



PHILLIP SELECT FUND

- Phillip Singapore Real Estate Income Fund

Prospectus

Dated 28 October 2016

PHILLIP SELECT FUND

Important Information

The managers of Phillip Select Fund (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.

This prospectus does not constitute an offer or solicitation for the purchase of units of the Fund ("**Units**") to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and may be used only in connection with this offering of Units by the Managers or their approved agents or distributors.

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

No application has been made for the Units in the Fund 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; and (c) 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 also consider the risks of investing in securities which are summarised in paragraph 9 of this Prospectus.

Restriction on U.S. Persons on subscribing to our funds

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.

In order to comply with its FATCA obligations, the Fund may be required to obtain certain information from its investors so as to ascertain their U.S. tax status. If the investor is a Specified U.S. Person under the provisions of FATCA, U.S. owned non-U.S. entity, non-participating FFI or does not provide the requisite documentation, the Fund will need to report information on these investors to the Inland Revenue Authority of Singapore, in accordance with applicable laws and regulations, which will in turn report this to the IRS.

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.

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 appointed), 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 SELECT FUND

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

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*The sub-fund of the Phillip Select Fund offered in this Prospectus is an authorised scheme 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 ("**Authority**"). The Authority assumes no responsibility for the contents of this Prospectus. The registration of this Prospectus by the Authority does not imply that the SFA, or any other legal or regulatory requirements have been complied with. The Authority 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 constituting the Fund.*

1. Basic Information

1.1 Phillip Select Fund

The Fund is an umbrella fund constituted in Singapore. An umbrella fund is a collection of one or more sub-funds under a single umbrella trust fund structure with each sub-fund having a separate investment objective and focus. The range of sub-funds allows investors to select and allocate their assets in different investment opportunities under the Fund.

Currently, the Managers are offering the Phillip Singapore Real Estate Income Fund (the "**Sub-Fund**") for subscription. In the future, the Managers may add new sub-funds with different investment objectives to the Fund.

With effect from 29 October 2015, the Phillip Singapore Real Estate Income Fund is a Qualifying CIS¹ under the ASEAN CIS Framework².

1.2 Date of Registration and Expiry Date of Prospectus

The date of registration of this Prospectus with the Authority is 28 October 2016. This Prospectus shall be valid for 12 months after the date of registration (i.e., up to and including 27 October 2017) and shall expire on 28 October 2017.

1.3 Trust Deed

1.3.1 The deed of trust relating to the interests being offered for subscription or purchase is dated 12 July 2011 (the "**Original Deed**") and has been amended by a First Amending and Restating Deed dated 12 July 2012, a Second Amending and Restating Deed dated 29 October 2012, a Third Amending and Restating Deed dated 29 October 2013, a Fourth Amending and Restating Deed dated 29 October 2014, a Fifth Amending and Restating Deed dated 29 October 2015 and a Sixth Amending and Restating Deed dated 28 October 2016. The Original Deed as amended by the First 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 and the Sixth Amending and Restating Deed shall hereinafter be collectively referred to as the "**Deed**".

1.3.2 The parties to the Deed are Phillip Capital Management (S) Ltd, as the managers (the "**Managers**") and BNP Paribas Trust Services Singapore Limited, as the trustee (the "**Trustee**").

¹ "**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.

² "**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 13th ASEAN Finance Ministers' Meeting. "**ACMF**" means the ASEAN Capital Markets Forum.

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.

1.3.4 A copy of the Deed shall be made available for inspection free of charge, 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 and will be supplied by the Managers to any person upon request at a charge of SGD20 per copy of the document (or such other amount as the Trustee and the Managers may from time to time agree in writing).

1.4 Accounts and Reports

Copies of the latest annual and semi-annual accounts and reports as well as the auditor's report on the annual accounts relating to the Sub-Fund 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 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, U.S., France, Japan, China, Hong Kong (SAR), Malaysia, Thailand, Indonesia, Sri Lanka, Turkey and Australia. The Managers are regulated by the Authority.

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 investment funds managed by the Managers include the following: Phillip Asia Pacific Growth Fund, Phillip Money Market Fund, Phillip Income Fund, Pi-5 Global Portfolio, Pi-7 Global Portfolio, Global Opportunities Fund, Phillip US Dollar Money Market Fund 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 have a team of committed and experienced fund managers whose investment decisions are executed after in-depth research and analysis. In addition, the Managers have an established track record managing funds investing in the Asia Pacific region and globally, having won several fund awards from Standard & Poor's and Lipper since 2003. The Managers were awarded Best Equity Fund Group over 3 years by Edge-Lipper Singapore for 2004, 2005 and 2006.

Phillip Asia Pacific Growth Fund was the winner of several Standard & Poor's Fund Awards Singapore: Equity Asia-Pacific – 3 years Category for 2004, 2005 and 2006 and was also the winner of Equity Asia-Pacific – 5 years Category for 2004, 2005, 2006 and 2007. Phillip Asia-Pacific Growth Fund also won various awards from the Edge-Lipper Singapore Fund Awards, including Best Fund over One Year and Three Years – Equity Asia Pacific in 2004, Best Fund over Five Years - Equity Asia Pacific awarded in 2005, 2006 and 2007, and Best Fund over Ten Years - Equity Asia Pacific in 2010.

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. Wah Sai 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. Louis 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. He is also the Investment Advisor to an authorized fund in Thailand which primarily invests in Hong Kong and China. Louis obtained his Bachelor's of Arts (Honours) degree from the University of Hong Kong.

The key executive of the Managers in respect of the Sub-Fund 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 licensed and 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 relevant 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 Phillip Singapore Real Estate Income Fund.

The Sub-Fund is an open-ended unit trust. The Sub-Fund will issue Units denominated in USD and SGD. The assets of the Sub-Fund will be valued in SGD (base currency).

Classes of Units

The Managers may establish Classes of Units within the Sub-Fund. Different Classes within the Sub-Fund may have different features including but not limited to different fees, currency denomination or minimum investment amounts. 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. Investors should refer to Appendix 1 for the Classes available for investment and the different features which apply.

Currently, the Managers are offering 4 Classes of Units, namely Class A SGD Units, Class A USD Units, Class I SGD Units and Class I USD Units for the Sub-Fund. Class A SGD Units and Class A USD Units are offered to investors who invest SGD1,000 or USD1,000 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.

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. Different Classes of Units in the Sub-Fund may be offered in different jurisdictions at the Managers' discretion under the ASEAN CIS Framework.

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 Day³ in the currency of the relevant Class. It will be calculated by dividing the net asset value attributable to each Class, being the

³ "**Dealing Day**", in connection with the issuance and realisation of Units of a particular Sub-Fund, means every Business Day or such other Business Day or Business Days or such other day or 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 or over the counter market on which Investments or other property comprised in, and having in aggregate values amounting to at least 50 per cent. 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 a day on which banks in Singapore are normally open for business (except Saturdays, Sundays and gazetted public holidays).

proportionate value of its assets less its liabilities, 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.

7. Investment Objective, Focus and Approach

7.1 Investment Objective, Focus and Approach

The investment objective, focus and approach and other features specific to the Sub-Fund are set out in Appendix 1.

7.2 Authorised Investments

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

- (i) any Quoted Investment⁴;
- (ii) any Investment⁵ in respect of which application for listing or for permission to deal has been made to a Recognised Stock Exchange⁶ 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 Investment⁷;
- (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;
- (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

⁴ “**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.

⁵ “**Investment**” means any permissible investments set out in the Code, 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, exchange-traded fund, warrant, real estate investment trust, business trust 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.

⁶ “**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.

⁷ “**Unquoted Investment**” means any Investment which is not quoted, listed or dealt in on any Recognised Stock Exchange.

- (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 Sub-Fund and approved in writing by the Trustee,

provided that each of such investments falling within paragraphs (i) to (vii) of this definition shall (1) be a Permissible Investment⁸ under the Code on Collective Investment Scheme (“Code”) issued by the Authority; and (2) in relation to the Phillip Singapore Real Estate Income Fund and for so long as it is a Qualifying CIS, also be an eligible asset under Part II of the Standards of Qualifying CIS⁹ 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

The fees and charges of the Sub-Fund are set out in Appendix 1.

9. Risks

9.1 General Risks

Investors should consider and satisfy themselves as to the risks of investing in the Sub-Fund. 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. There can be no assurance that the Sub-Fund will achieve its investment objective or that investors will get back their original investment.

An investment in the Sub-Fund is meant to produce returns over the medium to long term. Investors should not expect to obtain short-term gains from such investment. Although it is the Managers’ intention to pay out dividends with respect to the Sub-Fund, this objective may not be achieved.

Investors should obtain advice from qualified financial advisers pursuant to a separate engagement before investing or subscribing into the Sub-Fund. In the event that investors choose not to obtain advice from qualified financial advisers, investors should assess and consider whether the Sub-Fund is suitable for them.

9.2 Specific Risks

9.2.1 Political and Repatriation Risks

Investments by the Managers in certain countries included in the investment universe of the 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 the Sub-Fund may not be as extensive as those in the countries of the world's leading stock

⁸ “Permissible Investment(s)” means such Investment as may be permitted to be made by the Fund under the Code.

⁹ “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”.

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 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 the Sub-Fund to rise or fall.

9.2.4 Foreign Investment Risk

While the 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. The Sub-Fund may seek, whenever such freedom is curtailed, to obtain adequate compensation.

9.2.5 Emerging Market Risks

The Sub-Fund may be investing in emerging markets which may be subject to higher political risks, regulatory risks and liquidity risks than investments in developed markets. Due to many emerging markets undergoing rapid growth, there is less regulation and there may be less public information about companies listed on such markets as compared to other stock markets. Investors would have to take into consideration that trading volumes in emerging markets may be substantially less than in the world's leading stock markets and trades may have to be conducted at less favourable prices. Investments in emerging markets are also subject to repatriation risks. Many emerging markets have restricted foreign investment policies although liberalisation continues. Emerging markets may not have fully developed custodian and settlement services and therefore investments in such markets are subject to a greater degree of risk.

9.2.6 Market Risks

Trading volumes in stock markets of certain countries included in the investment universe of the 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 prices of Units in the Sub-Fund.

9.2.7 Actions of Institutional Investors

The Managers may accept subscriptions from institutional investors and such subscriptions may constitute a large portion of the total investments in the Sub-Fund. Whilst these institutional investors will not have any control over the Managers' investment decisions, the actions of such investors may have a material effect on the Sub-Fund. For example, substantial realisations of Units by an institutional investor over a short period of time could necessitate the liquidation of the Sub-Fund's assets at a time and in a manner which does not provide the most economic advantage to the Sub-Fund and which would therefore adversely affect the value of the Sub-Fund's assets.

9.2.8 Convertible Bond Risk

The Sub-Fund may invest in convertible bonds, which are a hybrid between debt and equity, permitting holders to convert into shares or stocks of the issuer at a future date. Investments in convertible bonds (which have embedded derivatives) entail a greater volatility than straight bond investments, with an increased risk of capital loss, but with the potential of higher returns.

9.2.9 Credit Risk

Adverse changes in the financial condition of the issuer of the debt securities which the Sub-Fund is invested in, or in general economic conditions, or both, or an unanticipated rise in interest rate, may increase the potential for default and investors may suffer a substantial loss as a result.

9.2.10 Currency Risk

Investments by the Sub-Fund are made in SGD and may also be made in a variety of other currencies, whereas the net asset value of the Sub-Fund at any time will be computed in its base currency (in SGD) and subscriptions into the Sub-Fund may be made in either SGD or USD, depending on the Class invested into. The Managers do not intend to hedge such foreign currency exposure. Accordingly, investors will be exposed to exchange rate risks.

9.2.11 Risks of Investing in REITs

Real Estate Investment Trusts (“REITs”) are dependent on specialized management skills. Some REITs may have limited diversification and may be subject to risks inherent in financing a limited number of properties. REITs depend generally on their ability to generate cash flows to make distributions to shareholders or unitholders, and may be subject to defaults by borrowers and tenants of properties owned by such REITs. In addition, the performance of a REIT may be adversely affected if it fails to qualify for tax-free-pass-through of income under laws applicable to such REIT.

REITs may also be subject to financial covenants and/or borrowing/gearing ratios and their ability to comply with such ratios could be adversely affected if the REITs are unable to obtain funds from investors or loans or re-finance existing debt.

Investments in REITs and other issuers that invest, deal or otherwise engage in transactions in or hold real estate or interests therein expose the Sub-Fund to risks similar to investing directly in real estate. For example, real estate values may fluctuate as a result of general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, changes in zoning laws, casualty or condemnation losses, regulatory limitations on rents, changes in neighbourhood values, changes in how appealing properties are to tenants, increases in interest rates and unexpected interruptions such as natural disasters, terrorist attacks or other unforeseeable events.

9.2.12 Derivatives Risks

Use and risks associated with use of financial derivative instruments (“FDIs”)

The Managers may, as disclosed in Appendix 1, use FDIs solely for the purposes of hedging existing positions in a portfolio and/or efficient portfolio management.

In relation to the Sub-Fund, the Managers may only 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-Fund include, but are not limited to futures, options, warrants, forwards, contract for differences, extended settlement contracts, swaps or swap options. The Sub-Fund will not have exposures to commodities through financial derivatives.

Risks Associated with the use of FDIs

The use of FDIs involves increased risk. The 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, the 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, the 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 exchanges¹⁰, such as the performance guarantee of an exchange clearing house. The Sub-Fund may be subject to the possibility of insolvency, bankruptcy or default of a counterparty with which that Sub-Fund trades, which could result in substantial losses to the 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.

Exposure to FDIs

The Managers confirm that the global exposure of the Sub-Fund to FDIs or embedded FDIs will not exceed 100% 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 the Appendix to the Standards of Qualifying CIS and for so long as the Sub-Fund 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 risks relating to 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 the Sub-Fund.

¹⁰ "organised exchange" refers to an exchange that is an organised market.
"organised market" refers to an exchange, over-the-counter market or government securities market:
(i) that is of good repute;
(ii) that is open to the public or a substantial number of market participants; and
(iii) on which financial instruments are regularly traded.

Netting

The Sub-Fund intends to net its OTC financial derivative positions. The Managers will obtain the legal opinions as stipulated in paragraph 5.15 of Appendix 1 of the Code.

9.2.13 Concentration risk

The Sub-Fund focuses on REITs listed in Singapore and may be less diversified compared to a regional equity fund or a fund which invests into REITs listed regionally in various jurisdictions. To the extent that an industry or a geographical region in which the Sub-Fund invests falls out of favour, the Sub-Fund's performance may be negatively affected. This effect may be heightened because the Sub-Fund generally holds a smaller number of securities.

The above should not be considered to be an exhaustive list of the risks which potential investors should consider before investing in the Sub-Fund. Potential investors should be aware that an investment in the Sub-Fund 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-Fund or any Class of Units of the Sub-Fund 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 Units either in cash or Supplementary Retirement Scheme ("**SRS**") monies.

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 in SGD and USD for the SGD and USD Classes respectively for the Sub-Fund. Units will generally only be issued when subscription monies have been received by the Trustee on a cleared funds basis, although the Managers may at their discretion issue Units before the Trustee receives full payment in cleared funds.

For compliance with the laws and regulations on anti-money laundering and countering the financing of terrorism, the Managers or their approved distributors reserve the right to request such information and/or documents as is necessary to verify the identity of an applicant.

10.2 Minimum Initial Subscription Amount and Minimum Subsequent Subscription Amount

The minimum amounts for initial and subsequent subscriptions are set out in Appendix 1.

10.3 Dealing deadline and pricing basis

As Units of the Sub-Fund are issued on a forward pricing basis, the issue price of Units is not known at the time of application. In buying Units, an investor pays a fixed amount of money (being the minimum initial subscription amount), which will buy the investor such number of Units obtained from dividing that sum (net of the Subscription Fee, Fiscal and Purchase Charges and any rounding in respect thereof) by the issue price when it is known 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 the Sub-Fund on each Dealing Day shall be an amount equal to the net asset value per Unit of the Sub-Fund as provided for in Clause 10(C) of the Deed as at the Valuation Point¹¹ 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 the investors should be informed of such changes.

The net asset value of the Sub-Fund shall be calculated by valuing the assets of the Sub-Fund in accordance with the valuation provisions as provided in paragraph 20.8 of this Prospectus. The resultant sum shall be divided by the number of Units 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 or by such other truncation or rounding method 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 the Sub-Fund on such Dealing Day.

10.4 Numerical examples of how Units are allotted:

The number of Units you receive in Class A SGD of the Sub-Fund with an investment of SGD1,000.00*, based on a Subscription Fee of 3% and a notional issue price of SGD1.0000, will be calculated as follows:

e.g	SGD1,000	-	SGD30	=	SGD970	÷	SGD1.0000	=	970.00 Units
	Your Investment		3% Subscription Fee		Your Net Investment		Issue price		No. of Units you will receive

* Or in USD for Class A USD Units.

The number of Units to be issued to an investor will be rounded down to two decimal places (the method of adjustment and the number of decimal places to which adjustment occurs may be varied by the Managers from time to time with the approval of the Trustee).

The above example is for illustration purposes only and is not an indication of the future or likely performance of the Sub-Fund. 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 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 14 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 the Sub-Fund within 7 calendar days from the date of initial subscription or purchase of Units (or such

¹¹ "Valuation Point" means the close of business in the last relevant market or such other time on a Valuation Day as the Managers may, with the prior approval of the Trustee, from time to time determine, and the Trustee shall determine if notice should be given to Holders of the relevant Sub-Fund of such change.

"Valuation Day" means such Dealing Day determined by the Managers at the time of establishment of the Sub-Fund on which the Net Asset Value of the Sub-Fund falls to be calculated, or such other day or days as the Managers may, with the prior approval of the Trustee, from time to time determine, and the Trustee shall determine if notice should be given to the Holders of the relevant Sub-Fund of such change.

longer period as may be agreed between the Managers and the Trustee or such other period as may be prescribed by the Authority) by providing notice in writing to the Managers or their authorised agents or distributors. 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 Sub-Fund.

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

10.7 Return of Contributions

Notwithstanding receipt of the application forms, the Managers shall retain the absolute discretion to accept or reject any application for Units in accordance with the provisions of the Deed. In the event that an application for Units is rejected by the Managers, the subscription monies shall be refunded (without interest) to the investor within a reasonable time in such manner as the Managers or their relevant authorized agent or distributor shall determine.

11. Regular Savings Plan

For investors who wish to participate in the regular savings plan scheme ("**RSP**"), the minimum initial investment and the minimum monthly investment are set out in Appendix 1.

Payment for the RSP will be debited from the investors' bank account or SRS Account (as the case may be) on the 4th 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 investor. After 2 consecutive unsuccessful debits, the RSP will be terminated and no notification of such termination will be sent to the investor.

The Managers shall not assume any liability for any losses arising from the investor's 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.

The Managers reserve the right to terminate or suspend the RSP at any time in its absolute discretion by giving prior notice to the affected investors. The Managers shall not assume any liability for any losses attributable pursuant to the termination or suspension of the RSP.

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 the 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 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 15(G)(i) of the Deed, limit the total number of Units to 10% of the total number of Units then in issue, such limitation to be applied

proportionately to all investors in relation to a 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 the Sub-Fund or Class of the Sub-Fund in full or partially. Partial realisation of Units in the Sub-Fund or Class of the Sub-Fund must be of at least 100 Units, subject to a minimum holding ("**Minimum Holding**") of (i) 1,000 Units (for Class A SGD Units and Class A USD Units; and (ii) 500,000 Units for Class I SGD Units and Class I USD Units or such other number of Units as the Managers may from time to time prescribe and subject to the Managers' sole discretion upon giving prior notice to the Trustee. Units realised may at the option of the Managers be subject to a Realisation Fee¹². However, the Managers are currently not imposing a Realisation Fee.

12.3 Dealing deadline and pricing basis

Investors may realise their Units 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.

The realisation price per Unit (as provided in Clause 15(F) of the Deed) on each Dealing Day shall be an amount equal to the net asset value per Unit (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) and taking into account the Realisation Fee, where applicable. The amount due to an investor on the realisation of such a Unit shall be the realisation price per Unit (less any Realisation Fee, 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 15(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 1,000.00 Units of Class A SGD of the Sub-Fund and based on a notional realisation price of SGD1.0000

e.g.	1,000.00 Units	x	SGD1.0000	=	SGD1,000	-	SGD 0	=	SGD1,000*
	Your realisation request		Realisation Price		Your realisation proceeds		Realisation Fee (which is currently nil)		Your net realisation proceeds

* Or in USD for Class A USD Units. No Realisation Fee is currently imposed.

The above example is for illustration purposes only and is not an indication of the future or likely performance of the Sub-Fund. The actual realisation price will fluctuate according to the net asset value of the Sub-Fund. No Realisation Fee is imposed presently.

¹² "**Realisation Fee**" 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 3% of the realisation price.

12.5 Payment of realisation proceeds

- (a) Realisation proceeds shall normally be directly credited or be paid by cheque usually within 6 Business Days (in the case of realisations in Singapore) and 7 Business Days (in the case of realisations in the host jurisdiction, as long as the Sub-Fund 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) 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(c) or otherwise in accordance with any applicable law, regulations or guidelines.
- (c) The realisation proceeds will be paid in the currency of the Class of Units being redeemed.
- (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.
- (e) If an investor is resident outside Singapore, the Managers shall be entitled to deduct from the total amount (which would otherwise be payable on the purchase from the investor) an amount equal to the excess of the expenses actually incurred over the amount of expenses which would have been incurred if the investor had been resident in Singapore.

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 Holders 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 15(F)(i) of the Deed on realisations.

13. Switching of Units

Investors may switch Units of a Sub-Fund (the "**original Sub-Fund**") with units of any other collective investment scheme 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. No switching fee is presently imposed.

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 a new Fund.

Presently, no switching is permitted between the Classes but the Managers reserve the discretion to permit this in the future.

14. Obtaining Prices of Units

The indicative issue and realisation prices may be published in The Business Times, Bloomberg, Reuters and 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.

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-Fund or Class of the Sub-Fund 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 which in the opinion of the Managers and the Trustee might seriously prejudice the interests of the Holders;
 - (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 the collective investment schemes or mutual funds (including REITs) into which the Sub-Fund invests a material proportion (50% or more) is suspended or restricted;
 - (v) 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;
 - (vi) in respect of the Sub-Fund 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 Sub-Fund or Class of the Sub-Fund (or any adjourned meeting thereof);
 - (vii) any period where dealing of Units is suspended pursuant to any order or direction of the Authority;
 - (viii) any period when the business operations of the Managers or the Trustee in relation to the operation of the Sub-Fund or 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
 - (ix) any period as may be required under the provisions of the Code.
- (B) Without affecting the generality of sub-Clause (A) above, for so long as the Sub-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 the Sub-Fund or any Class of the Sub-Fund when (i) dealings in a material portion of the assets of the Sub-Fund are restricted or suspended, provided that the Trustee is consulted; (ii) it is not in the best interests of the Holders of the Sub-Fund to liquidate a material portion of the assets of the Sub-Fund, provided that the Trustee's approval is obtained; (iii) the market value or fair value of a material portion of the assets of the Sub-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 the Sub-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 the Sub-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 15(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-Fund and its Benchmark

16.1 Past performance

The performance details and benchmark of the Sub-Fund are set out in Appendix 1.

Investors should note that the past performance of the Sub-Fund is not necessarily indicative of the future performance of the Sub-Fund.

16.2 Expense ratio

The expense ratio of the Sub-Fund is set out in Appendix 1.

16.3 Turnover ratio

The turnover ratio of the Sub-Fund is set out in Appendix 1.

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 Sub-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, assist the Managers in their management of the Sub-Fund, provided that the Managers shall ensure at all times that transactions are executed on the best available terms 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 or arising out of any other transactions for the account of the Sub-Fund.

18. Conflicts of Interest

The Managers may from time to time have to deal with competing or conflicting interests of the Sub-Fund 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-Fund, as a decision whether or not to make the same investment or sale for the Sub-Fund depends on factors such as the cash availability and portfolio balance of the Sub-Fund. However, the Managers will use reasonable endeavours at all times to act fairly and in the interests of the Sub-Fund. 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-Fund, the Managers will endeavour to ensure that securities bought and sold will be allocated proportionately as far as possible among the Sub-Fund and the other funds managed by the Managers.

The Managers, their directors and related companies may invest in the Sub-Fund. 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 the 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.

The Trustee and its associates is or may be involved in other financial, investment and professional activities which may on occasion cause conflict of interest within the management of the Sub-Fund. Associates of the Trustee may be engaged to provide banking, brokerage or financial services to the Sub-Fund, including but not limited to trustee and custodial and registrar services; or buying, holding and dealing in any investments; entering into contracts or other arrangements with the trustee; serving as directors, officers, advisers or agents of other funds or other companies, including companies in which the Sub-Fund may invest, and making profits from these activities. Such services or activities when provided or undertaken, will be at arm's length. The Trustee will ensure that the performance of its duties will not be impaired by any such involvement that it may have. In the event that a conflict of interest does arise, the Trustee shall endeavour to ensure that it is resolved fairly and in the interest of investors.

The Managers and the Trustee shall conduct all transactions with or for the Sub-Fund on an arm's length basis.

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

19. Reports

The financial year-end of the Fund is 30 September each year. The annual report, annual accounts and the auditor's report on the annual accounts will be prepared and sent 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 Authority). The semi-annual report and semi-annual accounts will be prepared and sent 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 Authority), i.e. 31 March each year. In cases where the accounts and reports are available in electronic form, 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 Change of Investment Policy

The Manager may, subject to the provisions of the Deed and with the prior approval of the Trustee, change the investment policy of the Sub-Fund upon giving the Authority and investors 1 month's prior written notice.

20.2 Information on investments

At the end of each quarter, investors will receive a statement showing the value of their investment, including any transactions during the quarter. However, if there is any transaction within a particular month, investors will receive an additional statement at the end of that month.

20.3 Distribution of income and/or capital

The Managers have the sole discretion to determine whether any distribution of income and/or capital of the Sub-Fund should be made.

In respect of the Sub-Fund, the Managers will endeavour to make quarterly distributions (or such other frequency as the Managers may determine from time to time) in respect of the Sub-Fund. Distributions, if any, will be payable within three months after the end of 31 March, 30 June, 30 September and 31 December of each year. However, investors should note that such distributions are not guaranteed and are subject at all times to the discretion of the Managers, as stated in this paragraph. Investors should note that the declaration and/or payment of distributions (whether out of income and/or capital) made in respect of the Sub-Fund may have the effect of lowering the Net Asset Value of the Sub-Fund. Moreover, distributions out of capital may amount to a reduction of an investor's original investment. For the avoidance of doubt, the Managers may change the frequency to such shorter or longer period as may be determined from time to time.

20.4 Exemptions from liability

20.4.1 The Trustee, the Managers and each of their respective officers, directors and employees 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.

20.4.2 The Trustee, the Managers and each of their respective officers, directors and employees 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.

- 20.4.3** The Trustee, the Managers and/or their respective Associates may take any action which the Trustee, the Managers and/or the relevant Associate(s) (as the case may be), in its sole and absolute discretion, considers appropriate so as to comply with any law, regulation, request of a public or regulatory authority or any group policy of the Trustee or the Managers which relate to the prevent of fraud, money laundering, terrorism or other criminal activities or the provision of financial and other services to any persons or entities which may be subject to sanctions (collectively “**Relevant Requirements**”). Such action may include, but is not limited to, the interception and investigation of transactions in relation to any investor (particularly those involving the international transfer of funds) including the source of or intended recipient of funds paid in or out in relation to the investor and any other information or communications sent to or by the investor or on the investor’s behalf. In certain circumstances, such action may delay or prevent the processing of instructions, the settlement of transactions in respect of any investor or the performance by the Trustee and/or the Managers of its or their respective obligations under the Deed, but where possible, the Trustee and/or the Managers will endeavour to notify the investors of the existence of such circumstances. The Trustee, the Managers and their respective Associates will not be liable for loss (whether direct or consequential and including, without limitation, loss of profit or interest) or damage suffered by any party arising out of or caused in whole or in part by any actions which are taken by the Trustee, the Managers and/or any of their respective agents or Associates to comply with the Relevant Requirements (including, without limitation, those actions referred to in this paragraph).
- 20.4.4** Neither the Trustee nor the Managers nor each of their respective officers, directors and employees 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, the Managers and each of their respective officers, directors and employees 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.
- 20.4.5** Any indemnity expressly given to the Trustee or the Managers or and each of their respective officers, directors and employees 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.
- 20.4.6** Nothing contained in the Deed shall be construed so as to prevent the Managers, 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.
- 20.4.7** Neither the Trustee nor the Managers nor each of their respective officers, directors and employees 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.

20.5 Custody of Investments

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 may at any time procure that:

- (i) any officer or responsible official of the Trustee jointly with the Trustee; or
- (ii) any nominee appointed by the Trustee; or
- (iii) any such nominee and the Trustee; or
- (iv) any custodian, joint custodian or sub-custodian appointed pursuant to the provisions of this paragraph 20.5; or
- (v) any company operating a recognised clearing system in respect of the Authorised Investments of any sub-fund; or
- (vi) any broker, financial institution or other person (or, in each case, its nominee) with whom the same 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. Any Authorised Investment in registered form shall as soon as reasonably practicable after receipt of the necessary documents by the Trustee, be registered in the name of the Trustee and/or its nominee for the account of the relevant Sub-Fund and shall remain so registered until disposed of pursuant to the provisions of the Deed. Subject as aforesaid the Trustee shall retain the documents of title to all Authorised Investments held upon the trusts of the Deed in its possession in safe custody.

Notwithstanding anything contained in the Deed:-

- (i) the Trustee shall not incur any liability in respect of or be responsible for losses incurred through the insolvency of or any act or omission of any depository or clearing system with which Authorised Investments may be deposited or any broker, financial institution or other person with whom Authorised Investments are deposited in order to satisfy any margin requirement;
- (ii) the Trustee shall not incur any liability in respect of or be responsible for losses incurred through the insolvency of or any act or omission of any nominee, custodian, joint custodian or sub-custodian appointed by the Trustee except where the Trustee has failed to exercise reasonable skill and care in the selection, appointment and monitoring of such appointee (having regard to the market in which the relevant appointee is located) or the Trustee is in wilful default;
- (iii) the Trustee shall not incur any liability in respect of or be responsible for losses incurred through the insolvency of or any act or omission of any sub-custodian not appointed by it; and

- (iv) the Managers may from time to time instruct the Trustee to open accounts with any bank or other financial institutions. Notwithstanding any other provisions in the Deed, but subject to all applicable laws relating to and governing the Trustee, the Trustee shall not be responsible for the safekeeping of the Deposited Property of the Sub-Fund deposited with or remaining in any such account(s) and will not be liable for any loss occasioned by reason of the liquidation, bankruptcy or insolvency of such bank or other financial institutions.

20.6 Investment restrictions

The Sub-Fund is subject to the investment conditions and borrowing restrictions set out in Appendix 1 of the Code, as set out in Appendix 2 hereto, as may be amended, restated, supplemented or replaced from time to time. In addition to Appendix 1 of the Code, for so long as the Sub-Fund is a Qualifying CIS, the Sub-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).

20.7 Holders' right to vote

20.7.1 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 Resolution¹³:

- (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 39 of the Deed;
- (ii) to terminate the Fund as provided in Clause 36(F) of the Deed;
- (iii) to remove the Auditors as provided in Clause 32(D) of the Deed;
- (iv) to remove the Trustee as provided in Clause 33(C)(iv) of the Deed;
- (v) to remove the Managers as provided in Clause 34(A)(v) of the Deed;
- (vi) to direct the Trustee to take any action (including the termination of the Fund) pursuant to Section 295 of the SFA;
- (vii) to sanction a scheme of reconstruction whether by the way of amalgamation, merger of dissolution affecting the Fund; and
- (viii) to sanction any other matter which the Trustee and/or the Managers may consider necessary to lay before the meeting of Holders,

but shall not have any further or other powers.

20.7.2 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 39 of the Deed to the extent that such modification, alteration or addition affects the Holders of the relevant Sub-Fund;

¹³ 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.

- (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 36(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 relevant Sub-Fund) pursuant to Section 295 of the SFA; and
- (vi) to sanction any other matter which the Trustee and/or the Managers may consider necessary to lay before the meeting of Holders,

but shall not have any further or other powers.

20.7.3 A meeting of the Holders of a Class of Units of a Sub-Fund duly convened and held in accordance with provisions of this Schedule 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 39 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 Trustee's remuneration in relation to the relevant Class;
- (iii) to terminate the relevant Class as provided in Clause 36(F) of the Deed; and
- (iv) to sanction any other matter which the Trustee and/or the Managers may consider necessary to lay before the meeting of Holders,

but shall not have any further or other powers.

20.8 Valuation

Except where otherwise expressly stated and subject always to the requirements of the Code, the value of the assets comprised in any 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 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 at the discretion of the Managers by reference to either, where applicable:
 - (i) the initial value expended out of the Deposited Property in the acquisition thereof (including in each case the amount of the stamp duties, commissions

and other expenses incurred in the acquisition thereof and the vesting thereof in the Trustee for the purposes of the relevant Sub-Fund);

- (ii) the price of the relevant Unquoted Investment as quoted by a person, firm or institution making a market in that Unquoted Investment, if any (and if there shall be more than one such market maker, then such market maker as the Managers may designate), as may be determined by the Managers to represent the fair value of such Unquoted Investment;
 - (iii) the sale prices of recent public or private transactions in the same or similar Unquoted Investments, valuations of comparable companies or discounted cash flow analysis, as may be determined by the Managers to represent the fair value of such Unquoted Investment. In the valuation of such Unquoted Investment, the Managers may take into account relevant factors including, without limitation, significant recent events affecting the issuer such as pending mergers and acquisitions and restrictions as to saleability or transferability;
- (D) a Quoted Investment shall be calculated by reference to the price appearing to the Managers to be the official closing price or the last known transacted price on the Recognised Stock Exchange or if there is no such transacted price, the price quoted by any approved broker for that Investment, or other appropriate closing prices determined by the Managers in consultation with the Trustee in relation to that Investment. Where there is no Recognised Stock Exchange or commodity exchange, all calculations based on the value of Investments quoted by any person, firm or institution making a market in that Investment (and if there shall be more than one such market maker then such particular market maker as the Managers may designate) shall be by reference to the price quoted therein;
- (E) an Investment other than as described above, shall be valued by an Approved Valuer at such time as the Managers after consultation with the Trustee shall from time to time determine;

Provided that, if the quotations referred to in (A), (B), (C), (D) or (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 the Phillip Singapore Real Estate 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, 14 or 15 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 agent'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 18(C) of the Deed together with the amount of any interest and expenses thereon accrued pursuant to Clause 18(C)(vi) 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) and any borrowing otherwise than in the base currency of a Sub-Fund shall be converted into the relevant base currency 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.

20.9 Duration and Termination of the Fund

20.9.1 The Fund constituted by the Deed is of indeterminate duration and may be terminated as provided in Clause 36 of the Deed.

20.9.2 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 at any time. In the event that the Fund shall 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 sub-paragraphs 20.9.3 to 20.9.5.

20.9.3 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:

- (a) 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;
- (b) if the Managers shall cease business;
- (c) if any law shall be passed, any authorisation withdrawn or revoked or any direction issued by the Authority which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund;
- (d) 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 33 of the Deed; and
- (e) 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 34 of the Deed.

The decision of the Trustee in any of the events specified in this paragraph 20.9.3 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 20.9.3 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.

20.9.4 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 SGD5 million or (ii) if any law shall be passed, any authorisation withdrawn or revoked or any direction issued by the Authority 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 SGD5 million (for S\$ Class Units) and USD5 million (for US\$ Class Units) or (ii) if any law shall be passed, any authorisation withdrawn or revoked or any direction issued by the Authority 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 the Sub-Fund shall be less than SGD5 million or (ii) if any law shall be passed, any authorisation withdrawn or revoked or any direction issued by the Authority which renders it illegal or in the opinion of the Managers impracticable or inadvisable to continue the Fund.

20.9.5 The party terminating the Fund or the relevant 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 Authority not less than seven days before such termination.

21. Queries and Complaints

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

Appendix 1 – Phillip Singapore Real Estate Income Fund

This Appendix sets out the fund details of the Phillip Singapore Real Estate Income Fund.

1. Investment objective, focus and approach

1.1 Investment Objective

The Sub-Fund seeks to achieve medium to long term capital appreciation and a regular stream of income by mainly investing in REITs listed in Singapore, including warrants, bonds and convertible bonds issued by the REITs.

1.2 Investment Focus and Approach

It is the Managers' intention to primarily invest the assets of the Sub-Fund into REITs listed in Singapore. The Managers may also invest up to a maximum amount of 10% of the Net Asset Value of the Sub-Fund into REITs listed outside Singapore.

The Sub-Fund will invest in REITs that demonstrate capital appreciation opportunities and sustainable dividend growth potential.

The Sub-Fund intends to offer regular dividends through quarterly distributions (or such other frequency as the Managers may determine from time to time).

The Managers may only use financial derivative instruments 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.

As long as the Sub-Fund is a Qualifying CIS, it will not participate in securities lending and repurchase transactions.

2. Fees and charges

2.1 Fees and charges of the Sub-Fund

Charges and Fees Payable by the Investor	
Subscription Fee	Currently up to 3%. Maximum 3%.
Realisation Fee	Currently nil. Maximum 3%.
Switching Fee*	Currently nil. Maximum 1%, subject to a minimum of SGD25.

Fees payable by Sub-Fund to Managers and Trustee	
Annual management fee	<u>Class A SGD and Class A USD Units</u> Currently 1.20%. Maximum 1.20%. <u>Class I SGD and Class I USD Units</u> Currently 0.75%. Maximum 0.75%.
Annual trustee fee	Currently 0.04%. Maximum 0.12%.
Custody fees	0.10%

* As stated in paragraph 13 under "Switching of Units", no switching fee is presently imposed.

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

2.2 Underlying fees and charges

Fees and charges payable by the REITs	
Annual management fee	Ranging from 0% to 1.0% of deposited property value
Annual trustee fee	Ranging from 0% to 0.30% of deposited property value
Performance fee	Ranging from 0% to 12% of net property income
Acquisition fee	Ranging from 0% to 1% of deposited property value
Divestment fee	Ranging from 0% to 0.5% of deposited property value
Development management fee	Ranging from 0% to 3.0% of total project costs

Fees and charges payable by the REITs to the Property Manager	
Annual Property management fee	Ranging from 0% to 4.0% of gross property revenue for the relevant property Ranging from 0% to 2.0% of net property income for the relevant property
Project management fee	Ranging from 0% to 3.0% of construction cost

Fees and charges payable by the Sub-Fund directly to the REITs	
Preliminary charge	Not applicable*
Realisation fee	Not applicable*
Switching fee	Not applicable*

* As the REITs are listed and traded on a recognised stock exchange, and the Sub-Fund will have no right to request the REIT Manager to redeem its units in the REITs while the REITs are listed, no subscription fee, preliminary charge, realisation fee or switching fee is payable by the Sub-Fund in respect of the REITs.

As required by the Code and the Standards of Qualifying CIS (as may be amended from time to time), all marketing, promotional and advertising expenses in relation to the Sub-Fund will be borne by the Managers and not debited from the Sub-Fund.

3. **Minimum Initial Subscription Amount and Minimum Subsequent Subscription Amount**

	Minimum initial subscription amount	Minimum subsequent subscription amount
Class A SGD	SGD1,000*	SGD100*
Class A USD	USD1,000*	USD100*
Class I SGD	SGD500,000*	SGD100*
Class I USD	USD500,000*	USD100*

**(or such other amount as may from time to time be determined by the Managers)*

The Managers may at their discretion waive the minimum initial and subsequent subscription amounts.

4. Regular Savings Plan

	Minimum Initial Investment	Minimum Monthly Investment
Class A SGD Units	SGD1,000*	SGD100*
Class A USD Units	USD1,000*	USD100*

*(or such other amount as may from time to time be determined by the Managers)

The Managers may at their discretion waive the minimum initial and subsequent subscription amounts.

5. Past Performance of the Sub-Fund and its benchmark

5.1 Past Performance

The following table shows the past performance of the Sub-Fund as at 31 August 2016:

	1 year (%)	3 years	Since inception*
		(average annual compounded returns) (%)	
Class A SGD (NAV-NAV)**	10.29%	7.29%	9.58%
Class A USD (NAV-NAV)**	12.62%	4.21%	0.43%
Class I SGD (NAV-NAV)**	10.79%	7.68%	9.97%
Class I USD (NAV-NAV)**	13.19%	N.A.	2.04%
FTSE Straits Times RE Invest Trust Index (Benchmark)	8.29%	2.71%	3.78%

Source: Bloomberg.

* Inception Dates: 19 September 2011 (Class A SGD Units and Class I SGD Units) / 17 June 2013 (Class A USD Units) / 29 April 2014 (Class I USD Units)

** Performance is calculated on a NAV-NAV basis, taking into account the subscription fee of 3%, with all dividends and distributions reinvested (net of reinvestment charges). Investors should note that the subscription fee may vary between distributors.

Past performance of the Sub-Fund is not necessarily indicative of the future performance of the Sub-Fund.

Benchmark

The benchmark for which the performance of the Sub-Fund should be measured against is the FTSE Straits Times RE Invest Trust Index.

5.2 Expense Ratio

The expense ratios for the Sub-Fund for the financial year ended 30 September 2015 are 1.12% (Class A SGD Units), 1.12% (Class A USD Units), 0.80% (Class I SGD Units) and 0.79% (Class I USD Units).

The expense ratio of the Sub-Fund is calculated in accordance with the Investment Management Association of Singapore's guidelines on the disclosure of expense ratios (the

“**IMAS Guidelines**”) and based on the Sub-Fund's latest audited accounts. The following expenses, as set out in the IMAS Guidelines (as may be updated from time to time), are excluded from the calculation of the expense ratio:

- (a) brokerage and other transaction costs associated with the purchase and sales of investments (such as registrar charges and remittance fees);
- (b) interest expense;
- (c) foreign exchange gains and losses of the Sub-Fund (whether realised or unrealised);
- (d) front-end or back-end loads and other costs arising on the purchase or sale of a foreign unit trust or mutual fund;
- (e) tax deducted at source or arising on income received (including withholding tax); and
- (f) dividends and other distributions paid to investors.

5.3 Turnover Ratio

The turnover ratio for the Sub-Fund for the financial year ended 30 September 2015 is 48.94%.

The turnover ratio is calculated based on the lesser of purchases or sales expressed as a percentage of average net asset value (NAV), i.e. average daily NAV over, as far as possible, the same period used for calculating the expense ratio.

Appendix 2 - 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, 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 instruments

issued 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 derivatives

should 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, 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 schemes' 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 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.

Types of financial derivatives	Method for calculating exposure
Plain Vanilla Options (Include bought/sold puts and calls)	
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
Futures	
	No. of contracts x contract's notional value x market value of the future; or

Types of financial derivatives	Method for calculating exposure
Bond future	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
Swaps	
Contract for differences	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)
Forwards	
Forward rate agreement	Notional value
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:

- a) Stage 1: Determine the current replacement cost of each OTC financial derivative by carrying out a valuation at market price.
- b) 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%

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, 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.

Zone	Number of exceptions	Cumulative probability
Green Zone	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.

PHILLIP SELECT FUND

PROSPECTUS

BOARD OF DIRECTORS OF PHILLIP CAPITAL MANAGEMENT (S) LTD

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Director

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Jeffrey Lee Chay Khiong
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Linus Lim Wen Sheong
Director

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