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CASTLE GLOBAL ASSET ALLOCATION FUND

Investors protection

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The CGAAF is a Unit Trust fund incorporated under the Trustees Act (Cap. 337). Under the Unit Trust structure, CGAAF is placed under the safeguard of a professional trust company that is regulated by the Monetary Authority of Singapore ("MAS") pursuant to the Trust Companies Act (Cap. 336) ("TCA"). In addition, the primary legislation regulating investment funds in Singapore is the Securities and Futures Act (Chapter 289) ("Securities Act"). The assets of CGAAF is also kept by a third party custodian bank that is independent and regulated as well.

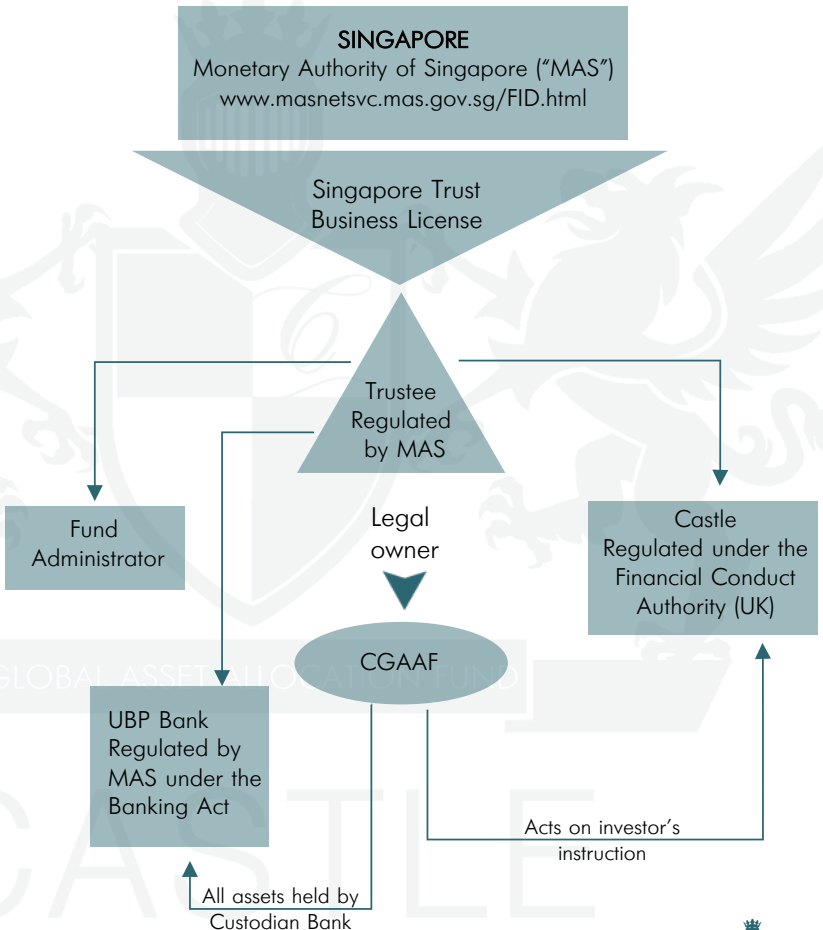
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STRUCTURE OF CGAAF



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The unit trust structure of CGAAF provides several layers of protection for the investor. The first and most important layer would be the trust under the guardianship of a MAS regulated trustee. As the trustee is subject to duties under the relevant legislations and the common law, the investor can be assured that the trustee is held to a high standard of conduct to protect his interests. This duty is translated automatically to the various organs (the Fund Administrator, the Custodian Bank and the Investment Manager) who are all “appointed” by the trustee. The trustee has the duty to supervise and ensure that the CGAAF operates in a regulated and legal way.

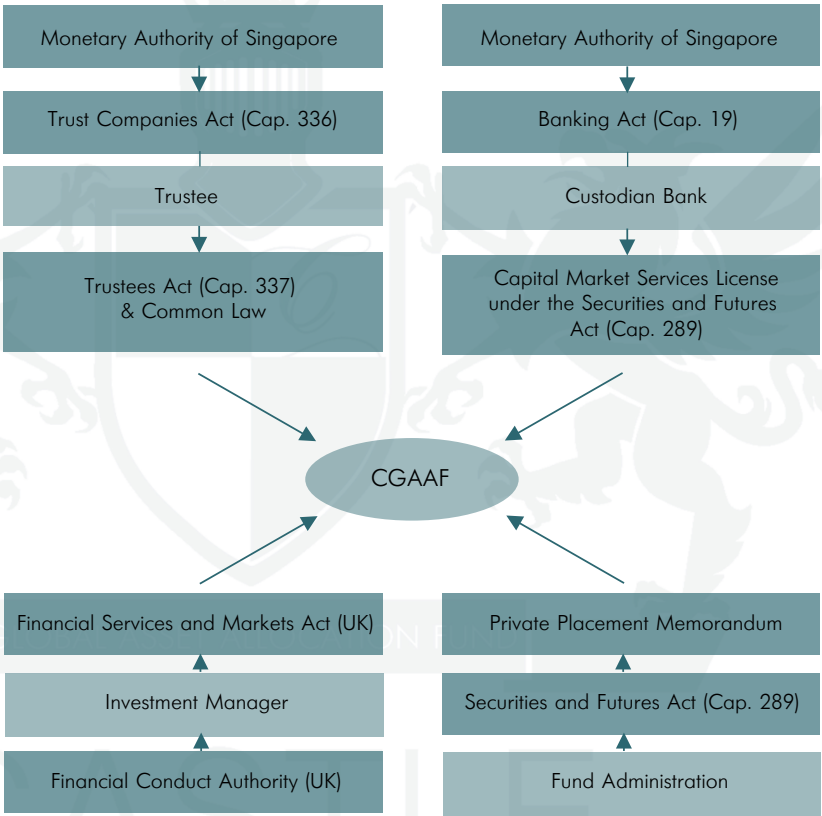
The trust setup also means that the assets are protected from any issues which may threaten the different parties connected to CGAAF. The investor can be confident that as the ultimate beneficiary/owner of the assets, the assets would always be ring-fenced and protected by the law.

The second layer of protection afforded by CGAAF involves the use of a custodian bank. With the assets being held by an independent 3rd party bank, there is added security for the investor and his holdings as the separation of assets and controlling power serves as an institutionalized check and balance within the fund system itself.

Amongst the remaining safeguards, the Trust Deed setting out the powers of the trustee and the Investment Manager is a crucial cog in the overall investor protection regime. The terms in the Trust Deed sets out the parameters in which the different organs of CGAAF can operate. This prevents any arbitrary abuse of power and ensure that all parties connected to the fund can only act in accordance with the given terms, with the different parties checking and controlling each other.

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LEGAL STRUCTURE



The TCA is the legislative and regulatory framework for companies that are in the business of providing trust business services in Singapore, whether the trusts are established under Singapore law or other law. The framework sets out, among others, licensing requirements for persons conducting trust business in Singapore; fit and proper requirements for managers, directors and significant shareholders of trust companies; obligations with respect to the prevention of money laundering and countering the financing of terrorism; and financial requirements for trust companies. The TCA is administered by the MAS.

A trust company regulated by the MAS under the TCA would also have to comply with the Trustees Act if it is acting as a trustee of a trust established under Singapore law. The trustee must be independent of the fund manager. It acts as the custodian of the fund assets and ensures that the unit trust is managed according to the guidelines laid out in the trust deed to minimize the risk of mismanagement by the fund manager.

In reviewing an application for a trust business license, MAS will consider, inter alia, the following factors:

- a. physical presence and management expertise of the applicant in Singapore;
- b. financial soundness of the applicant and its parent company;
- c. ability to meet the minimum financial requirements and professional indemnity insurance requirements prescribed under the TCR;
- d. adequacy of internal compliance systems and processes of the applicant; and
- e. competence and integrity of the applicant.

This ensures that all trustees are of good standing and that they are able to undertake their trustee's duties as per the trust deed.

There are a range of requirements that a licensed trust company incorporated in Singapore must at all times fulfill, including maintaining a net asset value of not less than:

- a. one-quarter of its relevant annual expenditure of the financial year immediately preceding the current financial year; or
- b. three-quarters of the minimum paid-up capital of \$250,000.00 whichever is the higher amount.

To ensure that the investor is not left without recourse, the licensed trust company must also at all times maintain a professional indemnity insurance ("PII") policy that:

- a. covers all liabilities arising out of negligent discharge of the duties of the licensed trust company; and
- b. commensurate with the levels of risk of the licensed trust company's business.

It must also be noted that licensed trust companies must at all times comply with, inter alia, the confidentiality provisions under section 49 of the TCA.

The trust company is directly under the control of the MAS. Part IIIA of the TCA further prescribes the control of MAS over the trustee, amongst others:

“Section 21B.

1. Any licensed trust company which is or is likely to become insolvent, which is or is likely to become unable to meet its obligations, or which has suspended or is about to suspend payments, shall immediately inform the Authority of that fact.
2. Any licensed trust company which contravenes subsection (1) shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$50,000 and, in the case of a continuing offence, to a further fine not exceeding \$5,000 for every day or part thereof during which the offence continues after conviction.”

The law makes it mandatory that licensed trust companies need to inform the MAS if they are going into insolvency. Therefore, the investor can rest assure that he will not receive any sudden news or shock that the trustee has collapsed. In any case, our trustee is in the market for over 20 years’ and is in good standing, as per regulation requirements. Where required, the MAS may take necessary action to ensure that the investor’s interests are protected.

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“Action by Authority if licensed trust company unable to meet obligations, etc.

Section 21C.

1. The Authority may exercise any one or more of the powers specified in subsection 2 as appears to it to be necessary, where —

- a. a licensed trust company informs the Authority that it is or is likely to become insolvent, or that it is or is likely to become unable to meet its obligations, or that it has suspended or is about to suspend payments;
- b. a licensed trust company becomes unable to meet its obligations, or is insolvent, or suspends payments;
- c. the Authority is of the opinion that a licensed trust company —
 - is carrying on its business in a manner likely to be detrimental to the interests of the public or a section of the public or of the protected parties of the licensed trust company;
 - is or is likely to become insolvent, or is or is likely to become unable to meet its obligations, or is about to suspend payments;
 - has contravened any of the provisions of this Act; or
 - has failed to comply with any condition or restriction attached to its trust business license; or
- d. the Authority considers it in the public interest to do so.

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2. Subject to subsections 1 and 3, the Authority may —

- a. require the licensed trust company immediately to take any action or to do or not to do any act or thing whatsoever in relation to its business as the Authority may consider necessary;
- b. appoint one or more persons as statutory adviser, on such terms and conditions as the Authority may specify, to advise the licensed trust company on the proper management of such of the business of the licensed trust company as the Authority may determine; or
- c. assume control of and manage such of the business of the licensed trust company as the Authority may determine, or appoint one or more persons as statutory manager to do so on such terms and conditions as the Authority may specify.”

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“Section 59 of the TCA specify that Trust funds to be kept separate so the investors’ assets are clearly defined and kept safe from the financial affairs of the trustee in any case:

1. Every licensed trust company shall ensure that all moneys, property and securities received or held by the licensed trust company in a fiduciary capacity are always kept distinct and in separate accounts from its own moneys, property and securities and marked in its books for each particular trust, so that they may be distinguished from any other assets shown in the registers and other books of account kept by it and so that the trust moneys do not form part of, or are not mixed with, its general assets.
2. Every licensed trust company shall ensure that all investments made by it as trustee shall be designated so that the trusts to which the investments belong may be readily identified at any time.
3. Any licensed trust company which contravenes subsection (1) or (2) shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$50,000 and, in the case of a continuing offence, to a further fine not exceeding \$5,000 for every day or part thereof during which the offence continues after conviction.”

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