

**Brochure**



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This brochure provides information about the qualifications and business practices of Harvest Global Investments Limited ("HGI"). If you have any questions about the contents of this brochure, please contact us at +852 3913 3333. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about HGI also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Introduction

HGI is a Hong Kong company licensed under the Hong Kong Securities and Futures Ordinance to engage in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities, and is regulated by the Hong Kong Securities and Futures Commission (the “SFC”). HGI is also registered as an investment adviser under the US Investment Advisers Act of 1940 (the “Advisers Act”) and regulated by the SEC. This brochure provides information about the qualifications and business practices of HGI. If you have any questions about the contents of this brochure, please contact us at +852 3913 3333. The information in this brochure has not been approved or verified by the SEC or any or by any state or foreign securities authority. Registration does not imply that HGI, or its associates, have attained a certain level of skill or training.

We encourage you to visit the SEC’s Investment Adviser Public Disclosure (IAPD) for more information about HGI. The IAPD web address is: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 – MATERIAL CHANGES

This section discusses only material changes which have been made since the last update of our brochure on March 29, 2018. Below is a summary of the material changes.

There were no material changes since the last update of the brochure in March 29 , 2018.

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## ITEM 4 – ADVISORY BUSINESS

### A. Description of the Advisory Firm

Incorporated in September 2008 in Hong Kong, HGI is a wholly-owned subsidiary of Harvest Fund Management Co., Ltd (“HFM”). HGI has been registered with the SFC in Hong Kong pursuant to the Hong Kong Securities and Futures Ordinance to conduct the regulated activities of 1) advising on securities (Type 4) and asset management (Type 9) since February 2009, and 2) dealing in securities (Type 1) since November 2010. Our parent company was incorporated in 1999 and is a significant investment firm headquartered in Beijing, China. The owners of HFM are China Credit Trust Co., Ltd, Lixin Investment Co., Ltd and Deutsche Asset Management (Asia) Limited. More information is available in our Form ADV Part 1.

We provide discretionary portfolio management services to our clients, sometimes with the assistance of HFM, serving as the investment adviser to pooled investment vehicles (“funds”) sponsored by other financial firms. We also provide investment advisory services on behalf of sophisticated institutional investors to separately managed accounts. We categorize our services as Fund Advisory and Separate Accounts.

We may in future provide portfolio management services to funds sponsored by HFM and may serve certain high net worth individuals.

While client investment mandates vary, our investment focus is largely on Asia, in certain cases predominantly on China, with limited amounts of investment in other markets. We may invest client assets across a range of investment classes, but, generally, investment focuses on equity and fixed income securities. We may also invest in derivative instruments, most often for hedging and portfolio management purposes. More information on the strategies we utilize, and the risks often associated with them, can be found in Item 8. Clients or investors should also consult the relevant offering document or investment supervisory agreement for a more complete discussion of risks and investment strategies.

In each case, we will provide services to our clients according to an executed Investment Management Agreement detailing client-imposed investment guidelines and, if applicable, restrictions.

### Client Assets

As of January 31, 2019, we manage the following assets:

Discretionary Assets (US\$'000)	US\$ 3,433,735
Non-discretionary Assets (US\$'000)	US\$ 151,037
<b>Total</b>	<b>US\$ 3,584,772</b>

## ITEM 5 – FEES AND COMPENSATION

### Fee Schedule

We do not currently impose a standard fee upon our clients.

Fees are as described in a particular Investment Management Agreement. As a rule, fees can be expected to vary based on factors including the complexity of the mandate, the amount of assets under management, the client's investment strategy and objective, whether the mandate is discretionary or non-discretionary and other factors.

In our sole discretion, we may vary the fee structure for certain large or strategic investors, including affiliates, and for HGI employees. We may also vary the fee structure in connection with promotional efforts or for other business development reasons.

**A. Timing and Payment of Fees**

Typically, management fees and performance fees (where applicable) are payable in arrears based upon the market value of the assets at the end of the preceding billing period. The billing period is negotiable depending upon the types of the mandate. Clients are generally billed for their management fees and performance fees (where applicable). The timing of fee payments may be negotiated with each client and typically is set forth in the applicable Investment Management Agreement (for a separate account) or in the relevant fund's governing documents. Asset-based fees generally are paid monthly, quarterly or semi-annually.

Other methods of payment and calculation may also be available, where appropriate or upon a client's request.

**B. Clients are Responsible for Third Party Fees**

There are other types of fees or expenses clients may pay in connection with our advisory services, such as custodian fees or transaction costs.

For example, clients may pay costs such as brokerage commissions, wire transfer fees, and other fees and taxes charged to brokerage accounts and securities transactions, which are unrelated to the fees we charge.

Item 12 describes the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions and/or spreads).

**C. Prepayment of Fees**

We collect our fees in arrears. We do not collect our fees in advance.

**D. Outside Compensation for the Sale of Securities to Clients**

Neither we nor our employees accept compensation, including sales charges or service fees, from any third-party for the sale of securities or other investment products.

## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

We may have performance-based fee arrangements with certain of our clients from time to time. Performance-based fee arrangements may create an incentive for us to recommend investments which

may be riskier or more speculative than those which would be recommended under a different fee arrangement. These fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We have designed and implemented procedures to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## ITEM 7 – TYPES OF CLIENTS

We may provide services to a variety of client types. Clients include:

- Corporations; and
- Pooled investment vehicles, including US and non-US public investment companies for retail investors and private investment funds.

The relative percentage each client type currently represents is available on our Form ADV Part 1. The actual mix of types of clients may change over time based upon market conditions, business plans and other factors.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

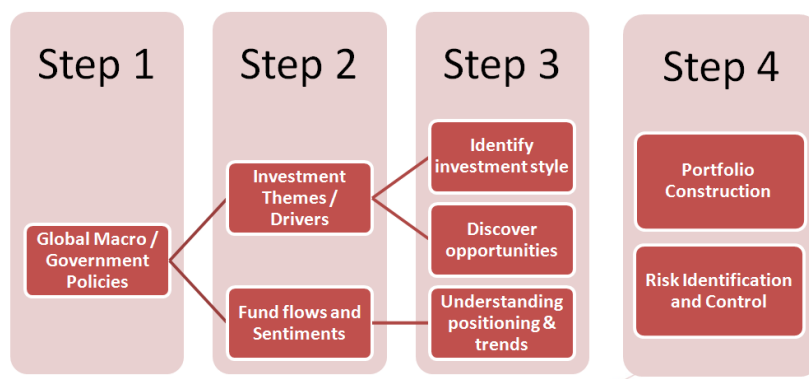
Our methods of analysis and investment strategies vary between the three investment universes we cover.

# Chinese Equities

### 1.1 OVERVIEW OF INVESTMENT PROCESS

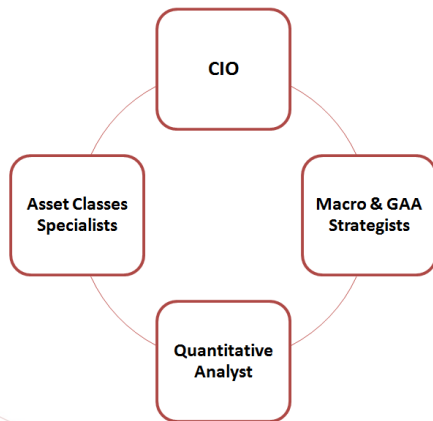
#### 1.1.1 TOP DOWN GAA VIEW

**Investment Process Framework:**



## TOP DOWN INVESTMENT PROCESS

- The Investment Strategy and Asset Allocation Committee pulls together key investment personnel to generate and research key top down strategic investment ideas – “*Macro Overlay*”.
- Macro & GAA strategists research on global and local macro themes, discover key market drivers and provide asset allocation view.
- Specialists provide individual asset class insights.
- Quantitative analyst uses various quantitative tools to identify opportunities and risks.



- Portfolio strategies that deviate from market style can result in substantial tracking error
- The committee is responsible for identifying market style
- Style deviation and downside risk of each investment strategies are measured
- Dynamic risk management refers to identifying downside risks of a portfolio strategy associated with market style tilts



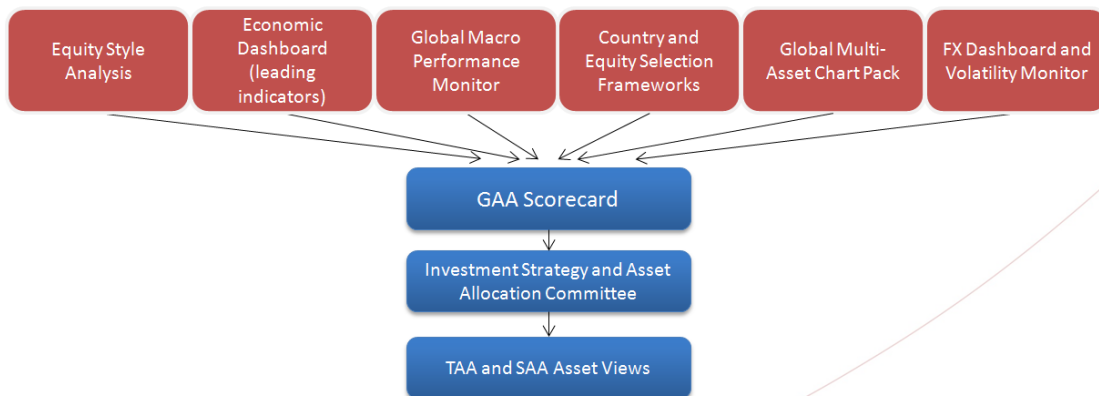
## THE TOP DOWN APPROACH BY GAA

- 1) Monitor global fund flows, macro policies, market movements for the entire investment universe

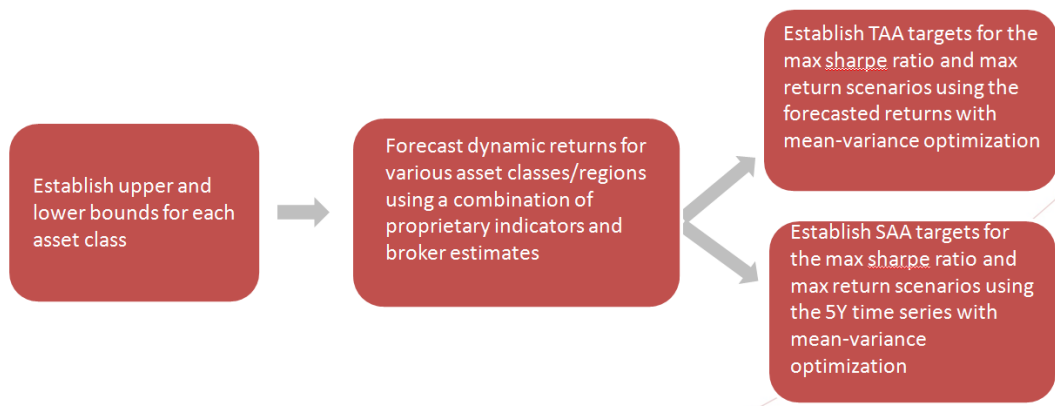
- 2) *Direct short to medium term investment views across the HGI investment platform together with the CIO and asset classes specialists*



#### FOUR-STEP GAA RESEARCH PROCESS



#### TAA & SAA ASSET ALLOCATION MODEL

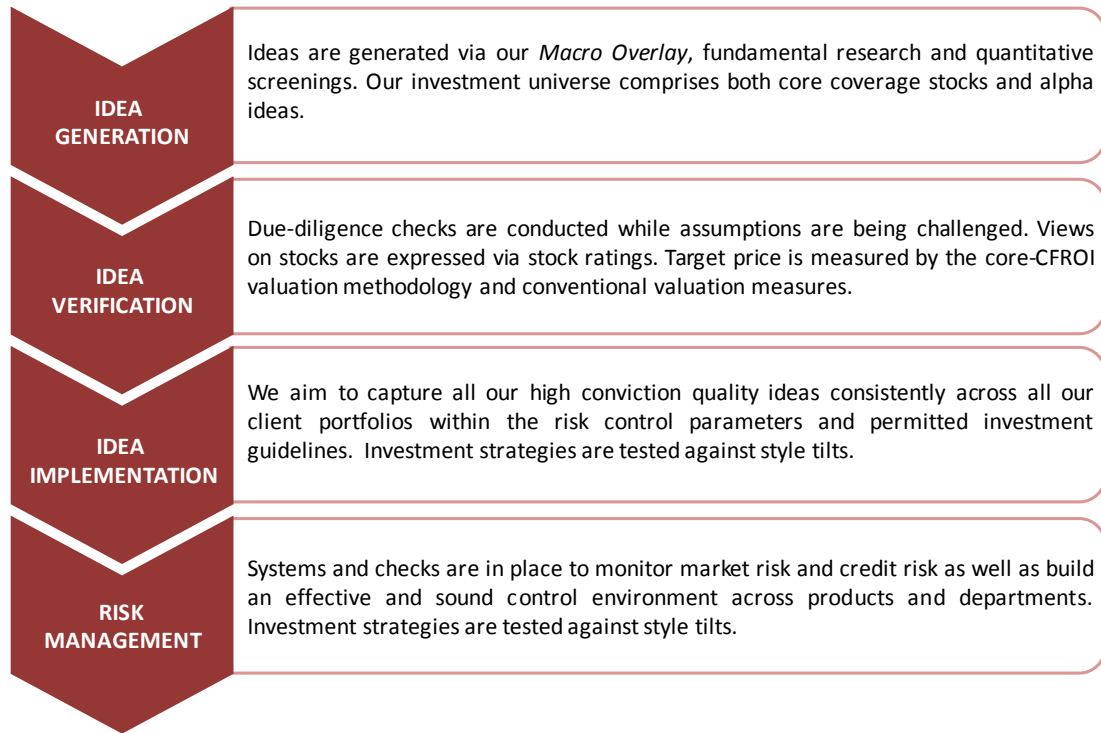


#### 1.1.2 BOTTOM UP FUNDAMENTAL RESEARCH

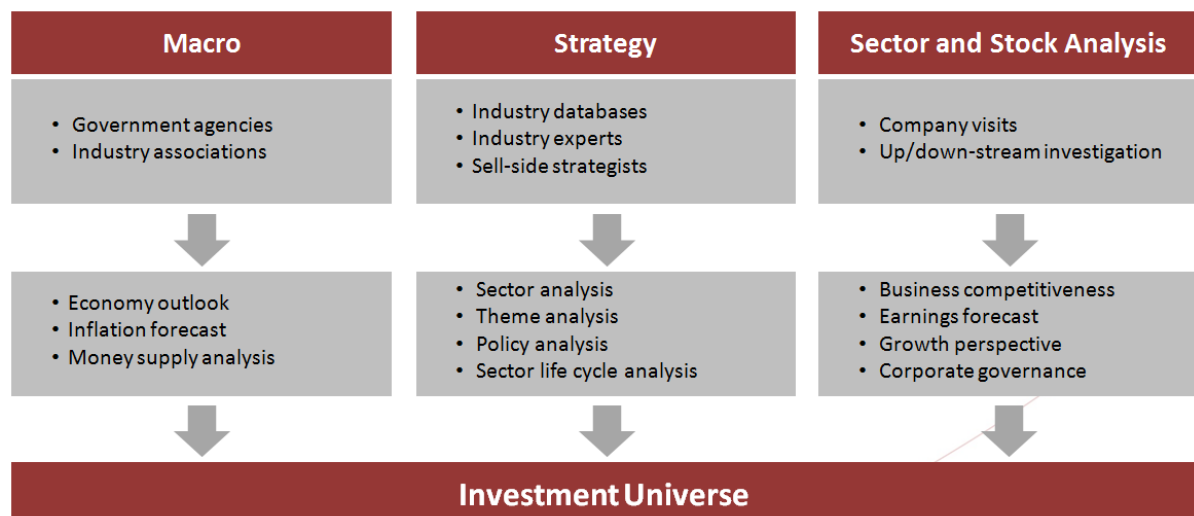
We are convinced that over the long term market prices are oriented on “fundamental values”. For this reason, we follow an investment process that is based on our own, in-house, fundamental evaluation of each stock.

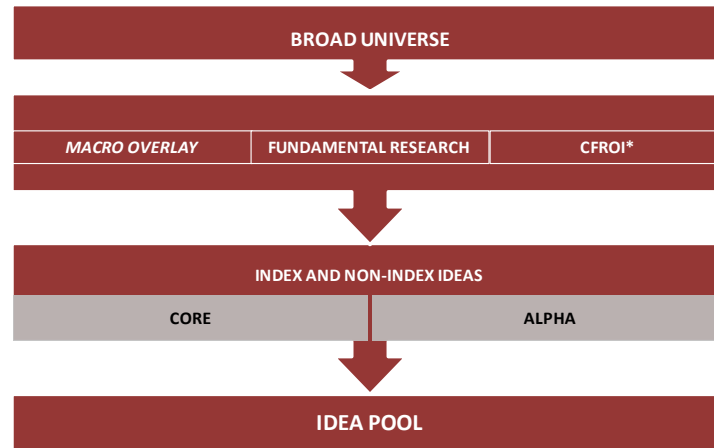


The investment process can be defined by the following 4 steps:



#### (I) Idea Generation – Research is key



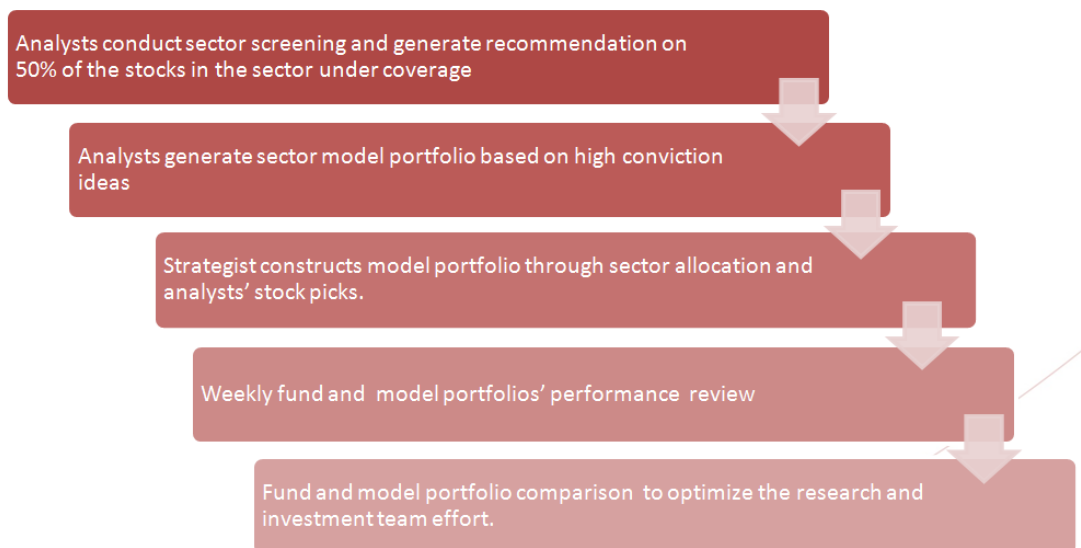


\*Cash flow return on investment

Fundamental research is another area where we are keenly focused. We view company visits as the core of our investment process because it allows us to evaluate the quality of management properly from both a micro and macro perspective. The focus of sector and stock analysts will be on both qualitative issues (corporate governance, management quality, firm's overall competitive position and its relative strengths and weaknesses), as well as quantitative issues (return on capital employed, cash flow generation), when evaluating a business. As one of the leading asset managers, Harvest has significant contact with company management, suppliers, clients and competitors as well as maintains regular contacts with key decision-makers in listed companies. This enables us to get access to precious insights of company management and provides us with a firm understanding of the actual underlying drivers of a company's long-term earnings potential. On average, over 300 companies are visited each year.

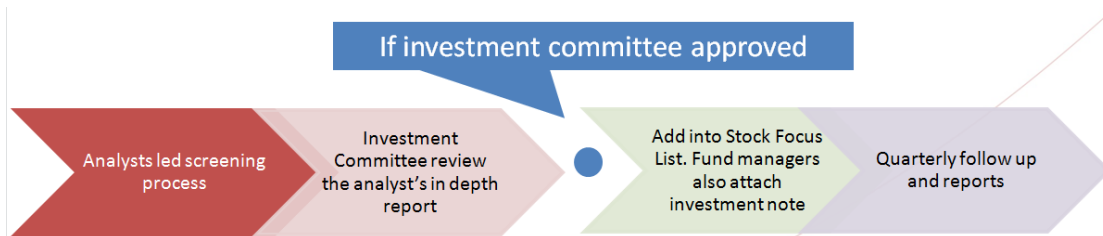
Our investment universe consists of stocks within the MSCI China Index and other alpha accretive stocks that fit the strategy's investment objective. During this stage, around 200 stocks are identified.

#### Research Driven Investment Flow Chart



**STOCK FOCUS LIST SELECTION PROCESS**

- We believe that alpha ideas generated by bottom up in depth research work will make our performance to stand out among peers.
- Stock focus list consists those stocks that we have strong conviction on next one to two years' share price performance hence we can build a sizable position in our portfolio. Candidates could be quality growth companies, deeply undervalued companies with turn around possibility or reform catalysts.
- 2-3% Overweight in portfolio

**(II) Idea Verification**

We take both a qualitative and a quantitative approach in our analysis and put much emphasis on fundamental research. To enhance our fundamental research, we undertake quantitative screening using the HOLT system on a monthly basis as well as use the Linker-Thinker tool to do financial modeling. During this stage, around 150 stocks will be studied in depth and a stock pool (our focus coverage) with both core stock pool and alpha stock pool will be generated:

- Core stock pool: includes companies with relatively large market capitalization and good liquidity. It covers about 80% of market capitalization of the MSCI China index.
- Alpha stock pool: includes middle to small size companies, companies with emerging importance (sub-sector leaders) and companies with short to mid-term catalysts. The criteria we use include market capitalization higher than USD 100m and daily turnover higher than USD 0.5m.

Our central belief is that ultimately cash flow and Cash Flow Return On Investment (CFROI) which will determine share prices over the medium and long term. Therefore, we focus our efforts on identifying superior growth opportunities at reasonable valuations.

We use the Linker Thinker tool for valuing securities which allows further analysis on the drivers for liquidity, cash flow return on investment, asset growth and competitive environment. Based on the CFROI concept, this tool analyzes the life cycle of the company in a disciplined manner which distinguishes it from other typical discount cash flow model.

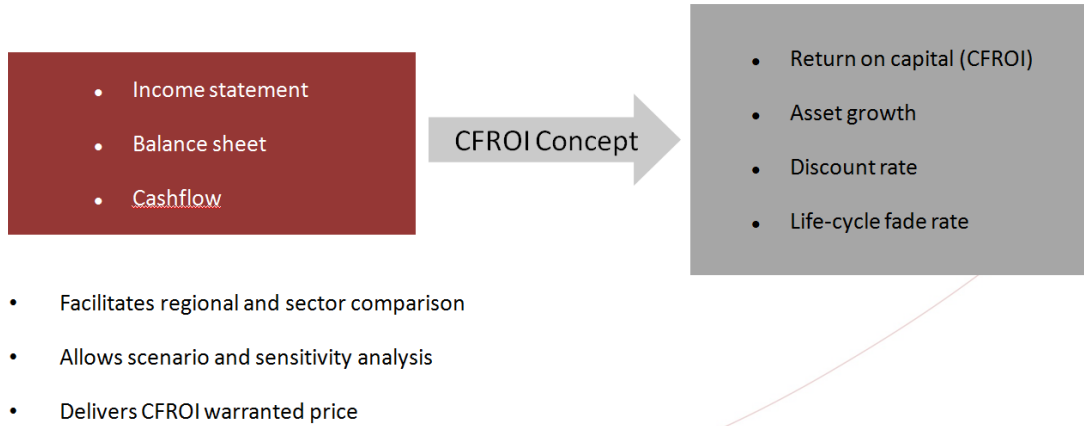
Cash Flow and CFROI is our core belief

- Ultimately cash flow and Cash Flow Return On Investment (CFROI) will determine share prices over the medium and long term.

- The Linder-Thinker tool allows analysis on the drivers for liquidity, cash flow return on investment, asset growth and competitive environment.
- The CFROI concept analyzes the life cycle of the company in a disciplined manner.

### Cash Flow Return On Investment (CFROI)

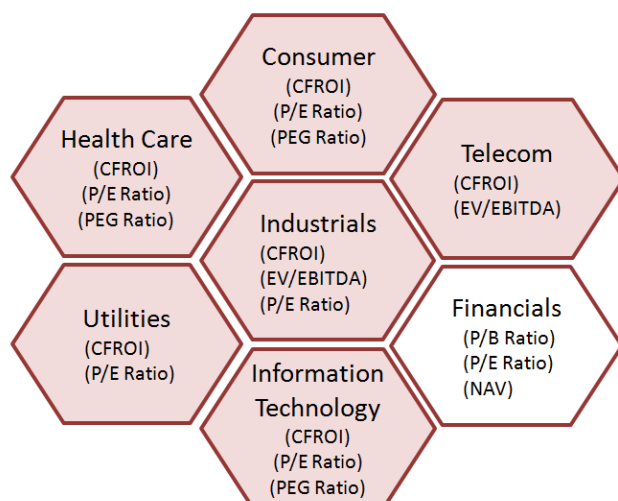
CFROI® will determine the share price in the medium and long term



Although CFROI is a primary valuation methodology that we utilize especially for the non-financial sectors, we also believe that no isolated, single valuation approach allows a full understanding of a company. We, therefore, supplement the discounted cash flow analysis with other conventional valuations tools which best suit the nature of the company's business model, for example, P/E (Price-to-Earnings Ratio) and EV/EBITDA (Enterprise Value to Earnings Before Interest, Taxes, Depreciation and Amortization).

### Other valuation tools

The aforesaid model is utilized for particular sectors including consumer, telecom, Internet, healthcare, utility and industrial, which have relatively steady cash-flow streams. We do not use the model for financial companies (including bank, insurance and property), cyclical stocks (including commodity, airlines and shipping), and conglomerates. For these companies, we utilize other valuation methodologies including P/E (Price-to-Earnings Ratio), P/B (Price-to-Book Ratio), P/EV (Price to Embedded Value), and NAV (Net Asset Value).



- Experience tells us that no isolated, single valuation approach allows a full understanding of the company.
- We utilize other conventional valuation tools which best suit the nature of a company's business to analyze these companies as well as to supplement the CFROI model.

### Focus coverage – Research Output

The outputs of our analysis are stock ratings (1, 2, 3, 4 for both short-term and long-term) and recommendations. Below are our stock rating outputs:

STOCK VALUATION	QUALITATIVE	QUANTITATIVE	RISK-AWARD TARGET
<ul style="list-style-type: none"> <li>Traditional measures – P/E Ratio, P/B Ratio, EV/EBITDA</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance</li> <li>Management quality</li> <li>Corporate strategy</li> <li>Earnings predictability</li> <li>Potential catalysts for change</li> </ul>	<ul style="list-style-type: none"> <li>In-house vs. consensus earnings estimates</li> <li>Earnings momentum</li> <li>Price momentum</li> <li>Upside/Downside</li> </ul>	<ul style="list-style-type: none"> <li>Risk aversion guideline</li> <li>A stock is preferred with relatively lower potential returns with certain low risk to another with high risk compensated with possible high return</li> </ul>
FOCUS COVERAGE			
Stock Rating	Short-Term (6-Month)	Long-Term (12-Month)	
1	With 20% or above relative return to benchmark	With 30% or above relative return to benchmark for the next 1 year; And with 50% or above relative return for the next 3 years	
2	With 10-20% relative return to benchmark	With 15-30% relative return to benchmark	
3	With ±10% relative return to benchmark	With ±15% relative return to benchmark	
4	With -10% or below relative return to benchmark	With -15% or below relative return to benchmark	

In our recommendations, we specify investment opinions, horizon, catalysts, target prices (target returns) and potential risk. The rating will be tracked continuously as well as updated once the catalyst plays out, and any fundamental changes such as change of the company's strategy would trigger a review of the rating. Around 110 stocks are covered in this stage.

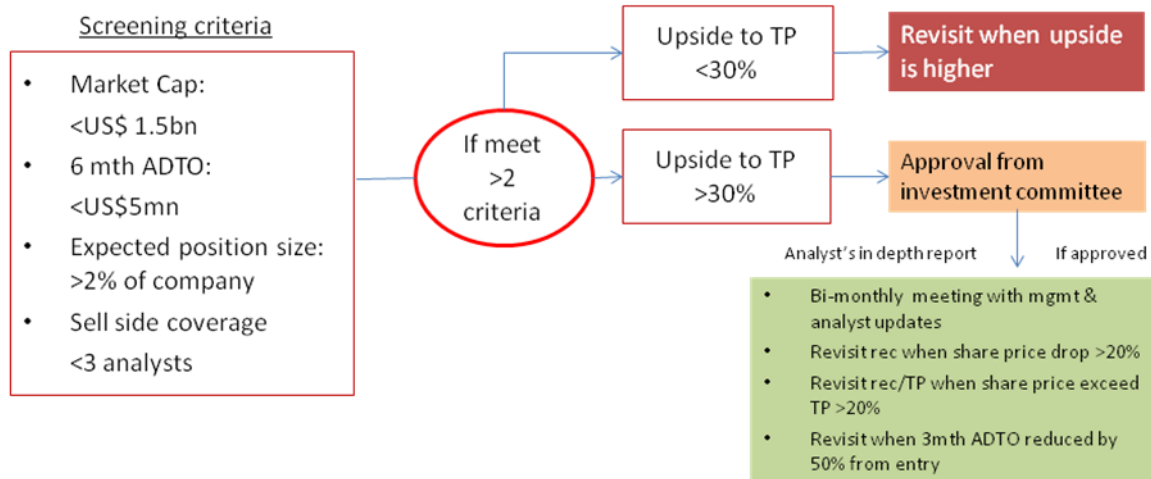
### Rating Analysis

- Conviction rating: (1) Strong Outperform, (2) Outperform, (3) Underperform, and (4) Strong Underperform. The rating will be made relative to country benchmark based on time horizon of 12 months.
- Risk-reward: Stocks within the same conviction rating category will be differentiated by the risk-adjusted return (risk-adjusted return = (share price) and a fundamental score).
- Risk adjusted return: Stocks underperform with more units of upside potential (we will with 30% of upside share price of 30% upside and 10% downside than another with 60% upside and 10% downside).
- Fundamentals: Fundamentals contribute to growth, value, competitiveness, leverage, market position and governance and differentials in markets. We believe that in times of market volatility, we can look beyond the noise to focus on these attributes.

### Team work Culture to Drive Performance – high frequency of investment meetings

Meeting name	Frequency	Agenda
Morning meeting	Daily	Daily major event comments and corresponding stock, sector strategy review and action plan.
Major event and trading opportunity	Daily	Per emails analysts send comments on major events and trading opportunities to team and record all the recommendations.
Sector in-depth review	Weekly	Analysts take turns to review sectors under coverage.
Sector and market model portfolio review	Weekly	Analysts provide sector model portfolio while strategist provide two model portfolios, namely broad market and alpha to meet different investment style needs.
Fund performance review	Weekly	Compare sectors, strategy model portfolios vs. fund performance, conduct attribution analysis.
Sector market and model portfolio review	Weekly	Analysts review last week sector and model portfolio performance and attribution analysis review. Together with fund managers to decide major stocks' investment action.
Morning meeting	Frequency	Agenda
Strategy and theme stock list performance review	Weekly	Strategist review last week market performance, comment on recent market trend, and recommend sector allocation and major investment themes.
Global macro and strategy, investment committee	Monthly	Weekly, monthly global macro strategy discussion, major events review and comment, investment committee on monthly basis decides global asset allocation.
Strategy meeting	Quarterly	Analysts discuss sector performance and strategy, recommend high conviction stock ideas in the sector. Strategist discuss past market performance and comment on market outlook. Major themes are discussed. Fund managers review fund performance, comment about portfolio strategy and global macro strategy.
Small cap investment meeting	Ad hoc	Analysts and fund managers recommend, investment committee discuss and vote,. Strict investment process and maintenance process are followed.
Stock focus list review meeting	Ad hoc	Investment committee approves the stock introduction to the list and high frequency maintenance is required.
Mid to long term theme study	Ad hoc	Together with Asia Pacific team study topics which have mid to long term impacts on the political and economic development for the region

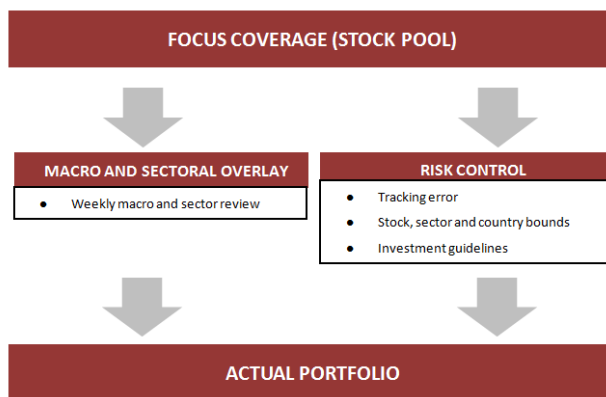
In addition, the following is the small cap selection process:



### (III) Idea Implementation

The functions of research and portfolio management are combined. Our portfolio managers and research analysts are responsible for research and stock selection within their areas of responsibility, while the portfolio managers work as a team in portfolio construction.

#### Conversion into holdings



The following considerations are factored in the portfolio construction process:

- Guidelines or restrictions and compliance requirements of the given investment mandates
- Potential risk/reward tradeoff on the position
- Conviction level of given stock and industry
- Liquidity constraints on the position
- Communication

The key factors for portfolio construction are:

- Capturing the highest conviction ideas
  - Portfolio construction aims to capture all our highest conviction ideas (i.e. Strong Outperform) within the stipulated country and sector limits.
  - Strong Outperform rating should have an active bet of at least 100-300 bps.
- Other signals (risk-reward, fundamental score)

- We pick the stocks from the coverage list based on other signals such as risk-reward target and fundamental score.
- We do not express a view in the portfolio on a company with a poor management score even if it has a chance of tactical outperformance.
- We may be contrarian at times on out-of-favor stocks especially those with good corporate stewardship and attractive risk-reward profile even if there are no specific share price catalysts.
- Country and Sector limits
  - Country and sector limits.
    - Country overweight limits to be not more than 5% or 2x the country weighting in the benchmark (whichever is the lower).
    - Sector overweight limits to be not more than 8% or 3x the sector weighting in the benchmark (whichever is the lower).
- Monetary policy and political-social stability
  - We emphasize the importance of monetary policy and political-social stability in the Asian markets.  
Our Investment Strategy and Asset Allocation Committee provide the overlay for our positions in Asian markets.
- **In general, positions will be sold or reduced if:**
  - Changes to the original investment theme, trend and sentiment occur.
  - Fundamental situation worsened, specific to companies or sectors.
  - Unfavorable changes to management, ownership or corporate strategy.
  - Positive fundamental development is reflected by the share price.
  - Superior prospects in other countries/sectors/stocks.
  - Holding exceeds risk budget

*However, selling is not automatically triggered by these events but need good explanation to maintain positions*

*We review if stock price underperforms the sector and country benchmark by >10% since initiation of position*

#### **(IV) Risk Management**

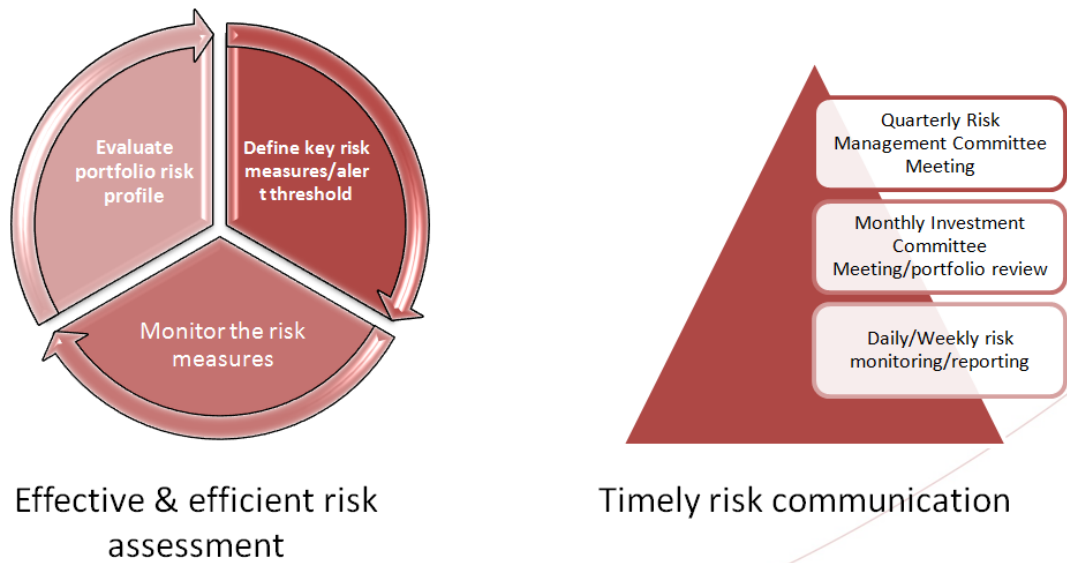
##### **Risk Management**

The goal of investment risk management is to monitor and analyze the investment risks and ensure timely communication with portfolio managers and senior management.

To achieve this goal, the risk management team has dedicated resources to oversee and monitor HGI's investment risk. Key risks and performance systems utilized are BarraOne, FactSet, Bloomberg, Morningstar Direct and Matlab



### • HGI RISK MANAGEMENT PROCESS



### • RISK IDENTIFICATION - Dynamic risk management

- Investment styles include value, growth, quality, momentum, cyclical, defensive, etc.
- Portfolio strategy is tested against the identified/forecasted investment style(s)
- Deviation from style may result in large tracking errors – strategy fine tuning needed

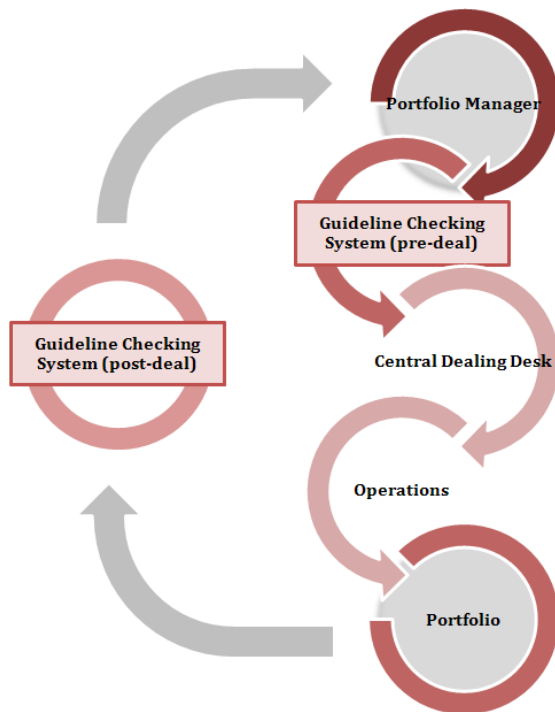


For a more detailed write-up on risk management, please refer to Section 6 below.

## 1.2 TRADE MANAGEMENT

All trades are processed through our automated Guideline Checking System

- Pre-deal checking/warnings
- Post deal breach exception report
- Our dedicated compliance department monitors guideline compliance with client, regulatory and internal guidelines on an ongoing basis



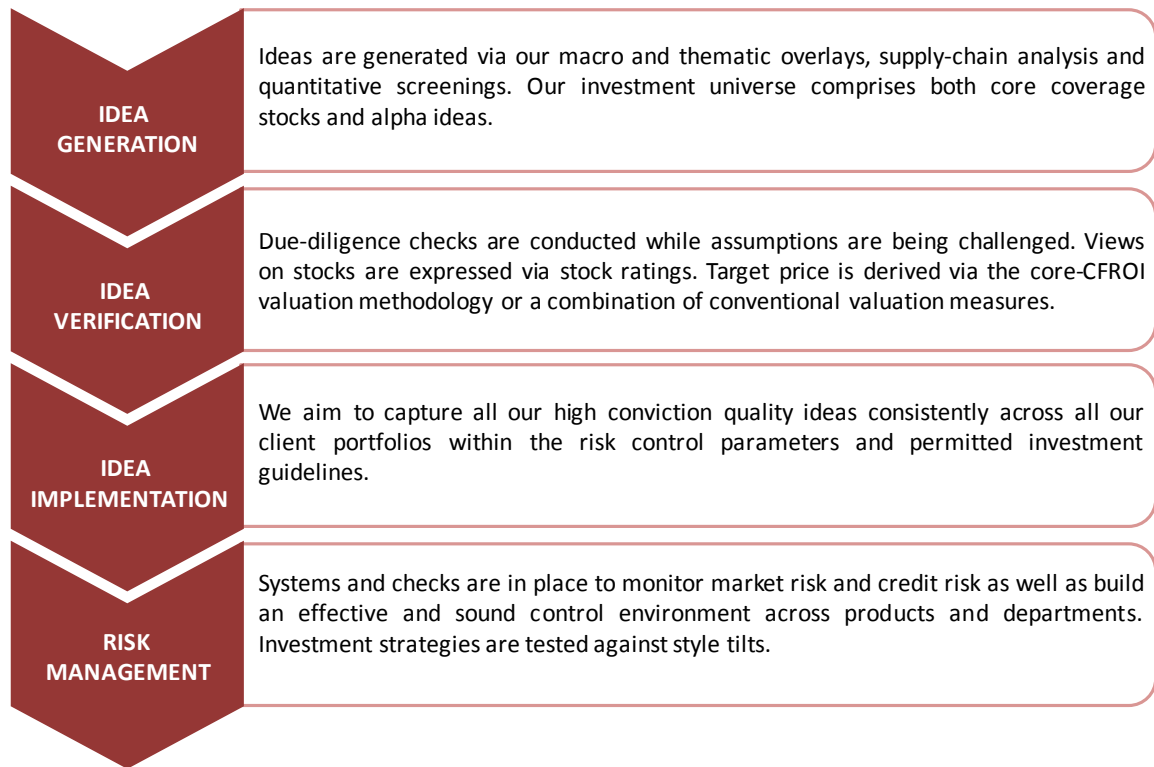
Investment guidelines are coded into the compliance module of the trading system and the Compliance Team is responsible for the pre-trade/post-trade compliance checks. Portfolio managers will be notified of any identified errors and breaches immediately and are required to take remedial actions in accordance with the requirements of the client mandates and regulations, taking the clients' best interest into consideration.

Compliance with investment guidelines is also monitored independently by an automated back-end system. This system monitors trades and portfolios post execution verifying that specific account/fund guidelines, regulatory requirements and risk exposure limits are followed. Exceptions identified through this

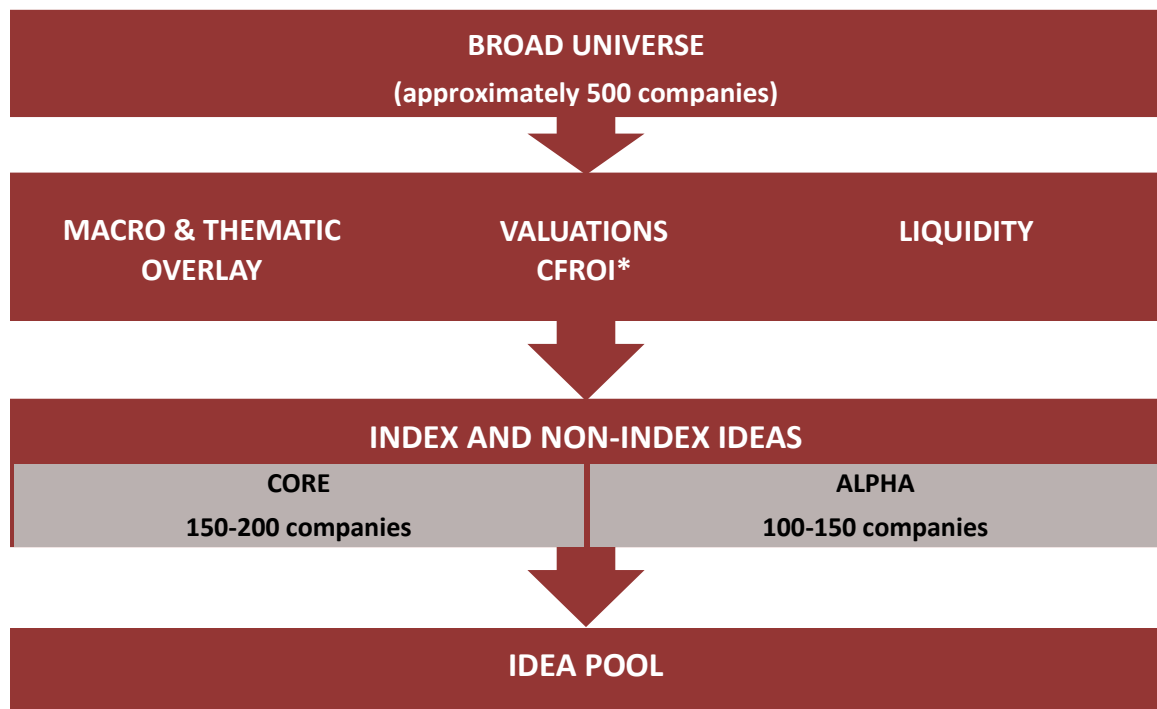
process are escalated for proper resolution on a timely basis.

## Asian Equities

The investment process can be defined by the following 4 steps:



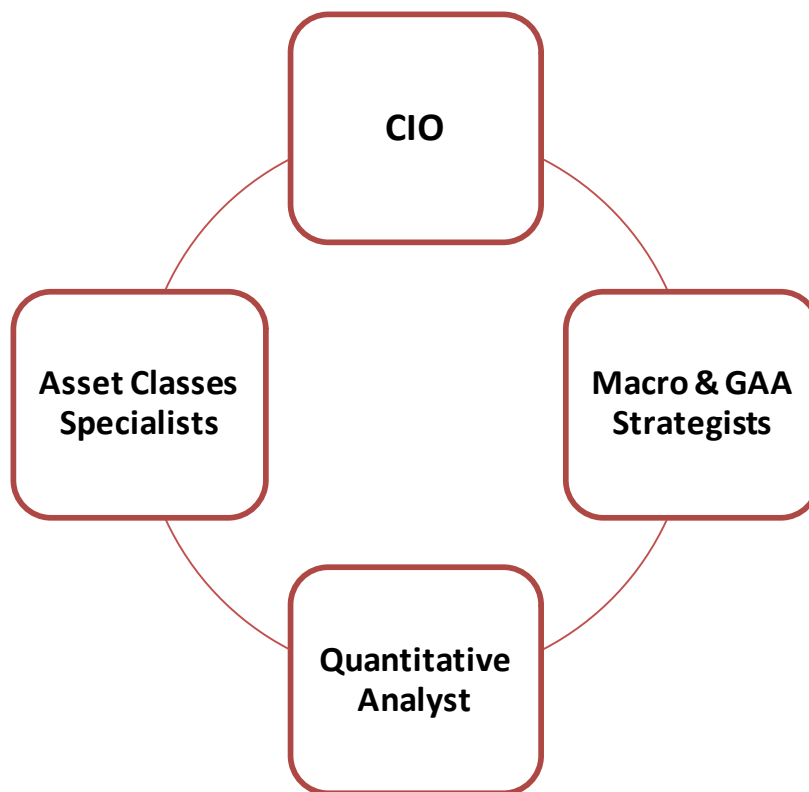
#### (I) Idea Generation



The investment universe is made up of stocks within the MSCI AC Asia ex Japan universe and alpha accretive stocks that fit the portfolio's investment objective.

Setting out with the aim to generate key top down strategic investment ideas – “Macro Overlay”, the Investment Strategy and Asset Allocation Committee musters our key investment personnel including the CIO, Macro & Global Asset Allocation (GAA) Strategists, Asset Classes Specialists and Quantitative Analyst.

To better illustrate, Macro & GAA Strategists are responsible for the research on global and local macro themes, discovering key market drivers and providing asset allocation views; Asset Classes Specialists are to provide individual asset class insights, while the Quantitative Analyst uses various quantitative tools to identify opportunities and risks.



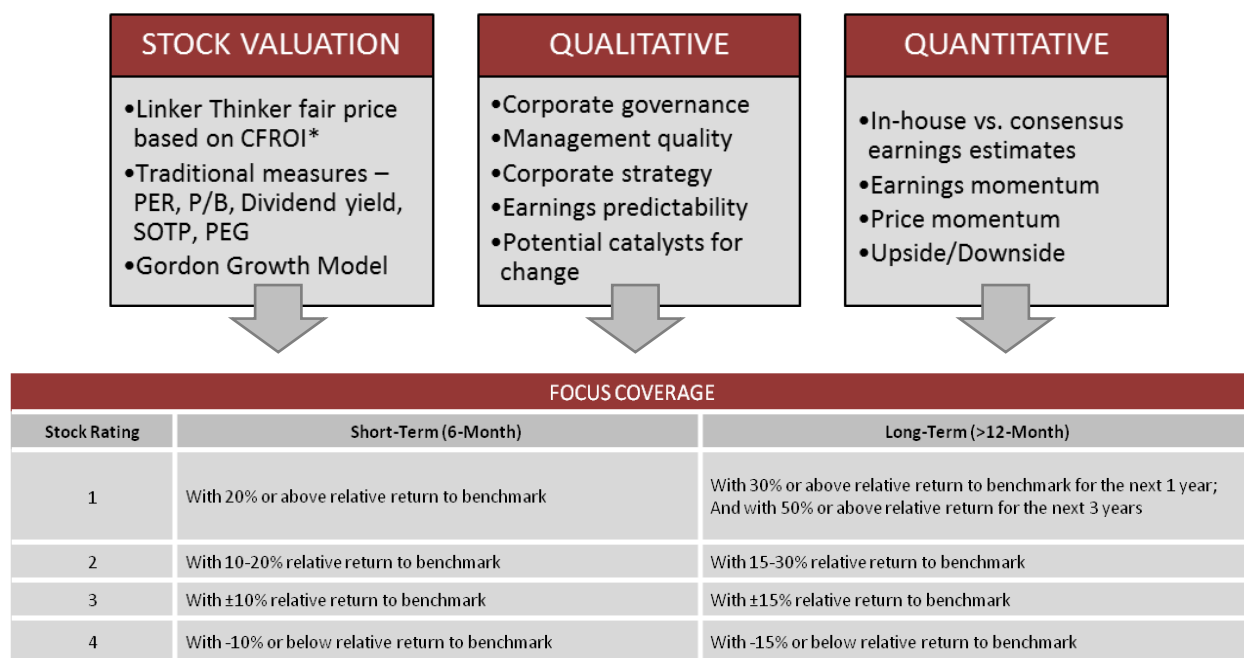
Investment ideas are often generated via our thematic overlays and supply-chain analysis. We perform quantitative screening using cash-flow return on investment (CFROI) and liquidity filter – daily turnover (minimum of USD1.0 million). We regard CFROI as a critical parameter in screening out companies with consistently poor cash flow for a prolonged period.

For thematic overlays, we conduct regular brain-storming sessions to identify and discuss structural as well as tactical themes namely, China Influence and Domestic Uncorrelated.

- In relation to China Influence, we believe that China will exert rising influence on other Asian economies and evaluate the impact of Scarcity, Liquidity and Policy themes on specific sectors such as material, energy, financial and consumer discretionary. We seek companies which can favorably benefit from the positive influence of China while avoiding those which may or will be negatively affected by China.
- In relation to Domestic Domination, we observe the social and political dynamics within the markets in Asia outside of China and broadly categorise domestic domination opportunities as follows:-
  - Consumption – for example Things that will prevail, not affected by internet like tourism, entertainment, logistics, healthcare, fitness
  - Innovation (Supply Chain) – for example, localized internet application, global supply chain
  - Inequality – regional differences among different countries

A significant amount of our time is also spent interacting with companies in various industries to generate useful on the ground insights. Robust supply-chain analysis is widely performed whenever possible especially in the highly contested sectors such as technology, industrial and material.

## (II) Idea Verification



We verify our investment ideas through fundamental and financial due-diligence. We aim to streamline our investment universe further into a focus coverage list. Our coverage is derived from MSCI AC Asia ex Japan universe and the resulting focus coverage will comprise of both core stocks and alpha stocks. Core

stocks are typically large-cap representative stocks within the respective country MSCI indexes. Alpha accretive names are companies which are either non-index e.g. newly listed companies or lowly represented in the indices. Target price, fundamental score and conviction ratings are generated during the idea verification process.

Our stock research focuses on our down-to-earth due-diligence at the corporate level. We ascertain our understanding of the business model (risk and rewards), competitive advantages and growth profile (secular or cyclical). Corporate interactions enable us to verify our financial assumptions, and qualitative facts and whenever possible, we also cross-check our findings with its customers, suppliers and competitors. Our conviction in a company may move in tandem with the level of our supply-chain analysis. Our portfolio managers and analysts interact at least once a quarter with the management of companies in which we are invested by way of on-site company visits, off-site meetings and conferences.

We generate a target price from our internal financial assumptions of a company. Our investment style and process is based on the central belief that it is cash-flow and cash-flow return on investment (CFROI) which will ultimately determine share prices over the medium and long term. With this in mind, we focus our efforts on identifying superior growth opportunities at reasonable valuations. CFROI is the primary valuation methodology which we utilize especially for non-financial sectors. Reality checks are performed by making references to other conventional valuations like P/E, and EV/EBITDA. For specific sectors like financials, we evaluate banks and insurance companies based on the Gordon Growth Model ( $ROE-g/COE-g$ ) implied P/B valuation and we value real estate companies based on RNAV (Revalued Net Asset Value). Often, we may have situations where we produce a probability weighted target price (best case, base case and worst case). Risk aversion is our guiding principle i.e. every unit of risk should be compensated with more units of upside potential. This means that we would prefer a stock with share price of 30% upside and 10% downside compared to one with 60% upside with 30% downside.

We view that the fundamental score has a lower correlation to the movements in the financial markets and we believe that in times of market volatilities, we can look beyond the noises to focus on these attributes. In the times of crisis or bear market cycles, it is not uncommon that the valuation of “good” and “bad” companies will converge. Management quality is the most important attribute we value in a company and we will not invest in companies which have corporate governance or credibility issues. We encapsulate the importance of management quality in our fundamental score. We do not express a view in the portfolio on a company with a poor management score even if it may have a chance of tactical outperformance. We may be contrarian at times on out-of-favor stocks especially those with good corporate stewardship and attractive risk-reward profile even if there are no specific share price catalysts.

Our Fundamental Hexagon Score is weighted by 6 “right” attributes – growth, value, competitiveness, leverage, management/corporate governance and free cash flow.

The conviction rating (Strong Outperform, Outperform, Underperform, Strong Underperform) in relation to a stock is made relative to the country benchmark and based on a particular time horizon.

We focus on effective communication within the investment team. We have weekly research meetings for stocks to be presented by each analyst. All the relevant portfolio managers will attend the meeting and assumptions will be challenged. Company visit and corporate results update notes will also be circulated via the HGI Investment Group email system. All reports will be posted on the Harvest’s internal Sharepoint system.

The investment reports will cover the following key areas:-

- Growth – the growth profile of the company (high or steady)
- Value – valuation of the company versus its normalized mean or peers
- Competitiveness – company's edge in face of competition
- Leverage – balance sheet strength
- Management/Corporate Governance – track record of management
- Free cash flow – ability to generate cash flow

### **(III) Idea Implementation**

The actual portfolio is constructed based on the inputs of the focus coverage, macro and thematic/sector overlay, risk control parameters as well as specific investment objectives and restrictions.

Our portfolio construction process aims to capture all our highest conviction ideas (i.e. Strong Outperform) within the stipulated country and sector limits. We implement all the stocks with "Strong Outperform" rating with an active bet of between 100 to 300 bps in the portfolio. We do differentiate stocks within the "Outperform" category by making reference to risk-reward target and fundamental scores.

In terms of country and sector deviation limits, the country deviation limit should not be more than 5% or 2 times the country weighting in the benchmark (whichever is the lower) while the sector deviation limit should not be more than 8% or 3 times the sector weighting in the benchmark (whichever is the lower). We do emphasize the importance of monetary policy and political-social stability in the Asian markets and intervene in our market allocation during extreme market conditions especially in times of rising political and social risks.

We have a well-rounded fundamental research-driven approach, with a team of bottom-up analysis focuses on sector & company research and a team of top-down strategist focuses on global macro and market trend analysis.

#### Our core beliefs

- Macro trends and theme/policy determine investment returns
- Focused, but in-depth, coverage is key for opportunities discovery
- Teamwork is the only means to deliver superior and consistent results

#### Our investment process

- Based on a team approach, within and across asset classes, to drive investment performance
- Identify, test and control risk before implementation

We invest in the merits of companies, capturing the best high conviction ideas

In general, positions will be sold or reduced if:

- Changes to the original investment theme, trend and sentiment occur
- Fundamental situation worsened – specific to companies or sectors
- Unfavorable changes in management, ownership or corporate strategy
- Positive fundamental development is reflected by the share price
- Superior prospects in other countries/sectors/stocks
- Holding exceeds risk budget

#### **(IV) Risk Management**

##### **Risk Management**

The goal of investment risk management is to monitor and analyze the investment risks and ensure timely communication with portfolio managers and senior management.

To achieve this goal, the risk management team has dedicated resources to oversee and monitor HGI's investment risk. Key risks and performance systems utilized are BarraOne, FactSet, Bloomberg, Morningstar Direct and Matlab

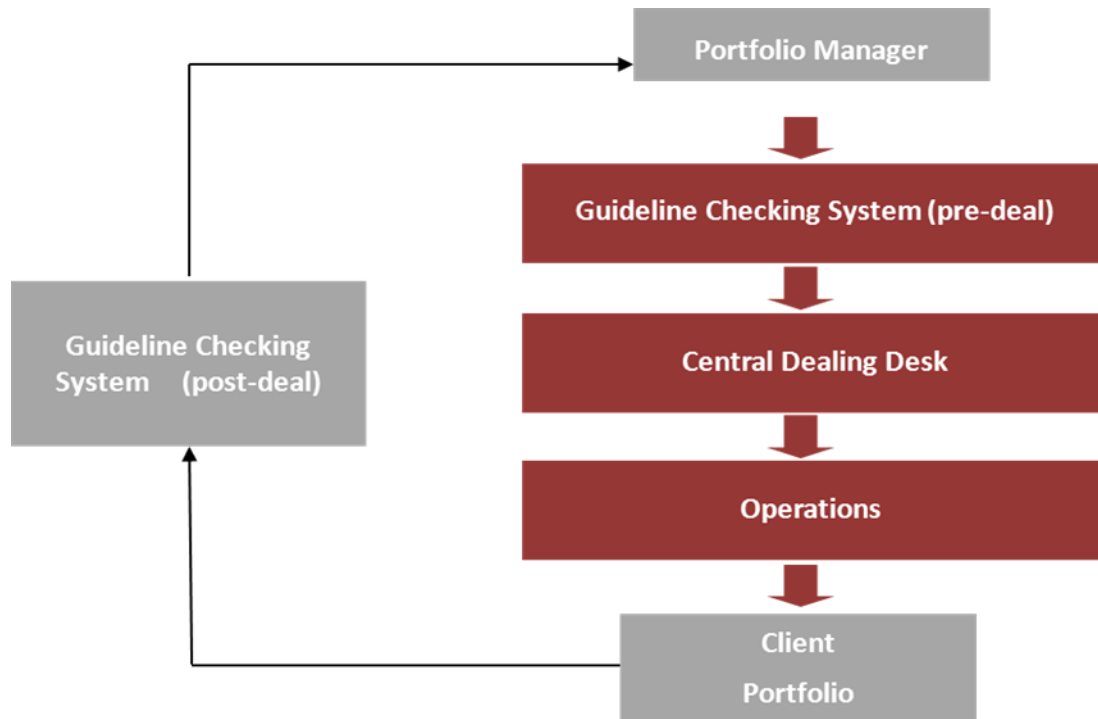
For a more detailed write-up on risk management, please refer to Section 6 below.

##### **Trade Management**

All trades are processed through our automated Guideline Checking System

- Pre-deal checking/warnings
- Post deal breach exception report
- Our dedicated compliance department monitors guideline compliance with client, regulatory and internal guidelines on an ongoing basis





Investment guidelines are coded into the compliance module of the trading system and the Compliance Team is responsible for the pre-trade/post-trade compliance checks. Portfolio managers will be notified of any identified errors and breaches immediately and are required to take remedial actions in accordance with the requirements of the client mandates and regulations, taking the clients' best interest into consideration.

Compliance with investment guidelines is also monitored independently by an automated back-end system. This system monitors trades and portfolios post execution verifying that specific account/fund guidelines, regulatory requirements and risk exposure limits are followed. Exceptions identified through this process are escalated for proper resolution on a timely basis.

#### **Dynamic risk management**

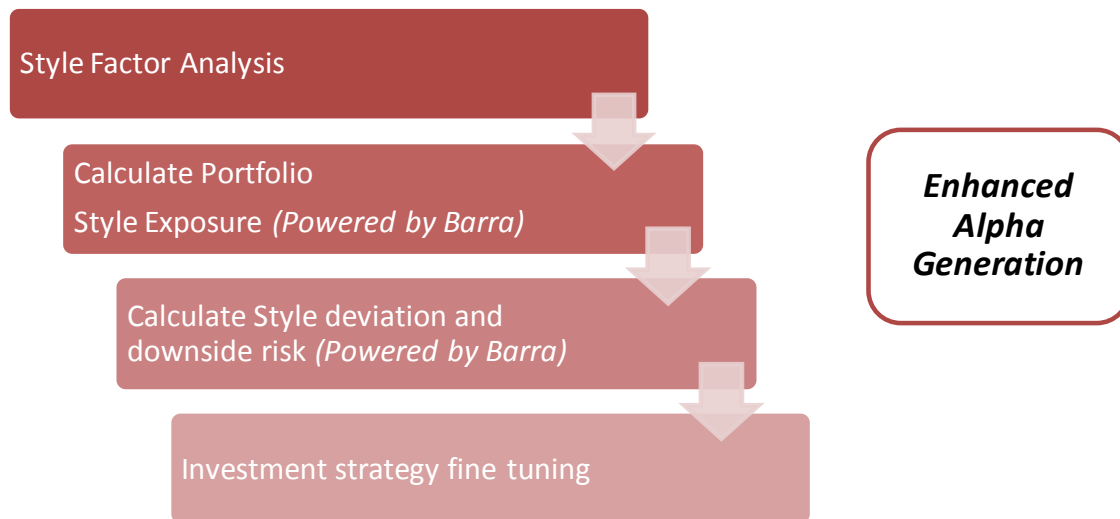
This refers to identifying the downside risks of our portfolio strategies, particularly with regard to the prevailing market style tilts.

To this end, Risk Manager is obliged to analyze the investment styles of our portfolios, which can be categorized into value, growth, quality, momentum, cyclical, defensive, etc. Concomitantly, the Investment Strategy and Asset Allocation Committee is responsible for identifying /forecasting the market investment style(s) going forward.

Then, our portfolios are tested against the identified /forecast market style(s), and we will keep monitoring our deviation from the forecast market styles – which may result in large tracking errors – and decide whether strategy fine-tuning is needed, and make certain that our portfolios have followed the guidelines on stock and sector limits issued by the Committee based on their top down views.

Other than that, Risk Manager also provides disciplines based on the liquidity risk control perspective. Overall, we strongly believe that the constant interaction between the Investment Strategy and Asset

Allocation Committee, Risk Manager and Portfolio Managers can lead to a cross-fertilization of ideas – the mixing of the top-down and bottom-up views to produce a more desirable result – and consequently style deviation and the downside risks of our investment portfolios can be measured and the strategies to be fine-tuned, helping us to contain the market style risks.



## Fixed Income

Our investment process pursues a combined approach between top-down and bottom-up approaches.

In the top-down approach, economic data on a global, regional and local basis are taken into consideration (e.g. economic growth, monetary and fiscal policies and interest rate cycles) to identify longer-term macro trends and current themes which are likely to impact markets.

Central to our bottom-up approach is a proprietary internal rating process which was developed using Moody's rating as a reference, which then incorporated our sector views and strategies from the top-down approach.

### Investment Process

All Harvest's investment professionals, including both the onshore investment teams from HFM and the offshore investment teams from HGI, share a centralized research platform to promote effective communication and information exchange. The research platform encompasses a

common report database and email distribution list covering asset-class strategies, macro-economics, industry (weekly monthly, quarterly, and annually) and company-specific research and update.

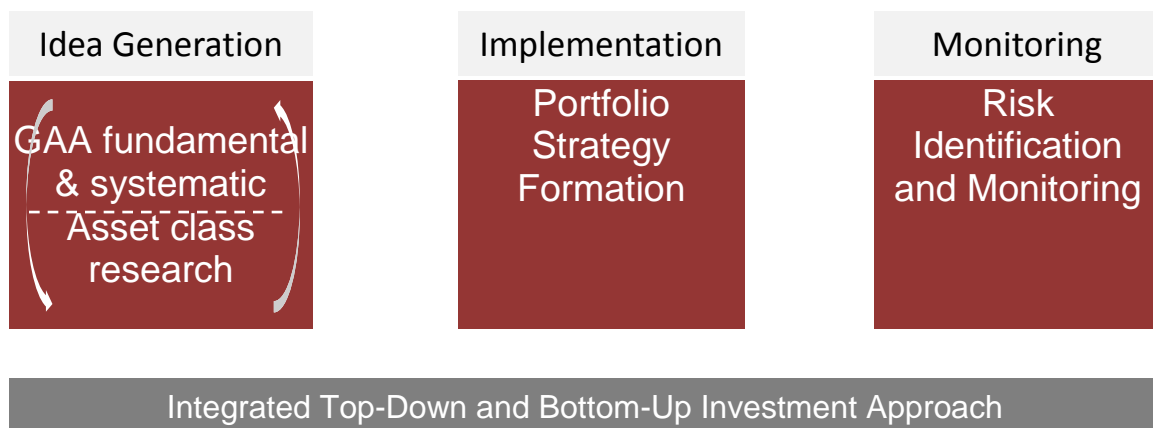
Our portfolio construction is based on a combination of top-down and bottom-up approaches. The top-down asset and sector allocation decisions are based on the macro views from our Global Asset Allocation (GAA) team. GAA, PMs and investment analysts hold monthly meeting to discuss the major macro trends, global fund flow, and the resulting asset and sector allocation.

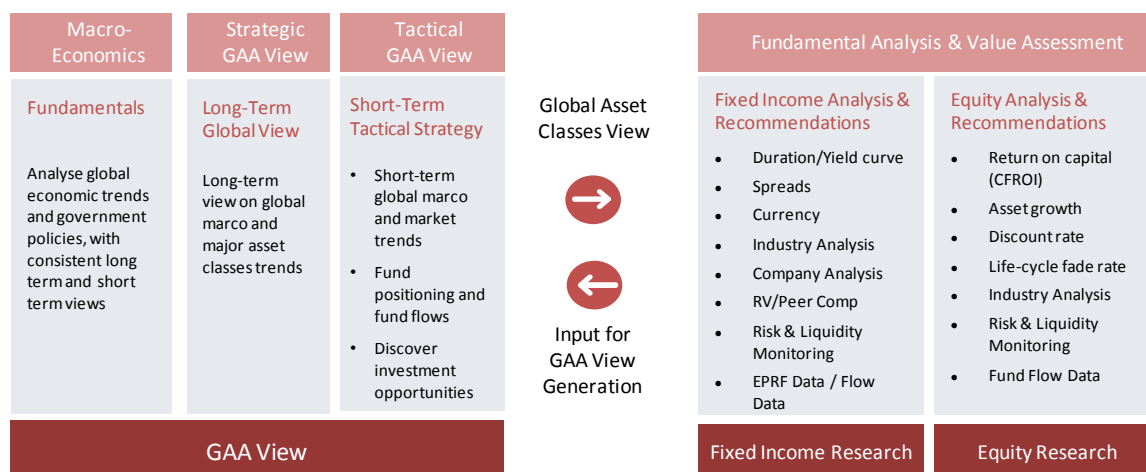
Our bottom-up fundamental research includes in-depth industry and company analysis as well as credit specific issues, including quality of cash flow generation, liquidity analysis, peer comparison, capital structure and covenant analysis as well as potential rating uplift from government ownership or strong sponsor. We will then incorporate RV (relative value) analysis before making the final investment decision.

At a given time, we have about 80-100 investment holdings in our portfolio. In addition, we keep about 20 credits in a watch list. Decision to add/remove or overweight/underweight a particular credit depends on our top-down strategy as well as the bottom-up credit and RV analysis described above.

We aim to keep a diversified portfolio with no more than 3-5% per investment grade issuer and 2% per high-yield issuer depending on our investment mandates. Finally, we also incorporate the following considerations in the portfolio construction process:

- Guidelines or restrictions and compliance requirements of the given investment mandates;
- Liquidity constraints on the position.





### Sector Strategy

We utilize outputs from macro team across different industry sectors / groups to conduct in-depth analysis for each industry, and identify opportunities across industry.

We employ different valuation tools / analytical framework for different industries, and we only use one that best suit the nature of the company's business.

We analyze business cycle across industries; it helps us identify opportunities amid cyclical fluctuations of the economy over medium term.

### Interest Rate Strategy

Within interest rate strategies, the Fixed Income Investment Team seeks opportunities from duration and slope management of interest rate risk, and relative value opportunities.

Our primary approach to interest rate risk management is to take strategic positions based on our fair value forecasts. However, where we believe we have a good understanding of the short-term factors, we will take tactical positions.

i) Strategic positions are implemented when market prices do not reflect fair value based on our fundamental medium to long term economic views. The deviation of the central scenario forecast from current market pricing dictates sign and size of strategic duration/slope positions relative to benchmark.

ii) Tactical positions are implemented when we have a strong conviction on short-term price movements, usually driven by technical factors such as market momentum, funds flow and individual data releases. These positions are undertaken on a discretionary basis.

In general, interest rate positions are predominantly strategic in nature. Forecasts of fair value bond yields are formulated having regard to domestic macroeconomic factors and idiosyncratic capital market developments and flows. These are consistent with the global economic, monetary policy and capital market themes identified in concurrent strategy sessions. A deviation of the forecasts from the market pricing will dictate the sign and size of the strategic

local market duration position. Interest rate positions will need to be adjusted for access and liquidity constraints.

#### Currency Strategy

GAA team identifies fundamental, technical and behavioral factors which drive currency value in the short to medium term. Themes identified in global and regional macro analysis form the basis for our currency outlook. The global factor analysis approach is modified to ensure that the most relevant drivers in each regional currency are considered.

The team prepares currency forecasts that incorporate not only the themes from our global and regional macro analysis, but also the assessment of medium-term currency valuations within the region with considerations of macroeconomic, policy, and capital flow developments as relevant.

Deviations from our medium or long-term forecasts are used to identify potential investment opportunities.

#### Credit Strategy

The development of credit strategies is a combination of top-down and bottom-up analysis. The evaluation results from both analysis have a direct input into sector allocation and credit selection at the portfolio construction stage.

##### *Top-down evaluation:*

We identify longer-term trends and current themes likely to impact markets during the investment period. Analysis of economic, credit and market-specific factors both globally and regionally allows us to determine how much credit to allocate to the portfolio.

We leverage the resources of our Macro Strategists and Credit Team in Beijing, and our regional investment teams within HGI, to determine the key drivers of global, regional and local credit markets.

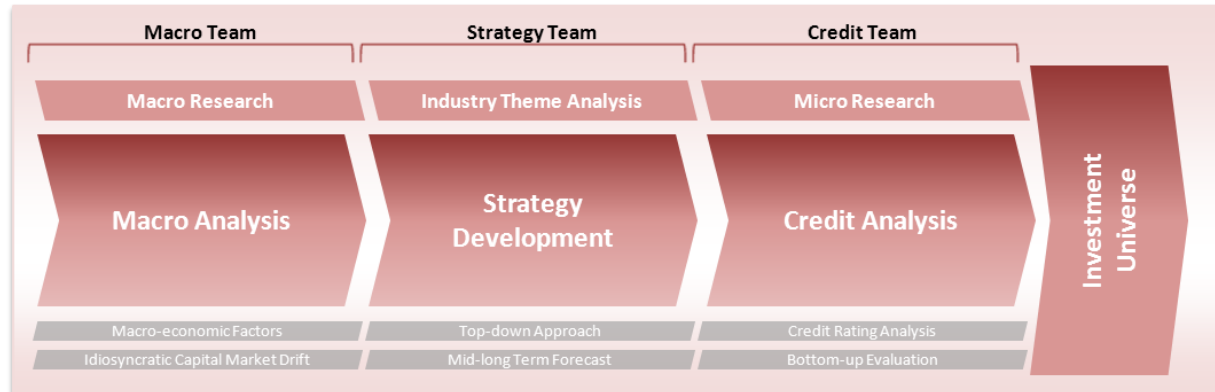
##### *Bottom-up evaluation:*

Central to our bottom-up credit evaluation, is a proprietary internal rating process. In undertaking credit analysis, we utilize the resources of our onshore and offshore research teams.

#### **Research Process**

The research matrix is one of our most important processes within our investment practice as this provides us the most valuable information in order to capture the market opportunities. We have designed multi-faceted system linked to all research groups. Three main groups contribute to the research process, namely the Macro Team, Strategy Team, and the Credit Team:

## Research Process



### Macro Research

The starting point of our research process is an analysis of the macroeconomic environment which is undertaken by the Macro Team. Data is gathered from multiple parties such as government agencies, industry associations, and external resources platform. The team will then conduct macro analysis on global and regional economic growth and money supply figures, based on domestic macroeconomic factors and idiosyncratic capital market developments and flows. Interest rate forecast, currency forecast, and inflation forecast will be executed in order to provide both long and short-term market outlook to the rest of the team. Note that all research information are uploaded to our Knowledge Management (KM) System which ensures communication for information exchange among teams.

### Industry Theme Analysis

The Strategy Team will utilize the comprehensive analytic outputs from our macro team, to conduct a second layer of thematic analysis and sensitivity analysis in relation to different industries, duration positioning and asset sectors (e.g. HY vs IG, straight bonds vs CB). Here, a Top-down Approach will be applied leveraging on our specialized expertise in each area, and close collaboration between onshore and offshore teams. Information extracted from industry databases and inputs from industry experts as well as sell-side strategists are also factored into review. We also strive to combine quantitative analysis and fundamental research to form an integrated systematic approach to better understand and respond to risk factors without behavioral bias. The last stage is a sector life cycle analysis from which the investment strategy will be determined.

### Micro Research

Once the investment strategy has been developed, the Credit Team will perform a credit analysis through a Bottom-up evaluation process utilizing resources of both our onshore and offshore research teams. During this phase, a massive amount of data on each potential investment will be analyzed. This includes the industry trends and risks, business position, financial profile, liquidity and cash flow analysis, covenants analysis, and valuation of the possible investments. The result provides a clear picture of the valuable names which will be

included in the investment universe and will be considered during the portfolio construction stage.

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### 1.3 PORTFOLIO MONITORING

The credit monitoring and risk management process are also conducted throughout the investment process. It is crucial to keep track of the credit rating and risk figures of the securities in order to keep our investments within the portfolio investment constraints. The credit monitoring is an on-going process and will be performed by the Credit Team. For risk management, a pre-deal and post-deal check will be conducted.

On an ongoing basis the Risk Management Department access and monitor portfolio risk (mainly liquidity and counterparty risks) according to changing market situations. Risk Management teams are also responsible for monitoring and producing portfolio risk analysis report. The goal of investment risk management is to monitor and analyze the investment risks and ensure timely communication with portfolio managers and senior management about the investment risk. To achieve this goal, the Risk Management team has dedicated resources to oversee and monitor HGI's investment risk. Key risks and performance systems are BarraOne, FactSet, Bloomberg, Morningstar Direct and Matlab. Compliance is also responsible for daily monitoring of the investment process.

### 1.4 SELL-DISCIPLINE

The sell-discipline operates within our investment process. In general, positions will be sold or reduced if:

- Fundamental
  - Changes to the original investment theme, trend and sentiment occur
  - Fundamental situation worsened – specific to macroeconomics
  - Unfavorable changes to credit of corporate bonds, market liquidity and supply and demand shocks
  - Positive fundamental development is reflected by the price
- Opportunity Cost
  - Superior prospects in other sectors/bonds
- Risk control
  - Holding exceeds the maximum risk budget

While selling any position is not automatically triggered by these events, good explanations will be required to maintain the positions.

**ETF**

**Investment Strategy****(I) Portfolio Construction:**

The fund's investment management process is relatively simple and fully represents the degree of diversification that the index embodies. However, various market specific factors and circumstances may result in differences in the fund's portfolio and the index composition from time to time. These factors include: the effect of subscriptions and redemptions, underlying stock weight adjustments, legal restrictions on investment shares, transaction costs, stock dividend distribution, share allotment and issuance of new shares.

The requirement to purchase stocks in lots as well as other restrictions can also cause the portfolio to lag or be biased to an extent, especially when the target index has a large number of the constituents – in that case, the frequency of adjustment and time delay can be an important factor. In addition, when stocks have been suspended for a prolonged period of time or delisted, a full replication strategy will inevitably face situations where its return will deviate from the index and therefore ultimately cause tracking error.

**(II) Portfolio Rebalancing:**

The fund utilizes the full replication strategy to track the MSCI China A index performance efficiently. On a daily basis, the fund manager verifies the underlying stock holdings' weights with MSCI and rebalances the portfolio according to the day's net flow. The investment team utilizes Harvest's passive investment system to monitor not only the average daily tracking error but also the accumulated tracking difference as well. The investment team closely tracks any corporate actions of the underlying stocks and takes corresponding actions. The reasons for rebalancing can be categorized as follows:

- Change in index constituents

The index provider reviews the index on a regular basis, which may result in additions, deletions, and changes in the index constituents. The implementation of changes from periodical review results is in February, May, August and November respectively. All changes will be pre-announced before the effective date. Historically, the average percentage change in number of constituents for the MSCI China A Index was 28.9% for 2010 to 2011 while the average turnover for the same period was 13.1%.

The fund manager will analyze the potential weighting changes for the portfolio holdings. In case of weighting change for one typical stock, the fund manager will consider a number of factors to achieve the target weighting prior to the effective date, including the 3-month average trading volume, the significance of the index component and potential trading impact. The fund manager can also decide the trading strategy, for example in the case of illiquid stock, the fund manager might split the order into several trading days before the effective date, and get to the target weight incrementally.

- To minimize tracking error

On a daily basis, the fund manager is updated with the tracking error analysis of the fund. Under different market condition, the fund manager may set the corresponding alert level, for example daily tracking error above 50bps or annualized tracking error above 3%, the fund manager will look into the attribution



analysis of the tracking error then decide whether to adjust the portfolio holdings accordingly, usually the attribution could include dividends received, trading P&L, positioning variance from the index weights, and cash drag, e.g. if portfolio variance arises, sector overweight/underweight comparing to underlying index over 2%, the fund manager would initiate the portfolio rebalancing to minimize the deviation.

- Adjust cash portion in the portfolio

The fund applies a full replication strategy to track the underlying index. The fund will maintain a relatively low level of cash in order to effectively track the index. When cash level reaches above 1% or below 0.2% in the portfolio, the fund manager could initiate the portfolio rebalancing to adjust the asset allocation.

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## 1.5 PORTFOLIO MONITORING AND CONTROL

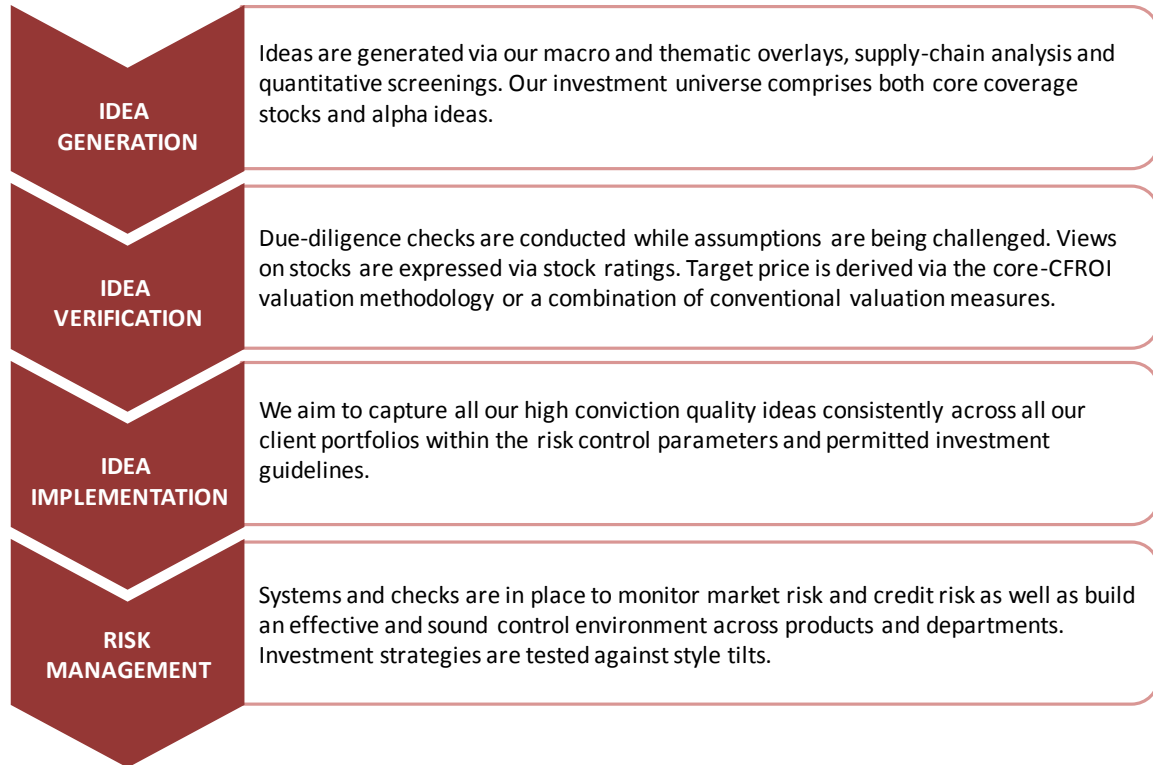
The ETF's investment management process is relatively simple and fully represents the degree of diversification that the index embodies. However, various market specific factors and circumstances may result in differences in the ETF's portfolio and the index composition from time to time. These factors include: the effect of subscriptions and redemptions, underlying stock weight adjustments, legal restrictions on investment shares, transaction costs, stock dividend distribution, share allotment and issuance of new shares.

The requirement to purchase stocks in lots as well as other restrictions can also cause the portfolio to lag or be biased to an extent, especially when the target index has a large number of the constituents – in that case the frequency of adjustment and time delay can be an important factor. In addition, when stocks have been suspended for a prolonged period of time or delisted, a full replication strategy will inevitably face situations where its return will deviate from the index and therefore ultimately cause tracking error.

On a daily basis, the fund manager is updated with the tracking error analysis of the fund. Under different market condition, the fund manager may set the corresponding alert level, for example daily tracking error above 50bps or annualized tracking error above 3%, the fund manager will look into the attribution analysis of the tracking error then decide whether to adjust the portfolio holdings accordingly, usually the attribution could include dividends received, trading P&L, positioning variance from the index weights, and cash drag, e.g. if portfolio variance arises, sector overweight/underweight comparing to underlying index over 2%, the fund manager would initiate the portfolio rebalancing to minimize the deviation.

## Asia Frontier

The investment process can be defined by the following 4 steps:



### (I) Idea Generation

The investment universe is made up of stocks which have exposure to the frontier markets and will benefit from the long-term secular growth trends in these markets.

- Direct frontier markets - companies listed on the Asia frontier markets stock exchanges which include Bangladesh, Kazakhstan, Mongolia, Sri Lanka and Vietnam. These markets were selected with the following considerations:
  - Fundamental Macro Analysis
  - Political Stability
  - Accessibility to Global Investors
- Liquid proxies - companies listed in developed or emerging markets with operations, assets or investments and or with revenue generated in these markets. This may allow inclusion of a wider universe of less directly accessible frontier markets such as Indochina (e.g. Laos, Cambodia) and Central Asia (Turkmenistan)

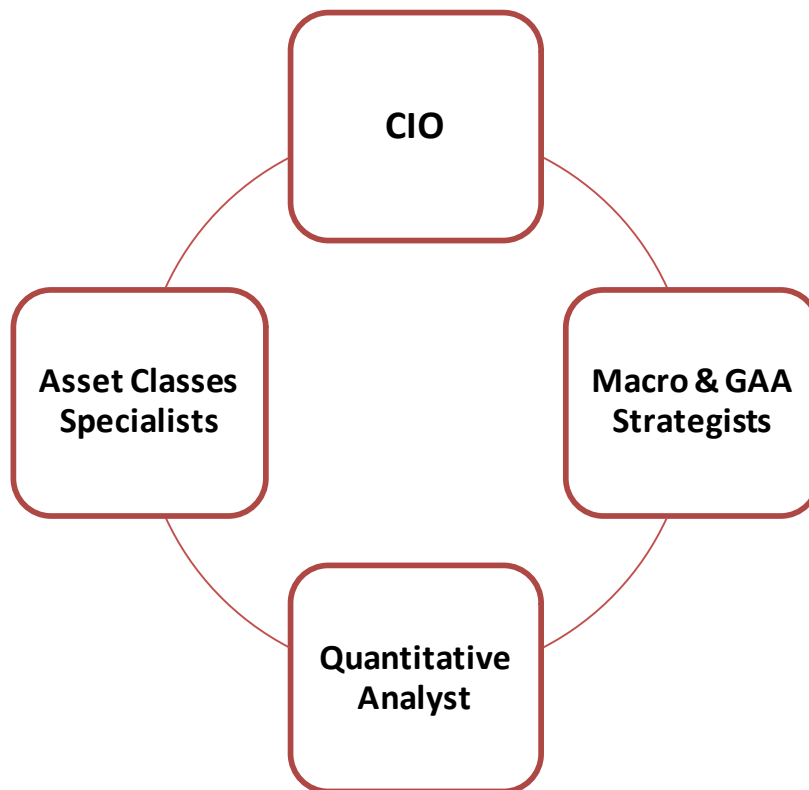
Investment vehicles include companies listed in established exchanges such as Hong Kong, India, Singapore, Korea and Taiwan, as well as ADR/GDR and companies listed in the United Kingdom and the United States.

Companies listed in China benefiting from the rapid growth of western Chinese provinces - Inner Mongolia, Tibet, Xinjiang & Yunnan - “Western China Frontier” markets. These companies are largely listed in China A-share market. P-notes on China A share will be used.

Investment ideas are often generated via our thematic overlays and supply-chain analysis. We perform quantitative screening using Cash-Flow Return on Investment (CFROI) and liquidity filter – daily turnover (minimum of USD0.5 million). We regard CFROI as a critical parameter in screening out companies with consistently poor cash flow for a prolonged period.

Setting out with the aim to generate key top down strategic investment ideas – “Macro Overlay”, the Investment Strategy and Asset Allocation Committee musters our key investment personnel including the CIO, Macro & Global Asset Allocation (GAA) Strategists, Asset Classes Specialists and Quantitative Analyst.

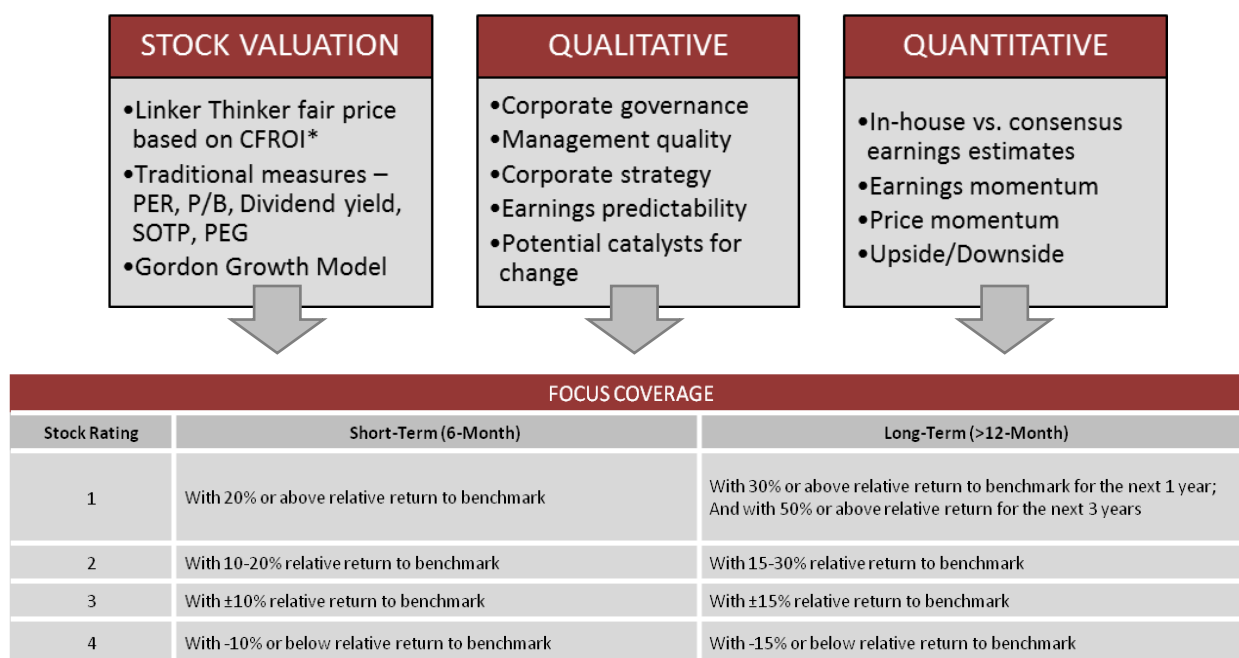
To better illustrate, Macro & GAA Strategists are responsible for the research on global and local macro themes, discovering key market drivers and providing asset allocation views; Asset Classes Specialists are to provide individual asset class insights, while the Quantitative Analyst uses various quantitative tools to identify opportunities and risks.



For thematic overlays, we have brainstorming session to identify and discuss both structural as well as tactical China-influence and Domestic Asia Frontier themes. For China-influence themes, we have viewed the Chinese influence of Scarcity, Liquidity and Policy on the specific sectors such as material, energy,

industrial. We are seeking companies which can favorably benefit from the positive influence of China while avoiding those which may or will be negatively affected by China. We observe the social and political dynamics within the Domestic Asia Frontier markets outside of China. We invest a significant amount of our time interacting with companies in various industries. Robust supply-chain analysis is widely performed whenever possible especially in the highly contested sectors such as technology, industrial and material.

## (II) Idea Verification



We verify our investment ideas through fundamental and financial due-diligence. We aim to further streamline our investment universe into a focus coverage list. Our focus coverage will comprise of both core stocks and alpha stocks. Core stocks are typically large-cap representative stocks within the respective country indexes. Alpha accretive names are companies which are either non-index e.g. newly listed companies or lowly represented in the indices. Target price, fundamental score and conviction ratings are generated during the idea verification process.

Our stock research focuses on our down-to-earth due-diligence at the corporate level. We ascertain our understanding of the business model (risk and rewards), competitive advantages and growth profile (secular or cyclical). Corporate interactions enable us to verify our financial assumptions, and qualitative facts and whenever possible, we also cross-check our findings with its customers, suppliers and competitors. Our conviction in a company may move in tandem with the level of our supply-chain analysis. Our portfolio managers and analysts maintain at least once a quarter interactions with the management of companies we invested by way of on-site company visits, off-site meetings and conferences.

We generate a target price from our internal financial assumptions of a company. Our investment style and process is based on the central belief that it is ultimately cash-flow and cash-flow return on investment (CFROI) which will ultimately determine share prices over the medium and long term. With this in mind, we focus our efforts on identifying superior growth opportunities at reasonable valuations. CFROI is the primary valuation methodology which we utilize especially for non-financial sectors. Reality checks are performed by making references to other conventional valuations like P/E, and EV/EBITDA. For specific sectors like financials, we evaluate banks and insurance companies based on the Gordon Growth Model (ROE-g/COE-g) implied P/B valuation and we value real estate companies based on RNAV (Revalued Net Asset Value). Often, we may have situations where we produce a probability weighted target price (best case, base case and worst case). Risk aversion is our guiding principle i.e. every unit of risk should be compensated with more units of upside potential. This means that we would prefer a stock with share price of 30% upside and 10% downside compared to one with 60% upside with 30% downside.

We view that fundamental score has a lower correlation to the movements in the financial markets and we believe that in times of market volatilities, we can look beyond the noises to focus on these attributes. In the times of crisis or bear market cycles, it is not uncommon that the valuation of “good” and “bad” companies will converge. Management quality is the most important attribute we value in a company and we will not invest in companies which have corporate governance or credibility issues. We encapsulate the importance of management quality in our fundamental score. We do not express a view in the portfolio on a company with a poor management score even if it may have a chance of tactical outperformance. We may be contrarian at times on out-of-favor stocks especially those with good corporate stewardship and attractive risk-reward profile even if there are no specific share price catalysts.

Our fundamental score is weighted by 3 “right” attributes:

- Right theme (20%) – China influence and or domestic Asia
- Right business (40%) - Business model, competitive advantages and growth profile (secular or cyclical)
- Right management (40%) – Corporate governance, track-record, interests alignment (e.g. share ownership)

The conviction rating (Strong Outperform, Outperform, Underperform, Strong Underperform) in relation to a stock is made relative to the country benchmark and based on a specific time horizon.

We focus on effective communication within the investment team. We have weekly research meetings for stocks to be presented by each analyst. All the relevant portfolio managers will attend the meeting and assumptions will be challenged. Company visit and corporate results update notes will also be circulated via the HGI Investment Group email system. All reports will be posted on the Harvest’s internal KM (Knowledge Management) system.

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This is a benchmark aware fund. We do emphasize the importance of monetary policy and political-social stability in the Asian markets and intervene in our market allocation during extreme market conditions especially in times of rising political and social risks.

Our investment process is largely macro-aware rather than macro-driven. Top-down factors play a secondary role in our investment decision-making process, but are reviewed formally, at the very least, on a monthly frequency, to maintain consistency with our overall investment view of the markets and sectors. Our market specialist will run the macro scorecard in 4 core areas –

**Growth** – Macro GDP and Earnings growth as well as the drivers

**Valuation** – Market and sector valuations

**Currency and Liquidity**

**Policy and Management** – Social and political stability

The macroeconomic environment, political factors and currency views are incorporated into the portfolio control process and may lead to refinement of the country allocation results suggested by “bottom-up” criteria.

In general, positions will be sold or reduced if:

- Changes to the original investment theme, trend and sentiment occur
- Fundamental situation worsened – specific to companies or sectors
- Unfavorable changes in management, ownership or corporate strategy
- Positive fundamental development is reflected in the share price
- Superior prospects in other countries/sectors/stocks
- Holding exceeds risk budget

### **(III) Risk Management**

#### **Risk Management**

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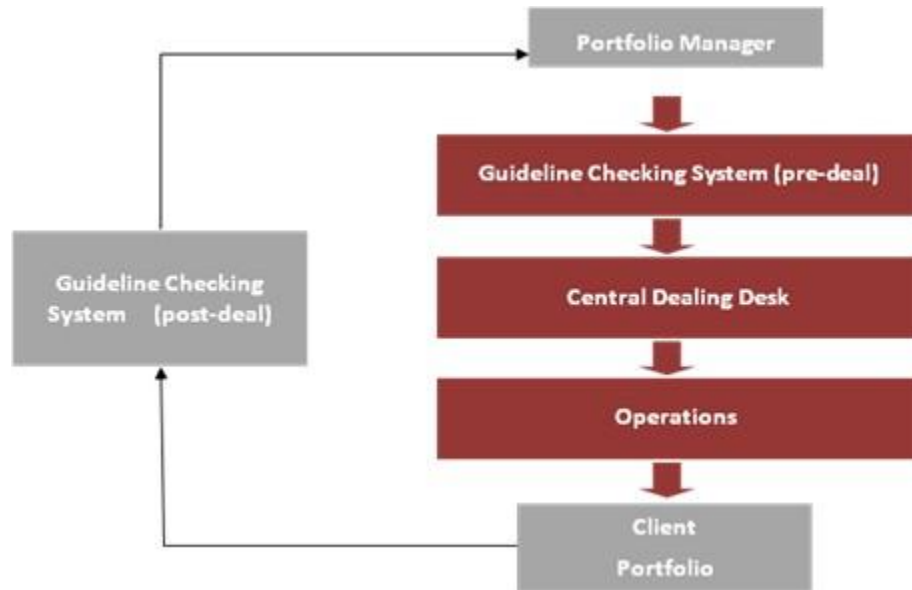
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- Post deal breach exception report
- Our dedicated compliance department monitors guideline compliance with client, regulatory and internal guidelines on an ongoing basis



Investment guidelines are coded into the compliance module of the trading system. Compliance Team is responsible for the pre-trade/post-trade compliance checking. Portfolio managers will be notified of any identified errors and breaches immediately and are required to take remedial actions in accordance with the requirements of the client mandates and regulations, taking the clients' best interest into consideration.

- Compliance with investment guidelines is also monitored independently by an automated back-end system. This system monitors trades and portfolios post execution verifying that specific account/fund guidelines, regulatory requirements and risk exposure limits are followed. Exceptions identified through this process are escalated for proper resolution on a timely basis.

### Dynamic risk management

This refers to identifying the downside risks of our portfolio strategies, particularly with regard to the prevailing market style tilts.

To this end, Risk Manager is obliged to analyze the investment styles of our portfolios, which can be categorized into value, growth, quality, momentum, cyclical, defensive, etc. Concomitantly, the

Investment Strategy and Asset Allocation Committee is responsible for identifying /forecasting the market investment style(s) going forward.

Then, our portfolios are tested against the identified /forecast market style(s), and we will keep monitoring our deviation from the forecast market styles – which may result in large tracking errors – and decide whether strategy fine-tuning is needed, and make certain that our portfolios have followed the guidelines on stock and sector limits issued by the Committee based on their top down views.

Other than that, Risk Manager also provides disciplines based on the liquidity risk control perspective. Overall, we strongly believe that the constant interaction between the Investment Strategy and Asset Allocation Committee, Risk Manager and Portfolio Managers can lead to a cross-fertilization of ideas – the mixing of the top-down and bottom-up views to produce a more desirable result – and consequently style deviation and the downside risks of our investment portfolios can be measured and the strategies to be fine-tuned, helping us to contain the market style risks.

## GLOBAL ASSET ALLOCATION

We have a disciplined investment process in place yet maintain flexibility in terms of risk allocation among various elements. We believe both beta and alpha are important potential return sources of a total return portfolio. Depending on market environment, there may be bigger or smaller opportunity set in one vs. the other. Also depending on stage of the market development, there may be more alpha opportunities in emerging markets than in developed markets.

We construct portfolios by identifying the most attractive asset classes and markets to invest in and applying the integrated framework to these positions in our portfolio construction process. In constructing the portfolios, we are benchmark aware and not benchmark driven. The

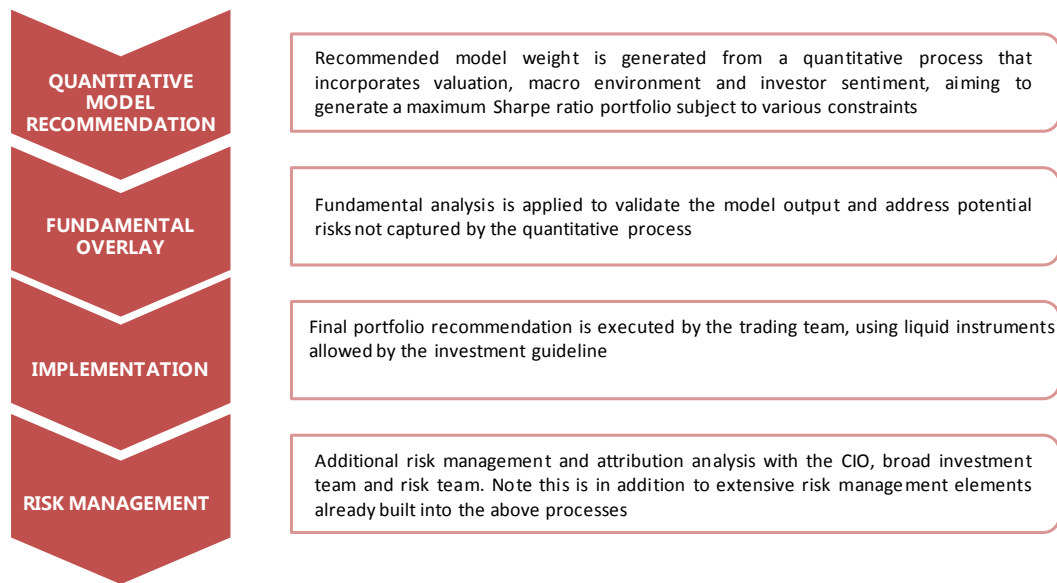


benchmark merely serves as guidance for calibrating the model in a long-term context, not as a prescription for individual asset class or country weights at a specific point in time.

The investment process can be defined by the following four steps.

- Quantitative model recommendation
- Fundamental overlay
- Implementation
- Risk Management and attribution

#### Investment Process for Global Asset Allocation



We now go over each step and offer some details.

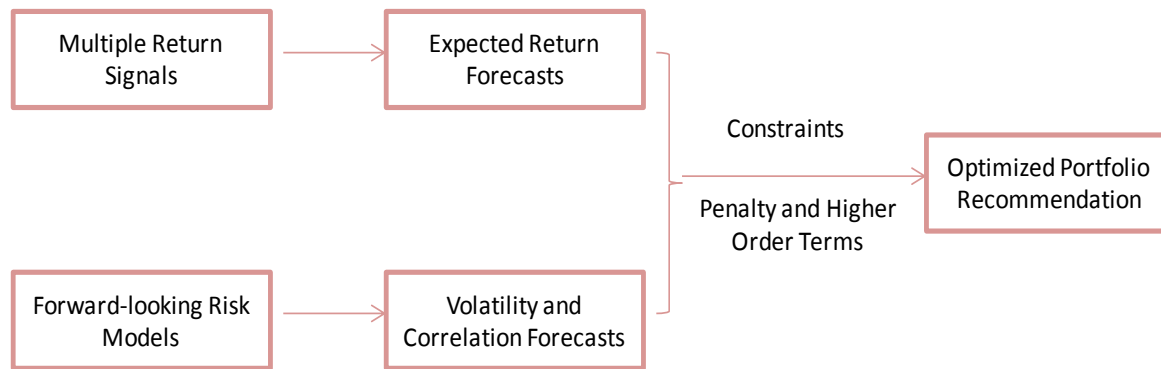
#### (V) Quantitative Model Recommendation

Quantitative model recommendation is an important starting point of the asset allocation decisions. The process is best illustrated with the following flow chart. The quantitative model should be based on a well thought model that incorporates diverse return drivers, e.g., valuation, macro environment and market sentiment.<sup>1</sup> The portfolio construction should take into account the volatility and correlation forecasts of assets in the investment universe, with the ultimate objective to generate a portfolio with the highest ex-ante Sharpe ratio, subject to investment constraints.

#### Flow Chart for Quantitative Model Recommendation

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<sup>1</sup> With some nuances, the return drivers can be categorized as valuation, carry and momentum.



We will give more color on each step below.

- Build expected return forecasts for each asset in the investment universe
  - Assign each signal (factor) a weight (risk allocation), in a relatively balanced fashion among valuation, macro environment and sentiment
  - For each signal (factor), compute its implied expected returns from a mean-variance framework
  - The weighted average of implied expected returns will be the expected returns to be used for portfolio construction
- Build risk models to forecast volatility and correlations of assets in the investment universe
- Reoptimize the portfolio with the above expected returns, volatility and correlation forecasts, adding the following constraints and additional terms to make the portfolio better behaved
  - Asset weight constraints at the country, region and aggregate level
  - Risk concentration penalty to prevent risk dominance by certain assets
  - Higher order penalty to make the portfolio less sensitive to errors in expected return and risk estimates

## (VI) Fundamental Overlay

Fundamental overlay involves leveraging our firm's tradition and strength in fundamental analysis to address risks not captured by the quantitative model. The typical examples could be risk reduction ahead of major events with binary outcome, dynamic shifts of risk budgets among different signals or among different sub-strategies. Specifically, weight of valuation signals may be lowered in highly uncertain environment because investors tend not to focus on valuation. Cross-sectional relative value active currency strategy might get lower risk budget when all the central banks engaged in aggressive quantitative easing, leaving very narrow breadth among the universe.

The idea of fundamental overlay can come from the CIO, Asset Allocation team and other investment teams. The firm fosters an open dialogue culture where best ideas are shared among all the investment teams and healthy debates happen all the time.

## (VII) Implementation

The investment universe covers global equity, global debt and money market instruments. In addition to trading market or fund level instruments (ETFs, index futures, etc.), we may use security selection to implement some of the allocation. This makes sense since we can leverage HGI's strength in security selection and alpha generation.

The final portfolio weights are subject to position limits at the individual issuer level, asset class level and overall gross exposure level.

The functions of research and portfolio management are combined. The overall team work together for research and portfolio management decisions. The portfolio managers submit trade orders to the trading desk for execution.

## (VIII) Risk Management

### Risk Management

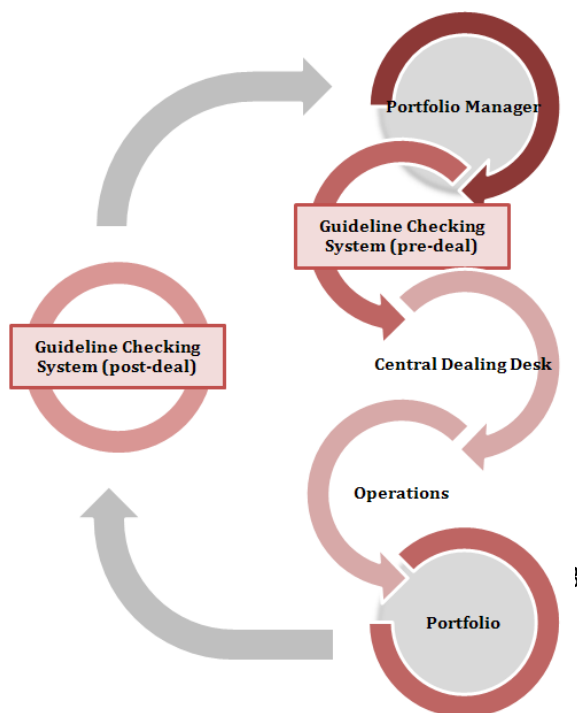
The goal of investment risk management is to monitor and analyze the investment risks and ensure timely communication with portfolio managers and senior management.

To achieve this goal, the risk management team has dedicated resources to oversee and monitor HGI's investment risk. Key risks and performance systems utilized are BarraOne, FactSet, Bloomberg, Morningstar Direct and Matlab.

### Trade Management

All trades are processed through our automated Guideline Checking System

- Pre-deal checking/warnings
- Post deal breach exception report
- Our dedicated compliance department monitors guideline compliance with client, regulatory and internal guidelines on an ongoing basis



Investment guidelines are coded into the compliance module of the trading system and the Compliance Team is responsible for the pre-trade/post-trade compliance checks. Portfolio managers will be notified of any identified errors and breaches immediately and are required to take remedial actions in accordance with the requirements of the client mandates and regulations, taking the clients' best interest into consideration.

Compliance with investment guidelines is also monitored independently by an

automated back-end system. This system monitors trades and portfolios post execution verifying that specific account/fund guidelines, regulatory requirements and risk exposure limits are followed. Exceptions identified through this process are escalated for proper resolution on a timely basis.

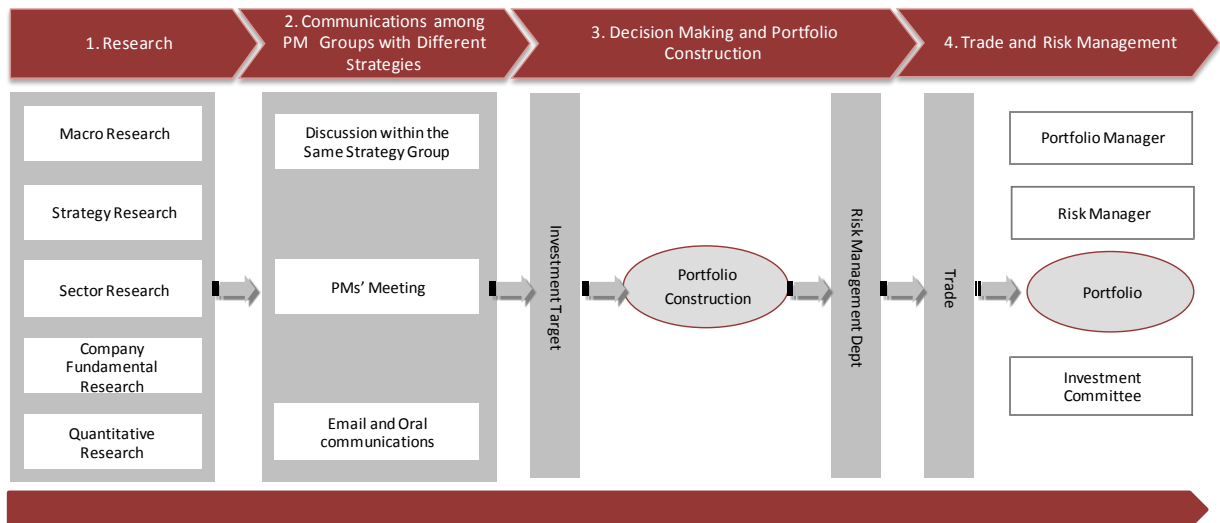
### Attribution and Portfolio Review

There are regularly portfolio reviews with the CIO, Asset Allocation and Investment Committee and risk team. We review portfolio performance, understand the sources for return and risks, and try to proactively address major risks. Sometimes interesting discussions may turn to new research ideas which may eventually lead to model or process enhancements.

## China A Research Select

### ① Investment process

The following diagram shows the whole investment process adopted for China A Research Select Strategy:

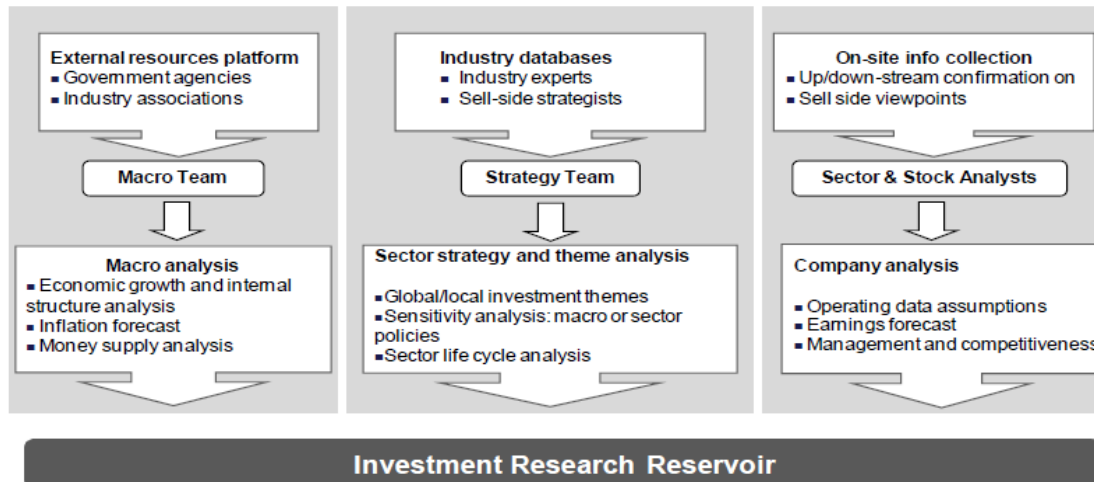


Our investment process design is based on our investment philosophy to add value. Harvest has allocated significant resources to support investment research. Specifically, our investment process can be defined by the following steps:

- 1) Research;
- 2) Communications among PM groups based on centralized research resources;
- 3) Decision making and portfolio construction;
- 4) Risk control and compliance.

## 1) Research

We are totally committed to research with one of the largest investment management and research teams amongst its peers. Different from the other fund managers, Harvest owns a specific framework for investment and research system, which is grouped by strategies and products but share the centralized research platform to promote effective communication and information exchange communicating. Under such a structure, the research resources can support all investment groups and the valuable research results can benefit all portfolios, as illustrated in below diagram:

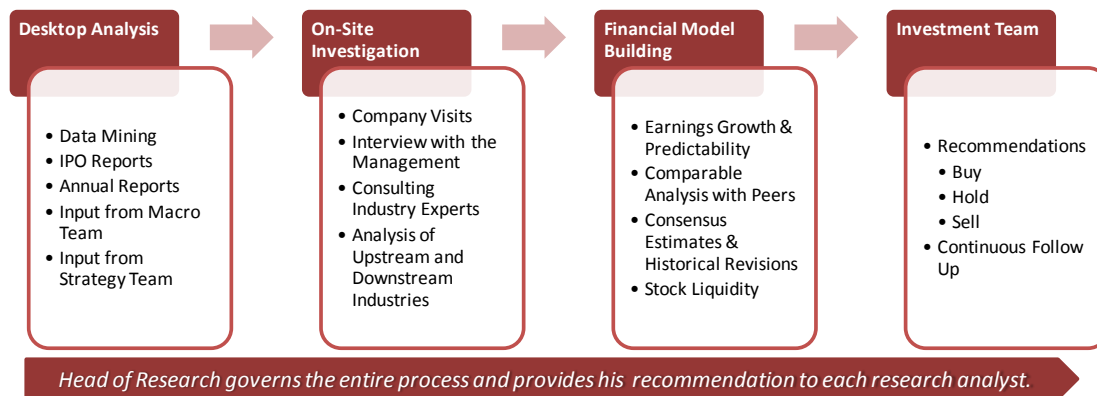


### a) Sector & Stock Analysis

Fundamental bottom-up research is core to our process and to facilitate this we have grouped five teams primarily by the similarity of industry nature and investment style as below:

Financials & Real Estate	Cyclicals	Consumers	Alternative Energy	Small Caps
<ul style="list-style-type: none"> <li>✓ Banks</li> <li>✓ Insurance</li> <li>✓ Securities Companies and Trust Companies</li> <li>✓ Real Estate</li> </ul>	<ul style="list-style-type: none"> <li>✓ Machinery</li> <li>✓ Building Materials</li> <li>✓ Ferrous Metal</li> <li>✓ Ports, Shipping,</li> <li>✓ Highway, Railway, Logistics, Airport and Airlines</li> <li>✓ Autos and Auto Components</li> </ul>	<ul style="list-style-type: none"> <li>✓ Retailers, Traveling and Textile</li> <li>✓ PC Software and Hardware</li> <li>✓ Telecom, TMT</li> <li>✓ Food and Beverage</li> <li>✓ Pharmaceuticals</li> <li>✓ Agriculture, Forestry, livestock farming and fishery</li> <li>✓ Households Appliances</li> </ul>	<ul style="list-style-type: none"> <li>✓ Power Equipment, and Alternative Energy</li> <li>✓ Power and Utilities</li> <li>✓ Chemicals</li> <li>✓ Coal</li> <li>✓ Nonferrous Metal</li> </ul>	<ul style="list-style-type: none"> <li>✓ Small Caps (Small Enterprise Board)</li> <li>✓ Growth Enterprise Board Market</li> </ul>

Bottom-up Research Process of Harvest:



Our bottom-up research process can be divided to four steps:

i) Desktop analysis: Research analysts conduct massive data mining on the universe of A-share market, through IPO reports and annual reports of companies. They also leverage on the research of macro & strategy team to identify the key sectors and key companies within the sectors.

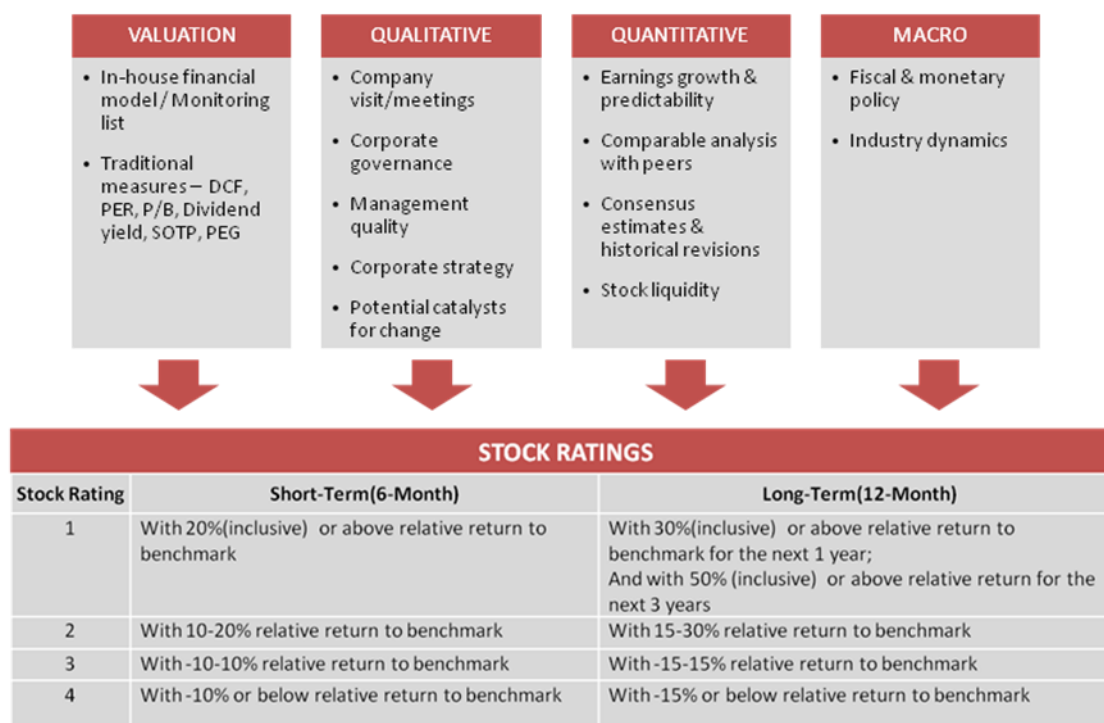
ii) On-site investigation: Company visits are the cornerstones in the research process. During the on-site investigation, we strive to obtain the comprehensive and effective data of companies both from internal and external information source. We also emphasize on the communication with local government officials when conducting company fundamental research to shape in-depth understanding of the company. Our investigations are focused on three areas as below:

- To understand the company's position in the industry, its business model and its differentiation factors;
- To review the company's financial prospects, growth prospects, financing capacity, and its projected returns to investors;
- To judge the integrity and capability of the management. Will they act in the interests of minority shareholders? Are they focused on building a long-term business that has a competitive edge? Any other interests will distract them or cause conflicts?

iii) Financial Model Building: For the companies that meet our criteria, research analysts build up financial models to forecast the earning capability, growth potential, cash flow and balance sheet situation of target companies, based on the in-depth desktop analysis and on-site investigations.

iv) Investment recommendation: Based on the financial model of target companies, research analysts utilize different valuation approaches (PE, PB, PEG, DCF, etc.) to evaluate the stock. The outputs are stock ratings and recommendations, which specify the investment opinions, horizon, catalysts, target prices (target returns) and potential risk of target companies.

### Stock Rating of Harvest



Through the bottom-up fundamental analysis process, we identify companies with:

- Improving fundamentals;
- Strong working capital ratios;
- Good cash flow growth;
- Positive earnings revisions;
- Clear catalysts for value realization.

#### b) Macro & Strategy Research

We also use information from our macro and strategy teams to supplement our understanding of companies. Our macro & strategy team communicate closely with policy makers of China and have an in-depth understanding of policy trends. We also conduct analysis of the industry dynamics to find out the best sectors with growth potential. In addition to the research reports covering the investment views mentioned above, the strategy team also set up model portfolio, which provides top-down asset allocation ideas for portfolio managers as reference.

#### c) External Research

Our investment team advocates independent thinking and judgment based on proprietary research, but we believe that high-quality external research is of unique value and is utilized in the following ways:

- Understand the market expectations, sentiment, and concerns;
- Track a wider range of stocks, industry and macro-economic data points;
- Improve frequency of access to management teams of listed companies;
- The external research resources we use mainly come from sell-side investment banks, industry-consulting companies.

(2) Communications among PM groups on back of centralized research strengths

Harvest emphasizes importance on interaction between investment and research team members, as well as open communication between different investment groups. Portfolio Managers and research analyst are both responsible for any overweighted equities to ensure effective communication. Analysts' investment ideas are incorporated into the portfolio construction process as well.

#### Effective Communication between PMs and Research Team

Type of Communication			Frequency	Focus
Morning Briefings			Daily	Instant investment recommendations, ideas and important announcements
Company Meeting	Discussion		Weekly	In-depth company discussions and recommendations
Focus Stock Discussion	Stock Pool		Monthly	Based on the stock recommendation changes in the research group and internal institutional team research, update the "Focus Stock Pool" list
Investment Meeting	Strategy		Quarterly	In-depth sector and theme strategy discussion
Specific Discussion	Topics		Ad-hoc	Discussion on an important matter initiated by any investment professional

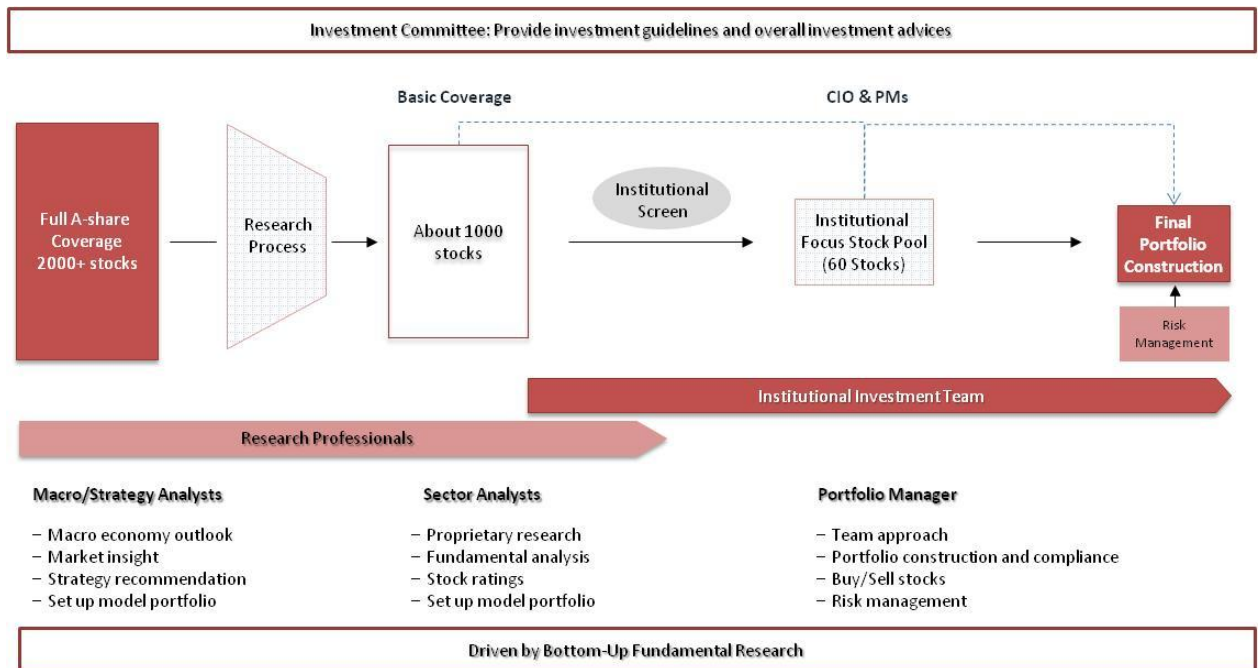
We have successfully established regular team meetings to share research ideas. In addition to decisions on asset allocation and industry distribution, the portfolio manager regularly communicates with the research analyst to discuss individual stocks recommended by analyst and to provide their valuable inputs. As a result, the analyst's fundamental analysis contributes to portfolio construction process through individual stock recommendation such as overweight, underweight or avoidance.

Harvest also recommends effective and extensive internal communication and information sharing between different investment groups. Team meetings play a key part for the internal communication. Periodic conferences include daily meetings in the morning and weekly meetings to discuss sector outlook and stock selection, while quarterly meetings at firm level to discuss the investment strategy.

#### (3) Decision making and portfolio construction

##### Harvest's Portfolio Construction Process





#### a) Investment Strategy Formulation

Investment strategy meeting is held quarterly in Harvest for in-depth sector and theme strategy discussion, which is attended by all the research and investment teams. Harvest Investment Committee conducts regular or ad hoc meetings to determine overall investment strategy to ensure it's consistent with portfolio investment objective and market trend analysis.

Our investment strategies should also reflect our investment philosophy, which is that we believe markets (especially emerging markets) are not always efficient, and fundamental bottom-up research with top-down sector allocation, coupled with strict risk management provides the most reliable method to generate alpha on a consistent basis.

#### b) Asset & Sector Allocation

##### i) Asset allocation

The allocation among different types of assets (i.e. equities, bonds and cash) is determined by in-depth analysis on macro environment, the valuation indicators and market factors as below:

- Macro factors: Key macro data, monetary and fiscal policy changes;
- Valuation factors: Relative valuation comparisons between asset classes (equity, fixed income, precious metals, commodities, bank deposits, rental yields, etc.);
- Market factors: Money supply, liquidity changes, sentiment and technical indicators;
- Meanwhile, investment diversification will be considered to improve liquidity upon asset allocation.

##### ii) Sector allocation

The investment team tracks a range of asset allocation model information to decide the sector allocation of portfolio:

- Portfolio managers take the sector allocation score card as an important reference, which consists of objective indicators (including PE, PB, PEG, ROE, etc.) and subjective score from sector analysts. The sector allocation aims to identify the

undervalued sectors with growth potential.

- Portfolio managers discuss with sector analysts frequently on the views of industries, especially for those that have significant fundamental changes.
- The model portfolio constructed by Harvest macro & strategy team is also a very important reference for portfolio managers.

### c) Stock Selection

In Harvest, we have three kinds of stock pools from A-share universe, namely basic coverage, core coverage and over-weighted stock pool, and we made different policies regarding to different pools when constructing portfolios. Please refer to the table below for details:

#### Stock pools of Harvest

STOCK POOL				
Types of Sub-Pools	Basic Coverage		Core Coverage	Over-weighted Stocks Pool*
Limits on Maximum Holdings	≤3% of Portfolio AuM	≤1.5% of Portfolio AuM	≤ 5% of Portfolio AuM	≤ 8% of Portfolio AuM
Maybe Proposed By	Sector Analyst, PM		Sector Analyst or PM	PM only
Required Information	Internal Research Report Approved by Head of Research	Sell side reports with own comments Approved by Head of Research	Internal Research Report and in depth internal discussion Approved by CIO	Signed off by 3 member on the Investment Committee
Follow-Ups	6 Months		3 Months	2 Months
Regular Updates				

We have around 1000 stocks in basic coverage, and PMs are not allowed to buy stocks outside the basic coverage or exceed the holding limits of these three kinds of stock pools when constructing portfolios.

PMs select stocks from basic coverage to form their own portfolios according to its investment style. Generally speaking, stocks in the portfolio are selected through three approaches:

Analysts' Strong Buy Recommendations and the Model portfolio of research department: The institutional investment team seeks strong support from Harvest equity research team. Research team's analyst's strong buy recommendations as well as the research team's Model Portfolio formed the base for institutional team's stock picking ideas;

"Focus Stock Pool" list - Through thorough and in-depth discussion among PMs and analysts as well as additional institutional team's internal research effort, the institutional team would finally select 60 stocks into the "Focus Stock Pool" list. The stocks in the list would be either key overweight stocks or stocks that could potentially to move into a key overweight positions with attractive risk return profile over the medium or long term horizon:

- Names with focused main operations and decent earning results, whose EPS or ROIC may show substantial upside and which are reasonably valued;
- Names with good corporate governance: based on the evaluation of its ownership

structure, organization composition and information transparency etc;

- Names with forward looking management team;
- Names with mid to long-term growth drivers and short-term catalysts.

Every institutional weekly meeting would review 5 stocks out of the 60 stocks in the “Focus Stock Pool”. Every monthly Institutional Investment Committee would discuss the risk composition of “Focus Stock Pool” and any potential change to be made.

Stocks selected by PM: For the portfolio manager, they also have the discretion to pick up some stocks from basic coverage, which they believe could generate alpha.

Besides, we also incorporate the following considerations in the portfolio construction process:

- Guidelines or restrictions and compliance requirements of the given investment mandates;
- Potential risk/reward trade-off on the position;
- Liquidity constrain on the position.

#### (4) Trade and risk management

Our basic risk management policy consists of a robust combination of top-down and bottom-up analysis. We combine fundamental research from a strong team of research analysts with sophisticated quantitative risk analytics developed by a team of experienced risk managers. The quantitative risk analytics provide a window to the portfolio that is analyzed within the broader context of investment decision making process. Our policy is to take risks we understand and can manage and avoid risks that cannot be effectively managed.

The main responsibilities of Risk Management include:

- Maintaining risk management policies and procedures as they evolve with the evolving market;
- Working under the guidance of the Investment Committee to set up limits concerning regions, countries, sectors and or individual securities;
- Authorizing and validating models used for valuation and risk measurement;
- Working together with the product teams to assess the investment risk profile of all new activities and products;
- Monitoring all fixed income related credit and market risks by designated credit analysts attached to Risk Management;
- Compiling performance attribution analysis and evaluation reports

## ② Buy/Sell disciplines.

### Buy Disciplines:

General buy disciplines of Harvest are as listed below, and every strategy team has its own guidelines:

- Adopt the corresponding strategy approach in sector allocation and stock selection;
- Select stocks according to the investment style of the strategy by reviewing the

company fundamentals (such as business model, competitive advantages, corporate governance, financial indicators, etc.) and key valuation indicators of target stocks (such as PE, PB, PEG, EV/EBITA, DCF, etc.), and buy the stocks when it's undervalued which implies upside potential.

**Sell Disciplines:**

The sell-discipline operates within our investment process. In general, positions will be sold or reduced if:

- Stock price exceeds target price;
- Stock is downgraded to sell rating;
- More attractive investment opportunity appears;
- Stock weighting exceeds investment limitation.

## ITEM 9 – DISCIPLINARY INFORMATION

We, our parent firm, and/or the companies which own our parent firm, particularly those that are substantial financial services firms, may be involved from time to time in regulatory matters or litigation that arise in the ordinary course of the business. None of which is material with respect to our investment management business or our clients.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Our sole business is providing investment advisory services and we are not engaged in any other business.

We work closely with our parent company, HFM, in providing certain services. For instance, we may work together with HFM to manage client portfolios and provide related services, including client liaison, investment monitoring, account administration, investment research, and trading services. Where employees of HFM are involved in providing advisory services to US clients, these duties are subject to a Participating Affiliate Agreement (the "PAA") between HFM and HGI. Under the terms of the PAA, these employees of HFM are subject to the supervision of HGI in the performance of such duties, and they are subject to certain aspects of our Code of Ethics as described in Item 11. HFM is also subject to books and records requirements and to other requirements relating to the PAA.

Deutsche Asset Management (Asia) Limited ("Deutsche Asia"), an investment adviser located in Singapore and a member of the Deutsche Bank Group ("Deutsche Bank"), is an owner (30%) of HFM. We provide advisory services to Deutsche Asia related entities as sub-managers (i.e. sub-advisers) to funds it or its related entities sponsor and mandates for which it or its related entities act as investment advisers. We also directly advise a Deutsche Bank entity. In addition, we have entered into contractual arrangements with certain Deutsche Bank entities that may solicit clients for us subject to the requirements discussed in Item 14.

We conduct brokerage through one or more affiliates. To address the conflict of interest this presents, we will only utilize those affiliates as a broker-dealer subject to the considerations of best execution discussed in Item 12.

Other firms with a substantial ownership stake in HFM are financial services or holding companies in the People's Republic of China. Due to the extensive nature of these firms' holdings, we may conduct business with a firm affiliated to these firms, either intentionally or inadvertently. We do not assign

resources to monitoring the holdings or affiliates of these firms, and would conduct our business with such affiliates or investee companies on an arm's length basis, as with any other third party.

## ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

We maintain a Code of Ethics adopted under Hong Kong law but consonant with Advisers Act Rule 204A-1 which (i) sets forth standards of conduct expected of advisory personnel, (ii) sets forth our policy for safekeeping material, non-public information, and (iii) requires certain of our employees, officers and directors to comply with clearance requirements with respect to personal securities transactions and reporting requirements. Copies of our Code of Ethics will be provided to any client or prospective client upon request. In addition to our home country policies and procedures, our activities and the activities of our advisory personnel with respect to US clients are governed by a US Compliance Manual detailing our obligations under the Advisers Act and other relevant US law and regulation. All new employees with US client responsibilities are furnished with a copy of the Code of Ethics and US Compliance Manual upon the commencement of their employment, and must signify their understanding and acceptance of the documents by completing and returning an attestation to the Compliance Department.

Employees of HGI may, from time to time, buy or sell securities that we recommend to clients for their own accounts. Such employees must do so in accordance with our personal trading policy. The objective of this policy is to ensure that a personal account transaction undertaken by any employee does not conflict with our regulatory obligations and fiduciary duties to our clients. This would include ensuring that all personal account transactions do not conflict with, or take unfair advantage of the funds under management, as well as ensuring that employees handle price sensitive information in an appropriate manner that would not constitute any breach of regulations or duty.

Employees who wish to carry out transactions in reportable securities in any of their personal accounts (including the accounts of their spouse and dependent children) ("Covered Accounts") must, unless an exception is available under Advisers Act Rule 204A-1, obtain prior approval by submitting a request to our Compliance Department. Approval will be given only if there is no conflict between the Covered Account transaction and the transactions of our clients.

The results of the investment activities provided to a HGI client may differ significantly from the results achieved by HGI for other current or future HGI clients. HGI will manage the assets of a HGI client in accordance with the investment mandate selected by such HGI client. However, members of the Harvest Group (including HGI) may give advice, and take action, with respect to their own account or any other HGI client, that may compete or conflict with the advice HGI may give to, or an investment action HGI may take on behalf of, a HGI client (or a group of HGI clients), or may involve different timing than with respect to a HGI client. In particular, members of the Harvest Group and one or more HGI clients may buy or sell positions while another HGI client is undertaking the same or a differing, including potentially opposite, strategy. Similarly, HGI's management of HGI client accounts may benefit members of the Harvest Group. For example, HGI may, to the extent permitted by applicable law, invest HGI client accounts directly or indirectly in the securities of companies in which a member of the Harvest Group, or other HGI client, for itself or its clients, has an equity, debt, or other interest. In addition, to the extent permitted by applicable law, HGI clients may engage in investment transactions which may result in other HGI clients being relieved of obligations or otherwise able to divest or cause HGI clients to have to divest certain

investments. The purchase, holding and sale, as well as voting of investments by HGI clients may enhance the profitability or increase or decrease the value of a Harvest Group member's or other HGI clients' own investments in such companies. This gives rise to certain potential conflicts of interest.

In certain circumstances, HGI for one HGI client may seek to buy from or sell securities to another HGI client. HGI may (but are not required to) effect purchases and sales between HGI clients or clients of affiliates ("cross trades") if HGI believes such transactions are appropriate based on each party's investment objectives and guidelines, subject to applicable law and regulation. Where a U.S. registered fund participates in a cross trade, HGI, being the adviser, will comply with the U.S. registered fund's procedures adopted pursuant to Rule 17a-7 under the Investment Company Act and related regulatory authority. HGI seeks to assure that the price used in a cross trade is fair and appropriate, and in keeping with, or as required by the relevant regulations.

We maintain a log of material conflicts and the means to address/resolve them, which we review on a regular basis.

## ITEM 12 – BROKERAGE PRACTICES

### A. Soft Dollars

We may pay a broker a commission higher than another broker may have charged in recognition of the value of the research and/or brokerage services provided by that broker. This practice is referred to as "soft dollars" in the US and "soft commissions" in certain other jurisdictions. Research or brokerage services that may be acquired by HGI with soft dollars include, without limitation and to the extent permitted by applicable law: (i) research reports on companies, industries and securities; (ii) economic and financial data; (iii) financial publications; (iv) quantitative analytical software; and (v) market data related software and services. Such services may be proprietary (i.e., created and provided by the broker-dealer) or third-party (created by a third-party but provided by the broker-dealer).

We may choose to place a trade with a particular broker when, for example, a research analyst at that broker has given us valuable investment advice. We benefit from these arrangements because we do not have to produce or pay for the research or services received. In selecting a broker providing research or brokerage services to execute client transactions, we will make a good faith determination that the amount of the commission charged is reasonable in relation to the value of the research and brokerage services received.

Our use of commissions or soft dollars in relation to US clients (where applicable) to pay for certain research products or services is expected to fall within the safe harbor created by Section 28(e) of the U.S. Securities Exchange Act of 1934.

While research or brokerage services obtained in this manner may be used in servicing any or all of HGI's client accounts, such products and services may disproportionately benefit one or more clients relative to others based on the amount of brokerage commissions paid, the nature of the research or brokerage products and services acquired and their relative use or value for particular accounts. For example, in some cases, the research or brokerage services that are paid through a client's commissions might not be used in managing that client's account. In addition, other HGI's clients may receive the benefit, including disproportionate benefits, of economies of scale or price discounts in connection with products and

services provided as a result of transactions executed on behalf of a client account for which such products and services are also used.

We are also authorized to utilize client commissions for other purposes and under other circumstances consistent with applicable law.

#### **B. Client Directed Brokerage**

Some advisory clients may direct us to execute trades with a specific broker-dealer. We will only honor these requests subject to our regulatory obligations, including best execution.

In these cases, we may not be able to aggregate such client's transactions with similar transactions of other clients. There can be no assurance that the directing client will realize the same price or commission rate achieved for other clients. Due to the higher commission rates often paid on directed accounts, clients should be aware that account performance may be negatively impacted. Furthermore, higher commission rates will negatively impact returns when we rebalance accounts.

In any event, we do not receive client orders to buy or sell securities nor do we make ourselves amenable to do so. We are not a broker-dealer.

#### **C. Aggregate Trade Allocations and Trade Errors**

We will generally execute transactions on an aggregated basis when we believe this will allow us to obtain best execution and negotiate more favorable commission rates or other transaction costs that might have otherwise been paid had such orders been placed independently. When aggregating orders, all of our clients will be treated in a fair and equitable manner. We will not aggregate orders unless aggregation is consistent with our duty to obtain best execution. No account will be favored over any other client; however, a variety of factors are determinative of whether or not a particular client may or may not participate in a particular aggregated transaction. These factors include, but are not limited to: investment objectives and strategies, position weightings, cash availability and/or risk tolerance. Because of differences identified above, there may be differences in invested positions and securities held which could lead to security dispersion among client accounts.

When we determine that order aggregation is in the best interest of our clients, the following guidelines generally are followed for all portfolios which are participating in the execution under the same trading circumstances (*e.g.*, price limits and time of entry). Aggregated orders filled in their entirety, or partially, will be allocated within strategy among the participating accounts *pro-rata* by account market value. In the event of a *de minimus* allocation for a partial allocation, the trader has the authority to determine an appropriate allocation methodology.

Consistent with our fiduciary duties, our policy is to exercise care in making and implementing investment decisions for client accounts. We have a trading errors policy. To the extent trading errors occur, we seek to ensure that clients' best interests are served. Our policy is to resolve all trade errors within a reasonable time while ensuring the client is not disadvantaged, consistent with the orderly disposition (and/or acquisition) of the securities in question. As a general matter, actual losses suffered by a client account as a result of a trade error caused by us will be reimbursed by us; however, as a general matter, we do not compensate clients for lost investment opportunities (*e.g.*, failure to take advantage of investment or market improvements).

**D. Brokerage Partners and Best Execution**

We seek the best price available along with the most favorable execution on each order placed on behalf of our clients ("best execution"). We believe that the key components for achieving the most favorable net results are transaction specific and dependent upon the experience of the executing and clearing broker, including its reliability, reputation in the industry, financial stability, capital commitment, infrastructure, research and execution services and ability to accommodate special transaction needs. Although we generally seek competitive prices or, where applicable, commission rates, we will not necessarily pay the lowest price or the lowest commission.

We consider the following specific factors when determining whether a broker or counterparty will deliver best execution:

- Costs (commission, exchange levy, stamp duty, miscellaneous fees, etc.);
- Size and nature of the order;
- Speed and reliability of execution; and
- Any other consideration relevant to the efficient execution of the order.

We routinely monitor our trading for best execution.

**E. Minimum Piece Requirement**

HGI may conduct day trades to buy and sell the same (fixed income) securities for the client accounts/funds managed by HGI to fulfill the relevant "minimum piece requirement". For example, where the intended quantity of certain securities to be invested by a particular client account/fund is less the minimum piece/quantity requirement, HGI may buy a larger than intended quantity and sell the excessive quantity of such securities on the same day to obtain the final intended quantity of such securities. Such a strategy often involves higher expenses and may increase the amount of capital gains (in particular, short term gains) realized by the client account/fund. Clients may pay tax on such capital gains and may indirectly incur additional expenses related to a fund with a higher portfolio turnover rate.

**ITEM 13 – REVIEW OF ACCOUNTS****A. Frequency of Reviews**

Depending on the nature of an institutional client's portfolio, the client's own monitoring capabilities, the type of advice and the arrangements made with the client, HGI's frequency of client account reviews ranges from daily to quarterly. The level of review may encompass the client's portfolio, a section of the portfolio or a specific transaction or investment. Additional reviews may be triggered by changes in the investment objectives or guidelines of a particular client or specific arrangements with particular clients. The frequency, depth, and nature of reviews are often determined by negotiation with individual clients pursuant to the terms of each client's written Investment Management Agreement or by the mandate selected by the client and the particular needs of each client. Reviews are typically conducted by portfolio management personnel.



**B. Written Reports**

Clients typically receive a performance statistics report and a performance attribution report. Clients typically also receive an investment management summary including portfolio review and market outlook based on an agreed upon set of procedures.

**ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

We have entered into contractual arrangements with firms that may solicit clients for us. The arrangements are made in writing pursuant to Rule 206(4)-3 of the Advisers Act. This requires, among other things, that such solicitors comply with requirements of the Rule and other applicable law, as well as fulfill their contractual obligations with us. The solicitor must, at the time of his solicitation, provide the client with a copy of Part 2 of our Form ADV. The solicitor must also provide the client with a separate document describing the solicitation arrangement, disclosing any affiliation between us and the solicitor, the compensation for solicitation, and whether advisory fees for solicited clients are higher than those for other clients due to compensation paid to the solicitor.

**ITEM 15 – CUSTODY**

We do not maintain physical possession of the funds or securities of any client. Each of our clients has entered into an agreement with a brokerage firm or commercial bank that serves as custodian of the funds and/or securities held by each such fund.

All US clients will receive statements of account holdings from their custodian not less than quarterly. Additionally, we will provide US clients with account balance and activity details upon request.

We urge all US clients to review carefully statements from the custodian and compare the custodial records to the reports that we provide them.

**ITEM 16 – INVESTMENT DISCRETION**

We may be retained to manage client accounts on a discretionary or non-discretionary basis. In cases where we have investment discretion, we determine, within a client's specified investment objectives and guidelines, which securities are bought or sold, the total amount of securities to be bought or sold, and in most cases, the broker or dealer through which the securities are to be bought or sold and the commission rates to be paid, all without further consultation with the client. In exercising our investment discretion, we are guided by the investment management agreement that is established at the inception of the adviser-client relationship (along with any amendments to the agreement).

**ITEM 17 – VOTING CLIENT SECURITIES**

Pursuant to our proxy voting policies and procedures, we take steps to see that proxies are voted on securities held in client accounts where authority to vote proxies has not been expressly reserved to the client in the investment management agreement or other documentation. If we vote proxies, it is our aim to see that proxies are voted in the best interest of our clients.

As an alternative to giving us discretion to vote proxies, clients may provide us with their own written proxy voting guidelines or their own policies, procedures or directions regarding the voting of a proxy or

proxies. Such guidelines or directions must be in writing and delivered to us sufficiently in advance to vote the proxies as directed.

Clients may obtain information about how their securities were voted upon request by contacting us at our main office at the address given above. Upon request, clients may also obtain from us a copy of our proxy voting policies and procedures.

## **ITEM 18 – FINANCIAL INFORMATION**

We do not have any adverse financial information to disclose. The management of HGI believes that we are financially sound.