Schroders

PRODUCT KEY FACTS

Schroder China Fixed Income Fund

Issuer: Schroder Investment Management (Hong Kong) Limited **13 April 2022**

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

Quick facts

Manager and QFI Holder:	Schroder Investment Management (Hong Kong) Limited			
Trustee:	HSBC Institutional Trust Services (Asia) Limited			
Custodian:	The Hongkong and Shanghai Banking Corporation Limited			
QFI Custodian:	HSBC Bank (China) Company Limited			
Ongoing charges over a year:	Class A RMB Acc 1.10%*		Class A HKD Dis 1.10%*	
	Class A RMB Dis 1.10%*		Class C RMB Acc 0.63%*	
	Class A USD Dis 1.10%*			
Dealing frequency:	Daily			
Base currency:	RMB			
Dividend policy:	Classes A and C Accumulation Units – Dividend will not be distributed. Classes A and C Distribution Units – Dividend will be distributed on a monthly basis or such other frequency as the manager considers appropriate. However, the distribution rate is not guaranteed. Distributions may be paid out of capital and reduce the fund's net asset value.			
Financial year end of this fund:	31 December			
Minimum investment:	Classes A and C Units: Initial – HKD5,000, RMB5,000 or USD1,000 (or equivalent), Subsequent – HKD5,000, RMB5,000 or USD1,000 (or equivalent)			

* The ongoing charges figure is estimated (because the unit class is not yet launched) based on the annualised expenses of another unit class of the fund over a 12-month period. The actual ongoing charges figure may be different from the estimate and may vary from year to year.

What is this product?

This is a sub-fund of the Schroder Umbrella Fund II constituted in the form of an umbrella unit trust established under the laws of Hong Kong. The fund will invest primarily (i.e. not less than 70% of its net assets) in debt securities and fixed income instruments issued in the mainland China. Investment in debt securities and fixed income instruments issued within the mainland China will be made directly through the QFI status of Schroder Investment Management (Hong Kong) Limited.

Objectives and investment strategy

The fund's objective is to provide a sustainable and long term capital appreciation and income in Renminbi ("RMB") terms by investing primarily (i.e. not less than 70% of its net assets) in debt securities and fixed income instruments issued or distributed in the mainland China. For the purpose of the investment objective and policy, the mainland China excludes Hong Kong and Macau Special Administrative Regions and Taiwan.

The fund will seek to achieve the investment objective through primarily (i.e. not less than 70% of its net assets) investing in debt securities and fixed income instruments issued or distributed in the mainland China via Qualified Foreign Investor ("QFI") status of Schroder Investment Management (Hong Kong) Limited ("QFI Holder"). These debt securities and fixed income instruments such as bonds, treasury bonds, fixed and floating rate debt securities and convertible bonds, money market instruments and commercial papers are mainly traded on or dealt in the mainland China stock exchanges or interbank bond markets. Direct exposure to such debt securities and fixed income instruments may also be gained via investing in mainland China interbank bond markets ("China Interbank Bond Market") under Bond Connect (as further described in the section under the heading "Overview of China Interbank Bond Market" in the Explanatory Memorandum) and/or other means as may be permitted by the relevant regulations from time to time. To the extent permitted by the applicable regulations and investment restrictions, the fund may also invest in other types of mainland China investments including, but not limited to, securities investment funds, exchange traded funds, equities, stock index futures and other instruments from time to time approved by China Securities Regulatory Commission ("CSRC") for investment by a QFI.

The fund will not invest in debt securities with a credit rating below investment grade (i.e. rated below BBB-/Baa3 (or its equivalent) by any internationally recognised credit rating agency, such as Standard & Poor's, Moody's or Fitch, or rated AA- or below by any mainland China domestic credit rating agency; whenever different ratings are assigned by different credit rating agencies, the lowest credit ratings assigned to the security will be adopted by the fund) but the fund may invest up to 10% of its net assets in unrated debt securities at the time of acquisition. Where the credit rating of a security is downgraded from investment grade to below investment grade, the manager will, having regard to the interests of the unitholders, seek to dispose of all such downgraded securities in a gradual and orderly manner in light of the then prevailing market conditions. For this purpose, if the relevant security does not itself have a credit rating, then reference can be made to the credit rating of the issuer of the security. If both the security and the relevant issuer are not rated, then the security will be classified as unrated. The manager will assess credit risks of fixed income instruments based on quantitative and qualitative fundamentals, including without limitation the issuer's leverage, operating margin, return on capital, interest coverage, operating cash flows, industry outlook, firm's competitive position and corporate governance issue.

The fund may invest:–

(a) not more than 30% of its latest net assets in debt securities and/or fixed income instruments which are issued outside the mainland China and traded on a recognised stock exchange or regulated market;

(b) not more than 10% of its latest net assets in Urban Investment Bonds (城投債), which means debt instruments issued by local government financing vehicles ("LGFVs") and traded on the mainland China exchange-traded bond markets and inter-bank bond market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects;

(c) not more than 10% of its latest net assets in asset-backed securities (including mortgage-backed securities and asset-backed commercial papers);

(d) not more than 10% of its latest net assets in equities. However, the fund may have higher exposures to equities on a temporary basis when the convertible bonds held by the fund are due to be converted into equity investments. In such circumstances, the manager will dispose of the equity investments upon conversion, depending on the market conditions;

(e) not more than 10% of its latest net assets in securities issued by or guaranteed by any single country that is rated non-investment grade by international credit rating agencies (including its government and a public or local authority of that country);

(f) not more than 30% of its latest net assets in investments denominated in currencies other than RMB; and

(g) up to 30% of its latest net asset in debt instruments with loss-absorption features such as contingent convertible bonds, Additional Tier 1 capital notes and Tier 2 capital notes, bail-in bonds, capital security bonds, senior non-preferred debts, subordinated Tier 2 capital notes, subordinated Additional Tier 1 capital notes and subordinated Lower Tier 2 capital notes.

The fund will not invest more than 10% of its latest net assets in other collective investment schemes (including shares or units of securities investment funds issued in the mainland China), and will not invest in any structured deposits or structured products without updating the Explanatory Memorandum.

The fund may also utilise financial derivative instruments such as warrants, options and futures for the purposes of hedging and investment, although the manager is not obligated to do so.

It is not the manager's current intention to engage in securities lending transactions, sale and repurchase transactions and reverse repurchase transactions in respect of the fund.

Use of derivatives / investment in derivatives

The fund's net derivative exposure may be up to 50% of the fund's net asset value.

What are the key risks?

Investment involves risk. Please refer to the offering document for details including the risk factors.

1. Risks relating to investment in debt securities

- Below investment grade and unrated debt securities: Investments in debt securities below investment grade or unrated are generally subject to higher degree of counterparty risk, credit risk, volatility risk, liquidity risk and risk of loss of principal and interest than higher rated securities. The fund may therefore be adversely affected.
- Credit and counterparty risk: Investment in debt securities is subject to the credit risk of the issuer which may also adversely affect the settlement of the securities. If any issuer of the debt securities defaults or becomes insolvent, the value of the relevant securities and the fund will be adversely affected.
- Credit ratings 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. Also, rating agencies might not always change their credit rating of an issuer timely to reflect events which may affect the issuer's ability to fulfill its obligations. The fund may be adversely affected if it invests in securities of an issuer that in fact has a lower credit quality than as reflected by its credit ratings. The rating criteria and methodology used by Chinese local rating agencies may be different from those adopted by most of the established international credit rating agencies. Therefore, such rating system may not provide an equivalent standard for comparison with securities rated by international credit rating agencies.
- 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.
- Credit downgrading risk: The credit rating of debt securities or their issuers may subsequently downgraded. In the event of such downgrading, the value of the fund may be adversely affected. The manager may not dispose of such securities immediately and the fund may therefore be subject to additional risk of loss.
- Liquidity and volatility risk: Securities not listed or rated or actively traded may have low liquidity and higher volatility. The prices of such securities may be subject to fluctuations. The bid and offer spread of their price may be high and the fund may therefore incur significant trading costs and may even suffer losses when selling such instruments.
- Valuation risk: Valuation of the fund's investment may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the net asset value calculation of the fund. When pricing information is not available, the net asset value of the fund may not accurately reflect the value of the underlying assets and the value of the fund may be adversely impacted. Investors' interest may also be adversely affected if they purchase or redeem Units during such period.
- Convertible bonds: 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. As such, convertibles will be exposed to equity movement and greater volatility than straight bond investments. 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.

2. Risk associated with investing in the mainland China market

- The fund may invest substantially all of its assets in debt securities issued within the mainland China. It is therefore likely to be more volatile than a broad-based fund.
- Investing in the mainland China securities market is subject to the risks not typically associated with investment in developed markets including risks of nationalisation or expropriation of assets, government control and intervention, regulatory risk, legal risk and accounting risk and settlement risk. Investments in the mainland China will be sensitive to any significant change in political, social or economic policy in the mainland China which may adversely affect the capital growth and thus the fund performance.

- There are risks and uncertainties associated with the current mainland China tax laws, regulations and practice in respect of capital gains realised via QFI status on the fund's investments in the mainland China (which may have retrospective effect). Any increased tax liabilities on the fund may adversely affect the fund's value. The manager, having taken and considered independent professional tax advice, (i) released all mainland China withholding income tax ("WIT") provision on gains realized prior to 18 December 2015 from the trading of mainland China debt securities; (ii) will not be providing for mainland China WIT on gains realized from the trading of mainland China debt securities with effect from 18 December 2015; (iii) will continue to provide for mainland China WIT of 10% on interest income accrued prior to 7 November 2018 from mainland China issued debt instruments; (iv) recognized a provision for value-added tax ("VAT") at 6.3% on relevant items arising before 7 November 2018; and (v) will not be providing for mainland China WIT and VAT on interest income from mainland China issued debt instruments during the period from 7 November 2018 to 6 November 2021.Should there be a change in mainland China tax law and practices in the future which resulted in such gains and interest income being subject to mainland China WIT, the net asset value of the fund would suffer as the fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new investors will be disadvantaged.

3. QFI Risks

- Risks regarding QFI status: The QFI Holder's QFI licence may be revoked or terminated or otherwise invalidated at any time by reason of a change in applicable law, regulations, policy, practice or other circumstances, an act or omission of the QFI Holder or for any other reasons. There can be no assurance that the QFI Holder will continue to maintain its QFI status to meet all application for subscriptions to the fund. In such event, the fund may be required to dispose of its securities holdings.
- Risks regarding application of QFI rules: The fund is subject to the QFI rules and application of such rules may depend on the interpretation given by the relevant Chinese authorities. Any changes to the rules, which may have potential retrospective effect, may have an adverse impact on investors' investment in the fund.
- Risks regarding repatriation and liquidity: There is no assurance that mainland China rules and regulations will not change or that lock-up periods or repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the fund's ability to meet redemption requests from the unitholders.
- Risk pertaining to cash deposited with QFI Custodian: If the QFI Custodian defaults, the fund may suffer substantial losses as the cash deposited in the cash accounts are not segregated from that of other creditors of the QFI Custodian and therefore become an unsecured debt owing from the QFI Custodian to the fund. The fund may face difficulty in recovering such debt and therefore suffer losses.
- Mainland China brokerage risk: The fund's execution or settlement of transactions may be adversely affected if the mainland China broker defaults/bankrupts. The fund may therefore suffer losses.

4. Risks associated with China Interbank Bond Market

- Investing in the China 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 China 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 China Interbank Bond Market, the fund's ability to invest in the China Interbank Bond Market will be adversely affected. In such event, the fund's ability to achieve its investment objective will be negatively affected.

5. Risks associated with investments in debt instruments with loss-absorption features

- Debt instruments with loss-absorption features are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of a pre-defined trigger events (e.g. when the issuer is near or at the point of non-viability or when the issuer's capital ratio falls to a specified level), which are likely to be outside of the issuer's control. Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments.
- In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.
- The fund may invest in contingent convertible debt securities, commonly known as CoCos, which are highly complex and are of high risk. Upon the occurrence of the trigger event, CoCos may be converted into shares of the issuer (potentially at a discounted price), or may be subject to the permanent write-down to zero. Coupon payments on CoCos are discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time.

– The fund may invest in senior non-preferred debts. While these instruments are generally senior to subordinated debts, they may be subject to write-down upon the occurrence of a trigger event and will no longer fall under the creditor ranking hierarchy of the issuer. This may result in total loss of principal invested.

6. Currency and exchange risk

– Investments acquired by the fund may be denominated in a wide range of currencies different from the base currency of the fund. Also, a unit class may also be denominated in a currency other than the base currency of the fund. The net asset value of the fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

7. Renminbi (“RMB”) currency risk and RMB classes related risk

– RMB is currently not freely convertible and is subject to foreign exchange control policies and restrictions.

– There can be no assurance that RMB will not be subject to depreciation. Any depreciation of RMB could adversely affect the value of investor’s investment in the fund.

– Classes denominated in RMB will be valued with reference to offshore RMB (“CNH”) rather than onshore RMB (“CNY”). While CNH and CNY represent the same currency, they are traded at different rates. Any divergence between CNH and CNY may adversely impact investors.

– Non-RMB based investors (e.g. Hong Kong investors) in Classes denominated in RMB may have to convert HK dollar or other currency(ies) into RMB when investing in Classes denominated in RMB and subsequently convert the RMB redemption proceeds and/or dividend payment (if any) back to HK dollar or such other currency(ies). Investors will incur currency conversion costs and you may suffer losses depending on the exchange rate movements of RMB relative to HK dollar or such other currencies.

– Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

8. Risks relating to distributions

– **In respect of Distribution Units, the manager may at its discretion make such distributions out of the capital of the fund. This amounts to a return or withdrawal of part of the amount you originally invested or capital gains attributable to that and may result in an immediate decrease in the value of units of the relevant Distribution Units.**

– The distribution amount and net asset value of the hedged unit classes may be adversely affected by differences in the interest rates of the class currencies of the hedged unit classes and the fund’s base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged unit classes.

9. Risks relating to hedging and the hedged classes

– There is no guarantee that the desired hedging instruments will be available or hedging techniques will be effective. The fund may suffer significant losses in adverse situation.

– Each hedged class will hedge the fund’s base currency back to its currency of denomination, on a best effort basis. Any expenses arising from such hedging transactions will be borne by the relevant hedged classes. Furthermore, the volatility of the hedged classes measured in the fund’s base currency may be higher than that of the equivalent class denominated in the fund’s base currency.

– Hedging transactions may be entered into whether the denominated currency of the hedged class is declining or increasing in value relative to the fund’s base currency and so, where such hedging is undertaken it may protect unitholders in the hedged class against a decrease in the value of the fund’s base currency relative to the denominated currency of the hedged class, but it may also preclude unitholders from benefiting from an increase in the value of the fund’s base currency.

10. Financial derivative instruments (“FDI”)

– Risks associated with FDI include counterparty risk, credit risk, liquidity risk, valuation risk, volatility risk, over-the-counter transaction risk and hedging risk. Such exposure may lead to a high risk of significant capital loss.

– The leverage element component of an FDI can result in a loss substantially greater than the amount invested in the FDI itself.

How has the fund performed?

The performance data of the unit classes listed under "Quick facts" is not available given the unit classes are not yet launched and there is insufficient data to provide a useful indication of past performance.

Is there any guarantee?

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	**What you pay**	
Unit class	A	C
Subscription fee (Initial charge)	Up to 5% of the gross investment amount	
Switching fee	Not applicable – no conversion is currently allowed	
Redemption fee (Redemption charge)	Nil	

Ongoing fees payable by the fund

The following expenses will be paid out of the fund. They affect you because they reduce the return you get on your investments.

	Annual rate (as a % of the fund's net asset value)	
Unit class	A	C
Management fee**	0.75%	0.375%
Trustee fee***	0.07% *(subject to a minimum fee of RMB200,000 per annum)*	
Performance fee	Not applicable	
Administration fee (service provider's costs)	0.02% to 0.2%	

** The fee may be increased up to a maximum annual rate of 7% of the net asset value of the fund after giving at least one month's prior notice to unitholders.

*** The fee may be increased up to a permitted maximum amount as disclosed in the offering document after giving at least one month's prior notice to unitholders.

Other fees

You may have to pay other fees when dealing in the units of the fund. Please refer to the offering document for fees payable by the fund.

Additional information

- You generally buy and redeem units at the fund's next-determined net asset value (NAV) after Schroder Investment Management (Hong Kong) Limited receives your request, directly or via a distributor, in good order at or before 5 pm HK 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).
- Compositions of the distributions (i.e. the percentages of distribution being paid out of capital and net distributable income) for the last twelve months for each of the classes of Distribution Units paying distributions out of capital are available from the manager on request and on the Schroders' Internet site (www.schroders.com.hk).
- The net asset value of this fund is calculated and the price of units is published on each dealing day. They are also available online at www.schroders.com.hk. The 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.