

**MERCER QIF FUND PLC  
(THE “COMPANY”)**

**SECOND ADDENDUM DATED 22 APRIL 2020  
TO THE PROSPECTUS DATED 1 OCTOBER 2018 AS AMENDED BY THE FIRST ADDENDUM  
DATED 20 DECEMBER 2019**

This Second Addendum forms part of, and is to be read in conjunction with the prospectus dated 1 October 2018 as amended by the first addendum dated 20 December 2019 in relation to the Company (the “Prospectus”) together with each of the latest supplements in respect of the Sub-Funds of the Company (the “Supplements”) and all capitalised terms used herein shall have the meanings set out in the Prospectus. Distribution of this Addendum is not authorised unless accompanied by a copy of the Prospectus.

The Prospectus is amended as follows:

1. The section of the Prospectus entitled “**DIRECTORY**” is amended by replacing the section entitled “**Directors**” in its entirety with the following:

*“Tom Finlay  
Michael Dempsey  
Gráinne Alexander  
Hooman Kaveh  
Helen O’Beirne”*

2. The section of the Prospectus entitled “**SPECIAL CONSIDERATIONS AND RISK FACTORS**” is amended by adding the following risk disclosures directly beneath the paragraph under “**Cyber Security**”:

**“CHINA MARKET RISKS**

“**PRC**” means the People’s Republic of China and “**RMB**” means renminbi, the lawful currency of the PRC.

“**Stock Connect**” is a method used to achieve exposure to the People’s Republic of China by investing in eligible China A-Shares traded on the Shanghai Stock Exchange via the Shanghai-Hong Kong Stock Connect scheme and the Shenzhen Stock Exchange via the Shenzhen-Hong Kong Stock Connect scheme.

“**Bond Connect**”, is an initiative launched in July 2017 for mutual bond market access between the PRC and Hong Kong, established by the China Foreign Exchange Trade System & National Interbank Funding Centre (“**CFETS**”), China Central Depository & Clearing Co., Ltd (“**CCDC**”), Shanghai Clearing House, Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit.

The Qualified Foreign Institutional Investor (“**QFII**”) and Renminbi Qualified Foreign Institutional Investor (“**RQFII**”) schemes allow for investment in Chinese securities through quotas subject to applicable Chinese regulatory requirements.

**General China Market Risks**

*PRC Governmental, Political, Economic and Related Considerations*

For over a decade, the PRC government has been reforming the economic and political systems of the PRC. Whilst these reforms may continue, many of the reforms are unprecedented or experimental and may be refined or changed. Political, economic and social factors could also lead to further readjustments to the reform measures. A Sub-Fund's operations and financial results could be adversely affected by adjustments in the PRC's state plans, political, economic and social conditions, changes in the policies of the PRC government such as changes in laws and regulations (or the interpretation thereof), measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and the imposition of additional import restrictions. Furthermore, a portion of the economic activity in the PRC is export-driven and, therefore, is affected by developments in the economies of the PRC's principal trading partners.

The PRC economy has experienced significant growth in recent years, but such growth has been uneven both geographically and among the various sectors of the economy. The PRC government has implemented various measures from time to time to control inflation and to regulate economic expansion with a view to preventing overheating of the economy.

The transformation from a centrally planned, socialist economy to a more market-oriented economy has also resulted in some economic and social disruptions and distortions. Moreover, there can be no assurance that the economic and political initiatives necessary to achieve and sustain such a transformation will continue or, if such initiatives continue and are sustained, that they will be successful.

In the past the PRC government has applied nationalisation, expropriation, confiscatory levels of taxation and currency blockage. There can be no assurance that this will not re-occur and any re-occurrence could adversely affect the interests of a Sub-Fund.

#### *Developing Legal System and Investment Regulations*

Investment in the PRC via Stock Connect, Bond Connect and or the QFII/RQFII regime is governed by a series of laws, regulations and rules (including any amendments to the foregoing from time to time) (the "**Investment Regulations**" in respect of Stock Connect and Bond Connect).

The PRC's legal system is based on written statutes under which prior court decisions may be cited for reference but do not form a set of binding precedents. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal requirements (including the Investment Regulations, as applicable) are relatively recent, their interpretation and enforcement involve significant uncertainty. In addition, the PRC laws governing business organisations, bankruptcy and insolvency provide substantially less protection to security holders than that provided by the laws of more developed countries.

In particular, the securities market and the regulatory framework for the securities industry in China is at an early stage of development. The Investment Regulations, under which a Sub-Fund invests in the PRC via Stock Connect and / or Bond Connect and which regulate investment, repatriation and currency conversion, are relatively new. The application and interpretation of the Investment Regulations to Stock Connect and Bond Connect is therefore largely untested and there is uncertainty as to how they will be applied. In addition, with respect

to Stock Connect and Bond Connect, the Investment Regulations give the relevant PRC regulators (including without limitation to China Securities Regulation Commission (“**CSRC**”), the State Administration of Foreign Exchange (“**SAFE**”) and the People’s Bank of China (“**PBOC**”)) wide discretions and there is limited precedent or certainty as to how these discretions might be exercised, either now or in the future. The Investment Regulations may be varied in the future. Although it is hoped that any such revisions to the Investment Regulations will not prejudice a Sub-Fund, there can be no assurance that this will be the case.

#### *Corporate Disclosure, Accounting and Regulatory Standards*

The PRC’s disclosure and regulatory standards are in many respects less stringent than standards in many OECD Member States. There may be less publicly available information about PRC companies than is regularly published by or about companies based in OECD Member States and such information as is available may be less reliable than that published by or about companies in OECD Member States. PRC companies are subject to accounting standards and requirements that differ in significant respects from those applicable to companies established or listed in OECD Member States. As a result, the lower levels of disclosure and transparency of certain material information may impact the value of investments made by a Sub-Fund and may lead to the Sub-Fund or its service providers having an inaccurate conclusion about the value of its investments. This, if combined with a weak regulatory environment, could result in lower standards of corporate governance and less protection of minority shareholder rights of the companies in which a Sub-Fund will invest.

#### *General Economic and Market Conditions*

The performance of a Sub-Fund’s investments in China may be affected by the general economic and market conditions in China, such as interest rates, availability and terms of credit facilities, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may result in volatile and unstable prices, and could impair a Sub-Fund’s performance. The occurrence, continuation or deterioration of adverse economic and market conditions may result in decreased market values of a Sub-Fund’s investments in China.

The PRC securities markets are undergoing a period of development and change which may lead to difficulties in the settlement and recording of transactions and uncertainty in interpreting and applying the relevant regulations. In addition, the regulation of, and enforcement activity in, the PRC securities markets may not be equivalent to that in markets in OECD Member States. There may not be equivalent regulations and monitoring of the PRC securities market and activities of investors, brokers and other participants to that in certain OECD Member States. In addition, the Shanghai and the Shenzhen Stock Exchange (the “**Exchanges**”) typically have the right to suspend or limit trading in any security traded on the relevant Exchange. The PRC government or relevant PRC regulators may also implement policies that may adversely affect the PRC financial markets. Such suspensions, limitations or policies may have a negative impact on the performance of a Sub-Fund’s investments.

#### *Concentration Risk*

Although the Investment Manager and the Sub-Investment Managers intend that each Sub-Fund will hold a diversified portfolio, conditions in the PRC and the PRC markets may mean that at times when the Investment Manager and the Sub-Investment Managers are not able to identify sufficient attractive investment opportunities, any of the Sub-Funds may hold large

absolute and relative risk positions in a relatively limited number of investments which could give rise to significant losses if such investment positions decline in value.

#### *Foreign Exchange Risk*

The Sub-Funds may invest primarily in securities denominated in RMB but the Net Asset Value will be quoted in the Base Currency of the relevant Sub-Fund. Accordingly, a change in the value of RMB against a Base Currency which is not RMB will result in a corresponding change in the Base Currency denominated Net Asset Value of the relevant Sub-Funds. In addition, to the extent that a Sub-Fund does not invest, or delays its investment into, such RMB denominated securities it will be exposed to fluctuations in the exchange rate of RMB.

For the purposes of a Sub-Fund's investments in China, RMB are exchangeable into the Base Currency at prevailing market rates, though the RMB is not freely convertible and is subject to exchange controls and restrictions. Currency exchange rates may fluctuate significantly over short periods of time causing, along with other factors, a Sub-Fund's Net Asset Value to fluctuate as well. Currency exchange rates generally are determined by the forces of supply and demand in the currency exchange markets and the relative merits of investments in different countries, actual or anticipated changes in interest rates and other complex factors, as seen from an international perspective. However, currency exchange rates as in the PRC can also be affected unpredictably by intervention or failure to intervene by relevant governments or central banks or by currency controls or political developments.

A Sub-Fund may (but is not obliged to) seek to hedge foreign currency risks but as the foreign exchange of RMB is regulated, such hedging even if effected may only result in an imperfect hedge. There can be no assurance that any hedging, particularly such imperfect hedging, will be successful. Equally, failure to hedge foreign currency risks may result in the Sub-Fund bearing the burden of exchange rate fluctuations. A Sub-Fund may hedge the currency exposure of its investments into its Base Currency.

The Sub-Fund's investments via RQFII, Stock Connect and/or Bond Connect may be settled in offshore RMB (CNH) while the Sub-Fund's investments via QFII are settled in onshore RMB (CNY). Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

#### *Taxation*

Under current PRC tax laws, regulations and practice, the Company and the Investment Manager may be subject to PRC tax, directly or indirectly, in respect of the assets held through Stock Connect, Bond Connect and / or QFIIs and RQFIIs. The Company will be responsible to reimburse the Investment Manager for all PRC taxes and duties of any kind incurred by the Investment Manager and attributable to the assets of the Company held through Stock Connect, Bond Connect and / or QFIIs and RQFIIs. The tax law and regulations of the PRC are constantly changing, and they may be changed with retrospective effect. The interpretation and applicability of the tax law and regulations by tax authorities are not as consistent and transparent as those of more developed nations, and may vary from region to region. Moreover, the PRC taxes and duties payable by the Investment Manager and which are to be reimbursed by the Company to the extent attributable to the assets held through Stock Connect, Bond Connect and / or QFIIs and RQFIIs may change at any time.

The treatment of tax under the Investment Regulations is not clear. Accordingly, where the Investment Regulations require a custodian / clearing house / any other agent stipulated by such rules to withhold any tax, or where such custodian / clearing house / any other agent has a reasonable basis for believing that such withholding may be required, the custodian / clearing house / any other agent may do so at the rate required by the regulation, or if in the custodian's opinion the Investment Regulations are not very clear on the rate, at such rate as the custodian/clearing house / any other agent may, reasonably determine to be appropriate. Tax may be withheld on a retroactive basis.

Given the uncertainty surrounding the Company's potential PRC tax liabilities or reimbursement obligations, the Net Asset Value of a Sub-Fund on any Dealing Day may not accurately reflect such liabilities. This may mean that incoming Shareholders pay more for their Shares than they otherwise would/should have done. In the event of a redemption of Shares at such Net Asset Value, the remaining Shareholders will bear the burden of any liabilities which had not been accrued in the Net Asset Value. The Company will use its reasonable endeavours to recover their proportionate share of the liabilities from redeeming Shareholders, but investors should be aware that the Company may not be successful in such endeavours and that unequal allocation of tax liability is a potential risk of investing in the Company. In addition, investors should be aware that under-accrual or over-accrual for PRC tax liabilities may impact the performance of the Sub-Funds during the period of such under-accrual or over-accrual and following any subsequent adjustments to the Net Asset Value.

#### PRC Corporate Income Tax

Under current PRC Corporate Income Tax Law and regulations, any company considered to be a tax resident of the PRC would be subject to PRC Corporate Income Tax ("CIT") at the rate of 25% on its worldwide taxable income. If a company were considered to be a non-resident enterprise with a "permanent establishment" ("PE") in the PRC, it would be subject to CIT at the rate of 25% on the profits attributable to the PE. The Company, together with the Investment Manager, does not intend to operate in a way that would cause the Company to be treated as tax resident of the PRC and to have a PE in the PRC, though this cannot be guaranteed. It is possible, however, that the PRC could disagree with such an assessment or that changes in PRC tax law could affect the PRC CIT status of the Company.

If the Company is a non-PRC tax resident enterprise without PE in the PRC, the PRC-sourced income (including cash dividends, distributions, interest and capital gains) derived by it from any investment in PRC securities would be subject to PRC withholding income tax at the rate of 10%, unless exempt or reduced under the PRC CIT Law or a relevant tax treaty.

The Company is also subject to a stamp duty at the rate of 0.1% arising from the sale of China A Shares and the transfer of China A Shares by way of succession and gift in accordance with the prevailing PRC taxation regulations.

#### *Taxation – Specific considerations for Stock Connect and Bond Connect*

Especially, in respect of trading of China A Shares through the Stock Connect and pursuant to the *circular dated 31 October 2014 on the Taxation Policy of the Pilot Programme for the Mutual Stock Market Access between Shanghai and Hong Kong Stock Markets* under Caishui [2014] No. 81, the *circular dated 5 November 2016 on the Taxation Policy of the Pilot Programme for the Mutual Stock Access between Shenzhen and Hong Kong Stock Markets* under Caishui [2016] No. 127 and other relevant applicable PRC taxation rules:

- CIT and value-added tax (“**VAT**”) shall be exempt on a temporary basis on the gains earned by the Stock Connect Investors (including corporate and individual investors) from the transfer of China A Shares listed on Shanghai Stock Exchange (“**SSE**”)/Shenzhen Stock Exchange (“**SZSE**”); and
- Stock Connect Investors are required to pay tax on dividend and bonus of China A Shares at a standard rate of 10%, which will be withheld and paid to the relevant PRC tax authority by the respective listed companies (before the Hong Kong Securities Clearing Company Limited (“**HKSCC**”) is able to provide details such as investor identities and holding periods to ChinaClear, the policy of differentiated rates of taxation based on holding periods will temporarily not be implemented) and are entitled to a tax refund if a lower tax rate is applicable under a relevant tax treaty, subject to the approval by the relevant PRC tax authority.

In addition, except for interest income from certain bonds (i.e. government bonds, local government bonds and railway bonds which are entitled to a 100% CIT exemption and 50% CIT exemption respectively in accordance with the Implementation Rules to the Enterprise Income Tax Law and a circular dated 10 March 2016 on the Circular on Income Tax Policies on Interest Income from Railway Bonds under Caishui [2016] No. 30), interest income derived by non-resident institutional investors from other bonds traded through Bond Connect is PRC-sourced income and should be subject to PRC withholding income tax at a rate of 10% and VAT at a rate of 6%. On 22 November 2018, the Ministry of Finance and State Administration of Taxation jointly issued Circular 108, *the circular dated 7 November 2018 on the Taxation Policy of Corporate Income Tax and Value-Added Tax in relation to Bond Investments made by Offshore Institutions in Domestic Bond Market*, to clarify that foreign institutional investors (including foreign institutional investors under Bond Connect) are temporarily exempt from PRC withholding income tax and VAT with respect to bond interest income derived in the PRC bond market for the period from 7 November 2018 to 6 November 2021. Circular 108 is silent on the PRC withholding income tax and VAT treatment with respect to non-government bond interest derived prior to 7 November 2018, which is subject to clarification from the PRC tax authorities.

Capital gains derived by non-resident institutional investors (with no place or establishment or permanent establishment in the PRC) from the trading of bonds through the Bond Connect are technically non PRC-sourced income under the current CIT law and regulations, therefore, not subject to PRC CIT. While the PRC tax authorities are currently enforcing such non-taxable treatment in practice, there lacks clarity on such non-taxable treatment under the current CIT regulations.

According to Caishui [2016] No. 70 (“**Circular 70**”), *the Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on VAT Policies for Interbank Dealings of Financial Institutions*, gains derived by foreign institutions approved by PBOC from the investment in the inter-bank RMB markets (including currency market, bond market and derivative market) shall be exempt from VAT.

#### *Taxation – Specific considerations for the QFII and RQFII regime*

In respect of trading of China A Shares through QFIIs and RQFIIs and pursuant to the *circular dated 17 November 2014 on PRC withholding income tax treatment with respect to gains derived by QFIIs and RQFIIs from the trading of shares in PRC resident enterprises* under Caishui [2014] No. 79, *circular dated 23 March 2016 regarding VAT pilot arrangements* under Caishui [2016] No. 36, *circular dated 30 June 2016 on expanded categories of VAT exemption*

*affecting the financial services sector* under Circular 70 and other relevant applicable PRC taxation rules:

- CIT shall be exempt on a temporary basis on capital gains derived from the disposal of shares and other equity investments (including China A Shares) through QFII and RQFII; and
- VAT shall be exempt on a temporary basis in respect of gains derived from trading of PRC securities via QFII and RQFII. Consequentially, urban maintenance and construction tax, educational surcharges and local educational surcharges (which are all imposed based on VAT liabilities) are exempt on gains derived from trading of PRC securities via QFII and RQFII.

There is no guarantee that the temporary tax exemption or non-taxable treatment with respect to assets traded via Stock Connect, Bond Connect, QFII and RQFII described above will continue to apply, will not be repealed and re-imposed retrospective, or that no new tax regulations and practice in China specifically relating to such programs will not be promulgated in the future. Such uncertainties may operate to the advantage or disadvantage of Shareholders in the Company and may result in an increase or decrease in Net Asset Value of the Company. For example, to the extent that the PRC tax authority retrospectively imposes taxes on the capital gains realised by the Company through QFII and RQFII, the Net Asset Value of the relevant Sub-Fund would be adversely affected but the amount previously paid to a redeeming Shareholder would not be adjusted. As a result, any detriment from such change would be suffered by the remaining Shareholders.

### **Stock Connect**

A Sub-Fund may invest in the China A Shares market of the PRC through the Stock Connect either by directly investing in securities available on the Stock Connect ("**Stock Connect Securities**") or by investing in financial instruments and other market access products linked to such Stock Connect Securities such as futures. China A Shares are shares of companies incorporated in the PRC and listed on the SSE or the SZSE.

Stock Connect is a mutual market access programme through which Hong Kong and overseas investors ("**Stock Connect Investors**") can deal in selected securities listed on SSE and/or SZSE, and qualified PRC domestic investors can deal in selected securities listed on The Stock Exchange of Hong Kong Limited ("**SEHK**") through a platform put in place between SSE/SZSE and SEHK. As at the date of the Prospectus, the Stock Connect programme has been developed between Hong Kong and mainland China by, among others, SSE/SZSE, SEHK, HKSCC and the China Securities Depository and Clearing Corporation ("**CSDCC**"). Under Stock Connect, the Shanghai-HK Connect and the Shenzhen-HK Connect operate independently from each other with substantially similar regulatory framework and operating mechanism.

Stock Connect provides a "northbound link", through which Stock Connect Investors may purchase and indirectly hold eligible A Shares listed on SSE and/or SZSE ("**Northbound Trading**") as well as a "southbound link", through which PRC investors may purchase and indirectly hold eligible shares listed on the SEHK.

Shareholders should note that Stock Connect is a new trading programme. The relevant regulations are untested and subject to change and there is no assurance that Stock Connect will be permitted to continue in existence or the relevant Stock Connect rules will not be changed

in a way prejudicing the interests of the Stock Connect Investors. Northbound Trading under Stock Connect is subject to daily quota limitations which may restrict a Sub-Fund's ability to deal via Stock Connect on a timely basis. This may impact that Sub-Fund's ability to implement its investment strategy effectively. The scope of securities in Stock Connect is subject to adjustment by the relevant applicable regulator, agency or authority with jurisdiction, authority or responsibility in respect of Stock Connect ("**Stock Connect Authorities**") from time to time (see the paragraph headed "The recalling of eligible stocks and trading restrictions" below). This may adversely affect a Sub-Fund's ability to achieve its investment objective, for example, where a security that the Investment Manager wishes to purchase on behalf of a Sub-Fund is recalled from the scope of Stock Connect Securities. In addition, Stock Connect and its technology and risk management capability has only a short operating history. There is no assurance that the systems and controls of the Stock Connect programme will function as intended or whether they will be adequate.

#### *Pre-trade Check and Enhanced Pre-trade Check*

The Investment Regulations provide that SSE/SZSE may reject a sell order if an investor does not have sufficient available China A Shares in its account.

SEHK will apply a similar check on all sell orders of Stock Connect Securities on the Northbound Trading link at the level of SEHK's registered exchange participants ("**Exchange Participants**") to ensure there is no overselling by any individual exchange participant ("**Pre-Trade Checking**").

The Pre-Trade Checking requirement may require a pre-trade delivery of the Stock Connect Securities from a Stock Connect Investor's domestic custodian or sub-custodian to the Exchange Participant which will hold and safekeep such securities so as to ensure that they can be traded on a particular trading day. There is a risk that creditors of the Exchange Participant may seek to assert that such securities are owned by the Exchange Participant and not the Stock Connect Investor, if it is not made clear that the Exchange Participant acts as a custodian in respect of such securities for the benefit of the Stock Connect Investor.

Alternatively, if the relevant Stock Connect Investor maintains its China A Shares with a custodian which is a custodian participant or general clearing participant participating in the Hong Kong Central Clearing and Settlement System ("**CCASS**"), the Stock Connect Investor may request such custodian to open a special segregated account ("**SPSA**") in CCASS to maintain its holdings in China A Shares under the enhanced pre-trade checking model ("**Enhanced Pre-Trade Checking**"). Each SPSA will be assigned a unique "Investor ID" by CCASS for the purpose of facilitating the Stock Connect system to verify the holdings of a Stock Connect Investor. Provided that there is sufficient holding in the SPSA when a broker inputs the Sub-Fund's sell order, the Sub-Fund will only need to transfer the China A Shares from its SPSA to its broker's account after execution and not before placing the sell order and the Sub-Fund will not be subject to the risk of being unable to dispose of its holdings of China A Shares in a timely manner due to failure to transfer China A Shares to its brokers in a timely manner. Whilst the Enhanced Pre-Trade Checking model is a positive step towards addressing the pre-trade delivery issue, it is expected that more work and industry and/or regulatory discussions are required in order to make it widely acceptable.

As a practical matter, it may limit the number of brokers that the Sub-Funds may use to execute trades. In relation to transactions executing through an SPSA order, the Stock Connect Investor, may at most designate 20 brokers currently.



The Sub-Fund may also trade Stock Connect Securities through a broker affiliated to the Sub-Fund's sub-custodian, who is an Exchange Participant and a clearing agent of its affiliated broker. In that case, no pre-trade delivery of securities is required and the above risk arising from Pre-Trade Checking or Enhanced Pre-Trade Checking may be mitigated. However, under such situation, whilst the Investment Manager will be cognisant of its best execution obligations it may not have the ability to trade through multiple brokers and any switch to a new broker may not be possible without a commensurate change to the Sub-Fund's sub-custody arrangements.

#### *Nominee Holding Structure, Voting Right and Corporate Actions*

Stock Connect Securities will be held following settlement by brokers or custodians as clearing participants in accounts in the CCASS maintained by HKSCC as central securities depository in Hong Kong and as nominee holder. HKSCC is the "nominee holder" of the Stock Connect Securities acquired by a Stock Connect Investor. While the distinct concepts of "nominee holder" and "beneficial owner" are generally recognised under the PRC Stock Connect rules as well as other laws and regulations in mainland China, the application of such rules is untested, and there is no assurance that PRC courts will recognise such rules, e.g. in liquidation proceedings of PRC companies or other legal proceedings. To the extent that HKSCC is deemed to be performing safekeeping functions with respect to assets held through it, the Sub-Fund will have no legal relationship with HKSCC and no direct legal recourse against HKSCC in the event that the Sub-Fund suffers losses resulting from the performance or insolvency of HKSCC. Also, in the unlikely event that HKSCC becomes subject to winding up proceedings in Hong Kong, investors should note that the Stock Connect Securities will not be regarded as part of the general assets of HKSCC available for distribution to creditors even under PRC law. Stock Connect Investors who hold the Stock Connect Securities (as beneficial owners) shall generally exercise their rights in relation to the Stock Connect Securities through HKSCC as the nominee holder. Under the CCASS rules, HKSCC is prepared to provide assistance to the Stock Connect Investors in bringing the legal action in the PRC where necessary, subject to certain conditions, though it has no obligation to do so. Accordingly, the Company may only exercise voting rights with respect to Stock Connect Securities by giving voting instructions to HKSCC (through CCASS participants), who will then consolidate such instructions and submit them in the form of a combined single voting instruction to the relevant SSE/SZSE-listed company. Therefore, the Sub-Fund may not be able to exercise voting rights in respect of the underlying company in the same manner as in other markets.

In addition, any corporate action in respect of Stock Connect Securities will be announced by the relevant issuer through the SSE/SZSE website and certain officially appointed newspapers. Stock Connect Investors may refer to the SSE/SZSE website and the relevant newspapers for the latest listed company announcements or, alternatively, the website of the Hong Kong Exchanges and Clearing Limited for corporate actions in respect of Stock Connect Securities issued on the previous trading day. However, SSE/SZSE-listed issuers publish corporate documents in Chinese only and English translations will not be available.

Given the short timescale within which proxy voting or other corporate actions are required to be taken in relation to the Stock Connect Securities, there is no assurance that CCASS participants who participate in Stock Connect will or will continue to provide or arrange for the provision of any voting or other related services. Accordingly, there is no assurance that the Sub-Fund will be able to exercise any voting rights or participate in any corporate actions in relation to Stock Connect Securities in time or at all.

#### *Northbound Investor ID Model*

An investor identification model for Northbound Trading under Stock Connect ("**Northbound Investor ID Model**") was launched on 26 September 2018. Under the Northbound Investor ID Model, Exchange Participants will be required to assign a unique number known as the Broker-to-Client Assigned Number ("**BCAN**") to each Stock Connect Investor in Northbound Trading. Each BCAN should be mapped to the client identification data ("**CID**") of that particular client which includes the client's name, identity document issuing country, ID type and ID number. Each of the Exchange Participants is required to submit the BCAN-CID mappings of all its Northbound Trading clients to SEHK. If the BCAN-CID mapping of a client has not been received by SEHK at or before the prescribed T-1 day cut-off time, or such mapping information has failed the relevant validation check, the corresponding client shall not be allowed to place trading orders on T day.

Given the Northbound Investor ID Model is different from the current trading practice in Hong Kong market and is newly adopted, there is no assurance that the system will operate normally or the Sub-Fund as a Stock Connect Investor will satisfy the relevant requirements. Any malfunction of the Northbound Investor ID Model or failure of the Company to participate in Northbound Trading may adversely affect the Company's performance.

#### *Restriction on Day Trading*

Save with a few exceptions, day (turnaround) trading is generally not permitted on the A Share market. If a Sub-Fund buys Stock Connect Securities on a dealing day (T), the Sub-Fund may not be able to sell the Stock Connect Securities until on or after T+1 day.

#### *Not protected by Investor Compensation Fund*

Investors should note that if a Sub-Fund engages in any Northbound Trading, the Sub-Fund will not be covered by Hong Kong's Investor Compensation Fund or the China Securities Investor Protection Fund and thus investors will not benefit from compensation under such schemes.

#### *Daily Quotas Used up*

There is a daily quota for Northbound Trading on the Shanghai-HK Connect and Shenzhen-HK Connect respectively. Once the daily quota on SSE or SZSE is used up, acceptance of the corresponding buy orders on SSE or SZSE (as applicable) will be immediately suspended and no further buy orders will be accepted for the remainder of the trading day. Buy orders which have been accepted will not be affected by the using up of the daily quota, while sell orders will be continued to be accepted.

#### *Difference in Trading Day and Trading Hours and other Operational Restrictions*

Due to differences in public holidays between Hong Kong and mainland China or other reasons such as bad weather conditions, there may be a difference in trading days and trading hours between SSE/SZSE and SEHK. Stock Connect will only operate on days when both markets are open for trading and when banks in both markets are open on the corresponding settlement days. There may be occasions when it is a normal trading day for the mainland China market but it is not possible to carry out any China A Shares trading in Hong Kong. Additionally, SEHK (or any relevant subsidiary) may, under certain circumstances as specified in the SEHK rules, temporarily suspend or restrict all or part of the order-routing and related supporting services with regard to all or any Northbound Trading and for such duration and frequency as SEHK may consider appropriate at any time and without advance notice.

As such, there is a risk of price fluctuations in China A Shares during the time when Northbound Trading is suspended or restricted as described above.

#### *The Recalling of Eligible Stocks and Trading Restrictions*

A stock may be recalled from the scope of eligible stocks for trading via Stock Connect for various reasons, and in such event the stock can only be sold but is restricted from being bought. This may adversely affect the ability of a Sub-Fund to achieve its investment objective.

Under Stock Connect, the Investment Manager will only be allowed to sell China A Shares but restricted from further buying under certain circumstances including without limitation to: (i) the A Share subsequently ceases to be a constituent stock of the relevant indices; (ii) the A Share is subsequently under "risk alert"; and/or (iii) the corresponding H share of the A Share subsequently ceases to be traded on SEHK. Price fluctuation limits are also applicable to China A Shares.

#### *Local market rules, foreign shareholding restrictions and disclosure obligations*

Under Stock Connect, China A Shares listed companies and trading of China A Shares are subject to market rules and disclosure requirements of the China A Shares market. Any changes in laws, regulations and policies of the China A Shares market or rules in relation to Stock Connect may affect share prices. Foreign shareholding restrictions and disclosure obligations are also applicable to China A Shares.

The Company and the Investment Manager will be subject to restrictions on trading (including restriction on retention of proceeds) in China A Shares as a result of their interest in the China A Shares and are responsible for compliance with all notifications, reports and relevant requirements in connection with such interests.

Under current PRC law, once an investor holds up to 5% of the shares of a PRC-listed company, the investor is required to disclose his interest within three days in accordance with the applicable regulations and during the reporting period he cannot trade the shares of that company. The investor is also required to disclose any change in his shareholding and comply with related trading restrictions in accordance with PRC law. Also, should it exceed 5%, the Sub-Fund may not reduce its holdings in such company within 6 months of the last purchase of shares of such company (the "**Short Swing Profit Rule**"). If the Sub-Fund violates this Short Swing Profit Rule, it may be required by the listed company to return any profits realised from such trading to the listed company. Moreover, under PRC civil procedures, the Sub-Fund's assets may be frozen to the extent of the claims made by such PRC company. These risks may greatly impair the performance of the Sub-Funds.

For the purposes of the calculation of the 5%, the Sub-Fund may be deemed as a concerted party with its investors, of other funds managed within the Marsh & McLennan Companies, Inc. group or a substantial shareholder of the Marsh & McLennan Companies, Inc. group (unless there exists evidence to the contrary) and therefore may be subject to the risk that the Sub-Fund's holdings may have to be reported in aggregate with the holdings of such other investors or funds should the aggregated holdings trigger the reporting threshold under the Investment Regulations. In addition, the onshore listed shares and offshore listed shares held by each of the concerted parties in an individual listed company need to be aggregated for such calculation purpose above. This may expose the Sub-Fund's holdings to the public with an adverse impact on the performance of the Sub-Funds. There has also been a recent regulatory trend to tighten

the disclosure of interests requirements by the relevant PRC regulators and stock exchanges, therefore further requirements may be applied in this regard.

Also, investment in China A Shares through derivative instruments or structured products may be taken into account for this calculation. For example, if the Sub-Fund has de facto control over the exercise of the voting rights of the underlying China A Shares in relation to the derivative instruments or structured products, even though the Sub-Fund is not the legal owner of these shares, the Sub-Fund is subject to disclosure of interest requirements. Any investor may not utilise inside information to trade the shares of a PRC listed company or conduct market manipulation trades, and the trade orders of the Sub-Fund may not breach this requirement. If the Sub-Fund has de facto control over the exercise of the voting rights of the underlying shares of a PRC listed company that exceed 5% of the company's shares, it might be deemed as a 5% shareholder and may be restricted in its trading because of the Short Swing Profit Rule.

According to existing mainland China practices, the Company as beneficial owner of China A Shares traded via Stock Connect cannot appoint proxies to attend shareholders' meetings on its behalf (see the paragraph headed "Nominee holding structure, voting right and corporate actions" above).

#### *Investment Restrictions*

Investments in China A Shares are also subject to compliance with certain investment restrictions imposed by the Investment Regulations including the following and may affect the relevant Sub-Fund's ability to invest in China A Shares and carry out their investment objectives:

- (i) shares held by each underlying foreign investor (such as a Sub-Fund) which invests (through Stock Connect or other permissible channels) in one PRC listed company should not exceed 10% of the total outstanding shares of such company; and
- (ii) aggregate China A Shares held by all underlying foreign investors (such as a Sub-Fund and all other foreign investors) which invest (through Stock Connect or other permissible channels) in one PRC listed company should not exceed 30% of the total outstanding shares of such company.

Similarly, since the 30% aggregate foreign shareholding restriction is monitored at the level of all foreign investors, the capability of the relevant Sub-Fund to invest in China A Shares of a certain listed company may also be limited due to the investments made by other foreign investors.

#### *Trading Volumes and Volatility*

The Exchanges have lower trading volumes than some OECD Member State exchanges and the market capitalisations of listed companies are small compared to those on more developed exchanges in developed markets. The listed equity securities of many companies in the PRC are accordingly materially less liquid, subject to greater dealing spreads and experience materially greater volatility than those of OECD Member States. Government supervision and regulation of the PRC securities market and of listed companies is also less developed than in many OECD Member States. In addition, there is a high measure of legal uncertainty concerning the rights and duties of market participants with respect to investments made through securities systems or established markets.

The PRC stock market has experienced substantial price volatility and wide suspension of trading in recent years and no assurance can be given that such volatility and suspension will not occur in the future. The above factors could negatively affect the Net Asset Value of the Sub-Funds, the ability to redeem Shares and the price at which Shares may be redeemed.

#### *Payment of Fees and Expenses*

The Sub-Fund may retain such amounts as the Board considers appropriate to maintain a liquid portfolio of cash, deposits, money market instruments and government securities denominated in RMB, U.S. Dollars or other major international currencies for the purposes of paying its anticipated fees and expenses and to meet redemption requests and any other liquidity needs. Investors should be aware that owing to repatriation restrictions, the Sub-Fund may need to maintain high cash balances, including potentially balances held outside China, resulting in less of the proceeds of the Sub-Fund being invested in China than would otherwise be the case if such local restrictions did not apply.

#### *Clearing, Settlement and Custody Risks*

HKSCC and CSDCC have established the clearing links between SEHK and SSE/SZSE and each will become a participant of the other to facilitate clearing and settlement of cross-border trades. For cross-border trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house.

Hong Kong and overseas investors which have acquired Stock Connect Securities through Northbound Trading should maintain such securities with their brokers' or custodians' stock accounts with CCASS (operated by HKSCC).

#### *Currency Risks*

Stock Connect Securities under Northbound Trading will be traded and settled in RMB. If a Sub-Fund issues Share Classes denominated in a currency other than RMB, the Sub-Fund will be exposed to currency risk if its portfolio invests in a RMB product due to the need for the conversion of the currency into RMB. The Sub-Fund will also incur currency conversion costs. Even if the price of the RMB asset remains the same when the Sub-Fund purchases it and when the Sub-Fund redeems / sells it, the Sub-Fund will still incur a loss when it converts the redemption / sale proceeds into local currency if RMB has depreciated.

#### *Risk of CSDCC Default*

CSDCC has established a risk management framework and measures that are approved and supervised by the CSRC. Pursuant to the General Rules of CCASS, if CSDCC (as the host central counterparty) defaults, HKSCC will, in good faith, seek recovery of the outstanding Stock Connect Securities and monies from CSDCC through available legal channels and through CSDCC's liquidation process, if applicable.

HKSCC will in turn distribute the Stock Connect Securities and/or monies recovered to clearing participants on a pro-rata basis as prescribed by the relevant Stock Connect Authorities. Stock Connect Investors in turn will only be distributed the Stock Connect Securities and/or monies to the extent recovered directly or indirectly from HKSCC. Although the likelihood of a default by

CSDCC is considered to be remote, Shareholders should be aware of this arrangement and of this potential exposure.

#### *Risk of HKSCC Default*

A failure or delay by HKSCC in the performance of its obligations may result in a failure of settlement, or the loss, of Stock Connect Securities and/or monies in connection with them and the Company may suffer losses as a result.

#### *Ownership of Stock Connect Securities*

Stock Connect Securities are uncertificated and are held by HKSCC for its account holders. Physical deposit and withdrawal of Stock Connect Securities are not available under the Northbound Trading for the Company.

The Company's title or interests in, and entitlements to, Stock Connect Securities (whether legal, equitable or otherwise) will be subject to applicable requirements, including laws relating to any disclosure of interest requirement or foreign shareholding restriction (see the paragraph headed "Local market rules, foreign shareholding restrictions and disclosure obligations" above). It remains untested whether the Chinese courts would recognise the ownership interest of Stock Connect Investors to allow them standing to take legal action against Chinese companies.

#### *No Manual Trade or Block Trade*

Currently there is no manual trade facility or block trade facility for Stock Connect Securities transactions under Northbound Trading. The Sub-Fund's investment options may become limited as a result.

#### *Order Priority*

Trade orders are entered into China Stock Connect System ("**CSC**") based on time order. Trade orders cannot be amended, but may be cancelled and re-entered into the CSC as new orders at the back of the queue. Due to quota restrictions or other market intervention events, there can be no assurance that trades executed through a broker will be completed.

#### *No off-exchange Trading and Transfers*

Market participants must match, execute or arrange the execution of any sale and buy orders or any transfer instructions from investors in respect of any Stock Connect Securities in accordance with the Stock Connect rules. This rule against off-exchange trading and transfers for trading of Stock Connect Securities under Northbound Trading may delay or disrupt reconciliation of orders by market participants. However, to facilitate market players in conducting Northbound Trading and the normal course of business operation, off-exchange or "non-trade" transfer of Stock Connect Securities for the purposes of post-trade allocation to different funds/sub-funds by fund managers have been specifically allowed.

The above may not cover all risks related to Stock Connect and any above-mentioned laws, rules and regulations are subject to change and there is no assurance as to whether or how such changes or developments may restrict or affect the Company's investments via Stock Connect.

#### *Risks associated with the Small and Medium Enterprise Board and/or ChiNext Market*

The Sub-Funds may through the Shenzhen-Hong Kong Stock Connect access securities listed on the Small and Medium Enterprise ("**SME**") board and the ChiNext market of the SZSE. Listed companies on the SME board and/or the ChiNext market are usually of an emerging nature with smaller operating scale. They are subject to higher fluctuation in stock prices and liquidity and have higher risks and turnover ratios than companies listed on the main board of the SZSE. Securities listed on the SME board and/or ChiNext may be overvalued and such exceptionally high valuation may not be sustainable. Stock prices may be more susceptible to manipulation due to fewer circulating shares. It may be more common and faster for companies listed on the SME board and/or ChiNext to delist. This may have an adverse impact on the relevant Sub-Funds if the companies that they invest in are delisted. Also, the rules and regulations regarding companies listed on ChiNext market are less stringent in terms of profitability and share capital than those on the main board and SME board. Investments in the SME board and/or ChiNext market may result in significant losses for a Sub-Fund and its investors.

### **Bond Connect**

The PRC and the Hong Kong Monetary Authority ("**HKMA**") have approved programmes which establish Bond Connect, a mutual bond market access programme between mainland Chinese and Hong Kong financial infrastructure institutions. Bond Connect allows investors to trade electronically between the mainland Chinese and Hong Kong bond markets without many of the limits of existing schemes, such as quota restrictions and requirements to identify the ultimate investment amount.

Currently, the Bond Connect comprises a Northbound Trading Link between CFETS, the operator of the China Interbank Bond Market ("**CIBM**") and recognised offshore trading access platforms, to facilitate investment by Hong Kong and overseas investors in eligible bonds traded on the CIBM. A Southbound Trading Link, facilitating investment in overseas bond markets by mainland Chinese investors is still under development but is intended to form part of Bond Connect once established.

#### *Eligible Securities*

Hong Kong and overseas investors will be able to conduct cash trading over the entire range of instruments traded on the CIBM, including products on both the secondary and primary markets.

#### *Trading Day*

Northbound investors are able to trade through Bond Connect on days upon which the CIBM is open to trade, regardless of whether they are a public holiday in Hong Kong.

#### *Settlement and Custody*

Settlement and custody of Northbound bond trades under Bond Connect will be implemented under the link between the Central Moneymarkets Unit ("**CMU**") of the HKMA and mainland China's two bond settlement systems, CCDC and Shanghai Clearing House ("**SHCH**"). The CMU settles Northbound trades and holds the CIBM bonds on behalf of members in nominee accounts with each of the CCDC and the SHCH. The CCDC and SHCH provide services to foreign investors, directly and indirectly, using Bond Connect.

Bonds purchased by Hong Kong and overseas investors are recorded in an omnibus nominee account at the CCDC and the SHCH in the name of the CMU. The CMU itself maintains the bonds in segregated sub-accounts of the relevant CMU members, who in turn may hold the

bonds on their own account or on behalf of other investors or custodians. Accordingly, bonds purchased by Hong Kong and overseas purchasers through Bond Connect are held by the purchaser's global or local custodian in a segregated sub-account opened in their name at the CMU.

#### *Currency*

Hong Kong and overseas investors may trade through Bond Connect using offshore RMB (CNH) or by converting offshore currency into Onshore RMB (CNY) under Bond Connect.

Where an investor uses offshore currency to invest through the Northbound Trading Link, it must open a segregated RMB capital account with a Hong Kong RMB clearing bank or an eligible offshore RMB business participating bank (each an "**RMB Settlement Bank**") to convert its foreign currency into CNY. Where bonds are purchased in CNY in this manner, the proceeds of the sale must be converted back into the foreign currency upon sale of the bonds and remittance of the proceeds out of mainland China.

Investors using CNH to invest in bonds through Bond Connect do not need to appoint an RMB Settlement Bank, nor do they need to open a segregated RMB capital account.

#### **Bond Connect Specific Risks**

A Sub-Fund may invest through Bond Connect in eligible bonds traded on the CIBM, which subjects such Sub-Fund to risks including but not limited to:

##### *Suspension Risks*

It is contemplated that the mainland Chinese authorities will reserve the right to suspend Northbound and/or Southbound trading of Bond Connect if necessary for ensuring an orderly and fair market and that risks are managed prudently. The relevant PRC government authority may also impose "circuit breakers" and other measures to halt or suspend Northbound trading. Where a suspension in the Northbound trading through the Bond Connect is effected, a Sub-Fund's ability to access the PRC bond market will be adversely affected.

##### *Differences in Trading Day*

Northbound trading through Bond Connect is able to be undertaken on days upon which the CIBM is open to trade, regardless of whether they are a public holiday in Hong Kong. Accordingly, it is possible that bonds traded through Bond Connect may be subject to fluctuation at times where a Sub-Fund is unable to buy or sell bonds, as its Hong Kong or globally-based intermediaries are not available to assist with trades. Accordingly, this may cause a Sub-Fund to be unable to realise gains, avoid losses or to benefit from an opportunity to invest in mainland Chinese bonds at an attractive price.

##### *Operational Risk*

Bond Connect provides a channel for investors from Hong Kong and overseas to access the PRC bond markets directly.

The "connectivity" in Bond Connect requires routing of orders across the border, requiring development of new trading platforms and operational systems. There is no assurance that these platforms and systems will function properly (in particular, under extreme market



conditions) or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems fail to function properly, trading through Bond Connect may be disrupted. A Sub-Fund's ability to trade through Bond Connect (and therefore pursue its investment strategy) may therefore be adversely affected.

#### *Not Protected by Investor Compensation Fund*

Investors should note that if a Sub-Fund engages in any Northbound Trading, the Sub-Fund will not be covered by Hong Kong's Investor Compensation Fund or the China Securities Investor Protection Fund and thus investors will not benefit from compensation under such schemes.

#### *Currency Risk*

CIBM Bonds (as defined below) under Northbound Trading of Bond Connect will be traded and settled in RMB. If a Sub-Fund issues Share Classes denominated in a currency other than RMB, the Sub-Fund will be exposed to currency risk if the Sub-Fund invests in a RMB product due to the need for the conversion of the currency into RMB. The Sub-Fund will also incur currency conversion costs. Even if the price of the RMB asset remains the same when the Sub-Fund purchases it and when the Sub-Fund redeems / sells it, the Sub-Fund will still incur a loss when it converts the redemption / sale proceeds into local currency if RMB has depreciated. Also, as the Sub-Fund may either settle CIBM Bonds using CNH or by converting offshore currency into CNY, any divergence between CNH and CNY may adversely impact investors.

#### *Regulatory risk*

For a Sub-Fund's investment under Bond Connect, although there is no quota restriction under the Investment Regulations, relevant information about the Sub-Fund's investments needs to be filed with PBOC and an updating filing may be required if there is any significant change to the filed information. It cannot be predicted whether PBOC will make any comments on or require any changes with respect to such information for the purpose of filing. If so required, the Sub-Fund will need to follow PBOC instructions and make the relevant changes accordingly, which, may not be in the best interests of the Sub-Fund and the Shareholders from a commercial perspective.

In addition, Bond Connect is novel in nature and will be subject to regulations promulgated by regulatory authorities and implementation rules made by regulators in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under Bond Connect.

It should be noted that the regulations are untested and there is no certainty as to how they will be applied. Moreover, the current regulations are subject to change. There can be no assurance that Bond Connect will not be abolished. Sub-Funds which invest in the PRC markets through Bond Connect may be adversely affected as a result of such changes. In addition, Bond Connect and its technology and risk management capability has only a short operating history. There is no assurance that the systems and controls of the Bond Connect programme will function as intended or whether they will be adequate.

#### *Local Market Rules*

Under Bond Connect, bond issuers and trading of bonds traded on the CIBM (the "**CIBM Bonds**") are subject to market rules in China. Any changes in laws, regulations and policies of

the China bond market or rules in relation to Bond Connect may affect prices and liquidity of the relevant CIBM Bonds. Among others, the relevant information disclosure requirements applicable to the investors of the CIBM Bonds will apply to the Sub-Funds (to the extent that they invest in the CIBM Bonds).

Moreover, PBOC will exercise on-going supervision of the Sub-Fund's trading of CIBM Bonds and may take relevant administrative actions such as suspension of trading and mandatory exit against the Sub-Fund and/or the Investment Manager in the event of non-compliance with the local market rules as well as the Investment Regulations.

#### *Nominee Holding Structure and Ownership*

CIBM Bonds which the Sub-Funds may invest in will be held by the CMU as the nominee holder, opening nominee account(s) with the CCDC and the SHCH respectively. While the distinct concepts of "nominee holder" and "beneficial owner" are generally recognised under the Investment Regulations, the application of such rules is untested, and there is no assurance that PRC courts will recognise such rules, e.g. in liquidation proceedings of PRC companies or other legal proceedings.

In addition, CIBM Bonds are uncertificated and are held by CMU for its account holders. Physical deposit and withdrawal of CIBM Bonds are not available under the Investment Regulations for the Sub-Funds.

#### *Risk of CMU / CCDC / SHCH Default*

A failure or delay by CMU, CCDC or SHCH in the performance of their respective obligations may result in a failure of settlement, or the loss, of CIBM Bonds and/or monies in connection with them and the Sub-Funds may suffer losses as a result. In the event that the nominee holder (i.e. CMU) becomes insolvent, such bonds may form part of the pool of assets of the nominee holder available for distribution to its creditors and the Sub-Fund, as a beneficial owner, may have no rights whatsoever in respect thereof.

#### *Risk of Third Party Default*

Under the prevailing applicable Bond Connect regulations, the Sub-Fund may participate in the Bond Connect through an offshore custody agent, registration agent or other third parties (as the case may be), who would be responsible for making the relevant filings and account opening with the relevant authorities. The Sub-Fund is therefore subject to the risk of default or errors on the part of such agents.

#### *Liquidity and Volatility*

Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the CIBM may result in prices of certain debt securities traded on such market fluctuating significantly. The Sub-Funds investing in such markets are therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when disposing of such investments.

#### *Hedging Activities*

Hedging activities under Bond Connect are subject to the Investment Regulations and any prevailing market practice. There is no guarantee that the Sub-Fund will be able to carry out hedging transactions at terms which are satisfactory to the Investment Manager and to the best interest of the Sub-Fund. The Sub-Fund may also be required to unwind its hedge in unfavourable market conditions.

#### *Settlement Risk*

Although delivery-versus-payment (DVP) settlement (e.g. simultaneous delivery of security and payment) is the dominant settlement method adopted by CCDC and SHCH for all bond transactions in the CIBM, there is no assurance that settlement risks can be eliminated. In addition, DVP settlement practices in the PRC may differ from practices in developed markets. In particular, such settlement may not be instantaneous and be subject to a delay of a period of hours. Where the counterparty does not perform its obligations under a transaction or there is otherwise a failure due to CCDC or SHCH (as applicable), a Sub-Fund may sustain losses.

The above may not cover all risks related to Bond Connect and any above-mentioned laws, rules and regulations are subject to change and there is no assurance as to whether or how such changes or developments may restrict or affect the Company's investments via Bond Connect.

#### **QFII Regime and Related Risks**

The QFII regime, which allows qualifying foreign investors to invest directly in certain securities in Mainland China, is governed by rules and regulations promulgated by the relevant authorities in Mainland China, including the CSRC, SAFE and PBOC and/or other relevant authorities ("**QFII Regulations**"). Investments through the QFII regime are required to be made through holders of QFII licence and appropriate investment quota. Certain investment managers that meet the relevant prescribed eligibility requirements under the QFII Regulations may in the future apply to be granted a QFII licence and quota. Should the required QFII licence and investment quota be obtained in the future, certain Sub-Funds may invest directly in Mainland China via the QFII regime

In the event that a Sub-Fund invests via the QFII regime in the future, investors should note that a Sub-Fund's ability to make such investments or to fully implement or pursue its investment objective and strategy are subject to the applicable laws, rules and regulations (including the then prevailing exchange controls and other prevailing requirements of the PRC including rules on investment restrictions and repatriation and remittance of principal and profits) in the PRC, which are subject to change and any such changes may have potential retrospective effect.

In addition, there can be no assurance that the QFII Regulations will not be abolished. A Sub-Fund, which invests in the PRC markets through the QFII regime, may be adversely affected as a result of such changes.

Where a Sub-Fund invests in China A Shares or other securities in the PRC through the QFII regime, such securities will be held by a local custodian ("**QFII Custodian**") appointed by the QFII in accordance with QFII Regulations. The QFII Custodian may open one or more securities account(s) in the name of the QFII licence holder for the account of the relevant Sub-Fund in accordance with PRC laws and a Sub-Fund may be subject to custodial risk. If the QFII Custodian defaults, a Sub-Fund may suffer substantial losses. In the event of liquidation of the QFII Custodian, relevant PRC laws will apply and cash deposited in the cash account of the

relevant Sub-Fund with the QFII Custodian will form part of its assets in the PRC and a Sub-Fund will become an unsecured creditor for such amount.

A Sub-Fund investing via the QFII regime may also incur losses due to a default, act or omission of the QFII Custodian or PRC brokers in the execution or settlement of any transaction or in the transfer of any funds or securities. In such event, a Sub-Fund investing via the QFII regime may be adversely affected in the execution or settlement of any transaction or in the transfer of any funds or securities.

Repatriations by QFIIs in respect of principal and profits of the Sub-Fund's investments in the PRC are currently not subject to repatriation restrictions or prior approval. There is no assurance, however, that QFII Regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation may impact on the relevant Sub-Fund's ability to meet redemption requests.

Further, the QFII licence of a QFII licence holder may be revoked or terminated or otherwise invalidated at any time by reason of a change in applicable law, regulations, policy, practice or other circumstances, an act or omission of the QFII licence holder or for any other reasons.

Rules and restrictions under QFII Regulations apply to the QFII licence holder as a whole and do not simply apply to the investment made for the account of a Sub-Fund. As the QFII quota of the QFII licence holder may also be utilised by parties other than a Sub-Fund, investors should be aware that violations of the QFII Regulations on investments arising out of activities of such other parties could result in the revocation of or other regulatory action in respect of the QFII quota of the QFII licence holder as a whole, including any portion utilised by a Sub-Fund. For example, a QFII licence may be suspended or revoked by reason of, without limitation: (a) a failure by the QFII to apply for an applicable investment quota within specified time periods; (b) bankruptcy, liquidation or receivership of the QFII; and (c) irregularities by the QFII in its practices as a QFII investor. Hence, the ability of a Sub-Fund to make investments may be adversely affected by other funds or clients investing through the same QFII licence holder.

Investors should note that there can be no assurance that the QFII licence holder will continue to make available its QFII quota, or a Sub-Fund will be allocated a sufficient portion of QFII quota to meet proposed investments of a Sub-Fund. A Sub-Fund may suffer losses if there is insufficient QFII quota allocated to it to make investments, the approval of the QFII is being revoked/terminated or otherwise invalidated as a Sub-Fund may be prohibited from trading of relevant securities, or if any of the key operators or parties (including QFII Custodian/brokers) is bankrupt/in default and/or is disqualified from performing its obligations (including execution or settlement of any transaction or transfer of monies or securities).

### **RQFII Regime and Related Risks**

The RQFII regime, which allows Renminbi qualified foreign investors to invest Renminbi raised outside of Mainland China directly in certain securities in Mainland China, is governed by rules and regulations as promulgated by the relevant authorities in the PRC, including the CSRC, the SAFE and the PBOC and/or other relevant authorities (the "**RQFII Regulations**").

Certain investment managers that meet the relevant prescribed eligibility requirements under the RQFII Regulations may in the future apply to be granted a RQFII license and quota (each an "**Investment Manager Quota**", together "**Investment Managers Quota**").

As the RQFII Regulations have a relatively short history and their application and interpretation remain relatively untested, there is uncertainty as to how they will be applied and interpreted by the PRC authorities or how regulators may exercise the wide discretionary powers given to them thereunder in future. A Sub-Fund's ability to make the relevant investments or to fully implement or pursue its investment objective and strategy is subject to the applicable laws, rules and regulations (including restrictions on investments and repatriation of principal and profits) in the PRC, which are subject to change and such change may have potential retrospective effect. Any changes to the relevant rules may have a material adverse impact on Shareholders' investment in a Sub-Fund. A Sub-Fund's ability to invest in Mainland China via the RQFII regime is also subject to an Investment Manager Quota having being sufficient to such Sub-Fund.

Investors should note that there can be no assurance that the RQFII licence holder will continue to make available its RQFII quota, or a Sub-Fund will be allocated a sufficient portion of RQFII quota to meet proposed investments of a Sub-Fund. A Sub-Fund may suffer losses if there is insufficient RQFII quota allocated for such Sub-Fund to make investments, the approval of an Investment Managers Quota is being revoked/terminated or otherwise invalidated as the relevant Sub-Fund may be prohibited from trading of relevant securities and repatriation of such Sub-Fund's monies, or if any of the key operators or parties (including the RQFII Custodian (as defined below)/PRC brokers) is bankrupt/in default and/or is disqualified from performing its obligations (including execution or settlement of any transaction or transfer of monies or securities).

A Sub-Fund may be impacted by the rules and restrictions under the RQFII Regulations (including investment restrictions, limitations on foreign ownership or holdings), which may have an adverse impact on its performance and/or its liquidity. Repatriations by RQFIIs in respect of an open-ended RQFII fund (as defined under RQFII Regulations), are currently not subject to repatriation restrictions or prior approval. There is no assurance, however, that RQFII Regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation may impact on the relevant Sub-Fund's ability to meet redemption requests. In extreme circumstances, the relevant Sub-Funds may incur significant loss due to limited investment capabilities, or may not be able fully to implement or pursue its investment objectives or strategies, due to RQFII investment restrictions, illiquidity of the PRC's securities market, and delay or disruption in execution of trades or in settlement of trades.

Where a Sub-Fund invests in Mainland China through the RQFII regime, such securities will be held by a local custodian (the "**RQFII Custodian**") pursuant to PRC regulations. Cash shall be maintained in a cash account with the RQFII Custodian. Cash deposited in the cash account of the relevant Sub-Funds with the RQFII Custodian will not be segregated but will be a debt owing from the RQFII Custodian to the relevant Sub-Funds as a depositor. Such cash will be commingled with cash belonging to other clients of the RQFII Custodian. In the event of bankruptcy or liquidation of the RQFII Custodian, the relevant Sub-Funds will not have any proprietary rights to the cash deposited in such cash account, and the relevant Sub-Funds will become an unsecured creditor, ranking *pari passu* with all other unsecured creditors, of the RQFII Custodian. The relevant Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the relevant Sub-Fund will suffer losses.

Also, a Sub-Fund may incur losses due to the acts or omissions of the RQFII Custodian or PRC brokers in the execution or settlement of any transaction or in the transfer of any funds or securities. In such event, the relevant Sub-Fund may be adversely affected in the execution or settlement of any transaction or in the transfer of any funds or securities.

Further, the RQFII licence of a RQFII licence holder may be revoked or terminated or otherwise invalidated at any time by reason of a change in applicable law, regulations, policy, practice or other circumstances, an act or omission of the RQFII licence holder or for any other reasons.

Rules and restrictions under RQFII Regulations apply to the RQFII licence holder as a whole and not simply to the investment made for the account of a Sub-Fund. As the RQFII quota of the RQFII licence holder may also be utilised by parties other than a Sub-Fund, investors should be aware that violations of the RQFII Regulations on investments arising out of activities of such other parties could result in the revocation of or other regulatory action in respect of the RQFII quota of the RQFII licence holder as a whole, including any portion utilised by a Sub-Fund. For example, a RQFII licence may be suspended or revoked by reason of, without limitation: (a) a failure by the RQFII to apply for an applicable investment quota within specified time periods; (b) bankruptcy, liquidation or receivership of the RQFII; and (c) irregularities by the RQFII in its practices as a RQFII investor. Hence, the ability of a Sub-Fund to make investments may be adversely affected by other funds or clients investing through the same RQFII licence holder.

#### *Remittance Risk*

Profits generated by a Sub-Fund through investment in Chinese securities are denominated in RMB, and may be paid to investors only after the QFII converts the RMB into the denomination currency of the Sub-Fund. The relevant Sub-Fund may not be able to access profits in a timely manner as the foreign exchange control authority of the PRC may direct the timing, amount and intervals for effecting such conversion. The PRC authorities may change the current exchange control mechanism and perhaps in a manner that adversely impacts the flow of payments to the relevant Sub-Fund. Although RMB is required to be remitted into the PRC for investment, a RQFII can repatriate investment principal and profits in either RMB or foreign currencies. A QFII can only repatriate investment principal and profits in foreign currencies. In addition, any fluctuation in the exchange rate between the RMB and the denomination currency of a Sub-Fund may have an adverse impact on the value of such a Sub-Fund.

#### *Proposed merger of QFII and RQFII*

As of 31 January 2019, the CSRC drafted the *Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (Consultation Paper)* and the *Provisions on Issues Concerning the Implementation of the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (Consultation Paper)*, proposing to merge the QFII and RQFII scheme. Though the CSRC's consultation papers propose to merge QFII and RQFII schemes into one and relax the quotas of both QFIIs and RQFIIs, there is no assurance that the consultation will become enacted as law, and even if it becomes enacted as law, there is no assurance that such law would have no adverse impact on a Sub-Fund."

3. The section of the Prospectus entitled "**THE COMPANY**" under the sub-heading "**THE DIRECTORS AND SECRETARY**" shall be amended by including the following after the section in respect of Helen O'Beirne:

*"Helen O'Beirne (Irish) is Head of Business Regulation and Conduct Risk at the Investment Manager and has over 25 years' experience in the financial services industry having previously worked in Asset Management, Investment Banking and Wealth Management. Prior to joining Mercer, Helen was a director at BlackRock and worked closely with a number*

*BlackRock's fund management companies across Europe and headed up BlackRock's Fund Registration and Listing team which supported the global distribution activity of BlackRock's EU domiciled funds and appointed designated person with responsibility for Distribution for BlackRock Asset Management Ireland Limited. Helen holds a B. Comm and Masters in Business Studies (First Class) from University College Dublin. Helen is also a member of the Chartered Institute for Securities & Investment (MSI) and the Institute of Chartered Secretaries and Administrators (ICSA)."*

4. The section of the Prospectus entitled "**THE COMPANY**" shall be amended by replacing the last line of the first paragraph appearing under the sub-heading "**THE MANAGER**" and replacing it with the following:

*"The directors of the Manager are Tom Finlay, Michael Dempsey, Gráinne Alexander, Hooman Kaveh and Helen O'Beirne, details of whom are set out above."*

5. The section of the Prospectus entitled "**INVESTING IN SHARES**" shall be amended by replacing the first paragraph directly underneath "**Other Exchanges**" in the "**HOW TO EXCHANGE OR TRANSFER SHARES**" sub-section with the following:

*"Shareholders may request a switch of Shares from one Sub-Fund or class of Shares of the Company to another sub-fund or class of shares of any other funds in Mercer's Irish fund range, which as of the date hereof includes MGI Funds plc, Mercer UCITS Common Contractual Fund, Mercer PIF Fund plc and Mercer QIF CCF (the "Mercer Funds"). Such switch request will be treated as a redemption of Shares and a simultaneous purchase of shares in the other Mercer Fund. Consequently, any Shareholder requesting such switch must comply with the procedures of redemption and subscription as well as all other requirements, notably relating to investor qualifications and minimum investment and holding thresholds applicable to each of the funds or classes of shares concerned in the other Mercer Fund."*

6. The section of the Prospectus entitled "**FEES AND EXPENSES**" shall be amended by the insertion of the following language beneath the sub-heading "**Anti-Dilution Levy**":

**"VOLUNTARY CAP**

*The Manager may undertake to limit the Annual Expenses (as defined below) attributable to certain Classes within certain Sub-Funds (the "**Voluntary Cap**"). If the Voluntary Cap applies in respect of a Sub-Fund, this will be set out in the Relevant Supplement, indicating the particular Classes to which the Voluntary Cap is attributable. The Voluntary Cap in respect of the affected Classes is the sum of its management fee plus an additional percentage per annum, based on the average daily net assets of the relevant Class, as set out in the Relevant Supplement.*

*To achieve this Voluntary Cap, the Manager will absorb, either directly by waiving a portion of its fees or by reimbursement to the account of the relevant Class of the Sub-Fund, any Annual Expenses (as defined below) over the applicable Voluntary Cap that may arise. As the Voluntary Cap has been agreed to by the Manager on a voluntary basis, the Manager may withdraw the Voluntary Cap at any time or increase or decrease the Voluntary Cap in respect of any particular Class from time to time. Where the Manager withdraws, increases or decreases the Voluntary Cap, the Company will notify the Shareholders of the relevant Class or Classes.*

*Where the Voluntary Cap applies to a Class in a Sub-Fund, all Annual Expenses (as defined below) are covered by the Voluntary Cap, which shall equal the relevant management fee plus*

*a percentage amount as disclosed in the Relevant Supplement. For the purposes of the affected Sub-Funds, unless otherwise stated in the Relevant Supplement, "Annual Expenses" means all costs and expenses of the Sub-Fund, excluding brokerage and spreads costs, commitment fees and any other fees and costs associated with any credit facility implemented on behalf of the Sub-Fund, custody and sub-custody transaction charges, extraordinary expenses (such as material litigation in relation to the Sub-Fund or the Company), fees payable in relation to hedging services provided to the Sub-Fund, sub-investment manager fees, performance fees payable to the Investment Manager and any Sub-Investment Manager, taxes and pooled fund investment fees."*