



## **Phillip Investment Funds**

- Phillip Income Fund
- Phillip Money Market Fund

### **Prospectus**

Dated 17 January 2018

## PHILLIP INVESTMENT FUNDS

### Important Information

The managers of Phillip Investment Funds (the "**Fund**"), Phillip Capital Management (S) Ltd (the "**Managers**"), accept full responsibility for the accuracy of information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Prospectus misleading.

Investors should consult the relevant provisions of the trust deed (as amended) relating to the Fund (the "**Deed**") and obtain independent professional advice in any event of any doubt or ambiguity relating thereto.

No application has been made for the units in the Fund ("**Units**") to be listed on any stock exchange. There is no ready market for the Units in the Fund. Investors may consequently only redeem their Units in accordance with and subject to the provisions of the Deed.

Potential investors should seek independent professional advice to ascertain (a) the possible tax consequences; (b) the legal requirements; (c) any restrictions or requirements under the Central Provident Fund ("**CPF**") (Investment Scheme) Regulations and the terms and conditions in respect of the CPF Investment Scheme ("**CPFIS**") issued by the CPF Board thereunder and (d) any foreign exchange restrictions or exchange control requirements which they may encounter under the laws of the countries of their citizenship, residence or domicile, which may be relevant to the subscription, holding or disposal of Units in the Fund, and should inform themselves of and observe all such laws and regulations in any related jurisdiction that may be applicable to them.

Investors should consider the risks of investing in securities which are summarised in paragraph 9 of this Prospectus.

#### **Phillip Money Market Fund**

**Phillip Money Market Fund is a money market fund. The purchase of a unit in a money market fund is not the same as placing funds on deposit with a bank or deposit-taking company. Although the Managers may seek to maintain or preserve the principal value of the money market fund, there can be no assurance that the money market fund will be able to meet this objective. A money market fund is not a guaranteed fund, in that there is no guarantee as to the amount of capital invested or return received.**

#### **Restriction on U.S. Persons on subscribing to the Fund**

Persons to whom a copy of this Prospectus has been issued shall not circulate to any other person, reproduce or otherwise distribute this Prospectus or any information herein for any purpose whatsoever nor permit or cause the same to occur. In particular, please note that the Units have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**") or any other applicable law of the United States. The Fund has not been and will not be registered as an investment company under the U.S. Investment Company Act of 1940, as amended. The Units are being offered and sold outside the United States to persons that are not "U.S. persons" (as defined in Regulation S promulgated under the U.S. Securities Act) in reliance

on Regulation S promulgated under the U.S. Securities Act. The Units are not being offered or made available to U.S. persons and nothing in this Prospectus is directed to or is intended for U.S. persons.

For the purposes of the U.S. Securities Act, the term “U.S. person” means: (i) any natural person resident in the United States; (ii) any partnership or corporation organized or incorporated under the laws of the United States; (iii) any estate of which any executor or administrator is a U.S. person; (iv) any trust of which any trustee is a U.S. person; (v) any agency or branch of a non-United States entity located in the United States; (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person; (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and (viii) any partnership or corporation if (a) organized or incorporated under the laws of any non-United States jurisdiction and (b) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by “accredited investors” (as defined in Regulation D promulgated under the U.S. Securities Act) who are not natural persons, estates or trusts.

For the purposes of the U.S. Securities Act, the term “U.S. person” does not include: (i) any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a non-U.S. person by a dealer or other professional fiduciary organized, incorporated, or (if an individual), resident in the United States; (ii) any estate of which any professional fiduciary acting as executor or administrator is a U.S. person if (a) an executor or administrator of the estate who is not a U.S. person has sole or shared investment discretion with respect to the assets of the estate and (b) the estate is governed by non-United States law; (iii) any trust of which any professional fiduciary acting as trustee is a U.S. person, if a trustee who is not a U.S. person has sole or shared investment discretion with respect to the trust assets, and no beneficiary of the trust (and no settler if the trust is revocable) is a U.S. person; (iv) an employee benefit plan established and administered in accordance with the law of a country other than the United States; (v) an agency or branch of a U.S. person located outside the United States if (a) the agency or branch operates for valid business reasons and (b) the agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and (vi) the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, any other similar international organizations, and their respective agencies, affiliates and pension plans.

#### Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act (“**FATCA**”) includes provisions under which the Managers as a Foreign Financial institution (“**FFI**”) may be required to report to the U.S. Internal Revenue Service (“**IRS**”) certain information about Units held by U.S. persons for the purposes of FATCA and to collect additional identification information for this purpose. FFIs that do not enter into an agreement with the IRS and comply with the FATCA regime could be subject to 30% withholding tax on any payment of U.S. source income as well as on the gross proceeds deriving from the sale of securities generating U.S. income made to the Fund.

The Fund is obliged to comply with the provisions of FATCA under the terms of the inter-governmental agreement (“**IGA**”) Model 1 signed between the U.S. Government and the Singapore Government and under the terms of Singapore legislation implementing the IGA.

Distributors and investors should note that it is the existing policy of the Managers that Units are not being offered or sold for the account of U.S. Persons for the purposes of FATCA and that subsequent transfers of Units to such U.S. Persons are prohibited. If Units are beneficially owned by such U.S. Person, the Managers (in consultation with the Trustee) may compulsorily redeem such Units. Investors should note that under the FATCA legislation, the definition of “Specified U.S. Persons” will include a wider range of investors than the current U.S. Person definition. Investors should consult their tax advisors regarding the application of FATCA to their investment. Investors should check with the Managers or their appointed agents or distributors with regard to the documentation that may be required for the purpose of FATCA.

#### Common Reporting Standard and Automatic Exchange of Information

Following the development by the Organisation for Economic Cooperation and Development (“OECD”) of a common reporting standard (“CRS”) to achieve a comprehensive and multilateral automatic exchange of information (“AEOI”), the Income Tax (International Tax Compliance Agreements) (Common Reporting Standard) Regulations 2016 (the “CRS Regulations”) have been promulgated to allow Singapore to implement the CRS with effect from 1 January 2017. Singapore has committed to commence exchange of information under the CRS in 2018.

The CRS Regulations require certain Singapore financial institutions (as defined in the CRS Regulations) to identify financial asset holders and establish if they are resident for tax purposes in countries with which Singapore has a tax information sharing agreement. Singapore financial institutions will then report financial account information of the asset holder to the Singapore tax authorities, which will thereafter automatically transfer this information to certain competent foreign tax authorities on a yearly basis.

Accordingly, the Managers and/or the Trustee will require investors to provide, amongst other things, information in relation to their identities and tax residences of their accounts (and the controlling persons, if any), account details, reporting entity, account balance/value and income/sale or redemption proceeds and any additional documentation or information, which will then be reported to the Inland Revenue Authority of Singapore and the other relevant tax authorities for purposes of complying with FATCA, the CRS Regulations and any similar automatic exchange of tax information regimes.

***You should consult your professional advisors on the possible tax and other consequences with respect to the implementation of the CRS.***

#### Data Protection

For the purposes of, and subject to the provisions in, the Personal Data Protection Act of Singapore (“PDPA”) and its regulations, each investor consents and acknowledges that all personal data of the investor provided to the Fund, the Managers, the Trustee or any delegate, agent or distributor appointed by the Managers or Trustee (including but not limited to the administrator, custodian, sub-custodians, registrar and any other third party service provider which may be applied), may be collected, used, disclosed or otherwise processed to enable each of the aforesaid entities to carry out their respective duties and obligations, or to enforce their respective rights and remedies, in connection with any investment by the investor into the Fund or any law applicable to the respective parties.

All enquiries in relation to the Fund should be directed to the Managers, Phillip Capital Management (S) Ltd, or any agent or distributor appointed by the Managers.

# **PHILLIP INVESTMENT FUNDS**

## **Directory**

### **Managers**

Phillip Capital Management (S) Ltd

(Company Registration No. 199905233W)

250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101

### **Directors of the Managers**

Lim Hua Min

Jeffrey Lee Chay Khiong

Linus Lim Wen Sheong

Lee Ken Hoon

Lim Wah Sai

Louis Wong Wai Kit

### **Trustee**

BNP Paribas Trust Services Singapore Limited

(Company Registration No. 200800851W)

20 Collyer Quay, #01-01, Singapore 049319

### **Custodian**

BNP Paribas Securities Services, operating through its Singapore Branch

(Company Registration No. T08FC7287D)

20 Collyer Quay, #01-01, Singapore 049319

### **Registrar**

BNP Paribas Trust Services Singapore Limited

20 Collyer Quay, #01-01, Singapore 049319

**Auditors**

KPMG LLP

16 Raffles Quay, #22-00, Hong Leong Building, Singapore 048581

**Solicitors to the Managers**

Chan & Goh LLP

50 Craig Road, #03-01, Singapore 089688

**Solicitors to the Trustee**

Dentons Rodyk & Davidson LLP

80 Raffles Place, #33-00, UOB Plaza 1, Singapore 048624

## PHILLIP INVESTMENT FUNDS

### Table of Contents

Contents	Page
Important Information.....	i
Directory.....	iv
1. Basic Information .....	1
2. The Managers .....	5
3. The Trustee, the Custodian and the Administrator .....	7
4. The Register of Holders .....	8
5. The Auditors .....	8
6. Fund Structure.....	8
7. Investment Objective, Focus and Approach .....	10
8. Fees and Charges.....	12
9. Risks .....	14
10. Subscription of Units .....	19
11. Regular Savings Plan.....	24
12. Realisation of Units .....	25
13. Switching of Units .....	29
14. Obtaining Prices of Units.....	29
15. Suspension of Dealing.....	30
16. Performance of the Sub-Funds .....	32
17. Soft Dollar Commissions or Arrangements.....	33
18. Conflicts of Interest.....	34
19. Reports.....	35
20. Other Material Information.....	36
21. Queries and Complaints .....	44
Appendix 1 - Investment and Borrowing Guidelines.....	45
Appendix 2 - Money Market Funds Investment Guidelines .....	71

## PHILLIP INVESTMENT FUNDS

*The sub-funds of Phillip Investment Funds (the "Fund") offered in this Prospectus are authorised schemes under the Securities and Futures Act, Chapter 289 of Singapore ("SFA"). A copy of this Prospectus has been lodged with and registered by the Monetary Authority of Singapore ("MAS"). MAS assumes no responsibility for the contents of this Prospectus. The registration of this Prospectus by the MAS does not imply that the SFA, or any other legal or regulatory requirements have been complied with. The MAS has not, in any way, considered the investment merits of the Fund. The meanings of terms not defined in this Prospectus can be found in the deed of trust (as amended) constituting the Fund.*

### 1. Basic Information

#### 1.1 Phillip Investment Funds

The Fund is an umbrella fund constituted in Singapore currently with 2 sub-funds established under it (together, the "**Sub-Funds**" and each, a "**Sub-Fund**"). An umbrella fund is a collection of sub-funds under a single umbrella trust fund structure with each sub-fund having a separate investment objective and focus.

Currently, the Managers are offering two Sub-Funds for subscription, namely Phillip Money Market Fund and Phillip Income Fund. In the future, the Managers could add new sub-funds with different investment objectives to the Fund. The main aim of such a structure is to reduce operational costs and provide facilities like inter sub-fund switching.

Phillip Money Market Fund is classified as an Excluded Investment Product (as defined under Annex 1 of the MAS Notice on the Sale of Investment Products, as may be amended from time to time).

Phillip Income Fund is a Qualifying CIS<sup>1</sup> under the ASEAN CIS Framework<sup>2</sup>.

#### 1.2 Date of Registration and Expiry Date of Prospectus

The date of registration of this Prospectus with MAS is 17 January 2018. This Prospectus shall be valid for 12 months after the date of registration (i.e., up to and including 16 January 2019) and shall expire on 17 January 2019.

#### 1.3 Trust Deed and Supplemental Deeds

**1.3.1** The deed of trust relating to the interests being offered for subscription or purchase is dated 26 February 2001 (the "**Principal Deed**") and the parties to the Principal Deed are Phillip Capital Management (S) Ltd, as the managers (the "**Managers**") and Citicorp Trustee (Singapore) Limited, as the original trustee. With effect from 1

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<sup>1</sup> "**Qualifying CIS**" means a collective investment scheme constituted or established in its home jurisdiction which has been approved by its home regulator for offer to the public in the home jurisdiction, and assessed by its home regulator as suitable to apply to a host regulator for its units to be offered to the public cross-border in the host jurisdiction pursuant to the ASEAN CIS Framework.

<sup>2</sup> "**ASEAN CIS Framework**" means the streamlined authorisation framework for the cross-border offer of ASEAN collective investment schemes developed pursuant to the ACMF's Implementation Plan endorsed at the 13<sup>th</sup> ASEAN Finance Ministers' Meeting. "**ACMF**" means the ASEAN Capital Markets Forum.



July 2016, BNP Paribas Trust Services Singapore Limited has been appointed as trustee of the Fund (the “Trustee”).

**1.3.2** The Principal Deed has been amended by the following deeds entered into between the Managers and the Trustee:

<b>Deed</b>	<b>Dated</b>	<b>Purpose</b>
First Supplemental Deed	26 February 2002	To replace all references to “Fitch IBCA” to “Fitch Inc.” and to amend Clauses 1(A), 14(C), 16(D), 16(K), 16(O), 16(Q), and 29(A) of the Principal Deed for the purposes of clarifying the investment restrictions applicable to the Fund relating to fixed deposits, incorporating the payout period for redemption proceeds provided under Practice Direction 10 issued by the MAS on 28 December 2001 and for correcting manifest errors.
Amending and Restating Deed	27 February 2003	To amend the deed to comply with the prescribed requirements for trust deeds under the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2002, to incorporate the investment guidelines for non-specialised funds and money market funds issued by the MAS under the Code on Collective Investment Schemes on 23 May 2002 (as updated on 5 December 2002) and the revised CPF investment guidelines for unit trusts included under the CPFIS issued by the CPF Board on 1 September 2002.
Second Amending and Restating Deed	30 June 2003	To amend the deed to comply with the Notice on Cancellation Period for Collective Investment Schemes constituted as Unit Trusts issued by the MAS on 1 October 2002 and revised on 20 March 2003.
Third Amending and Restating Deed	2 January 2004	To update the CPF investment guidelines for unit trusts included under the CPFIS issued by the CPF Board on 15 September 2003, to comply with the prescribed requirements for trust deeds under the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2002, to incorporate the investment guidelines for non-specialised funds and money market funds issued by the MAS under the Code on Collective Investment Schemes on 23 May 2002 (as updated on 22 December 2003) and to provide for valuation of an investment of a money market fund at its purchase cost after adding or deducting an adjustment factor (as defined in the trust deed).
Fourth Amending and	21 February 2005	To, <i>inter alia</i> , amend the deed to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law).

Restating Deed		
Fifth Amending and Restating Deed	21 February 2006	To, <i>inter alia</i> , amend the deed to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law).
Sixth Amending and Restating Deed	21 February 2007	To, <i>inter alia</i> , amend the deed to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law).
Seventh Amending and Restating Deed	20 February 2008	To, <i>inter alia</i> , update the deed and to remove obsolete provisions.
Eighth Amending and Restating Deed	20 February 2009	To, <i>inter alia</i> , amend the deed to (a) invest the Sub-Funds' assets into money market funds; (b) permit switching between the Sub-Funds and other funds managed by the Managers; and (c) update the definition of Valuation Point.
Ninth Amending and Restating Deed	19 February 2010	To, <i>inter alia</i> , amend the deed to reflect (a) the change in the age for minors and (b) a reduction in the minimum initial subscription amount to SGD500 for the Sub-Funds.
Tenth Amending and Restating Deed	18 February 2011	To, <i>inter alia</i> , amend the deed to reflect (a) a change in the investment policy for Phillip Income Fund and Phillip Growth Fund to invest into underlying collective investment schemes and (b) the Managers' current policy on the use of financial derivative instruments for the Sub-Funds.
Eleventh Amending and Restating Deed	30 September 2011	To, <i>inter alia</i> , amend the deed to comply with the revised Code.
Twelfth Amending and Restating Deed	28 September 2012	To, <i>inter alia</i> , (a) re-designate existing Units to Class A SGD Units and create 2 new Class I Units, namely Class I SGD Units and Class I USD Units for Phillip Income Fund; and (b) amend the deed to comply with the revised Code updated as of 30 September 2011.
Thirteenth Amending and Restating Deed	23 January 2013	To, <i>inter alia</i> , remove the Phillip Growth Fund as a Sub-Fund under the Phillip Investment Funds.
Fourteenth Amending and Restating Deed	26 September 2014	To, <i>inter alia</i> , allow for compulsory realisations by the Managers in certain circumstances.

Fifteenth Amending and Restating Deed	31 March 2015	To, <i>inter alia</i> , (a) remove the power to engage in securities lending and repurchase transactions for the Sub-Funds; (b) limit the use of financial derivatives instruments as may be permitted for an Excluded Investment Product in relation to Phillip Money Market Fund and, in relation to the Phillip Income Fund, as permitted under the Standards of Qualifying CIS <sup>3</sup> ; (c) establish 3 new Classes within the Phillip Income Fund, namely the Class A USD Units, Class A RM Units and Class A THB Units; and (d) in relation to Phillip Income Fund, comply with the Standards of Qualifying CIS.
Supplemental Deed of Appointment and Retirement of Trustee	5 May 2016	To amend the Deed to effect the change of trustee from Citicorp Trustee (Singapore) Limited to BNP Paribas Trust Services Singapore Limited with effect from 1 July 2016.
Sixteenth Amending and Restating Deed	17 January 2018	To, <i>inter alia</i> , (i) re-designate existing Units to Class A Units and create a new class, namely Class I Units for Phillip Money Market Fund and (ii) incorporate a new Schedule 2 relating to Tax.

The Principal Deed as amended by the First Supplemental Deed, the Amending and Restating Deed, the Second Amending and Restating Deed, the Third Amending and Restating Deed, the Fourth Amending and Restating Deed, the Fifth Amending and Restating Deed, the Sixth Amending and Restating Deed, the Seventh Amending and Restating Deed, the Eighth Amending and Restating Deed, the Ninth Amending and Restating Deed, the Tenth Amending and Restating Deed, the Eleventh Amending and Restating Deed, the Twelfth Amending and Restating Deed, the Thirteenth Amending and Restating Deed, the Fourteenth Amending and Restating Deed, the Fifteenth Amending and Restating Deed, the Supplemental Deed of Appointment and Retirement of Trustee and the Sixteenth Amending and Restating Deed shall hereinafter be referred to as the "**Deed**".

- 1.3.3** The terms and conditions of the Deed shall be binding on each unitholder (together the "**Holders**" and each a "**Holder**") and persons claiming through such Holder as if such Holder had been a party to the Deed and as if the Deed contained covenants on such Holder to observe and be bound by the provisions of the Deed and an authorisation by each Holder to do all such acts and things as the Deed may require the Managers and/or the Trustee to do.

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<sup>3</sup> "**Standards of Qualifying CIS**" means a set of rules and regulations as agreed (and as may be amended from time to time) amongst the ACMF Members, which governs the operation of the ASEAN CIS Framework, and published at <http://www.theacmf.org>. "**ACMF Member**" means the securities regulator of the respective ASEAN jurisdiction, and collectively, the "**ACMF Members**".

**1.3.4** A copy of the Deed shall be made available for inspection, at all times during usual business hours at the registered address of the Managers at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101.

## **1.4 Accounts and Reports**

The latest copies of the annual and semi-annual accounts, the auditor's report on the annual accounts and the annual and semi-annual reports relating to the Sub-Funds may be obtained from the Managers upon request at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101.

## **2. The Managers**

**2.1** The Managers of the Fund are Phillip Capital Management (S) Ltd, whose registered office is at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101. The Managers are regulated in Singapore by the MAS.

The Managers hold a capital markets services licence granted by the Authority, and provide fund management and investment advisory services to both institutional and retail clients. The Managers are a member of PhillipCapital, an integrated financial services group established in 1975 ("**Group**"), providing a comprehensive range of financial services to retail and institutional customers. Today, the Group is firmly established in the financial hubs of Singapore, United Kingdom, United States of America, France, Japan, China, Hong Kong (SAR), Malaysia, Thailand, Indonesia, Sri Lanka, Turkey and Australia.

The Managers have been managing collective investment schemes and/or discretionary funds in Singapore since 2000. In November 2003, the Managers acquired the Govett Global Brands Fund and Govett Asia Pacific Growth Fund and renamed them Phillip Global Brands Fund and Phillip Asia Pacific Growth Fund respectively (Phillip Global Brands Fund was subsequently terminated). The Managers have an established track record managing funds investing in the Asia Pacific region and globally. The investment funds managed by the Managers include the following: Phillip Asia Pacific Growth Fund, Phillip US Dollar Money Market Fund, Pi-5 Global Portfolio, Pi-7 Global Portfolio, Global Opportunities Fund, Phillip Singapore Real Estate Income Fund, Phillip SGX APAC Dividend Leaders REIT ETF and Phillip Greater India Equity Fund (a restricted fund which is only offered to institutional and accredited/high net worth investors under the SFA). The Managers also act as sub-manager of Lion-Phillip S-REIT ETF.

***Investors should note that past performance of the Managers or the funds mentioned above are not necessarily indicative of the future performance of the Managers or the funds.***

## **2.2 Directors and Key Executives of the Managers**

The directors of the Managers are as follows:-

### **Lim Hua Min**

Hua Min is Chairman of PhillipCapital Group and director of Phillip Capital Management (S) Ltd. He previously held senior positions in the Stock Exchange of Singapore and the Securities Research Institute. He has served on a number of committees and sub-

committees of the Stock Exchange of Singapore. In 1997, he was appointed Chairman of the Stock Exchange of Singapore (SES) Review Committee, which is responsible for devising a conceptual framework to make Singapore's capital markets more globalised, competitive and robust. Hua Min holds a Bachelor of Science Degree (Honours) in Chemical Engineering from the University of Surrey and obtained a Master's Degree in Operations Research and Management Studies from Imperial College, University of London.

### **Jeffrey Lee Chay Khiong**

Jeffrey is Managing Director and Chief Investment Officer of Phillip Capital Management (S) Ltd and has been with the PhillipCapital Group since 1992. His prior appointments include senior investment management positions at AIB Govett (Asia) Ltd, DBS Bank and Mitsubishi Corporation Group, with responsibilities for managing funds across various asset classes including fixed income, equities and venture capital. Jeffrey has more than 30 years of investment experience spanning several market cycles. His track record includes a number of award-winning funds in the Asia Pacific and Global Funds category. A Chartered Financial Analyst (CFA) since 1990, he obtained his Bachelor's (Honours) degree in Chemical Engineering from the National University of Singapore on a Public Service Commission Scholarship.

### **Linus Lim Wen Sheong**

Linus is a director and Co-Chief Investment Officer of Phillip Capital Management (S) Ltd. Linus focuses on product development as well as investment strategy. He has been with PhillipCapital Group since 2001 where he has been involved in equity research as well as corporate finance both in Singapore and the UK. Prior to PhillipCapital, he was at the Investments business of Citibank Asia Pacific. Linus is a graduate from the London School of Economics and also holds an MBA from the Anderson school of Management at UCLA.

### **Lee Ken Hoon**

Ken Hoon is director and Chief Operating Officer of Phillip Capital Management (S) Ltd. She has been with PhillipCapital Group since 2008 and has more than 20 years of experience in audit and the financial services industry. Prior to joining PhillipCapital she worked in local and foreign financial institutions and has extensive experience in finance, middle office and back office operations. Ken Hoon graduated with a degree in Accountancy from the National University of Singapore and is a Chartered Accountant of Singapore.

### **Lim Wah Sai**

Wah Sai is a non-executive director of Phillip Capital Management (S) Ltd. He joined the PhillipCapital Group in 1988 and has been managing the Group's Hong Kong operations since 1993. He is presently the Managing Director and Responsible Officer of the PhillipCapital Group of companies in Hong Kong, including Phillip Securities (HK) Ltd, Phillip Commodities (HK) Ltd and Phillip Capital Management (HK) Ltd. Phillip Capital Management (HK) manages assets for retail and institutional clients and acts as Investment Advisor to an authorized fund in Thailand which primarily invests in Hong Kong and China. Wah Sai is currently a member of Derivatives Market Consultative Panel of HKEx and has over 30 years' experience in the securities, derivatives and banking industries. He holds a

Master's Degree in Management Science from Imperial College, University of London and a Bachelor of Science Degree (1st Class Honours) in Control Instrumentation and System Engineering from the City University, London.

### **Louis Wong Wai Kit**

Louis is a non-executive director of Phillip Capital Management (S) Ltd. He joined the PhillipCapital Group in 1993 and has been the Director of Phillip Securities (HK) Ltd and Phillip Capital Management (HK) Ltd since 1996 and 2002 respectively. He has over 20 years of investment experience in securities dealing and 14 years in asset management. Louis obtained his Bachelor of Arts (Honours) degree from the University of Hong Kong.

The key executive of the Managers in respect of the Sub-Funds is as follows:-

### **Sabrina Loh Yang Nee**

Sabrina Loh is Director of Fixed Income of Phillip Capital Management (S) Ltd. She joined the company in 2005. She is responsible for managing money market and fixed income funds as well as balanced portfolios and private clients' mandates. She began her career with DBS Asset Management and later joined Insurance Corporation of Singapore, where she was involved in the management of insurance funds. Prior to Phillip Capital Management, she was with Aviva Insurance Group's Navigator Investment Services and was involved in launching the company's unit trusts distribution business. Sabrina obtained a Bachelor of Commerce (Double majors in Economics and Finance) from Curtin University of Technology, Australia.

## **3. The Trustee, the Custodian and the Administrator**

### The Trustee

The Trustee of the Fund is BNP Paribas Trust Services Singapore Limited whose registered address is at 20 Collyer Quay, #01-01, Singapore 049319. The Trustee is regulated in Singapore by the Authority.

### The Custodian

The Custodian of the Fund is BNP Paribas Securities Services, operating through its Singapore Branch, with its registered address at 20 Collyer Quay, #01-01, Singapore 049319. The Custodian is a global custodian with direct market access in certain jurisdictions and for other markets it engages selected sub-custodians. In respect of its sub-custodians, the Custodian operates a selection and on-going monitoring program based on defined criteria which include financial strength, reputation, and breadth and quality of services provided, such as communication capabilities, settlement, safekeeping, corporate action notification and processing, dividend collection and payment, client service delivery, market information management, asset segregation and business continuity planning. The Custodian is regulated in Singapore by the Authority. The sub-custodians appointed by the Custodian are regulated in their home jurisdictions.

### The Administrator

The Administrator of the Fund is BNP Paribas Securities Services, operating through its Singapore Branch, with its registered address at 20 Collyer Quay, #01-01, Singapore 049319. The Managers have delegated their accounting and valuation functions in respect of the Fund to the Administrator.

#### **4. The Register of Holders**

The register of Holders in respect of each Sub-Fund (each, a "**Register**") is kept and maintained at the office of BNP Paribas Trust Services Singapore Limited (the "**Registrar**") at 20 Collyer Quay, #01-01, Singapore 049319 and is accessible to the public during normal business hours. Each Register is conclusive evidence of the number of units ("**Units**") in the Sub-Fund, or Class thereof, held by each Holder and the details in each Register shall prevail in the event of any discrepancy between the entries in each Register and the details appearing on any statement of holding, unless the Holder proves to the satisfaction of the Managers and the Trustee that such Register is incorrect.

#### **5. The Auditors**

The auditors of the Fund are KPMG LLP whose registered address is at 16 Raffles Quay, #22-00, Hong Leong Building, Singapore 048581 (the "**Auditors**").

#### **6. Fund Structure**

The Fund is a Singapore authorised umbrella unit trust which presently comprises the following 2 Sub-Funds:

- (a) Phillip Money Market Fund; and
- (b) Phillip Income Fund.

The Sub-Funds are open-ended unit trusts. Phillip Money Market Fund will issue Units denominated in SGD only while Phillip Income Fund will issue Units denominated in USD, SGD, RM and THB. The assets of the Sub-Funds will be valued in SGD (base currency).

Phillip Money Market Fund is classified as an Excluded Investment Product (as defined under Annex 1 of the MAS Notice on the Sale of Investment Products, as may be amended from time to time).

### Classes of Units

The Managers may establish Classes of Units within the Sub-Funds. Different Classes within the Sub-Funds have different features. The Classes differ in terms of their currency of denomination, minimum initial and subsequent subscription amounts and minimum realisation amount. Where a new Class is established, the Managers may at their discretion rename any existing Class as long as there is no prejudice to existing investors of such Class.

For Phillip Money Market Fund, the Managers are currently offering 2 Classes of Units, namely Class A Units and Class I Units. Class A Units and Class I Units are offered to investors who invest SGD500 and SGD250,000 and above respectively.

For Phillip Income Fund, the Managers are currently offering 6 Classes of Units, namely Class A SGD Units, Class A USD Units, Class A RM Units, Class A THB Units, Class I SGD Units and Class I USD Units. Class A SGD Units, Class A USD Units, Class A RM Units and Class A THB Units are offered to investors who invest SGD500, USD500, RM1,000 or THB10,000 and above respectively and Class I SGD Units and Class I USD Units are offered to investors who invest SGD500,000 or USD500,000 and above respectively. Different Classes of Units in Phillip Income Fund may be offered in different jurisdictions at the Managers' discretion under the ASEAN CIS Framework. For the avoidance of doubt, due to currency controls, Class A RM Units will only be offered in Malaysia and Class A THB Units will only be offered in Thailand.

All Classes will constitute the Sub-Fund and are not separate sub-funds. Any expense, income and/or gain which is attributable to a particular Class shall be deducted from or added to (as the case may be) the value of the Sub-Fund which is attributable to that Class.

A separate net asset value per Unit will be calculated for each Class. The net asset value per Unit of each Class will be calculated on each Dealing Day<sup>4</sup> in the currency of the relevant Class. It will be calculated by dividing the net asset value of the Sub-Fund (calculated in accordance with the Deed) attributable to each Class by the number of Units of such Class then in issue. The resultant amount shall be calculated up to five decimal places and truncated at four decimal places (or such other number of decimal places or by such other truncation or rounding method as the Managers may from time to time determine with the approval of the Trustee).

**"SGD"** or **"Singapore Dollars"** or **"S\$"** means the lawful currency of Singapore.

**"USD"** or **"US Dollars"** or **"US\$"** means the lawful currency of the United States of America.

**"RM"** or **"Malaysian Ringgit"** means the lawful currency of Malaysia.

**"THB"** or **"Thai Baht"** means the lawful currency of Thailand.

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<sup>4</sup> **"Dealing Day"**, in connection with the issuance, cancellation and realisation of Units of a particular Sub-Fund, means every Business Day or such other Business Day or Business Days at such intervals as the Managers may from time to time determine Provided That reasonable notice of any such determination shall be given by the Managers to all Holders at such time and in such manner as the Trustee may approve. If on any day which would otherwise be a Dealing Day in relation to Units of any particular Sub-Fund the Recognised Stock Exchange on which Investments or other property comprised in, and having in aggregate values amounting to at least 50% of the net asset value (as at the immediately preceding Valuation Point) of, the Sub-Fund to which Units of that Sub-Fund relate are quoted, listed or dealt in is not open for normal trading, the Managers may determine that that day shall not be a Dealing Day in relation to Units of that Sub-Fund.

**"Business Day"** means any day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks are open for business in Singapore or any other day as the Managers and the Trustee may agree in writing.



## **7. Investment Objective, Focus and Approach**

### **7.1 Phillip Money Market Fund**

The investment objective of Phillip Money Market Fund is to preserve principal value and maintain a high degree of liquidity while producing returns comparable to that of Singapore dollar savings deposits. The Sub-Fund will invest primarily in short term, high quality money market instruments and debt securities. Such investments may include government and corporate bonds, commercial bills and deposits with financial institutions. The Sub-Fund's approach to enhancing returns is to diversify across deposits of varying tenure. The Managers believe that the use of other short term, high quality money market instruments and debt securities, which are normally available to large investors will also help to enhance returns for the investor. The Money Market Funds Investment Guidelines in Appendix 2 will apply to this Sub-Fund.

Subject to the provisions of the Code on Collective Investment Schemes issued by the MAS ("**Code**"), the Managers may also invest the deposited property of the Sub-Fund into a maximum of 3 money market funds which are authorised or recognised by MAS and which are also classified as Excluded Investment Products, including money market funds managed by the Managers during such time or times and on such terms as the Managers think fit in accordance with the investment objective and focus of the Sub-Fund. Up to 10% of the net asset value of the Sub-Fund may be invested into each money market fund. The management fees charged by the money market funds managed by the Managers will be rebated to the Sub-Fund, as may be agreed between the Managers and the Trustee.

The Sub-Fund may, subject to the Deed and the Code, participate in securities lending and repurchase transactions and as long as the Sub-Fund is an Excluded Investment Product, in accordance with and subject to compliance with the limits and/or restrictions (if any) applicable to Excluded Investment Products.

The Managers may use financial derivative instruments ("**FDIs**") for such purposes as may be permitted under the Code and subject to compliance with the limits and/or restrictions (if any) applicable to Excluded Investment Products.

### **7.2 Phillip Income Fund**

The investment objective of Phillip Income Fund is to provide investors with balanced exposure to multiple asset classes. The Sub-Fund aims to deliver regular distributions and long-term growth through investments in global equities, global fixed income and money market instruments. To maximize returns, the Sub-Fund may also invest in convertible bonds, growth stocks and other instruments.

Subject to the provisions of the Code and the Standards of Qualifying CIS, the Managers may also invest the deposited property of the Sub-Fund into money market funds and collective investment schemes, including money market funds and collective investment schemes managed by the Managers during such time or times and on such terms as the Managers think fit in accordance with the investment objective and focus of the Sub-Fund. The management fees charged by the money market funds and collective investment

schemes managed by the Managers will be rebated to the Sub-Fund, as may be agreed between the Managers and the Trustee.

As long as the Sub-Fund is a Qualifying CIS, it may participate in securities lending and repurchase transactions if this is permitted by the Standards of Qualifying CIS.

The Managers may use FDIs for such purposes as may be permitted under the Code, and for so long as the Sub-Fund is a Qualifying CIS, for such purposes as may be permitted under the Standards of Qualifying CIS.

The Sub-Fund intends to offer regular dividends through semi-annual distributions. Investors should note that such distribution is not guaranteed and is subject to all times to the discretion of the Managers.

### 7.3 Authorised Investments

The authorised investments ("**Authorised Investments**") of the Fund include:

- (i) any Quoted Investment<sup>5</sup>;
- (ii) any Investment<sup>6</sup> in respect of which application for listing or for permission to deal has been made to a Recognised Stock Exchange<sup>7</sup> and the subscription for or purchase of which is either conditional upon such listing or permission to deal being granted within a specified period not exceeding 12 weeks (or such other period as may be agreed between the Managers and the Trustee) or in respect of which the Managers are satisfied that the subscriptions or other transactions will be cancelled if the application is refused;
- (iii) any Unquoted Investment<sup>8</sup>;
- (iv) any Investment denominated in any currency;
- (v) in the case of a Central Provident Fund Investment Scheme ("**CPFIS**") included fund, any Investment for the time being included by the relevant authority for the purposes of unit trust schemes included as CPFIS included funds under the CPFIS Regulations;

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<sup>5</sup> "**Quoted Investment**" means any Investment which is quoted or listed or in respect of which permission to deal is effective on any Recognised Stock Exchange.

<sup>6</sup> "**Investment**" means any Permissible Investment, including any share, stock, bond, note, debenture, debenture stock, unit or sub-unit in any unit trust scheme, participation in a mutual fund, other interests in collective investment schemes, warrant or other stock purchase right, futures, option, index option, loan convertible into security, loan stock, certificate of deposit, banker's acceptance, bill of exchange, bank bill, commercial paper, promissory note, treasury bill or any other fixed or floating rate debt instrument, money market instrument, index and forward currency exchange contract, swap, cap, collar, floor, sale and repurchase transaction and other derivative or financial transaction or instrument or any other security which may be selected by the Managers for the purpose of investment of the deposited property of any Sub-Fund or which may for the time being form part thereof.

<sup>7</sup> "**Recognised Stock Exchange**" means any stock exchange or over-the-counter market or other market of sufficient repute in any part of the world as may be approved by the Managers and the Trustee and includes, in relation to any particular Authorised Investment, any responsible firm, corporation or association in any part of the world which deals in the Authorised Investment as to be expected generally to provide in the opinion of the Managers a satisfactory market for such Authorised Investment.

<sup>8</sup> "**Unquoted Investment**" means any Investment which is not quoted, listed or dealt in on any Recognised Stock Exchange.

- (vi) the currency of any country or any contract for the spot purchase or sale of any such currency or any foreign exchange transaction or any forward contract of such currency; and
- (vii) any other Investment not covered by paragraphs (i) to (vi) of this definition but selected by the Managers for investment of the deposited property of the relevant Sub-Fund and approved in writing by the Trustee,

Provided that each of such Authorised Investments shall (1) be a Permissible Investment<sup>9</sup> under the Code; (2) in relation to Phillip Money Market Fund (which is an Excluded Investment Product), be an eligible asset under the list of products as set out under Annex 1 of the MAS Notice on the Sale of Investment Products and in accordance with any applicable law, regulation, rule, guideline or directive (as may be amended or issued or enacted from time to time); and (3) in relation to Phillip Income Fund and for so long as it is a Qualifying CIS, be an eligible asset under Part II of the Standards of Qualifying CIS and in accordance with any applicable law, regulation, rule, guideline or directive (as may be amended or issued or enacted from time to time).

## 8. Fees and Charges

### 8.1 Phillip Money Market Fund

<b>Charges and Fees Payable by Investor</b>	
Preliminary Charge	Currently nil. Maximum 5%.
Realisation Charge	Currently nil. Maximum 5%.
Switching Fee	Currently up to 1%. Maximum 1%, subject always to a minimum of S\$25 <sup>^</sup> .

<b>Fees payable by Sub-Fund to Managers and Trustee</b>	
Annual management fee	<u>Class A Units</u> Currently 0.45%. Maximum 2%. <u>Class I Units</u> Currently 0.25%. Maximum 2%.
Annual trustee fee	Currently not more than 0.03%. Maximum 0.035%.

### 8.2 Phillip Income Fund

<b>Charges and Fees Payable by Investor</b>	
Preliminary Charge	Currently up to 3%. Maximum 5%.
Realisation Charge	Currently nil. Maximum 5%.
Switching Fee	Currently up to 1%. Maximum 1%, subject always to a minimum of S\$25 <sup>^</sup> .

<sup>9</sup> "Permissible Investment" means such investment as may be permitted to be made by the Sub-Funds under the Code.

<b>Fees payable by Sub-Fund to Managers and Trustee</b>	
Annual management fee	<u>Class A SGD Units, Class A USD Units, Class A RM Units and Class A THB Units</u> 1.25%. Maximum 2%.  <u>Class I SGD Units</u> Currently 0.8%. Maximum 2%.  <u>Class I USD Units</u> Currently 0.8%. Maximum 2%.
Annual trustee fee	Currently 0.035%. Maximum 0.06%, subject always to a minimum of S\$5,500 per annum.

<b>Other fees payable by Sub-Fund that constitute 0.1% or more of the Sub-Fund's net asset value*</b>	
Sub-Fund administration fee	0.04%, subject to a minimum of S\$25,000 per annum
Custodian fees	Currently constitutes 0.16%
Audit fees	Currently constitutes 0.14%

As long as Phillip Income Fund is a Qualifying CIS, no performance fee will be charged to the Sub-Fund.

\* By reference to the audited accounts of the Sub-Fund as at 31 December 2016.

^ Please refer to the switching clause in paragraph 13 for more details on the Switching Fee.

In the event that the Sub-Funds invest into underlying money market funds and collective investment schemes, the Sub-Funds will bear the preliminary charge, realisation charge and switching fee (if any), which may be charged by the underlying money market funds and collective investment schemes invested into.

Investors should note that subscriptions for Units through any distributor appointed by the Managers may incur additional fees and charges. Investors are advised to check with the relevant distributor if such additional fees and charges are imposed by the distributor. The Managers may share their fees with any distributor appointed by the Managers.

*As required by the Code and the Standards of Qualifying CIS (where applicable), all marketing, promotional and advertising expenses in relation to each Sub-Fund will be borne by the Managers and are not charged to the deposited property of the Sub-Fund.*

## **9. Risks**

### **9.1 General risks**

Investors should consider and satisfy themselves as to the risks of investing in the Sub-Funds. Generally, some of the risk factors that should be considered by investors are political, regulation and reporting, currency, market, liquidity, settlement, custodial and foreign investment risks.

Prospective investors should be aware that the value of Units and the returns derived from them can fluctuate and can go down as well as up and that investors may not get back their original investment. There can be no assurance that any Sub-Fund will achieve its investment objectives. Past performance of a Sub-Fund should not be construed as an indication of its future performance.

An investment in a Sub-Fund is meant to produce returns over the long-term. Investors should not expect to obtain short-term gains from such investment.

### **9.2 Specific risks**

#### **9.2.1 Political and Repatriation Risks**

Investments by the Managers in certain countries included in the investment universe of a Sub-Fund may be adversely affected by requirements for approvals, which may be delayed or denied, by restrictions on investment and repatriation of investment proceeds, and by changes in government policies, regulation, and taxation.

#### **9.2.2 Regulation and Reporting Risks**

Government regulation and supervision of stock markets, brokers and listed enterprises in some of the countries included in the investment universe of a Sub-Fund may not be as extensive as those in the countries of the world's leading stock markets. In addition, accounting, auditing and financial reporting standards, practices and disclosure requirements in such countries are not comparable to those applicable to companies quoted on the world's leading stock markets.

#### **9.2.3 Currency/Foreign Exchange Risks**

Investments by a Sub-Fund may be made in a variety of currencies, whereas the net asset value of the Sub-Fund or a Class of such Sub-Fund at any time will be computed in the currency of Units invested into. Accordingly, the net asset value of such Sub-Fund or Class of such Sub-Fund may be affected favourably or unfavourably by movements in currency exchange rates, although the Managers may seek to minimize exposure to currency fluctuation to the extent practicable. The Managers may from time to time employ currency hedging techniques to manage the impact of the exchange rate fluctuations on the Sub-Funds or Classes of the Sub-Funds and/or for the purpose of efficient portfolio management. The Managers reserve the discretion to determine if currency exposure should be hedged actively, passively or not at all, in the best interest of the Sub-Funds.

With respect to Class A RM Units and Class A THB Units of Phillip Income Fund, Malaysian Ringgit and Thai Baht (each, a “**Relevant Currency**”) may be subject to foreign exchange control policies or other local governmental laws or restrictions. In particular, conversion between a Relevant Currency and other currencies are subject to policy restrictions relating to the Relevant Currency and other regulatory requirements. Such policies and regulations may impact the applicable exchange rate, conversion costs and the ability of the Sub-Fund to convert between the Relevant Currency and other currencies, which may in turn adversely affect the Sub-Fund and the investors of the relevant Class.

#### **9.2.4 Market and Liquidity Risks**

Trading volumes in stock markets of certain countries included in the investment universe of a Sub-Fund can be significantly lower than on the world's leading stock markets and settlement and custody practices in such markets may not be comparable to those of the world's leading stock markets, which may result in fluctuations in the price of units in such Sub-Fund. Also, liquidity may be less than the world's leading stock markets, resulting in the possibility of delays in the acquisition and disposal of some investments or settlement of such transactions at unfavourable prices.

#### **9.2.5 Economic, Political and Interest Rates Risks**

Prices of securities may go up or come down in response to changes in economic conditions, political conditions, interest rates and the market's perception of securities which in turn may cause the price of Units in a Sub-Fund to rise or fall.

#### **9.2.6 Default Risks**

A Sub-Fund may invest in debt obligations of governments and companies. Such Sub-Fund will seek to limit such risks by investing in short-term, high quality securities but there can be no assurance that such Sub-Fund may not invest in securities with respect to which the governments or companies subsequently default. Adverse changes in the country or company may cause such Sub-Fund to suffer a loss of interest or principal on any of its holdings of such debt. The government entity or company that controls the servicing of debt obligations may be unwilling or unable to repay the obligations in accordance with their terms.

#### **9.2.7 Settlement Risks**

In certain countries included in the investment universe of a Sub-Fund, the Sub-Fund may be exposed to settlement risks. There may be no guarantee of the operation or performance of settlement, clearing and registration of transactions in these countries and where organised securities markets and banking and telecommunications systems are underdeveloped, concerns inevitably arise in relation to settlement, clearing and registration of transactions in securities where these are acquired other than as direct investments. Furthermore, due to local postal and banking systems in these countries, there may be no guarantee that all investments by such Sub-Fund may be realised.

### 9.2.8 Foreign Investment Risks

While a Sub-Fund may invest in markets which provide for the freedom of nationalisation and expropriation, such freedom may be curtailed unexpectedly upon a change of government or when such nationalisation or expropriation is deemed to be in the public interest. A Sub-Fund may seek, whenever such freedom is curtailed, to obtain adequate compensation.

### 9.2.9 Derivatives Risks

#### Use of FDIs

In relation to Phillip Money Market Fund, the Managers may use FDIs for such purposes as may be permitted under the Code and subject to compliance with the limits and/or restrictions (if any) applicable to Excluded Investment Products.

In relation to Phillip Income Fund, the Managers may use FDIs for such purposes as may be permitted under the Code, and for so long as it is a Qualifying CIS, subject to compliance with Part II of the Standards of Qualifying CIS.

#### Types of FDIs

The FDIs which may be used by the Sub-Funds include, but are not limited to futures, options, warrants, forwards, contract for differences, extended settlement contracts, swaps or swap options. The Sub-Funds will not have exposure to commodities through financial derivatives.

#### Risks Associated with the Use of FDIs

The use of FDIs involves increased risk. A Sub-Fund's ability to use such instruments successfully depends on the Managers' ability to accurately predict movements in stock prices, interest rates, currency exchange rates or other economic factors and the availability of liquid markets. If the Managers' predictions are wrong, or if the FDIs do not work as anticipated, a Sub-Fund could suffer greater losses than if the Sub-Fund had not used such FDIs.

In addition to the inherent risks of investing in FDIs, a Sub-Fund will also be exposed to credit risk on the counterparties with which it trades particularly in relation to options, futures, contracts and other FDIs that are not traded on a recognised market. Such instruments are not afforded the same protection as may be afforded to participants trading futures or options on organised exchanges, such as the performance guarantee of an exchange clearing house. A Sub-Fund might be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which that Sub-Fund trades, which could result in substantial losses to that Sub-Fund.

Investments in derivatives may require the deposit of initial margin and additional deposit of margin on short notice if the market moves against the investment positions. If no provision is made for the required margin within the prescribed time, the Sub-Fund's investments may be liquidated at a loss. Therefore it is essential that such investments in derivatives are monitored closely.

### Exposure to FDIs

The Managers confirm that the global exposure of a Sub-Fund to FDIs or embedded FDIs will not exceed 100% (and in the case of Phillip Income Fund and for so long as it is a Qualifying CIS 20%) of the net asset value of that Sub-Fund at any time. Such exposure would be calculated using the commitment approach as described in Appendix 1 – Investment: Core Requirements of the Code (for Phillip Money Market Fund) and in the Appendix to the Standards of Qualifying CIS (for Phillip Income Fund and for so long as it is a Qualifying CIS).

### Risk Management Process and Compliance Controls

In the event the Managers use FDIs, they are of the view that they have the necessary expertise to control and manage the use of FDIs. Investments in FDIs would normally be monitored and controlled by the Managers with regular marked-to-market valuations, careful research prior to investment and compliance monitoring.

The Managers have set up a formal risk management process, to facilitate compliance with regard to the use of FDIs. This process consists of:

- (a) an appropriate supervisory structure;
- (b) an independent framework of internal controls, varying according to the complexity and sophistication of the derivative strategies; and
- (c) a process of approving the use of new instruments and strategies.

The Managers will ensure that the risk management and compliance procedures and controls adopted are adequate and have been or will be implemented and that they have the necessary expertise to control and manage the risks relating to the use of FDIs and have in place systems to monitor the derivative positions for each Sub-Fund.

### Netting

The Sub-Funds intend to net their OTC financial derivative positions. The Managers will obtain the legal opinions as stipulated in paragraph 5.15 of Appendix 1 of the Code prior to any netting.

## **9.2.10 Securities Lending and Repurchase Transactions**

Subject to the provisions of the Deed, the Code and the limits and/or restrictions (if any) applicable to Excluded Investment Products, Phillip Money Market Fund may carry out securities lending and repurchase transactions on transferable securities and money market instruments for the sole purpose of efficient portfolio management, subject to the following limits:

- (a) The collateral of the securities lending or repurchase transactions should exceed the value of the transferable securities or money market instruments transferred by at least 5% and 2% respectively;



- (b) The counterparty would be required to provide additional collateral to the Sub-Fund or its agent no later than the close of the next business day when the current value of the eligible collateral tendered for the securities lending or repurchase transactions falls below 105% and 102% respectively of the value of the transferable securities or money market instruments transferred;
- (c) For the purposes of securities lending and repurchase transactions, collateral may only consist of:
  - (i) cash;
  - (ii) money market instruments; or
  - (iii) bonds.

For the purpose of the above, money market instruments and bonds should be issued by, or have the benefit of a guarantee from, an entity or trust that has a minimum long-term rating of A by Fitch, A by Moody's or A by Standard and Poor's (including sub-categories or gradations therein) (collectively, "**eligible collateral**").

Notwithstanding the above, securitised debt instruments as well as money market instruments or bonds with embedded financial derivatives are not eligible as collateral;

- (d) The maturity period of a repurchase transaction should not exceed 6 months; and
- (e) The Managers may lend the securities of the Sub-Fund to its related corporations and/or any third party and such transactions will be carried out on an arm's length basis. There will be no revenue sharing arrangement between the Sub-Fund and the Managers.

#### Risks relating to securities lending or repurchase transactions

Securities lending or repurchase transactions involve counterparty risk/credit risk, liquidity risk, sufficiency of collateral risk, collateral investment risk, delivery risk and operational risk, as described below:

- (a) Counterparty risk/credit risk refers to the risk when a counterparty defaults on its obligations by becoming insolvent or otherwise being unable to complete a transaction.
- (b) Liquidity risk is the risk that the counterparty cannot settle an obligation for the full value when it is due, but would be able to settle on some unspecified date thereafter. This may affect the ability of the Sub-Fund to meet their redemption obligations and other payment commitments.
- (c) Sufficiency of collateral risk. Following a default by a counterparty, the Sub-Fund can sell its collateral in the market to raise funds to replace the lent

securities. It will suffer a loss if the value of the collateral securities falls relative to the lent securities.

- (d) Collateral investment risk. The value of the securities in which the Managers invest the cash collateral may decline due to fluctuations in interest rates or other market-related events.
- (e) Delivery risk occurs both when securities have been lent and collateral has not been received at the same time or prior to the loan, and when collateral is being returned but the loan return has not been received.
- (f) Operational risk is risk that the custodian or the lending agent did not administer the program as agreed. This includes the failure to mark to market collateralization levels, call for additional margin, or to return excess margin and to post corporate actions and income including all economic benefits of ownership.

**The above should not be considered to be an exhaustive list of the risks which potential investors should consider before investing in the Sub-Funds. Potential investors should be aware that an investment in the Sub-Funds may be exposed to other risks of an exceptional nature from time to time.**

## **10. Subscription of Units**

### **10.1 Subscription procedure**

Applications for Units of the Sub-Funds or any Class of Units of the Sub-Funds may be made on the application form which may be obtained from the Managers or through any agent or distributor appointed by the Managers or via the Internet, if applicable.

Investors may subscribe for Class A Units or Class I Units of Phillip Money Market Fund and Class A SGD Units or Class I SGD Units of Phillip Income Fund either in cash or Supplementary Retirement Scheme ("**SRS**") monies. Presently, investors may subscribe for Class A USD Units and Class I USD Units of Phillip Income Fund with cash only. Class A RM Units and Class A THB Units of Phillip Income Fund are not available for subscription in Singapore.

Investors wishing to use their SRS monies to purchase Units shall indicate so on the application form. The application form shall contain the investor's instructions to the SRS operator bank to withdraw the purchase monies from the investor's SRS account in respect of the Units applied for.

Currently, the Managers accept payments of subscription monies (i) for Phillip Income Fund, in SGD and USD for the SGD and USD Classes respectively, and (ii) for Phillip Money Market Fund, in SGD only.

## 10.2 Minimum Initial Subscription Amount and Minimum Subsequent Subscription Amount

### For Phillip Money Market Fund

The minimum initial subscription amounts and the minimum subsequent subscription amounts for each Class are as follows:-

	Minimum initial subscription amount	Minimum subsequent subscription amount
Class A Unit	SGD500*	SGD100*
Class I Unit	SGD250,000*	SGD100*

### For Phillip Income Fund

The minimum initial subscription amounts and the minimum subsequent subscription amounts for each Class are as follows:-

	Minimum initial subscription amount	Minimum subsequent subscription amount
Class A SGD	SGD500*	SGD100*
Class A USD	USD500*	USD100*
Class A RM	RM1,000*	RM1,000*
Class A THB	THB10,000*	THB10,000*
Class I SGD	SGD500,000*	SGD500*
Class I USD	USD500,000*	USD500*

*\*(or such other amount as the Managers shall determine with prior notice to the Trustee)*

## 10.3 Dealing deadline and pricing basis

### 10.3.1 Phillip Money Market Fund

As Units are issued on a historical pricing basis, the issue price of Units is known at the time of application. The issue price of the Units of the Sub-Fund is determined at the close of business on the calendar day immediately preceding the date of the issue of the Units (or if such calendar day is not a Business Day, at 6 p.m. Singapore time on such day or such other time as may be determined by the Managers with the approval of the Trustee).

In buying Units, an investor pays a fixed amount of money e.g., S\$500 or S\$250,000 for Class A Units and Class I Units respectively, which will buy the investor such number of Units obtained from dividing that sum (net of the Preliminary Charge) by the issue price. The dealing cut-off time is 3.30 p.m. Singapore time on a Dealing Day. Units in respect of applications received and accepted by the Managers before 3.30 p.m. Singapore time on a Dealing Day will be issued at that Dealing Day's issue price calculated in accordance with Clause 11(B) of the Deed. Applications

received after 3.30 p.m. or on a day which is not a Dealing Day shall be treated as having been received on the next Dealing Day.

The issue price per Unit of each Class of the Sub-Fund on each Dealing Day shall be an amount equal to the net asset value per Unit of the Class of the Sub-Fund as provided for in Clause 10(C) of the Deed as at the Valuation Point<sup>10</sup> in relation to such Dealing Day. The Managers may, subject to the prior approval of the Trustee, change the method of determining the Issue Price as provided in Clause 11(B) of the Deed, and the Trustee shall determine if investors should be informed of such change.

The initial issue price per Unit of Class I Units will be SGD1.00.

Thereafter, the net asset value of each Class of the Sub-Fund shall be calculated by valuing the assets of each Class of the Sub-Fund in accordance with the valuation provisions as provided in paragraph 20.6 of this Prospectus. The resultant sum shall be divided by the number of Units of each Class of the Sub-Fund in issue or deemed to be in issue immediately prior to the relevant Dealing Day, and the resultant amount (calculated up to five decimal places and truncated at four decimal places or such other number of decimal places as the Managers may from time to time determine with the approval of the Trustee) shall be the net asset value of a Unit of each Class of the Sub-Fund on such Dealing Day.

### **10.3.2 Phillip Income Fund**

#### Initial offer period and initial issue price

The initial offer period for the Class A USD Units, Class A RM Units, Class A THB Units and Class I USD Units will be for such period as the Managers may decide from time to time. During the initial offer period, the initial issue price of these Classes will be derived from the net asset value per Unit of Class A SGD Units on the Dealing Day at the close of the initial offer period, using the applicable exchange rate. For the avoidance of doubt, Class A RM Units may only be offered for subscription in Malaysia and Class A THB Units may only be offered for subscription in Thailand.

#### Minimum size and other conditions

The Managers reserve the right not to proceed with the launch of the Class A USD Units, Class A RM Units, Class A THB Units and Class I USD Units in the event that the capital raised as at the close of the initial offer period for such Class is less than S\$3 million or its equivalent in USD, RM or THB as the case may be.

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<sup>10</sup> "Valuation Point" (a) in relation to a Sub-Fund which is not a money market fund, means such time on a valuation day as the Managers with the prior approval of the Trustee from time to time determine and the Managers shall notify the Holders of such change if required by the Trustee and (b) in relation to Phillip Money Market Fund, means such time on the calendar day immediately preceding that Dealing Day (or if such calendar day is not a Business Day, at 6 p.m. Singapore time on such day or such other time as may be determined by the Managers with the approval of the Trustee), and the Managers shall notify the Holders of such change if required by the Trustee.

The Managers reserve the right not to proceed with the launch of any Class in the event that the Managers are of the view that it is not in the interest of the investors or it is not commercially viable to proceed with that Class.

In such event, the Managers may at their discretion declare the relevant Class to be deemed not to have commenced, and shall notify the investors of the same and return the subscription monies received (without interest) to the investors no later than 30 Business Days after the close of the initial offer period.

#### Pricing and Dealing Deadline

Units will be issued on a forward pricing basis, hence the issue price of Units is not known at the time of application. In buying Units, an investor pays a fixed amount of money e.g., S\$500, US\$500, RM1,000 or THB10,000 (for Class A SGD Units, Class A USD Units, Class A RM Units and Class A THB Units respectively) and S\$500,000 or US\$500,000 (for Class I SGD Units or Class I USD Units respectively), which will buy the investor such number of Units obtained from dividing that sum (net of Preliminary Charge) by the issue price when it has been ascertained later.

The dealing cut-off time is 3.30 p.m. Singapore time on a Dealing Day. Units in respect of applications received and accepted by the Managers before 3.30 p.m. will be issued at that Dealing Day's issue price calculated in accordance with Clause 11(B) of the Deed. Applications received after 3.30 p.m. or on a day which is not a Dealing Day shall be treated as having been received on the next Dealing Day.

The issue price per Unit of each Class of the Sub-Fund on each Dealing Day shall be an amount equal to the net asset value per Unit of the Class of the Sub-Fund as provided for in Clause 10(C) of the Deed as at the Valuation Point in relation to such Dealing Day. The Managers may, subject to the prior approval of the Trustee, change the method of determining the Issue Price as provided in Clause 11(B) of the Deed, and the Trustee shall determine if investors should be informed of such change.

The initial issue price per Unit of Class A USD Units, Class A RM Units, Class A THB Units and Class I USD Units will be derived from the net asset value per Unit of Class A SGD Units on the relevant Dealing Day, using the applicable exchange rate.

Thereafter, the net asset value of each Class of the Sub-Fund shall be calculated by valuing the assets of each Class of the Sub-Fund in accordance with the valuation provisions as provided in paragraph 20.6 of this Prospectus. The resultant sum shall be divided by the number of Units of each Class of the Sub-Fund in issue or deemed to be in issue immediately prior to the relevant Dealing Day, and the resultant amount (calculated up to five decimal places and truncated at four decimal places or such other number of decimal places as the Managers may from time to time determine with the approval of the Trustee) shall be the net asset value of a Unit of each Class of the Sub-Fund on such Dealing Day.

#### 10.4 Numerical examples of how Units are allotted:

The number of Units you receive with an investment of S\$500, based on a notional issue price of S\$1.0000, will be calculated as follows:

For Class A SGD Units of Phillip Income Fund

e.g	S\$500	-	S\$15	=	S\$485	÷	S\$1.0000	=	485 Units
	Your Investment		Preliminary Charge (which is currently 3%)		Your Net Investment		Issue price		No. of Units you will receive

For Phillip Money Market Fund

e.g	S\$500	-	S\$0	=	S\$500	÷	S\$1.0000	=	500 Units
	Your Investment		Preliminary Charge (which is currently nil)		Your Net Investment		Issue price		No. of Units you will receive

*The above examples are not an indication of the future or likely performance or issue price of the Sub-Funds. The value of Units and the resultant income from them may go down as well as up. Investors should read this Prospectus carefully and consult their professional advisers if necessary before investing.*

#### 10.5 Confirmation of purchase

A confirmation note detailing the investment amount and the number of Units in the relevant Sub-Fund allocated to the investor will be sent within 7 Business Days from the date of issue of Units for cash applications, and within 14 Business Days for SRS applications.

#### 10.6 Cancellation of initial subscription by investors

Investors shall, subject to Clause 13A of the Deed and to the cancellation terms and conditions attached to the application form, have the right to cancel their purchase of Units in a Sub-Fund within 7 calendar days from the date of subscription or purchase of Units (or such longer period as may be agreed between the Managers and the Trustee or such other period as may be prescribed by the MAS) by providing notice in writing to the Managers or their authorised agent or distributor.

Investors shall have the right to cancel their purchase of Units in Phillip Income Fund subscribed for in Malaysia or Thailand within 6 business days from the date of subscription or purchase of Units (or such period as may be permissible under the laws of the relevant host jurisdiction).

Full details of the provisions relating to the cancellation of Units may be found in the terms and conditions for cancellation of Units attached to the application form for the subscription of Units in the Fund.

## 11. Regular Savings Plan

For investors who wish to participate in the regular savings plan scheme (“**RSP**”), the minimum initial investment and minimum monthly investment for each Class of the Sub-Fund are set out below.

### Phillip Money Market Fund

	Minimum Initial Investment	Minimum Monthly Investment
Class A Units	S\$500*	S\$100*
Class I Units	S\$250,000*	S\$100*

### Phillip Income Fund

	Minimum Initial Investment	Minimum Monthly Investment
Class A SGD Units	S\$500*	S\$100*
Class I SGD Units	S\$500,000*	S\$500*
Class I USD Units	US\$500,000*	US\$500*

*\*(or such other amount as may from time to time be determined by the Managers upon giving prior written notice to the Trustee)*

No RSP is available for Class A USD Units, Class A RM Units and Class A THB Units of Phillip Income Fund.

Payment for the RSP will be debited from the investors' bank account or SRS Account (as the case may be) on the 4<sup>th</sup> calendar day (or next Business Day if that day is not a Business Day) of each month and Units will be allotted within 2 Business Days after payment has been debited.

In the event that the debit is unsuccessful, no investment will be made for that month unless otherwise advised by the investors. After 2 consecutive unsuccessful debits, the RSP will be terminated and no notification of such termination will be sent to the investors.

The Managers shall not assume any liability for any losses arising from the investors' payment for the RSP via direct debit transactions.

An investor may terminate his participation without penalty upon giving 30 days' written notice to the Managers.

Investors should additionally comply with the RSP procedures imposed by the relevant distributor through whom they subscribed for Units.

## 12. Realisation of Units

### 12.1 Realisation procedure

An investor may at any time during the life of a Sub-Fund make a written request (a "**Realisation Request**") for the realisation of all Units or a partial realisation of at least 100 Units held by him. The Realisation Request must specify the number of the Units of the relevant Class or Sub-Fund to be realised.

With a view to protecting the interest of all investors, the Managers may, with the approval of the Trustee and in accordance with Clause 14(G)(i) of the Deed, limit the total number of Units to 10% of the total number of Units of the relevant Class or Sub-Fund then in issue, such limitation to be applied *pro rata* to all investors in relation to such Class or Sub-Fund who have validly requested realisations on the relevant Dealing Day.

### 12.2 Minimum holding and minimum realisation amount

Investors may realise their Units in any Sub-Fund in full or partially. The minimum holding and minimum realisation amount for partial realisation of Units in any Class or Sub-Fund are set out below.

#### Phillip Money Market Fund

	Minimum Holding	Minimum Realisation Amount
Class A Units	500 Units	100 Units
Class I Units	250,000 Units	100 Units

#### Phillip Income Fund

	Minimum Holding	Minimum Realisation Amount
Class A SGD Units	500 Units	100 Units
Class A USD Units	500 Units	100 Units
Class A RM Units	500 Units	100 Units
Class A THB Units	500 Units	100 Units
Class I SGD Units	Such number of Units which would have been purchased for S\$500,000	100 Units
Class I USD Units	Such number of Units which would have been purchased for US\$500,000	100 Units



Units realised may at the option of the Managers be subject to a Realisation Charge<sup>11</sup>. However, the Managers are currently not imposing a Realisation Charge.

## **12.3 Dealing deadline and pricing basis**

### **12.3.1 Phillip Money Market Fund**

Investors may realise their Units of the Sub-Fund or Class of a Sub-Fund on any Dealing Day. Units in respect of realisation forms received and accepted by the Managers by 3.30 p.m. Singapore time on a Dealing Day shall be realised on historical pricing basis at the realisation price determined at the close of business on the calendar day immediately preceding the date of the redemption of the Units calculated in accordance with the provisions of the Deed (as summarised in paragraph 12.3.3 below). Realisation forms received after 3.30 p.m. or on a day which is not a Dealing Day shall be treated as having been received on the next Dealing Day.

The realisation price per Unit of the Sub-Fund or Class of a Sub-Fund on each Dealing Day shall be an amount equal to the net asset value per Unit of the Sub-Fund or Class of a Sub-Fund (as provided for in Clause 10(C) of the Deed) as at the Valuation Point in relation to such Dealing Day, such amount to be calculated up to five decimal places and truncated at four decimal places (or such other number of decimal places as the Managers may from time to time determine with the approval of the Trustee). The amount due to an investor on the realisation of such a Unit shall be the realisation price per Unit (less any Realisation Charge, Fiscal and sale charges<sup>12</sup> and any rounding in respect thereof).

The Managers may, subject to the prior approval of the Trustee, change the method of determining the realisation price as provided in Clause 14(F) of the Deed, and the Trustee shall determine if investors should be informed of such change.

### **12.3.2 Phillip Income Fund**

Investors may realise their Units of the Sub-Fund or Class of a Sub-Fund on any Dealing Day. Units in respect of realisation forms received and accepted by the Managers by 3.30 p.m. Singapore time on a Dealing Day shall be realised on forward pricing basis at that Dealing Day's realisation price calculated in accordance with the provisions of the Deed (as summarised below). Realisation forms received after 3.30 p.m. or on a day which is not a Dealing Day shall be treated as having been received on the next Dealing Day.

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<sup>11</sup> "Realisation Charge" means a charge upon the realisation of a Unit of any Sub-Fund of such amount as may from time to time be fixed by the Managers generally or in relation to any specific or class of transaction Provided That it shall not exceed 5% of the realisation price.

<sup>12</sup> "Fiscal and sale charges" means all stamp and other duties, taxes, governmental charges, brokerage, commissions, bank charges, transfer fees, registration fees and other duties and charges whether in connection with the constitution of the deposited property of a Sub-Fund or the increase of the deposited property of that Sub-Fund or the creation, issue, sale, exchange or purchase of Units or the sale or purchase of Authorised Investments or otherwise which may have become or may be payable in respect of or prior to or upon the occasion of the transaction or dealing in respect of which such duties and charges are payable but does not include commissions payable to agents on sales and repurchases of Units.

The realisation price per Unit of the Sub-Fund or Class of a Sub-Fund on each Dealing Day shall be an amount equal to the net asset value per Unit of the Sub-Fund or Class of a Sub-Fund (as provided for in Clause 10(C) of the Deed) as at the Valuation Point in relation to such Dealing Day, such amount to be calculated up to five decimal places and truncated at four decimal places (or such other number of decimal places as the Managers may from time to time determine with the approval of the Trustee). The amount due to an investor on the realisation of such a Unit shall be the realisation price per Unit (less any Realisation Charge, Fiscal and sale charges and any rounding in respect thereof).

The Managers may, subject to the prior approval of the Trustee, change the method of determining the realisation price as provided in Clause 14(F) of the Deed, and the Trustee shall determine if the investors should be informed of such change.

**12.4 Numerical example of how the amount paid to an investor is calculated, based on the sale of 500 Units and based on a notional realisation price of S\$1.0000:**

e.g.	500 Units	x	S\$1.0000	=	S\$500	-	S\$0	=	S\$500
	Your Realisation Request		Realisation Price		Your Realisation Proceeds		Realisation Charge (which is currently nil)		Your Net Realisation Proceeds

*The above example is for illustration purposes only and is not an indication of the future or likely performance of the Sub-Funds. The actual realisation price will fluctuate according to the net asset value of the Sub-Funds.*

**12.5 Payment of realisation proceeds**

- (a) Realisation proceeds shall normally be directly credited or be paid by cheque usually within 4 Business Days (for Phillip Money Market Fund), 6 Business Days (for Phillip Income Fund, in the case of realisations in Singapore), and 7 Business Days (for Phillip Income Fund, in the case of realisations in the host jurisdiction, as long as it is a Qualifying CIS) of receipt and acceptance of the realisation form by the Managers unless the realisation of Units has been suspended in accordance with paragraph 15.
- (b) For Phillip Income Fund, the redemption proceeds will be paid in the currency of the Class of Units being redeemed. For Phillip Money Market Fund, the realisation proceeds will be paid in SGD.
- (c) In the case of an investor who has purchased Units with monies from his SRS Account, any monies payable to such investor in respect of such Units shall be paid by transferring the monies to the relevant bank for credit of the investor's SRS Account or otherwise in accordance with the provisions of any applicable law, regulations or guidelines. In the event that the SRS Account has been closed, the

monies shall be paid to the investor in accordance with paragraph 12.5(d) or otherwise in accordance with any applicable law, regulations or guidelines.

- (d) In the case of an investor who has purchased Units with cash, any monies payable to such investor in respect of such Units will be paid by cheque sent through the post to his registered address or by telegraphic transfer to a nominated bank account.

## **12.6 Compulsory Realisation**

The Managers have the right (in consultation with the Trustee) to realise compulsorily any holdings of Units in any Sub-Fund held by:-

- (i) any investor:
  - (a) whose subscription for or holding of Units, in the opinion of the Managers, is or may be in breach of any applicable law or regulation in any jurisdiction; or
  - (b) where such realisation is, in the opinion of the Managers, necessary or desirable for the compliance of the Managers or the Sub-Fund with any applicable law or regulation in any jurisdiction (including any regulatory exemption conditions); or
- (ii) any investor whose holdings, in the opinion of the Managers:
  - (a) may cause the Sub-Fund to lose its authorised or registered status with any regulatory authority in any jurisdiction; or
  - (b) may cause the offer of the Units of the Sub-Fund, the Sub-Fund, this Prospectus, the Deed, the Managers or the Trustee to become subject to any authorisation, recognition, approval or registration requirements under any law or regulation in any other jurisdiction; or
- (iii) any investor whose holdings, in the opinion of the Managers:
  - (a) may cause a detrimental effect on the tax status of the Sub-Fund in any jurisdiction or on the tax status of the investors of the Sub-Fund; or
  - (b) may result in the Sub-Fund or other investors of the Sub-Fund suffering any other legal or pecuniary or administrative disadvantage which the Sub-Fund or investors might not otherwise have incurred or suffered; or
- (iv) any investor who fails any anti-money laundering, anti-terrorist financing or know-your-client checks, or who is unable or unwilling to provide information and/or documentary evidence requested by the Managers for the purposes of any anti-money laundering, anti-terrorist financing or know-your-client checks.

Any compulsory realisation under this paragraph may be carried out by the Managers on any Dealing Day, without prior notice to investors, and shall be carried out in accordance with, and at the realisation price determined under, Clause 14(F)(i) of the Deed on realisations.

### 13. Switching of Units

Investors may switch Units of the Sub-Fund (the "**original Sub-Fund**") with Units of another Sub-Fund or units of any other collective investment scheme or fund managed by the Managers (the "**new Fund**") in accordance with the provisions of the Deed. Application for switching of Units may be made by submitting to the Managers (or through any agent or distributor appointed by the Managers or through any other applicable sales channel) a notice ("**Conversion Notice**") in such form as the Managers may from time to time require. Switching of Units shall be at the prevailing realisation price. Any partial switching shall be subject to the investor maintaining a minimum holding as described in paragraph 12.2. The minimum holding of units of the new Fund will also need to be complied with in the event of a switch. Units switched may be subject to a Switching Fee of not more than 1% of the realisation price or such percentage as may from time to time be determined by the Managers in consultation with the Trustee (subject always to a minimum of S\$25). Investors should also note the minimum subscription amount of the new Fund and ensure that realisation proceeds of the original Sub-Fund are sufficient to meet such minimum subscription amount of the new Fund. In the case where the original Sub-Fund is Phillip Money Market Fund and the new Fund is not a money market fund, Units switched shall be subject to an additional fee equal to the difference between the Preliminary Charge imposed on the original Sub-Fund and the new Fund.

Subject as hereinafter provided, the switching of Units shall be made on the day which is both a Dealing Day in relation to Units of the original Sub-Fund and a Dealing Day in relation to Units of the new Fund ("**Common Dealing Day**") on which the Conversion Notice is received by the Managers by the Dealing Deadline on such Common Dealing Day. If a Conversion Notice is received on a day which is not a Common Dealing Day or is received after the Dealing Deadline on a Common Dealing Day, such Conversion Notice shall be treated as having been received before the Dealing Deadline on the next Common Dealing Day.

Switching of the Units of the original Sub-Fund shall be effected by the cancellation of such Units and by the issue of Units of the new Fund, such cancellation and issue taking place on the relevant Common Dealing Day, and the number of Units of the new Fund to be issued on switching shall be determined by the Managers in accordance with the provisions of the Deed.

The Managers may at their discretion reject any application by investors to switch their Units for Units of another Sub-Fund or units of any other collective investment scheme or fund managed by the Managers.

Presently, no switching is permitted between the Classes but this may be permitted by the Managers at their discretion, subject to the payment of a Switching Fee which shall be borne by the investor.

### 14. Obtaining Prices of Units

The indicative issue and realisation prices may be published in The Business Times, Bloomberg, Reuters, websites of the appointed distributors or such other sources as the

Managers may decide upon. The actual issue and realisation prices quoted will generally be published two (2) Business Days after the relevant Dealing Day in Singapore dollars.

*Investors should note that the frequency of the publication of the prices is dependent on the publication policies of the publisher concerned. Save for publications of the Managers, the Managers do not accept any responsibility for any errors on the part of the publisher concerned in the prices published in the newspapers or such other publication or for any non-publication or late publication of prices by such publisher and shall incur no liability in respect of any action taken or loss suffered by investors in reliance upon such publication.*

## **15. Suspension of Dealing**

- 15.1** (A) The Managers may, subject to the provisions of the Code and with the prior approval of the Trustee, suspend the issue, cancellation and realisation of Units of the Sub-Funds or Class of the Sub-Funds during:
- (i) any period when the Recognised Stock Exchange on which any Authorised Investments forming part of the deposited property (whether of any particular Sub-Fund or of the Fund) for the time being are listed or dealt in is closed (otherwise than for ordinary holidays) or during which dealings are restricted or suspended;
  - (ii) the existence of any state of affairs which, in the opinion of the Managers and the Trustee might seriously prejudice the interests of the Holders (whether of any particular Sub-Fund or of the Fund) as a whole or of the deposited property (whether of any particular Sub-Fund or of the Fund);
  - (iii) any breakdown in the means of communication normally employed in determining the price of any of such Authorised Investments or the current price on that Recognised Stock Exchange or when for any reason the prices of any of such Authorised Investments cannot be promptly and accurately ascertained (including any period when the fair value of a material portion of the Authorised Investments cannot be determined);
  - (iv) any period when remittance of money which will or may be involved in the realisation of such Authorised Investments or in the payment for such Authorised Investments cannot, in the opinion of the Managers and the Trustee, be carried out at normal rates of exchange;
  - (v) in respect of any Sub-Fund or Class of the Sub-Funds for which a meeting of the Holders is proposed to be convened, any 48 hours (or such longer period as the Managers and the Trustee may agree) prior to the date of any meeting of the Holders of the said Sub-Fund or Class of the Sub-Funds (or any adjourned meeting thereof);
  - (vi) any period where dealing of Units is suspended pursuant to any order or direction of the MAS;
  - (vii) any period when the business operations of the Managers or the Trustee in relation to the operation of the Fund are substantially interrupted or closed

as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, strikes or acts of God; or

(viii) any period as may be required under the provisions of the Code.

(B) Without affecting the generality of (A), for so long as Phillip Income Fund is a Qualifying CIS, subject to the provisions of the Code and the Standards of Qualifying CIS, the Managers may suspend the issue and/or realisation of Units of Phillip Income Fund or any Class of Phillip Income Fund when (i) dealings in a material portion of the assets of Phillip Income Fund are restricted or suspended, provided that the Trustee is consulted; (ii) it is not in the best interests of the Holders of Phillip Income Fund to liquidate a material portion of the assets of Phillip Income Fund, provided that the Trustee's approval is obtained; (iii) the market value or fair value of a material portion of the assets of Phillip Income Fund cannot be determined, provided that the Trustee's approval is obtained; (iv) instructed by the Authority in the interest of protecting the rights of Holders of Phillip Income Fund; or (v) such circumstances as may be required under the provisions of the Code or the Standards of Qualifying CIS. For the avoidance of doubt, the grounds for suspension in sub-Clause (A) above shall apply to Phillip Income Fund insofar as the said grounds are not inconsistent with this sub-Clause (B) or the Standards of Qualifying CIS. In the event of any inconsistency, the provisions of this sub-Clause (B) shall prevail.

**15.2** The Managers may also suspend the realisation of Units during any period of consultation or adjustment arising from the provisions of Clause 14(F) of the Deed.

**15.3** Subject to the provisions of the Code, such suspension shall take effect forthwith upon the declaration in writing thereof by the Managers to the Trustee and the Authority (and the relevant host regulator in relation to a Sub-Fund which is a Qualifying CIS) and shall terminate on the day following the first Business Day on which the condition giving rise to the suspension shall have ceased to exist and no other conditions under which suspension is authorised under this paragraph 15 shall exist upon the declaration in writing thereof by the Managers.

## 16. Performance of the Sub-Funds

### 16.1 Past performance of the Sub-Funds and respective benchmarks (as of 30 November 2017)<sup>13</sup>

Sub-Fund/Benchmark	One Year	Three Years (average annual compounded return)	Five Years (average annual compounded return)	Ten Years (average annual compounded return)	Since Inception <sup>14</sup> (average annual compounded return)
Phillip Money Market Fund (Class A Units)	0.81%	0.79%	0.65%	0.76%	1.05%
Bank Savings Deposit	0.17%	0.15%	0.13%	0.15%	0.24%
Phillip Income Fund (Class A SGD Units)	2.04%	1.71%	3.18%	-0.98%	1.84%
Phillip Income Fund (Class I SGD Units)	2.52%	2.16%	3.53%	N.A.	4.86%

As the Class I Units of Phillip Money Market Fund and the Class A USD Units, Class A RM Units, Class A THB Units and Class I USD Units of Phillip Income Fund have not yet been incepted as at the date of this Prospectus, a track record of at least one year is not available.

With effect from 31 March 2015, as Phillip Money Market Fund aims to manage liquidity and risk whilst providing a return comparable to that of the Singapore Dollar savings deposits, the Managers will manage the Sub-Fund against a new benchmark, namely the Bank Savings Deposit. This comprises the average rate compiled from that quoted by 10 leading banks and finance companies and is listed on the website of the MAS.

With effect from 31 March 2015, there is no benchmark for Phillip Income Fund as the Sub-Fund's dynamic asset allocation makes it impractical to adhere to a benchmark with static allocations to selected underlying equity and bond benchmarks. Prior to 31 March 2015, the benchmark for this Sub-Fund was 30% Citigroup World Government Bond Index (SGD Unhedged) + 40% Citigroup World Money Market Index SGD 3 month Euro Deposit (SGD) + 30% MSCI World Free Index (SGD).

***The past performance of the Sub-Funds is not necessarily indicative of the future performance of the Sub-Funds.***

<sup>13</sup> Source: Bloomberg L.P. as at 30 November 2017. Performance is calculated on a NAV-NAV basis (taking into account the Preliminary Charge of 0% (for Phillip Money Market Fund) and 3% (for Phillip Income Fund) and Realisation Charge (if any)) and with dividends (if any) reinvested taking into account any charges which would have been payable upon such reinvestment. Investors should note that the Preliminary Charge may vary between distributors.

<sup>14</sup> Inception date for Class A Units of Phillip Money Market Fund and Class A SGD Units of Phillip Income Fund is 16 April 2001. Inception date for Class I SGD Units of Phillip Income Fund is 28 September 2012.

## 16.2 Expense ratio

The expense ratios for the Sub-Funds for the year as of 31 December 2016 are as follows:

16.2.1	Phillip Money Market Fund (Class A Units)	0.49%
16.2.2	Phillip Income Fund (Class A SGD Units)	2.07%
16.2.3	Phillip Income Fund (Class I SGD Units)	1.59%

The expense ratio is calculated in accordance with the requirements in the Investment Management Association of Singapore's guidelines on the disclosure of expense ratios and based on figures in the Sub-Fund's latest audited accounts. The following expenses are excluded from the calculation of the expense ratio:

- (a) interest expense;
- (b) brokerage and other transaction costs associated with the purchase and sales of investments (such as registrar charges and remittance fees);
- (c) foreign exchange gains and losses of the Sub-Fund, whether realised or unrealised;
- (d) front end loads, back end loads and other costs arising on the purchase or sale of a foreign unit trust or mutual fund, including any costs arising where a Singapore feeder fund invests into an off-shore parent-fund. Such expenses would generally be capitalised into the cost of the investment and will subsequently be reflected as a diminution in net asset value when the investment is first marked to market after purchase;
- (e) tax deducted at source or arising on income received, including withholding tax; and
- (f) dividends and other distributions paid to investors.

## 16.3 Turnover ratio

The turnover ratios for the Sub-Funds for the year as of 31 December 2016 are as follows:

16.3.1	Phillip Money Market Fund	0%
16.3.2	Phillip Income Fund	109.84%

The turnover ratio is calculated in accordance with the guidelines set out in the Code. The calculation of the turnover ratio is based on the total value of purchases (or sales) of the underlying investments divided by the weighted average daily net asset value. Total value of purchases (or sales) does not include brokerage and other transaction costs. The total value of bonds matured during the year is not included in the computation of the turnover ratio.

## 17. Soft Dollar Commissions or Arrangements

The Managers shall be entitled to and intend to receive or enter into soft-dollar commissions or arrangements in respect of the Fund. The Managers will comply with applicable regulatory and industry standards on soft-dollars. The soft-dollar commissions which the Managers may receive include research and advisory services, economic and political analyses, portfolio analyses including valuation and performance measurements, market analyses, data and quotation services, computer hardware and software or any other information



facilities to the extent that they are used to support the investment decision making process, the giving of advice, or the conduct of research or analysis and custodial services in relation to the investments managed for clients. The soft dollar credits utilised are not allocated on a specific client basis. The brokers also execute trades for other funds managed by the Managers.

Soft-dollar commissions or arrangements shall not include travel, accommodation, entertainment, general administrative goods and services, general office equipment or premises, membership fees, employees' salaries or direct money payment.

The Managers will not accept or enter into soft dollar commissions or arrangements unless such soft-dollar commissions or arrangements would, in the opinion of the Managers, be reasonably expected to assist the Managers in their management of the Fund, provided that the Managers shall ensure at all times that transactions are executed on a "best execution" basis taking into account the relevant market at the time for transactions of the kind and size concerned, and that no unnecessary trades are entered into in order to qualify for such soft-dollar commissions or arrangements.

The Managers do not, and are not entitled to, retain cash or commission rebates for their own account in respect of rebates earned when transacting in securities for account of the Fund.

## **18. Conflicts of Interest**

The Managers may from time to time have to deal with competing or conflicting interests of the Sub-Funds with other funds managed by the Managers. For example, the Managers may make a purchase or sale decision on behalf of some or all of the other funds managed by them without making the same decision on behalf of the Sub-Funds, as a decision whether or not to make the same investment or sale for the Sub-Funds depends on factors such as the cash availability and portfolio balance of the Sub-Funds. However, the Managers will use reasonable endeavours at all times to act fairly and in the interests of the Sub-Funds and investors. In particular, after taking into account the availability of cash and relevant investment guidelines of the other funds managed by the Managers and the Sub-Funds, the Managers will endeavour to ensure that securities bought and sold will be allocated proportionately as far as possible among the Sub-Funds and the other funds managed by the Managers.

The Managers, their directors and related companies may invest in the Sub-Funds. In the event that a conflict of interest does arise, the Managers shall endeavour to ensure that it is resolved fairly and in the interest of investors.

The Managers may also trade with and lend securities to its related corporations and/or any third party. To mitigate any potential conflict of interest, the Managers will conduct the transactions on an arm's length basis.

Associates of the Trustee may be engaged to provide financial, banking and brokerage services to the Sub-Funds. Such services where provided, will be on an arm's length basis and they shall not be liable to account to any person for any profits or benefits made or derived by them in connection with any such services.

Where applicable, the Trustee is presently also acting as registrar and transfer agent to the Sub-Funds while the Custodian (a related party to the Trustee) is presently providing fund administration and custody services to the Sub-Funds. These services will be provided on an arm's length basis and the fees for these services are permitted to be paid out of the deposited property of the Sub-Funds under the provisions of the Deed.

The Trustee shall conduct all transactions with or for the Sub-Funds on an arm's length basis. In the event of a conflict of interest, the Trustee will endeavour to resolve such conflict quickly and in the interest of the Holders in an equitable manner.

The Trustee may own, hold, dispose or otherwise deal with Units in the Sub-Funds as though it was not a party to the Deed. In the event that there is a conflict of interest which arises from such a dealing, the Trustee shall resolve such a conflict in a just and equitable manner as it shall deem fit. Such dealings, where entered into, will be on an arm's length basis.

For as long as Phillip Income Fund is a Qualifying CIS, any measures taken by the Managers to minimise or deal with conflicts of interest in respect of this Sub-Fund will also be subject to the provisions of the Standards of Qualifying CIS.

## **19. Reports**

### **Financial year-end and distribution of reports and accounts**

The financial year-end of each Sub-Fund is 31 December each year. The annual report, annual accounts and the auditor's report on the annual accounts shall be prepared in accordance with the provisions of the Code and sent or made available to investors (whether by post or such electronic means as may be permitted under the Code) within 3 months of the financial year-end (or such other period as may be permitted by the MAS). The semi-annual report and semi-annual accounts will be prepared in accordance with the provisions of the Code and sent or made available to investors (whether by post or such electronic means as may be permitted under the Code) within 2 months of the financial half-year end (or such other period as may be permitted by the MAS), i.e. 30 June.

In cases where the accounts and reports are available in electronic form (as permitted under the Code), investors will receive a hardcopy letter or an email (where email addresses have been provided for correspondence purposes) informing them that the accounts and reports are available and how they may be accessed. Investors may also request for hardcopies of the accounts and reports within 1 month (or such other period as may be permitted by the Authority) from the notification of the availability of the accounts and reports. The Trustee will also make available, or cause to be made available, hardcopies of the accounts and reports to any investor who requests for them within 2 weeks of any request from such investor (or such other period as may be permitted by the Authority). Investors may also at any time opt for hardcopies for all future reports and accounts at no cost to them.

## **20. Other Material Information**

### **20.1 Information on investments**

At the end of each month, investors will receive a statement showing the value of their investment, including any transactions during the month.

### **20.2 Distribution of income and net capital gains**

The Managers have the sole discretion to determine whether any distribution of income and/or net capital gains of the Sub-Funds should be made. Any distributions made out of capital will reduce the net asset value of the Sub-Funds.

The Managers will endeavour to make a semi-annual distribution in respect of Phillip Income Fund. Distributions, if any, will be payable within three months after the end of 30 June and 31 December of each year. However, investors should note that such distribution is not guaranteed and is subject to all times to the discretion of the Managers, as stated in this paragraph.

### **20.3 Exemptions from liability**

**20.3.1** The Trustee and the Managers shall incur no liability in respect of any action taken or thing suffered by them in reliance upon any notice, resolution, direction, consent, certificate, affidavit, statement, certificate of stock, plan of reorganisation or other paper or document believed to be genuine and to have been passed, sealed or signed by the proper parties.

**20.3.2** The Trustee and the Managers shall incur no liability to the investors or to any other person for doing or (as the case may be) failing to do any act or thing which by reason of any provision of any present or future law or regulation made pursuant thereto, or of any decree, order or judgment of any court, or by reason of any request, announcement or similar action (whether of binding legal effect or not) which may be taken or made by any person or body acting with or purporting to exercise the authority of any government (whether legally or otherwise) either they or any of them shall be directed or requested to do or perform or to forbear from doing or performing. If for any reason it becomes impossible or impracticable to carry out any of the provisions of the Deed neither the Trustee nor the Managers shall be under any liability therefor or thereby.

**20.3.3** Neither the Trustee nor the Managers shall be responsible for any authenticity of any signature or of any seal affixed to any transfer or form of application, endorsement or other document (whether sent by mail, facsimile, electronic means or otherwise) affecting the title to or transmission of Units or be in any way liable for any forged or unauthorised signature on or any seal affixed to such endorsement, transfer or other document or for acting upon or giving effect to any such forged or unauthorised signature or seal. The Trustee and the Managers respectively shall nevertheless be entitled but not bound to require that the signature of any such person to any document required to be signed by him under or in connection with the Deed shall be verified to its or their reasonable satisfaction.

- 20.3.4** Any indemnity expressly given to the Trustee or the Managers in the Deed is in addition to and without prejudice to any indemnity allowed by law; provided nevertheless that any provision of the Deed shall be void insofar as it would have the effect of exempting the Trustee or the Managers from or indemnifying them against any liability for breach of trust or any liability which by virtue of any rule of law would otherwise attach to them in respect of any negligence, default, breach of duty or trust of which they may be guilty in relation to their duties where they fail to show the degrees of diligence and care required of them having regard to the provisions of the Deed.
- 20.3.5** Nothing contained in the Deed shall be construed so as to prevent the Managers and the Trustee in conjunction or the Managers or the Trustees separately from acting as managers or trustees of trusts separate and distinct from the Fund.
- 20.3.6** Neither the Trustee nor the Managers shall be responsible for acting upon any resolution purported to have been passed at any meeting of the Holders in respect whereof minutes shall have been made and signed by the Chairman even though it may be subsequently found that there was some defect in the constitution of the meeting or the passing of the resolution or that for any reason the resolution was not binding upon all the Holders.
- 20.3.7** The Trustee shall be responsible for the safe custody of the deposited property. Any Authorised Investments forming part of the deposited property of the relevant Sub-Fund shall, whether in bearer or registered form, be paid or transferred to or to the order of the Trustee forthwith on receipt by the Managers and be dealt with as the Trustee may think proper for the purpose of providing for the safe custody thereof. The Trustee may from time to time upon notification in writing to the Managers appoint such person or persons as it thinks fit (including itself or its associates) as agents, nominees, custodians, sub-custodians in respect of any of the deposited property of the relevant Sub-Fund and such persons to exercise any or all of the obligations of the Trustee under the Deed, and the fees and expenses of such agents, nominees, custodians, sub-custodians and other such persons shall be paid out of the deposited property of the relevant Sub-Fund. The Trustee shall not be liable for any act or omission of any depository or clearing system with which Investments may be deposited. In relation to any investment, the Trustee shall not be liable for any act or omission of any agent, nominee, custodian, joint custodian, sub-custodian or other such persons appointed by it except where the Trustee has not acted in good faith in the appointment and monitoring thereof. The Trustee may at any time procure that:
- (i) the Trustee; or
  - (ii) any officer or responsible official of the Trustee jointly with the Trustee; or
  - (iii) any nominee appointed by the Trustee; or
  - (iv) any such nominee and the Trustee; or

- (v) any custodian, joint custodian or sub-custodian appointed pursuant to the provisions of this paragraph 20.3.7; or
- (vi) any company operating a recognised clearing system in respect of the Authorised Investments of any Sub-Fund; or
- (vii) any broker, financial institution or other person (or, in each case, its nominee) with whom the Deposited Property (whether part or all of) is deposited in order to satisfy any requirement to deposit margin or security;

to take delivery of and retain and/or be registered as proprietor of any Investment or other property held upon trusts of the Deed.

## **20.4 Investment restrictions**

**20.4.1** Phillip Income Fund is subject to investment and borrowing restrictions in the Investment and Borrowing Guidelines as set out in Appendix 1 hereto, which guidelines may be amended from time to time. In addition to Appendix 1, for so long as Phillip Income Fund is a Qualifying CIS, Phillip Income Fund shall also comply with the product restrictions of Qualifying CIS set out in Sections 1, 2, 3 and 4 of Part II of the Standards of Qualifying CIS or any other applicable law, regulation, rule, guideline or directive (as may be amended or issued or enacted from time to time).

**20.4.2** Phillip Money Market Fund is subject to the investment and borrowing restrictions in the Investment and Borrowing Guidelines (except for the provisions in sections 1 to 4 (other than paragraphs 1.3, 1.6, 1.7, 4.1 and 4.8)) and the investment guidelines for money market funds issued by the MAS under the Code as set out in Appendices 1 and 2 hereto respectively, which guidelines may be amended from time to time. Phillip Money Market Fund will not invest in any product nor engage in any transaction which may cause Phillip Money Market Fund not to be regarded as an Excluded Investment Product and may only invest in the products listed under Annex 1 of the MAS Notice on the Sale of Investment Products as Excluded Investment Products or in deposits (as defined in section 4(B)(4) of the Banking Act (Cap. 19)).

## **20.5 Meetings of Holders**

**20.5.1** A meeting of the Holders of all the Sub-Funds of the Fund duly convened and held in accordance with the provisions of the Schedule to the Deed shall be competent by Extraordinary Resolution:

- (i) to sanction any modification, alteration or addition to the provisions of the Deed which shall be agreed by the Trustee and the Managers as provided in Clause 38 of the Deed;
- (ii) to terminate the Fund as provided in Clause 35(F) of the Deed;
- (iii) to remove the Auditors as provided in Clause 31(D) of the Deed;
- (iv) to remove the Trustee as provided in Clause 32(C)(iii) of the Deed;

- (v) to remove the Managers as provided in Clause 33(A)(iv) of the Deed; and
- (vi) to direct the Trustee to take any action (including the termination of the Fund) pursuant to Section 295 of the SFA,

but shall not have any further or other powers.

**20.5.2** A meeting of the Holders of a Sub-Fund duly convened and held in accordance with the provisions of the Schedule to the Deed shall be competent by Extraordinary Resolution:

- (i) to sanction any modification, alteration or addition to the provisions of the Deed which shall be agreed by the Trustee and the Managers as provided in Clause 38 of the Deed to the extent that such modification, alteration or addition affects the Holders of the relevant Sub-Fund;
- (ii) to sanction a supplemental deed increasing the maximum permitted percentage of the management fee or the maximum permitted percentage or amount of the Trustee's remuneration in relation to the relevant Sub-Fund;
- (iii) to terminate the relevant Sub-Fund as provided in Clause 35(F) of the Deed;
- (iv) to sanction a scheme of reconstruction whether by way of amalgamation, merger or dissolution of the relevant Sub-Fund;
- (v) to direct the Trustee to take any action (including the termination of the Sub-Fund) pursuant to Section 295 of the SFA; and
- (vi) to sanction any change in investment policy of the relevant Sub-Fund if so required in Clause 16(C) of the Deed,

but shall not have any further or other powers.

**20.5.3** A meeting of the Holders of a Class of Units of a Sub-Fund duly convened and held in accordance with the provisions of the Schedule to the Deed shall be competent by Extraordinary Resolution:

- (i) to sanction any modification, alteration or addition to the provisions of the Deed which shall be agreed by the Trustee and the Managers as provided in Clause 38 of the Deed to the extent that such modification, alteration or addition affects the Holders of the relevant Class;
- (ii) to sanction a supplemental deed increasing the maximum permitted percentage of the management fee or the maximum permitted percentage or amount of the Trustee's remuneration in relation to the relevant Class; and
- (iii) to terminate the relevant Class as provided in Clause 35(F) of the Deed,

but shall not have any further or other powers.

An “**Extraordinary Resolution**” means a resolution proposed and passed as such by a majority consisting of 75% or more of the total number of votes cast for and against such resolution.

## **20.6 Valuation**

Except where otherwise expressly stated and subject always to the requirements of the Code, the value of the assets comprised in each Sub-Fund with reference to any Authorised Investment which is:

- (A) a deposit placed with a bank or other financial institution or a bank bill, shall be determined by reference to the face value of such Investments and the accrued interest thereon for the relevant period;
- (B) a unit or share in a unit trust or mutual fund or collective investment scheme shall be valued at the latest published or available net asset value per unit or share, or if no net asset value per unit or share is published or available, then at their latest available realisation price;
- (C) an Investment (other than any deposit or bank bill or unit or share in an open-ended collective investment scheme referred to sub-paragraphs (A) and (B) above) of Phillip Money Market Fund shall be valued at its purchase cost after adding or deducting an Adjustment Factor (hereinafter defined). The Adjustment Factor is derived by amortising (using the straight line method) the difference between the purchase cost and the redemption value on maturity over the remaining period (calculated in number of days) to maturity. The Adjustment Factor will be added (where the purchase cost is less than the redemption value on maturity) or deducted (where the purchase cost is more than the redemption value on maturity) to the purchase cost of such Investment;
- (D) an unquoted Investment (other than any deposit or bank bill or unit or share in an open-ended collective investment scheme referred to in sub-paragraphs (A) and (B) above), shall be calculated by reference to the mean of bid and offered prices quoted by such persons, firms, or institutions determined by the Managers to be dealing or making a market in that investment at the close of trading in the relevant market on which the particular Investment is traded. However, if such price quotations are not available, value shall be determined by reference to the face value of such Investments, the prevailing term structure of interest rates and the accrued interest thereon for the relevant period; and
- (E) a quoted Investment, shall be calculated, as the case may be, by reference to the official closing price, the last known transacted price or the last transacted price on such recognised stock exchange and, if there be no such official closing price, last known transacted price or last transacted price, the value shall be calculated by reference to the mean of bid and offered prices quoted on such recognised stock exchange.

Provided that, if the quotations referred to in (B), (C), (D) and (E) above are not available, or if the value of the Authorised Investment determined in the manner described in (A), (B), (C),

(D) or (E) above, in the opinion of the Managers, is not representative, then the value shall be such value as the Managers may with due care and in good faith consider in the circumstances to be fair value and is approved by the Trustee who shall decide if a notice to notify the investors of such change in the value is required. For the purposes of this proviso, the "fair value" shall be determined by the Managers in consultation with an approved stockbroker or an approved valuer and with the approval of the Trustee in accordance with the Code.

PROVIDED FURTHER THAT, in the case of Phillip Income Fund, for so long as it is a Qualifying CIS, any Authorised Investment which is:

- (i) a Quoted Investment shall be valued based on the official closing price or last known transacted price on the organised market (as defined in the Standards of Qualifying CIS) on which the Quoted Investments is quoted; and
- (ii) an Unquoted Investment or a Quoted Investment where the transacted prices are not representative or not available to the market, shall be valued based on the fair value of the Unquoted Investment or the Quoted Investment determined with due care and in good faith and in accordance with the Standards of Qualifying CIS, by the Managers and/or an approved valuer approved by the Trustee as qualified to value such Unquoted Investment or Quoted Investment and the Managers shall document the basis and approach for determining the fair value of the Unquoted Investment or the Quoted Investment.

In exercising in good faith the discretion given by the provisos above, the Managers shall not, subject to the provisions of the Code and the Standards of Qualifying CIS (where applicable), assume any liability towards the Fund, and the Trustee shall not be under any liability, in accepting the opinion of the Managers, notwithstanding that the facts may subsequently be shown to have been different from those assumed by the Managers.

In calculating the net asset value of any Sub-Fund or any proportion thereof:

- (i) every Unit relating to such Sub-Fund agreed to be issued by the Managers shall be deemed to be in issue and the deposited property of such Sub-Fund shall be deemed to include not only cash or other assets in the hands of the Trustee but also the value of any cash, accrued interest on bonds or other assets to be received in respect of Units of such Sub-Fund agreed to be issued and (in the case of Units issued against the vesting of Authorised Investments) any moneys payable out of the deposited property pursuant to Clause 11 of the Deed;
- (ii) where Authorised Investments have been agreed to be purchased or otherwise acquired or sold but such purchase, acquisition or sale has not been completed, such Authorised Investments shall be included or excluded, respectively, and the gross purchase, acquisition or net sale consideration excluded or included as the case may require as if such purchase, acquisition or sale had been duly completed; and
- (iii) where in consequence of any notice or request in writing given pursuant to Clause 13, 13A or 14 of the Deed a reduction of the Fund by the cancellation of Units of such Sub-Fund is to be effected but such reduction has not been completed the



Units in question shall not be deemed to be in issue and any amount payable in cash and the value of any Authorised Investments to be transferred out of the deposited property of such Sub-Fund shall be deducted from the net asset value of such Sub-Fund.

In calculating the net asset value of any Sub-Fund, there shall be deducted any amounts not provided for above which are payable out of the deposited property of such Sub-Fund in the following order:

- (i) any amount of management fee, the remuneration of the Trustee, the valuation agent's fees, the registrar's fees, the securities transaction fee, amortisation of other preliminary expenses and any other expenses accrued but remaining unpaid attributable to such Sub-Fund;
- (ii) the amount of tax, if any, on net capital gains (including any provision made for unrealised capital gains) accrued and remaining unpaid attributable to such Sub-Fund;
- (iii) the amount in respect of tax, if any, on net capital gains realised prior to the valuation being made as in the estimate of the Managers will become payable attributable to such Sub-Fund;
- (iv) the aggregate amount for the time being outstanding of any borrowings for the account of such Sub-Fund effected under Clause 17(C) of the Deed together with the amount of any interest and expenses thereon accrued pursuant to Clause 17(C)(v) of the Deed and remaining unpaid;
- (v) there shall be taken into account such sum as in the estimate of the Managers will fall to be paid or reclaimed in respect of taxation related to income up to the time of calculation of the net asset value of the deposited property of such Sub-Fund;
- (vi) there shall be added the amount of any tax, if any, on capital gains estimated to be recoverable and not received attributable to such Sub-Fund;
- (vii) any value (whether of an Authorised Investment or cash) otherwise than in Singapore dollars and any non-Singapore dollar borrowing shall be converted into Singapore dollars at the rate (whether official or otherwise) which the Managers shall after consulting with or in accordance with a method approved by the Trustee deem appropriate to the circumstances having regard *inter alia* to any premium or discount which may be relevant and to the costs of exchange; and
- (viii) where the current price of an Authorised Investment is quoted "ex" dividend, interest or other payment but such dividend, interest or other payment has not been received the amount of such dividend, interest or other payment shall be taken into account.

## **20.7 Duration and Termination of the Fund**

**20.7.1** The Fund constituted by the Deed is of indeterminate duration and may be terminated as provided in Clause 35 of the Deed.

**20.7.2** Either the Trustee or the Managers may in their absolute discretion terminate the Fund by not less than three months' notice in writing to the other given so as to expire at the end of the accounting period current at the end of the tenth year after the date of the Principal Deed or any year thereafter. Either the Trustee or the Managers shall be entitled by notice in writing as aforesaid to make the continuation of the Fund beyond any such date conditional on the revision to its or their satisfaction at least three months before the relevant date of its or their remuneration thereunder. In the event that the Fund shall fall to be terminated or discontinued the Managers shall give notice thereof to all investors not less than three months in advance. Subject as aforesaid the Fund shall continue until terminated in the manner hereinafter provided in paragraphs 20.7.3 to 20.7.5.

**20.7.3** Subject to Section 295 of the SFA, the Fund may be terminated by the Trustee by notice in writing as provided in any of the following events, namely:

- (i) if the Managers shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or if a receiver is appointed over any of their assets or if a judicial manager is appointed in respect of the Managers or if any encumbrancer shall take possession of any of their assets or if they shall cease business;
- (ii) if any law shall be passed, any authorisation withdrawn or revoked or any direction issued by the MAS which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund;
- (iii) if within the period of three months from the date of the Trustee expressing in writing to the Managers the desire to retire the Managers shall have failed to appoint a new trustee within the terms of Clause 32 of the Deed; and
- (iv) if within the period of three months from the date of the Trustee removing the Managers the Trustee shall have failed to appoint new managers within the terms of Clause 33 of the Deed.

The decision of the Trustee in any of the events specified in this paragraph 20.7.3 shall be final and binding upon all the parties concerned but the Trustee shall be under no liability on account of any failure to terminate the Fund pursuant to this paragraph 20.7.3 or otherwise. The Managers shall accept the decision of the Trustee and relieve the Trustee of any liability to them therefor and hold it harmless from any claims whatsoever on their part for damages or for any other relief.

**20.7.4** Any Sub-Fund may be terminated by the Managers in their absolute discretion by notice in writing as hereinafter provided (i) if the aggregate net asset value of the deposited property of that Sub-Fund shall be less than S\$3,000,000 after the end of the fifth year from the commencement date of that Sub-Fund or any time thereafter or (ii) if any law shall be passed, any authorisation withdrawn or revoked or any direction issued by the MAS which renders it illegal or in the opinion of the Managers impracticable or inadvisable to continue that Sub-Fund. Any Class of a Sub-Fund may be terminated by the Managers in their absolute discretion by notice

in writing as hereinafter provided (i) if the aggregate net asset value of the deposited property of that Class shall be less than S\$3,000,000 or its equivalent in RM or THB (for S\$ Class Units, RM Class Units and THB Class Units respectively), US\$3,000,000 (for US\$ Class Units) or (ii) if any law shall be passed, any authorisation withdrawn or revoked or any direction issued by the MAS which renders it illegal or in the opinion of the Managers impracticable or inadvisable to continue that Class. The Fund may be terminated by the Managers in their absolute discretion by notice in writing hereinafter provided (i) if the aggregate net asset value of the deposited property of all the Sub-Funds shall be less than S\$3,000,000 after the end of the fifth year from the commencement date of the Sub-Funds or any time thereafter or (ii) if any law shall be passed, any authorisation withdrawn or revoked or any direction issued by the MAS which renders it illegal or in the opinion of the Managers impracticable or inadvisable to continue the Fund.

**20.7.5** The party terminating the Fund or the relevant Sub-Fund or Class of a Sub-Fund shall give notice thereof to the investors fixing the date at which such termination is to take effect which date shall not be less than the relevant period provided in the Deed after the service of such notice and the Managers shall give written notice thereof to the MAS not less than seven days before such termination.

## **21. Queries and Complaints**

If you have questions concerning the Fund or your investment in any Sub-Fund, you may call the Managers at telephone number (65) 6230 8133.

## Appendix 1 - Investment and Borrowing Guidelines

### 1 Permissible Investments

1.1 The scheme's underlying investments may only consist of the following permissible investments:

- a) transferable securities;
- b) money market instruments;
- c) eligible deposits;
- d) units in other schemes;
- e) financial derivatives; and
- f) shares or securities equivalent to shares that are not listed for quotation or quoted and have not been approved for listing for quotation or quotation on an organised exchange.

1.2 For the purpose of paragraph 1.1,

- a) "transferable securities" refer to:
  - i) shares or securities equivalent to shares; and
  - ii) bonds or other securitised debt instruments,  
that meet the requirements of paragraph 1.3 but do not include:
    - A) money market instruments; or
    - B) any security the title to which cannot be transferred or can be transferred only with the consent of a third party.
- b) "eligible deposits" refer to deposits with banks licensed under the Banking Act (Cap. 19), finance companies licensed under the Finance Companies Act (Cap. 108), merchant banks approved as financial institutions under section 28 of the Monetary Authority of Singapore Act (Cap. 186) or any other deposit-taking institution licensed under an equivalent law in a foreign jurisdiction.

#### Requirements of transferable securities

1.3 Transferable securities should meet the following requirements:

- a) the maximum potential loss which may be incurred as a result of the investment is limited to the amount paid for it;
- b) the investment is liquid;
- c) the investment is subject to reliable and verifiable valuation on a daily basis; and
- d) there is appropriate information available to the market on the investment or, where relevant, on the portfolio.

Guidance

*In determining whether information on a transferable security is appropriate, the manager should consider if the information available on the market is regular and accurate, as well as sufficient to analyse the investment. For example, reliance on annual or financial reports is acceptable if the manager is of the view that it is appropriate.*

Requirements on investments in other schemes

1.4 A scheme may invest in other schemes only if the underlying scheme is:

a) an authorised or recognised scheme;

Guidance

*Notwithstanding paragraph 1.4(a), the scheme should not invest in an underlying scheme which is a hedge fund or fund-of-hedge funds even if the underlying scheme complies with Appendix 3 of the Code.*

b) a scheme which:

i) is constituted and regulated in a jurisdiction where the laws and practices afford to participants in Singapore protection at least equivalent to that afforded to participants of schemes which are wholly managed in Singapore;

ii) adheres to investment and borrowing guidelines which are substantially similar to those set out in the relevant Appendices of the Code; and

iii) has a manager that is reputable and supervised by an acceptable financial supervisory authority;

c) a scheme which is invested in permissible investments, commodities or real estate, meets the requirements set out in paragraph 1.3(a) to (d) and, for the purposes of this paragraph, the units in the scheme are listed for quotation and traded on an organised exchange.

Guidance

*Restricted schemes may be acceptable as underlying investments if they can meet the conditions in paragraph 1.4(b) or (c).*

1.5 A scheme may feed substantially into an underlying fund-of-funds but the underlying fund-of-funds should invest in other schemes directly and not through another fund-of-funds.

Requirements of financial derivatives

1.6 Financial derivatives should meet the following requirements:

a) the underlying consists of instruments referred to in paragraph 1.1, commodities, indices which meets the requirements in Appendix 5: Index Funds of the Code, interest rates, foreign exchange rates or currencies. In the case of financial derivatives on commodities, such transactions should be settled in cash at all times. The manager should also undertake in the trust deed to settle such transactions in cash and disclose the fact in the prospectus;

b) the financial derivatives are liquid;

c) the financial derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time at their

fair value; and

- d) the financial derivatives should not result in the delivery of investments other than those described in paragraph 1.1(a) to (f).

#### *OTC financial derivatives*

1.7 In the case of OTC financial derivatives, reliable and verifiable valuation stated in paragraph 1.6(c) of this Appendix refers to:

- a) a valuation made by the manager based on a current market value; or
- b) where such value is not available, a fair value based on an appropriate valuation model which is checked at an appropriate frequency by an independent party.

The valuation by the manager should not be based solely on a valuation provided by the counterparty to the transaction.

#### Guidance

The party who carries out the verification should be independent of the counterparty as well as the manager's fund management function.

## **2 Spread of Investments**

### Single entity limit and group limit

2.1 A scheme should comply with the following limits:

- a) Investments in:
  - i) transferable securities; or
  - ii) money market instrumentsissued by a single entity should not exceed 10% of the scheme's NAV ("single entity limit").
- b) Aggregate investments in, or exposures to, a group of entities through:
  - i) transferable securities;
  - ii) money market instruments;
  - iii) eligible deposits; and
  - iv) counterparty risk exposures arising from the use of OTC financial derivativesshould not exceed 20% of the scheme's NAV ("group limit"). For the purposes of this paragraph, a group of entities refers to an entity, its subsidiaries, fellow subsidiaries and its holding company.

#### Guidance 1

*Investments in transferable securities and money market instruments issued by a trust should be included in the single entity limit and group limit.*

#### Guidance 2

*The group of entities referred to in the group limit also applies to aggregate investments in, or exposures*

*to, special purpose vehicles (SPVs) where the substance of the relationship between a sponsor and its SPV, determined in accordance with the Interpretation of Financial Reporting Standard 12, indicates that the SPV is controlled by that sponsor.*

#### Short-term deposits

- 2.2 The group limit does not apply to placements of eligible deposits arising from:
- a) subscription monies received at any point in time pending the commencement of investment by the scheme; or
  - b) liquidation of investments prior to the termination or maturity of a scheme, where the placing of these monies with various institutions would not be in the interests of participants.

#### Benchmark limit

- 2.3 Where the scheme and its reference benchmark comply with sections 4 and 5 of Appendix 5: Index Funds of the Code, the scheme may invest in a transferable security that is a constituent of the reference benchmark, up to a single entity limit as specified in paragraph 2.1(a) of this Appendix or two percentage points above the benchmark weight, whichever is higher. Where the foregoing single entity limit is in excess of the limit in paragraph 2.1(a) of this Appendix, the group limit of 20% may be raised to 25% of the scheme's NAV.

#### Government and other public debt securities / money market instruments

- 2.4 The single entity limit of 10% may be raised to 35% of the scheme's NAV where:
- a) the issuing entity or trust is, or the issue is guaranteed by, either a government, government agency or supranational, that has a minimum long-term rating of BBB by Fitch, Baa by Moody's or BBB by Standard and Poor's (including such sub-categories or gradations therein); and
  - b) except for schemes with a fixed maturity, not more than 20% of the scheme's NAV may be invested in any single issue of transferable securities or money market instruments by the same entity or trust.
- 2.5 If there is a downgrade in rating to that below the minimum rating as stated in paragraph 2.4(a), or if the rating agencies no longer rate the entity or the guarantor, the single entity limit should revert to 10%.
- 2.6 The single entity limit of 10% does not apply where:
- a) the issuing entity or trust is, or the issue is guaranteed by, either a government, government agency or supranational, that has a minimum long-term rating of AA by Fitch, Aa by Moody's or AA by Standard and Poor's (including such sub-categories or gradations therein); and
  - b) except for schemes with a fixed maturity, not more than 20% of the scheme's NAV may be invested in any single issue of transferable securities or money market instruments by the same entity or trust.
- 2.7 If there is a downgrade in rating to that below the minimum rating as stated in paragraph 2.6(a)

of this Appendix, or if the rating agencies no longer rate the entity or the guarantor, the single entity limit as specified in paragraph 2.1(a) or 2.4 of this Appendix, as the case may be, should apply accordingly.

#### Unrated and non-investment grade corporate debt securities

2.8 The single entity limit of 10% in paragraph 2.1(a) for bonds and other securitised debt instruments is lowered to 5% of the scheme's NAV if the issuing entity or trust:

- a) is not rated; or
- b) has a long-term rating below that of BBB by Fitch, Baa by Moody's or BBB by Standard and Poor's (including such sub-categories or gradations therein).

2.9 Notwithstanding paragraph 2.8(a), the manager may rely on:

- a) the rating of an unrated issuer's parent company provided that an explicit guarantee by the parent company for the issuer is in place; or
- b) its internal rating of an unrated issuer if the manager has satisfied the trustee that its internal rating is comparable to a rating issued by Fitch, Moody's or Standard & Poor's.

#### Guidance

*For the purpose of paragraph 2.9(b), the trustee may consider the manager's internal rating methodology.*

#### Commodity-backed debt securities

2.10 A scheme may invest in debt securities that are undated, secured by physical commodities, listed for quotation and traded on an organised exchange, subject to the limit in paragraph 2.13.

#### Investment in other schemes

2.11 A scheme may invest up to 100% of its NAV in another scheme only if the underlying scheme satisfies paragraph 1.4(a) or (b).

2.12 Investments in an underlying scheme which does not satisfy paragraph 1.4(a) or (b) but satisfies:

- a) paragraph 1.4(c) and is invested in permissible investments or real estate should not exceed 10% of the scheme's NAV; or

#### Guidance

*For example, investments in a real estate investment trust which do not satisfy paragraph 1.4(a) or (b) but satisfy the requirements in paragraph 1.3(a) to (d) should not exceed 10% of the scheme's NAV.*

- b) paragraph 1.4(c) and is invested directly in commodities is subject to the limit in paragraph 2.13.

#### Guidance

*Investments in a commodity-backed exchange-traded fund which satisfies the requirements in paragraph 1.3(a) to (d) will be subject to the limit in paragraph 2.13.*



#### Alternative exposure limit

##### 2.13 Investments in:

- a) shares or securities equivalent to shares that are not listed for quotation or quoted, and have not been approved for listing for quotation or quotation, on an organised exchange;
- b) debt securities which are undated, secured by physical commodities, listed for quotation and traded on an organised exchange; and
- c) underlying schemes which do not satisfy paragraph 1.4(a) or (b) but satisfy paragraph 1.4(c) and are invested directly in commodities,

are subject to an aggregate limit of 10% of a scheme's NAV.

#### Concentration limit

##### 2.14 A scheme should not invest in more than:

- a) 10% of the total outstanding shares, or securities equivalent to shares, of any single entity or trust;
- b) 10% of each individual issuance of debt securities of any single issuing entity or trust, where such issuance is not part of a debt issuance programme; or where debt securities are issued under a debt issuance programme, 20% of each tranche, subject to a limit of 10% of the overall programme size; and
- c) 10% of the money market instruments of a single issuing entity or trust.

### **3 Global Exposure**

3.1 The global exposure of a scheme to financial derivatives or embedded financial derivatives should not exceed 100% of the scheme's NAV at all times.

3.2 The manager should calculate the global exposure of a scheme based on the:

- a) Commitment Approach; or
- b) Value at Risk (VaR) Approach (including any other variants of the VaR Approach), subject to prior consultation with the Authority.

#### Commitment Approach

3.3 The global exposure of a scheme is calculated as the sum of:

- a) the absolute value of the exposure of each individual financial derivative not involved in netting or hedging arrangements;
- b) the absolute value of the net exposure of each individual financial derivative after netting or hedging arrangements; and
- c) the sum of the values of cash collateral received pursuant to:
  - i) the reduction of exposure to counterparties of OTC financial derivatives; and

ii) EPM techniques relating to securities lending and repurchase transactions, and that are reinvested.

*Netting arrangements*

3.4 Netting arrangements may be taken into account to reduce a scheme's exposure to financial derivatives.

3.5 A scheme may net positions between:

- a) financial derivatives on the same underlying assets, even if the maturity dates are different; or
- b) financial derivatives and the same corresponding underlying asset, if those underlying assets are transferable securities, money market instruments or units in other schemes.

*Hedging arrangements*

3.6 Hedging arrangements may be taken into account to reduce a scheme's exposure to financial derivatives.

3.7 The marked-to-market value of transferable securities, money market instruments or units in schemes involved in hedging arrangements may be taken into account to reduce a scheme's exposure to financial derivatives.

3.8 For the purposes of paragraphs 3.6 and 3.7 of this Appendix, the hedging arrangement should:

- a) not be aimed at generating a return;
- b) result in an overall verifiable reduction of the risk of the scheme;
- c) offset the general and specific risks linked to the underlying being hedged;
- d) relate to the same asset class being hedged; and
- e) be able to meet its hedging objective in all market conditions.

*Guidance*

*Strategies which seek to offset the beta (market risk) but do not aim to offset the specific risks linked to the underlying investment and keep the alpha would not comply with the requirements in paragraph 3.8. Such strategies would include market neutral or long/short strategies.*

3.9 Notwithstanding paragraph 3.8, financial derivatives used for the purposes of hedging currency exposure may be netted when calculating the global exposure.

*Exposure arising from reinvestment of cash collateral*

3.10 A scheme which reinvests cash collateral received from counterparties of OTC financial derivatives, securities lending or repurchase transactions to generate a return in excess of high quality 3-month government bonds should include in its global exposure calculations the cash amount reinvested.

### VaR Approach or its variants

- 3.11 The manager may apply to the Authority to use the VaR Approach or its variants to calculate the global exposure of a scheme instead of the Commitment Approach.
- 3.12 The global exposure of the scheme should also take into account exposures arising from the reinvestment of cash collateral.
- 3.13 The manager should comply with guidelines in Annex 1B in lieu of paragraphs 4.9 to 4.14 of this Appendix.

### *Risk management process*

- 3.14 In its submission, the manager should provide the Authority with the following information in the risk management process document:
  - a) details of all financial derivatives to be used in the scheme, the purpose of the use and the risks the financial derivatives might pose to the scheme;
  - b) description of the valuation and pricing methodology for financial derivatives;
  - c) description of the risk management processes and systems used in relation to financial derivatives;
  - d) description of the VaR methodology (including whether the model has been verified by an independent party such as a financial supervisory authority) and any other risk measures used;
  - e) details of the entities, units and personnel responsible for risk management;
  - f) description of systems and technology used, including description of stress testing and back-testing methodologies;
  - g) details of the manager's policies on expertise required to trade financial derivatives as well as manage their related risks including how they are monitored and validated; and
  - h) description of how the relevant guidelines in the Code are adhered to.

## **4 Use of Financial Derivatives**

### Spread of underlying assets

- 4.1 The exposure of a scheme to the underlying assets of financial derivatives should be sufficiently diversified on a portfolio basis.
- 4.2 In the case where the underlying assets are:
  - a) transferable securities, money market instruments, eligible deposits or units in other schemes, the limits in section 2 of this Appendix, except for the concentration limits, apply;
  - b) commodities, the limits in section 4 of Appendix 5: Index Funds of the Code apply; and

### Guidance

*In determining whether the underlying assets of financial derivatives are sufficiently diversified, exposures to commodities through investments referred to in paragraph 2.10 and paragraph 2.12(b) of*

*this Appendix should also be included.*

- c) indices, paragraphs 4.2(a) and (b) of this Appendix apply to each constituent of the index, where applicable,

on a portfolio basis.

#### Embedded financial derivatives

- 4.3 Where a transferable security or money market instrument embeds a financial derivative, the requirements in sections 3 and 4 apply to the embedded financial derivative.
- 4.4 Where the counterparty risk of the embedded derivative is or may be transferred to the scheme, the requirements in section 5 also apply to the embedded financial derivative.
- 4.5 A transferable security or money market instrument is considered to be embedding a financial derivative if it contains a component which fulfils the following criteria:
  - a) the component results in some or all of the cash flows that otherwise would be required by the transferable security or money market instrument which functions as host contract to be modified according to a variable including but not limited to a specified interest rate, price of a financial instrument, foreign exchange rate, index of prices or rates, credit rating or credit index, and therefore vary in a way similar to a stand-alone financial derivative;
  - b) the component's economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and
  - c) the component has a significant impact on the risk profile and pricing of the transferable security or money market instrument.
- 4.6 A transferable security or a money market instrument should not be regarded as embedding a financial derivative where it contains a component which is contractually transferable independently of the transferable security or the money market instrument. Such a component should be deemed to be a separate financial instrument.
- 4.7 Where an instrument is structured as an alternative to an OTC financial derivative or tailor-made to meet the specific needs of a scheme, the instrument should be deemed as embedding a financial derivative.

#### Cover

- 4.8 A transaction in financial derivatives which gives rise, or may give rise, to a future commitment on behalf of a scheme should be covered as follows:
  - a) in the case of financial derivatives which will, or may at the option of the scheme, be cash settled, the scheme should hold, at all times, liquid assets sufficient to cover the exposure;

#### *Guidance 1*

*The term "exposure" refers to any transaction in financial derivatives that may give rise to a future commitment by the scheme to make contractually required payments. As such,*

*exposure would include, among others, any cash settlement of contracts, margin calls and interest payments.*

#### *Guidance 2*

*Liquid assets refer to cash or permissible investments that can satisfy the requirements in chapter 1.2(i) of the Code. The quantity of such liquid assets held as cover should however be determined after the application of appropriate safeguards such as haircuts.*

- b) in the case of financial derivatives which will, or may at the option of the counterparty, require physical delivery of the underlying assets, the scheme should hold the underlying assets in sufficient quantities to meet the delivery obligation at all times. If the manager deems the underlying assets to be sufficiently liquid, the scheme may hold as coverage other liquid assets in sufficient quantities, provided that such alternative assets may be readily converted into the underlying asset at any time to meet the delivery obligation.

#### Exposure to financial derivatives – Commitment Approach

- 4.9 The exposure of the scheme to financial derivatives under the Commitment Approach in paragraph 3.3 of this Appendix is described below. Exposure is determined by converting the positions in financial derivatives into equivalent positions in the underlying assets.

#### *Calculation methods*

- 4.10 Table 1 below sets out the methods for calculating the exposure of various financial derivatives under the Commitment Approach.
- 4.11 The exposure to financial derivatives under the Commitment Approach should be converted into the base currency of the scheme by using the spot rate.
- 4.12 Where a currency financial derivative has two legs that are not in the base currency of the scheme, the exposure to both legs should be accounted for under the Commitment Approach.
- 4.13 For financial derivatives not covered in Table 1 below or where the methods do not provide an adequate and accurate assessment of the risks relating to the financial derivatives, the manager should inform and justify to the Authority of the alternative method applied.
- 4.14 The calculation methodology of the alternative method referred to in paragraph 4.13 should be based on the market value of the equivalent position in the underlying asset, although the notional value or price of the financial derivative may be used if it is more conservative. Where a more conservative calculation is used, hedging and netting arrangements, as set out in paragraphs 3.4 to 3.9, should not be taken into account to reduce the exposure to the financial derivative involved if it results in an underestimation of the global exposure.

#### Guidance

*Financial derivatives which do not qualify for the standard conversion method are, for instance, digital options, barrier options, or more complex options with a highly volatile delta.*

<b>Types of financial derivatives</b>	<b>Method for calculating exposure</b>
<b>Plain Vanilla Options (Include bought/sold puts and calls)</b>	
Bond option	No. of contracts x face value x underlying price x delta
Currency option	Contract's notional value (of currency leg) x delta
Equity option	No. of contracts x no. of equity shares x underlying price x delta
Index option	No. of contracts x contract's notional value x index level x delta
Interest rate option	Contract's notional value x delta
Warrant and Rights	No. of shares/bonds x market value of underlying referenced asset x Delta
<b>Futures</b>	
Bond future	No. of contracts x contract's notional value x market value of the future; or No. of contracts x contract's notional value x market price of the cheapest bond to deliver, adjusted by the conversion factor
Currency future	No. of contracts x contract's notional value
Equity future	No. of contracts x contract's notional value x market price of underlying equity share
Index future	No. of contracts x value of 1 point x index level
Interest rate future	No. of contracts x contract's notional value
Commodity future	No. of contracts x contract's notional value
<b>Swaps</b>	
Contract differences for	No. of shares/bonds x market value of underlying referenced instrument
Credit default swap	Protection buyer: market value of the underlying reference asset Protection seller: the higher of the market value of the underlying reference asset or the notional value of the credit default swap
Currency swap	Notional value of currency leg(s)
Interest rate swap	Market value of underlying; or Notional value of the fixed leg
Total return swap	Underlying market value of reference asset(s)
<b>Forwards</b>	
Forward rate	Notional value

Types of financial derivatives	Method for calculating exposure
agreement	
FX forward	Notional value of currency leg(s)

**Table 1: Calculation Methods**

## 5 Counterparty of Financial Derivatives

### OTC financial derivatives

- 5.1 The counterparty of an OTC financial derivative should be subject to prudential supervision by a financial supervisory authority in its home jurisdiction.
- 5.2 Subject to the group limit in paragraph 2.1, the maximum exposure of a scheme to the counterparty of an OTC financial derivative may not exceed:
- in the case of an eligible financial institution described in paragraph 5.3, 10% of the scheme's NAV; or
  - in any other case, 5% of the scheme's NAV
- ("counterparty limits").
- 5.3 For the purpose of paragraph 5.2 of this Appendix, an eligible financial institution should have a minimum long-term rating of A by Fitch, A by Moody's or A by Standard and Poor's (including sub-categories or gradations therein). Alternatively, where the financial institution is not rated, the scheme should have the benefit of a guarantee by an entity which has a long-term rating of A (including sub-categories or gradations therein).
- 5.4 The exposure to a counterparty of an OTC financial derivative should be measured based on the maximum potential loss that may be incurred by the scheme if the counterparty defaults and not on the basis of the notional value of the OTC financial derivative.

### Calculation method

- 5.5 The exposure to a counterparty of an OTC financial derivative should be calculated as follows:
- Stage 1: Determine the current replacement cost of each OTC financial derivative by carrying out a valuation at market price.
  - Stage 2: Derive the "add-on factor" by multiplying the notional principal amount or the market value of the underlying asset of the OTC financial derivative, whichever is more conservative, by the percentages in Table 2 to reflect the potential credit risk:

Residual Term	Interest rate contracts	Exchange rate contracts	Equity derivative contracts	Other contracts
1 year or less	0%	1%	6%	10%
> 1 year and < 5 years	0.5%	5%	8%	12%

> 5 years	1.5%	7.5%	10%	15%
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**Table 2: Add-on Factors**

- i) For total return swaps and credit default swaps, the relevant percentage is 10% regardless of the residual term.
- ii) In the case of credit default swaps where the scheme acts as protection seller, the relevant percentage may be set at 0% unless the credit default swap contract incorporates a provision on closeout upon insolvency. In the latter case, the amount to be taken into account for the add-on factor will be limited to the premium or interest to be received (i.e. unpaid premium at the time of the calculation).
- c) The counterparty exposure arising from an OTC financial derivative contract is the sum of the positive replacement cost computed in Stage 1 and the add-on factor computed in Stage 2.
- d) The total exposure to a single counterparty, or group of counterparties, is calculated by summing the exposures arising from all OTC financial derivative transactions entered into with the same counterparty or group.

Recognition of collateral

5.6 The exposure to a counterparty may be construed as being lower if collateral is tendered to the scheme. The collateral should meet the following requirements:

- a) it is marked-to-market daily;
- b) it is liquid;
- c) it is taken into account, on a portfolio basis, for the purposes of the requirements on spread of investments in section 2 of this Appendix;
- d) it is not issued by the counterparty or its related corporations;
- e) it is held by a custodian which is:
  - i) a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and
  - ii) independent of the counterparty;
- f) it is legally secured from the consequences of the failure of the custodian, counterparty and their related corporations;
- g) it can be fully enforced by the trustee at any time;
- h) it is free from all prior encumbrances; and
- i) it cannot be sold or given as security interests.



Guidance

Security interests include, among others, charges, pledges or hypothecations.

- 5.7 Collateral may only consist of:
- a) cash;
  - b) money market instruments; or
  - c) bonds.
- 5.8 For the purpose of paragraph 5.7 of this Appendix, money market instruments and bonds should be issued by, or have the benefit of a guarantee from, a government, government agency or supranational, that has a long-term rating of AAA by Fitch, Aaa by Moody's or AAA by Standard and Poor's (including sub-categories or gradations therein).
- 5.9 Notwithstanding paragraph 5.7 of this Appendix, securitised debt instruments as well as money market instruments or bonds with embedded financial derivatives are not eligible as collateral.
- 5.10 The manager should ensure that it has the appropriate legal expertise to put in place proper collateral arrangements, as well as appropriate systems and operational capabilities for proper collateral management.
- 5.11 Additional collateral should be provided to the scheme no later than the close of the next business day if the current value of the collateral tendered is insufficient to satisfy the counterparty limits in paragraph 5.2.

Guidance

A marked-to-market shortfall on day T should be rectified by the receipt of additional collateral by T+1 business days. For the purpose of this guidance, business days should be based on those of the counterparty's.

Reinvestment of collateral

- 5.12 Collateral obtained in the form of cash by the scheme may be reinvested subject to the following requirements:
- a) it is invested in financial instruments consistent with paragraphs 5.7 and 5.8 of this Appendix;
  - b) the investments are taken into account, on a portfolio basis, for the purposes of the requirements on spread of investments in section 2 of this Appendix;
  - c) the investments are held by a custodian which is:
    - i) a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and
    - ii) independent of the counterparty;
  - d) the investments are legally secured from the consequences of the failure of the custodian, counterparty and their related corporations;
  - e) the investments cannot be sold or given as security interests; and

- f) the manager is reasonably satisfied that any investment of cash collateral by the scheme will enable the scheme to meet its redemption obligations and other payment commitments.
- 5.13 Notwithstanding paragraph 5.12 of this Appendix, the cash collateral obtained should not be invested in transferable securities issued by, or placed on deposit with, the counterparty or its related corporations.
- 5.14 Non-cash collateral obtained by the scheme may not be reinvested.

Recognition of netting

- 5.15 For the purpose of paragraph 5.12 of this Appendix, a scheme may net its OTC financial derivative positions with the same counterparty through bilateral contracts for novation or other bilateral agreements between the scheme and its counterparty provided that such netting arrangements satisfy the following conditions:
- a) in the case of a bilateral contract for novation, mutual claims and obligations are automatically amalgamated in such a way that this novation fixes one single net amount each time novation applies and thus creates a legally binding, single new contract extinguishing former contracts;
  - b) the scheme has a netting arrangement with its counterparty which creates a single legal obligation, covering all included transactions, such that, in the event of the counterparty's failure to perform owing to default, bankruptcy, liquidation or any other similar circumstance, the scheme would have a claim to receive or an obligation to pay only the net sum of the positive and negative mark-to-market values of the individual included transactions;
  - c) the manager obtains written and reasoned legal opinions to the effect that, the netting arrangement is legally enforceable by the scheme against its counterparty, and in particular, in the event of a legal challenge, the relevant courts and administrative authorities would find that the scheme's claims and obligations would be limited to the net sum, as described in paragraph 5.15(b), under:
    - i) the law of the jurisdiction in which the counterparty is incorporated and, if a foreign branch of an entity is involved, also under the law of the jurisdiction in which the branch is located;
    - ii) the law that governs the individual included transactions; and
    - iii) the law that governs the netting agreement;
  - d) the manager has procedures in place to ensure that the legal validity of the netting arrangement is kept under review in the light of possible changes in the relevant laws; and
  - e) the manager is reasonably satisfied that the netting arrangement is legally valid under the law of each of the relevant jurisdictions.

### Exchange-traded financial derivatives

5.16 Financial derivatives which:

- a) are transacted on an exchange where the clearing house performs a central counterparty role; and
- b) have trades which are characterised by a daily marked-to-market valuation of the financial derivative positions and subject to at least daily margining,

would not be subject to the counterparty limits in paragraph 5.2 of this Appendix.

### Margins

5.17 Any exposure arising from initial margin posted and the variation margin receivable from a counterparty relating to OTC or exchange-traded financial derivatives, which is not protected against insolvency of the counterparty, is to be included in the counterparty limit.

### Guidance

*The exposures from margins held with brokers need not be included if the margins are maintained in trust accounts.*

## **6 Efficient Portfolio Management Techniques**

### Securities lending and repurchase transactions

6.1 A scheme may carry out the following activities for the sole purpose of EPM:

- a) securities lending; and
- b) repurchase transactions.

6.2 The scheme may lend transferable securities and money market instruments:

- a) directly;
- b) through a standardised lending system facilitated by a clearing house which performs a central counterparty role; or
- c) through securities lending agents, who are recognised as specialists in securities lending.

6.3 Securities lending and repurchase transactions should be effected in accordance with good market practice.

### Counterparty

6.4 The counterparty to a securities lending agreement or repurchase transaction should:

- a) be a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and
- b) have a minimum long-term rating of A by Moody's, A by Standard and Poor's or A by Fitch (including sub-categories or gradations therein). Alternatively, where the counterparty is not rated, it is acceptable if an entity which has and maintains a rating as stated above indemnifies the scheme against losses suffered as a result of the

counterparty's failure.

- 6.5 Where the manager engages in securities lending and repurchase transactions with any of its related corporations, the manager should have effective arrangements in place to manage potential conflicts of interest.
- 6.6 The agreement between the scheme and the counterparty, either directly or through its agent, should require the counterparty to provide additional collateral to the scheme or its agent no later than the close of the next business day if the current value of the eligible collateral tendered is insufficient.

Guidance

*A marked-to-market shortfall on day T should be rectified by the receipt of additional collateral by T+1 business days. For the purpose of this guidance, business days should be based on those of the counterparty's.*

Recognition of collateral

- 6.7 The collateral should meet the following requirements:
- a) it is marked-to-market daily;
  - b) it is liquid;
  - c) it exceeds the value of the transferable securities or money market instruments transferred;

Guidance

*Eligible collateral provided should take into consideration exchange rate or market risks inherent to the eligible collateral.*

- d) it is taken into account, on a portfolio basis, for the purposes of the requirements on spread of investments in section 2 of this Appendix;
  - e) it is not issued by the counterparty or its related corporations;
  - f) it is held by a custodian or agent which is:
    - i) a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and
    - ii) independent of the counterparty;
  - g) it is legally secured from the consequences of the failure of the custodian, counterparty or agent and their related corporations;
  - h) it can be fully enforced by the trustee at any time;
  - i) it is free from all prior encumbrances; and
  - j) it cannot be sold or given as security interests.
- 6.8 For the purposes of securities lending and repurchase transactions, collateral may only consist of:
- a) cash;

- b) money market instruments; or
  - c) bonds.
- 6.9 For the purpose of paragraph 6.8, money market instruments and bonds should be issued by, or have the benefit of a guarantee from, an entity or trust that has a minimum long-term rating of A by Fitch, A by Moody's or A by Standard and Poor's (including sub-categories or gradations therein) (collectively, "eligible collateral").
- 6.10 Notwithstanding paragraph 6.8, securitised debt instruments as well as money market instruments or bonds with embedded financial derivatives are not eligible as collateral.

#### Settlement

- 6.11 The scheme or its agent should receive eligible collateral before, or simultaneously with, the transfer of ownership of the transferable securities lent.
- 6.12 Upon termination of the securities lending or repurchase transaction, the eligible collateral may be remitted by the scheme or its agent after, or simultaneously with the restitution of the transferable securities lent.

#### Reinvestment of collateral

- 6.13 Collateral obtained in the form of cash by the scheme or its agent may be reinvested subject to the following requirements:
- a) it is invested in financial instruments consistent with paragraphs 6.8 and 6.9;
  - b) the investments are taken into account, on a portfolio basis, for the purposes of the requirements on spread of investments in section 2 of this Appendix;
  - c) the investments are held by a custodian which is:
    - i) a financial institution subject to prudential supervision by a financial supervisory authority in its home jurisdiction; and
    - ii) independent of the counterparty;
  - d) the investments are legally secured from the consequences of the failure of the custodian, counterparty or agent and their related corporations;
  - e) the investments cannot be sold or given as security interests; and
  - f) the manager is reasonably satisfied that any investment of cash collateral by the scheme or its agent, will enable the scheme to meet its redemption obligations and other payment commitments.
- 6.14 Notwithstanding paragraph 6.13, the cash collateral obtained should not be invested in transferable securities issued by, or placed on deposit with, the counterparty or its related corporations.
- 6.15 Non-cash collateral obtained by the scheme or its agent may not be reinvested.

## Liquidity

6.16 The manager should ensure that:

- a) the volume of securities lending or repurchase transactions is kept at an appropriate level; and
- b) the scheme or its agent is entitled to terminate the securities lending or repurchase transaction and request the immediate return of its transferable securities lent without penalty, in a manner which enables the scheme to meet its redemption obligations and other payment commitments.

## **7 Borrowings**

- 7.1 The scheme may borrow, on a temporary basis, for the purposes of meeting redemptions and bridging requirements.
- 7.2 The scheme may only borrow from banks licensed under the Banking Act (Cap. 19), finance companies licensed under the Finance Companies Act (Cap. 108), merchant banks approved as financial institutions under section 28 of the Monetary Authority of Singapore Act (Cap. 186) or any other deposit-taking institution licensed under an equivalent law in a foreign jurisdiction.
- 7.3 The borrowing period should not exceed one month.
- 7.4 Aggregate borrowings for the purposes of paragraph 7.1 should not exceed 10% of the scheme's NAV at the time the borrowing is incurred.

### Guidance

*Credit balances (e.g. cash) may not be offset against borrowings when determining the percentage of borrowings outstanding.*

## **8 Disclosure Requirements**

- 8.1 The use of back-testing or simulated past performance data for disclosure of performance figures in the prospectus, reports and marketing materials is prohibited.
- 8.2 Where the scheme's NAV is likely to have a high volatility due to its investment policies or portfolio management techniques, a prominent statement drawing attention to this possibility should be included in the marketing material of the scheme.

### Use of financial derivatives

#### *Prospectus*

- 8.3 Where a scheme intends to use or invest in financial derivatives, the prospectus should include the following:
  - a) whether financial derivatives employed in the scheme are used for the purposes of hedging, EPM, optimising returns or a combination of all three objectives;
  - b) the method used to determine the scheme's exposure to financial derivatives (i.e. commitment approach, relative VaR or absolute VaR), a description of the method and:
    - i) if the VaR Approach is used, the expected level of leverage, based on the sum

- of the notional of the derivatives used, and the possibility of higher leverage levels should be included;
- ii) if the relative VaR Approach is used, the reference portfolio (or benchmark) and the rationale for using the reference portfolio (or benchmark) should be included; and
- iii) if the absolute VaR Approach is used, the absolute VaR limit and the rationale for the absolute VaR limit should be included; and
- c) a statement that the manager will ensure that the risk management and compliance procedures are adequate and has been or will be implemented and that it has the necessary expertise to manage the risk relating to the use of financial derivatives.

*Semi-annual and annual report*

8.4 Where a scheme uses or invests in financial derivatives, the semi-annual and annual reports should include the following:

- a) the method and a description of the method used to calculate the global exposure;

Guidance

*The description of the VaR Approach should include at least the lowest, highest and average utilisation of the VaR limit calculated during the relevant period, as well as the model and inputs used for calculation.*

- b) information on the reference portfolio (or benchmark) where the relative VaR Approach is used; and
- c) the level of leverage employed, based on the sum of the notional value of the derivatives used, during the relevant period where the VaR Approach is used.

*Marketing material*

8.5 Where a scheme intends to use or invest in financial derivatives, a prominent statement drawing attention to this intention should be included in the marketing material of the scheme.

Counterparty of financial derivatives

*Prospectus*

8.6 Where the scheme nets its OTC financial derivative positions, the prospectus should include a statement that the manager has obtained the legal opinions as stipulated in paragraph 5.15.

*Semi-annual and annual report*

8.7 Where collateral is used to mitigate the scheme's exposure to the counterparty of OTC financial derivatives, the scheme's semi-annual and annual reports should provide a description of the collateral holdings, including the:

- a) nature of the collateral;
- b) identity of the counterparty providing the collateral;
- c) marked-to-market value of the non-cash collateral with a breakdown by asset class and

credit rating (if applicable); and

- d) value and types of investments made with the cash collateral with a breakdown by asset class and credit rating (if applicable).

#### EPM techniques

##### *Prospectus*

8.8 Where the scheme intends to carry out securities lending or repurchase transactions, the prospectus should contain disclosures on:

- a) all the securities lending or repurchase transactions that the scheme may participate in;
- b) the purpose of the securities lending or repurchase transactions, as well as the conditions and limits within which they are conducted;
- c) any conflicts of interest and how they are mitigated, as well as whether the manager intends to lend the securities of the scheme to its related corporations;
- d) the inherent risks of the securities lending or repurchase transactions; and
- e) the revenue sharing arrangement between the scheme and the manager if any of the income from securities lending also accrues to the manager.

##### *Semi-annual and annual report*

8.9 Where the scheme carries out securities lending or repurchase transactions, the scheme's semi-annual and annual report should contain disclosures on the:

- a) total value of the transferable securities lent;
- b) description and nature of the collateral holdings;
- c) marked-to-market value of non-cash collateral with a breakdown by asset class and credit rating (if applicable);
- d) value and types of investments made with the cash collateral with a breakdown by asset class and credit rating (if applicable);
- e) identity of the counterparty providing the collateral; and
- f) revenue earned by the scheme and the manager arising from securities lending for the scheme's financial year (if applicable).

#### Commodity exposures

##### *Prospectus*

8.10 Where the scheme will have exposures to commodities through financial derivatives or investments referred to in paragraph 2.10 or 2.12(b) of this Appendix, the prospectus should include a description of the commodities which would be highly correlated and therefore treated as giving exposure to the same commodity when applying the limits in section 4 of Appendix 5: Index Funds of the Code, and how such correlation is determined.



## ANNEX 1A

### ILLUSTRATION ON AGGREGATE BENCHMARK LIMIT

For the purpose of paragraph 2.3 of this Appendix, suppose companies A and B are both subsidiaries of Company X (X and its subsidiaries to be collectively known as a “Group”) and the scheme as well as the reference benchmark comply with sections 4 and 5 of Appendix 5 of the Code.

Example 1: Assume that both A and B are not included in the reference benchmark

A scheme may invest up to 10% of its NAV in transferable securities issued by A and another 10% of its NAV in transferable securities issued by B. The scheme may invest up to 20% of its NAV in transferable securities issued by companies in this Group.

Example 2: Assume that A and B are included in the reference benchmark with weights of 2% and 5% respectively

A scheme may invest up to 10% of its NAV in transferable securities issued by A and another 10% of its NAV in transferable securities issued by B. The scheme may invest up to 20% of its NAV in transferable securities issued by this Group.

Example 3: Assume that A is included in the reference benchmark with weight of 20% and B is a deposit-taking institution with which the scheme has placed deposits

A scheme may invest up to 22% [20+2] of its NAV in transferable securities issued by A and another 3% [25-2] in deposits with B.

#### Illustration 5: Illustration on Aggregate Benchmark Limit

## ANNEX 1B

### ALTERNATIVE APPROACH FOR CALCULATING GLOBAL EXPOSURE – VAR APPROACH

#### 1 Scope

- 1.1 These guidelines apply to a scheme which elects to use the VaR Approach for calculating the scheme's exposure to financial derivatives arising from all the positions of the scheme's portfolio. For the avoidance of doubt, all EPM exposures as a result of reinvestment of cash collateral are to be included in the calculation of VaR.
- 1.2 Where an internal VaR model is used by the manager, there should be verification by an operationally independent party of its VaR model at an appropriate frequency.
- 1.3 The manager should consult the Authority on any material changes to the risk management process document referred to in paragraph 3.14 of Appendix 1 at least one month in advance.

#### 2 Calculation Methodology

- 2.1 The exposure of a scheme to financial derivatives may be determined using the VaR Approach described below. The exposure of the scheme should be limited as follows:
  - a) where a reference portfolio (or benchmark for the scheme) can be determined, the scheme should use a relative VaR calculation where the VaR of the scheme should not be more than 1.5 times the VaR of the reference portfolio. The manager should explain the rationale for the reference portfolio (or benchmark) used in the risk management process document submitted to the Authority.
  - b) where there is no reference portfolio (or benchmark for the scheme), an absolute VaR limit should be used. The global exposure of a scheme based on the absolute VaR Approach should generally not exceed 20% of its NAV. The choice of the absolute VaR limit should be commensurate with the investment objective, approach and investment universe of the scheme. The manager should explain the rationale for the absolute VaR limit used in the risk management process document submitted to the Authority.
- 2.2 Under the VaR Approach, the following parameters should be used:
  - One-tailed confidence level: 99%
  - Holding period: one month (20 business days)
  - Observation period: one year (250 business days), unless a shorter period is justified by a significant increase in volatility
  - Update of the data: quarterly
  - Calculation frequency: daily

A different confidence interval or holding period may be used with prior approval of the Authority provided a conversion is made to bring the VaR to an equivalent value.

### **3 Stress Tests**

- 3.1 The manager should perform a rigorous program of stress tests on the scheme at a frequency which is in line with the scheme's risk profile, but at a minimum, monthly.
- 3.2 The program should:
  - a) cover all the risk factors having a non-negligible influence on the scheme's NAV;  
and
  - b) take into account correlation changes between risk factors.

### **4 Back Tests**

- 4.1 The manager should back-test its VaR model, with a frequency which is in line with the scheme's risk profile, but at a minimum, monthly.
- 4.2 Back-testing is the comparison of daily profit or loss ("trading outcomes") with model-generated risk measures. The back-testing policy should conform to the following standards:
  - a) the back-tests to be applied should compare whether the observed percentage of outcomes covered by the risk measure is consistent with a 99th percentile, one-tailed confidence interval calibrated to a one-day holding period;
  - b) trading outcomes used for back-testing should be based on the hypothetical changes in the scheme's NAV which would occur if end-of-day positions were to remain unchanged over the one-day holding period. This hypothetical profit and loss does not account for other factors such as fees, commissions, bid-ask spreads, net interest income and intra-day trading;
  - c) computation of VaR for the purpose of back-testing should be performed on a daily basis using at least 250 business days of observed results. On a quarterly basis, the manager should analyse the back-testing exceptions and submit a report to senior management;
  - d) the results of back-testing and any follow-up action taken should be clearly documented. All back-testing exceptions, i.e. where trading outcomes are not covered by the risk measure, should be investigated and accounted for on a timely basis;
  - e) back-testing exceptions generated should be classified as follows:
    - i) basic integrity of the model;
    - ii) model accuracy can be improved;
    - iii) market moved in a fashion unanticipated by the model;

- f) back-testing exceptions relating to the basic integrity of the risk measurement model should be reported to the manager's board of directors and senior management immediately and rectified as soon as practicable; and
  - g) a back-testing report should be prepared for the manager's board of directors and senior management on a quarterly basis, incorporating an analysis of the back-testing results and exceptions and any implications for the scheme.
- 4.3 The manager should perform back-tests using actual trading outcomes. If there are significant back-testing exceptions using actual trading outcomes, the manager should implement additional risk measures to monitor its intra-day trading risk in line with sound risk management practices.
- 4.4 The following are some examples which may be classified under the three exception categories described in paragraph 4.2 (e):
- a) Basic integrity of the model:
    - i) the systems of the scheme are not capturing the market risk of the positions; or
    - ii) model volatilities or correlations are calculated incorrectly.
  - b) Model accuracy can be improved: the risk measurement model is not assessing the risk of some instruments with sufficient precision (e.g. too few maturity buckets or an omitted spread); and
  - c) Market moved in a manner unanticipated by the model:
    - i) random chance (i.e. a very low probability event);
    - ii) markets moved by more than the model predicted was likely (i.e. volatility was significantly higher than expected); or
    - iii) market did not move together as expected (i.e. correlations were significantly different than what was assumed by the model).
- 4.5 The manager should classify its back-testing outcomes into three zones depending on the number of exceptions arising from back-testing.

<b>Zone</b>	<b>Number of exceptions</b>	<b>Cumulative probability</b>
<b>Green Zone</b>	0	8.1%
	1	28.58%
	2	54.32%
	3	75.81%
	4	89.22%

Yellow Zone	5	95.88%
	6	98.63%
	7	99.60%
	8	99.89%
	9	99.97%
Red Zone	10 or more	99.99%

The table defines the Green, Yellow and Red Zones used to assess back-testing results of the scheme. The boundaries shown in the table are based on a sample of 250 observations. For other sample sizes, the Yellow Zone begins at the point where the cumulative probability equals or exceeds 95%, and the Red Zone begins at the point where the cumulative probability equals or exceeds 99.99%. The cumulative probability is the probability of obtaining equal or less than a given number of exceptions in a sample of 250 observations when the true coverage level is 99%. For example, the cumulative probability shown for four exceptions is the probability of obtaining between zero and four exceptions.

- 4.6 The manager should notify the Authority within three business days whenever exceptions arise. In the event that the scheme enters the:
- a) Green Zone [4 or less exceptions]: the manager need not make any changes to its VaR model;
  - b) Yellow Zone [5 - 9 exceptions]: the manager is to investigate and propose to the Authority the remedial actions; or
  - c) Red Zone [10 or more exceptions]: the manager should stop adding new positions and wind down existing positions in order to reduce market risks.

Where the scheme enters the Red Zone, the Authority may require the scheme to revert to the Commitment Approach.

Guidance

*Although results within the Green Zone are preferred, a market risk measurement model which constantly yields little or no back-testing exceptions may suggest that the model is too conservative. If the model shows no exceptions for long periods of time, the manager should reassess its model to determine if it overstates risk.*

- 4.7 Where the market risk measurement model is found to be inadequate for modeling the risks involved, the manager may continue investing in such financial instruments only if the manager is reasonably satisfied that it is prudent to do so. If the problem with the model is significant, the manager should cease trading in those financial instruments immediately.

## Appendix 2 - Money Market Funds Investment Guidelines

### 1 Scope

- 1.1 This Appendix applies to a scheme which invests in high-quality debt securities and money market instruments or places eligible deposits with eligible financial institutions.
- 1.2 This Appendix does not apply to schemes that invest in debt securities and money market instruments or places eligible deposits as part of a diversified portfolio and those whose objective is to invest in riskier, higher yielding debt securities. The applicable provisions for such schemes are set out in Appendix 1 of the Code.
- 1.3 The provisions in sections 1 to 4 (other than paragraphs 1.3, 1.6, 1.7, 4.1 and 4.8) of Appendix 1 do not apply to a money market fund.

### 2 Name and Description of Scheme

- 2.1 The name of a money market fund should not appear to draw a parallel with the placement of cash on deposit.
- 2.2 A scheme that does not comply with the guidelines in this Appendix should not hold itself out as a money market fund in any communication, including marketing material, relating to the scheme. Such a scheme should not adopt the term “money market” as part of its name, or a name that suggests that it is a money market fund or the equivalent of a money market fund.

#### Guidance

*For example, names with terms such as “cash” or “liquid” are not allowed for schemes which do not comply with the guidelines in this Appendix.*

- 2.3 A scheme which adopts the term “Short-Term Money Market Fund” as part of its name or has a name that suggests that it is the equivalent of a short-term money market fund, or which holds itself out as a short-term money market fund in any communication, including marketing material, relating to the scheme, should comply with paragraphs 5.3 and 5.4 of this Appendix. For the avoidance of doubt, a short-term money market fund should comply with all other provisions in this Appendix.

### 3 Permissible Investments

- 3.1 For the purposes of this Appendix, a money market fund’s underlying investments may only consist of the following:
  - (a) high quality bonds and other securitised debt instruments (including government bonds, corporate bonds, floating rate notes and asset-backed securities);
  - (b) high quality money market instruments (including bank certificates of deposit, banker’s acceptances, commercial papers, trade bills and Treasury bills)(collectively, “non-deposit investments”);
  - (c) deposits placed with eligible financial institutions (“eligible deposits”); and

- (d) financial derivatives.

Guidance

*A debt security or money market instrument which embeds a financial derivative is not a permissible investment.*

3.2 For the purposes of paragraph 3.1 of this Appendix:

- (a) a “high-quality” debt security or money market instrument is one:-
  - (i) with either a minimum short-term credit rating of F-2 by Fitch, P-2 by Moody's or A-2 by Standard and Poor's, or where it only has a long-term credit rating, such a rating of A by Fitch, A by Moody's or A by Standard and Poor's (including such sub-categories or gradations therein);
  - (ii) issued by supranational agencies or other foreign entities and rated other than by the credit rating organisations specified in paragraph 3.2(a)(i), for which the Managers have satisfied the Trustee that the quality of the debt security or money market instrument is comparable to those with the ratings specified in paragraph 3.2(a)(i) above; or
  - (iii) issued by a Singapore entity, including the Singapore Government and statutory boards, and is not rated, for which the Managers have satisfied the Trustee that the quality of the debt security or money market instrument is comparable to those with the ratings specified in paragraph 3.2(a)(i) above;
- (b) “eligible deposits” refer to deposits with banks licensed under the Banking Act (Cap. 19), finance companies licensed under the Finance Companies Act (Cap. 108), merchant banks approved as financial institutions under section 28 of the Monetary Authority of Singapore Act (Cap. 186) or any other deposit-taking institution licensed under an equivalent law in a foreign jurisdiction; and
- (c) an “eligible financial institution” is:-
  - (i) a financial institution which has a minimum short-term rating of F-2 by Fitch, P-2 by Moody's or A-2 by Standard and Poor's (including such sub-categories or gradations therein);
  - (ii) a financial institution rated other than by the credit rating organisations specified in paragraph 3.2(c)(i) above for which the Managers have satisfied the Trustee that its short-term rating is comparable to the ratings in paragraph 3.2(c)(i) above; or
  - (iii) a Singapore-incorporated bank licensed under the Banking Act (Cap. 19) which is not rated, but has been approved under the CPFIS to accept fixed deposits.

## 4 Spread of Investments

### Exposure Limit

- 4.1 A money market fund should invest at least 90% of its net asset value in:-
- (a) high-quality debt securities and money market instruments traded on an organised market; and
  - (b) eligible deposits placed with eligible financial institutions.

For the avoidance of doubt, the remainder of up to 10% of the money market fund's net asset value may be invested in high-quality debt instruments and money market instruments not traded on an organised market.

### Group Limit

- 4.2 Aggregate investments in, or exposures to, a group of entities through:
- (a) non-deposit investments;
  - (b) eligible deposits; and
  - (c) counterparty risk exposure arising from the use of OTC financial derivatives,
- should not exceed 10% of the money market fund's net asset value ("group limit"). For the purposes of this paragraph, a group of entities refers to an entity, its subsidiaries, fellow subsidiaries and its holding company.

### Guidance 1

*Non-deposit investments issued by a trust should be included in the group limit.*

### Guidance 2

*The group of entities referred to in the group limit also applies to aggregate investments in, or exposures to, special purpose vehicles (SPVs) where the substance of the relationship between a sponsor and its SPV determined in accordance with the Interpretation of Financial Reporting Standard 12, indicates that the SPV is controlled by that sponsor.*

### Group limit with respect to banks in Singapore

- 4.3 The group limit in paragraph 4.2 may be raised to 20% of the money market fund's net asset value where the money market fund invests in non-deposit investments issued by, and places Singapore-dollar deposits with, an eligible financial institution which is a bank in Singapore as defined in the Banking Act (Cap. 19).
- 4.4 The group limit in paragraph 4.2 may be raised to 30% of the money market fund's net asset value where the money market fund invests in non-deposit investments issued by, and places Singapore-dollar deposits with, an eligible financial institution which is a bank in Singapore as defined in the Banking Act (Cap. 19) and has a minimum short-term rating of F-1 by Fitch, P-1 by Moody's or A-1 by Standard & Poor's (including such sub-categories or gradations therein).



4.5 Notwithstanding paragraphs 4.3 and 4.4, aggregate investments in, or exposures to, a group of entities through:

- (a) non-deposit investments; and
- (b) counterparty risk exposures arising from the use of OTC financial derivatives

should not exceed 10% of the money market fund's net asset value.

Group limit with respect to government and other public bodies

4.6 The group limit in paragraph 4.2 does not apply where the issuing entity or trust is, or the issue has the benefit of a guarantee from, a government, government agency or supra-national agency that has:-

- (a) a minimum short-term rating of F-1 by Fitch, P-1 by Moody's or A-1 by Standard and Poor's (including such sub-categories or gradations therein); or
- (b) where the government, government agency or supra-national agency only has a long-term rating, a minimum long-term rating of AAA by Fitch, Aaa by Moody's or AAA by Standard and Poor's (including such sub-categories or gradation therein).

4.7 Notwithstanding paragraph 4.6, not more than 30% of the money market fund's net asset value may be invested in any single issue of non-deposit investments by the same entity or trust.

Short-term deposits

4.8 The group limit does not apply to placements of eligible deposits arising from:-

- (a) subscription monies received at any point in time pending the commencement of investment by the money market fund; or
- (b) liquidation of investments prior to the termination or maturity of a money market fund, where the placing of these monies with various institutions would not be in the interests of participants.

Concentration limit

4.9 A money market fund should not invest in more than:-

- (a) 10% of each individual issuance of debt securities of any single issuing entity or trust, where such issuance is not part of a debt issuance programme; or where debt securities are issued under a debt issuance programme, 20% of each tranche, subject to a limit of 10% of the overall programme size; and
- (b) 10% of the money market instruments of a single issuing entity or trust.

**5 Term to Maturity and Average Portfolio Maturity of Investments**

5.1 A money market fund may only invest in non-deposit investments with a remaining term to maturity of not more than two years.

5.2 A money market fund should maintain a dollar-weighted average portfolio maturity that does not exceed 12 months. The dollar-weighted average portfolio maturity should be calculated

based on each non-deposit investment's remaining term to maturity and weighted based on the market value of the non-deposit investments.

#### Short-Term Money Market Fund

- 5.3 A short-term money market fund may only invest in non-deposit investments with a remaining term to maturity of not more than 397 calendar days.
- 5.4 A short-term money market fund should maintain a dollar-weighted average portfolio maturity that does not exceed 120 calendar days. The dollar-weighted average portfolio maturity should be calculated based on each non-deposit investment's remaining term to maturity and weighted based on the market value of the non-deposit investments.

### **6 Use of Financial Derivatives**

- 6.1 A money market fund may only invest in financial derivatives for the purpose of hedging existing positions in the portfolio.
- 6.2 For the purposes of paragraph 6.1 of this Appendix, the hedging arrangements should:
- (a) not aim to generate a return;
  - (b) result in an overall verifiable reduction of the risk of the scheme;
  - (c) offset the general and specific risks linked to the underlying being hedged;
  - (d) relate to the same asset class being hedged; and
  - (e) be able to meet its hedging objective in all market conditions.
- 6.3 The limits in paragraphs 4.2 to 4.7 of this Appendix should apply to the underlying assets of financial derivatives.

### **7 Efficient Portfolio Management Techniques**

- 7.1 A money market fund may carry out securities lending and repurchase transactions for the sole purpose of efficient portfolio management.
- 7.2 A money market fund may not reinvest collateral received pursuant to securities lending or repurchase transactions to generate a return in excess of high quality 3-month government bonds.

### **8 Downgrade in Rating or Event of Default**

- 8.1 Notwithstanding chapter 7.2(b) of the Code, where:-
- (a) a non-deposit investment ceases to be of high-quality;
  - (b) the rating of the government, government agency or supra-national agency that issues or guarantees the non-deposit investment falls below those set out in paragraph 4.6;
  - (c) a money market fund has placed deposits with a financial institution:-
    - (i) that ceases to be an eligible financial institution; or

- (ii) whose rating falls below those specified in paragraph 4.4;
- (d) there is a default with respect to a permissible investment in the portfolio of the money market fund; or
- (e) an event of insolvency occurs with respect to the issuer of a non-deposit investment in the portfolio of the money market fund,

the Managers should within 1 month from the date of the specified event dispose of such non-deposit instrument or withdraw such deposit unless the Managers have satisfied the Trustee that it is not in the best interest of the investors to do so, in which case, such disposal or withdrawal should be carried out as soon as the circumstances permit or as soon as it is not commercially punitive. Such extension should be subject to monthly review by the Trustee.

## **9 Disclosure Requirements**

9.1 The money market fund's semi-annual and annual reports should contain disclosures on:

- (a) the distribution of non-deposit investments in dollar and percentage terms by:
  - (i) type; and
  - (ii) credit rating; and
- (b) the term to maturity profile of the money market fund's underlying investments, such as the distribution of investments grouped by similar maturities.

### Guidance

*For example, up to 30 days, 31 – 60 days, 61 – 90 days, 91 - 120 days and 121 – 180 days.*

PHILLIP INVESTMENT FUNDS

PROSPECTUS

BOARD OF DIRECTORS OF PHILLIP CAPITAL MANAGEMENT (S) LTD

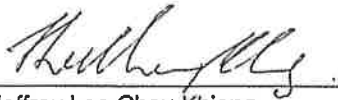
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Lim Hua Min  
Director

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Jeffrey Lee Chay Khiong  
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Linus Lim Wen Sheong  
Director

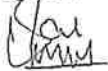
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Lee Ken Hoon  
Director

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Lim Wah Sai  
Director

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Louis Wong Wai Kit  
Director