



## **First State Investments (Hong Kong) Limited**

### **Form ADV Part 2A - The Brochure**

**September 2017**

**This brochure provides information about the qualifications and business practices of First State Investments (Hong Kong) Limited. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any State securities authority.**

**First State Investments (Hong Kong) Limited is registered as an investment adviser with the SEC. Registration as an investment adviser with the SEC does not imply any certain level of skill or training.**

**If you have any questions about the contents of this brochure or about First State Investments (Hong Kong) Limited in general, please contact us on +852 2846 7555.**

**Additional information about First State Investments (Hong Kong) Limited is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## Item 2 - Material Changes

The annual updating amendment to the Disclosure Document, dated September 2017, does not contain any changes deemed to be material other than the below.

Item 12 Brokerage Practice - Effective from 1 April 2017, all broker related research and advisory services consumed by the equity team will no longer be paid for from client dealing commissions. Instead the Firm will compensate the providers of research by making separate payments directly from their own resources. Hence the dealing commission is only for trade execution services since April 1, 2017.

Although not deemed to be material, revisions to the Disclosure Document have been made to this filing.

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#### Item 4 - Advisory Business

First State Investments (Hong Kong) Limited (“FSIHK” or the “Firm” or “We”) is a company, which was incorporated under the laws of Hong Kong in 1987. FSIHK has been registered as an investment adviser registered with the SEC since 2015. FSIHK is licensed by the Securities and Futures Commission in Hong Kong. FSIHK provides investment advisory services to clients from its principal business office located in Hong Kong. As a result, FSIHK currently is and will continue to be licensed with the Securities and Futures Commission in Hong Kong and subject to regulations by the Hong Kong regulatory authorities.

FSIHK is a direct wholly-owned subsidiary of First State Investment Managers (Asia) Limited and is ultimately wholly-owned by the Commonwealth Bank of Australia (**CBA Group**) (ABN 48 123 123 124). The CBA Group is one of Australia’s leading providers of integrated financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services. FSIHK is part of Colonial First State Global Asset Management (**CFSGAM**), known outside Australia as First State Investments (**FSI**), the consolidated asset management business of the CBA Group.

We provide discretionary investment management services primarily to non-U.S. institutional clients and pooled investment vehicles or “funds” that invest in a number of asset classes including equities, fixed interests, credits and cash securities. In addition, currently FSIHK provides investment advisory services to a group affiliate located in the U.S. With respect to institutional clients, through separate accounts, where we agree upon investment objectives with the clients and specify investment guidelines which would be set out in their investment management agreement with FSIHK. For funds, each fund will have an investment objective and a set of investment policies and/or guidelines that FSIHK must follow.

The investment policies/guidelines typically describe the investment parameters and types of securities that are eligible for (or prohibited from) the account.

FSIHK tailors the advisory services and fees charged to clients and the type of reporting they receive.

FSIHK does not participate in any wrap fee programs or act as a custodian.

As of June 30 2017, FSIHK had a total of US\$30,450,938,568 assets under management. This includes assets where we have sub-delegated discretion to an affiliate and assets where an affiliated manager has delegated authority to FSIHK. Therefore, certain of the assets will also be included in the assets under management reported by our affiliated managers.

#### Management Services

Each client account is designed to meet a particular investment goal. Through discussions with the client, the client’s goals and objectives are established. Once the account has been funded, it will be managed in accordance with the objectives, investment guidelines and restrictions through a third party custodian who retains ownership of the securities which comprise the account on their behalf.

## Item 5 - Fees and Compensation

Fees and compensation are negotiated on a case by case basis with our clients. We will either charge an advisory fee based on a percentage of assets/funds under management or clients may choose to pay a fee consisting of a combination of a percentage of assets/funds under management and a performance based advisory fee.

Clients typically pay advisory fees monthly or quarterly in arrears, and performance based fees are calculated in accordance with the agreed formula and paid annually in arrears.

We generally invoice clients directly for the fees they have incurred. We will not deduct our fees directly from the clients account, however the client may instruct the custodian to pay us out of the assets in the account once the fee calculation has been reviewed and accepted.

In addition to FSIHK' advisory fee, clients will incur other fees and expenses charged by third parties in relation to their account, including, for example custody fees, brokerage, foreign exchange fees and other transaction costs.

Account termination provisions are specified in the individual client agreements; however, generally the client may terminate the agreement by providing us with written notice at our principal place of business. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

## Item 6 - Performance Based Fees and Side-by-Side Management

### Performance Fees

In certain instances as described above, FSIHK is compensated under performance-based fee arrangements.

FSIHK provides concurrent advisory services to clients that are not charged a performance-based fee and clients that are charged such a fee. Thus, the potential for us to receive greater fees from performance-based accounts itself creates a potential conflict of interest regarding the allocation of investment opportunities.

To minimize these potential conflicts, the allocation of commitments and decisions to invest in investment opportunities made by FSIHK for all discretionary clients with capital available for investment in the relevant strategy of the opportunity at such time, will be in accordance with the FSIHK investment allocation process. The FSIHK allocation process takes into account multiple criteria, including specific and individual account objectives, account size and capital available for investment, the stage of development of an account's portfolio, the existing investment mix of an account, the diversification needs of the account, the size of the investment opportunity and the criteria for investment set out in the agreed investment disciplines.

### Side by Side Management

FSIHK manages different types of accounts having different investment arrangements. Side-by-side management of client accounts gives rise to potential conflicts of interest. Potential conflicts arise where the actions taken on behalf of one account impact other similar or different accounts (e.g., because such accounts have the same or similar investment styles or otherwise compete for investment opportunities, have potentially conflicting investments or investment styles, or have differing abilities to engage in short sales and similar types of transactions).

To acknowledge this conflict, FSIHK have established policies and procedures that seek to provide assurance in that investment decisions are made in accordance with the fiduciary duties owed to such accounts.

Item 12 (Brokerage Practices) of this brochure describes our policy on allocating trades fairly, which is designed to allocate trades to clients in a fair and equitable manner over time, taking into consideration the interests of each client.

## Item 7 - Types of Clients

We provide investment advice primarily to non-U.S. institutional investors. Institutional investors include but not limited to:

- Banks or other financial institutions
- Pension plans
- Investment companies
- Pooled investment vehicles, UCITS, other non-U.S. regulated funds
- Insurance companies
- Corporate investment schemes
- State and municipal governments
- Sovereign funds
- Other investment advisers
- Charitable organisations

FSIHK typically requires a minimum account size of US\$50 million for a separate account. We reserve the right to waive the above minimum account size or minimum annual fee requirements.

Investments in pooled investment vehicles that we manage or advise are also subject to minimum investment requirements. Please refer to the offering documents of such funds for more information.

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

### Introduction

FSIHK manages client accounts and funds that invest predominantly across Asian (including China and Japan) and Global Emerging Market equities.

We have applied a consistent philosophy to investing in Asian and Global Emerging Markets: a focus on quality companies, considering risk with an absolute mind set, adopting a long-term time horizon with a keen eye to reasonably priced growth prospects. We believe that companies in emerging markets are frequently mispriced and as active managers, we seek to exploit these inefficiencies using disciplined investment management techniques.

We believe that the experience of our investment team and a rigorous research approach enable us to identify quality companies whose potential is underestimated by the market. We make direct contact with over 1,000 companies every year and are uncompromising in our screening process. Sustainability, in its broader social and environmental sense, is another pivotal theme underpinning our thinking.

### Investment Approach

Being a separate and dedicated fund management business allows us to focus on our key strengths in asset management, while developing a performance culture to better position us to attract and retain quality personnel that will underpin the performance of our clients' investments. We also ensure that our interests are aligned with those of our clients and uphold a culture of always acting in our clients' best interests.

### Key Strategies

#### *Asia Pacific excluding Japan*

We employ a bottom-up research process which combines regular company visits with extensive fundamental analysis.

Our investment research aims to identify the highest quality companies with sustainable long-term earnings per share growth prospects and focuses on those stocks where we believe the market has incorrectly priced future growth potential.

#### *Emerging Markets*

We have been managing global emerging markets equities through both pooled and segregated portfolios. We maintain a conservative style in what can be a volatile asset class, focusing on capital preservation as well as growth. We aim to produce consistent long-term outperformance, seeking out opportunities that allow us to invest in the highest quality companies in the emerging markets universe.

#### *Japan*

Japan is covered by our Asia Pacific investment team. We employ a bottom-up research process which combines regular company visits with extensive fundamental analysis. Our aim is to identify the highest quality companies with the sustainable long-term earnings per share growth, strong balance sheet and management team. We focus on capital preservation as much as growth. We aim to produce consistent long-term performance and find highest quality companies to invest in Japan.

### Material Risks for Investment Strategies

As with any investment, loss of principal is a risk of investing with any of the investment strategies described above. The strategies described above also are subject to the risks summarised below. However, the following list of risk factors does not purport to be a complete explanation of the risks involved in an investment strategy. Prospective clients are encouraged to consult their own financial advisors, legal and tax professionals on an initial and continuous basis in connection with selecting and engaging the services of



FSIHK for a particular strategy. In addition, due to the dynamic nature of investments and markets, strategies may be subject to additional and different risk factors not discussed herein.

Investments in portfolios are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, entity or person. Past results are not predictive of future results, and clients should also refer to portfolio guidelines as well as to each portfolio's governing documents for further information on methods of analysis, investment strategies and risks specific to their portfolio investment.

### **General Risks**

**Market risk** - Investment returns are influenced by the performance of the market as a whole. This means that investments can be affected by things like changes in interest rates, investor sentiment and global events, depending on which markets or asset classes the client invests in.

**Security and investment-specific risk** - Within each asset class and each option, individual securities like mortgages, shares, fixed interest securities or hybrid securities can be affected by risks that are specific to that investment or that security. For example, the value of a company's shares can be influenced by changes in company management, its business environment or profitability. These risks can also impact on a company's ability to repay its debt.

**Liquidity risk** - Liquidity risk refers to the difficulty in selling an asset for cash quickly without an adverse impact on the price received. Assets such as shares in large listed companies are generally considered liquid, while 'real' assets such as direct property and infrastructure are generally considered illiquid.

Under abnormal or difficult market conditions, some normally liquid assets may become illiquid, restricting the ability to sell them and to make withdrawal payments or process switches for investors without a potentially significant delay or discount to value.

**Counterparty risk** - This is the risk that a party to a transaction such as a swap or foreign currency forward fails to meet its obligations such as delivering a borrowed security or settling obligations under a financial contract.

**Non-Diversification Risk** - Non-diversification of investments means a portfolio may invest a large percentage of its assets in securities represented by a small number of issuers. As a result, the portfolio's performance may depend on the performance of a small number of issuers.

**Concentration Risk** - Concentrating investments in a particular country, region, market, industry or asset class means that performance will be more susceptible to loss due to adverse occurrences affecting that country, region, market, and industry or asset class. A portfolio concentrating in a single jurisdiction is subject to greater risk of adverse economic conditions and regulatory changes than a portfolio with broader geographical diversification.

**Derivatives Risk** - Certain of the portfolios may use derivatives, specifically options, index options, interest rate caps, collars, futures contracts, options on futures contracts, and forward currency exchange contracts, to manage various types of risk, enhance a portfolio's return, reduce transaction costs, maintain full market exposure, manage cash flows, preserve capital or hedge against adverse movements in currency exchange rates.

The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives, and changes in the value of the derivative, may not correspond, as intended, with changes in the value of the underlying asset, index or rate.

These risks are heightened when the adviser uses derivatives to enhance a fund's return or as a substitute for a position or security, rather than solely to hedge (or offset) the risk of a position or security held by the portfolio. In addition, when the portfolios invest in certain derivative securities, there is the possibility that

they are effectively leveraging their investments, which could result in exaggerated changes in the net asset value of the portfolios' shares and can result in losses that exceed the amount originally invested.

**Deflation Risk** - Deflation risk is the risk that prices throughout the economy decline over time, which may have an adverse effect on the market valuation of companies, their assets and revenues. In addition, deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of a portfolio.

**Inflation Risk** - Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of an account and distributions can decline.

**Management Risk** - The investment strategies, techniques and risk analyses employed, while designed to enhance returns, may not produce the desired results. The assessment of a particular security or assessment of market, interest rate or other trends could be incorrect, which can result in losses.

**Political and Economic Risk** - International investing is subject to the risk of political, regulatory, social, or economic instability in the country of the issuer of a security, the difficulty of predicting international trade patterns, the possibility of the imposition of exchange controls, expropriation, limits on removal of currency or other assets, and nationalization of assets.

**Asset Allocation Strategy Risk** - Asset allocation strategies do not assure profit and do not protect against loss.

**Force Majeure Risk** - Force majeure is the term generally used to refer to an event beyond the control of any party, including acts of God, fires, floods, earthquakes, wars, strikes and acts of terrorism. Some force majeure risks are uninsurable and, if such events occur, they may adversely affect the value of a security.

**Preferred Security Risk** - Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments.

**Potential Environmental Risk** - The portfolio may hold securities in an issuer who may be liable for the costs of removal or remediation of hazardous or toxic substances. The costs of any required remediation or removal of such substances may be substantial. The presence of such substances, or the failure to remediate such substances properly and any regulatory penalties may adversely affect the value of the securities causing a loss.

**Style-Specific Risk** - Different types of stocks tend to shift in and out of favour depending on market and economic conditions. To the extent a portfolio emphasizes a value style of investing, it runs the risk that undervalued companies' valuations will never improve.

**Currency risk** - Returns from offshore investments can be impacted by foreign exchange movements. Currency hedges are, therefore, established to ensure that foreign exchange movements do not have a meaningful influence on performance. These facilities are reviewed on an on-going basis.

**Underlying Asset Currency Risk** - The assets of a company may be held in a country other than where the security is issued. This has the potential to create an additional underlying currency risk for that security.

**Changes to laws and regulatory risk** - A government or governmental agency in a country in which a security is issued or asset held may amend, repeal, enact or promulgate a new law or regulation, or a government authority or a court may issue a new interpretation of existing law or regulation that could substantially affect the security resulting in a loss. In addition changes in legal, tax and regulatory regimes within the jurisdictions of investments may occur which may materially affect the performance of a security.

**Company specific risk** - This is the risk that a company in which FSIHK invests does not perform as successfully as anticipated. While it is impossible to completely eliminate this risk, the effect of such a situation on the value of the investment can be reduced through diversification. This implies that unless returns of individual securities are perfectly positively correlated, a negative return from one security will be somewhat offset by better returns in others. This principle of diversification acts to reduce risk and reduce the return volatility of our portfolios.

### **Additional risks associated with investing in emerging markets**

Where a strategy invests in securities of issuers located in countries with emerging securities markets, risks additional to the normal risks inherent in investing in conventional securities are generally present. The investments may be considered to be speculative in nature as they involve a greater than normal degree of risk and their market values may be expected to be of above average volatility. These risks include:

**Currency depreciation** - A portfolio's assets will be invested in securities which are denominated in currencies other than those of developed countries and any income received by the portfolio from those investments will be received in those currencies. Historically, many developing countries' currencies have experienced significant depreciation against the currencies of developed countries. The currencies of some developing countries may continue to fall in value against currencies of developed countries.

**Country risk** - The value of a portfolio's assets may be affected by uncertainties within each individual emerging market country in which it invests such as changes in government policies, nationalisation of industry, taxation, the underdeveloped and often untested legal system, currency repatriation restrictions and other developments in the law, practice or regulations of the countries, in particular, by changes in legislation relating to the level of foreign ownership in companies in some emerging countries.

**Social, Political and Economic Factors** - The economies of many of the emerging countries where portfolios may invest are generally subject to a substantially greater degree of social, political and economic instability than certain developed countries. Such instability may result from, among other things, the following; authoritarian governments, popular unrest associated with demands for improved political, economic and social conditions, internal insurgencies and terrorist activities, hostile relations with neighbouring countries and drugs trafficking. This instability can impair the financial conditions of issuers or disrupt the financial markets in which the portfolios invest.

**Taxation risk** - The tax law and practices of certain emerging markets may not be fully developed or sufficiently certain. Any future changes in these laws and practices or their interpretation can adversely affect the value of the portfolios.

**Stock market practices** - Many emerging markets are undergoing a period of rapid growth and are less regulated than many of the world's leading stock markets. In addition market practices in relation to settlement of securities transactions and custody of assets in emerging markets can provide increased risk and may involve delays in obtaining accurate information on the value of securities and the risk that the investments may not be accurately registered. These stock markets, in general, are less liquid than those of the world's leading stock markets. Purchases and sales of investments may take longer than would otherwise be expected on developed stock markets and transactions may need to be conducted at unfavourable prices. Some emerging markets require that moneys for settlement be received by a local broker significantly in advance of settlement and that assets are not transferred until some time after settlement. This exposes investment portfolios to additional counterparty risk arising from the activities of the broker during these periods.

**Information quality** - Accounting, auditing and financial reporting standards, practices and disclosure requirements applicable to some companies in emerging markets in which portfolios may invest may differ from those applicable in developed countries because less information is available to investors and such information may be out of date or carry a lower level of assurance.

### **Strategy specific risks – China Growth**

**China Market Risk** - The value of assets can be affected by uncertainties such as political developments, changes in government policies, taxation, currency repatriation restrictions and restrictions on foreign investment in China. Accounting, auditing and reporting standards in China generally do not provide the same degree of investor protection or information to investors as would generally apply in more established

securities markets. Furthermore, the legislative framework in China for the purchase and sale of investments and in relation to beneficial interests in those investments is relatively new and untested. Both the Shanghai and Shenzhen securities markets are in the process of development and change. This may lead to trading volatility, difficulty in the settlement and recording of transactions and difficulty in interpreting and applying the relevant regulations.

Under the prevailing tax policy in China, there are certain tax incentives available to foreign investment. There can be no assurance, however, that these tax incentives will not be abolished in the future. Many of the People's Republic of China (**PRC**) economic reforms are unprecedented or experimental and are subject to adjustment and modification, and such adjustment and modification may not always have a positive effect on investment in listed securities such as China A Shares.

The choice of China A Share issues currently available to FSIHK are limited as compared with the choice available in other markets. There is also a lower level of liquidity in the China A Share markets, which are relatively smaller in terms of both combined total market value and the number of China A Shares which are available for investment as compared with other markets. This could potentially lead to severe price volatility.

The national regulatory and legal frameworks for capital markets and joint stock companies in the PRC are still developing when compared with those of developed countries. Currently, joint stock companies with listed China A Shares are undergoing split-share structure reform to convert state owned shares or legal person shares into transferable shares with the intention to increase liquidity of China A Shares. However, the effects of such reform on the A-Shares market remain to be seen. Also, the PRC government's control of currency conversion and future movements in exchange rates can adversely affect the operations and financial results of the companies invested in by a Fund. In light of the above mentioned factors, the price of China A Shares may fall significantly in certain circumstances. The tax laws, regulations and practice in the PRC are constantly changing, and they may be changed with retrospective effect.

### 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 a client's or prospective client's evaluation of our company or the integrity of our management.

At the present time, FSIHK does not have any material legal, financial or other disciplinary items to report.

## Item 10 - Other Financial Industry Activities and Affirmations

FSIHK is part of the CBA Group, which is one of Australia's leading providers of integrated financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services. In some cases, FSIHK has business arrangements with related persons/companies to the FSIHK advisory business or to their clients. In some cases, these business arrangements create potential conflicts of interest, or the appearance of a conflict of interest between FSIHK and a client. Recognised conflicts of interest are discussed in Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) of this Brochure.

### Affiliated Broker Dealer

Commonwealth Australia Securities LLC (CAS) is a broker-dealer registered under the US Securities Exchange Act 1934 and is a member of the self-regulatory organization, the Financial Industry Regulatory Authority (FINRA). It is subject to the securities laws and rules of the U.S. It is regulated by the Securities and Exchange Commission and FINRA.

FSIHK does not utilise the execution services of CAS as broker dealer.

### Associated Investment Advisers

**First State Investments International Limited ("FSII")** is a registered investment adviser and is an affiliate of FSIHK. FSII was incorporated in 1982 and is a wholly owned subsidiary of the CBA Group and part of First State Investments (known as Colonial First State Global Asset Management (CFSGAM) in Australia.) FSII is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds.

FSIHK has appointed FSII to act as a sub investment manager and provide discretionary investment management services in respect of several funds managed by FSIHK. FSII has appointed FSIHK to act as sub investment manager and provide discretionary investment management services to certain funds managed by FSII.

**Colonial First State Asset Management (Australia) Limited ("CFSAMA")** is a registered investment adviser and is an affiliate of FSIHK. CFSAMA was incorporated in 2005 and is a wholly owned subsidiary of the CBA Group.

CFSAMA is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds.

FSIHK has appointed CFSAMA to act as a sub investment manager and provide discretionary investment management services in respect of certain funds managed by FSIHK. CFSAMA has appointed FSIHK to act as a sub investment manager and provide discretionary investment management services in respect of certain funds.

**First State Investments (Singapore) ("FSIS")** is a registered investment adviser and is an affiliate of FSIHK. FSIS was incorporated in 1969. FSIS is a wholly owned subsidiary of the CBA Group and is part of First State Investments.

FSIS is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds. FSIS predominantly specialises in investing in Asia Pacific and Global Emerging markets. FSIHK has appointed FSIS as a sub investment manager and provide discretionary investment management services in respect of certain funds.

**First State Investments (US) LLC ("FSIUS")** is an SEC registered investment adviser and is an affiliate of FSIHK. FSIUS was established in 2014 and is a wholly owned subsidiary of the CBA Group and part of First State Investments. FSIUS provides discretionary management services to institutional clients and funds. Employees of FSIUS provide U.S. marketing and solicitation services for the advisory services of FSIHK.



FSIUS has appointed FSIHK to act as a sub investment manager and provide discretionary investment management services in respect of certain funds.

**First State Investment Management (UK) Limited (“FSIUK”)** is a registered investment adviser and is an affiliate of FSIHK. FSIUK was incorporated in 2001 and is a wholly owned subsidiary of the CBA Group and part of First State Investments (known as Colonial First State Global Asset Management (CFSGAM) in Australia.) FSIUK is an investment advisory firm providing discretionary investment management and portfolio management services to a range of institutional clients and funds.

FSIHK has appointed FSIUK to act as a sub investment manager and provide discretionary investment management services in respect of certain funds managed by FSIHK. FSIUK has appointed FSIHK to act as a sub investment manager and provide discretionary investment management services in respect of certain funds.

FSIHK serves as a sub-adviser for accounts or clients for which one or more CFSGAM affiliates serve as investment manager or investment adviser. FSIHK receives services, including but not limited to investment advisory services, from certain affiliates. For example, in the areas of legal and compliance, risk management, human resources, finance, information technology, trade support, back and middle office support, and sales and marketing, services are provided or received and employees are shared between FSIHK and various affiliates.

## Item 11 - Code of Ethics, Participation or Interests in Client Transactions and Personal Trading

FSIHK has adopted a Code of Ethics (“the Code”) that requires all FSIHK’s supervised persons to:

1. Act with integrity, competence and in an ethical and professional manner;
2. Always act in the best interests of clients;
3. Comply with applicable U.S. federal securities laws, as well as all other applicable laws, rules and regulations; and
4. Promptly report violations of the Code of Ethics.

All supervised persons are required to certify at least annually that they have read and understood the Code. Clients can request a copy of our Code of Ethics by writing to our Chief Compliance Officer.

The Code includes:

- **Protection of Material Non-Public Information:** It is a crime in the U.S. and many other countries to transact in a company’s securities while in possession of material, non-public information about the company. Employees are responsible for safeguarding non-public information relating to securities recommendations, fund and client holdings. As such, employees should not trade based on FSIHK’s confidential and proprietary investment information. Other types of information (e.g., marketing plans, employment issues, client identities, etc.) may also be confidential and should not be shared with individuals outside FSIHK (except those retained to provide services for FSIHK).
- **Personal Investing:** The personal investing activities of supervised persons are governed by the CFSGAM Global Personal Dealing Policy. In summary, with certain minor exemptions, transactions by supervised persons must be pre-approved. Additional restrictions apply to supervised persons with access to non-public information relating to current or imminent fund/client transactions, investment recommendations or fund portfolio holdings (Access Persons). Access Persons generally may not effect securities transactions for their own account when any investment advisory account is transacting in the issuer in question. All such Access Persons must report their securities transactions on a quarterly basis and disclose their holdings when they first become an Access Person and annually thereafter. Access Persons must obtain pre-approval to participate in an Initial Public Offering or Limited Offering in the US. These restrictions also apply to the Access Person’s immediate household members. Additional restrictions and reporting also apply, including blackout periods on personal investing and a ban on short-term trading.
- **Gifts and Entertainment:** The CFSGAM Gifts & Entertaining Policy prohibits staff in the giving and acceptance of gifts or entertainment that is excessive, repetitive, inappropriate or extravagant. Procedures include:
  - Periodical reporting requirements
  - Limits on gifts that can be accepted from any one source during a calendar year, and
  - Pre-approval requirements dependent on value and the recipient(s)
- **Political Contributions** - In the majority of jurisdictions gifts to a public official are generally illegal and these cannot be made. Permissible gifts may only be made after obtaining appropriate approval at the CBA Group level.
- **Conflicts of Interest** – In the discharge of its fiduciary duties to clients, FSIHK has in place policies and procedures to manage conflicts of interest. In summary conflicts are managed by:
  - Control - controlling conflicts by putting in place arrangements to ensure the impact of the actual or potential conflict is reduced to an acceptable level; and/or
  - Disclosure - disclosing all material facts concerning any actual or potential conflict that may arise with respect to any client; or



- Avoidance – if an actual or potential conflict cannot be effectively managed by disclosure and/or control, or by using other means, then the situation giving rise to the conflict must be avoided

FSIHK from time to time invests in the same securities that our affiliates such as FSII, FSIS, FSIUS and CFSAMA etc. are also currently invested. Portfolio management and security recommendations are undertaken at an investment strategy level and each investment team managing these strategies is organised separately. Information barriers and other controls exist between investment teams to manage any potential conflicts that arise.

### **Outside business interests**

To manage conflicts of interest, inside information, and other compliance and business issues, FSIHK maintains a record of its employees serving as officers or members of the board of any other entity. Permission must be obtained through the Chief Compliance Officer and management prior to engaging in any outside business activity. FSIHK can deny approval where the perceived conflict of interest cannot be managed effectively.

The client can request a copy of our Code of Ethics by writing to our Chief Compliance Officer at the address listed on the cover page of this document.

## Item 12 - Brokerage Practices

### Counterparty Selection

FSIHK has a rigorous counterparty approval process to ensure that we use suitable, reliable counterparties (brokers) when dealing on behalf of clients. In order to ensure that they are suitable and reliable we have adopted an approved list of counterparties which have been reviewed and considered to be appropriate for us to deal with on behalf of our clients.

In selecting brokers to execute transactions for our client accounts FSIHK considers the following factors:

- Financial Strength
- Trading expertise — broker's ability to execute the trade with the minimum impact on the market price (i.e., get the best price);
- Technology and trading platforms — the efficiency of the broker's technology and trading platforms including ease of use and speed of execution;
- Broker's support in setting trading strategy;
- Efficiency of trade settlement;
- Research received either directly from the broker (proprietary research) or made available by the broker from third-parties (third-party research); and
- Commission and settlement costs

FSIHK maintains a list of approved brokers for both equity (stock) and fixed income (bond) trading. Brokers must meet financial strength, execution capability and operational requirements and subject to screening checks. We rate brokers on the quality of their execution services, operational capabilities, and research services. Trades are only allocated to brokers who consistently provide a high quality execution service; for individual orders this will involve assessing the specific factors relevant to that order and considering the appropriate broker to meet our best execution requirements.

FSIHK conducts assessment and each counterparty is reviewed at least annually.

### Use of Dealing Commissions

Effective from 1 April 2017, all broker related research and advisory services consumed by the equity team will no longer be paid for from client dealing commissions. Instead the Firm will compensate the providers of research by making separate payments directly from their own resources. Hence the dealing commission is only for trade execution services since April 1, 2017.

Prior to that, FSIHK' policy is that all externally provided execution and research services may be paid for as a part of the agreed commission with the broker where this complies with applicable regulations.

FSIHK makes use of commission sharing arrangements with brokerage firms that execute orders or that provide research and advisory services to FSIHK. This includes situations where the dealing commission on a particular trade or series of trades is shared between one or more providers of execution and /or research services, such that a portion of the commission paid by the portfolios to the executing broker is used to purchase third-party research or execution services.

This research will:

- be capable of adding value to our investment or trading decisions by providing new insights that inform us when making such decisions about our customers' portfolios;
- represent original thought, in the critical and careful consideration and assessment of new and existing facts, and does not merely repeat or repackage what has been presented before;
- have intellectual rigour and does not merely state what is commonplace or self-evident; and

- involve analysis or manipulation of data to reach meaningful conclusions.

The research and other services are paid for by commissions generated by client trades. This is long standing industry practice. The Securities Exchange Act of 1934 established criteria for “qualified” brokerage and research services. The research and services received for client commission’s fall within the definition of “qualified” brokerage or research service.

The use of client commissions for research and services is a potential conflict of interest. We may have an incentive to allocate trades to a particular broker to obtain research services rather than to the broker who would be expected to provide the best combination of commission and price. No arrangements regarding the use of dealing commission may be entered into that could compromise our ability to seek best execution for our customers

### **Counterparty commission targeting & allocation**

Each team within our broader business is responsible for managing their target allocation of commission to counterparties, within the broad principles established below.

On a regular basis, each team meets to review the services of counterparties used by that team and to plan an appropriate targeted allocation of commission to each counter-party. The process is designed to rank brokers in terms of their access to company management, sales coverage, access to IPO’s and dealing (including execution and settlement services).

The equity dealing desk is responsible for agreeing the commission rates with each broker across each market.

### **Directed Commission**

There are different procedures for dealing with any directed commissions.

In the case of directed commission we are instructed by the client to generate commission on the clients’ account to pay for a service for which the client has contracted.

FSIHK will not enter into such arrangements if we believe they will add complexity to the management of dealing commission and where they may conflict with our obligations regarding best execution. We must ensure that if any such directed commission arrangements are entered into, we are satisfied that such commissions can be generated in the client’s account within a normal amount of turnover without allowing that client to benefit from services received and paid for from our other clients. We will not enter into such arrangements unless the liability for payment for the services which the client has purchased remains with the client and does not become a liability of FSIHK.

### **Cross Transactions**

Where a cross trade is undertaken (where one fund/client is selling and another is buying), the equity dealer must ensure the price is fair to both customers. Our standard approach in all such cases is to transact through a broker as a net trade, rather than to cross internally: this creates a clear audit trail with an external party and ensures all regulatory reporting is conducted. Cross trades are executed only where permitted and only for clients that are not plans, trusts or retirement accounts governed by the Employee Retirement Income Security Act of 1974, as amended. Such transactions are only entered into when FSIHK deems the transaction to be in the best interest of both clients and at a price FSIHK has determined by reference to independent market source.

Neither FSIHK nor any related party receives any compensation as a consequence of such 'cross' transactions.

## **Aggregation and Allocation of Orders**

FSIHK seeks to aggregate and allocate trade orders in a manner that is consistent with its duty to: (1) seek best execution of client orders; (2) treat all clients fairly and equitably; and (3) not systematically advantage or disadvantage any single client or group of clients.

On occasions, FSIHK will decide to purchase or sell the same security for multiple client accounts. When appropriate and in accordance with policies and procedures pursuant it will combine or aggregate purchase or sale orders for the same security for multiple client accounts (also known as a bunched order) so that the orders can be executed at the same time. FSIHK aggregates orders when FSIHK considers doing so appropriate and in the interests of its clients. FSIHK' client accounts may be included in the aggregated orders with clients of FSIHK' affiliated advisers.

When orders are aggregated, the orders may be placed with one or more brokers for execution. When a bunched order is filled, FSIHK generally will allocate the securities purchased or proceeds of sale pro rata among the participating client accounts based on the pre-trade allocation. Adjustments or changes are made under certain circumstances, such as to avoid small allocations or to satisfy cash flows and guidelines. If an order at a particular broker is filled at several different prices, through multiple trades, generally all participating client accounts will receive the average price.

Although allocating orders among FSIHK clients creates potential conflicts of interest because FSIHK could receive greater fees or overall compensation from some clients than received from other clients, allocation decisions will not be made based on such greater fees or compensation. When an investment opportunity is suitable for two or more clients, allocations will be made in a fair and equitable manner, and will take the following factors, among others, into consideration: the relative size of the client account, available cash for investment, investment objectives and restrictions, liquidity considerations, legal and regulatory restrictions, portfolio risk/return objectives, investment horizons, and client instruction.

### Item 13 - Review of Accounts

FSIHK regularly reviews client accounts. The frequency of that review is determined by the requirements of the client and the nature of the mandate and includes periodic reviews of performance, investment activity and outlook. Normally these reviews would be carried out by the named portfolio managers, other qualified members of the investment team, together with the relationship manager, or in some cases, by the relationship manager directly. The named portfolio manager or senior member of the investment team and the primary relationship manager will normally discuss with the client on at least an annual basis.

Periodic written data, including valuations and transaction information, is usually provided on a regular basis and may be supplied to the client, or at the request of the client the client's designated representative for accounting, taxation or reconciliation purposes.

#### **Item 14 - Client Referral and Other Compensation**

FSIHK does not receive any additional compensation or economic benefits from third parties for providing investment advisory services to its clients and does not enter into agreements with third parties for the referral of new clients.

FSIHK's clients and prospective clients may utilise the services of investment consultants and similar experts to evaluate and recommend investment advisers and their services.

From time to time, FSIHK or its affiliates provide investment advisory services to these consultants or their affiliates, or separately use them for services unrelated to the client's account.

### Item 15 - Custody

FSIHK does not maintain custody of the assets of our clients with separately managed accounts or funds or undertake any form of custody services. Instructions to facilitate portfolio management trading, payment of fees, etc. are instructed through the client's or fund's custodian.

All clients should receive account statements directly from FSIHK, the administrators, trustees, or other qualified custodians subject to clients' instruction. FSIHK strongly urge all clients to compare the reports they receive from FSIHK to the statements they receive from their administrators, trustees or other qualified custodians. Any issues or discrepancies should be communicated to FSIHK promptly for investigation.

#### **Item 16 - Investment Discretion**

FSIHK accepts discretionary authority to manage securities accounts on behalf of clients through the negotiation, agreement and execution of an Investment Management Agreement which sets out the investment objectives of the client and any limits that the client may wish to impose on our discretionary authority.

For instance, clients may restrict the type of securities that may be included in the portfolio, or place limits on borrowing, underwriting or limit investment in particular securities.

Each Investment Management Agreement will contain specific provisions that both parties, and in some cases, multiple parties, will agree to.

FSIHK also accepts client mandates on a sub-advisory basis.



### Item 17 - Voting Client Securities

The concept of stewardship is at the heart of FSIHK's investment approach. FSIHK is in a position to influence the environmental, social and governance performance of companies via discussions with management or the board of directors, and through the exercising of proxy votes.

FSIHK has in place a comprehensive corporate engagement policy that is designed to ensure proxies are voted in the best interest of its clients. Subject to specific client directions, we will exercise every vote in accordance with that policy.

The authority and responsibility for exercising proxy votes will be defined within the investment management agreement executed between FSIHK and each discrete mandate client. However, FSIHK may still receive proxy voting instructions from each discrete mandate client on a case by case basis (provided FSIHK is notified in a timely manner) or alternatively, the discrete mandate client may instruct their custodian directly.

Wherever a discrete mandate client delegates responsibility for exercising proxy votes and if requested by the client, FSIHK will report back to the client how votes were cast on their behalf.

Our policy on proxy voting is available upon request. A client may obtain how FSIHK vote on such clients' securities by writing to Chief Compliance Officer at the address list on the cover page of this document.

### Item 18 - Financial Information

FSIHK does not require prepayment of any advisory fees.

**Presently, FSIHK has no financial commitments or obligations that would interfere with our obligations to our clients. FSIHK has never filed for bankruptcy protection.**