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## **Prime Capital Management Company Limited**

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

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**This Form ADV, Part 2A (the “Brochure”) provides information about the qualifications and business practices of Prime Capital Management Company Limited. If you have any questions about the contents of this Brochure, please contact us at (852) 3602-5100 or [info@primecapital.com.hk](mailto:info@primecapital.com.hk). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Prime Capital Management Company Limited is a SEC-registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.**

**Additional information about Prime Capital Management Company Limited is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**March 31, 2020**

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## **ITEM 2 – MATERIAL CHANGES**

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The last annual update to the Brochure was filed on March 30, 2019. This annual update contains certain changes and updates which we do not believe constitute material changes to the Brochure.

## **TABLE OF CONTENTS**

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<b>ITEM 2 – MATERIAL CHANGES .....</b>	<b>1</b>
<b>ITEM 3 – TABLE OF CONTENTS.....</b>	<b>2</b>
<b>ITEM 4 – ADVISORY BUSINESS .....</b>	<b>3</b>
<b>ITEM 5 – FEES AND COMPENSATION .....</b>	<b>4</b>
<b>ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>5</b>
<b>ITEM 7 – TYPES OF CLIENTS .....</b>	<b>6</b>
<b>ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</b>	<b>6</b>
<b>ITEM 9 – DISCIPLINARY INFORMATION.....</b>	<b>14</b>
<b>ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....</b>	<b>14</b>
<b>ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>15</b>
<b>ITEM 12 – BROKERAGE PRACTICES.....</b>	<b>17</b>
<b>ITEM 13 – REVIEW OF ACCOUNTS .....</b>	<b>20</b>
<b>ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION .....</b>	<b>21</b>
<b>ITEM 15 – CUSTODY .....</b>	<b>21</b>
<b>ITEM 16 – INVESTMENT DISCRETION.....</b>	<b>22</b>
<b>ITEM 17 – VOTING CLIENT SECURITIES .....</b>	<b>22</b>
<b>ITEM 18 – FINANCIAL INFORMATION .....</b>	<b>23</b>

## **ITEM 4 – ADVISORY BUSINESS**

### **Adviser's Advisory Business**

Prime Capital Management Company Limited (“**Adviser**”) is incorporated in Hong Kong as a limited liability company and provides investment advisory services to private investment companies, as well as to qualified institutional investors. Adviser was established in July 2004. Adviser is wholly owned by C-Power Investments Limited, and Yijun Liu is the sole owner and director of C-Power Investments Limited. Mr. Liu is also a founder of Adviser and currently one of the directors of Adviser.

### **Types of Advisory Services Adviser Offers**

Adviser has been engaged by Prime Capital Management (Cayman) Limited, an exempted company with limited liability incorporated in the Cayman Islands (“**PCMCL**”), to provide investment advisory services to certain pooled investment vehicles (the “**Funds**”) in its capacity as investment adviser of the Funds. Adviser also provides investment advisory services to managed accounts set up by institutional investors.

Interests in the Funds are not registered securities under the U.S. Securities and Exchange Commission's Securities Act of 1933, as amended. In addition, the Funds are not registered as an investment companies under the SEC's Investment Company Act of 1940, as amended. Accordingly, interests in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements in private transactions within the United States or in offshore transactions. The Funds are typically set up in a master-feeder structure. Only interests in the feeder Funds are offered to investors. More information about each Fund is available in the Private Placement Memorandum of such Fund.

Adviser provides investment advisory services to the Funds through the management of investment portfolios in accordance with the objectives and guidelines set forth in the Private Placement Memorandum of each Fund, and in accordance with authority delegated to it pursuant to the applicable Fund's investment management agreements and governing documents. Adviser has discretionary authority over investments in the Funds, including the authority to determine which investments are bought and sold and the amounts of such investments that are appropriate for each Fund. Adviser expects that its investment activities will focus on investments in various kinds of assets and securities in various Asian markets and any other markets that may fit within the Funds' objectives and strategies described in their Private Placement Memoranda.

### **Investment Restrictions**

Adviser develops customized investment strategies based on the stated investment objectives, risk tolerance and financial circumstances of each Fund. The investment objectives, risk tolerance and financial circumstances of the Funds are generally described in their respective Private Placement Memoranda. Clients may impose reasonable restrictions on the management of their accounts, including by restricting particular securities or types of investments. But they

should be aware that performance of restricted accounts may differ from performance of accounts without such impediments, possibly producing lower overall results.

### **Wrap Fee Programs**

Adviser does not participate, sponsor or act as a portfolio manager for any wrap fee programs.

### **Assets under Management**

As of December 31, 2019, Adviser had assets under management of US\$3,315,456,619, all of which were managed on a discretionary basis.

## **ITEM 5 – FEES AND COMPENSATION**

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### **Management Fees**

The specific manner in which management fees are charged is described in each Fund's Private Placement Memorandum and set out in written agreement with Fund Manager. Generally, fees for the management of private investment funds, such as the Funds, are based upon a percentage of the total assets under management (including margined assets).

Currently, PCMCL acts as the investment manager ("**Fund Manager**") to and receives management fees directly from the Funds. Such management fees are generally set at 2% per annum of the net asset value of the relevant Fund as at each valuation point (but before deduction of the fees of the applicable fund administrator) and accrued and payable monthly in arrears.

Fund Manager pays the fees of Adviser out of the management fees received by Fund Manager. The fees of Adviser are calculated in accordance with the terms of the agreements entered into between Fund Manager and Adviser.

The management fees charged by Fund Manager for separate account clients may differ from the management fees for the Funds as described above. A separate account client may pay more or less fees than another separate account client, depending on the particular circumstances of the client, such as the size of the client's assets under management and levels of service required.

### **Calculation and Deduction of Management Fees**

Management fees are directly debited from client accounts on a monthly basis in arrears. The calculation of management fees is based on the net asset value as of the last business day of the month. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. No management fee is payable before services are provided.

## **Operating Expenses**

Investors in the Funds will indirectly bear all fees and expenses incurred in the ongoing ordinary business operations of the Funds, including legal, accounting and other professional fees and expenses of various service providers, advisors and consultants (“**Operating Expenses**”).

The Operating Expenses typically include, but not limited to: (i) general operating expenses, such as fees and expenses of administrators, auditors, accountants, legal advisors, prime brokers and custodian, government and fiscal charges, registration and licensing fees, stamp duties and taxes; and (ii) investment-related expenses, such as brokerage commissions and charges, clearing and settlement charges, bank service fees, interest expenses, borrowing charges, foreign exchange costs and other related transaction costs and expenses.

Item 12 further describes the factors considered in selecting or recommending broker-dealers for investment transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

## **Prepaid Fees**

Adviser does not charge clients fees in advance.

## **Compensation for the Sale of Securities**

Neither Adviser nor its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of investment funds.

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

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Performance-based fees are payable as a performance allocation from each Fund. The calculation of the performance fee/allocation is described in each Fund’s Private Placement Memorandum.

For the Funds, the performance allocations are payable to Fund Manager and generally equal to 20% of the appreciation in the net asset value per Fund share of the relevant class during a performance period above the highwater mark (“**Performance Allocation**”). The “**highwater mark**” is the greater of the net asset value per Fund share of the relevant class at the time of issue of share and the highest net asset value per Fund share of the relevant class out of which a Performance Allocation has been allocated at the end of any previous performance period (if any) during which such Fund share was in issue. The Performance Allocation in respect of each performance period will be calculated by reference to the net asset value per Fund share of the relevant class prior to taking into account any Performance Allocation attributable to that period. The Performance Allocation is not subject to a hurdle.

The Performance Allocation is calculated on a share-by-share basis so that each share is charged a portion of the Performance Allocation which reflects, so far as reasonably practicable, that share's performance.

The Performance Allocation is normally allocated annually at the end of a financial year. However, in the case of shares redeemed during a performance period, a Performance Allocation in respect of those shares will be calculated as of the date of redemption.

The managed accounts are also charged a performance-based fee. Currently, all managed accounts are charged consistently, therefore the performance-based fee arrangements do not create any incentive for us to favor certain account over other accounts. However, if in the future we manage accounts that are not charged consistently, performance-based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. In such cases, we would have procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **ITEM 7 – TYPES OF CLIENTS**

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We provide investment advice directly to the Funds (which are our clients) but not individually to underlying investors in the Funds which are primarily large institutional investors. Occasionally, we provide investment advice to institutional clients on a managed account basis.

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

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### **General Investment Strategies and Methods of Analysis**

We seek to achieve the investment objective of our clients, such as the Funds, through (i) core holdings strategy through both long and short exposures and (ii) tactical trading on major market volatilities.

We believe that China is becoming one of the major leading economies in the world. The economic and productivity growth rates have been and are expected to continue to be higher than most of its peer countries.

We have identified three major growth drivers for China's investment opportunities: (i) growth from macro-economic management, industry/company reform and ownership restructuring; (ii) productivity gains of its manufacturing activities are changing cost structure on global scale; and (iii) rise of consumer income and spending creates new markets.

We also recognize the fact that cyclical and volatility is intrinsic to China's equity market. As a result, periodic distresses create opportunity for good investment, and booms create opportunity for highly valued exit.

We believe that investment in China needs to be: (i) focused on macro-economic/industry/corporate fundamentals and the impact on stock picking; (ii) flexible and opportunistic in trading major market volatilities; and (iii) focused on realized absolute returns. While the fundamentals set the medium/long term trend and short term global portfolio flow and sentiment swings create major market volatilities, China related investment opportunities favor the well informed with the edge in local knowledge and expertise with global perspective.

Through a combination of core holdings strategy based on proprietary, in-depth fundamental research and tactical trading strategy on major market volatilities, we intend to stay focused on the medium/long term trend of investment in China while remain flexible to take advantage of opportunities from major market swings.

Generally, the Funds may invest in all class of assets in equity securities, including common stocks, preferred stocks, futures, options, forward contracts, currencies, convertible securities, warrants, debt securities, swaps, depository receipts, repurchase agreements, other equity-related interests and instruments, stock purchase rights, shares of investment companies and derivative instruments. The Funds may use a wide range of investment techniques, including leverage, short sales and options for investment or hedging purposes. The Funds may use options and forward contracts on indices, currencies, financial instruments and other securities, as well as other financial instruments, in each case either to hedge existing long and short positions or for non-hedging purposes to generate absolute return.

The Funds may invest in A-shares listed in Shenzhen and Shanghai in form of swaps, equity linked notes and or other similar instruments through institutions which have obtained Qualified Foreign Institutional Investor ("QFII") or Renminbi Qualified Foreign Institutional Investor ("RQFII") status in the People's Republic of China. Under the prevailing rules and regulations in China, only certain qualifying foreign institutions that have been approved as QFIIs or RQFIIs may directly invest in A-shares through quotas which have been granted by the relevant Chinese authorities. The Funds will not satisfy the criteria to qualify as a QFII or RQFII itself but may invest via quotas which are granted to third parties.

The Funds may invest and have direct access to selective A-shares stocks listed on the stock exchanges in Mainland China through the Shanghai Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, which are securities trading and clearing programs developed by the stock exchanges and clearing companies in Mainland China and Hong Kong.

The Funds may invest in derivatives including, but not limited to, swaps, options, swaptions, warrants, rights, futures contracts (and options thereon) and forward contracts. Derivatives in which the Funds invests may relate to, but are not limited to, interest rates, currencies, commodities, individual equities, stock indices, securities of governments or their instrumentalities or other financial instruments.



The Funds may hold debt securities for cash management and defensive purposes. Assets of the Funds not invested in securities or deposited as margin or paid as premiums generally will be invested in money-market instruments, including, without limitation, treasury notes and bills, certificates of deposits, commercial paper, broker balances, bankers' acceptances or mutual funds investing in such money-market instruments.

The Funds may engage in "short sales," that is, the practice of selling securities which are borrowed from a third party. The Funds will be required to return, at the lender's demand, securities equivalent to those borrowed for the short sale. Pending the return of such securities, the Funds will be required to deposit with the lender as collateral the proceeds of the short sale plus additional cash or securities; the amount of the required deposit will be adjusted periodically to reflect any change in the market price of the security which the Funds are required to return to the lender.

The Funds may invest in shares of pre-IPO companies and other illiquid investments/unlisted shares. Each Fund is required to limit such investments to certain percentage of its assets as specified in such Fund's Private Placement Memorandum. The Funds may invest in securities that are subject to legal restrictions on resale and, therefore, may be illiquid, difficult to value and subject to wide fluctuations in value. Accordingly, the Funds will make such investments only when potential returns are considered to be sufficiently high in order to justify for such limited liquidity of the investments.

The Funds may use options, forward contracts, and swaps and, subject to applicable regulatory restrictions, futures and other derivatives in connection with its investments either for hedging purposes or to seek to increase return. Subject to compliance with applicable laws, the Funds may also invest in other registered and unregistered investment companies. The Funds may also engage in a wide range of transactions designed to enhance the Funds' return, such as securities lending and repurchase agreements. The Funds may also employ certain currency management techniques to seek to hedge against currency exchange rate fluctuations or to seek to increase total return. When used to seek to enhance return, these management techniques are considered speculative.

As discussed below, investing in securities and other investment products involves various risks that clients should be prepared to bear.

### **Material Risks for Significant Investment Strategies**

While we intend to implement strategies which are designed to minimize potential losses, there can be no assurance that such strategies will be successful. It is possible that a client may lose a substantial proportion or all of its assets in connection with investment decisions made by us. The following is a discussion of certain material risks for our significant investment strategies, but it does not purport to be an exhaustive list or a comprehensive description of the risks relating to the management and operation of the Funds and managed accounts pursuant to our investment strategies. Investors in the Funds and managed accounts should read the risk factors and related information set forth in the applicable private placement memorandum and related governing documents.

### *Leverage*

We may leverage a client's portfolio by borrowing and engage in investment strategies that constitute leverage should we consider this necessary or desirable. Such strategies include the borrowing and short selling of securities and the acquisition and disposal of certain types of derivative securities and instruments, such as swaps, futures and options. While leveraging creates an opportunity for greater total returns it also exposes a client to a greater risk of loss arising from adverse price changes. For a further explanation of the risks involved in entering into certain leveraged transactions see the paragraph below headed "Derivatives".

### *Portfolio Investments Are Volatile*

The value of the securities in the Funds has been subject to periods of excessive volatility and such periods can be expected to recur or continue. Price movements are influenced by many unpredictable extraneous factors such as market sentiment, inflation rates, interest rate movements and general economic and political conditions. While volatility can create profit opportunities for the clients, it can also create the risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur significant losses. On the other hand, a lack of volatility can also result in losses for certain of the client's positions that profit from price movements.

### *Limited Diversification*

A client's portfolio holdings may be concentrated in the securities of a small number of issuers or industries. While we seek to diversify the assets in a client's portfolio, such diversification may not be achieved as a result of insufficient investment opportunities. The client may have a relatively large portion of its capital invested in particular types of securities or other instruments, or it may be highly exposed to a particular industry or market sector. Losses in one or more large positions, or a downturn in an industry or market sector in which the client is concentrated, could materially adversely affect the client's performance in a particular period and have a materially adverse effect on the client's overall financial condition. In addition, if the price of an investment should change adversely and the Fund Manager is unable for any reason to liquidate the position quickly or at a relatively advantageous price, the effect on the client's portfolio will be greater if the client has concentrated its assets in such a position. Such effects could have the result of decreasing the client's returns. Further, significant losses or redemptions may leave the client with insufficient funds to diversify its investments.

### *Hedging Transactions May Increase Risks of Capital Losses*

We may utilize a variety of financial instruments, such as options, for risk management purposes. We may not anticipate a particular risk so as to hedge against it. While we may enter into hedging transactions to seek to reduce risk, such transactions may amplify loss and result in a worse overall performance for the client. Hedging against a decline in the client's portfolio does not eliminate fluctuations in the value of the client's positions or prevent losses if the value of such positions declines, but establishes other positions designed to gain from those same developments. The effect of engaging in hedging is intended to moderate the potential decline in

the value of an investment. Such hedging transactions also limit the opportunity for gain in the event that the value of the investment increases.

In addition, the portfolio is always exposed to certain risks that cannot be hedged, such as credit risk, relating both to particular securities and counter-parties.

### *Currency Risk*

Our investment strategy may cause a client to be exposed to fluctuations in currency exchange rates when securities held are denominated in currencies other than U.S. dollars. Changes in the exchange rate may result over time from the interaction of many factors directly or indirectly affecting economic and political conditions in the countries in which the client invests. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may seek to offset the risks associated with such exposure through foreign exchange transactions. However, the markets in which foreign exchange transactions are effected are highly volatile, highly specialized and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currency.

### *Derivatives*

Our investment strategy may cause a client to be exposed to derivatives including instruments and contracts the value of which is linked to one or more underlying securities, financial benchmarks or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark, index, currency or interest rate at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives trading. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can result not only in the loss of the entire investment, but may also expose a client to the possibility of a loss exceeding the original amount invested. Use of derivatives also includes the risk of counter-party non-performance as well as of material and prolonged deviations between the actual and theoretical value of a derivative due to, for example, nonconformance to anticipated or historical correlation patterns. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly for us to close out positions in order to either realize gains or limit losses.

The use of derivatives and other techniques (such as short sales) for hedging purposes involves certain additional risks including: (a) dependence on the ability to predict movements in the price of the asset being hedged, (b) imperfect correlation between movements in the asset on which the derivative is based and movements in the asset being hedged, and (c) possible impediments to

effective portfolio management or the ability to meet short-term obligations because of the percentage of the client's assets segregated to secure its obligations under derivative contracts. In addition, by hedging a particular position, the client may limit any potential gain from an increase in the value of such position.

### *Repurchase Agreements*

We may enter into repurchase agreements with respect to securities issued by governments and institutions. The use of repurchase agreements involves certain risks. For example, if the seller under a repurchase agreement becomes insolvent and subject to liquidation or reorganizations under applicable bankruptcy or other laws, the client's ability to dispose of the underlying securities may be restricted or result in a sale at less than the repurchase price agreed to by the defaulting seller. It is also possible that in a bankruptcy or liquidation scenario that the client may not be able to substantiate its interest in the underlying securities. The amount of credit risk incurred by a client with respect to a particular repurchase agreement will depend in part on the extent to which the obligation of the client counter-party is secured by sufficient collateral.

### *Stock Borrowing*

When we borrow securities for the account of our clients, such securities may be recalled by the lender at short notice. If the securities are recalled, we may be required to unwind a strategy early, which may result in losses.

### *Short Selling*

We regularly sell securities of an issuer short. If the price of the issuer's securities declines, we may then cover the short position with securities purchased in the market. The profit realized on a short sale will be the difference between the price received in the sale and the cost of the securities purchased to cover the sale. The possible losses from selling short securities are theoretically unlimited as the possible increase in the market price of the particular security short sold is unlimited. There can be no assurance that securities necessary to cover a short position will be available for purchase. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to increase further, thereby increasing the loss incurred by the client. Further, the client may be forced to prematurely close out a short position if a counter-party from which the client borrowed securities demands their return, resulting in a loss on what might otherwise have been ultimately a profitable position. Short selling activities are also subject to restrictions imposed by the various national and regional securities exchanges, thus limiting our investment activities.

### *Risk of Short Squeeze*

To the extent we engage in short selling, there is a risk that the client could be caught in a "short squeeze". Short squeeze is a phenomenon that is sometimes observed when a security has been heavily sold short. Recognizing the situation, speculators start acquiring the security, driving up its price. As the price rises, short sellers have to post additional collateral for their borrowed securities. This puts pressure on those who have sold the security short, some of which will not have sufficient collateral to post, while others will simply decide not to hold a position that is

losing money. In either event, those who have sold the security short close out their positions – buying the securities in the market and returning them to the parties who lent them. By purchasing the securities, those who are quitting their short positions drive the price higher, putting more pressure on the remaining short sellers. To the extent we have sold short a security that is being recalled, there is a risk that we may be caught in a “short squeeze” of the type described above, making it impossible to unwind the position without incurring significant losses.

### *Commodities Futures Contracts*

We may invest in commodities futures contracts. Trading in commodity interests involve substantial risks. Commodity markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programmes and policies, national and international political and economic events and changes in interest rates. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. As a result, a relatively small price movement in a commodity futures contract may give rise to substantial losses. Commodity futures trading may also be illiquid. There is no assurance that a liquid secondary market will exist for commodity futures contracts or options purchased or sold, and the client may be required to maintain a position until exercise or expiration, which could result in losses. Many commodity exchanges limit the amount of fluctuation permitted in contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Contract prices could move the daily limit for several consecutive trading days permitting little or no trading, thereby preventing prompt liquidation of commodity interest positions and potentially subjecting the client to substantial losses. Investing in commodity and forward or futures contracts is a highly specialized investment activity entailing greater than ordinary investment risk.

### *Swap Agreements.*

Swap agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments or market factors. We may enter into swap agreements with respect to exposures including, but not limited to, interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease the client’s exposure to equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the client. If a swap agreement calls for payments, the client must be prepared to make such payments when due. In addition, if a counter-party’s creditworthiness declines, the value of swap agreements with such counter-party can be expected to decline, potentially resulting in losses to the client.

### *Liquidity of Investment Portfolio*

The market for some securities in which we may invest may be relatively illiquid. Liquidity impacts our ability to sell an investment in a timely manner. The market for relatively illiquid securities tends to be more volatile than the market for more liquid securities. Investment of a client's assets in relatively illiquid securities and loans may restrict our ability, on behalf of the client, to dispose of investments at a price and time that we wish to do so. This may affect the ability of the client to meet redemption requests. Shareholders may be prevented from redeeming some or all of their investment in the client for an indefinite period. The risk of illiquidity also arises in the case of over-the-counter transactions. There is no regulated market in such contracts and the bid and offer prices will be established solely by dealers in these contracts. Some securities in which we invest in may be considered liquid at the time of investment but may become illiquid subsequently due to adverse market conditions.

### *Economic, Political and other Risks in China*

The overall economic conditions in China may have a significant impact on the financial performance of client investments. Economic developments in China follow patterns different from those in developed countries as a result of differences in various economic aspects including economic structure, living standard, and growth rate, level of government intervention in the economy, allocation of resources, rate of inflation, level and control of capital reinvestment and the control of foreign exchange.

China has been transitioning from centrally-planned economy to more market-oriented economy and has implemented significant reforms. Changes in the economic, political and social conditions, laws, regulations and policies may have an adverse effect on client investments. Certain economies in the Greater China region also tend to be inefficient and less liquid than many other markets, and are subject to political and other factors which do not typically affect more developed economies. Clients may sustain major losses as a result of market inefficiencies or interference in these markets which may not commonly take place in more developed markets. Further, the interpretation or application of current laws or regulations in China may have adverse effects on client investments.

### *Emerging Markets Risk*

Investors should note that investing in China as an emerging market economy carries a greater degree of risk and the attention of investors is drawn to the specific risk factors set out below. The value of the assets in a client's portfolio invested in China as an emerging market may be affected by uncertainties such as political developments, changes in government policies, taxation, currency repatriation restrictions and restrictions on foreign investment. It may not be possible for us to repatriate capital, dividends, interest and income from China or it may require government consents to do so. Clients could be adversely affected by the introduction of, or delays in, or refusal to grant any such consent for the repatriation of funds or by any official intervention affecting the process of settlement of transactions.

### *Settlement Risks*

Our investment strategy can expose clients to credit risks on parties with whom we trade, including the risk of settlement default. Market practices in the emerging markets in relation to the settlement of securities transactions and custody of assets will provide increased risk. Although the emerging markets have grown rapidly over the last few years, the clearing, settlement and registration systems available to affect trades on such markets are significantly less developed than those in more mature world markets which can result in delays and other material difficulties in settling trades and in registering transfers of securities. Problems of settlement in these markets may affect the net asset value and liquidity of a client's portfolio.

### **Material Risks for Particular Types of Securities**

We do not primarily recommend a particular type of securities. The material risks involved in our general investment strategies are described above.

### **ITEM 9 – DISCIPLINARY INFORMATION**

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There are no legal or disciplinary events that are material to a client's or a prospective client's evaluation of Adviser or the integrity of its management.

### **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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#### **Broker-Dealer Registration**

Adviser and Adviser's management persons are not registered with the Securities and Exchange Commission ("SEC") as a broker-dealer or registered representatives, respectively.

#### **Commodity Pool Operator, Commodity Trading Adviser, Futures Commission Merchant Registration**

Adviser is not registered with the Commodity Futures Trading Commission ("CFTC") as a futures commission merchant ("FCM"), a commodity pool operator ("CPO") or a commodity trading advisor ("CTA"). Adviser has made exemption filings with the CFTC pursuant to CFTC Rules 4.13(a) (3) and 4.14(a) (8) (iii).

#### **Other Material Relationships**

Adviser does not have any relationships or arrangements that are material to Adviser's advisory business or to its clients that Adviser or any of its management persons have with any of the following related persons: (i) a broker-dealer, municipal securities dealer, or government securities dealer or broker; (ii) an investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund); (iii) any other investment adviser or financial planner; (iv) a futures commission merchant, commodity pool operator, or commodity trading advisor; (v) a banking or thrift institution; (vi) an accountant or accounting firm; (vii) a

lawyer or law firm; (viii) an insurance company or agency; (ix) a pension consultant; (x) a real estate broker or dealer; and (xi) sponsor or syndicator of limited partnerships.

### **Other Financial Industry Activities or Affiliations**

Adviser generally does not recommend or select other investment advisers for its clients. In addition, Adviser does not receive compensation directly or indirectly from other investment advisers that creates a material conflict of interest and does not have other business relationships with other investment advisers that creates a material conflict of interest.

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

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### **Code of Ethics and Personal Trading Policies**

Adviser has adopted a Code of Ethics (the “**Code**”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 that permits investment personnel to invest in securities, including securities that may be purchased or held by Adviser’s clients, for their own accounts. The Code governs the investment in securities by personnel designated as access persons of Adviser. The purpose of the Code is to ensure that personal transactions do not conflict with client transactions and that in any situation where the potential for conflict exists, client interests take precedence. The Code sets forth the standards of business and personal conduct for all employees, including but not limited to the following.

Pursuant to the Code, access persons may not purchase or sell any covered security in which he or she has, or by reason of such transaction acquires, any direct or indirect beneficial ownership and which to his or her actual knowledge at the time of such purchase or sale: (i) is being considered for purchase or sale by a client; or (ii) is being purchased or sold by a client.

Pursuant to the Code, access persons may not reveal to any other person (except in the normal course of his or her duties on behalf of clients) any information regarding securities transactions by clients or consideration by Adviser of any such securities transaction.

Pursuant to the Code, access persons may not recommend any securities transaction for clients without prior disclosure or report of his or her interest, if any, in such securities or the issuer thereof, including without limitation (i) his or her direct or indirect beneficial ownership of any securities of such issuer; (ii) any contemplated transaction by such person in such securities; (iii) any position with such issuer or its affiliates; and (iv) any present or proposed business relationship between such issuer or its affiliates, on the one hand, and such person or any party in which such person has a significant interest, on the other.

Pursuant to the Code, all investment personnel must obtain approval before directly or indirectly acquiring beneficial ownership in any securities in an initial public offering or a limited offering.

Pursuant to the Code, each access person must certify annually that he or she has read and understands the Code and recognizes that he or she is subject to the Code. In addition, each



access person must certify annually that he or she has complied with the requirements of the Code and that he or she disclosed or reported all personal securities transactions required to be disclosed or reported pursuant to the requirements of the Code.

A copy of Adviser's Code is available to clients and prospective clients upon request.

### **Participation or Interest in Client Transactions and Associated Conflicts of Interest**

Neither Adviser nor any person related to Adviser recommends to clients, or buys or sells for client accounts, securities in which Adviser or a related person has a material financial interest, without prior disclosure or report of such interest. Currently, Adviser does not have any affiliated company alongside its business that is competitive with Adviser. Adviser and its affiliates may engage in business activities to the extent not prohibited by application laws or regulations, the Code or agreements with its clients, either independently or with third parties. Conflicts of interest may arise as a result of such activities or otherwise in connection with the management and operation of the Funds.

Adviser has adopted a cross trade policy to govern how it processes a coordinated purchase of a security on behalf of one client account and a sale of the same security on behalf of another client account at the same time. A cross trade will only be undertaken when (i) it is determined that it is in the best interest of the participating client accounts, (ii) it is executed on arm's length terms at market value and (iii) the reasons for such trades are documented. Neither Adviser nor any affiliated company receives a commission on any cross trade.

Adviser regularly reviews its business activities to identify any potential conflict of interest and develops internal policies and procedures to prevent and/or mitigate any such conflict.

### **Investments in Securities by Adviser and its Personnel**

All of Adviser's personnel are subject to Adviser's policies and procedures regarding confidential or proprietary information, the information barriers and personal trading. In addition, Adviser has additional policies and procedures relating to certain personal securities transactions by Adviser's personnel that may involve potential conflicts including conflicts involving Adviser's personnel and client accounts managed by Adviser. Adviser and/or its personnel may invest in the Funds. Adviser does not manage portfolios for its own accounts and investment by its personnel in the Funds are subject to applicable policies and procedures as well as the same liquidity terms as the investors in the Funds to avoid potential conflicts. In addition, when Adviser provides direct investment management services to managed account clients on a discretionary basis, such accounts will generally be managed *pari passu* with the Funds, which therefore would avoid any conflicts of interest which may otherwise arise by Adviser and/or its personnel investing in the Funds.

### **Trading Alongside by Adviser and its Personnel**

Although personal trading is not categorically forbidden, all employees are prohibited from engaging in short-term trading and must receive pre-clearance for all personal securities

transactions in accordance with the Code. To minimize the risk of potential conflict of interest, the Code sets out perimeters of employee conduct with respect to personal trading. In addition, when Adviser provides direct investment management services to managed account clients on a discretionary basis, such accounts are generally managed *pari passu* with the Funds. Under this structure, Adviser would not recommend securities to its clients, or buy or sell securities for its clients' accounts, at the same time that it or its personnel would buy the same securities for its own accounts. Adviser believes that the *pari passu* management policy would avoid any conflicts of interest because Adviser would be managing all accounts in a consistent manner.

## **ITEM 12 – BROKERAGE PRACTICES**

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### **Broker-Dealer Selection**

Adviser has full discretion to select brokers or dealers as well as the commission rates at which the transactions for clients are effected. Adviser will also comply with its internal compliance rules and guidelines and its fiduciary duty when selecting brokers or dealers. It is Adviser's policy to seek best execution at the best price available with respect to each transaction, in light of the overall quality of brokerage and research services provided to it or its clients. The best price means the best net price without regard to the mix between purchase or sale price and commissions. In selecting broker-dealers, and in negotiating commissions, Adviser considers a variety of factors, including best price and execution, their reputation in industry, level of satisfaction with trade execution, client service, financing, operation supporting, and the quality of the research and research services provided by the brokers.

In determining the abilities of a broker or dealer to obtain best execution for portfolio transactions, Adviser will consider relevant factors, including the execution capabilities required by the transactions; the ability and willingness of the broker or dealer to facilitate the portfolio transactions by participating therein for its own account; the importance to the account of speed, efficiency and confidentiality; the broker or dealer's apparent familiarity with sources from or to whom particular securities might be purchased or sold; the reputation and perceived soundness of the broker or dealer; as well as other matters relevant to the selection of a broker or dealer for portfolio transactions for any account. Adviser will not adhere to any rigid formula in making the selection of the applicable broker or dealer for portfolio transactions, but will weigh a combination of the preceding factors.

Adviser has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular portfolio transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of the Funds. Although Adviser will generally seek competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker or dealer involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

## Research and Other Soft Dollar Benefits

Consistent with obtaining best execution, brokerage commissions on client portfolio transactions may be directed to brokers in recognition of research services furnished by them, as well as for services rendered in the execution of orders by such brokers. Adviser will comply with its internal compliance rules and guidelines for research, products or services provided by external brokers through soft dollar arrangements.

Particularly, Adviser may reserve the right to receive goods and services (*i.e.*, soft dollars) from a broker or dealer in consideration of directing transaction business on behalf of its clients to the broker or dealer only if:

- the goods and services are of demonstrable benefit to Adviser's clients;
- transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary full-service brokerage rates;
- the clients have consented in writing to the receipt of the goods and services through soft dollar or similar arrangements; and
- disclosure to the clients is made of Adviser's practices for receiving the goods and services through soft dollar or similar arrangements.

The goods, services or other benefits Adviser might receive may include: research and advisory services, economic and political analysis, portfolio analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment related publications, and the other goods and services whose nature is such that their provision can reasonably be expected to benefit Adviser as a whole and may contribute to an improvement in the performance of the investments on behalf of the clients.

As a general matter, such research services are used to service all of Adviser's clients. However, each and every research service may not be used to service each and every client managed by Adviser, and brokerage commissions paid by one account may apply towards payment for research services that may not be used in the service of that account.

There is no agreement or formula for the allocation of brokerage business on the basis of research services, except that certain brokers that provide specified statistical and performance measurement services state in advance the amount of brokerage commissions they require for such services. Adviser may, in its discretion, cause the client to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where Adviser has determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, Adviser would not be required to place or attempt to place a specific dollar value on the brokerage or research services provided by such broker.

When Adviser uses its client's brokerage commissions (or markups or markdowns) to obtain research or other products or services, Adviser receives a benefit because it does not have to produce or pay for such research, products or services. Adviser may have an incentive to select or recommend a broker-dealer based in its interest in receiving the research or other products or services, rather than on its clients' interest in receiving the most favorable execution. In

addition, Adviser may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up).

Adviser generally does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. Nonetheless, when allocating trades to clients, Adviser must ensure that over time each client is treated fairly and equitably in the execution of transactions. Therefore, trading personnel must ensure that, over time:

- Clients are treated fairly as to the securities purchased or sold for their accounts;
- Clients are treated fairly with respect to the priority of execution of orders;
- Clients are treated fairly in the allocation of trades;
- Allocation of trades is done on a timely basis; and
- All accounts participating in an aggregated order receive average price and share transaction costs pro-rata.

Within the last fiscal year, Adviser acquired both brokerage services, including trade execution, and research services with soft dollar benefits.

### **Brokerage for Client Referrals**

Adviser generally does not consider, in selecting or recommending broker-dealers, whether Adviser or a related person receives client referrals from a broker-dealer or third party.

### **Directed Brokerage**

Adviser generally has the discretionary authority to determine and direct execution of portfolio transactions within the client's specified investment objectives without prior consultation with the client on a transaction-by-transaction basis.

When Adviser provides direct investment management services for accredited investors and qualified clients on a discretionary basis, certain clients may limit Adviser's discretionary authority in terms of the selection of broker-dealers or other terms of brokerage arrangements and may direct Adviser to place transactions for their accounts with a particular broker-dealer, to, among other things, defray consulting fees or other fees. Where a client directs the use of a particular broker-dealer, Adviser may be unable to achieve most favorable execution of client transactions and the client may pay more in execution fees than if Adviser was permitted to choose the executing broker. In such cases, Adviser may not have as much discretion in determining the terms of how an order will be handled with such broker-dealer and may not be able to freely negotiate commission rates. In addition, Adviser may not be able to aggregate the client's orders with other client orders to reduce transaction costs. As a result, designating use of a particular broker-dealer may cause a client to pay higher commissions or receive less favorable net prices than would be the case if Adviser were authorized to choose the broker-dealer through which to execute the transaction for the client's account. Lastly, in an effort to achieve orderly execution of transactions, execution of orders for clients that have designated particular brokers may, in certain circumstances, be delayed until after Adviser completes the execution of non-designated orders.

## **Aggregation of Trades**

Adviser has the fiduciary duty to execute orders for its clients fairly and equitably. Specifically, Adviser must ensure that:

- where orders are placed on behalf of more than one fund or client, all orders are allocated fairly;
- it documents the intended allocation before executing a transaction; and
- executed transactions are allocated promptly and according to the documentation.

A formal pre-agreed allocation policy will override the requirement to fully document the intended allocation before executing a transaction provided that the policy is followed.

Should there be deviations from the intended allocation procedures, the revised allocation should not disadvantage the client and reasons for the reallocation are clearly documented. As always, the allocation made on a *pro rata* basis in accordance with the size of each portfolio making the investment.

In addition, Adviser follows written procedures pursuant to which it may, for clients who permit it, and to the extent consistent with best execution, combine purchase or sale orders for the same security for multiple clients (sometimes called “bunching”) so that they can be executed at the same time.

Where it has been decided to purchase a security for more than one portfolio, the order will be aggregated for transmission to the broker and then must be allocated between each individual client on a *pro rata* basis in accordance with the size of each portfolio to keep the best interests of each portfolio.

No part of an allocated transaction will be allocated to Adviser or its directors or employees or any affiliate of the foregoing. Where orders are received from different portfolio managers to deal in the same stock, allocations will be made on a *pro rata* basis.

Orders in the same stocks received within one hour of each other at the same price will be aggregated for an average price. Otherwise, the orders will be placed separately and the prices will not be averaged.

If a portfolio manager or trader discovers an error in the intended or actual allocation, he must ask the dealing desk to amend the allocation.

Preferential allocations of an IPO to any fund are strictly prohibited.

## **ITEM 13 – REVIEW OF ACCOUNTS**

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### **Review of Accounts**

Adviser reviews each Fund’s investment portfolio through real-time monitoring. These reviews are designed to monitor and analyze the transactions, positions, and investment levels.

Particular attention is given to changes in company fundamentals, industry outlook, market outlook, and price levels, as well as compliance with operational and regulatory requirements.

Adviser periodically reviews the Funds as appropriate based on, among other things, changes in market conditions or security positions or changes in a client's investment objective or policies, or in response to a request by a client for a meeting or the occurrence of such meeting.

### **Investment Reports**

Adviser sends to investors of each Fund, through email, a weekly estimated NAV and a monthly newsletter generally containing performance data, market reviews, portfolio analysis, investment comments as well as the monthly official NAV for each Fund. Such official monthly NAV is also available on the website of such Fund's administrator. Managed account clients should expect to receive similar reports.

Fund investors also receive an annual report containing audited financial statements for such Fund following the end of such Fund's fiscal year.

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

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### **Other Compensation**

No person who is not a client of Adviser provides an economic benefit to Adviser for providing investment advisory or other advisory services to Adviser's clients.

### **Compensation for Client Referrals**

Neither Adviser nor any related person directly or indirectly compensates any person who is not a supervised person of Adviser for client referrals.

## **ITEM 15 – CUSTODY**

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Investor assets in each Fund are held either by the Fund's prime brokers or administrator. For managed accounts, the assets are also restricted to custody by their prime brokers or administrator. Adviser does not hold client assets.

We note that, under the "regulation lite" regime, a non-U.S. adviser (a "**foreign adviser**") is permitted to treat the non-U.S. funds that it manages as its clients for all purposes of the Investment Advisers Act of 1940, as amended (the "**Advisers Act**") other than for certain registration and reporting sections. The investors in the non-U.S. funds are not treated as the foreign adviser's clients for these purposes. Thus, U.S. investors in non-U.S. funds that are managed by a foreign adviser are not considered U.S. clients of the non-U.S. adviser. Accordingly, most of the substantive provisions of the Advisers Act, including the rules relating to custody, would not apply to Adviser with respect to the Funds (which are non-U.S. funds). Adviser and the custodians will, however, be subject to the laws and regulations in their countries of residence.

The Funds are subject to annual audit and their audited financial statements are prepared and delivered to Fund investors.

If Adviser provides direct investment management services to U.S. qualified clients on a discretionary basis, such clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains the client's investment assets. Adviser urges U.S. clients to carefully review such statements and compare such official custodial records to the account statements that Adviser may provide to them. Adviser's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **ITEM 16 – INVESTMENT DISCRETION**

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With respect to the Funds, Adviser has full power to exercise its investment discretion subject to the investment restrictions and guidelines listed in the Private Placing Memoranda of the Funds. With respect to management accounts, Adviser typically receives discretionary authority from clients at the outset of an advisory relationship to determine the securities and the amount to be bought or sold on behalf of the clients, pursuant to applicable investment advisory agreements entered into among the parties.

Adviser exercises its investment discretion in a manner consistent with the stated investment objectives of the clients and in compliance with the investment policies, limitations and restrictions applicable to the clients and Adviser's internal compliance rules and guidelines.

## **ITEM 17 – VOTING CLIENT SECURITIES**

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### **Proxy Voting Policies**

On behalf of the Funds, Adviser may invest in securities issued by both public and private issuers. In relation to these investments, while Adviser has authority to vote proxies on behalf of the Funds, Adviser generally votes directly in extraordinary general meetings or through the prime brokers.

In voting on behalf of its clients (including the Funds), Adviser shall take into account the best interests of its clients, as well as any potential conflicts of interest among its clients and Adviser or its affiliates. Adviser is responsible for identifying any potential conflicts of interest that may arise in the voting process. Adviser will refer any conflicts of interest to the designated principals or directors for resolution.

We note that proxy voting rules under the Advisers Act would generally apply only to Adviser's U.S. clients, which for purposes of this Item 17 do not include non-U.S. Funds.

If and when Adviser provides direct investment advisory services for U.S. qualified clients on a discretionary basis and votes proxies on behalf of such clients, Adviser will follow the procedures and policies discussed above. In addition, with respect to such U.S. clients, Adviser

will retain (i) proxy statements provided by the prime broker/custodian regarding client securities; (ii) records of votes cast on behalf of clients; (iii) records of clients requests for proxy voting information; and (iv) any specific documents Adviser prepared that were material to making a decision how to vote, or that memorialized the basis for the decision. At such time when Adviser provides direct investment advisory services to U.S. clients and votes proxies on behalf of such clients, Adviser will document in writing such voting policies and procedures and information on how specific proxies were voted, and such information would be provided to Adviser's U.S. clients and prospective U.S. clients upon request.

#### **ITEM 18 – FINANCIAL INFORMATION**

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Adviser does not require prepayment of any fees, has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. Accordingly, no financial statements are required to be provided by Adviser to its clients and prospective clients.