

# **HAMON ASIAN ADVISORS LIMITED**

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Central, Hong Kong

## ***Form ADV Part 2***

*Date of Brochure: December 31, 2015*

This Brochure provides information about the qualifications and business practices of Hamon Asian Advisors Limited [“HAA” or “we” or “us” or “the firm”]. If you have any questions about the contents of this Brochure, please contact us at [enquiry@hamon.com.hk](mailto:enquiry@hamon.com.hk). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

## **Item 2 – Material Changes**

This Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

No material changes have been made to the Brochure since our latest update dated December 31, 2015.

Additional information about HAA is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4 – Advisory Business

**Hamon Asian Advisors Limited** (formerly known as Hamon U.S. Investment Advisors Limited) is a limited company incorporated in Hong Kong. Formed in 1989, we offer discretionary and non-discretionary investment advisory services for institutional investors in the form of separate accounts and, if requested, pooled investment vehicles (“funds”) that are exempt from registration in the United States, and to other investment advisors through sub-advisory agreements.

HAA’s ultimate holding company is The Hamon Investment Group Pte Limited (“HIG”). HIG is a Singapore incorporated investment management group based in Hong Kong.

HIG, through its operating arms, has been managing Asian equities for over 26 years and offer discretionary and non-discretionary investment management services to both US and non-US Institutional investors who require specialized Asian capabilities. The main investment strategies are as follow:

- Asia ex-Japan strategy
- Greater China strategy
- Indian strategy
- Multi-asset class strategy
- Focused Asia fixed income

Each of the registered mutual funds has an investment objective and a set of investment policies and/or guidelines. For this reason, we cannot tailor the investment advisory services we provide to investors in these funds. However, we are happy to offer investment advisory services tailored to meet clients’ individual investment needs.

Our client base is global and, as such, HAA is registered with a number of regulatory bodies in the jurisdictions where we do business. Our primary regulator is the Securities & Futures Commission in Hong Kong. In addition we are registered with the Securities and Exchange Commission (SEC) in the United States.

Please see Item 8 of this brochure for more information on the methods of analysis, investment approach and risk of loss for these strategies.

In addition to the assets managed on behalf of HAA, our Fund managers also undertake investment management duties for other accounts managed by some of the other operating arms of HIG.

## Item 5 – Fees and Compensation

We provide investment advisory separate account services for a fee. This fee is typically charged as a percentage of the assets under management. While this fee is typically expressed as an annual percentage, for most clients it is calculated based on day end valuations and invoiced on a monthly basis in arrears.

The investment advisory agreement may also provide that clients will incur fees and expenses in addition to our advisory fees such as custody, brokerage and other transaction costs, administrative and other expenses. Our clients may choose to have fees deducted automatically from assets or billed separately.

Investment management fees are exclusive of custody which is normally the subject of a separate agreement between the client and the custodian.

Separate Accounts Fee Schedule (Greater China, Asia ex-Japan, Emerging Asia, India)

First \$25 million USD @ 0.95%

Next \$25 million USD @ 0.90%

Next \$50 million USD @ 0.85%

Next \$100 million USD @ 0.70%

0.65% thereafter

We reserve the right, at our sole discretion, to negotiate or modify (either up or down) the basic fee schedule set forth above for any client due to a variety of factors including but not limited to: the level of reporting and administrative operations required to service an account, the investment strategy or style, the number of portfolios or accounts involved, and/or the number and types of services provided to the client. Because our fees are negotiable, the actual fee paid by any client or group of clients may be different from the fees reflected in our basic fee schedule set forth above.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

HAA currently does not charge any performance-based fee. Nonetheless, in general, our Portfolio Managers may undertake investment management duties for other accounts of some of our affiliates. In some cases, our Portfolio Managers also manage other pooled investment vehicles through HIG's other operating arms with performance fee arrangements: such fees are subject to individualized negotiation with each such client.

Side-by-side management gives rise to a variety of potential and actual conflicts of interest for us, our employees and our supervised persons. Below we discuss the conflicts that we and our employees and supervised persons face when engaging in side-by-side management and how we deal with them.

"Side-by-side management" refers to HAA's simultaneous management of different types of client accounts/portfolios. For instance, our clients have a variety of different investment objectives, policies, strategies, limitations and restrictions. And our Portfolio Managers likewise manage a variety of separate accounts and pooled investment vehicles through HIG's other operating arms.

### Conflicts of Interest Relating to Performance Based Fees When Engaging in Side-by-side Management

Performance based fee arrangements may create an incentive for Portfolio Managers to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

### Conflicts of Interest Relating to Accounts with Different Strategies

Our Portfolio Managers manage numerous accounts with a variety of strategies, which may present conflicts of interest. For example, a long/short position in two client accounts simultaneously can result in a loss to one client based on a decision to take a gain in the other. Taking concurrent conflicting positions in certain derivative instruments can likewise cause a loss to one client and a gain to another.

### Conflicts of interest - compensation

Where a Portfolio Manager's compensation is tied to the performance of an account, the Portfolio Manager will have an incentive to favor that account over the other accounts he manages, creating a conflict of interest. If, for example, the Portfolio Manager receives a bonus based upon the performance of a certain account relative to a benchmark the Portfolio Manager will have a financial

incentive to seek to have the account that determines the bonus achieve the best possible performance to the possible detriment of other accounts.

Note that we manage our accounts consistent with applicable law, and we follow procedures that are reasonably designed to treat our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged. For example, we have trade allocation policies and procedures which are designed and implemented to ensure that all clients are treated fairly and equally, and to prevent these conflicts from influencing the allocation of investment opportunities among clients. Please see Item 12 for an explanation of our trade allocation policies and procedures.

## **Item 7 – Types of Clients**

HAA offers discretionary and non-discretionary investment management services to US Institutional investors who require specialized Asian capabilities.

HAA currently provides portfolio management services to registered mutual funds. HAA requires a minimum asset size of \$10 million to open an institutional account. The minimum does not apply to the funds that we manage and we may change or waive the minimum requirement. For example we may not apply the minimum size requirement in consideration of the nature of a specific mandate, the specific services provided, the client type or location, and the amount of prospective assets in addition to assets to be managed, or where relationships exist with other accounts we manage.

We require clients to enter into a written investment management agreement with us, granting us authority to manage their assets. Separate accounts may be subject to minimum account sizes which vary depending upon the strategy of the account. Separate accounts may also be subject to minimum annual management fees.



## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

We are an active manager that focuses in Asian equities. We aim to deliver superior investment performance relative to the benchmark index as well as against major competitor funds in the same universe. The investment team focuses on bottom-up stock selection, and identifies companies in their early phase of earnings acceleration and for which the investment team has identified a catalyst for growth.

The team does not constrain themselves to either a growth or value style, or market capitalization, as they believe no single investment style consistently outperforms. Their investment style will therefore vary depending on different market cycles.

The investment style is mainly based on the following principles:

- Active stock-picking approach based on in-house proprietary research;
- Strong conviction with concentrated portfolio;
- Identify emerging winners and market themes in their early growth stages from fundamental research;
- Marco framework overlay to determine major market turning points
- Non-benchmark approach with no market capitalisation constraints

### Idea generation, cross fertilized by Fund Managers and Analysts

Hamon's local fund managers carry out their own research and share their ideas with the rest of the investment team during weekly investment meetings. Fund managers look for growth companies at reasonable prices, usually with a Price to Earnings Growth of less than 0.9x. Details of these investment selection and stock meetings will be further discussed below. Our focus is on bottom-up stock selection.

### “Bottom-up”, active approach, benchmark and market capitalization agnostic

Our fund managers are locals from China/Hong Kong and India and they all visit and research their domestic markets and companies. We source our information from various places:- company management meetings, industry research, investment analysts' reports and publicly available company information. One of the most important steps, following basic research of their annual reports and accounts, and also earnings announcements, industry and cross-referencing among the competitors and other markets, is to visit the company and meet the management. Through our analysis, we aim to identify factors that may lead to a change in investor perception and which may act as a trigger to a rerating so that a company's potential underlying value is recognized.

### Stock Selection Process

We examine several key aspects of the target companies and look at the following criteria in our stock selection process:

- Industry Development – An analysis of the industry and sector trends and the effect on the growth prospects of the company.
- Business Models – Identification of right business models to capture industry trend growth.
- Management quality - An analysis of the management's track record in terms of execution, financial performance, corporate governance and dividend policy are also important factors in the stock selection process.
- Earnings, cash flow and balance sheet estimates, analysis and outlook.
- Valuation - The company should have a reasonable valuation versus growth outlook based on our cash flow and earnings projections.
- Stock drivers - There should be identifiable stock price drivers over the next 12 months and a catalyst for the share price to rise.

### Recommended Stock Lists

We have Recommended Stock Lists for the China/ HK, India, Korea, Taiwan and ASEAN blocs. Each Fund Manager carries out their own research and the investment team members are each assigned to cover specific countries or industries. Approximately 10-15 best research stock ideas from each research bloc are recommended with target prices and written documentation, which are dynamic and can be added or removed from the lists on new information. These lists form the back bone of the portfolios' main constituents.

### Weekly Investment Meetings

Asset allocation meeting every Monday - to discuss market weighting, strategy and performance, market news and economic/industry updates.

Stock meetings every Thursday – to discuss new ideas and company visits. At these meetings, we review purchases and sales made in the portfolios and look at new ideas being considered.

Fund Managers freely exchange their investment ideas and have to convince each other about their recommendations during the investment meetings. Once the decision to implement a stock idea is made, it is the decision of the individual Fund Manager to weight the stock according to each portfolio's risk budget and investment objectives.

### Portfolio Construction and Process

Our portfolios are concentrated, with 30-50 holdings, and we actively manage these portfolios through our fundamental research of the underlying companies. We balance the liquidity of our portfolios with approximately 40-60% small to mid-cap growth stocks and 30-50% in larger cap stocks while we aim for companies with higher growth and lower P/B and P/E than the markets.

Small-cap stocks and industry exposure concentration are actively monitored.

We focus on both absolute degree of risk by implementing a value-at-risk (VAR) model, as well as relative degree of risk by looking at tracking error or benchmark risk. It is also more important to look at the correlation among individual securities selected from sectors and markets to avoid over-concentration in correlated stocks, particularly in falling markets.

### Risk of Loss

The material investment risks of our existing portfolios/strategies are mentioned below. For details of investment risks that are specific to each portfolio, please refer to the prospectus or offering document of each product.

Investing in securities involves risk of loss that clients should be prepared to bear. The value of investments will fluctuate, sometimes dramatically, which means that an investor could lose money.

- *Foreign investment risk.* Special risks associated with investments in foreign companies include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards.
- *Risks of investing in Greater China.* China remains a totalitarian country with continuing risk of nationalization, expropriation, or confiscation of property. The legal system is still developing, making it more difficult to obtain and/or enforce judgments. Further, the government could at any time alter or discontinue economic reforms. Military conflicts, either internal or with other countries, are also a risk. In addition, inflation, currency fluctuations and fluctuations in inflation and interest rates have had, and may continue to have, negative effects on the economy and securities markets of China. China's economy may be dependent on the economies of other Asian countries, many of which are developing countries. Investing in permissible Chinese equity securities may be subject to withholding and other taxes imposed in China. Also, there is uncertainty how the current tax laws, regulations and practice in China will be implemented, and whether they will be applied with retrospective effect in the future. Any such changes may have an adverse effect on the net asset value of the portfolio. In addition, investments in Taiwan could be

adversely affected by its political and economic relationship with China. Each of these risks could increase the fund's volatility. The fund's concentration in securities of companies in the Greater China region could cause the fund's performance to be more volatile than that of more geographically diversified funds.

- *Emerging market risk.* The securities of issuers located in emerging markets tend to be more volatile and less liquid than securities of issuers located in the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Substantial liquidity risks may exist in the securities markets of certain Asian emerging market countries.
- *Risks of concentrating investments in India.* Because the strategy holds investments in India, the fund's performance is expected to be closely tied to social, political and economic conditions within India and to be more volatile than the performance of more geographically diversified funds. Political, social or economic disruptions in India and surrounding countries, even in countries in which the fund is not invested, may adversely affect security values in India and thus the fund's investments. At times, religious, cultural and military disputes within and outside India have caused volatility in the Indian securities markets and such disputes could adversely affect the value and liquidity of the fund's investments in the future. The securities markets in India are substantially smaller, less liquid and more volatile than the major securities markets in the United States. The laws of India relating to corporate governance standards may be less robust and transparent, which increases the potential for loss to and unequal treatment of investors. The Indian government has exercised, and continues to exercise, significant influence over many aspects of the Indian economy, which may have a significant effect on the Indian economy and could adversely affect market conditions, Indian companies and prices of Indian securities.
- *Asian emerging market concentration risk.* If investments are concentrated in Asian emerging market countries, overall performance is expected to be closely tied to social, political and economic conditions within Asia and to be more volatile than the performance of more geographically diversified portfolios. Many Asian economies are characterized by over-extension of credit, frequent currency fluctuations, devaluations and restrictions, rising unemployment, rapid fluctuations in inflation, reliance on exports, and less efficient markets. Currency devaluation in one Asian country can have a significant effect on the entire region. The legal systems in many Asian countries are still developing, making it more difficult to obtain and/or enforce judgments. Furthermore, increased political and social unrest in

some Asian countries could cause economic and market uncertainty throughout the region. The auditing and reporting standards in some Asian emerging market countries may not provide the same degree of shareholder protection or information to investors as those in developed countries. In particular, valuation of assets, depreciation, exchange differences, deferred taxation, contingent liability and consolidation may be treated differently than under the auditing and reporting standards of developed countries.

- *Foreign currency risk.* Investments in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar, or in the case of hedged positions, that the U.S. dollar will decline relative to the currency being hedged. Currency exchange rates may fluctuate significantly over short periods of time. A decline in the value of foreign currencies relative to the U.S. dollar will reduce the value of securities denominated in those currencies. Foreign currencies are also subject to risks caused by inflation, interest rates, budget deficits and low savings rates, political factors and government control.
- *Liquidity risk.* When there is little or no active trading market for specific types of securities, it can become more difficult to sell the securities at or near their perceived value. In such a market, the value of such securities and the investment portfolio's share price may fall dramatically. Investments in foreign securities may have greater exposure to liquidity risk than domestic securities.
- *Market risk.* The market value of a security may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. A security's market value also may decline because of factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry.
- *Issuer risk.* The value of a security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's products or services.
- *Smaller company risk.* To the extent a portfolio invests in small and mid-size companies, the portfolio will be subject to additional risks because the earnings and revenues of these companies tend to be less predictable (and

some companies may experience significant losses), and their share prices more volatile than those of larger, more established companies. The shares of smaller companies tend to trade less frequently than those of larger, more established companies, which can adversely affect the pricing of these securities and the portfolio's ability to sell these securities. These companies may have limited product lines, markets or financial resources, or may depend on a limited management group.

- Some investments will rise and fall based on investor perception rather than economic factors. Other investments are made in anticipation of future products, services or events whose delay or cancellation could cause the stock price to drop.
- *Growth and value stock risk.* By investing in a mix of growth and value companies, the investment portfolio assumes the risks of both. Investors often expect growth companies to increase their earnings at a certain rate. If these expectations are not met, investors can drive the stocks price inordinately, even if earnings do increase. In addition, growth stocks typically lack the dividend yield that can cushion stock prices in market downturns. Value stocks involve the risk that they may never reach their expected market value, either because the market fails to recognize the stock's intrinsic worth, or the expected value was misgauged. They also may decline in price even though, in theory, they are already undervalued.
- *Market sector risk.* To the extent that a portfolio may significantly overweight or underweight certain companies, industries or market sectors, the portfolio's performance may be more or less sensitive to developments affecting those companies, industries or sectors.
- *Leveraging risk.* The use of leverage, such as engaging in reverse repurchase agreements, lending portfolio securities, entering into futures contracts or forward currency contracts and engaging in forward commitment transactions, may magnify the investment's gains or losses.
- *Derivatives risk.* A small investment in derivatives could have a potentially large impact on a portfolio's performance. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is the risk that changes in the value of a derivative held by the portfolio will not correlate with the underlying instruments or the portfolio's other investments. Derivative instruments also involve the risk that a loss may be sustained as a result of

the failure of the counterparty to the derivative instruments to make required payments or otherwise comply with the derivative instruments' terms. Certain types of derivatives involve greater risks than the underlying obligations because, in addition to general market risks, they are subject to illiquidity risk, counterparty risk and credit risk. Additionally, some derivatives involve economic leverage, which could increase the volatility of these investments as they may fluctuate in value more than the underlying instrument.

- *IPO risk.* The prices of securities purchased in initial public offerings (IPOs) can be very volatile. The effect of IPOs on a portfolio's performance depends on a variety of factors, including the number of IPOs in which the portfolio invests, relative to the size of the portfolio and whether and to what extent a security purchased in an IPO appreciates or depreciates in value. As a portfolio's asset base increases, IPOs often have a diminished effect on such portfolio's performance.
- *Non-diversification risk.* A portfolio may invest a relatively high percentage of its assets in a limited number of issuers. Therefore, the portfolio's performance may be more vulnerable to changes in the market value of a single issuer or group of issuers and more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified portfolio.
- *Risk of investing in participatory notes.* Investing in participatory notes involves the same risks associated with a direct investment in the shares of the companies the notes seek to replicate. However, the performance results of participatory notes will not replicate exactly the performance of the issuers or markets that the notes seek to replicate due to transaction costs and other expenses. In addition, participatory notes are subject to counterparty risk since the notes constitute general unsecured contractual obligations of the issuing financial institutions, and the portfolio is relying on the creditworthiness of such institutions and has no rights under the participatory notes against the issuers of the stocks underlying such notes. Participatory notes may be considered illiquid.
- *Other potential risks.* A portfolio may lend its portfolio securities to brokers, dealers and other financial institutions. If the borrower of the securities fails financially, there could be delays in recovering the loaned securities or exercising rights to the collateral. Under adverse market conditions, the portfolio could invest some or all of its assets in the securities of U.S. issuers, U.S. Treasury securities and money market securities. Although the



portfolio would do this for temporary defensive purposes, it could reduce the benefit from any upswing in the market. During such periods, the portfolio may not achieve its investment objective.

- At times, a portfolio may engage in short-term trading, which could produce higher transaction costs and taxable distributions, and lower the portfolio's after-tax performance.
- Investing in pooled investment vehicles, such as ETFs which are investment companies, may involve duplication of advisory fees and certain other expenses.



## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of HAA or the integrity of its management. HAA has no information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

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Apart from HAA's investment advisory function to U.S. clients, there are other operating arms of HIG serving non-U.S. clients, consisting of Hamon Asset Management Limited, Hamon Investment Management Limited, Hamon Asset Management (Cayman) Limited and Hamon Ireland Limited. HIG specializes in Asian equity management, including Emerging Markets, Regional and Greater China.

Blackfriars Asset Management Limited ("Blackfriars") is a wholly owned subsidiary of HIG. It provides investment advisory services, specializing in Emerging Markets and is a registered investment adviser with the SEC in U.S.

Doric Capital Corporation, a specialist Asian long/short hedge fund management company, is an associated company of HIG through Composite Capital Holdings Limited ("Composite"). Doric Capital Corporation, together with Corinthian Capital Management Limited and Corinthian Capital Management (Mauritius) Limited, are the operating arms of Composite.

## Item 11 – Code of Ethics

HAA has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and its fiduciary duty to its clients. The Code of Ethics includes provisions relating to personal account trading procedures, among other things. All supervised persons at HAA must acknowledge the terms of the Code of Ethics annually, or as amended.

The personal account trading policy sets forth procedures and limitations that govern the personal securities transactions of our employees in accounts held in their own names as well as accounts in which they have beneficial interest.

Our employees, may, under certain circumstances and consistent with the policy, purchase or sell for their own accounts securities that we also hold within client portfolios.

### Overview of Personal Account Trading Policy

1. Staff dealings are subject to preclearance and personal securities reporting requirements;
2. Preclearance is not required for transactions involving certain exempt securities (such as open-ended investment company securities that are not Proprietary Funds); transactions in non-discretionary accounts (accounts over which the employee has no direct or indirect influence or control over the investment decision-making process); transactions done pursuant to automatic investment plans;
3. Transaction reporting is not required for non-discretionary accounts, transactions in exempted securities or certain other transactions that are not deemed to present any potential conflict of interest;
4. A “restricted list” is maintained of companies whose securities are subject to trading restrictions. The list is used by the Compliance Department to determine whether or not to grant trading authorization;
5. Securities held within personal accounts are subject to a minimum holding period, in which purchasing and selling or the same or equivalent securities within 30 days is discouraged;
6. Proprietary accounts are also subject to Personal Account Trading Policy.

A copy of our Code of Ethics will be provided upon request.

#### Interest in Client Transactions

Note that while each of the following types of transactions present conflicts of interest for us, as described below, we manage our accounts consistent with applicable law, and we follow procedures that are reasonably designed to treat our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged.

“Principal transactions” are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys any security from or sells any security to any client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated pooled investment vehicle and another client account. It is our policy that neither we nor any of our officers or directors shall, as principal, buy securities for itself from or sell securities it owns to any client.

“Cross Trades” are generally defined as transactions in which a person acts as an investment adviser in relation to a transaction in which such adviser, or any person controlling, controlled by, or under common control with such adviser, acts as broker for both such advisory client and for another person on the other side of the transaction.

Our employees may invest in the same securities that we or our affiliates recommend to clients. When one of our employees holds for his/her own benefit the same securities as a client, we could be viewed as having a potential conflict of interest. For example, one of our employees could be seen as harming the performance of the client’s account for his/her own benefit if they short-sell the securities in their own account while we hold the same securities long in a client account, causing the market value of the securities to move lower.

## Item 12 – Brokerage Practices

### Broker Selection

HAA has the authority to direct securities transactions on behalf of our clients to broker/dealers we select. In doing so, we seek best execution of such transactions. When seeking best execution, we consider the quality of the execution services provided by the broker and review among other things, commission rates, a firm's trading expertise, reputation and integrity, facilities, financial services offered, willingness and ability to commit capital, access to under-written offerings and secondary markets, reliability both in executing trades and keeping records, execution capability, financial responsibility and responsiveness to us and likelihood of trade settlement.

We may cause client accounts to pay a broker/dealer for effecting a securities transaction in excess of the amount of commission another broker/dealer, would have charged for effecting that securities transaction, where we determine in good faith that the commission is reasonable in relation to the value of the research services and products provided by such broker/dealer.

### Services and Products

In the selection of qualified brokers to execute certain transactions, a broker or dealer may be selected that provides, along with trade execution services, brokerage and research services and products as defined in Section 28(e) of the Securities Exchange Act of 1934 ("Services and Products"). Such Services and Products may include, but are not limited to, analytical systems, models and research databases, company, industry and market analysis, market data, security exchange pricing and news services as well as independent or proprietary research.

We currently participate in bundled execution and research arrangements which are deemed to fall within the meaning of Section 28 (e). The research component is used to purchase research services directly from the executing broker/dealer. The allocation of execution and research costs for bundled transactions is an estimation rather than agreed explicitly. Bundled execution and research provide a benefit to our clients by allowing access to the proprietary research of the broker which would not be available under a standard commission payment arrangement.

We may also participate in a limited number of Client Commission Arrangements (CCAs) that are also deemed to fall within the meaning of Section 28 (e). CCAs are arrangements whereby participating brokers pay commissions over and above trade execution commissions into a pool or account. The pool of commissions can be used by the firm to pay for research services provided by non – broker/dealer firms. Services which can be paid for using CCAs include investment research services, which might include research reports analyzing the performance of a

company or sector. CCAs provide a benefit to the firm and to the clients of the firm by allowing access to the services of specialist research firms which would not be available under a standard commission payment arrangement. The use of client commissions to pay for said Services and Products may include Third Party, Proprietary or Independent Research arrangements.

Third Party Research Arrangements are those arrangements where trades are executed with a broker-dealer for the purchase of execution and third party Services and Products via a CCA. The research component is used to purchase Services and Products via third party vendors.

Proprietary and Independent Research Arrangements are those arrangements whereby HAA directs a broker to effect securities transactions for client accounts for which HAA receives Services or Products that have been produced by the executing broker or to pay for the services provided by another broker or independent provider via a CCA. HAA may use client commission credits to obtain Services and Products and may pay an amount of commission to a broker-dealer for effecting a securities transaction in excess of the amount of commission another broker-dealer would have charged for effecting that transaction, where HAA determines in good faith that the commission is reasonable in relation to the value of the Services and Products provided by such broker-dealer, viewed in terms of either that particular transaction or HAA's overall responsibilities with respect to the accounts for which it exercises investment discretion.

Services and Products obtained by HAA may not necessarily benefit a client whose commission credits are used to pay for those Services and Products. Certain of the Services and Products received may benefit (1) certain other accounts also under the management of HAA; (2) accounts of affiliates managed by employees of HAA who are also employees of such affiliates; or (3) non-discretionary accounts of affiliates over which HAA retains investment discretion. Certain client assets of affiliates are managed by HAA's Portfolio Managers acting in a "dual employee" capacity. Because those clients may benefit from the Services and Products HAA receives from brokers, commissions generated by those clients may be used to pay for those Services and Products.

When we receive Services or Products that may also have a non-research use ("Mixed Use Product"), a potential conflict of interest may arise, since such Mixed Use Product may directly benefit us even though they are paid for by soft dollar credits generated by client commissions. In such situations, we will make a reasonable allocation of the cost of any Mixed Use Product so that the portion of the Services or Products that provides assistance to our investment decision making process will be paid for with soft dollar credits.

There may be a target level of commissions associated with certain Services and Products, and although not legally obligated to direct any specified amount of commissions, HAA will track commissions generated through trades, may use

credits that have been accumulated for these purposes, and may allocate brokerage to such a broker consistent with the principles stated above.

The use of client commissions to obtain Services and Products benefit HAA because

HAA will not have to produce or pay for the Services and Products itself.

#### Trade Aggregation and Allocation

**Trade Aggregation:** For various reasons (including efficiency, control of order flow, avoidance of conflicts in security executions and rotation of various investment opportunities), orders entered at the same time in the same security for different clients (including accounts in which our employees may have an interest), at our discretion, may be aggregated for execution purposes. In such situations, investors will pay the pro rata portion of the commission charged for the entire order.

**Trade Allocation:** In cases where the allocation is less than the amount requested or sought, our policy is to ensure that accounts are treated fairly and consistently, with partially filled orders being allocated to each fund proportionally according to the pre-allocation.

#### Trade Error

HAA has fiduciary responsibilities related to the correction of trade errors. If HAA creates the error that results in a loss, our policy is to make the client whole; meaning that client will not suffer an economic loss due to our error. We have policies and procedures related to identification, documentation and correction of errors. If a third party causes or creates the error, the third party is responsible for the correction of the error and make the client whole. In addition, we will not use soft dollar commission credits or commissions from other client accounts to correct trading errors.

For errors that result in a gain (and that the client does not retain in his/her account), HAA will donate the amount of any gain HK\$1000 and over to charity.

For errors that result in a gain of less than HK\$1000 that are removed from your account, the gain is considered de minimis (small) and used by HAA to offset HAA's administrative time and expense related to the processing of errors.

Further, as part of HAA's compliance obligations, HAA must create and retain trading error books and records. These trading error records should explain what errors occurred, how they were corrected, and must be maintained for five years.

HAA must retain records of all trading errors including the:

- transaction date;
- security;
- account and broker-dealer involved; and
- summary of the error and its ultimate disposition, including the conditions of any financial settlement.



### **Item 13 – Review of Accounts**

We have regular meetings held by investment team members to review our accounts. Please see Item 8 of this brochure for more information regarding the meetings.

We aim to build long term relationships with our investors and clients by delivering good performance and quality client services. We provide monthly, quarterly, semi-annual and annual written reports to our clients as well as monthly and quarterly performance figures. We can also provide a detailed review and analysis either in person or by telephone regularly and as requested by the client.

Apart from the regular meetings mentioned above, portfolio risk is reviewed as a part of the portfolio management process, implemented by fund managers and monitored by the Compliance Manager, Chief Executive Officer (CEO), Chief Investment Officer (CIO) and the Chief Financial Officer (CFO). There are two weekly investment meetings held to discuss, adjust, and monitor portfolio composition and to assess positions, weighting and performance. The CEO attends these meetings. In addition, Fund managers meet once a month with the CFO and/or the CEO and the CIO and Compliance Department to discuss and review portfolio management of the funds and segregated accounts.

Also, a Risk Management Committee has been set up to identify, assess and manage risks at the business process and operational level. The Committee consists of one key staff member from each operational division and meetings are held on a monthly basis.

## **Item 14 – Client Referrals and Other Compensation**

We have retained MBSC Securities Corporation (“MBSC”), a wholly owned subsidiary of BNYM, to refer prospective investment advisory clients located in the United States to us and to provide administrative services to our U.S. clients that were referred by MBSC. We have entered into an agreement to compensate MBSC for their referrals that result in investment advisory business and for providing administrative services to such clients. We are solely responsible for the payment of compensation due to MBSC under the terms of our agreement with them; the compensation paid to MBSC is not borne by our clients. We or our affiliates pay the compensation to MBSC out of our profits, and these payments do not increase the fees paid by our clients. The compensation we provide to MBSC may provide MBSC and its employees and/or salespersons with an incentive to favor referring prospective clients to our investment advisory services over other firms from which MBSC does not receive compensation, or receives lower level of compensation.

Except in the market segments where our agreement provides MBSC with exclusivity, we may hire additional solicitors at any time to refer business to us. The compensation payable to such solicitors will be paid solely by us. Clients will not be responsible for compensating these solicitors. The compensation that such solicitors receive from us may provide them with an incentive to favor referrals to us over other firms from which the solicitor may receive no, or lower, compensation. Our solicitation/referral arrangements comply with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940.

## **Item 15 – Custody**

Rule 206(4)-2 under the Advisers Act (the “Custody Rule”) defines “custody” to include a situation in which an adviser or a related person holds, directly or indirectly, client funds or securities or has any authority to obtain possession of them, in connection with advisory services provided by the adviser.

For purposes of the Custody Rule, we are deemed not to have “custody” of client assets.

## **Item 16 – Investment Discretion**

We offer discretionary and non-discretionary investment advisory services for institutional clients.

For discretionary or non-discretionary investment advisory mandate, we establish the framework and guidelines with the client in writing prior to the launch of the advisory services.

For non-discretionary investment advisory services, we will provide advice and recommendation to clients in writing with an agreed frequency. However, the client has the discretion of following the recommendation provided by us.

When selecting securities and determining amounts, we follow the client's investment policies, their limitations and restrictions of the clients for which it advises. For registered investment companies, HAA's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to us in writing.

## **Item 17 – Voting Client Securities**

As an Investment Advisor with a fiduciary responsibility to its clients, HAA generally seeks to vote proxies in a manner that maximizes the economic value of companies whose securities are held in client accounts. However, our clients can choose to vote proxies on their own as a number of our clients do today. For those firms who have delegated authority to us, our aim is to ensure that all proxies are voted in line with the firm's policy, are in compliance with all regulatory requirements and that the votes are in the client's best interests.

Conflicts of interest may arise between our interests and our clients' interests when voting client securities. A conflict of interest may exist, for example, if HAA or any of its affiliates has a business relationship with either the company soliciting the proxy or a third party that has a material interest in the outcome of a proxy vote.

According to our investment guideline, we will act in the best interest of our client portfolios in case when a vote presents a conflict between the client and us.

We usually receive notice of proxy activity through intermediaries acting on behalf of the custodians, which hold client securities.

Clients may obtain a copy of the proxy voting policies & procedures upon request.

## **Item 18 – Financial Information**

We are not aware of any financial condition which would be reasonably likely to impair our ability to meet our contractual commitments to our clients.