

**Item 1 – Cover Page**

**Value Partners Hong Kong Limited  
Value Partners Limited  
(collectively “Value Partners”)**

**Investment Adviser Brochure**

**Form ADV Part 2A**

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This brochure provides information about the qualifications and business practices of Value Partners Hong Kong Limited, and its subsidiary Value Partners Limited, collectively called “Value Partners” (“VP”) and are registered investment advisers. The fact that VP are registered investment advisers does not imply that VP or any of its employees have achieved a certain level of skill or training. If you have any questions about the contents of this brochure, please contact our Compliance Officer at (852) 2880 9263 or by e-mail at [compliance@vp.com.hk](mailto:compliance@vp.com.hk). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Value Partners is also available on the SEC’s website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).

## **Item 2 - Material Changes**

This brochure replaces the prior version and the material update and changes are as follows:

- Update of assets under management as of December 31, 2020; [Item 4]
- Addition of the integration of Environmental, Social and Governance (“ESG”) analysis in our investment process [Item 8]; and
- Update on the contents of Code of Ethics [Item 11].

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## **Item 4 - Advisory Business**

### The Firm

Value Partners Limited (“VPL”) was founded in 1993 by Dato’ Seri CHEAH Cheng Hye and Mr. V-Nee YEH and is wholly-owned by Value Partners Hong Kong Limited (“VPHK”), the immediate holding company, while Value Partners Group Limited (“VP Group”) is the ultimate holding company. Previously, VPL was wholly-owned by VP Group, who also wholly-owned VPHK. In December 2011, VP Group transferred all its interests in VPL to VPHK, which resulted in VPL being wholly-owned by VPHK. VPHK continues to be wholly-owned by VP Group.

VP Group is an investment management group listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 806) and is the holding company of several operating investment management and advisory businesses. VP Group is headquartered in Hong Kong, with offices in Beijing, Shanghai, Shenzhen, Kuala Lumpur, Singapore and London. Both VPL and VPHK share the same personnel, policies and procedures.

### Assets under Management

As of December 31, 2020, client regulatory assets under VP management totaled approximately US\$13.1 billion. Of this amount, US\$2.4 billion is under VPL management and US\$10.7 billion is under VPHK management. The breakdown of discretionary and non-discretionary assets is as follows:

(in US\$)	VPL	VPHK
Discretionary assets	2.4 billion	10.3 billion
Non-discretionary assets	-	0.4 billion

As some of our funds would invest into our own funds (which may be managed by VPL or VPHK), market value of cross holdings amounted to approximately US\$0.5 billion and this adjusted Group regulatory assets under VP management totaled approximately US\$12.6 billion.

### Investment Philosophy

VP generally employs an investment philosophy of buying securities that appear underpriced based upon an analysis of the financial statements, management, current health and competitive advantages of the issuer of the securities when compared to its competitors and markets. This approach is commonly referred to as “value investing”.

VP employs a bottom-up approach to stock selection, one that is based on our value investing discipline and focuses on intensive fundamental research. This type of research involves analysis of companies based on their own merit without regard for the specific sectors in which they

participate or the current economic conditions but looks closely at each company's management, business model, growth prospects as well as other company characteristics.

VP provides investment management and advisory services and offers a broad spectrum of investment solutions for both institutional and individual clients in Asia Pacific, Europe and North America. VP product suite currently includes equities, fixed income and multi-asset. VP concentrates its investment expertise regarding securities traded in Asian markets, particularly the Greater China region.

### Advisory Services

VP serves as a discretionary investment manager, sub-investment manager or investment advisor, focusing in Greater China region, mainly to:

- privately placed, pooled investment vehicles ("Private Funds");
- collective investment funds authorized by the Hong Kong Securities and Futures Commission ("Authorized Funds");
- Undertakings for Collective Investment in Transferable Securities ("UCITS"); and
- segregated accounts ("Segregated Accounts").

**The disclosures contained in VP's Part 2 of Form ADV ("Brochure") are designed solely to provide information about VP and the investment management/advisory business it conducts. None of the discussions regarding the Authorized Funds, UCITS or Private Funds (collectively "Funds") shall constitute a solicitation of an offer to buy or an offer to sell the securities of the Funds.**

### Private Funds, Authorized Funds and UCITS

VP manages the Funds in accordance with each Fund's investment objective, strategy and guidelines. A description of the investment objective, strategy and risk factors of each Fund is set forth in each Fund's offering document. For Private Funds, the offering document consists of a confidential private placement memorandum ("PPM") and for the Authorized Funds and UCITS, these descriptions are contained in the explanatory memorandum ("EM") or prospectus ("Prospectus"). The Funds are not tailored to the individual needs of any particular investor and all investors are cautioned to consider whether a Fund meets their individual investment objectives and risk tolerance prior to investing.

### Segregated Accounts

VP also provides investment management or advisory services to Segregated Accounts which are tailored to meet each client's stated investment objectives, strategies, restrictions or guidelines. These are all specified in the investment management/advisory contract between VP and the client.

Each Segregated Account serviced by VP may be referred to herein as a “Segregated Account Client” or “Client” throughout the brochure.

Segregated Account Clients may impose additional investment guidelines and restrictions upon VP’s agreement. These can include guidelines designed to reduce risk e.g. not permitting derivatives, single stock or sector restrictions. Clients are required to inform VP in writing of these guidelines and restrictions, and these are then coded in Charles River Investment Management System to ensure investment compliance.

#### Side Letter Arrangements

VP or its associates or its Funds may enter into side letter arrangements with investors granting an investor preferred economic and other terms as compared to other shareholders. These may include, but are not limited to, rebates of fees and/or charges payable to VP or its associates and the reservation of capacity in the Funds. VP or its associates may also agree to consult with or obtain prior approval from particular investors before taking certain actions with respect to the Funds.

## **Item 5 - Fees and Compensation**

### Fund's Fees and Compensation

The fees paid to VP are detailed in each Fund's investment management/advisory agreement and in each Fund's EM, Prospectus or PPM. The fees generally include:

- an annual or annualized management fee expressed as a percentage of the Fund's assets under management with VP; and
- incentive or performance-based fees or compensation calculated based:
  - a. in the case of Private Funds, on absolute performance or performance relative to a defined benchmark; or
  - b. in the case of Authorized Funds and UCITS, on absolute performance, typically calculated by reference to the highest net asset value achieved by the relevant Authorized Fund or UCITS as at the end of a performance period.

See the "Fee Schedules" below and Item 6 for more information on the range of these fees and information regarding fees.

Investors bear subscription and redemption charges that are separate payments due at the time of subscription to and redemption from a Fund, respectively. Investors in Funds also bear indirectly as charges against Fund assets expenses relating to securities transactions, account custody and administrative fees. Investors should refer to each Fund's EM, Prospectus or PPM for details prior to investing and fees are applied fairly to all investors of the same class.

Funds may maintain multiple class structures with different fees paid by each class. Additionally, investors in a Fund that employs a sub-manager or investment adviser may be required to pay fees which are higher than the fees paid to VP by that Fund.

### **Fee Schedules for Funds**

- a. Private Funds  
  
Management Fee: up to 2% annually  
Performance Fee: up to 20%
- b. Authorized Funds and UCITS  
  
Management Fee: up to 2% annually  
Performance Fee: up to 15%

### Segregated Accounts' Fees and Compensation

With respect to Segregated Accounts, fees charged to Clients may be negotiated depending on a number of factors including, but not limited to: the type of client, size of the accounts, the complexity of the mandate, the extent of reporting requirements, the potential for additional

account deposits, the nature, longevity and size of the overall client relationship and other business considerations. These fees are agreed upon by the Client and VP prior account opening. VP generally receives management fees and incentive fees. Management or advisory fees are typically calculated as a fixed percentage of the assets under management in the relevant account at the valuation date(s) specified in the investment management/advisory agreement. These fees are typically paid monthly or quarterly.

Upon Client agreement, an incentive or performance fee may be charged that permits VP to receive a share of the capital appreciation of the assets within a Client's account. Performance fees are typically calculated as a percentage of an account's positive investment performance for the relevant quarter or year and are subject to the highest asset value achieved by the account as at the end of a performance period. In some instances, performance fees may be calculated in relation to performance against a designated benchmark such as a specific market index or value. These fees are typically paid quarterly or annually. Performance fees may be charged by VP to Segregated Accounts owned by United States clients only who would meet the definition of a "qualified client" as provided by Rule 205-3 of the Investment Adviser Act. Currently, in order to meet the definition of a "qualified client" an investor must have either US\$1,000,000 under management in the account or a net worth of US\$2,000,000. Additional information regarding performance fees charged by VP to Segregated Accounts and how they are calculated is found in Item 6.

Clients also bear other expenses such as expenses relating to securities transactions and account custody. Clients can refer to the relevant investment management/advisory agreement for details. See the "Fee Schedules" below for more information on the range of these fees.

Fees may change over time and different fee schedules may apply if VP accepts clients other than those described herein. Additionally, fees may be negotiated and VP may in its sole and absolute discretion, waive or reduce fees charged to clients by rebate or otherwise, for any reason, such as a significant investment in the Fund. Consequently, some Clients may pay more or less than other clients for the same or similar investment management services.

#### **Fee Schedule for Segregated Accounts**

Management/Advisory Fee: up to 1.5% annually

Performance Fee: up to 17.5%



### Fund Manager Compensation

The remuneration for fund managers is mainly structured by fixed monthly salary and a year-end variable compensation component. To ensure the alignment of interest, the year-end variable compensation is based on, but not limited to, portfolio performance measurements, and the adoption of high conviction ideas in respective portfolios.

### Fees and Compensation upon Termination for Funds

A Fund may terminate on a certain date or upon the occurrence of specified events, as described in the relevant EM, Prospectus, or PPM. Specific requirements, procedures and restrictions apply to withdrawals and terminations by an investor in the Funds. VP, or the general partner or managing member of a Fund, in its sole discretion, may impose minimum redemption amount and require the maintenance of a minimum capital account size in the event of a partial withdrawal by an investor in the Funds. Typically, an investor in a Fund may withdraw all or part of its interest in the Fund on a daily (for Authorized Funds) and monthly basis (for Private Funds), on a date specified in the Fund's EM, Prospectus or PPM and subject to prior written notice (generally 0 to 30 days). In addition, where the withdrawal requests exceed 10% of the total number of shares or total interest in issue on any dealing day for which subscription and redemption of the shares/interest are being dealt with, such withdrawal may be deferred to the next dealing day. However, VP may, in its sole discretion, allow for withdrawals at other times and/or waive any applicable notice requirements and may also require an investor to redeem all or part of its interest in a Fund upon provision of reasonable notice, or without such notice if necessary to ensure that the Fund remains in compliance with applicable law.

### Fees and Compensation upon Termination for Segregated Accounts

VP's investment management agreements for Segregated Accounts generally provide for termination without penalty by either party upon prior written notice to the other party.

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

### Performance-Based Fees

A substantial portion of VP's income with respect to Funds is derived from performance fees. VP also charges performance fees in Segregated Accounts only upon agreement with the clients.

Generally a high watermark methodology is used in calculating and charging its performance fees. The highest net asset value ("NAV") of the invested assets achieved by a Fund or a Segregated Account as at the end of a performance period is known as the "high watermark". Using this methodology, if the NAV of a specific Fund or a Segregated Account as at the end of a performance period is lower, no performance fee would be payable to VP. If the NAV as at the end of a performance period subsequently increases back to the high watermark (but no higher), the performance fee is not payable in this circumstance. Generally, only if the NAV as at the end of a performance period increases over the high watermark would entitle VP to a performance based fee with respect to a Fund or Segregated Account. Note that all fee arrangements will include performance fees and not all performance fee arrangements will include such provisions. Performance fees may be calculated and accrued or paid more or less frequently or in a different manner, as specified in the relevant EM, Prospectus, PPM or investment management/advisory agreement.

There are also potential risks attendant to use of a high watermark methodology in calculating performance fees. Since fees are calculated based on the value of the assets, VP may inflate the valuation of the investments (*e.g.* through inflating the value of illiquid or hard-to-value investments), thus increasing the net asset value of the assets managed. In addition, the performance fees may create an incentive for VP to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. The management fee and performance fee payable to VP are based in part upon unrealized gains (as well as unrealized losses), and that such unrealized gains and losses may never be realized by the accounts. To mitigate this potential risk, the following procedures are implemented:

- **Valuation Policy.** Valuation of assets of Funds and Segregated Accounts are performed by administrators/custodians who are independent reputable banks. For listed investments, prices are obtained from external sources and reconciliation is done between VP's internal records against administrators'/custodians' record to ensure accuracy. For unlisted/unquoted investments, the valuation should be based on reasonably foreseeable sale prices. Upon acquisition, this can be either the cost or the last sale price. Thereafter, if necessary, VP may engage at least one qualified independent third party pricing provider to provide valuations. If the unlisted investment valuations are obtained from independent valuer based on their own pricing models, the valuations are subject to review by VP based on reasonableness. A list of investments with prolonged stale price (which includes prolonged suspended stocks) should be reported to the Valuation Workgroup (as described below) to decide if the investments should be revalued and if an independent valuer should be appointed by considering, including but not limited to, the following factors:
  - Trading status (*i.e.* normal, suspended, not frequently traded)
  - Period of prolonged stale price
  - Position size relative to fund size

- Consultation with the trustee or custodian of the fund
- Announcement on Exchange and relevant market news
- Market place / exchange where the securities are traded
- Relevant index movement
- Fund managers' view on the investments

Alert on new suspension and resumption securities are received daily and the suspended stocks are monitored weekly which includes latest corporate announcements and market news, ageing and percentage of fund size, etc.

- **Valuation Workgroup.** VP maintains a Valuation Workgroup, comprised of the following personnel: Chief Financial Officer & Chief Administrative Officer, and representatives from Investment Management, Fund Operations, Risk Management, Finance and Internal Audit Teams. The Valuation Workgroup ensures that the investment instruments of Funds and Segregated Accounts are appropriately valued by persons independent of those who manage the Funds and Segregated Accounts and, in particular that the values reflected are fair to investors. The Valuation Workgroup is empowered by management to review, approve the changes in the Valuation Policy and Procedures and to ensure, so far as practicable, that valuations of investment assets held by the Funds and Segregated Accounts are appropriate and fair to existing, exiting and incoming investors in the Funds as well as to the each Segregated Account.

#### Potential Conflicts – Side-By-Side Management

Some investment professionals at VP manage multiple types of portfolio including private funds, Segregated accounts and mutual funds, according to the same or a similar investment strategy (i.e. side-by-side management). This simultaneous management of these different accounts, some of which are charged a performance fee, creates certain conflicts of interest. For example, these investment professionals may have an incentive to favor accounts that charge a higher performance fee by allocating better investment opportunities to these accounts.

As a fiduciary, VP exercises due care to ensure that client accounts are all treated in a fair and equitable manner over time, regardless of their strategy or fee arrangements. VP has adopted the following approach related to the fair allocation of investment opportunities:

- **Employee and Firm Interests.** Accounts in which our employees or affiliates have a beneficial interest, or in which VP has a conflict of interest, do not receive preferential treatment.
- **Order Allocation.** Executions for aggregated orders are combined to determine one average price. Generally speaking, executed shares are allocated among clients on a pro-rata basis (subject to rounding). A de-minimus amount of USD 10,000 has been set and allocations to each fund would be automatically adjusted by the system if the pro-rated amounts to an account cannot fulfil this minimum requirement. If there is insufficient executed amount to fulfill the minimum requirement for all accounts in a multi-fund order, the executed portion will be broken down into portions that fulfill both the de-minimus requirement and lot size of the security being traded, and randomly allocated to applicable

accounts under that multi-fund order. As no rigid formula will always lead to a fair and equitable result, a degree of flexibility to adjust to specific circumstances is necessary. Therefore, under certain circumstances, allocation on a basis other than strict pro-rata is permitted if VP believes that such allocation is fair and equitable to all funds that participate in the order.

- **Order Priority.** When the liquidity in a market is not sufficient to fill all client orders, VP may give priority to certain orders over others. This prioritization is based solely on objective factors driving the order e.g. correction or avoidance of investment breaches, significant new funding.
- **Trading in opposite direction.** Upon placement of an opposite direction order for the same stock at the same time, the opposite trades would be routed to compliance for approval. Only with objective reasons e.g. correction/avoidance of investment breach or significant subscription or redemption would the approval be granted and the trade can be proceeded. This control restricts the ability of portfolio managers to take inconsistent investment positions with respect to accounts over which they have management responsibility. It prohibits a portfolio manager from assuming a long position of one account while simultaneously selling short the same security in another account managed by him/her.
- **Aggregation of trades.** For accounts that are managed in similar styles, VP may seek to acquire or dispose of the same securities for multiple accounts contemporaneously and may aggregate into a single trade order when several client trade orders for the same security to facilitate best execution and to reduce brokerage commissions and/or other costs. However there may be cases when orders cannot be aggregated due to legal or operational limitations or restrictions.

## **Item 7 – Types of Clients**

### Private Funds

Each Private Fund offered to US investors (“US Private Fund”) managed/advised by VP is typically organized as a limited liability company under the laws of the State of Delaware or another appropriate jurisdiction or as an offshore entity. US Private Funds are established to qualify for exemption from the definition of “investment company” under the Investment Company Act of 1940, as amended, (“1940 Act”) under Section 3(c)(7) and offer their interests to investors pursuant to Section 4(2) of, or Regulation D or Regulation S, under the Securities Act of 1933, as amended (“1933 Act”).

Investors in the US Private Funds generally include high net worth individuals, other private funds and a variety of institutional investors (e.g. trusts, employee benefit plans, endowments, foundations, corporations and other types of entities) meeting the qualifications of those exclusions from the 1940 Act and exemptions from the 1933 Act which the relevant US Private Fund operates and is offered, and who wish to invest in accordance with the US Private Funds investment objective. Such investors must meet the requirements for “accredited investors” under the 1933 Act, “qualified purchasers” under the 1940 Act and “qualified eligible persons” under the regulations of the Commodity Futures Trading Commission.

VP generally prefers a minimum initial investment in US Private Funds ranging from US\$200,000 to US\$1,000,000 as specified in the US Private Fund’s PPM. For certain Funds, VP may, in its sole discretion, waive such minimum investment requirements.

### Authorized Funds and UCITS

Investors in the Authorized Funds generally include retail investors, high net worth individuals, other private funds and a variety of institutional investors. Investors of UCITS are mainly institutional investors. VP mainly distributes these products through local financial intermediaries, including banks, insurance agents and independent financial advisors by means of distribution agreements. VP generally prefers a minimum initial investment in Authorized Funds ranging from US\$5,000 to US\$100,000 as specified in the Authorized Fund’s EM or Prospectus. For certain Funds, VP may, in its sole discretion, waive such minimum investment requirements.

### Segregated Accounts

Segregated Account Clients generally include institutions, corporations, statutory authorities, university endowment funds and charitable foundations.

The terms and conditions of investment in Segregated Accounts are negotiated with the client on a case-by-case basis depending on the size of the Segregated Account, the complexity of the mandate, the extent of reporting requirements and other factors.

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

Value Partners employs a bottom-up approach to stock selection, one that is based on our value investing discipline and focuses on intensive fundamental research. VP embraces a value-based approach in the analysis of investments. Investment professionals conduct in-depth company research via company site visits, phone calls with company management, broker meetings, customers and suppliers enquiry in order to ensure each of our investment decisions is well informed. The companies selected by VP for this analysis are based on their own merit without regard for the specific sectors in which they participate or the current economic conditions but looks closely at each company's management, business model, growth prospects as well as other company characteristics.

Value Partners adopts a holistic approach to value investing, as VP looks at other factors in tandem with the conventional price-to-earnings/price-to-book ratios, and dividend yield. As such, VP seeks to invest in a business, not a stock, and evaluates all its investment opportunities following our '3 Rs' philosophy: the Right business, run by the Right people, and at the Right price. Consequently, VP's portfolios can have significant exposure to non-benchmark stocks.

Although VP utilizes information, reports and data from various external sources, its investment decision-making with respect to the accounts it manages is based primarily upon its proprietary research and analytical capabilities, including the research and analytical experiences and expertise of its investment staff. For those individuals who are involved in the investment management function of VP, a college degree with at least two years' working experience in the investment sector is preferred.

VP offers a broad spectrum of investment solutions:

- Equities
- Fixed income
- Alternatives
- ETF
- Multi-asset

Value Partners believes that environmental, social and corporate governance ("ESG") issues can affect the performance of investment portfolios, as ESG factors tend to play out over the longer term. VP Group recognizes that integrating ESG analysis in the investment process can help identify those business models that are most likely to sustainable returns and resist competitive pressures, and is consistent with its investment philosophy.

In July 2019, VP Group formally became a signatory of the United Nations Principles for Responsible Investment ("UNPRI"), and are committed to actively support and promote responsible investment initiatives in the markets that it operates in.

ESG analysis is an integral part of the VP's investment process. VP believes that ESG issues can exert a material influence on company long-term fundamentals, reflecting investment

opportunities and risks. VP prides itself on our thorough fundamental research and bottom-up analysis of our investable universe.

VP incorporates ESG principles into our fundamental research, and actively engages with companies within our investable universe. When making investment decisions across asset classes and strategies, VP takes into account all available ESG data to us, using in-house analysis, third party research and data providers as well as information gathered from individual company engagement.

### Risks of investing

There is no guarantee that any Fund or Segregated Account will achieve its investment objective and investors and Segregated Account Clients could lose money in their investments. Generally the risks are as below:

**Market Risk.** The value of the portfolio's assets will fluctuate as the stock, commodity or bond market fluctuates. The value of investments may decline, sometimes rapidly and unpredictably, simply because of economic changes or other events that affect large portions of the market. In addition, the prices of a portfolio's can be highly volatile. Price movements of assets, including commodities, are influenced by, among other things, interest rates, general economic conditions, the condition of financial markets, developments or trends in any particular industry, the financial condition of the issuers of such assets, changing supply and demand relationships, programs and policies of governments, and national and international political and economic events and policies.

**Interest Rate Risk.** Changes in interest rates will affect the value of the portfolio's investments in fixed-income securities. When interest rates rise, the value of investments in fixed-income securities tends to fall and this decrease in value may not be offset by higher income from new investments. Interest rate risk is generally greater for fixed-income securities with longer maturities or durations. In certain jurisdictions, investing in cash or assets yielding negative interest rates might be unavoidable without taking significant credit risk.

**Credit and Counterparty Risk.** An issuer or guarantor of a fixed-income security, or the counterparty to a derivatives or other contract, may be unable or unwilling to make timely payments of interest or principal, or to otherwise honor its obligations. The issuer or guarantor may default causing a loss of the full principal amount of a security. The degree of risk for a particular security may be reflected in its credit rating. There is the possibility that the credit rating of a fixed-income security may be downgraded after purchase, which may adversely affect the value of the security. Investments in fixed-income securities with lower ratings tend to have a higher probability that an issuer will default or fail to meet its payment obligations.

**Currency Risk.** Fluctuations in currency exchange rates may negatively affect the value of the portfolio's investments or reduce its returns.

**Emerging Markets Risk.** Investment risk may be particularly high to the extent that a portfolio invests in securities and other investments that are economically tied to countries with developing economies (often referred to as emerging market securities). These securities or other investments

may present market, credit, currency, liquidity, legal, political and other risks different from and potentially greater than, the risks of investing in securities and instruments economically tied to developed foreign countries. Emerging market securities or other investments may also be more volatile, less liquid, more difficult to value and are often more vulnerable to market and economic events than are developed market securities. Many emerging market countries have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on such countries' economies and securities markets.

**Derivatives Risk.** The guidelines for a number of our strategies allow us to use derivatives to create market exposure. Derivatives may be illiquid, difficult to price, and leveraged so that small changes may produce disproportionate losses for your portfolio, and may be subject to counterparty risk to a greater degree than more traditional investments. Because of their complex nature, some derivatives may not perform as intended. As a result, the portfolio may not realize the anticipated benefits from a derivative it holds or it may realize losses. Derivative transactions may create investment leverage, which may increase the portfolio's volatility and may require the portfolio to liquidate portfolio securities when it may not be advantageous to do so. Further, a transaction used to hedge to reduce or eliminate losses associated with the portfolio holding or particular market to which the portfolio has exposure, can also reduce or eliminate gains. Increase volatility in a particular security could vary the degree of correlation between the price movements of the hedging instrument and its underlying security. There can be no assurance that the portfolio's hedging transaction will be effective. Hedging techniques involve costs, which could be significant whether or not the hedging strategy is successful. Hedging transactions, to the extent they are implemented, will not necessarily be completely effective in insulating portfolios from currency or other risks.

**Capitalization Risk.** Investments in small- and mid-capitalization companies may be more volatile than investments in large-cap companies. Investments in small-cap companies may have additional risks because these companies have limited product lines, markets or financial resources.

**Liquidity Risk.** Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing us from selling out of such illiquid securities at an advantageous price, or forcing us to sell such illiquid securities at a disadvantageous price. Derivatives and securities involving substantial market and credit risk also tend to involve greater liquidity risk.

**Investment Company and Exchange Traded Fund Risk.** Some of our strategies allow for investments in investment companies (also known as mutual funds) and exchange traded funds ("ETF"). An investment in an investment company or ETF involves substantially the same risks as investing directly in the underlying securities. An investment company or ETF may not achieve its investment objective or execute its investment strategy effectively, which may adversely affect the portfolio's performance. The portfolio must pay its pro rata portion of an investment company's or ETF's fees and expenses. Shares of a closed-end investment company or ETF may trade at a premium or discount to the net asset value of its portfolio securities.

**Participatory Note Risk.** VP may from time to time invest in participatory notes (commonly referred to as "P-Notes") on behalf of clients. P-Notes are a type of derivative instrument that seeks



to replicate the returns of investing directly in an issuer. These notes are used to gain exposure to underlying equity securities in foreign markets where direct investments are restricted. In other words, we may use P-Notes to gain access to investments in markets where it is difficult for our clients to acquire local registration for the purchase and sale of local securities. An example of such a market is India. Investing in P-Notes involves multiple risks. The investment risk on a P-Note includes the same risks associated with a direct investment in the shares of the companies the notes seek to replicate and there can be no assurance that the transaction price of P-Notes will equal the underlying value of the companies or securities markets that they seek to replicate due to transaction costs and other expenses. P-Notes are also subject to counterparty risk since the notes constitute general unsecured contractual obligations of the issuing financial institutions and there is a risk that the issuer of the P-Note will default on its obligations under the note. Investing in P-Notes may involve certain regulatory risks, including, but not limited to, the fact that a foreign government may determine to close the P-Note market entirely or restrict access to the market by certain investors.

Please note that there are many other circumstances not described here that could adversely affect the investment and prevent the portfolio from reaching its objective. The risks of investing in our Funds are detailed in the PPM or EM or prospectus of each Fund.

## **Item 9 – Disciplinary Information**

Currently, there are no material regulatory enforcement proceedings pending against VP or any of the other registrants covered by this brochure. A summary of past material regulatory proceedings involving VP, all of which have been resolved, is set forth here:

VPL and VPHK were publicly reprimanded by the SFC on 25 January 2017.

- On 25 January 2017, the Hong Kong Securities and Futures Commission (“SFC”) reprimanded VPL and VPHK, and fined HK \$2 million each pursuant to section 194 of the Securities and Futures Ordinance. The SFC found that, while acting as the investment managers of two SFC-authorised funds, VPL and VPHK have failed to (i) manage the funds in accordance with their constitutive documents by issuing shares of the funds in excess of their authorised share capital and (ii) report the non-compliance to the SFC in a timely manner.

The two funds namely, Value Partners China Greenchip Fund Limited, managed by VPL, and Value Partners Greater China High Yield Income Fund, managed by VPHK, had issued shares in excess of their authorised share capital as provided in their memorandum and articles of association.

The issues were rectified with remedial actions taken and there were no apparent investor losses. VP had, amongst other things, increased the authorised share capital of the two funds in their memorandum and articles of association through ordinary resolutions of their shareholders.

Details can be found in link in SFC website: [SFC reprimands and fines Value Partners \\$4 million | Securities & Futures Commission of Hong Kong](#)

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

VPL is wholly-owned by VPHK and is affiliated through common ownership with Sensible Asset Management Limited (“SAM”), Value Partners Private Equity Limited (“VPPE”), Sensible Asset Management Hong Kong Limited (“SAMHK”), Value Partners Asset Management Singapore Pte. Ltd. (“VPSG”), Value Partners (UK) Limited (“VPUK”) and Value Partners Asset Management Malaysia Sdn Bhd. Each of these entities is engaged in the business of providing investment management and advisory services. VP also has set up investment offices in Beijing, Shanghai and Shenzhen to launch domestic private securities investment funds for eligible investors in the Mainland China market and raise funds offshore and onshore to invest in domestic private equity projects. All are wholly-owned subsidiaries of Value Partners Group Limited and utilizes certain office personnel, research and trading facilities and administrative functions of VP.

VP serves as investment manager to several US Private Funds for which Value Partners (Cayman GP) II Limited (“VPGP”) is the managing member. VP and VPGP are affiliated through common ownership. VP may from time to time and as appropriate solicit Clients to invest in the US Private Funds but will not make such investments on a discretionary basis. As these US Private Funds may not be appropriate investments for all potential investors, not all investors will be offered the opportunity to invest and not all investors who are offered that opportunity choose to invest.

VP may also have proprietary interest in certain Funds. However VP’s policies take steps to avoid or mitigate these potential conflicts. Please refer to Item 11 on the details of potential conflicts and how VP addresses such conflicts.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### Code of Ethics

All VP employees must comply with VP's Code of Ethics. The Code of Ethics contains provisions reasonably designed to deter misconduct and conflict of interests and to detect violations of the Code of Ethics and applicable law. The Code of Ethics includes the following:

- Standard of Conduct – sets out the minimum standard expected of all staff and includes honesty and fairness, skill, care and diligence, fiduciary duty and other standards;
- Insider Trading – designed to prevent any trading or tipping based on material, non-public information and other types of market misconduct;
- Staff Dealing – sets out the procedures to be followed for trading in their own or associates' accounts by staff. The procedures include, but are not limited to, initial and annual disclosure, prior approval from fund managers and Compliance Team for securities transactions for staff and associates, prior approval from Compliance Team for opening of broker accounts, submission of trade confirmation and account statements from staff or their brokers and a minimum holding period of 60 days for securities;
- Anti-bribery and Corruption – sets out the procedures to be followed for receiving or offering of gifts and benefits in connection with the affairs or business of a client;
- Data Privacy – sets out the procedures to be followed for handling VP's trading information and client information and about privacy of client information; and
- Whistle-blowing policy – illustrates the types of activities that may justify whistle-blowing and to explain the operation of the procedures.

Any person not in compliance with the Code of Ethics may be subject to disciplinary action, including summary dismissal. VP will provide a copy of its Code of Ethics to any client or prospective client upon request.

### Employee Personal Trading

Personal securities transactions by an employee of VP may raise a potential conflict of interest when that employee owns or trades in a security that is owned or considered for purchase or sale by a client, or recommended for purchase or sale by an employee to a client. The Code of Ethics imposes certain restrictions in personal securities trading. All employees should obtain consent from the Compliance Team for any securities account opening. Preclearance from Compliance Team is also required prior to any personal securities transaction except for certain exempted

securities e.g. external collective investment schemes). Non-exempted securities purchased by employees must be held for at least 60 days.

### Outside Business Interests

Outside business activities of an employee of VP may raise potential conflicts of interest depending on the employee's position within VP and VP's relationship with the activity in question. Outside business activities may also create a potential conflict of interest if they cause a VP employee to choose between that interest and the interests of VP or any client of VP. VP employees may not take up any directorship or employment or part-time commercial duties (paid or unpaid) without prior written approval from the Compliance Team. Approval will be given only in circumstances where the interests of VP and its clients will not be prejudiced.

### Political Contributions

VP policies prohibit staff from making, soliciting or coordinating any political or charitable contributions for the purpose of obtaining or retaining potential or existing public clients or their personnel. Employees are permitted to make personal political contributions in accordance with applicable law and VP's policies. Employees are required to obtain pre-approval before they (or their immediate family members) make, solicit, or coordinate any contributions to a political candidate, government official, political party or political action committee.

### Participation or Interests in Client Transactions

VP also manages proprietary investment accounts i.e. accounts that are funded with the firm's own money and are intended to make profit for the firm. However these proprietary transactions are subject to compliance preclearance and executed separately from clients' transactions.

VP does not purchase for clients, or recommend the purchase of, securities issued by VP or its affiliates.

However, VP may participate or have an interest in client transactions in other ways as below:

- **Cross Trade.** VP may cause a Fund or Segregated Account to purchase or sell securities from or to, as the case may be, another Fund or Segregated Account in a "cross-trade". There is risk that preferential treatment is given to a certain Fund or Segregated Account whereby terms of the transaction may not be at arm's length. To mitigate this risk, VP has adopted procedures with respect to cross-trades. Prior approval from the Compliance Team is required for all cross-trades. The transaction must be in the best interests of the Funds and Segregated Accounts involved and an appropriate price must be assigned to the crossed security on an arm's length basis. Cross trades between VP proprietary accounts and Funds or Segregated Accounts are not permitted.
- **Firm and Employee Investments.** VP and its directors/officers may invest in the Funds which are managed by VP and its affiliates and hold, dispose or otherwise deal with them with the same rights as other owners. These investments pose a risk that employees with influence over investment decisions will favor the portfolios in which they have a personal interest. However, VP Code of Ethics and trade allocation policies manage these risks. Also

VP requires proper disclosure in the Fund's offering documents regarding the directors or officers' ownership. No preferential treatment is granted in the subscription process to these related parties, apart from rebate of fees at VP's own expense.

VP acts as investment manager to numerous Funds and Segregated Accounts. As discussed in Item 10 above, VP shares investment personnel and other personnel, including traders. VP or its staff may give advice and take action with respect to any Funds or Segregated Accounts it manages or for a VP proprietary account or an account of a staff member that may differ from action taken by VP on behalf of other Funds or Segregated Accounts. VP is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that VP or staff may buy or sell for its or their own accounts or for other Funds or Segregated Accounts VP manages. Additionally, VP's personnel and affiliates may invest, either directly or indirectly, in Funds which, in turn, may invest in securities held in other Funds and Segregated Accounts managed by VP. VP's buy or sell programs may extend over a period of months and securities may be held over a period of years. From time to time, VP's officers and employees may have interests in securities owned or sold by or recommended to the Funds and Segregated Accounts.

All of these situations represent a potential conflict of interest for VP in relation to its Segregated Account Clients and the investors in the Funds it manages. To address these potential conflicts of interest, VP maintains procedures relating to personal securities transactions and insider trading that are designed to reasonably detect and prevent actual conflict of interests. VP personnel supervise the execution of policies and procedures, including adopting its Code of Ethics, intended to avoid conflict of interests with investors and Clients and resolve such conflicts appropriately if they occur. VP proprietary accounts and VP's officers and employees are not obligated to refrain from investing in securities held in the Funds and Segregated Accounts it manages except to the extent such investment would be contrary to the Code of Ethics.

- **Initial Account Funding.** VP may purchase and sell securities for accounts funded with our own assets, which is known as "seed capital". These accounts are intended to establish a performance history for a new fund. VP may earn a profit on its seed capital investments and hence a conflict of interest arises. To address the conflict, these transactions are segregated from clients' transactions and considered as proprietary transactions until there's external client money investing in the new fund.

## **Other Potential Conflicts**

- **Allocation of Investment Opportunities.**

VP (which includes its officers, employees and other agents and affiliates, collectively, "VP and its affiliates") provides investment management/advisory services and engages in functions with respect to various Funds, Segregated Accounts and other clients, that may have similar or different investment objectives and policies. VP and its affiliates may retain

any profit or benefit made in connection with its investment management/advisory and other services.

To mitigate these conflicts, VP attempts to ensure fair treatment to all Funds and Segregated Accounts, including but not limited to fair basis of allocation of investment opportunities among the Funds and Segregated Accounts. Allocation of investment opportunities is on pro rata basis across the appropriate accounts.

In allocating investment opportunities among multiple Funds and Segregated Accounts, VP will determine the intended allocation prior to execution of the transaction(s). In determining and recording, the intended basis of allocation between different Funds and Segregated Accounts, VP will primarily consider the following:

- the investment objectives and investment focus of each account;
- the stock weighting within each account;
- the amount of excess cash available in each account (both in absolute terms and in percentage terms);
- the size of each account;
- the sector weighting; and
- cost effectiveness.

Executed trades are promptly allocated between the relevant Funds and Segregated Accounts in accordance with the intended allocation unless allocating the transaction(s) in another manner does not disadvantage any Fund or Segregated Account and VP clearly documents the basis for the revised allocation.

In certain cases, staff or VP proprietary accounts may co-invest at the same time along with Funds and Segregated Accounts in some unlisted investment opportunities. There is risk that fund managers may give lesser allocation to the Funds and Segregated Accounts and therefore increase the allocation remaining for their own or VP proprietary accounts.

To mitigate any conflict, VP has procedures in place that require that priority must always be given to Funds and Segregated Accounts for participation in investment opportunities. Staff and VP proprietary accounts may participate in these investment opportunities if, after taking into account the Fund and Segregated Accounts' best interest, the Fund and Segregated Accounts would not acquire the entire investment available. If there is a remaining balance of the investment, it may be acquired by the staff or VP proprietary accounts. Prior approval from the Compliance Team is required for co-investment and the Compliance Team reviews and assesses the reasonableness of allocation.

- **Staff and Proprietary Dealings**

VP and its affiliates may buy or sell securities for Fund and Segregated Accounts that they have financial interests in or they may buy or sell the same securities for their own accounts notwithstanding that similar securities may be held/traded by the Funds and Segregated

Accounts. Positions taken by VP and its affiliates may be the same, different or made at a different time or price than positions taken by the Funds or Segregated Accounts. There are risks that portfolio managers may engage in “front running” where portfolio managers may buy or sell excessively for the Funds or Segregated Accounts for the purpose of affecting the price to benefit his/her own personal account or that portfolio managers may abuse insider trading information by trading in staff or VP proprietary accounts.

To mitigate this potential conflict, VP has in place a policy on staff and VP proprietary account dealings. A blackout period has been set under which staff and VP proprietary accounts are prohibited from trading the same security for a period of 3 days (1 day for designated index constituent stocks) before and after the Funds and Segregated Accounts have traded that security or when there is a pending order in any of the Funds and Segregated Accounts on the same day.

If any of the staff come into possession of any material non-public information regarding any security, they must report to the Compliance Team immediately. The Compliance Team shall place the security on the restricted list and all Funds and Segregated Accounts, staff and VP proprietary accounts will be prohibited to trade that stock until information becomes public. The Compliance Team periodically reviews staff and VP proprietary account dealings with a view to identifying any pattern of staff or VP proprietary account securities transactions that suggest any actual or potential conflict of interests or abuse of such person’s position of trust and responsibility within VP or VP’s clients. VP proprietary accounts and VP’s officers and employees are not obligated to refrain from investing in securities held in the Funds and Segregated Accounts it manages except to the extent such investment would be contrary to the Code of Ethics.

All of these situations represent a potential conflict of interest for VP in relation to its Segregated Account Clients and the investors in the Funds it manages. To address these potential conflicts of interest, VP maintains procedures relating to personal securities transactions and insider trading that are designed to reasonable detect and prevent actual conflict of interests. VP personnel supervise the execution of policies and procedures, including adopting its Code of Ethics, intended to avoid conflict of interests with investors and Segregated Account Clients and resolve such conflicts appropriately if they occur.

- **Investment in affiliated funds**

As permitted by the relevant investment guidelines and applicable laws, Funds and Segregated Accounts may invest in funds managed by VP or its affiliates, as part of the Account’s investment strategy, or when VP otherwise believe it is in the relevant Client’s best interest to do so. Under certain conditions, VP may offset, rebate or otherwise reduce our fees or other compensation with respect to investments in VP-affiliated funds and managers; however, this reduction or rebate, if available, will not necessarily eliminate the conflict, and VP may nevertheless have a financial incentive to favor investments in VP-affiliated funds (for example, to increase the assets under management of, or otherwise provide support to, certain funds, products or lines of business). Furthermore, Clients should not expect us to have better information with respect to such VP-affiliated funds



than other investors have as VP may not be permitted to act upon it in a way that disadvantages the other investors in such funds.

- **Investment which VP staff has interest**

Funds and Segregated Accounts may invest in securities/related securities in any company for which the directors or officers of VP have a board seat, acts as an officer or is a committee member. There is risk that such transaction may not be at arm's length and conflict of interests will arise. To mitigate this, VP has policies in place that require all such transactions must be at arm's length and are subject to prior approval from the Compliance Team.

- **Related Party Transactions**

VP, its affiliates and the service providers may contract or enter into any financial, banking or other transaction with one another or with any client or any company or anyone whose investments form part of the Funds or Segregated Accounts or is interested in such contract or transaction. Also, the monies of the Funds and Segregated Accounts may be borrowed or deposited with any connected persons of VP, its affiliates or its service providers which is duly licensed to accept such deposits. There is risk that such transaction may not be at arm's length and conflict of interests may arise.

To mitigate this, VP has policies in place that require all such transactions must be at arm's length and are subject to prior approval from the Compliance Team. For deposits or loan with any connected person of VP, its affiliates or its service providers, VP requires that interest rate must be not worse off than the prevailing commercial rate for the deposit or loan of that size and term.

- **Gifts and Benefits**

VP's staff may receive gifts and benefits from brokers, other service providers (such as distributors, custodians) and clients. The acceptance of gifts and benefit arguably may compromise the staff's position in his/her dealings with the donor. To mitigate this conflict, VP has adopted policy which prohibits its staff from receiving excessive gifts or benefits in connection with the affairs or business of a client which is likely to significantly conflict with the duties owed to clients. Donation or receipt of gifts is permitted only if they are small in value and customary in nature. In addition, prior approval from the Compliance Team is required if gifts or benefits exceed a certain amount.

## Item 12 – Brokerage Practices

VP has the authority to determine without consultation or obtaining specific investor or Segregated Account Client consent on a transaction by transaction basis, the securities to be bought or sold and the amount of securities to be bought or sold, subject to and in accordance with the investment objective and restrictions of the Fund or Segregated Account. In addition, VP generally has discretionary authority with respect to the selection of such brokers and dealers (unless otherwise specified by the Segregated Account Client).

VP allocates portfolio transactions to brokers and dealers while seeking best execution with respect to the Funds' and Segregated Accounts' portfolio transactions. The Funds or Segregated Account Clients pay the transaction charges associated with the execution of their trades. The brokers and dealers that VP utilizes for trade execution are selected by VP's trading personnel and portfolio managers based on the standards described below.

### Broker Selection

The best net results, giving effect to transaction costs (including brokerage commissions and spreads which may not be the lowest available but which ordinarily will not be higher than the generally prevailing rate) is normally an important factor in this decision, but a number of other judgmental factors are considered as they are deemed relevant, and recognizing that different broker-dealers may have different execution capabilities with respect to different types of securities and transactions.

These factors include the following:

- pricing of the trades (*e.g.* transaction costs, including commission rates);
- investment-related services which include:
  - a. research and investment ideas that may be provided (*e.g.* quality of research and other information provided by broker-dealer, introduction to potential investee companies, providing access to investment opportunities and initial public offerings and placements and access to primary markets); and
  - b. service standard (*e.g.* technological capabilities, accommodation of client's needs);
- execution quality (*e.g.* timing of trades, price and speed and certainty of execution); and
- security (*e.g.* the broker's ability to provide confidentiality and the quality of systems used by broker-dealer).

The weighting given to investment-related services is greater than the weight of each of the other factors and the aggregate of all other factors; although, the weighting of each factor may vary from time to time.

Investment managers and the Dealing Team evaluate the services of various brokers using a scoring system on a semi-annual basis and whenever they consider necessary. After each

evaluation, brokers are categorized into different groups with different allocations of brokerage volumes. VP uses the scoring information from these evaluations as a guide in determining which broker to allocate securities orders. However, in limited circumstances and subject to periodic review by the Compliance Team, brokers that have not been categorized using the scoring system may receive orders if they provide research in relation to a specific investment or access to an investment opportunity.

### Soft Dollar Benefits

VP may enter into soft dollars / commission sharing arrangements with brokers through which brokerage transactions are entered on behalf of clients' accounts under VP's management. VP may receive, and are entitled to retain, research products and services, known as soft dollar benefits, which provide demonstrable benefit to the Funds and Segregated Accounts (as may be permitted under applicable rules and regulations) from brokers or other persons through whom investment transactions are carried out. Soft dollars may be received from them provided that the quality of transaction execution is consistent with best execution standards and brokerage rates are not in excess of the customary full-service brokerage rates.

Such soft dollar benefits may include research and advisory services; economic and political analysis; portfolio analysis, including valuation and performance measurement; market analysis, data and quotation services and software incidental to the above goods and services; clearing and custodian services and investment related publications. For the avoidance of doubt, soft dollar benefits do not include travel, accommodation, entertainment, general administrative goods and services, general office equipment or premises, membership fees, employee salaries or direct money payments.

VP will consider many judgmental factors deemed relevant in determining whether a broker will provide best execution. In general, investment orders will be allocated to brokers based on the range and overall quality of services offered by the broker. The core factors in determining the quality of services are the execution performance and capability of the broker. Other factors, such as the quality and quantity of research and investment ideas offered, access to potential investee companies and commission rate charges, would also be taken into consideration. Soft dollar benefits received from brokers should not be a determinant factor on allocating orders among brokers. VP has implemented policies and procedures to ensure that transactions executed with brokers pursuant to a soft dollar commission sharing arrangement are conducted in the best execution standard. Soft dollars benefits received by VP are used to facilitate in VP's investment management process, such benefits assist VP in fulfilling its overall duty to clients and may be used in servicing any or all of VP's client accounts over which VP exercises investment discretion. VP does not usually attempt to allocate / attribute the soft dollar benefits to individual client account, as goods and services obtained may be beneficial to all clients in general, including those client accounts that do not generate credit to acquire the soft dollar benefits.

VP's practices with regard to soft dollar benefits are intended to comply with regulations of Hong Kong. These practices and regulations are generally consistent with Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, although they may diverge in some instances. (Section 28(e) provides a "safe harbor" that allows an investment adviser to pay for research and

brokerage services with the commission dollars generated by client account transactions subject to certain conditions).

The above soft dollars / commission sharing arrangements do not apply to our US clients. No soft dollar benefits would be generated by our US clients.

### Aggregation of Trades

The securities held in various accounts managed by VP will vary based upon the variety of investment objectives, risk tolerances and available assets within the accounts. As a result of the variety of characteristics affecting each account, it may be appropriate for VP to purchase or sell a security for one account prior to other accounts managed by VP. This could occur, for example, as a result of the specific client investment objectives, different cash requirements as well as differing cash resources arising from contributions or withdrawals or other factors.

Accounts that are managed in similar styles, however, may have similar portfolio compositions and weightings. For this reason, VP may seek to acquire or dispose of the same securities for multiple accounts contemporaneously and may aggregate into a single trade order if several client trade orders for the same security.

Consistent with each client's investment agreement, VP may, but is not required to aggregate the orders, in order to "bunch" or batch together purchases or sales for several accounts (including Segregated Accounts and Funds). VP will allocate the batched trades in a fair manner, taking into account the size of the order placed for each participating account and the amount and timing of the executions and any other factor that VP deems relevant to the fair treatment of each account participating in the order.

VP seeks to aggregate trade orders in a manner that is consistent with its duty to:

- seek best execution of client orders;
- treat all clients fairly; and
- avoiding systematically to advantage or disadvantage any single client or group of clients.

When VP batches trades, it is possible that a participating account may pay a price which is higher, or sell at a price which is lower, than if it had acted alone, and it may otherwise not be able to execute an investment decision as effectively as it could have if it had acted alone. In addition, because of limitations in the trading volumes of particular securities in particular regions in the Asian securities markets, there also may be price disadvantages or liquidity difficulties when the participating accounts simultaneously seek to acquire or dispose of common securities. Instances also may arise in which VP determines an investment opportunity to be suitable for the participating accounts, but in which the market is too illiquid to enable each to participate fully. While VP will attempt to deal with such situations in a fair manner, if and when they arise, any

particular resolution may not be advantageous to a participating account or may be less advantageous to a participating account than if it had acted alone.

### Directed Brokerage

On occasion, Segregated Account Clients may direct VP to effect securities transactions in the Segregated Account through a specified broker/dealer. Under such directed brokerage arrangement, VP may not be able to comply with the best execution standard for the Segregated Account Client (*e.g.* their accounts may pay higher commissions and receive less favorable execution). In addition, such a client may not be able to participate in some of the investment opportunities which are available to other funds under management (*e.g.* a placement or IPO allocation from a particular broker which is different from the specific broker requested by the Segregated Account Client, the broker may not be able to execute transaction in a specific market). Any Segregated Account Client direction agreement must be in writing.

### Use of Prime Brokerage by Funds

A Fund's use of a prime broker or custodian may yield increased administrative ease and, therefore, increase profitability for VP. A prime broker may also introduce investors to the Private Fund. To the extent a Private Fund's size increases as a result of such capital contributions, the amount of VP's management fee will increase. Additionally, because an increase in the size of the Private Fund would likely result in increased compensation to a prime broker, a prime broker therefore benefits from introducing potential investors to the Private Fund.

### Algorithmic Trading

Where VP uses a broker to execute orders, such execution may also be achieved through the use of algorithmic trading, in which an order is traded in line with specific parameters using a proprietary platform provided by that broker. VP does not engage in algorithmic trading ourselves but utilize broker-supplied algorithms. VP does not engage in high frequency trading.

### **Item 13 – Review of Accounts**

VP strives to ensure compliance with clients' investment guidelines consistent with its fiduciary responsibility to manage the clients' portfolio in the best interest of the clients. Each Fund and Segregated Account has a portfolio supervisor who is typically a senior investment team member. Each portfolio supervisor may be responsible for reviewing more than one Fund or Segregated Account. The portfolio supervisors' periodic review consists of an analysis of the Fund's or Segregated Account's performance to date in light of its investment objective and an evaluation of any appropriate changes which should be made to its portfolio. Such reviews are performed no less frequently than annually and more often as the portfolio supervisor considers necessary.

VP utilized Charles River Investment Management System ("CRIMS") that captures investment parameters from each portfolio guidelines and facilitates automated pre-allocation and post-trade testing for compliance with those parameters. CRIMS is a straight-through processing and trading system which includes the Order management system, Execution management system and Compliance checking system. VP regularly reviews accounts for compliance with each Fund's or client's investment objectives, policies and restrictions with the assistance from CRIMS. Alerts are generated to indicate guideline breaches and these alerts are monitored by compliance personnel who would follow up with the portfolio managers.

For Funds, monthly factsheets with quarterly commentaries are available to investors in the Funds which include performance updates for the portfolio. Also, audited accounts of the Funds are sent to investors on an annual basis. For Segregated Accounts, reports are made and delivered to Segregated Account Clients as agreed in the investment management/advisory agreement. Generally these would include a detailed inventory of all holdings, a performance summary, a written review of past and present strategy together with a current economic forecast and statistical portfolio analyses. Depending on the client preference, Clients receive the reports on a monthly or quarterly basis. VP also responds to special requests of Clients for ad hoc reports related to activity in their accounts.

VP also has Risk Management Committee that provides independent oversight of the portfolio risk management processes. Regular stress tests, scenario and liquidity analysis are carried out to assess overall risk of clients' portfolios.

In all cases, portfolios are reviewed when significant cash or securities are added to or withdrawn from the account or when VP is advised of a change in circumstances that warrants a change in management of the account. Other events that may trigger a review include significant model or investment strategy changes.

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

VP has signed up with solicitors in US for introducing prospective clients to VP. These would include referrals to pooled investment funds managed by VP and segregated accounts. Upon contribution by client, VP would compensate a solicitor in accordance with the terms of the written agreement. The solicitors' fee may be a percentage of revenues or a fixed amount and are at VP's own expense. VP may, in the future, seek other arrangements with solicitors in the US on terms that will provide for payment of solicitation referrals.

The agreement between VP and the solicitor would define the duties and responsibilities of the solicitor. Each solicitor is required to provide a written disclosure document, which explains to the prospective client the solicitor's duties and responsibilities and the fact that the solicitor is compensated by VP for the referral activities. The solicitor is also required to furnish a copy of Part 2 of VP's Form ADV to the prospective client and obtain a written acknowledgement from the client that both solicitor's and VP's disclosure documents have been received.

## **Item 15 – Custody**

VP does not take actual custody of client assets. Rather, the client assets are custodied at trust banks.

### Authorized Funds

All assets of the Authorized Funds are held by licensed/registered trust companies and the Fund Administrator identified in the EM/Prospectus generally provides each investor with statements of account on a monthly basis reflecting the value of the account as of the last valuation date of the month and any transactions that have occurred during the period.

### Private Funds

For Private Funds with investors who are U.S. Persons (“U.S. Private Fund”), the assets of the U.S. Private Funds are held and maintained by licensed/registered trust companies or banks that also act as the fund administrator. The Fund Administrator for each U.S. Private Fund generally provides access to the investors electronically that permits the investors to access the account status and annual statements directly to each investor. An audit is conducted annually by an independent accounting firm with copies of the audited accounts provided to each investor.

### Segregated Accounts

The assets of each Segregated Account owned by a U.S. Person are held by a custodian selected by the Segregated Account Client. The custodian is either a bank or broker-dealer and the Client establishes the account in the client’s name and provides discretionary third party trading authorization to VP as the manager. The custodian of the account provides monthly statements to the Client directly through electronic access or in paper form. VP invoices the Client directly for all fees and charges and the client determines the source that they wish to settle the payment which could include directing the custodian to pay the invoice. VP has no authority to and does not direct the custodian to deduct its fees from the Segregated Accounts.

Clients receive statements concerning their portfolios from fund administrators or their custodians. VP encourages clients to review the statements carefully and/or to compare the statements received from the custodians with those from VP.



## **Item 16 – Investment Discretion**

Value Partners provides both discretionary and non-discretionary investment advisory services. The vast majority of our services are discretionary, which allows us to manage portfolios and make investment decisions without client consultation regarding the securities and other assets that are bought and sold for the account. In all cases, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular fund or client account.

### Private Funds and Authorised Funds

Pursuant to VP's agreements with the Funds, VP has investment discretion with respect to the investment of the assets within the Funds. The investment restrictions are stated in the PPM, Prospectus or EM.

### Segregated Accounts

VP is granted investment discretion pursuant to its agreement with each Segregated Account Client. VP generally receives discretionary authority from Segregated Account Clients to select, and to determine the quantity of, securities or financial instruments to be bought or sold for the Segregated Clients' portfolios. In exercising its discretionary authority to make investment decisions for a Segregated Account Clients' portfolios, VP adheres to the investment policies, limitations and restrictions of the portfolios. Any restraints on the investment discretion that VP may exercise are established by the Segregated Account Client and agreed by VP within the investment management agreement prior to the establishment of an advisory relationship. A Segregated Account Client may impose additional restrictions regarding the exercise of investment discretion by VP by providing restrictions in separate writing.

For non-discretionary relationship, VP makes periodic investment recommendations to clients about the securities that should be bought or sold and the total amount of such transactions in accordance with the investment objectives and restrictions in the advisory agreement. For certain clients, VP is also responsible for transaction execution and monitoring of investment restrictions. All proposed transactions are subject to client approval prior to execution.

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

As a registered investment adviser that exercises discretionary authority over client securities, VP has a fiduciary duty to vote proxies in a timely manner and make voting decisions that are in the clients' best interests. VP would accept authority to vote client securities and would assume responsibility for voting proxies even the client agreement is silent as to proxy voting responsibility. VP has adopted a written "Proxy Voting Policies and Procedures" as required by Advisor Act Rule 206(4)-6. These policies and procedures are reasonably designed to ensure that proxies are voted in the best interest of its clients, which generally means voting proxies with a view to enhancing the value of client securities. The financial interest of clients is the primary consideration in determining how their proxies should be voted. VP will take reasonable measures under the circumstances to:

- i. obtain knowledge of meetings and other events giving rise to solicitation of proxies;
- ii. assure that proxies are received in sufficient time for it to take action;
- iii. vote proxies; and
- iv. return the proxies to the parties soliciting them in time to be counted.

VP will endeavor to vote and fulfill our active ownership duties but may refrain from voting in limited circumstances. VP has engaged a professional third party proxy advisory firm to provide information to assist VP to vote on an informed basis with respect to issues presented by proxies. In addition to professional advice, VP will also incorporate findings from our fundamental research on our investees to vote in a manner that is to the best interest of our clients. VP may supplement its knowledge by reference to publications or other readily available public sources but VP does not expect to independently investigate facts relating to issues presented by proxy statements.

### General Guidelines

It is not possible to present a comprehensive roadmap for the voting of proxies. The following general guidelines set out VP's general approach but each situation must be judged on its own merit.

The decision to invest in a company normally represents confidence in the management of that company. Consequently, in the absence of evidence reducing VP's confidence in management, VP tends to give considerable weight (by no means conclusive weight) to management recommendations, except in the case of issues directly affecting the interests of management itself, such as management compensation.

VP normally incorporates Environmental, Social and Governance (ESG) considerations when voting and believes ESG considerations of investee companies will impact their mid to long term earnings.

- Board and Key Committee Independence

- VP favors having strong independent directors and supports delegation of key functions (such as compensation, audit and nominating committees) to independent directors. VP believes that at least 1/3 of the board should comprise of independent directors. For smaller companies, 2 independent directors may be sufficient.
- VP generally votes against the election of executives who serve on the company's audit committee. If a company does not have an audit committee, we may consider that the entire board fulfills the role of a committee. In such case, we may recommend against the executives, including the CEO, up for election to the board. Generally vote against non-independent members of the audit and remuneration committees if their election would lead to a non-independent majority on the committees.
- VP supports board diversity and believes that the board should comprise of directors with an appropriate range of skills and experiences. Diversity in gender and background are amongst the factors we consider when assessing board composition.
- Remuneration
  - VP generally votes against remuneration policies or proposals that are excessive and/or mis-incentivise management. VP generally believes that remuneration should be linked to clear and appropriate short and long term performance metrics.
  - VP believes that long term share-based incentives properly aligns management and shareholders and encourages staff participation in such incentives. Since VP's investment philosophy strongly favors long-term capital appreciation, its assessment of proposals for management compensation will take into account positioning for achievement of long-term goals as well as shorter-term performance.
  - VP generally votes against excessive termination payments to parting directors.
- Audits & Accounts
  - Consistent with VP approach to voting on boards of directors, VP seeks to hold the audit committee of the board responsible for overseeing the management of the audit function at a company, and may withhold votes from the audit committee members where the board has failed to facilitate quality, independent auditing. VP generally votes against ratification of auditors where fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law.
- Capital Structure
  - Authorised Capital Increase: VP generally votes for non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.

- Preemptive Rights: VP generally votes for (i) general issuance requests with preemptive rights up to 50 percent of issued capital, (ii) general issuance requests without preemptive rights up to 10 percent of issue capital.

These general guidelines are not exhaustive and do not include all potential voting issues. Proposals not covered by the guidelines and contested situations are evaluated on a case-by-case basis, taking into consideration all of the relevant facts and circumstances at the time of the vote.

Regardless of the issues presented, VP will be mindful of its duty to vote proxies in the best interest of its clients. VP may defer to instructions of its clients as to voting their securities with respect to specific issues as it deems appropriate.

#### Potential Proxy Conflicts

For any voting proposals where VP determines that it has a potential material conflict of interest, VP will take steps to ensure that our voting decision is based on the clients' best interest and is not the product of a conflict. VP may:

- i. refer the proposals to the clients and obtain instructions from the clients on how to vote the proxies relating to those proposals;
- ii. (if VP is in a position to disclose the conflict to the clients i.e. such information is not confidential) determine how it proposes to vote the proposals on which it has a conflict, disclose the conflict to the clients and seek their consents before exercising a proxy;
- iii. take such other action such as consulting an independent third party such as external legal counsel as VP reasonably deems appropriate.
- iv. take action based on discussions at the Risk Management Committee, where appropriate senior risk management staff are present.

#### Voting Transparency

Clients may obtain a copy of our Proxy Voting Policies and Procedures or information about how client proxies were voted by writing to VP upon request.

## **Item 18 – Financial Information**

Audited financial statements of the ultimate holding company, Value Partners Group Limited are publicly disclosed at the following website:

<https://www.valuepartners-group.com/en/investor-relations/financial-information/annual-and-interim-reports/>

VP does not require prepayment of any fees. VP is not presently aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients, nor has VP has been the subject of bankruptcy petition during the past ten years.