as Access Products (including participatory notes)). The Fund may invest up to 30% of its NAV in B-Shares.
- (2) Real estate investment trusts (“**REITs**”): REITs listed in Hong Kong and outside of Hong Kong (for example, in Singapore) which the Manager believes have quality assets and attractive yields.
- (3) Debt securities: Bonds or fixed income instruments (including exchangeable and convertible bonds) predominantly denominated in HKD, RMB or USD issued by Hong Kong or in Mainland China companies[#] in the real estate industry (e.g. property developers) or are related to the real estate industry (e.g. property management companies), which the Manager believes in the issuers’ financial strength and repayment abilities. Investments in exchangeable and convertible bonds may be made using Access Products, such as participatory notes. The Fund has no restrictions on minimum credit ratings of the debt securities it holds. Consequently, the Fund may hold debt securities rated below investment grade (i.e. BB+ or below as rated by Standard and Poor’s, Fitch Ratings, or equivalent rating by other internationally recognized rating agencies and/or PRC credit rating agencies) (“**Non-Investment Grade**”) or which are unrated (i.e. neither the debt security itself nor its issuer has a credit rating), and is not subject to any limitation on the portion of its NAV which may be invested in Non-Investment Grade or unrated debt securities. The Fund may invest up to 30% of its NAV in onshore Mainland China bonds (including exchangeable and convertible bonds) via Bond Connect, derivative instruments (such as Access Products (including participatory notes), exchange traded funds and other funds that invest in the relevant Mainland China debt securities.

The Fund may invest up to 15% of its NAV in unlisted equity securities of Hong Kong or in Mainland China companies[#] in (or are related to) the real estate industry, as well as unlisted REITs and other unlisted investments (e.g. unlisted collective investment schemes), subject to a 10% limit for collective investment schemes that are non-eligible schemes (as determined by the SFC) and collective investment schemes not authorised by the SFC in accordance with Chapter 7.11 of the Code.

The Fund’s investments in Access Products will not exceed 30% of its NAV.

The Fund may invest in financial derivative instruments (“**FDI**”) for hedging and non-hedging (i.e. investment) purposes. The Fund will not enter into any securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions. The Fund will not invest in collateralised and/or securitised securities (including asset backed securities, mortgage backed securities and asset backed commercial paper).

Should there be any change in the above policy, where necessary, the SFC’s prior approval will be sought and sufficient prior notice will be given to Unitholders before such change takes effect.

[^] A Hong Kong or Mainland China company is a company which: (i) is organised or incorporated under the laws of, or with its principal offices in, Mainland China or Hong Kong; (ii) has significant portion of its assets, business, products, production, operations or other interest in Mainland China and/or Hong Kong; (iii) issues securities or instruments that are primarily listed, traded or quoted on one of the stock exchanges in Mainland China or Hong Kong; (iv) has its principal business activities located in Mainland China or Hong Kong; or (v) derives substantial revenue or profit from Mainland China and/or Hong Kong.

Use of derivatives

The Fund’s net derivative exposure may be up to 50% of its NAV.

What are the key risks?

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

1. Investment risk

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

2. Concentration risk

- The Fund’s investments are concentrated in the real estate sector in Hong Kong and Mainland China markets. The Fund adopts an active asset allocation strategy among different asset classes (i.e. equities, REITs and debt securities) which may result in the Fund being concentrated in one or more of the asset classes from time to time. This may result in greater volatility than funds having a more diverse portfolio of investments. The value of the Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory events affecting the real estate sector in Hong Kong and Mainland China.
- The value of the Fund may be affected by various factors affecting the real estate sector, including but not limited to: (i) changes in general economic and market conditions; (ii) changes in the value of real estate properties; (iii) risks related to local economic conditions, overbuilding and increased competition; (iv) increases in property taxes and operating expenses; (v) changes in zoning laws; (vi) variations in rental income, neighbourhood values or the appeal of property to tenants; (vii) the availability of financing; (viii) changes in interest rates and leverage; (ix) specialised management skills and (x) losses from casualty or condemnation. Investors should note that, while the Fund’s investments are concentrated in the real estate sector, the Fund’s performance may not be in line with that of the physical property market in Hong Kong and/or Mainland China.

3. Risks associated with investing in Mainland China

- High market volatility and potential settlement difficulties in the Mainland China market may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Fund.
- Trading in A-shares may be suspended due to price movements beyond trading band limits imposed by the Mainland China stock exchanges. Such a suspension may make it impossible for the Manager to liquidate positions, thereby exposing the Fund to significant losses.

4. Risks associated with investing in equity securities

- 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.

5. Risks associated with investing in debt securities

- Credit/counterparty risk: The Fund is exposed to the credit/default risk of issuers of the debt securities that it may invest in.
- Interest rate risk: Investment in the Fund is subject to interest rate risk. In general, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise.
- Volatility and liquidity risk: The debt securities issued by issuers with significant exposure to Mainland China may be subject to higher volatility and lower liquidity compared to those issued by issuers with exposures to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Fund may incur significant trading costs, which may adversely affect the NAV per Unit of the Fund.
- Valuation risk: Valuation of the Fund's investments may involve uncertainties and judgemental determinations. If such valuations should prove to be incorrect, the NAV of the Fund may need to be adjusted and may be adversely affected.
- Non-Investment Grade or unrated debt securities risk: The Fund's investments in Non-Investment Grade or unrated debt securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than higher-rated debt securities.
- Downgrading risk: The credit rating of a debt instrument or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the fund may be adversely affected. The Manager may or may not be able to dispose of the debt instruments that are being downgraded.
- Credit rating/Credit rating agency risk: Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. In particular, the credit appraisal system in Mainland China and the rating methodologies employed in Mainland China may be different from those employed in other markets. Credit ratings given by Mainland China rating agencies may therefore not be directly comparable with those given by other international rating agencies.

- **Convertible bonds risk:** Convertible bonds are a hybrid between debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. While convertible bonds generally offer lower interest or dividend yields than non-convertible debt securities of similar quality, the price of a convertible bond will normally vary with changes in the price of the underlying stock. Therefore, investors should be prepared for exposure to equity movement and greater volatility than straight bond investments, with an increased risk of capital loss. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments.

6. Risk associated with investing in REITs

- **General:** Investments in REITs exposes investors to the risks of owning real estate directly (as the price of a REIT is affected by changes in the value of the underlying properties owned by the REIT), as well as to risks that relate specifically to the way in which REITs are organised and operated. Investors should note that an investment in the Fund is not equivalent to an investment in a REIT.
- **Real estate sector risk:** A REIT's portfolio will be affected by changes in the values of the underlying properties which will likely be impacted by the real estate market. The value of REITs and the Fund may be affected by factors affecting the real estate sector.
- **Operation and management risk:** A REIT's performance is dependent upon specialised management skills. A REIT's investments may be concentrated in a few properties in a geographic area or a property type. REITs are also subject to heavy cash flow dependency and are reliant on the proper functioning of capital markets. If a lessee defaults, a REIT may incur substantial costs experience delays in protecting its investments. Where a REIT has its own expenses, the Fund will bear its proportionate share of such expenses. Any dividend payout at the Fund level may not be representative of that of the relevant underlying REIT.
- **Interest rate risk:** Fluctuations in interest rates may increase the interest costs incurred by a REIT for its borrowings and adversely affect activity level in the property market. The REIT's financial position and its ability to make distributions may be adversely affected. Changes in interest rates may also have an impact on the trading price of a REIT's units.
- **Liquidity risk:** The ability to trade REITs in the secondary market can be more limited than other stocks. This may affect the Fund's ability to acquire or dispose of such assets at the price and time it wishes to do so, which may affect the Fund's performance.
- **Regulatory risk:** Real estate income and values may be adversely affected by applicable domestic and foreign laws (including tax laws), as well as government actions. A REIT could also fail to qualify for favourable regulatory treatment. The Fund may also invest in REITs not authorised by the SFC.
- **Leveraged risk:** A REIT's use of leverage increases investment risk and the risks associated with debt financing and could adversely affect a REIT's operations and market value in periods of rising interest rates. Financial covenants related to a REIT's leveraging may affect the ability of the REIT to operate effectively. In the event that a REIT is wound up, its assets will be used to pay off creditors first and holders will only receive distributions from any remaining assets.

7. Risks associated with the Stock Connect

- The relevant rules and regulations on 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 Mainland China 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.

8. Risks associated with investing in PRC interbank bond market via Bond Connect

- Investing in the PRC interbank bond market via Bond Connect is subject to regulatory risks and various risks such as volatility risk, liquidity risk, settlement and counterparty risk as well as other risk factors typically applicable to debt securities. The relevant rules and regulations on investment in the PRC interbank bond market via Bond Connect are subject to change which may have potential retrospective effect. In the event that the relevant Mainland China authorities suspend account opening or trading on the PRC interbank bond market, the Fund's ability to invest in the PRC interbank bond market will be adversely affected. In such event, the Fund's ability to achieve its investment objective will be negatively affected.

9. Risk associated with investing in other funds

- The underlying fund in which the Fund may invest (including REITs) may not be regulated by the SFC. There will be additional costs involved when investing into these underlying funds. There is also no guarantee that the underlying funds will always have sufficient liquidity to meet the Fund's redemption requests as and when made. There can also be no assurance that an underlying fund's investment strategy will be successful or that its investment objective will be achieved.

10. Liquidity risk

- Some securities, primarily unlisted securities and/or those traded in over-the-counter markets (for example, unlisted securities), may be subject to lower liquidity. The prices of such securities may be subject to higher fluctuation compared with securities listed on a recognised stock exchange. Bid and offer spreads may be large and the Fund may incur significant trading costs.

11. Currency risk

- Underlying investments of the Fund may be denominated in currencies other than the base currency of the Fund. Also, a class of units may be designated in a currency other than the base currency of the Fund. Fluctuations in the exchange rates between such currencies and the base currency and by changes in exchange rate controls, as well as associated fees and charges may have an adverse impact on the performance of the Fund.

12. RMB currency risk

- The Fund's base currency is HKD but the Fund may invest in RMB denominated investments. RMB is currently not freely convertible and is subject to exchange controls and restrictions. The Fund and non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the Fund's and the investors' base currencies (for example, HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the Fund.
- 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.

13. Mainland China tax risk

- There are risks and uncertainties associated with the current Mainland China tax laws, regulations and practice in respect of capital gains realised by the Fund on its Mainland China investments (which may have retrospective effect). Any increased tax liabilities on the Fund may adversely affect the Fund's value. Having consulted independent tax adviser, the Manager currently does not make any withholding income tax provision for the Fund on capital gains realised from the Fund's investments in Mainland China. The Fund may have tax liabilities in Mainland China in respect of which it has not provided for, and such tax liabilities will be debited from the Fund's assets, thereby adversely affecting the Fund's NAV. Depending on the timing of their subscriptions and/or redemptions, investors may be disadvantaged as a result of any lack of tax provision. In addition, the Fund may also be subject to other Mainland China taxes on dividends, distributions and interests derived from Mainland China investments.

14. Derivatives and access products risk

- Risks associated with derivatives include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of a derivative instrument can result in a loss significantly greater than the amount invested in the derivative instrument by the Fund. Exposure to derivatives may lead to a high risk of significant loss by the Fund.
- As Access Products constitute unsecured contractual obligations rather than a direct investment in shares or debt securities, the Fund is subject to credit risk of the issuer of the Access Product.

15. Distributions out of or effectively out of capital risk

- Payment of dividends out of capital and/or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any such distributions may result in an immediate reduction of the NAV per Unit.

How has the fund performed?

The Fund is newly set up and has been launched for less than one full calendar year. As such, there is insufficient data to provide a useful indication of past performance to investors.

Is there any guarantee?

Like most funds, this 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 Fund.

Fee

Subscription fee

Conversion fee

Redemption fee

What you pay

Up to 5% of the amount you buy

Up to 1%* of the unit redemption price for each unit converted

Nil

Ongoing fees payable by the Fund

The following expenses are paid out of the Fund. They affect you because they reduce the return you get on your investments.

Management fee

The Fund pays a management fee to the Manager

Trustee fee

The Fund pays a trustee fee to the Trustee

Performance fee

Fees to QRMO

The Manager has appointed Quality Risk Management & Operations (“QRMO”) a third party service provider to perform independent risk monitoring and middle-office services in respect of the Fund.

Annual rate (as a % of the Fund's value)

1.75%*

For the period from the launch of the Fund up to and including 30 June 2021, the Manager will waive the management fee chargeable to the Fund.

Up to 0.15%*, subject to a minimum monthly fee of up to HKD40,000

None

QRMO will be paid:

- up to 0.05% per annum of the gross asset value (being the NAV of the Fund before any performance, management and administrative fees) of the Fund, subject to a minimum monthly fee of USD1,500 per month; and
- an inception fee of USD1,500 and certain other fees including but not limited to transaction and processing fees.

Other fees

You may have to pay other fees when dealing in the units of the Fund.

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

Additional information

- You generally buy and redeem units at the Fund's next-determined NAV after BOCI-Prudential Trustee Limited receives your request, directly or via a distributor, in good order at or before 4:00 p.m. (Hong Kong time), being the Fund's dealing cut-off time on each dealing day of the Fund. Before placing your subscription or redemption orders, please check with your distributor for the distributor's internal dealing cut-off time (which may be earlier than the Fund's dealing cut-off time).
- The NAV of this Fund is calculated and the price of units published each business day on the website www.zealasset.com (this website has not been reviewed by the SFC).
- You may obtain the past performance information of other unit classes offered to Hong Kong investors on the website www.zealasset.com (this website has not been reviewed by the SFC).
- The compositions of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months are available by the Manager on request and on the website www.zealasset.com (this website has not been reviewed by the SFC).

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.