

# Franklin Floating Rate Fund plc

Prospectus | April 2024



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**FRANKLIN FLOATING RATE FUND PLC**  
(an investment company with variable capital)

**PROSPECTUS**

April 2024

**AIFM**

**Franklin Templeton International Services S.à r.l.**

**INVESTMENT MANAGER**

**Franklin Advisers, Inc.**

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## IMPORTANT INFORMATION

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**If you are in any doubt about the contents of this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser.**

### The Company

This Prospectus contains information relating to Franklin Floating Rate Fund plc (the "Company"). The Company is an investment company with variable capital incorporated in Ireland on 1 December 1999 as a public limited company under registration number 316174.

The Company will invest substantially all of its assets directly in the Franklin Floating Rate Master Trust. Please see section "Investment Objective And Policy Of The Company".

Franklin Templeton International Services S.à r.l. (the "AIFM") and the directors of the Company (the "Directors") accept responsibility for the accuracy of the information contained in this Prospectus as at the date of its publication and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement misleading.

The Company features several classes of Shares which will rank *pari passu* with each other in all respects except as to all or any of the following:-

- dividend policy;
- the level of fees and expenses to be charged;
- Class Currency designation; and
- the minimum subscription amount.

All Shares, other than Class A (dis) EUR-H1 Shares, Class A (dis) HKD Shares, Class A (dis) RMB-H1 Shares and Class A (dis) SGD-H1 Shares, shall be designated in a Class Currency of US Dollars. Class A (dis) EUR-H1 Shares shall be designated in Euro, Class A (dis) HKD Shares shall be designated in Hong Kong Dollars, Class A (dis) RMB-H1 Shares shall be designated in Renminbi and Class A (dis) SGD-H1 Shares shall be designated in Singapore Dollars.

As of the date of this Prospectus, the Company has the following share classes available for subscription in Hong Kong:

- Class A (acc) Shares
- Class A (dis) Shares
- Class A (dis) EUR-H1 Shares
- Class A (dis) HKD Shares
- Class A (dis) RMB-H1 Shares
- Class A (dis) SGD-H1 Shares

Prospective investors should note that Class B Shares are no longer being offered for subscription in Hong Kong. Existing holders of Class B Shares may obtain information on their holdings from the Hong Kong Representative free of charge during normal business hours on any Business Day.

**An investment in the Company should not constitute a substantial proportion of an investment portfolio and may not be appropriate for all investors.**

### Investor Responsibility

Prospective investors should review this Prospectus carefully and in its entirety and consult with their legal, tax and financial advisers in relation to (i) the legal requirements within their own countries for the

purchase, holding, exchange, redemption or disposal of Shares; (ii) any foreign exchange restrictions to which they are subject in their own countries in relation to the purchase, holding, exchange, redemption or disposal of Shares; and (iii) the legal, tax, financial or other consequences of subscribing for, purchasing, holding, exchanging, redeeming or disposing of Shares. Prospective investors should seek the advice of their legal, tax and financial advisers if they have any doubts regarding the contents of this Prospectus. A copy of the Prospectus of the Company registered in Ireland is available for prospective investors upon request.

### **Central Bank Authorisation**

The Company is authorised by the Central Bank of Ireland (the “Central Bank”) as a designated investment company pursuant to Section 1395 of Part 24 of the Act. The Central Bank shall not be liable by virtue of its authorisation of the Company or by reason of its exercise of the functions conferred on it by legislation in relation to the Company for any default of the Company. Authorisation of the Company by the Central Bank does not constitute a warranty by the Central Bank as to the creditworthiness or financial standing of the various parties to the scheme, nor is the Central Bank responsible for the contents of this Prospectus. Such authorisation does not constitute an endorsement or guarantee of the Company by the Central Bank.

The Company must comply with the aim of spreading investment risk in accordance with Section 1386(2)(a) of Part 24 of the Act.

### **Distribution And Selling Restrictions**

The Company has been authorised by the SFC under the Hong Kong Securities and Futures Ordinance. The SFC does not, however, take any responsibility for the financial soundness of the Company or the accuracy of any statement or opinion expressed in this Prospectus. SFC authorisation is not a recommendation or endorsement of the Company nor does it guarantee the commercial merits of the Company or its performance. It does not mean the Company is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The distribution of this Prospectus and the offering or purchase of the Shares is restricted in certain jurisdictions and to certain persons. No persons receiving a copy of this Prospectus or the accompanying application form in any such jurisdiction may treat this Prospectus or such application form as constituting an invitation to them to subscribe for Shares, nor should they in any event use such application form, unless in the relevant jurisdiction such an invitation could lawfully be made to them and such application form could lawfully be used without compliance with any registration or other legal requirements. Accordingly, this Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. It is the responsibility of any persons in possession of this Prospectus and any persons wishing to apply for Shares pursuant to this Prospectus to inform themselves of and to observe all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for Shares should inform themselves as to the legal requirements of so applying and any applicable exchange control regulations and taxes in the countries of their respective citizenship, residence or domicile.

Although there is no statutory prohibition in Ireland on the purchase or holding by persons resident in Ireland of Shares in the Company, for Irish tax purposes, the Company imposes restrictions on the holding of Shares by such persons.

The Company is not registered in the United States of America under the Investment Company Act of 1940 (the “1940 Act”). The Shares of the Company have not been registered in the United States of America under the Securities Act of 1933. The Shares made available under this offer may not be directly or indirectly offered or sold in the United States of America or any of its territories or possessions or areas subject to its jurisdiction or to or for the benefit of nationals or residents thereof, unless pursuant to an exemption from registration requirements available under US law, any applicable statute, rule or interpretation. US Persons are not eligible to invest in the Company. Prospective investors shall be required to declare that they are not a US Person and are not applying for Shares on behalf of any US Person. In the absence of written notice to the Company to the contrary, if a prospective investor provides a non-US address on the application form for investment in the Company, this will be deemed to be a representation and warranty from such investor that he/she/it is not a US Person and that such

investor will continue to be a non-US Person unless and until the Company is otherwise notified of a change in the investor's US Person status.

The term "US Person" shall mean any person that is a United States person within the meaning of Regulation S under the United States Securities Act of 1933 or as defined by the U.S. Commodity Futures Trading Commission for this purpose, as the definition of such term may be changed from time to time by legislation, rules, regulations or judicial or administrative agency interpretations.

The Company is not registered in any provincial or territorial jurisdiction in Canada and Shares of the Company have not been qualified for sale in any Canadian jurisdiction under applicable securities laws. The Shares made available under this offer may not be directly or indirectly offered or sold in any provincial or territorial jurisdiction in Canada or to or for the benefit of residents thereof. Prospective investors may be required to declare that they are not a Canadian resident and are not applying for Shares on behalf of any Canadian residents. If an investor becomes a Canadian resident after purchasing Shares of the Company, the investor will not be able to purchase any additional Shares of the Company.

Shares in the Company may not be purchased by retail investors in the European Union and are also not marketed to professional investors in the European Union.

### **Reliance On This Prospectus**

The Shares are offered only on the basis of the information contained in this Prospectus.

Any further information or representation given or made by any dealer, broker or other person should be disregarded and accordingly, should not be relied upon. No person has been authorised to give any information or to make any representations, other than those contained in this Prospectus in connection with the offering and issue of Shares in the Company and, if given or made such information or representations must not be relied upon as having been authorised by the Company or the Directors or by the AIFM. Neither the delivery of this Prospectus nor the offer, issue or sale of Shares shall, under any circumstances, constitute a representation that the information given in this Prospectus is correct as of any time subsequent to the date of this Prospectus. Statements made in this Prospectus are based on the law and practice currently in force in Ireland and Hong Kong and are subject to changes therein. This Prospectus should be read in its entirety before making an application for Shares.

### **Risks**

**Investment in the Company carries with it a degree of risk. The value of Shares and the income from them may go down as well as up, and investors may not get back the amount invested. Investment in the Company should not constitute the sole or main investment of an investor's portfolio. Investors should consider the "Risk Factors" section in this Prospectus.**

**Investors should note that all or part of fees and expenses, including management fees may be charged to capital. In the event that they are, the capital of the Company will be eroded, this will have the effect of lowering the capital value of the Shareholders' investment or may result in an immediate reduction of the NAV per Share.**

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## DIRECTORY

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### The Company:

#### Franklin Floating Rate Fund plc

Registered Office:  
200 Capital Dock  
79 Sir John Rogerson's Quay  
Dublin 2  
D02 RK57  
Ireland

#### Board of Directors:

Joseph Carrier  
Fionnuala Doris  
Joseph Keane  
Joseph LaRocque  
Elinor Murray  
Jaspal Sagger  
Jane Trust  
Craig Tyle

#### AIFM:

Franklin Templeton International Services S.à r.l.  
8A, rue Albert Borschette  
L-1246  
Luxembourg

#### Administrator:

J.P. Morgan Administration Services (Ireland)  
Limited  
200 Capital Dock  
79 Sir John Rogerson's Quay  
Dublin 2  
D02 RK57  
Ireland

#### Depository:

J.P. Morgan SE – Dublin Branch  
200 Capital Dock  
79 Sir John Rogerson's Quay  
Dublin 2  
D02 RK57  
Ireland

#### Distributor:

Franklin Templeton International Services S.à r.l.  
8A rue Albert Borschette  
L-1246  
Luxembourg

#### Registered Auditors:

PricewaterhouseCoopers  
One Spencer Dock  
North Wall Quay  
Dublin 1  
Ireland

#### Shareholder Services Agent:

Franklin Templeton International Services S.à r.l.  
8A rue Albert Borschette  
L-1246  
Luxembourg

#### Legal Advisers as to Irish Law:

Matheson LLP  
70 Sir John Rogerson's Quay  
Dublin 2  
Ireland

#### Hong Kong Representative:

Franklin Templeton Investments (Asia) Limited  
62/F, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
[www.franklintempleton.com.hk](http://www.franklintempleton.com.hk)\*

#### Investment Manager:

Franklin Advisers, Inc.  
One Franklin Parkway  
San Mateo  
CA 94403-1906  
USA

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\* The website has not been reviewed by the SFC.

**Secretary:**  
Bradwell Limited  
10 Earlsfort Terrace  
Dublin 2  
D02 T380  
Ireland



**The Master Fund:**

**Franklin Floating Rate Master Series  
(a series of Franklin Floating Rate Master Trust)**

Registered Office:  
Corporation Trust Company  
1209 Orange Street  
Wilmington  
Delaware 19801

**Trustees of the Master Fund:**

Harris J. Ashton  
Terrence J. Checki  
Mary C. Choksi  
Edith E. Holiday  
Gregory E. Johnson  
Rupert H. Johnson  
J. Michael Luttig  
Larry D. Thompson  
Valerie Williams

**Investment Adviser of the Master Fund:**

Franklin Advisers, Inc.  
One Franklin Parkway  
San Mateo  
California 94403-1906  
USA

**Custodian of the Master Fund:**

JPMorgan Chase Bank, National Association  
270 Park Avenue  
New York  
NY 10017-2070  
USA

**Registered Auditors of the Master Fund:**

PricewaterhouseCoopers LLP  
405 Howard Street  
Suite 600  
San Francisco  
CA 94105  
USA

**Administrator of the Master Fund:**

Franklin Templeton Services, LLC  
One Franklin Parkway  
San Mateo  
CA 94403 – 1906  
USA

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## DEFINITIONS

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In this Prospectus the following words and phrases have the meanings set forth below:

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|-------------------------------------|--|
| <b>“Act”</b>                        | means the Companies Act 2014 (as amended from time to time) and any and all applicable regulations made or conditions imposed or derogations granted by the Central Bank thereunder;   |
| <b>“Accounting Date”</b>            | means 31 July in each year or such other date as the Directors may from time to time determine;  |
| <b>“Accounting Period(s)”</b>       | means a financial year of the Company ending on an Accounting Date and being the period in respect of which the accounts of the Company to be laid before it in general meeting are made up and commencing on the date immediately succeeding the last day of the last financial year;   |
| <b>“Administrator”</b>              | means J.P. Morgan Administration Services (Ireland) Limited or such other company as may for the time being be appointed as administrator to the Company;  |
| <b>“Articles”</b>                   | means the Articles of Association of the Company for the time being in force and as may be modified from time to time;   |
| <b>“AIFM”</b>                       | means Franklin Templeton International Services S.à r.l. or such other entity as may for the time being be appointed as the alternative investment fund manager under AIFMD in relation to the Company;  |
| <b>“AIFMD”</b>                      | means the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) as amended;  |
| <b>“AIFMD Regulations”</b>          | means the European Communities (Alternative Investment Fund Managers Directive) Regulations (SI No 257 of 2013) as amended;  |
| <b>“AIFM Agreement”</b>             | means the agreement dated 17 July 2014, as amended and restated on 30 January 2015, between the Company and the AIFM, pursuant to which the AIFM was appointed alternative investment fund manager of the Company as may be amended from time to time;   |
| <b>“Alternative Currency Class”</b> | means a share class in an alternative currency to the base currency of the Company;  |
| <b>“Associate” or “Associates”</b>  | means: <ul style="list-style-type: none"><li>(a) any bare trustee or nominee of a Shareholder or any person holding Shares on behalf of or to the order of a Shareholder or exercising voting rights at the request or direction of a Shareholder;</li><li>(b) any relative of a Shareholder;</li><li>(c) any person acting in his capacity as the trustee of any trust the principal beneficiaries of which are a Shareholder, any relative or partner of a Shareholder or any company, partnership, consortium or joint venture directly or indirectly managed or controlled by the Shareholder or by any relative or partner of</li></ul> |

the Shareholder or in which a Shareholder or any relative or partner of a Shareholder directly or indirectly holds, beneficially owns, controls or has an option over or is otherwise absolutely or conditionally entitled to more than 20% of the assets, revenues or voting rights;

- (d) any partner of a Shareholder;
- (e) any company, partnership, consortium, joint venture, trust, collective investment scheme or mutual fund directly or indirectly managed or controlled by a Shareholder or in which a Shareholder or any relative or partner of a Shareholder directly or indirectly holds, beneficially owns, controls or has an option over or is otherwise absolutely or conditionally entitled to more than 20% of the assets, revenues or voting rights;
- (f) any person or body of persons, company, partnership, consortium, joint venture, trust collective investment scheme or mutual fund which directly or indirectly manages or controls a Shareholder or directly or indirectly holds, beneficially owns, controls, has an option over or is otherwise absolutely or conditionally entitled to more than 20% of the assets, revenues or voting rights of or in a Shareholder.

|                           |   |
|---------------------------|---|
| <b>“Auditors”</b>         | means PricewaterhouseCoopers, Dublin or PricewaterhouseCoopers, San Francisco, CA or such other firm of chartered accountants as may from time to time be appointed as auditors to the Company;   |
| <b>“Business Day”</b>     | means a day on which the New York Stock Exchange (NYSE) is open for business and/or such other business day or days as may be determined by the Directors;  |
| <b>“Central Bank”</b>     | means the Central Bank of Ireland;  |
| <b>“Class Currency”</b>   | means, in relation to each class, the currency in which the Shares of such class are designated as specified herein;  |
| <b>“Common Shares”</b>    | means shares of beneficial interest in the Franklin Floating Rate Master Series of shares in the Master Trust;  |
| <b>“Company”</b>          | means Franklin Floating Rate Fund plc;  |
| <b>“Connected Person”</b> | In relation to a company means: <ul style="list-style-type: none"><li>(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or</li><li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or</li><li>(c) any member of the group of which that company forms part; or</li></ul> |

(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).

|                                      |   |
|--------------------------------------|---|
| <b>“Dealing Day”</b>                 | means each Business Day or otherwise as the Directors may from time to time determine;  |
| <b>“Dealing Deadline”</b>            | means 4.00 pm Hong Kong time or such other time as the Directors may from time to time determine on each Dealing Day;   |
| <b>“Depositary”</b>                  | means J.P. Morgan SE – Dublin Branch or such other company in Ireland as may from time to time be appointed as depositary of all the assets of the Company with the prior approval of the Central Bank;   |
| <b>“Directors”</b>                   | means the directors of the Company for the time being and any duly constituted committee thereof;   |
| <b>“Distributor”</b>                 | means Franklin Templeton International Services S.à r.l. or such other appointee as may be engaged by the AIFM (where a third party thereto) to act with respect to the distribution of the Shares of the Company;  |
| <b>“ESG Integration”</b>             | the Investment Adviser of the Master Fund’s framework for the integration of environmental, social and governance factors and sustainability risks into its investment process for the Master Fund;   |
| <b>“EUR” or “Euro” or “€”</b>        | means the single currency of participating member states of the European Monetary Union introduced on 1 January 1999;   |
| <b>“FATCA”</b>                       | means Foreign Account Tax Compliance Act;   |
| <b>“FFI”</b>                         | means a Foreign Financial Institution as defined in FATCA;  |
| <b>“Hedged Classes”</b>              | means Shares of other classes as may be designated by the Directors from time to time;  |
| <b>“HKD”</b>                         | means Hong Kong Dollars;  |
| <b>“Hong Kong Representative”</b>    | means Franklin Templeton Investments (Asia) Limited;  |
| <b>“Intermediary”</b>                | means a person who carries on a business which consists of, or includes, the receipt of payments from an investment undertaking on behalf of other persons or holds shares in an investment undertaking on behalf of other persons;   |
| <b>“Investment Manager”</b>          | means Franklin Advisers, Inc. or such other firm or company as may be appointed by the AIFM may from time to time in relation to the Company;   |
| <b>“Investor Services”</b>           | means Franklin Templeton Investor Services LLC, the Master Fund’s shareholder servicing and transfer agent;   |
| <b>“Irish Resident”</b>              | means any company resident, or other person resident or ordinarily resident, in Ireland for the purposes of Irish tax. Please see the “Taxation” section below for the summary of the concepts of residence and ordinary residence issued by the Irish Revenue Commissioners; |
| <b>“Irish Revenue Commissioners”</b> | means the Irish authority responsible for taxation;   |

|                                    |  |
|------------------------------------|--|
| <b>“Master Fund”</b>               | means the Franklin Floating Rate Master Series, a series of Franklin Floating Rate Master Trust;   |
| <b>“Master Trust”</b>              | means Franklin Floating Rate Master Trust;   |
| <b>“Net Asset Value” or “NAV”</b>  | means the Net Asset Value of the Company calculated as described in this Prospectus;   |
| <b>“Net Asset Value per Share”</b> | means the Net Asset Value per Share of each class of Shares calculated as described in this Prospectus;  |
| <b>“Ordinary Resolution”</b>       | means a resolution passed by a simple majority of the votes cast in its favour by Shareholders entitled to attend and vote at general meetings of the Company or on matters affecting the relevant Shares, as the case may be;   |
| <b>“Prospectus”</b>                | means this document and the Company’s most recent annual report and accounts (if issued) or, if more recent, its interim report and accounts;  |
| <b>“Recognised Market”</b>         | means with the exception of permitted investments in unlisted securities the Company will only invest in securities traded on a stock exchange or market which meets the regulatory criteria (regulated, operate regularly, be recognised and open to the public) and which is listed in the Prospectus. |

**“Stock Exchanges”** for the purposes of this definition means:

- (i) All stock exchanges in a Member State of the European Union;
- (ii) All stock exchanges in a Member State of the European Economic Area (EEA);
- (iii) A stock exchange located in any of the following countries:
  - Australia
  - Canada
  - Japan
  - Hong Kong
  - New Zealand
  - Switzerland
  - United Kingdom
  - USA

**“Markets”** for the purposes of this definition means:

- (i) The market organised by the International Capital Markets Association;
- (ii) The market conducted by the “listed money market institutions” as described in the Bank of England publication “The Regulation of the Wholesale Cash and OTC Derivatives Markets” (in sterling, foreign currency and bullion);
- (iii) AIM - the Alternative Investment Market in the UK, regulated and operated by the London Stock Exchange;

- (iv) The over-the-counter market in Japan regulated by the Securities Dealers Association of Japan;
- (v) NASDAQ in the United States;
- (vi) The market in US government securities conducted by primary dealers regulated by the Federal Reserve Bank of New York;
- (vii) The over-the-counter market in the United States conducted by primary and secondary dealers regulated by the Securities and Exchanges Commission and by the National Association of Securities Dealers (and by banking institutions regulated by the US Comptroller of the Currency, the Federal Reserve System or Federal Deposit Insurance Corporation));
- (viii) The French market for “Titres de Creance Negotiable” (over-the-counter market in negotiable debt instruments);
- (ix) EASDAQ (European Association of Securities Dealers Automated Quotation); and
- (x) The over-the-counter market in Canadian Government Bonds, regulated by the Investment Dealers Association of Canada.

|                                     |  |
|-------------------------------------|--|
| <b>“Relevant Institutions”</b>      | means those institutions which are credit institutions authorised in the EEA or credit institutions authorised within a signatory state (other than an EEA Member State) to the Basle Capital Convergence Agreement of July 1998 or credit institutions authorised in Jersey, Guernsey, the Isle of Man, Australia or New Zealand; |
| <b>“RMB” or “¥” or “CNH”</b>        | means Renminbi, the official currency of the People’s Republic of China. To be read as a reference to onshore Renminbi (CNY) and/or offshore Renminbi (CNH) as the context requires;   |
| <b>“Section 739B”</b>               | means Section 739B of the TCA;   |
| <b>“SFC”</b>                        | means the Securities and Futures Commission of Hong Kong;  |
| <b>“SGD”</b>                        | means the Singapore Dollar, the currency of Singapore;   |
| <b>“Shares”</b>                     | means shares of whatever class in the capital of the Company;  |
| <b>“Shareholder”</b>                | means a subscriber to the memorandum of association of the Company and every other person registered as a holder of Shares in the capital of the Company;  |
| <b>“Shareholder Services Agent”</b> | means Franklin Templeton International Services S.à r.l. or such other entity appointed by the Directors to assist in relation to the distribution of Shares of the Company;   |
| <b>“Special Resolution”</b>         | means a resolution passed with the support of 75% or more of the votes cast in its favour by Shareholders entitled to attend and vote at general meetings of the Company or on matters effecting the relevant Shares as the case may be;   |

|                                |   |
|--------------------------------|---|
| <b>“Taxonomy Regulation”</b>   | means Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, as may be amended from time to time; |
| <b>“TCA”</b>                   | means the Taxes Consolidation Act 1997, as amended;   |
| <b>“United States” or “US”</b> | means the United States of America (including its States and the District of Columbia), its territories, possessions and other areas subject to its jurisdiction; and   |
| <b>“Valuation Point”</b>       | means the time as of which the Net Asset Value is determined being 4.00 pm U.S. eastern standard time on each Dealing Day.  |

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## INVESTMENT CONSIDERATIONS

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### **Investment Objective And Policy Of The Company**

The Company's investment goal is to provide a high level of current income and preservation of capital by investing up to 100% of its net assets in shares of the Franklin Floating Rate Master Series (the "Common Shares"), a series of the Franklin Floating Rate Master Trust. The investment objectives, policies and restrictions of the Master Fund are set out below. Any net assets not invested in the Master Fund will be retained in cash or invested in cash equivalents. The management and expenses of both the Company and the Master Fund are described under "Fees And Expenses". Through its ownership of Common Shares of the Master Fund, the Company indirectly bears its proportionate share of the Master Fund's expenses. There can be no assurance that the Company will achieve its investment objective. Investors should carefully assess the risks associated with an investment in the Company. See the section headed "Risk Factors".

The investment objective of the Company will not at any time be altered without the approval of an Ordinary Resolution of the Shareholders. Changes to investment policies which are material in nature may only be made with the approval of an Ordinary Resolution of the Shareholders.

In the event of a change of investment objective and/or investment policy a reasonable notification period will be provided by the Company and the Company will provide facilities to enable Shareholders to redeem their Shares prior to implementation of these changes.

### **Investment Objectives And Policies Of The Master Fund**

The Master Trust was organised as a Delaware statutory trust on 16 November 1999 and on 11 June 2002, the Franklin Floating Rate Master Trust's board of trustees voted to register the trust as an open-ended investment company which was approved by the shareholders on 26 June 2002. The registered office of the Master Trust is the Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801. The Master Trust is registered with the SEC and is regulated as an investment company under the 1940 Act as amended. Investors should be aware that the performance of the Company will be dependent on the performance of the Master Fund and that any decline in the net asset value of Common Shares held in the Master Fund will result in the subsequent decline of the Net Asset Value per Share.

The Master Fund's investment goal is to provide as high a level of current income and preservation of capital as is consistent with investment primarily in senior secured corporate loans and corporate debt securities with floating interest rates.

The debt obligations (U.S. government securities, U.S. government agency securities, money market instruments, corporate and commercial obligations and repurchase agreements) in which the Master Fund may invest (whether by way of subscription, acquisition, participation or investment) primarily consist of obligations traded on the over-the-counter market in the United States conducted by primary dealers and secondary dealers regulated by the SEC and NASD Regulation, Inc. and by banking institutions regulated by the US Comptroller of Currency, the Federal Reserve System or Federal Deposit Insurance Corporation and, in particular, on the market organised by the Loan Syndications and Trading Association.

The Investment Adviser of the Master Fund performs its own independent credit analysis of each borrower, and of the collateral structure securing the Master Fund's investment. The Investment Adviser of the Master Fund generally will determine the value of the collateral backing the Master Fund's investment by customary valuation techniques that it considers appropriate, including reference to financial statements, independent appraisal, or obtaining the market value of collateral (e.g. cash or securities), if it is readily ascertainable. The Investment Adviser of the Master Fund also will consider the nature of the industry in which the borrower operates, the nature of the borrower's assets, and the general quality and creditworthiness of the borrower and of any shareholder or other entity providing credit support to the borrower. The Investment Adviser of the Master Fund evaluates the credit quality of the Master Fund's investments on an ongoing basis. The value assigned to the collateral by the Investment Adviser of the Master Fund may be higher or lower than the value at which the borrower



values the collateral on the borrower's books. An agent bank may rely on third-party appraisals as to the value of specific collateral, but may not obtain a third-party appraisal in all cases.

The Master Fund's floating rate investments will, in most instances, hold the most senior position in the capitalization structure of the company and be secured by specific collateral. Such senior position means that, in case the company becomes insolvent, the lenders or security holders in a senior position like the Master Fund will typically be paid from the assets of the company before other creditors of the corporation. When a company pledges specific collateral, it has agreed to deliver, or has actually delivered, to the lenders or security holders assets it owns that will legally become the property of the lenders or security holders in case the company defaults in paying interest or principal. Additionally, the obligations of the borrower or issuer are generally subject to certain restrictive covenants in favour of the lenders or security holders that invest in them. As a result, the floating rate investments in which the Master Fund generally invests are typically subject to less credit risk than subordinated and / or unsecured positions of such issuers.

The Master Fund normally invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in corporate loans and corporate debt securities that are made to, or issued by, borrowers that are U.S. companies, non-U.S. borrowers and U.S. subsidiaries of non-U.S. borrowers and that have floating interest rates (floating interest rate loans and securities). Shareholders in the Master Fund will be given sixty days advance notice of any change in this 80% policy. The Master Fund includes investments that provide exposure to such corporate loans and debt securities, such as collateralized loan obligations, for purposes of compliance with such 80% test.

Certain of the Master Fund's floating interest rate investments may permit the borrower to select an interest rate reset period of up to one year. A portion of the Master Fund's investments may consist of loans with interest rates that are fixed for the term of the loan. Investment with longer interest rate reset periods or fixed interest rates may increase fluctuations in the Master Fund's share price as a result of changes in interest rates. Fixed rate corporate loans and debt securities that are converted from fixed rate investments to floating rate investments through interest rate swaps or other derivative transactions will be considered to be floating interest rate loans and securities for purposes of the Master Fund's policy of normally investing at least 80% of its net assets in income-producing floating interest rate corporate loans and corporate debt securities made to or issued by U.S. companies, non-U.S. entities and U.S. subsidiaries of non-U.S. entities. Some of the Master Fund's floating interest rate loans and securities may have the additional feature of converting into a fixed rate instrument after certain periods of time or under certain circumstances. Upon conversion of any such floating interest rate loans and securities to fixed rate instruments, the Investment Adviser of the Master Fund will rebalance the Master Fund's investments, if needed, to meet the 80% level described above, as promptly as is reasonable. Historically, corporate loans and corporate debt securities have required that the borrower or issuer comply with various restrictive covenants that accompany the loan or security, however, consistent with the characteristics of the prevailing loan market, the loans or securities in which the Master Fund generally invests have varied terms and conditions, but contain fewer or no restrictive covenants and are often referred to as "covenant lite" loans and debt securities. The Master Fund generally invests in covenant lite loans and securities, and as a result, may experience relatively greater difficulty or delays in enforcing its rights than with respect to its holdings of loans or securities with the traditional covenants.

The debt obligations may be structured to require the Master Fund to contribute additional capital to the corporate issuer or obligor. If the Master Fund's future obligations are not met for any reason, including the failure of an intermediate participant to fulfil its obligations, the Master Fund's interests may be harmed. The possible exposure of the Master Fund resulting from these requirements will be aggregated to ensure that prior to becoming subject to a requirement to contribute additional capital to such corporate issuer or obligor, the Master Fund will be satisfied the requirements will not result in a breach of its investment restrictions.

The Master Fund normally invests primarily in corporate loans or securities of U.S. entities, but may invest up to 65% of its assets in corporate loans or corporate debt securities of entities in developed countries other than the U.S. The Master Fund may from time to time invest in corporate debt securities of entities in emerging market countries, but currently does not intend to invest more than 35% of its assets in emerging market countries. The Master Fund considers a country to be an emerging market country if it is defined as a country with an emerging or developing economy by any one or more of the

following: the International Bank for Reconstruction and Development (commonly known as the World Bank), the International Finance Corporation, or the United Nations or its agencies or authorities.

The Master Fund currently invests predominantly in corporate loans or corporate debt securities that are U.S. dollar-denominated or otherwise provide for payment in U.S. dollars. For the purposes of pursuing its investment goals, the Master Fund may enter into interest rate and credit-related transactions involving certain derivative instruments, including interest rate and credit default swaps (including loan and high yield credit default swaps), total return swaps or other derivative transactions. The Master Fund may use such interest rate or credit-related derivative transactions to hedge risks relating to changes in interest rates, credit risks and other market factors. The Master Fund may also use interest rate or credit-related derivative transactions for the purposes of enhancing fund returns, increasing liquidity, and/or gaining exposure to particular instruments or interest rates in more efficient or less expensive ways.

The Master Fund may also invest in collateralized loan obligations (CLOs). CLOs represent interests in a special purpose, bankruptcy-remote vehicle, typically a trust, collateralized by a pool generally comprised of corporate and/or sovereign loans, which may include, among others, senior secured loans, senior unsecured loans, and subordinate corporate loans made to domestic and foreign borrowers, including loans that may be rated below investment grade or equivalent unrated loans. The interests in the trust are split into two or more portions, called tranches, varying in risk, maturity, payment priority and yield. The riskiest portion is the “equity” tranche, which is the first loss position to observe defaults from the collateral in the trust or to trade at a loss. Because senior tranches of a CLO trust are partially protected from defaults and, potentially, trading losses, as a result of the subordinate tranches, such senior tranches typically have higher ratings and lower yields than the underlying collateral securities held by the trust and can be rated investment grade. The Master Fund may invest in any tranche of a CLO excluding the “equity” tranche.

When the Investment Adviser of the Master Fund believes market or economic conditions are unfavourable for investors (for example in times of market failure), the Investment Adviser of the Master Fund may invest up to 100% of the Master Fund's assets in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high-quality short-term investments. Temporary defensive investments generally may include short-term U.S. government securities, high-grade commercial paper, bank obligations, repurchase agreements, money market fund shares (including shares of an affiliated money market fund) and other money market instruments. The Investment Adviser of the Master Fund also may invest in these types of securities or hold cash while looking for suitable investment opportunities or to maintain liquidity. In these circumstances, the Master Fund may be unable to achieve its investment goal.

In addition to the Master Fund's main investments, the Master Fund may invest up to 20% of its net assets in certain other types of debt obligations or securities, including other secured, second lien, subordinated or unsecured corporate loans and corporate debt securities, and fixed rate obligations of U.S. companies, non-U.S. entities and U.S. subsidiaries of non-U.S. entities.

Floating interest rate loans and securities are generally credit-rated less than investment grade and may be subject to restrictions on resale. The Master Fund may invest up to 100% of its portfolio in floating interest rate loans and securities that may be high yield, high risk, debt securities and are rated less than investment grade (i.e., less than BBB, sometimes called junk bonds) or if unrated are determined to be of comparable quality by the Investment Adviser of the Master Fund. Under normal conditions, the Master Fund invests at least 75% of its net assets in floating interest rate loans and securities that are rated B- or higher by a nationally recognised statistical rating organization (“NRSRO”) or, if unrated, are determined to be of comparable quality by the Investment Adviser of the Master Fund. Under normal conditions, the Master Fund may invest up to 25% of its net assets in floating interest rate loans and securities that are rated below B- by an NRSRO or, if unrated, are determined to be of comparable quality by the Investment Adviser of the Master Fund.

The Master Fund has no restrictions on portfolio maturity. The Master Fund anticipates, however, that a majority of its investments will have stated maturities ranging from three to seven years. This means that the borrower is required to fully repay the obligation within that time period. The Master Fund also anticipates that its investments will generally have an expected average life of five years or less. The expected average life of most floating rate investments is less than their stated maturities because the

borrowers may choose to pay off such obligations early. Such obligations usually permit the borrower to elect to prepay. Also, prepayment is likely because such corporate obligations generally provide that the lenders will have priority in prepayment in case of sales of assets of the borrowers, or from excess cash flow.

To a limited extent, the Master Fund may also acquire warrants and equities securities traded on Recognised Markets in connection with or incidental to the Master Fund's investment activities. A warrant is a security that gives the holder the right, but not the obligation, to subscribe for newly created securities of the issuer or a related company at a fixed price either at a certain date or during the set period.

The Master Fund may invest up to 5% of its net assets in other investment companies, including closed-end funds and exchange traded funds (ETFs) to the extent permitted by the 1940 Act, U.S. Securities and Exchange Commission ("SEC") rules thereunder and exemptions thereto. With respect to funds in which the Master Fund may invest, Section 12(d)(1)(A) of the 1940 Act requires that, as determined immediately after a purchase is made, (i) not more than 5% of the value of the Master Fund's total assets will be invested in the securities of any one investment company, (ii) not more than 10% of the value of the Master Fund's total assets will be invested in securities of investment companies as a group, and (iii) not more than 3% of the outstanding voting stock of any one investment company will be owned by the Master Fund. The Master Fund will limit its investments in funds in accordance with the 1940 Act Section 12(d)(1)(A) limitations set forth above, except to the extent that any rules, regulations or no-action or exemptive relief under the 1940 Act permits the Master Fund's investments to exceed such limits. For example, Rule 12d1-4 (the "Rule") permits the Master Fund to invest in other investment companies beyond the statutory limits, subject to certain conditions. Among other conditions, the Rule prohibits a fund from acquiring control of another investment company (other than an investment company in the same group of investment companies), including by acquiring more than 25% of its voting securities. In addition, the Rule imposes certain voting requirements when a fund's ownership of another investment company exceeds particular thresholds. If shares of a fund are acquired by another investment company, the "acquired" fund may not purchase or otherwise acquire the securities of an investment company or private fund if immediately after such purchase or acquisition, the securities of investment companies and private funds owned by that acquired fund have an aggregate value in excess of 10% of the value of the total assets of the fund, subject to certain exceptions. These restrictions may limit the Master Fund's ability to invest in other investment companies to the extent desired. In addition, other investment companies may impose other investment limitations or redemption restrictions which may also limit the Master Fund's flexibility with respect to making investments in those unaffiliated investment companies. There will be no change to the Master Fund's own fees as a result of its investment in other investment companies, but to the extent that the Master Fund invests in another investment company, because other investment companies pay advisory, administrative and service fees that are borne indirectly by investors, such as the Master Fund, there may be duplication of investment management and other fees. The Master Fund may also invest its cash balances in affiliated money market funds to the extent permitted by its investment policies and rules and exemptions granted under the 1940 Act.

Changes to investment policies which are not fundamental, and which are not material in nature, may be made with the approval of the Board of the Master Fund.

### **Fundamental Investment Policies Of The Master Fund**

The Master Fund has adopted the following restrictions as fundamental policies. As a matter of fundamental policy, the Master Fund may not:

1. Borrow money, except to the extent permitted by the 1940 Act, or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC.
2. Act as an underwriter except to the extent the Master Fund may be deemed to be an underwriter when disposing of securities it owns or when selling its own shares.
3. Make loans if, as a result, more than 33 $\frac{1}{3}$ % of its total assets would be lent to other persons, including other investment companies to the extent permitted by the 1940 Act or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC.

This limitation does not apply to (1) the lending of portfolio securities, (2) the purchase of debt securities, other debt instruments, loan participations and/or engaging in direct corporate loans in accordance with its investment goals and policies, and (3) repurchase agreements to the extent the entry into a repurchase agreement is deemed to be a loan.

4. Invest more than 25% of its net assets in securities of issuers in any one industry (other than securities issued or guaranteed by the U.S. government or any of its agencies or instrumentalities or securities of other investment companies), except that, under normal market conditions, the Master Fund will invest more than 25% of its net assets in securities of companies operating in the industry group consisting of financial institutions and their holding companies, including commercial banks, thrift institutions, insurance companies and finance companies. For the purposes of this restriction, the Fund currently considers such companies to include the borrower, the agent bank and any intermediate participant.
5. Purchase or sell real estate unless acquired as a result of ownership of securities or other instruments and provided that this restriction does not prevent the Master Fund from (i) purchasing or selling securities or instruments secured by real estate or interests therein, securities or instruments representing interests in real estate or securities or instruments of issuers that invest, deal or otherwise engage in transactions in real estate or interests therein, and (ii) making, purchasing or selling real estate mortgage loans.
6. Purchase or sell physical commodities, unless acquired as a result of ownership of securities or other instruments and provided that this restriction does not prevent the Master Fund from (i) engaging in transactions involving currencies and futures contracts and options thereon or (ii) investing in securities or other instruments that are secured by physical commodities.
7. Issue senior securities, except to the extent permitted by the 1940 Act or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC.
8. Purchase the securities of any one issuer (other than the U.S. government or any of its agencies or instrumentalities or securities of other investment companies, whether registered or excluded from registration under Section 3(c) of the 1940 Act) if immediately after such investment (a) more than 5% of the value of the Master Fund's total assets would be invested in such issuer or (b) more than 10% of the outstanding voting securities of such issuer would be owned by the Master Fund, except that up to 25% of the value of the Master Fund's total assets may be invested without regard to such 5% and 10% limitations.

If a percentage restriction is met at the time of investment, a later increase or decrease in the percentage due to a change in the value of portfolio securities or the amount of assets will not be considered a violation of any of the foregoing restrictions, except that with respect to borrowing, if the borrowing exceeds the Master Fund's percentage restriction on borrowing, the Master Fund will reduce its borrowing within three days to no more than the percentage restriction.

Notwithstanding the investment restrictions above, for such time as the Master Fund remains authorised by the SFC, the Investment Adviser of the Master Fund, Franklin Advisers, Inc., may not obtain a rebate on any fees or charges levied by a collective investment scheme into which the Master Fund invests, or by the management company of such an underlying scheme.

Notwithstanding the Fundamental Investment Policies of the Master Fund outlined above, the Investment Adviser of the Master Fund has entered into a side letter to the effect that the investment objectives and policies of the Master Fund will be carried out in accordance with the following investment and borrowing restrictions:

- (a) the Master Fund may not invest more than 10% of its net assets in securities which are not listed, traded or dealt in on Recognised Markets;
- (b) subject to (c) and (d) below, the Master Fund may not invest more than 10% of its net assets in all tranches of term loans and all other securities issued by a single issuer. Related companies/institutions are regarded as a single issuer for the purpose of this restriction;

- (c) the Master Fund may not maintain more than 10% of its net assets on deposit with any one institution. This limit is increased to 30% for deposits with, or securities evidencing deposits issued by, or securities guaranteed by; (i) an EU credit institution; (ii) a bank authorised in a member state of the European Free Trade Association (EFTA); (iii) a bank authorised by a signatory state (other than an EU Member State of EFTA) to the Basle Capital Convergence Agreement of July 1998 (Canada, Japan, United States); or (iv) the Custodian of the Master Fund or a bank which is an affiliate of the Custodian of the Master Fund. Related companies and institutions are regarded as a single issuer for the purposes of this restriction;
- (d) the Master Fund may invest up to 100% of its net assets in different securities issued or guaranteed by any EU member state or any local authority of an EU member state or by Australia, Canada, Japan, New Zealand, Norway, Switzerland and the United States of America or by any of the following public international bodies of which one or more EU member states are members: the European Investment Bank, the Asian Investment Bank, the World Bank, Euratom, the European Union, the European Bank for Reconstruction and Development; the International Finance Corporation, the International Bank for Reconstruction and Development and the Inter-American Development Bank. In such circumstances the Master Fund must hold security from at least six different issues with securities from any one issue not exceeding 30% of its net asset value;
- (e) for so long as the Company and the Master Fund remain authorised by the SFC, the Master Fund may not own more than 10% of any class of security issued by any single issuer, unless the issuer is an open-ended collective investment scheme. For the purposes of the first sentence of this restriction, a single class of securities of an issuer includes all tranches of term loans and other loans issued by that issuer. Generally, the Master Fund may not invest more than 20% of its net assets in another open-ended collective investment scheme and, for such time as it remains authorised by the SFC in Hong Kong, the Master Fund may not invest more than 10% of its net assets in another open-ended collective investment scheme (other than investment into another underlying scheme as authorised by the SFC). Where investment is made into another collective investment scheme managed by the same management company or by an associated or related company, the manager of the scheme in which the investment is being made will waive the preliminary/initial charge which it is entitled to charge for its own account in relation to the acquisition of units. If a commission is received by the Investment Adviser of the Master Fund by virtue of an investment in the shares of another collective investment scheme and that other collective investment scheme is managed by a related company then this commission will be paid into the property of the Master Fund;
- (f) the Master Fund shall not make short sales of securities or trade securities not owned by it or for its account or otherwise maintain a short position;
- (g) the borrowings of the Master Fund may not exceed 25% of its net asset value and for such time as the Master Fund remains authorised in Hong Kong will not exceed 10% of its total net asset value and should be restricted to facilitating redemptions or defraying operating expenses. Repurchase agreements and securities lending agreements used for efficient portfolio management purposes shall not be regarded as "borrowing" for the purposes of this limitation, however, any potential exposure created by over-the-counter contracts entered into by the Master Fund shall be aggregated with any borrowings for the purposes of this limitation;
- (h) the Master Fund may not invest more than 5% of its net assets in warrants.

The investment restrictions referred to above, excluding the restriction on borrowing, apply at the time of the purchase of the investments. If the limits set out above are exceeded for reasons beyond the control of the Master Fund, or as a result of the exercise of subscription rights, the Master Fund must adopt as a priority objective the remedying of that situation, taking due account of the interests of the Shareholders. For the avoidance of doubt the Master Fund will not take or seek to take legal or management control of the issuer of any of its underlying investments.

Provided always that not more than 20% of the value of the gross assets of the Company may be exposed to the creditworthiness or solvency of any one counterparty.

Notwithstanding the investment restrictions above, and for such time as they remain authorised by the SFC, the Company and the Master Fund shall have regard to the investment restrictions set out in Appendix 2 and the disclosure regarding repurchase agreements and securities lending transactions below under “Safekeeping Arrangements for Repurchase Agreements / Reverse Repurchase Agreements and Securities Lending Transactions”.

#### **Use of Derivatives / Investment in Derivatives**

The Master Fund's net derivative exposure may be up to 50% of the Master Fund's net asset value.

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## INVESTMENT TECHNIQUES

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### Investment Techniques Of The Master Fund

The Master Fund may employ investment techniques and instruments for efficient portfolio management of the assets of the Master Fund including hedging against market movements, currency exchange or interest rate risks under the conditions and within the limits stipulated by legislation and described below. The Master Fund may not engage in leverage through the use of derivative instruments, i.e., the total exposure of the Master Fund, including but not limited to, its exposure from the use of any derivative instruments, must not exceed the total net asset value of the Master Fund.

Any revenues from efficient portfolio management techniques not received directly by the Master Fund, net of direct and indirect operational costs and fees, will be returned to the Master Fund.

### Use Of Credit Default And Interest Rate Swaps

The Master Fund may enter into credit default swaps, including loan credit default swaps and interest rate swaps. The use of such derivative transactions may allow the Master Fund to obtain net long or net short exposures to selected interest rates, durations or credit risks. The Master Fund may use these interest rate or credit-related derivative transactions for the purposes of enhancing returns, increasing liquidity, gaining exposure to particular instruments or interest rates in more efficient or less expensive ways and/or hedging risks relating to changes in interest rates, credit risks and other market factors. The Master Fund currently does not intend to enter into currency swaps.

Swap agreements, such as interest rate and credit default swaps, are contracts between the Master Fund and, typically, a brokerage firm, bank, or other financial institution (the swap counterparty) for periods ranging from a few days to multiple years. In a basic swap transaction, the Master Fund agrees with its counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular "notional amount" of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realised if the notional amount were invested in given instruments or at given interest rates.

For credit default swaps, the "buyer" of the credit default swap agreement is obligated to pay the "seller" a periodic stream of payments over the term of the agreement in return for a payment by the "seller" that is contingent upon the occurrence of a credit event with respect to an underlying reference debt obligation. Generally, a credit event means bankruptcy, failure to timely pay interest or principal, obligation acceleration, or modified restructuring of the reference debt obligation. The contingent payment by the seller generally is the face amount of the debt obligation in exchange for the physical delivery of the reference debt obligation or a cash payment equal to the then current market value of that debt obligation. By way of example, the investment manager might "buy" credit default swaps to help protect against the risk of default by the issuer of one or more debt securities held by the Master Fund. Alternatively, the Master Fund may "sell" a credit default swap to gain exposure to an asset class more efficiently or less expensively than by purchasing the related debt security outright.

The Master Fund may enter into interest rate swaps in order to limit the exposure of its fixed rate debt obligations against fluctuations in interest rates. Interest rate swaps involve the exchange by the Master Fund with another party of their respective commitments or rights to pay or receive interest, such as an exchange of fixed rate payments for floating interest rate payments. For example, if the Master Fund holds a debt obligation with an interest rate that is reset only once each year, it may swap the right to receive interest at this fixed rate for the right to receive interest at a rate that is reset every week. Thus, if interest rates rise, the increased interest received by the Master Fund would offset a decline in the value of the debt obligation. On the other hand, if interest rates fall, the Master Fund's benefit from falling rates would be decreased.

The Master Fund is limited to 100% notional value with respect to hedging with interest rate and credit default swaps. The risk of loss with respect to credit risk hedges is limited to the amount of periodic streams of payments over the term of the agreement. If the other party to a credit default swap defaults, the Master Fund's risk of loss consists of the net payment of the face amount of the debt obligation.

Similarly, the risk of loss with respect to interest rate hedges is limited to the net amount of interest payments that the Master Fund is obligated to make. If the other party to an interest rate swap defaults, the Master Fund's risk of loss consists of the net amount of interest payments that the Master Fund is entitled to receive. The Master Fund will only enter into an interest rate swap after the Investment Adviser of the Master Fund has evaluated the creditworthiness of the other party to the swap in accordance with the requirements set out below.

Interest rate and credit default swaps may be bought or sold by the Master Fund on a Recognised Market or off-exchange on an over-the-counter market ("OTC Contracts"). OTC Contracts are permitted under legislation subject to the following additional requirements (a) the obligations of the Master Fund under the OTC Contracts must, at all times, be held in liquid assets or readily marketable securities; (b) the counterparty must have a credit rating of A2 (or equivalent) or better, or if unrated, have, in the opinion of the Investment Adviser of the Master Fund, an implied rating of A2 (or equivalent) or better. Alternatively, an unrated counterparty is acceptable if the Master Fund is indemnified against losses suffered as a result of a failure by the counterparty, by an entity which has and maintains a rating of A2 (or equivalent) or better; (c) exposure to the counterparty (which must take account of all exposures which the Master Fund might have to the counterparty), must not exceed 10% of the Master Fund's net asset value (or 30% of the Master Fund's net asset value in the case of a Relevant Institution (as defined below) (acceptable collateral, as described under "Use of Repurchase Agreements" below, may be provided by a counterparty in order to reduce the Master Fund's exposure to that counterparty); (d) the Investment Adviser of the Master Fund must be satisfied that the counterparty has agreed to value the transaction at least weekly and to close out the transaction at its request at a fair value; and (e) the periodic reports of the Master Fund must provide information on the OTC Contracts entered into during the reporting period, the names of the counterparties and the resulting amount of commitments. The net maximum potential exposure created by such OTC Contracts, together with any other borrowings of the Master Fund shall not exceed 25% of the net assets of the Master Fund.

#### **Use of Fixed Income Total Return Swaps**

The Master Fund may enter into fixed income total return swap agreements. A total return swap is an agreement between two parties, pursuant to which one pays (and the other receives) an amount equal to the total return (including, typically, income and capital gains distributions, principal prepayment or credit losses) of an underlying reference asset (e.g., a note, bond or securities index) in exchange for a regular payment, at a floating rate based on a designated reference rate, or alternatively at a fixed rate or the total rate of return on another financial instrument. The Master Fund may take either position in a fixed income total return swap (i.e., the Master Fund may receive or pay the total return on the underlying reference asset). The Master Fund may utilise total return swaps from time to time subject to a maximum of 10%.

A fixed income total return swap may be written on many different kinds of underlying reference assets such as securities, a currency, an index or an interest rate, and may include different indices for various kinds of debt securities or investments (e.g., U.S. investment grade bonds, high yield bonds, emerging market bonds or senior corporate loans).

#### **Use Of Repurchase Agreements/Reverse Repurchase Agreements**

The Master Fund may enter into repurchase agreements with respect to its permitted investments. In a repurchase agreement transaction, the Master Fund purchases a U.S. government security from a bank or broker-dealer. The agreement provides that the bank or broker-dealer will repurchase the security at an agreed-upon price and date. The bank or broker-dealer must transfer to the Master Fund's account collateral consisting of cash or securities with an initial value, including any earned but unpaid interest, equal to at least 102% of the dollar amount invested by the Master Fund in each repurchase agreement.

The Master Fund may enter into repurchase or reverse repurchase agreements ("repo contracts") only in accordance with normal market practice and provided that collateral obtained under the repo contract is in the form of cash or liquid securities and complies with the following criteria: liquidity: collateral must be sufficiently liquid so that it can be sold quickly at a robust price that is close to its pre-sale valuation; valuation: collateral must be capable of being valued on at least a daily basis and must be marked to market daily; issuer credit quality: where the collateral issuer is not rated A-1, or equivalent,



conservative haircuts must be applied. No predetermined maturity criteria apply to collateral. Any incremental income generated from repo contracts, net of direct and indirect operational costs and fees as reasonable and normal compensation for the services rendered in the context of such transactions, will be accrued to the Master Fund. All revenues arising from repurchase and/or reverse repurchase agreement transactions will be returned to the Master Fund, and the Investment Adviser of the Master Fund will not take any fees or costs out of those revenues additional to the Investment Adviser's fee for the Master Fund as set out under the section "Fees Chargeable by the Master Fund". Such direct and indirect expenses shall include fees and expenses payable to the counterparty from time to time. Such fees and expenses of any counterparty will be at normal commercial rates and will be borne by the Master Fund. Information on the revenues generated, and the direct and indirect expenses incurred relating to such transactions shall be disclosed in the annual and interim financial reports of the Master Fund, along with entities to whom direct and indirect expenses relating to such transactions are paid.

Investors should note that the Master Fund is expected to utilise 5% of its assets for repo contracts, subject to a maximum of 20%. Until the expiry of a repo contract, the collateral obtained under such contract (a) must equal or exceed in value at all times the value of the amount invested or securities loaned by the Master Fund; (b) must be transferred to the trustee of the Master Fund or its agent (except where the Master Fund uses tri-party collateral management services of International Central Securities Depositories and Relevant Institutions which are generally recognised as specialists in this type of transaction and the Master Fund's trustee is a named participant to the collateral arrangements); and (c) must be immediately available to the Master Fund without recourse to the counterparty in the event of a default by that entity.

Non-cash collateral (i) cannot be sold or pledged by the Master Fund; (ii) must be held at the risk of the counterparty; (iii) must be issued by an entity independent of the counterparty; and (iv) must be diversified to avoid concentration in any one country, sector or issue.

Cash received as collateral may only be invested in (i) deposits with Relevant Institutions (ii) government or other public securities (iii) certificates of deposit issued by Relevant Institutions, (iv) letters of credit with a residual maturity of three months or less which are unconditional and irrevocable and which are issued by Relevant Institutions, (v) repo contracts, subject to the provisions of this section, and (vi) daily dealing money market funds which have and maintain a rating of AAA or equivalent provided that if investment is made in a fund managed by the Investment Adviser of the Master Fund or by an associated or related company, no subscription, conversion or redemption charge may be charged by the underlying money market fund.

Invested cash collateral held at the credit risk of the Master Fund, other than cash collateral invested in government or other public securities or money market funds, must be invested in a diversified manner. The Master Fund must be satisfied, at all times, that any investment of cash collateral will enable it to meet its repayment obligations. Invested cash collateral may not be placed on deposit with, or invested in securities issued by the counterparty or a related entity.

The Investment Adviser of the Master Fund has counterparty selection policies and control measures to manage the credit risks of counterparties of repo contracts which shall include, amongst other considerations, fundamental creditworthiness (e.g. ownership structure, financial strength) and commercial reputation of specific legal entities in conjunction with the nature and structure of proposed trading activities, external credit ratings of the counterparty and legal status of the counterparty. The counterparty of repo contracts must be financial institutions which are subject to ongoing prudential regulation and supervision.

The Master Fund may only enter into repo contracts with counterparties which have a minimum credit rating of A2 or equivalent or are deemed by the Master Fund to have an implied rating of A2. Alternatively, an unrated counterparty is acceptable where the Master Fund is indemnified against losses suffered as a result of a failure by the counterparty, by an entity which has and maintains a rating of A2 or equivalent. **The Master Fund may enter into repo contracts which may constitute up to 100% of the Master Fund's total net assets in a temporary defensive investment situation.**

Any counterparty to the repo contracts is not expected to be an affiliate of the Depository of the Master Fund or Investment Adviser of the Master Fund.

Repo contracts do not constitute borrowing or lending for the purposes of the borrowing restrictions set out under “Fundamental Investment Policies Of The Master Fund” above.

### **When-issued And Delayed Delivery Securities**

The Master Fund may purchase securities on a “when-issued” basis and may purchase or sell securities on a “delayed delivery” basis. The price, which is generally expressed in yield terms, is fixed at the time the commitment is made, but delivery and payment for the securities take place at a later date. No income accrues on securities which have been purchased pursuant to a delayed delivery or on a when-issued basis prior to delivery of the securities. If the Master Fund disposes of the right to acquire a when-issued security prior to its acquisition or disposes of its right to deliver or receive against a delayed delivery, the Master Fund may incur a gain or loss. There is a risk that the securities may not be delivered and that the Master Fund may incur a loss.

### **Safekeeping Arrangements for Repurchase Agreements/Reverse Repurchase Agreements and Securities Lending Transactions**

**Assets received:** Assets (including any collateral) received by the Master Fund under a title-transfer arrangement should be held by the Custodian of the Master Fund.

**Assets provided:** Assets (including collateral) provided to a counterparty under a title-transfer arrangement shall no longer belong to the Master Fund. Assets (including any collateral) provided to a counterparty other than under a title-transfer arrangement shall be held by the Custodian of the Master Fund (which may include the counterparty to the relevant transaction). Upon the exercise of a right of re-use by a counterparty, such assets will not be safe-kept by the Custodian of the Master Fund and such counterparty may use the assets at its absolute discretion.

### **Collateral Policy**

Collateral received by the Master Fund may be used to reduce its counterparty risk exposure if it complies with the criteria set out in applicable laws, regulations and circulars issued by the Central Bank as set out below from time to time notably in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. In particular, collateral should comply with the following conditions:

- (a) Any collateral received other than cash should be of high quality, highly liquid and traded on a Recognised Market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a robust price that is close to its pre-sale valuation;
- (b) It should be valued on at least a daily basis and must be marked to market daily. Assets that exhibit high price volatility should not be accepted as collateral unless suitably conservative haircuts are in place;
- (c) It should be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty, where the collateral issuer is not rated A-1 or equivalent, conservative haircuts must be applied;
- (d) It should be sufficiently diversified in terms of country, markets and issuers with a maximum exposure of 20% of the Master Fund’s Net Asset Value to any single issuer on an aggregate basis, taking into account all collateral received. By way of derogation, the Master Fund may be fully collateralised in different transferable securities and money market instruments issued or guaranteed by a EU Member State, one or more of its local authorities, a third country, or a public international body to which one or more EU Member States belong. In such event, the

Master Fund should receive securities from at least six different issues, but securities from any single issue should not account for more than 30% of the Master Fund's Net Asset Value;

- (e) It should be available to the Master Fund immediately and capable of being fully enforced by the Master Fund at any time without recourse to the counterparty (subject to any netting or set-off);
- (f) Non-cash collateral:
  - (i) cannot be sold, pledged or re-invested;
  - (ii) must be held at the risk of the counterparty;
  - (iii) must be issued by an entity independent of the counterparty; and
  - (iv) must be diversified to avoid concentration risk in one issue, sector or country
- (g) Where there is a title transfer, the collateral received will be held by the Custodian of the Master Fund in accordance with the its safekeeping duties under the Master Custody Agreement. For other types of collateral arrangements, the collateral can be held by a third party custodian which is subject to prudential supervision, and which is unrelated to the provider of the collateral;
- (h) Collateral received shall have a quality of credit of investment grade; and
- (i) Cash collateral must only be invested in risk-free assets.

Collateral will be valued on each Valuation Day, using the last available market prices as per ISDA guidelines and taking into account appropriate discounts determined for each asset class based on the applicable haircut policy. The collateral will be marked to market daily and depending on the current market exposure and collateral balance, the collateral may be subject to variation margin movement when and if certain predetermined thresholds are crossed.

The following haircuts for collateral may be applied by the Master Fund, it being noted that the latter reserves the right to vary this policy at any time:

| <b>Eligible Collateral</b>                     | <b>Haircut</b>     |
|--|--------------------|
| <i>Cash</i>                                    | <i>100%</i>        |
| <i>US Treasury - 1 year or less</i>            | <i>97% to 100%</i> |
| <i>US Treasury - 1 year to 5 years</i>         | <i>95% to 100%</i> |
| <i>US Treasury - 5 years or greater</i>        | <i>95% to 100%</i> |
| <i>US Treasury -5 year to 10 years</i>         | <i>95% to 100%</i> |
| <i>US Treasury - 10 years to 30 years</i>      | <i>90% to 100%</i> |
| <b>Detailed information on Sovereign Bonds</b> | <b>Haircut</b>     |
| <i>Sovereign Bonds - less than 1 year</i>      | <i>99% to 100%</i> |
| <i>Sovereign Bonds - 1 to 2 years</i>          | <i>95% to 100%</i> |
| <i>Sovereign Bonds - 2 to 5 years</i>          | <i>95% to 100%</i> |
| <i>Sovereign Bonds - 5 to 10 years</i>         | <i>90% to 100%</i> |
| <i>Sovereign Bonds - 10 to 20 years</i>        | <i>N/A</i>         |
| <i>Sovereign Bonds- 20 to 30 years</i>         | <i>85% to 100%</i> |

Any haircut levels are agreed on a counterparty by counterparty basis are reflected in relevant master agreement. Haircut levels are monitored and reconciled on an ongoing basis (through collateral management systems) to identify any variation of the agreed applicable haircut policy. Application

of different (non-agreed) haircut level impacting collateral valuation is escalated with the relevant counterparty. Haircut levels may additionally be amended due to a change in creditworthiness of a given counterparty.

### **Reuse of Collateral**

In accordance with market standard securities lending master agreements (e.g., global master securities lending agreements (GMSLAs) or master securities lending agreements (MSLAs)), when securities are lent to a borrower, the borrower will obtain, either (i) a full legal title to the securities it receives, under a title transfer collateral arrangement; or (ii) a right to use the securities it receives, under a security collateral arrangement.

The Master Fund will be informed in writing by the borrowers of the risks and consequences that may be involved in either (i) concluding a title transfer collateral arrangement; and (ii) granting a right of use of collateral provided under a security collateral arrangement; as summarized below:

- All rights, including any proprietary rights that the Master Fund may have had, in those financial instruments will be replaced by an unsecured contractual claim for delivery of equivalent financial instruments subject to the terms of the relevant securities lending master agreement;
- The borrower will not hold financial instruments in accordance with client asset rules and any asset protection rights will not apply (for example, the financial instruments will not be segregated from our assets and will not be held subject to a trust);
- If the borrower enters insolvency or defaults under the relevant securities lending master agreement the Master Fund's claim against the borrower for delivery of equivalent financial instruments will not be secured and will be subject to the terms of the relevant securities lending master agreement and applicable law and, accordingly, the Master Fund may not receive such equivalent financial instruments or recover the full value of the financial instruments (although the Master Fund's exposure may be reduced to the extent that the borrower has liabilities to it which can be set off or netted against or discharged by reference to the borrowers obligation to deliver equivalent financial instruments to the Master Fund);
- In the event that a resolution authority exercises its powers under any relevant resolution regime in relation to a borrower any rights the Master Fund may have to take any action against the borrower, such as to terminate the relevant securities lending master agreement, may be subject to a stay by the relevant resolution authority and:
  - a. the Master Fund's claim for delivery of equivalent financial instruments may be reduced (in part or in full) or converted into equity; or
  - b. a transfer of assets or liabilities may result in the Master Fund's claim on the borrower, or the borrowers claim on the Master Fund, being transferred to different entities although the Master Fund may be protected to the extent that the exercise of resolution powers is restricted by the availability of set-off or netting rights;
- Subject to the terms of the relevant securities lending master agreement, (i) the Master Fund will not be entitled to exercise any voting, consent or similar rights attached to the financial instruments and (ii) the borrower will have no obligation to inform you of any corporate events or actions in relation to

those financial instruments;

- If the borrower is unable to readily obtain equivalent financial instruments to deliver to the Master Fund at the time required, the Master Fund may be unable to fulfil its settlement obligations under any other transaction it has entered into in relation to those financial instruments;
- The Master Fund will not be entitled to receive any dividends, coupon or other payments, interests or rights (including securities or property accruing or offered at any time) payable in relation to those financial instruments, although the Master Fund may be credited with a payment by reference to such dividend, coupon or other payment (a "manufactured payment");
- The tax treatment applicable to (i) financial instruments (and any equivalent financial instruments) that have been lent or used as collateral and (ii) manufactured payments may differ from the tax treatment in respect of the original dividend, coupon or other payment in relation to those financial instruments.

### **Lending Of Portfolio Securities**

The Master Fund may from time to time lend its portfolio securities to qualified securities dealers or other institutional investors which may include treasury securities, and any other securities issued or fully guaranteed by the US Government or any agency, instrumentality or establishment of the US Government and any securities that are principally traded, cleared or settled within the US. To the extent that the Master Fund engages in securities lending, the Master Fund will limit such loans to a value of 33⅓% of the Master Fund's total assets, measured at the time of the most recent loan. This limitation is a fundamental policy, which means it may not be changed without the approval of the holders of a majority of the Common Shares.

The conditions applicable to the collateral obtained under securities lending agreements in respect of U.S. securities are identical to those in relation to repo contracts and are described under "Use Of Repurchase Agreements/Reverse Repurchase Agreements" above. However, where the Master Fund enters into securities lending arrangements in respect of non-U.S. securities, the collateral must be equal to at least 105% of the market value of the securities loaned.

Notwithstanding the above, the Master Fund may enter into securities lending programmes organised by generally recognised International Central Securities Depositories Systems provided that the programme is subject to a guarantee from the system operator.

The Investment Adviser of the Master Fund has counterparty selection policies and control measures to manage the credit risks of counterparties of securities lending agreements which shall include, amongst other considerations, fundamental creditworthiness (e.g. ownership structure, financial strength) and commercial reputation of specific legal entities in conjunction with the nature and structure of proposed trading activities, external credit ratings of the counterparty, the regulatory supervision applied to the relevant counterparty, country of origin of the counterparty, the regulatory supervision applied to the relevant counterparty, country of origin of the counterparty and legal status of the counterparty. The counterparty of securities financing transactions must be financial institutions which are subject to ongoing prudential regulation and supervision. The Master Fund may only enter into securities lending agreements with counterparties which have a minimum credit rating of A2 or equivalent or are deemed by the Master Fund to have an implied rating of A2. Alternatively, an unrated counterparty is acceptable where the Master Fund is indemnified against losses suffered as a result of a failure by the counterparty, by an entity which has and maintains a rating of A2 or equivalent.

In addition, the Master Fund must have the right at any time to terminate any securities lending agreement entered into by it, and to demand the return of any or all securities lent within five Business Days or other period as normal market practice dictates.

To the extent that the Master Fund engages in securities lending it may appoint a securities lending agent which may receive a fee in relation to its securities lending activities. Any such securities lending agent is not expected to be an affiliate of the Depositary of the Master Fund or Investment Adviser of the Master Fund. Any operational costs arising from such securities lending activities shall be borne by the securities lending agent out of its fee.

The securities lending agent receives a fee of up to 10% of the gross revenue generated as a result of the lent securities for its services, the remainder of the revenue being received and retained by the Master Fund. Any incremental income generated from any securities lending transaction, net of direct and indirect operational costs and fees as reasonable and normal compensation for the services rendered in the context of securities lending transactions, will be accrued to the Master Fund. Such direct and indirect expenses shall include fees and expenses payable to securities lending agents engaged for the Master Fund from time to time. Such fees and expenses of any securities lending agents engaged for the Master Fund will be at normal commercial rates and will be borne by the Master Fund. Information on the revenues generated, and the direct and indirect expenses incurred relating to such transactions shall be disclosed in the annual and interim financial reports of the Master Fund, along with entities to whom direct and indirect expenses relating to such transactions are paid.

Securities lending agreements do not constitute borrowing or lending for the purposes of the borrowing restrictions set out under "Fundamental Investment Policies Of The Master Fund" above.

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## SUSTAINABLE FINANCE

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The Investment Adviser of the Master Fund has adopted the following policy in respect of ESG Integration for the Master Fund. ESG Integration describes the mechanism by which the Investment Adviser of the Master Fund may integrate sustainability risks into investment decision-making, which may require the Investment Adviser of the Master Fund to assess the potential sustainability risks associated with the purchase of investments.

Sustainability risk means an environmental, social, or governance event or condition, that, if it occurs, could potentially or actually cause a material negative impact on the value of the Master Fund's investments. Sustainability risks can either represent a risk of their own or have an impact on other risks and may contribute significantly to risks, such as market risks, operational risks, liquidity risks or counterparty risks.

Sustainability risks, as further described in the section "Risk Factors", are important elements to consider in order to enhance long-term risk adjusted returns for investors and determine the Master Fund's strategy risks and opportunities. The Master Fund currently integrates sustainability risk in the investment process. The Investment Adviser of the Master Fund makes use of specific methodologies and databases into which environmental, social and governance data from external research companies, as well as own research results, are incorporated. Assessment of sustainability risks is complex and may be based on environmental, social and governance data which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

To the extent that a sustainability risk occurs, or occurs in a manner that is not anticipated by the Investment Adviser of the Master Fund / the Investment Adviser of the Master Fund's models, there may be a sudden, material negative impact on the value of an investment, and hence on the value of the Master Fund and the accordingly, the Net Asset Value of the Company. Such negative impact may result in an entire loss of value of the relevant investment(s) and may have an equivalent negative impact on the value of the Master Fund and the accordingly, the Net Asset Value of the Company.

The investments underlying the Master Fund do not take into account the EU criteria for environmentally sustainable economic activities, including enabling or transitional activities, within the meaning of the Taxonomy Regulation.

The Investment Adviser of the Master Fund does not consider principal adverse impacts on sustainability factors into account in respect of the Master Fund.

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## RISK FACTORS

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Investment in the Company carries with it a degree of risk including the risks described below. These investment risks are not purported to be exhaustive and potential investors should review the Prospectus carefully and consult with their professional advisers before making an application for Shares. It is important to keep in mind one of the main axioms of investing: generally, the higher the risk of losing money, the higher the potential reward. The reverse, also, is generally true: the lower the risk, the lower the potential reward. There can be no assurance that the Company will achieve its investment objectives. The Net Asset Value of Shares may go down as well as up and you may not get back the money invested or the return on your investment.

### **Provisional Allotments**

As the Company may provisionally allot Shares to proposed investors prior to receipt of the requisite subscription monies for those Shares the Company may suffer losses as a result of the non-payment of such subscription monies. While the Company may cancel any provisional allotment if subscription monies are not received in a timely fashion, losses to the Company may nonetheless arise if the Company is required to borrow monies in order to settle subscriptions for Common Shares made in the expectation of the receipt of the relevant subscription monies. The Company may subsequently redeem the Common Shares in order to repay the borrowings, but the interim cost of funding will be borne by the Company. The relevant investor is required to indemnify the Company for any such losses but if the Company is unable to recover under the indemnity the Company as a whole will bear the loss.

### **Share Currency Designation Risk**

A class of Shares may be designated in a currency other than the base currency of the Company, being US Dollars. In such circumstances adverse exchange rate fluctuations between the base currency and the Class Currency may result in a decrease in return and/or a loss of capital for Shareholders. The Investment Manager may try to mitigate this risk for holders of the Hedged Class Shares by using any of the efficient portfolio management techniques and instruments (including currency options and forward currency exchange contracts), within the conditions and limits imposed by the Central Bank, to hedge the foreign currency exposure of such classes into the base currency of the Company. A class may not be leveraged as a result of the use of such techniques and instruments however, subject to the below, hedging up to, but not exceeding 105% of the Net Asset Value attributable to the relevant class, is permitted. The Investment Manager will monitor hedging on at least a monthly basis and will increase or reduce the level of hedging to ensure that it neither exceeds nor remains below 100% of the Net Asset Value attributable to the relevant class at any month-end.

Investors should be aware that this strategy may substantially limit Shareholders of the relevant Hedged Class from benefiting if the Class Currency falls against the base currency of the Company. In such circumstances, Shareholders of the Hedged Class may be exposed to fluctuations in the Net Asset Value per Share reflecting the gains/loss on and the costs of the relevant financial instruments and while not the intention, over-hedged or under-hedged positions may arise due to factors outside of the control of the Company.

In the case of a class which is designated in the currency other than the base currency of the Company, a currency conversion will take place on subscriptions, redemptions, exchanges and distributions at the rate of exchange available to the Company and the cost of conversion will be deducted from the relevant class.

Although hedging strategies may not necessarily be used in relation to each class within the Company, the financial instruments used to implement such strategies shall be assets/liabilities of the Company as a whole. However, the gains/losses on and the costs of the relevant financial instruments will accrue solely to the relevant Hedged Class. Any currency exposure of a Hedged Class may not be combined with or offset with that of any other class of the Company.

The investments of the Master Fund may be denominated in currencies other than the Class Currencies of the Share classes of the Company. In such circumstances, adverse exchange rate fluctuations between the currencies in which the investments of the Master Fund are denominated and the relevant Class Currency may indirectly result in a decrease in return and/or a loss of capital for Shareholders.



## Possible Indemnification Obligations

The Company has agreed, or may agree, to indemnify the Directors, the AIFM, the Investment Manager, the Administrator, the Depositary, the banks, brokers, dealers, counterparties and others, under various agreements entered into with such persons, against certain liabilities they or their respective directors, officers, affiliates or agents may incur in connection with their relationships with the Company.

## Sales Charges

As a contingent deferred sales charge may be imposed there may be a difference at any one time between the sale and redemption price. Investment in the Company therefore should be viewed as medium to long-term.

## Feeder Fund

Due to the Company's investment in the Master Fund, Shareholders will be subject to fees and expenses arising from the layered investment structure. See "Fees And Expenses". The Company may also bear, indirectly through its investment in the Master Fund, a proportion of the offering, organisational and operating expenses of the Master Fund.

## RMB Currency and Conversion risks

RMB is currently not freely convertible and is subject to exchange controls and restrictions. Investors should be aware of the fact that the Chinese Renminbi (RMB) is subject to a managed floating exchange rate based on market supply and demand with reference to a basket of currencies. Currently, the RMB is traded in two markets: one in mainland China, and one outside mainland China (primarily in Hong Kong). The RMB traded in mainland China is not freely convertible and is subject to exchange controls and certain requirements by the government of mainland China. The RMB traded outside mainland China, on the other hand, is freely tradable. Whilst the RMB is traded freely outside mainland China, the RMB spot, forward foreign exchange contracts and related instruments reflect the structural complexities of this evolving market. Accordingly, Alternative Currency Classes denominated in RMB may be exposed to greater foreign exchange risks.

Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the Fund's base currency (i.e., USD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Company.

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.

Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

**The Master Fund may be permitted in certain circumstances to redeem its shares in-kind. Thus, upon the Company's withdrawal of all or a portion of its interest in the Master Fund, the Company may receive securities that are illiquid or difficult to value. In these circumstances, the Company would seek to dispose of these securities in an appropriate manner including obtaining the consent of Shareholders.**

## Master Fund Risks

**As the Company intends to invest up to 100% of its net assets in shares of the Master Fund, the following Master Fund risk factors apply equally to the Company as they do to the Master Fund.**

### Illiquid Securities

The Master Fund may not invest more than 15% of its net assets in securities that are illiquid. Illiquid securities for the purposes of this limitation are any investment that the Master Fund reasonably expects cannot be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the investment, generally because they

are not readily marketable or are subject to restrictions on resale. Some of the corporate loans and corporate debt securities in which the Master Fund invests are, at present, not readily marketable and may be subject to significant restrictions on resale. They may not have the liquidity of conventional investment grade debt securities and may be considered illiquid. In the event that the Master Fund voluntarily or involuntarily liquidates these assets, it may not get the full value of the assets. Reduced liquidity affecting an individual security or an entire market may have an adverse impact on market price and the Master Fund's ability to sell particular securities when necessary to meet the Master Fund's liquidity needs or in response to a specific economic event. As the market for corporate loans and corporate debt securities has matured, the Investment Adviser of the Master Fund has found that liquidity continues to improve.

The sale of restricted or illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities often sell at a price lower than similar securities that are not subject to restrictions on resale.

*Restricted Securities That May Be Freely Transferred Among Qualified Institutional Buyers Under Rule 144A Of The 1933 Act, As Amended ("144A Securities")*

Due to changing market or other factors, 144A Securities may be subject to a greater possibility of becoming illiquid than securities that have been registered with the SEC for sale. In addition, the Master Fund's purchase of 144A Securities may increase the level of the Master Fund's illiquidity, as some institutional buyers may become uninterested in purchasing such securities after the Master Fund has purchased them.

### **Credit Risk**

Corporate loans and corporate debt securities may constitute substantially all of the Master Fund's investments. Corporate loans and corporate debt securities are primarily dependent upon the creditworthiness of the borrower for payment of interest and principal. The Master Fund is subject to the risk that the scheduled interest or principal payments on corporate loans, corporate debt securities and other debt obligations in its portfolio will not be paid. If the borrower fails to pay scheduled interest or principal on a corporate loan or corporate debt security and other debt obligations, the income of the Master Fund or the value of its investments may be adversely affected. A decline in the Master Fund's Net Asset Value could result from a borrower defaulting on a corporate loan or corporate debt security and from changes in the creditworthiness of a borrower. In turn, this may reduce the amount of dividends on the Master Fund's shares. In the case of participation interests in corporate loans, a decline in the Net Asset Value also may result from changes in the creditworthiness of intermediate participants interposed between the Master Fund and the borrowers. The Master Fund's receipt of principal and interest payments on a corporate loan or a corporate debt security also depends upon the creditworthiness of any intermediate participant. To reduce credit risk, the Investment Adviser of the Master Fund actively manages the Master Fund as described under the section "Investment Objectives And Policies Of The Master Fund" above.

Corporate loans and corporate debt securities made in connection with highly leveraged transactions are subject to greater credit risks than other corporate loans and corporate debt securities in which the Master Fund may invest. These credit risks include an increased possibility that the borrower may default on the corporate loan or corporate debt security, or may go into bankruptcy. The Master Fund may have more difficulty selling highly leveraged corporate loans and corporate debt securities than other corporate loans and corporate debt securities when they are less liquid. The value of such corporate loans and corporate debt securities can be more volatile in response to interest rate fluctuations. Certain corporate loans and corporate debt securities in which the Master Fund invests may not be rated by any NRSRO.

The Master Fund may own corporate loans and corporate debt securities of a borrower who files for protection under Chapter 11 of the U.S. Bankruptcy Code. The Master Fund also may purchase corporate loans and corporate debt securities that are issued in connection with a restructuring pursuant to Chapter 11 of the U.S. Bankruptcy Code. The Master Fund may purchase corporate loans and corporate debt securities that are in default as to the payment of interest or principal or both and with respect to which no interest or principal may be paid for a period of time. In almost all instances, the

Master Fund will purchase these obligations only if they hold a senior position in the borrower's capitalisation structure prior to bankruptcy and, in the case of obligations that are not then currently paying interest or principal or both, the Investment Adviser of the Master Fund has determined that such obligations will either begin paying interest or principal or both soon enough to, or may be disposed of at a value that will, meet the investment goals and strategies of the Master Fund. Also, the Investment Adviser of the Master Fund will determine that such obligations are a suitable investment by the Master Fund. However, many borrowers will have non-investment grade subordinated debt. During periods of deteriorating economic conditions, a borrower may have difficulty making its payments under such bonds and other subordinated debt obligations. These difficulties may damage the borrower's credit rating or its ability to obtain financing for short-term cash flow needs. This may force the borrower into bankruptcy or other forms of credit restructuring. Investments in securities of issuers that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy (generally referred to as "distressed debt") typically involve the purchase of lower-rated or defaulted debt securities, comparable unrated debt securities, or other indebtedness of such issuers. By purchasing all or a part of an issuer's direct indebtedness, the Master Fund, in effect, steps into the shoes of the lender. If the loan is secured, the Master Fund will generally have a priority claim to the assets of the issuer ahead of unsecured creditors and stockholders. The risk that the Master Fund may lose its entire investment in defaulted loans is greater in comparison to investing in non-defaulted loans.

The Master Fund may invest up to 100% of its portfolio in senior secured corporate loans or corporate debt securities that may be high yield, high risk, debt securities that are rated less than investment grade (*i.e.*, less than BBB) or, if unrated, are determined to be of comparable quality by the Investment Adviser of the Master Fund. These entail default and other risks greater than those associated with higher-rated securities. Generally, the lower the rating category, the riskier the investment. Unsecured debt securities rated lower than BBB by Standard & Poor (S&P) or lower than Baa by Moody's are considered to be high yield, high risk investments, commonly known as "junk bonds." However, the senior secured corporate loans and corporate debt securities in which the Master Fund primarily invests are not junk bonds. They have features that junk bonds generally do not have. These corporate loans and corporate debt securities are senior obligations of the borrower and are secured by collateral. They generally are subject to certain restrictive covenants in favour of the lenders or security holders that invest in the corporate loans or corporate debt securities. As a result, the floating rate investments in which the Master Fund generally invests are typically subject to less credit risk than subordinated and/or unsecured positions of such issuers.

The collateral may consist of various types of assets or interests. It may include working capital assets, such as accounts receivable or inventory. Inventory is the goods a company has in stock, including finished goods, goods in the process of being manufactured and the supplies used in the process of manufacturing. Accounts receivable are the monies due to a company for merchandise or securities that it has sold, or for the services it has provided. The collateral also may include tangible fixed assets, such as real property, buildings and equipment, or intangible assets, such as trademarks, copyrights and patent rights, or securities of subsidiaries or affiliates. Where the borrower is a privately held company, the company's owners may provide additional security. They may do this by giving personal guarantees of performance or by agreeing to transfer other securities that they own to the lenders in the event that the obligations are not repaid. In addition, the Master Fund may invest in corporate loans that are fully collateralized by assets of such shareholders or owners, rather than by assets of the borrower.

In addition, the Investment Adviser of the Master Fund considers other factors it believes are appropriate to the analysis of the borrower and the corporate loan or corporate debt security. Such factors may include financial ratios of the borrower, such as the interest coverage ratio and leverage ratio, the borrower's other outstanding debt, if any, and any related maturity schedules. The Investment Adviser of the Master Fund also considers the nature of the industry in which the borrower is engaged, the nature of the borrower's assets and the general quality of the borrower, including the quality of the management and other personnel. The Investment Adviser of the Master Fund considers developing political, diplomatic, legal, regulatory and operational impacts on the nature of the industry and economy in which the borrower is engaged. Particularly, with respect to non-U.S. borrowers and U.S. subsidiaries of non-U.S. borrowers, the Investment Adviser of the Master Fund may consider the nature of the non-U.S. countries, economies and markets in which the non-U.S. borrower is located and operates. These factors are extremely difficult, if not impossible, to predict. Consequently, the Investment Adviser of the

Master Fund may be unable to assess effectively any adverse impact on the creditworthiness of borrowers arising from such factors.

### **Limitations On Availability Of Corporate Loans, Participation Interests, Assignments And Corporate Debt Securities**

The availability of corporate loans, participation interests, assignments and corporate debt securities also may from time to time reduce the Master Fund's ability to readily comply with the Master Fund's investment policy regarding non-concentration in a single industry.

**Concentration Risk:** To the extent the Master Fund concentrates in a specific industry, a group of industries, sector or type of investment, the Master Fund will carry much greater risks of adverse developments and price movements in such industries, sectors or investments than a fund that invests in a wider variety of industries, sectors or investments. There is also the risk that the Master Fund will perform poorly during a slump in demand for securities of companies in such industries or sectors.

### **Closed-end Funds**

The shares of a closed-end fund typically are bought and sold on an exchange. The risks of investing in a closed-end investment company typically reflect the risk of the types of securities in which the closed-end fund invests. Closed-end funds often leverage returns by issuing debt securities, auction rate preferred securities or reverse-repurchase agreements. The Master Fund may invest in debt securities issued by closed-end funds, subject to any quality or other standards applicable to the Master Fund's investment in debt securities. If the Master Fund invests in shares issued by leveraged closed-end funds, it will face certain risks associated with leveraged investments.

Investments in closed-end funds are subject to additional risks. For example, the price of the closed-end fund's shares quoted on an exchange may not reflect the net asset value of the securities held by the closed-end fund, and the premium or discount the share prices represent versus net asset value may change over time based on a variety of factors, including supply of and demand for the closed-end fund's shares, that are outside the closed-end fund's control or unrelated to the value of the underlying portfolio securities. If the Master Fund invests in the closed-end fund to gain exposure to the closed-end fund's investments, the lack of correlation between the performance of the closed-end fund's investments and the closed-end fund's share price may compromise or eliminate any such exposure. The performance of the Master Fund may be adversely affected as a result.

### **Exchange-traded Funds**

The Master Fund may invest in exchange-traded Funds (ETFs). ETF shares may be purchased and sold in the secondary trading market on a securities exchange, in lots of any size, at any time during the trading day or may be bought or sold in kind with Authorized Participants in blocks (typically 50,000 shares) known as creation units.

Although the Master Fund, like most other investors in ETFs, intends to purchase and sell ETF shares primarily in the secondary trading market, the Master Fund may redeem creation units for the underlying securities (and any applicable cash), and may assemble a portfolio of the underlying securities and use it (and any required cash) to purchase creation units, if the investment manager believes it is in the Fund's best interest to do so.

An investment in an ETF is subject to all of the risks of investing in the securities held by the ETF and will additionally bear the risk of seeing its market price discounted versus its Net Asset Value per share as a result of market participants sentiment. As large market participants have the ability to arbitrage price differences by purchasing or redeeming creation units, the difference between the market value and the net asset value of ETF shares should in most cases be small. An ETF may be terminated and need to liquidate its portfolio securities at a time when the prices for those securities are falling. The performance of the Master Fund may be adversely affected as a result.

## **Covenant Lite Risks**

Covenant lite loans and debt securities, in which the Master Fund generally invests, entail higher risk, because they lack certain restrictions that serve as early warning signs of a borrower's financial troubles. Lenders have limited or no ability to intervene and either prevent or restrict actions that may potentially compromise the company's ability to pay. This risk is offset to varying degrees by the fact that the same financial and performance information is available with or without covenants to lenders and the public alike and can be used to detect such early warning signs as deterioration of a borrower's financial conditions results. With such information, the portfolio managers are normally able to take appropriate action without the help of covenants in the loan agreements or debt securities. Covenant lite corporate loans and debt securities, however, may foster a capital structure designed to avoid defaults by giving borrowers or issuers increased financial flexibility when they need it the most.

## **Debtor-in-possession financing**

The Master Fund may also invest in "debtor-in-possession" or "DIP" financings newly issued in connection with "special situation" restructuring and refinancing transactions. DIP financings are loans to a debtor-in-possession in a proceeding under the U.S. Bankruptcy Code that has been approved by the bankruptcy court. These financings allow the entity to continue its business operations while reorganizing under Chapter 11 of the U.S. Bankruptcy Code. A DIP financing can be secured by a senior lien on the debtor's unencumbered assets, or encumbered assets which would allow the existing senior lien holders to maintain at least the same lien position as the pre-petition secured debt. DIP financings are often required to close in a rapid manner in order for the debtor to continue ongoing operations and satisfy existing creditors. Additionally, a DIP financing may be "rolled" into exit financing which enable the issuer to emerge from bankruptcy.

## **Collateral Impairment**

The terms of most senior secured corporate loans and corporate debt securities in which the Master Fund invests generally provide that collateral be provided by the corporate borrower. Corporate loans and corporate debt securities (excluding unsecured corporate loans and unsecured corporate debt securities) will be secured unless (i) the Master Fund's security interest in the collateral is invalidated for any reason by a court, or (ii) the collateral is fully released with the consent of the agent bank and lenders or under the terms of a loan agreement as the creditworthiness of the borrower improves.

There are risks that may cause the collateral to be insufficient in the event that a borrower defaults on a corporate loan or corporate debt security. In most credit agreements there is no formal requirement to pledge additional collateral if the value of the collateral declines subsequent to the Master Fund's investment in the corporate loan or corporate debt security. To the extent that collateral consists of the stock of the borrower's subsidiaries or other affiliates, the Master Fund will be subject to the risk that this stock will decline in value. Such a decline, whether as a result of bankruptcy proceedings or otherwise, could cause the corporate loan or corporate debt security to be under collateralized or unsecured. The collateral may be held directly or be subject to a first or second lien granted to the agent bank for the benefit of the lenders. Collateral subject to a second lien is riskier to lenders, such as the Master Fund, than a first lien since a first lien holder has a superior claim to payment in case of a default by the borrower.

There is the risk that the collateral may be difficult to liquidate. Intangible assets, such as trademarks, copyrights and patent rights and the first or second liens on the collateral may make the collateral illiquid and it may be difficult for the Master Fund to realise the full value of such collateral on a timely basis. In fact, a majority of the collateral may be illiquid. Consequently, the Master Fund might not receive payments to which it is entitled. This may result in a decline in the value of the investment and, in turn, a decline in the Net Asset Value of the Master Fund's shares.

There may be temporary periods when the principal asset held by a borrower is the stock of a related company, which may not legally be pledged to secure a corporate loan or corporate debt security. On occasions when such stock cannot be pledged, the corporate loan or corporate debt security will be temporarily unsecured until the stock can be pledged or is exchanged for or replaced by other assets, which will be pledged as security for the corporate loan or corporate debt security. However, the

borrower's ability to dispose of such securities, other than in connection with a pledge or replacement, will be strictly limited for the protection of the holders of corporate loans or corporate debt securities.

If a borrower becomes involved in bankruptcy proceedings, the Master Fund's access to the collateral may be limited by bankruptcy and other laws. A court may find that the Master Fund's interest in the collateral is invalid or it may find that other creditors of the borrower should be paid before the Master Fund. Such action by a court could be based on a number of legal theories. For example, faulty loan documentation or faulty official filings could lead to an invalidation by a court. This risk is increased when a corporate loan or corporate debt security is made in connection with a highly leveraged transaction. In the event that a court decides that the Master Fund's access to the collateral is limited or void, it is unlikely that the Master Fund would be able to recover the full amount of the principal and interest due to be paid to the Master Fund.

Reduced liquidity affecting an individual security or an entire market may have an adverse impact on market price and the Master Fund's ability to sell particular securities when necessary to meet the Master Fund's liquidity needs or in response to a specific economic event.

### **Risks From Fluctuations In General Interest Rates**

Changes in interest rates in the national and international markets generally affect the market value of fixed-income securities and debt obligations. In turn, the Net Asset Value of the shares of an investment company which invests primarily in fixed-income securities fluctuates. When interest rates rise, the value of a fixed-income portfolio can be expected to fall. However, the Investment Adviser of the Master Fund expects the Master Fund's Net Asset Value to be relatively stable during normal market conditions, because the Master Fund's investments will consist primarily of: (i) corporate loans and corporate debt securities with floating interest rates; (ii) fixed rate corporate loans and corporate debt securities hedged by interest rate swap transactions; and (iii) short-term instruments. Because the Master Fund will invest primarily in these instruments, the Investment Adviser of the Master Fund expects the Net Asset Value of the Master Fund to fluctuate less as a result of interest rate changes than would a portfolio comprised mostly of medium or long-term fixed-rate obligations.

Since some floating interest rates reset only periodically, there are periods during which the interest rate does not change. During such periods, prevailing interest rates and the interest rates on some obligations with floating interest rates held by the Master Fund (including the interest rates on nominal amounts in the Master Fund's interest rate swap transactions) will not move precisely in the same direction or amount. In other words, there will be an imperfect correlation between these rates. These imperfect correlations may cause the Master Fund's Net Asset Value to fluctuate. A sudden and extreme increase in prevailing interest rates may cause a decline in the Master Fund's Net Asset Value. Conversely, a sudden and extreme decline in interest rates could result in an increase in the Master Fund's Net Asset Value.

Interest rate changes can be sudden and unpredictable, and are influenced by a number of factors, including government policy, monetary policy, inflation expectations, perceptions of risk, and supply of and demand for bonds. Changes in government or central bank policy, including changes in tax policy or changes in a central bank's implementation of specific policy goals, may have a substantial impact on interest rates. There can be no guarantee that any particular government or central bank policy will be continued, discontinued or changed, nor that any such policy will have the desired effect on interest rates. Debt securities generally tend to lose market value when interest rates rise and increase in value when interest rates fall. A rise in interest rates also has the potential to cause investors to rapidly sell fixed income securities. A substantial increase in interest rates may also have an adverse impact on the liquidity of a fixed rate debt security, especially those with longer maturities or durations. Securities with longer maturities or durations or lower coupons or that make little (or no) interest payments before maturity tend to be more sensitive to interest rate changes.

### **Extension**

The market value of some fixed rate debt securities (such as certain asset-backed and mortgage-backed securities) will be adversely affected when bond calls or prepayments on underlying mortgages or other assets are less or slower than anticipated, particularly when interest rates rise. When that occurs, the effective maturity date of the Master Fund's investment may be extended, resulting in an

increase in interest rate sensitivity to that of a longer-term instrument. Such extension may also effectively lock-in a below market interest rate and reduce the value of the debt security.

### **Prepayment**

Debt securities are subject to prepayment risk when the issuer can "call" the security, or repay principal, in whole or in part, prior to the security's maturity. When the Master Fund reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security, potentially lowering the Master Fund's income, yield and its distributions to shareholders. Securities subject to partial or complete prepayment(s) may offer less potential for gains during a declining interest rate environment and have greater price volatility. Prepayment risk is greater in periods of falling interest rates for fixed-rate investments, and for floating or variable rate securities, rising interest rates generally increase the risk of refinancings or prepayments.

### **Inflation**

The market price of debt securities generally falls as inflation increases because the purchasing power of the future income and repaid principal is expected to be worth less when received by the Master Fund. Debt securities that pay a fixed rather than variable interest rate are especially vulnerable to inflation risk because variable-rate debt securities may be able to participate, over the long term, in rising interest rates which have historically corresponded with long-term inflationary trends.

### **Inside Information**

The Investment Adviser of the Master Fund (through its representatives or otherwise) may receive information that restricts the Investment Adviser of the Master Fund's ability to cause the Master Fund to buy or sell securities of an issuer for substantial periods of time when the Master Fund otherwise could realize profit or avoid loss. This may adversely affect the Fund's flexibility with respect to buying or selling securities and may impair the Master Fund's liquidity.

### **Effects Of Borrowing And Leverage**

The Master Fund is authorised to borrow money and has arranged a credit facility with a bank, which permits it to borrow funds to meet unfunded commitments in connection with investments or to make redemptions. However, the Master Fund will borrow money under this facility only for temporary, extraordinary or emergency purposes. Under the 1940 Act, the Master Fund is required with respect to all borrowings to maintain minimum asset coverage of at least 300% immediately following any such borrowing and on an ongoing basis. The Master Fund has adopted investment policies that the Master Fund's borrowings may not exceed 25% of its Net Asset Value and for such time as the Master Fund remains authorised in Hong Kong will not exceed 10% of its total net asset value and should be restricted to facilitating redemptions or defraying operating expenses. Repurchase and securities lending agreements used for efficient portfolio management purposes shall not be regarded as borrowings for the purposes of this limitation.

There is a risk that the costs of borrowing may exceed the income and appreciation, if any, on assets acquired with the borrowed funds. If this occurs, the use of borrowing as leverage will reduce the investment performance of the Master Fund compared with what it would have been without leverage. The costs associated with such borrowings include interest payments, fees and dividends. The Master Fund also may be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit; either of these requirements will increase the cost of borrowing over the stated interest rate. When the Master Fund borrows money, the lender will have the right to receive scheduled interest and principal payments. The lender's right to such payments will be senior to those of the holders of the Master Fund's shares. The terms of any such borrowings may limit certain activities of the Master Fund, including the payment of dividends to holders of the Master Fund's shares.

Furthermore, the lenders may be granted certain voting rights if the Master Fund defaults in the payment of interest or repayment of principal. Subject to its ability to liquidate its relatively illiquid portfolio securities, the Master Fund intends to repay the borrowings in the event that the borrowings would impair the Master Fund's status as a regulated investment company under the Internal Revenue Code

of 1986, as amended. Interest payments and fees paid by the Master Fund on any borrowings will reduce the amount of income it has available to pay as dividends to the Master Fund's shareholders.

Leverage creates certain risks for holders of the Master Fund's shares. Leveraging by the Master Fund creates an opportunity for greater total return but, at the same time, increases exposure to losses. The Net Asset Value of the Master Fund's shares may be more volatile than if the Master Fund were not leveraged. These risks may be reduced through the use of borrowings that have floating interest rates.

The Master Fund's willingness to borrow money for investment purposes, and the amount it will borrow, will depend on many factors. The most important factors are investment outlook, market conditions and interest rates. Successful use of a leveraging strategy depends on the Investment Adviser of the Master Fund's ability to predict correctly interest rates and market movements. There is no assurance that a leveraging strategy will be successful during any period in which it is employed.

### **Highly Leveraged Transactions**

The corporate loans and corporate debt securities, in which the Master Fund invests primarily, consist of transactions such as re-financings, recapitalisations, mergers and acquisitions, and other financings for general corporate purposes. This means that a borrower has undertaken the obligations in order to finance the growth of the borrower's business through product development or marketing, or to finance changes in the way the borrower utilises its assets and invested or borrowed financial resources. Corporate loans and corporate debt securities also may include senior obligations of a borrower issued in connection with a restructuring pursuant to Chapter 11 of the U.S. Bankruptcy Code, provided that such senior obligations are determined by the Investment Adviser of the Master Fund upon its credit analysis to be a suitable investment by the Master Fund.

A predominant portion of such corporate loans and corporate debt securities (which may be as much as 100% of the Master Fund's total assets) may be issued in leveraged or highly leveraged transactions. This means that the borrower is assuming large amounts of debt in order to have large amounts of financial resources to attempt to achieve its business objectives. Such business objectives may include: management taking over control of a company (leveraged buyout); reorganising the assets and liabilities of a company (leveraged recapitalisation); or acquiring another company. Such corporate loans and corporate debt securities present special risks.

Such corporate loans may be structured to include both term loans, which are generally fully funded at the time of the Master Fund's investment, and revolving credit facilities, which would require the Master Fund to make additional investments in the corporate loans as required under the terms of the credit facility at the borrower's demand. Such corporate loans also may include receivables purchase facilities, which are similar to revolving credit facilities secured by a borrower's receivables.

### **Derivative Instruments**

The performance of derivative instruments depends largely on the performance of an underlying instrument or index and derivative instruments often have risks similar to their underlying instrument in addition to other risks. Derivatives involve costs and can create economic leverage in the Master Fund's portfolio which may result in significant volatility and cause the Master Fund to participate in losses (as well as enable gains) in an amount that exceeds the Master Fund's initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Master Fund may not realise the intended benefits. Successful use of derivatives will usually depend on the Investment Adviser of the Master Fund's ability to accurately forecast movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected manner, especially in unusual or extreme market conditions, the Master Fund may not achieve the anticipated benefits of the transaction, and the Master Fund may realise losses, which could be significant. If the Investment Adviser of the Master Fund is not successful in using such derivative instruments, the Master Fund's performance may be worse than if the Investment Adviser of the Master Fund did not use such derivative instruments at all. To the extent that the Master Fund uses such instruments for hedging purposes, there is the risk of imperfect correlation between movements in the value of the derivative instrument and the value of the underlying investment or other asset being



hedged. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all.

Use of these instruments could also result in a loss if the counterparty to the transaction (particularly with respect to OTC instruments, such as swap agreements and forward currency contracts) does not perform as promised, including because of such counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Other risks include the inability to close out a position because the trading market becomes illiquid (particularly in the OTC markets) or the availability of counterparties becomes limited for a period of time. In addition, the presence of speculators in a particular market could lead to price distortions. The Master Fund may also be required to take or make delivery of an underlying instrument as a transaction that the investment manager would otherwise have attempted to avoid. Some derivatives can be particularly sensitive to changes in interest rates or other market prices. Investors should bear in mind that, while the Master Fund intends to use derivative strategies on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the Investment Adviser of the Master Fund elects not to do so due to availability, cost or other factors.

The use of derivative strategies may also have a tax impact on the Master Fund. The timing and character of income, gains or losses from these strategies could impair the ability of the Investment Adviser of the Master Fund to utilize derivatives when it wishes to do so.

### **Variable Rate Securities**

Variable rate securities (which include floating rate debt securities) generally are less price sensitive to interest rate changes than fixed rate debt securities. However, the market value of variable rate debt securities may decline or not appreciate as quickly as expected when prevailing interest rates rise if the interest rates of the variable rate securities do not rise as much, or as quickly, as interest rates in general. Conversely, variable rate securities will not generally increase in market value if interest rates decline. When interest rates fall, there may be a reduction in the payments of interest received by the Master Fund from its variable rate securities.

The degree of volatility in the market value of the variable rate securities held by the Master Fund will generally increase along with the length of time between interest rate adjustments, the degree of volatility in the applicable index, benchmark or base lending rate and whether the index, benchmark or base lending rate to which it resets or floats approximates short-term or other prevailing interest rates. It will also be a function of the maximum increase or decrease of the interest rate adjustment on any one adjustment date, in any one year, and over the life of the security. These maximum increases and decreases are typically referred to as "caps" and "floors," respectively.

During periods when short-term interest rates move within the caps and floors of the security held by the Master Fund, the interest rate of such security will reset to prevailing rates within a short period. As a result, the fluctuation in market value of the variable rate security held by the Master Fund is generally expected to be limited.

In periods of substantial short-term volatility in interest rates, the market value of such debt securities may fluctuate more substantially if the caps and/or floors prevent the interest rates from adjusting to the full extent of the movements in the market rates during any one adjustment period or over the term of the security. In the event of dramatic increases in interest rates, any lifetime caps on these securities may prevent the securities from adjusting to prevailing rates over the term of the security. In either the case of caps or floors, the market value of the securities may be reduced.

The net asset value of the Master Fund may decline or not appreciate as expected during periods of rising interest rates until the interest rates on these securities reset to market rates.

### **Foreign Exposure**

The Master Fund may invest in corporate loans and corporate debt securities which are made to, or issued by, foreign borrowers, U.S. subsidiaries of foreign borrowers and U.S. entities with substantial foreign operations.

Investing in foreign securities typically involves more risks than investing in U.S. securities, including risks related to currency exchange rates and policies, country or government specific issues, less favourable trading practices or regulation and greater price volatility. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. These risks can increase the potential for losses in the Master Fund and affect its Net Asset Value and share price.

The holding of foreign securities may be limited by the Master Fund to avoid investment in certain Passive Foreign Investment Companies (PFICs) and the imposition of a PFIC tax on the Master Fund resulting from such investments.

### **Brexit Risk**

On 31 January 2020, the United Kingdom (UK) left the European Union (EU). There is considerable uncertainty about the consequences of that departure, including uncertainty about the economic effects and results of trade negotiations between the UK and the EU. The negative impact of the UK's departure on, not only the UK and European economies, but the broader global economy, could be significant, potentially resulting in increased volatility and illiquidity and lower economic growth for companies that rely significantly on Europe for their business activities and revenues.

### **LIBOR**

On 27 July 2017, the UK's Financial Conduct Authority (the "FCA") announced its intention to cease sustaining the London Interbank Offered Rate (LIBOR) after 2021. In addition, global regulators have announced that, with limited exceptions, no new LIBOR-based contracts should be entered into after 2021. In connection with the global transition away from LIBOR led by regulators and market participants, LIBOR is no longer published on a representative basis. Alternative reference rates to LIBOR have been established in most major currencies, including the Secured Overnight Financing Rate ("SOFR") for USD LIBOR. In March 2022, the U.S. federal government enacted legislation to establish a process for replacing LIBOR in certain existing contracts that do not already provide for the use of a clearly defined or practicable replacement benchmark rate as described in the legislation. Generally speaking, for contracts that do not contain a fallback provision as described in the legislation, a benchmark replacement recommended by the Federal Reserve Board effectively automatically replaced the USD LIBOR benchmark in the contract upon LIBOR's cessation at the end of June 2023. The recommended benchmark replacement is based on SOFR, which is a broad measure of the cost of overnight borrowing of cash collateralized by Treasury securities published by the Federal Reserve Bank of New York. There remains uncertainty regarding the ultimate effects of the transition away from LIBOR on the Fund or the Fund's investments that use a floating rate based on LIBOR.

The transition process might lead to increased volatility and illiquidity in markets that historically relied on LIBOR to determine interest rates. It could also lead to a reduction in the value of some legacy LIBOR-based investments and reduce the effectiveness of new hedges placed against existing LIBOR-based instruments. Since the usefulness of LIBOR as a benchmark could also deteriorate during the transition period, these effects could occur at any time.

### **Currency Exchange Rates And Currency Fluctuations**

Foreign securities may be issued and traded in foreign currencies. As a result, their values may be affected by changes in exchange rates between foreign currencies and the U.S. dollar, as well as between currencies of countries other than the U.S. Fluctuations in foreign exchange rates can significantly increase or decrease the U.S. dollar value of a non-U.S. investment, boosting or offsetting its local market return. Currency risk cannot be eliminated entirely. For example, if the value of the U.S. dollar goes up compared to a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars.

To the extent the Master Fund uses non-U.S. currency swaps, transactions in non-U.S. securities may be conducted in local currencies. In these transactions U.S. dollars must often be exchanged for another currency when an obligation is bought or sold or a dividend is paid. Likewise, security price quotations and total return information reflect conversion into U.S. dollars.

### **Political And Economic Developments**

The political, economic and social structures of some foreign countries may be less stable and more volatile than those in the U.S. Investments in these countries may be subject to the risks of internal and external conflicts, currency devaluations, foreign ownership limitations and tax increases. It is possible that a government may take over the assets or operations of a company or impose restrictions on the exchange or export of currency or other assets. Some countries also may have different legal systems that may make it difficult for the Master Fund to exercise investor rights and pursue legal remedies with respect to its foreign investments. Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war, could affect the economies, industries and securities and currency markets, and the value of the Master Fund's investments, in non-U.S. countries. In addition, such developments could contribute to the devaluation of a country's currency, a downgrade in the credit ratings of issuers in such country, or a decline in the value and liquidity of securities of issuers in that country. An imposition of sanctions upon, or other government action impacting certain issuers in a country could result in (i) an immediate freeze of that issuer's securities, impairing the ability of the Master Fund to buy, sell, receive or deliver those securities or (ii) the other limitation on the Master Fund's ability to invest or hold such securities. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Master Fund's investments.

Russia's military invasion of Ukraine in February 2022, the resulting responses by the United States and other countries, and the potential for wider conflict could increase volatility and uncertainty in the financial markets and adversely affect regional and global economies. The United States and other countries have imposed broad-ranging economic sanctions on Russia, certain Russian individuals, banking entities and corporations, and Belarus as a response to Russia's invasion of Ukraine, and may impose sanctions on other countries that provide military or economic support to Russia. The extent and duration of Russia's military actions and the repercussions of such actions (including any retaliatory actions or countermeasures that may be taken by those subject to sanctions, including cyber-attacks) are impossible to predict, but could result in significant market disruptions, including in certain industries or sectors, such as the oil and natural gas markets, and may negatively affect global supply chains, inflation and global growth. These and any related events could significantly impact the Master Fund's performance and the value of an investment in the Master Fund, even if the Master Fund does not have direct exposure to Russian issuers or issuers in other countries affected by the invasion.

### **Trading Practices**

Brokerage commissions and other fees generally are higher for foreign securities. Government supervision and regulation of foreign stock exchanges, currency markets, trading systems and brokers may be less than in the U.S. The procedures and rules governing foreign transactions and custody (holding of the Master Fund's assets) also may involve delays in payment, delivery or recovery of money or investments.

### **Availability Of Information**

Foreign companies may not be subject to the same disclosure, accounting, auditing and financial reporting standards and practices as U.S. companies. Thus, there may be less information publicly available about foreign companies than about most U.S. companies.

### **Limited Markets**

Certain foreign securities may be less liquid (harder to sell) and more volatile than many U.S. securities. This means the Master Fund may at times be unable to sell foreign securities at favorable prices.

### **Legal, Regulatory And Operational**

Certain countries may impose restrictions on foreign companies, such as the Master Fund. These restrictions may take the form of prior governmental approval, limits on the amount and type of obligations held by foreign investors, limits on the types of companies in which foreign investors may invest, exchange controls and other actions that restrict the purchase or sale of assets or result in a loss of assets. Political, regulatory and legal developments could affect the Master Fund's investments in these countries. In certain foreign countries, there is the possibility that the government or a

government agency may take over the assets of the Master Fund for political or economic reasons or impose taxation that is so heavy that it amounts to confiscation of the assets taxed.

Certain countries lack uniform accounting, auditing, and financial reporting standards, have less governmental supervision of financial markets than in the U.S. and other mature economies have settlement practices, such as delays, which could subject the Master Fund to risks not customary in the U.S. or other such mature economies. Information about such issuers and obligors differ from that available for corporations in the U.S. and other developed countries, since such companies are not generally subject to uniform accounting, auditing and financial reporting standards, practices and requirements. In addition, the markets for debt obligations in non-U.S. countries have substantially lower trading volumes than U.S. markets, resulting in less liquidity and more volatility than in the United States.

### **Emerging Markets**

The risks of foreign investments typically are greater in less developed countries, sometimes referred to as emerging markets. For example, political and economic structures in these countries may be less established and may change rapidly. These countries also are more likely to experience high levels of inflation, deflation or currency devaluation, which can harm their economies and securities markets and increase volatility. In fact, short-term volatility in the equity securities markets with declines of 50% or more are not uncommon. These factors also lead to increased volatility in the market value of corporate loans and corporate debt securities and other types of debt obligations. Restrictions on currency trading that may be imposed by emerging market countries will have an adverse effect on the value of the securities of companies that trade or operate in such countries.

These risks include those resulting from fluctuations in currency exchange rates, less developed custody and settlement infrastructure, revaluation of currencies, future adverse political and economic developments and the possible imposition of currency exchange limitations or blockages or other foreign governmental laws or restrictions, reduce the availability of public information concerning issuers, the lack of uniform accounting, auditing and financial reporting standards and other regulatory practices and requirements that are often less vigorous than those applied in more developed countries. Securities in many companies in emerging market countries may be less liquid and the price is more volatile than those of comparable companies in developed countries. Certain emerging market countries are known to experience long delays between e-trade and settlement dates of securities purchased or sold. Additional risks include, the possibility that bargains may be settled by free delivery of stock with payment in cash in an uncollateralised manner.

### **Custodian risk**

Investors are exposed to the risk that, in the event of the insolvency or bankruptcy of the custodian, the Master Fund would be delayed or prevented from recovering its assets from the custodian. The assets of the Master Fund will be identified in the custodian's books as belonging to the Master Fund, and securities and debt obligations of the Master Fund held by the custodian will be segregated from other assets of the custodian, which will mitigate but not eliminate this risk. However, no such segregation applies to cash held by the custodian on behalf of the Master Fund which increases the risk that the Master Fund could be delayed or prevented from recovering its assets in the event of the insolvency or bankruptcy of the custodian. Investors are also exposed to the risk of bankruptcy of any foreign sub-custodians utilised by the custodian, which may not be part of the same group of companies as the custodian. The Master Fund may invest in markets where custodial and/or settlement systems are not fully developed.

### **Commitments Of The Master Fund To Make Additional Payments To Borrowers**

Corporate loans may be structured to include both term loans and revolving credit facilities. Unlike term loans, revolving credit facilities require the Master Fund to loan additional amounts at the demand of the borrower. Where the Master Fund purchases a participation interest, the intermediate participant may have the obligation to make such future advances to the borrower.

The Master Fund or its custodian will segregate on the books of the Master Fund an amount of equivalent value to meet such future obligations. This amount will be in the form of cash or other liquid

assets. The Master Fund will not invest in corporate loans that would cause the Master Fund to fail to meet the diversification requirements previously described.

The Master Fund currently intends to limit investments in such corporate loans or participation interests to amounts that would not require commitments for future advances to exceed 20% of the Master Fund's total assets. Because these loans may involve a commitment on the part of the Master Fund to make a loan to a borrower in the future, they may be treated as unfunded commitment agreements in accordance with applicable requirements of Rule 18f-4 under the 1940 Act.

In the event of such a default or prepayment, the Master Fund will designate, on a daily basis, as segregated on its books, liquid assets (not otherwise encumbered) equal in current market value to the amount of compensation that must be paid to the counterparty.

### **Financial Institutions**

As discussed above, the Master Fund will invest more than 25% of its net assets in the securities of companies operating in the industry group consisting of financial institutions and their holding companies, including commercial banks, thrift institutions, insurance companies and finance companies. As a result, the Master Fund is subject to certain risks associated with these institutions, both individually and as a group.

Banking and thrift institutions are subject to extensive governmental regulations. These regulations may limit both the amounts and types of loans and other financial commitments which the institutions may make and the interest rates and fees which the institutions may charge. The profitability of these institutions largely depends upon the availability and cost of capital funds. Their profits have recently fluctuated significantly as a result of volatile interest rate levels. In addition, general economic conditions influence the operations of these institutions. Financial institutions are exposed to credit losses which result when borrowers suffer financial difficulties.

Insurance companies are also affected by economic and financial conditions and are subject to extensive government regulation, including rate regulation. Insurance companies may be subject to severe price competition, claims activity, marketing competition and general economic conditions. Particular insurance lines will also be influenced by specific matters. Property and casualty companies may be exposed to material risks, including reserve inadequacy, latent health exposure and inability to collect from their reinsurance carriers. Property and casualty insurer profits may be affected by events such as man-made and natural disasters (including weather catastrophe and terrorism). Life and health insurer profits may be affected by mortality risks and morbidity rates. Individual insurance companies may be subject to material risks including inadequate reserve funds to pay claims and the inability to collect from the insurance companies which insure insurance companies, so-called reinsurance carriers.

These industries are currently undergoing rapid change as existing distinctions between different businesses become blurred. Recent business combinations have included insurance, finance and securities brokerage under single ownership. Traditional less regulated investment banking firms have opted to become fully fledged banks subject to greater regulation.

### **No Investment Guarantee Equivalent To Deposit Protection**

Investment in the Master Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account.

### **Change In The Master Fund's Fundamental Policies**

In the event that the Master Fund's fundamental policies were changed so as to be inconsistent with those of the Company, the Directors of the Company would consider what action might be taken, including changes to the Company's investment policies, withdrawal of the Company's assets from the Master Fund and investment of such assets in another pooled investment entity, or the retention of another investment manager. Any of these actions would require the approval of the Shareholders. The Company's inability to find a substitute master fund or comparable investment management could have

a significant impact upon the Shareholders' investments. Any withdrawal of the Company's assets from the Master Fund could result in a distribution in kind of portfolio securities (as opposed to a cash distribution) from the Master Fund to the Company. Should such a distribution in kind occur, the Company may incur brokerage fees or other transaction costs in converting such securities to cash. In addition, a distribution in kind could result in the Company's holding a less diversified portfolio of investments than the Company did prior to the distribution in kind and could reduce the liquidity of the Company's portfolio of investments.

The Master Fund may permit other investment companies and/or institutional investors to invest in the Master Fund, but members of the general public may not invest directly in the Master Fund. Other investors in the Master Fund are not required to sell their Common Shares at the same public offering price as the Company may, could incur different administrative fees and expenses than the Company does, and their Common Shares might be sold with a sales commission. Therefore, Company Shareholders might have different investment returns than shareholders in another investment company that invests exclusively in the Master Fund. Investment by other investment companies or institutional investors in the Master Fund would provide funds for the purchase of additional portfolio securities for the Master Fund and would tend to reduce the Master Fund's operating expenses as a percentage of its net assets. Conversely, large-scale redemption of Common Shares by the Master Fund (within the limits for such redemptions described herein) at the request of any such other investors in the Master Fund could result in untimely liquidations of the Master Fund's security holdings, loss of investment flexibility for the Master Fund, and increases in the operating expenses of the Master Fund as a percentage of its net assets. As a result, the Master Fund's security holdings may become less diverse, resulting in increased risk.

Information regarding any other investors in the Master Fund may be obtained by writing to the Administrator of the Master Fund. The Investment Manager may provide administrative or other services to one or more investors.

#### **Dividend Distribution Policy Of The Master Fund**

The Master Fund is classified as a disregarded entity for U.S. federal income tax purposes. As such, the Master Fund is disregarded as an entity separate from its sole shareholder and is treated as a division or branch of the shareholder. The shareholder is treated as owning the Master Fund's assets directly for U.S. federal income tax purposes, and it reports separately on its own income tax return the Master Fund's income, gains, losses, deductions and credits as such items are realised. Cash distributions by the Master Fund to its sole shareholder are a non-event for U.S. federal income tax purposes and therefore result in no income or gain to its sole shareholder.

The Master Fund typically declares dividends each day that its net asset value is calculated and pays them monthly. The gross investment income for the Master Fund consists of accrued interests in investments in loans, amortisation income (discount and facility fees on loans), dividend income from certain funds before deduction of management fees, administration fees, custodian fees, audit fees, amortisation of offering costs, printing and mailing costs. Capital gains, if any, may be distributed at least annually. The Master Fund does not pay "interest". The amount of any distribution from the Master Fund will vary and there is no guarantee that the Master Fund will pay either income dividends or capital gain distributions. For the purposes of the dividend distribution policy, gross investment income shall mean the distribution is partly funded out of net income and partly funded out of capital.

Common Shares accrue dividends from the day the Master Fund receives the shareholder's investment and continues to accrue through the day it receives a request to redeem the Common Shares.

#### **Dividend Distribution Policy Of The Company**

The Articles empower the Directors to declare dividends in respect of any Shares out of investment income received by the Company in respect of investments, the net realised capital gains and the net unrealised capital gains of the Company. The Directors may also charge fees and expenses, including management fees or a portion thereof, out of capital, resulting in an increase in distributable income for the payment of dividends by the Company. Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

In respect of Class A (dis) Shares, Class A (dis) EUR-H1 Shares, Class A (dis) HKD Shares, Class A (dis) RMB-H1 Shares and Class A (dis) SGD-H1 Shares, the Company intends to declare monthly dividends on the last Business Day of each month (the "Dividend Declaration Date") to Shareholders equal to the gross investment income of the Company for the relevant period. For the purposes of the dividend distribution policy, gross investment income shall mean the distribution is partly funded out of net income and partly funded out of capital. Dividends will normally be paid out of the amount of gross investment income received by it by way of distribution from the Master Fund, subject to such adjustments as may be permitted by the Articles and deemed appropriate by the Directors in particular to allow for the effect of subscriptions or redemptions. Dividends will normally be reinvested in the subscription of further Shares of the Class to which such dividends relate, unless otherwise stated in the application form. Such further Shares will be issued on the Dividend Declaration Date at the Net Asset Value per Share obtained on that date after the declaration of the relevant dividend. No initial sales charge will be payable on such Shares. Applicants not wishing to use this reinvestment facility should complete the appropriate section of the application form. In the event that cash dividends are payable, they will be paid to Shareholders who have elected to receive dividends in cash as requested by the Shareholder on the application form (with any charges in either case being at the expense of the Shareholder) within ten Business Days of the relevant Dividend Declaration Date.

The Directors may from time to time, and in their sole discretion, determine that the Company shall apply an equalisation formula in respect to any relevant class of Shares for any month in which it is expected that significant subscriptions or redemptions of relevant Shares during that month might have a significant impact on the gross investment income of the relevant class which would otherwise be available for distribution on the relevant Dividend Declaration Date. In such circumstances, the subscription price of the Shares in the relevant class will be deemed to include an equalisation amount which represents a portion of the accrued income of the relevant class up to the point of subscription, and the first distribution in respect of the Shares in the relevant class will include a payment of capital usually equal to the amount of such equalisation payment. The redemption price of each Share in the relevant class will also include an equalisation payment in respect of the accrued income up to the Dealing Day on which the relevant Shares are redeemed.

The Company does not intend to declare dividends in respect of Class A (acc) Shares. Instead, the net income received by the Company by way of distribution from the Master Fund attributable to Class A (acc) Shares will be reflected in the increased Net Asset Value of Class A (acc) Shares.

The Company will distribute the realised capital gains, if any, received from the Master Fund annually to its Shareholders in December each year.

Subject to applicable legal and regulatory requirements, investors should note that:-

- (i) the Company may at its discretion pay dividend out of gross income while charging/ paying all or part of the Company's fees and expenses to/ out of the capital of the Company, resulting in an increase in distributable income for the payment of dividends by the Company and therefore, the Company may effectively pay dividend out of capital;
- (ii) the Company may at its discretion also pay dividend out of the capital of the Company via application of an equalisation formula;
- (iii) payment of dividends out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment;
- (iv) any distributions involving payment of dividends out of the Company's capital or payment of dividends effectively out of the Company's capital (as the case may be) may result in an immediate reduction of the net asset value per share;
- (v) the compositions of the dividends (i.e. the relative amounts paid out of (a) net distributable income and (b) capital) for the last 12 months are made available by the Hong Kong Representative on request and also on the Hong Kong Representative's website; and
- (vi) the Company may amend the policy with respect to such distribution policy subject to the SFC's prior approval and by giving not less than one month's prior notice to investors.

The distribution amount and Net Asset Value of a Hedged Class may be adversely affected by differences in the interest rates of the reference currency of the Hedged Class and the Company's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-Hedged Classes.

### **Operation of the Subscription and Redemption Collection Account**

Subscription monies received in advance of the issue of Shares will be held in the Company Cash Collection Account in the name of the Company. Investors will be unsecured creditors of the Company with respect to the amount subscribed until such Shares are issued, and will not benefit from any appreciation in the NAV of the Company or any other shareholder rights (including dividend entitlement) until such time as Shares are issued. In the event of an insolvency of the Company, there is no guarantee that the Company will have sufficient funds to pay unsecured creditors in full.

Payment by the Company of redemption proceeds and dividends is subject to receipt by the Company of the subscription documents and compliance with all anti-money laundering procedures. The Company is not required to issue payment in respect of a redemption of Shares until it receives payment for the issuing of those Shares. Notwithstanding this, redeeming Shareholders will cease to be Shareholders, with regard to the redeemed Shares, from the relevant redemption date. Redeeming Shareholders and Shareholders entitled to distributions will, from the redemption or distribution date, as appropriate, be unsecured creditors of the Company and will not benefit from any appreciation in the NAV of the Company or any other Shareholder rights (including further dividend entitlement), with respect to the redemption or distribution amount. In the event of an insolvency of the Company during this period, there is no guarantee that the Company will have sufficient funds to pay unsecured creditors in full. Redeeming Shareholders and Shareholders entitled to distributions should therefore ensure that any outstanding documentation and information is provided to the Administrator promptly. Failure to do so is at such Shareholder's own risk.

### **Cyber Security Risk**

With the increased use of technologies such as mobile devices and web-based or "cloud" applications, and the dependence on the internet and computer systems to conduct business, the Company, the Master Fund and their service providers (including the AIFM, Investment Manager, Depositary and Administrator) are susceptible to operational, information security and related risks. In general, cybersecurity incidents can result from deliberate attacks or unintentional events (arising from external or internal sources) that may cause the Company to lose proprietary information, suffer data corruption, physical damage to a computer or network system or lose operational capacity. Cybersecurity attacks include, but are not limited to, infection by malicious software, such as malware or computer viruses or gaining unauthorized access to digital systems, networks or devices that are used to service the Company's operations (e.g., through "hacking," "phishing" or malicious software coding) or other means for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cybersecurity attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on the Company's websites (i.e., efforts to make network services unavailable to intended users). Recently, geopolitical tensions may have increased the scale and sophistication of deliberate cybersecurity attacks, particularly those from nation-states or from entities with nation-state backing. In addition, authorized persons could inadvertently or intentionally release confidential or proprietary information stored on the Company's systems.

Cybersecurity incidents affecting the AIFM, the Investment Manager, the Depositary, Administrator, or other affiliated or third-party service providers to the Company or its Shareholders (including, but not limited to, sub-advisors, accountants, sub-custodians, transfer agents and financial intermediaries) have the ability to cause disruptions and impact business operations, potentially resulting in financial losses to both the Company and the Shareholders, interference with the Company's ability to calculate its net asset value, impediments to trading, the inability of the Shareholders to transact business and the Company to process transactions (including fulfillment of purchases and redemptions), violations of applicable privacy and other laws (including the release of private Shareholder information) and attendant breach notification and credit monitoring costs, regulatory fines, penalties litigation costs,



reputational damage, reimbursement or other compensation costs, forensic investigation and remediation costs, and/or additional compliance costs. Similar adverse consequences could result from cybersecurity incidents affecting issuers of securities in which the Company invests, counterparties with which the Company engages in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and other service providers) and other parties. In addition, substantial costs may be incurred in order to safeguard against and reduce the risk of any cybersecurity incidents in the future. In addition to administrative, technological and procedural safeguards, the AIFM has established business continuity plans in the event of, and risk management systems to prevent or reduce the impact of, such cybersecurity incidents. However, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified, as well as the rapid development of new threats. Furthermore, the Company cannot control the cybersecurity plans and systems put in place by its service providers or any other third parties whose operations may affect the Company and its Shareholders. The Company and its Shareholders could be negatively impacted as a result.

Because technology is frequently changing, new ways to carry out cyber-attacks are always developing. Therefore, there is a chance that some risks have not been identified or prepared for, or that an attack may not be detected, which puts limitations on the Company's ability to plan for or respond to a cyber-attack. Like other funds and business enterprises, the Company, the Master Fund and their service providers are subject to the risk of cyber incidents occurring from time to time.

### **Unforeseeable event risk**

Unforeseeable events of extraordinary nature and of natural causes such as, but not limited to, global health pandemics, earthquakes, tsunamis, and hurricanes or other large weather events may lead to increased short-term market volatility and may have adverse long-term effects on local or global markets generally. Such events could have an adverse impact on the Master Fund's investments, or the Master Fund's ability to source new investments or to realize its investments. Further, these events could also adversely affect the Investment Adviser's operations and the operations of the Investment Adviser's and the Company's service providers.

The global outbreak of the novel strain of coronavirus ("**COVID-19**") and its subsequent variants, has resulted in market closures and dislocations, extreme volatility, liquidity constraints and increased trading costs. The long-term impact on economies, markets, industries and individual issuers is not known. Some sectors of the economy and individual issuers have experienced or may experience particularly large losses. Periods of extreme volatility in the financial markets; reduced liquidity of many instruments; and disruptions to supply chains, consumer demand and employee availability, may continue for some time. The U.S. government and the Federal Reserve, as well as certain foreign governments and central banks, have taken extraordinary action to support local and global economies and the financial markets in response to the COVID-19 pandemic. This and other government interventions into the economy and financial markets may not work as intended, and have resulted in a large expansion of government deficits and debt, the long term consequences of which are not known. In addition, the COVID-19 pandemic, and measures taken to mitigate its effects, could result in disruptions to the services provided to the Master Fund by its service providers.

### **Repurchase and Reverse Repurchase Transactions risk**

The entering by the Master Fund into repurchase transactions or reverse repurchase agreements, as contemplated in the section "Investment Techniques" involves certain risks and there can be no assurance that the objective sought to be obtained from such use will be achieved.

Investors must notably be aware that (1) in the event of the failure of the counterparty with which cash of the Master Fund has been placed there is the risk that collateral received may yield less than the cash placed out, whether because of inaccurate pricing of the collateral, adverse market movements, a deterioration in the credit rating of issuers of the collateral, or the illiquidity of the market in which the collateral is traded; that (2) (i) locking cash in transactions of excessive size or duration, (ii) delays in recovering cash placed out, or (iii) difficulty in realising collateral may restrict the ability of the Master Fund to meet redemption requests, security purchases or, more generally, reinvestment; and that (3) repurchase transactions will, as the case may be, further expose the Master Fund to risks similar to

those associated with optional or forward derivative financial instruments, which risks are further described in other sections of this prospectus.

In a reverse repurchase transaction, the Master Fund could incur a loss if the value of the purchased securities has decreased in value relative to the value of the cash or margin held by the Master Fund.

### **Securities Lending risk**

The entering by the Master Fund into securities lending transactions, as contemplated in the section "Investment Techniques" involves certain risks and there can be no assurance that the objective sought to be obtained from such use will be achieved.

Investors must notably be aware that in case of default, bankruptcy or insolvency of the borrower of securities lent by the Master Fund, there is a risk of delay in recovery (that may restrict the ability of the Master Fund to meet delivery obligations under security sales or payment obligations arising from redemption requests) or even loss of rights in collateral received, which risks are mitigated by a careful creditworthiness analysis of borrowers to determine their degree of risk for said borrowers to become involved in insolvency/bankruptcy proceedings within the timeframe contemplated by the loan. If the borrower of securities lent by the Master Fund fails to return these securities, there is a risk that the collateral received may realise less than the value of the securities lent out, whether due to inaccurate pricing, adverse market movements, a deterioration in the credit rating of issuers of the collateral or the illiquidity on the market in which the collateral is traded.

The Master Fund may reinvest the cash collateral received from borrowers. There is a risk that the value or return of the reinvested cash collateral may decline below the amount owed to those borrowers, and those losses may exceed the amount earned by the Master Fund on lending the securities. This may result in a substantial loss to the Master Fund.

### **Sustainability risk**

The Investment Adviser of the Master Fund considers that sustainability risks are relevant to the returns of the Master Fund. The integration of sustainability risks in the investment decision process may have the effect of excluding profitable investments from the investment universe of the Master Fund and may also cause the Master Fund to sell investments that will continue to perform well.

Appreciation of sustainability risk is to a degree subjective and there is no guarantee that all investments made by the Master Fund will reflect beliefs or values of any particular investor on sustainable investments.

A sustainability risk could materialise as the occurrence of an environmental, social or governance event or condition causing material negative impact on the value of one or several investments and thus negatively affecting the returns of the Master Fund.

Sustainability risks can manifest themselves in different ways, such as but not limited to:

- failure to comply with environmental, social or governance standards resulting in reputational damage, causing fall in demand for products and services, or loss of business opportunities for a company or industry group,
- changes in laws, regulations or industry norms giving rise to possible fines, sanctions or change in consumer behavior affecting a company or an entire industry's prospects for growth and development,
- changes in laws or regulations, may generate higher demand for, and thus undue increase in prices of securities of companies perceived as meeting higher environmental, social and governance standards. Prices of such securities may become more volatile if perception from market participants about companies adherence to environmental, social and governance standards changes, and

- changes in laws or regulations, may incentivize companies to provide misleading information about their environmental, social or governance standards or activities.

Commonly considered sustainability risk factors are split into environmental, social and governance, such as but not limited to the following topics:

#### Environmental

- Climate mitigation
- Adjustment to climate change
- Protection of biodiversity
- Sustainable use and protection of water and maritime resources
- Transition to a circular economy, avoidance of waste, and recycling
- The avoidance and reduction of environmental pollution
- Protection of healthy ecosystems
- Sustainable land use

#### Social affairs

- Compliance with recognized labor law standards (no child and forced labor, no discrimination)
- Compliance with employment safety and health protection
- Appropriate remuneration, fair working conditions, diversity, and training and development opportunities
- Trade union rights and freedom of assembly
- Guarantee of adequate product safety, including health protection
- Application of the same requirements to entities in the supply chain
- Inclusive projects or consideration of the interests of communities and social minorities

#### Corporate Governance

- Tax honesty
- Anti-corruption measures
- Sustainability management by the board
- Board remuneration based on sustainability criteria
- The facilitation of whistle-blowing
- Employee rights guarantees
- Data protection guarantees

Sustainability risks can lead to a significant deterioration in the financial profile, profitability or reputation

of an underlying investment and thus may materially impact its market price or liquidity.

### **Collateral Management risk**

Where the Master Fund enters into a securities lending transaction or a repurchase or reverse repurchase agreement, collateral may be received from or provided to the relevant counterparty. Cash collateral may be reinvested upon receipt into highly liquid assets.

Notwithstanding that the Master Fund may only accept or reinvest in collateral which is highly liquid, the Master Fund is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The Master Fund is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Where collateral is provided by the Master Fund to the relevant counterparty, in the event of the insolvency of the counterparty, the Master Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty.

A decline in the value of investment of the cash collateral would reduce the amount of collateral available to be returned by the Master Fund to the counterparty at the conclusion of the contract. The Master Fund would be required to cover the difference in value between the collateral originally received and the amount available to be returned to the counterparty, thereby resulting in a loss to the Master Fund.

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## THE COMPANY

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The Company is a public limited liability investment company with variable capital, incorporated in Ireland pursuant to the Act on 1 December 1999 under registration number 316174. The Company is a retail alternative investment fund for the purposes of AIFMD and has appointed Franklin Templeton International Services S.à r.l. to be its AIFM. The Company is authorised by the Central Bank as an investment company under the Act and designated by the Central Bank under Section 1395 of the Act to provide facilities for the direct or indirect participation by the public in the profits and income of the Company.

The Company has as its sole object the collective investment of its funds in property with the aim of spreading investment risk and giving the members of the Company the benefit of the results of the management of its funds.

### **The Share Capital**

The minimum authorised share capital of the Company is two Shares of no par value designated as unclassified Shares. The maximum authorised share capital of the Company is 500,000,000,002.00 (five hundred billion and two) Shares of no par value designated as unclassified Shares.

### **Voting Rights**

Under the Articles, every holder of Shares present in person or by proxy shall have one vote per share held by them on a poll and on a show of hands. The investment objectives of the Company, and the fundamental policies of the Master Fund, can be changed only with Shareholder and Common Shareholder approval respectively.

If the Company, as an investor in the Master Fund, is asked to vote on a proposed change in a fundamental policy of the Master Fund or any other matter pertaining to the Master Fund (other than continuation of the business of the Master Fund after withdrawal of another investor in the Master Fund), the Company will solicit proxies from its Shareholders and vote its interest in the Master Fund for and against such matters proportionately to the instructions to vote for and against such matters received from the Company's Shareholders. The Company will vote Common Shares for which it receives no voting instructions in the same proportion as the Common Shares for which it receives voting instructions. There can be no assurance that any matter receiving a majority of votes cast by the Shareholders will receive a majority of votes cast by all Master Fund investors. If other investors in the Master Fund hold a majority interest in the Master Fund, they could have voting control over the Master Fund.

For as long as the Company is authorised for sale in Hong Kong by the Commission, at any general meeting, a resolution put to the vote of the meeting shall be decided upon a poll only. Otherwise, such resolution shall be decided on a show of hands unless before or upon the declaration of the result of the show of hands a poll is demanded by the chairperson or by at least three Shareholders present or any Shareholders present representing at least one tenth of the Shares in issue having the right to vote at the meeting. Unless a poll is so demanded, a declaration by the chairperson that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, or not carried by a particular majority, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

### **Variation Of Shareholder Rights**

The rights attached to each class of Shares may, whether or not the Company is being wound up, be varied only with the consent in writing of the holders of three fourths of the issued Shares of that class or with the sanction of a Special Resolution passed at a separate general meeting of the holders of the Shares of that class. The provisions of the Articles in relation to general meetings shall apply to every such separate general meeting, except that the necessary quorum at any such meeting shall be two persons holding or representing by proxy at least one-third of the issued Shares of the class in question or, at an adjourned meeting, one person holding Shares of the class in question or his proxy provided however, that if there be at any time one person holding all of the Shares of the class in question, such

person shall constitute the necessary quorum at such meeting. Any holder of Shares representing one tenth of the Shares in issue of the class in question present in person or by proxy may demand a poll. The rights attaching to any class of Shares shall not be deemed to be varied by the creation or issue of further Shares of that class or of any other class ranking *pari passu* with Shares already in issue, unless otherwise expressly provided by the terms of issue of those Shares.

### **Memorandum And Articles of Association**

All Shareholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Memorandum and Articles of Association of the Company, copies of which are available as detailed below under "Documents For Inspection". For so long as the Company remains authorised in Hong Kong, nothing in the Memorandum and Articles of Association of the Company, the AIFM agreement or the Depositary and Custodian Agreement may provide that the AIFM, Depositary or directors of the Company can be exempted from any liability to Shareholders imposed under Hong Kong law or the law of the Company's place of domicile or breaches of trust through fraud or negligence, nor may they be indemnified against such liability by Shareholders or at Shareholders' expense.

### **Share Capital Of The Master Fund**

The Master Fund is authorised to issue an unlimited number of Common Shares (USD0.01 par value). There are no shares under option or agreed conditionally or unconditionally to be put under option.

Two million (2,000,000) Common Shares were first issued on 27 March 2000 at a price of USD10.00 per Common Share for a total investment of USD20,000,000. The Master Fund's Common Shares may be offered in multiple classes. Although the Master Fund does not currently intend to do so, it may classify and reclassify any unissued Common Shares at any time. Additional Common Shares will be issued at a price equal to the net asset value per share next determined after the Master Fund receives the purchase order.

Common Shares do not have pre-emptive, conversion, exchange or redemption rights. Each Common Share has equal voting, dividend, distribution and liquidation rights. Both the outstanding Common Shares (i.e., the Common Shares issued prior to the date of the Master Fund prospectus) and the Common Shares offered by the Master Fund prospectus (once they are issued and fully paid in accordance with the Master Fund's Prospectus) are fully paid and non-assessable. Holders of the Common Shares are entitled to one vote per share.

The Master Fund has non-cumulative voting rights. This gives the holders of more than 50% of the Common Shares voting ability to elect all of the members of the board of trustees of the Master Fund (the "Master Fund Board"). If this happens, holders of the remaining Common Shares voting will not be able to elect anyone to the Master Fund Board.

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## SUBSCRIPTIONS AND REDEMPTIONS

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### Subscriptions

The Directors may issue Shares of any class and, on prior notification to, and with prior clearance from, the Central Bank, create new classes of Shares on such terms as they may from time to time determine. Shares of any particular class may accommodate different subscriptions and/or redemptions and/or dividend provisions and/or charges and/or fee arrangements. A separate pool of assets will not be maintained for each class of Shares. Before investing in a specific class, investors should ensure that such class best suits their needs and should consider the local tax implications relevant to their personal circumstances and local tax laws. Investors are recommended to contact a tax adviser or their financial adviser for further information.

The minimum initial subscription for each class of Shares shall be USD1,000. The minimum additional subscriptions for each class of Shares is USD500. There is a minimum holding requirement of USD1,000 for each class of Shares. The Directors or the Distributor may from time to time waive or vary the minimum initial and subsequent subscription amounts and holding requirements for any class of Shares.

There is an upfront sales charge payable in respect of any investment in Class A Shares in the Company but there is no up front sales charge or commission payable in respect of any investment by the Company in the Master Fund.

Application forms must be received by the Hong Kong Representative, no later than 4:00 p.m. Hong Kong time (the "Dealing Deadline") (or such other time as the Directors may from time to time determine) on each Dealing Day. Subscription proceeds must be paid within three Business Days following the Dealing Day on which the application form is received, unless the Board of Directors requires cleared funds on or prior to an application being accepted. If timely settlement is not made, an application may lapse and be cancelled. In such circumstances, the Company has the right to bring an action against the defaulting applicant to make due payment in respect of the relevant Shares by the settlement date. The investor shall indemnify the Company for any loss suffered by the Company as a result of the investor's failure to transmit the subscription monies in a timely fashion. The Company reserves the right to cancel the provisional allotment of the relevant Shares in those circumstances.

No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on the Type 1 (dealing in securities) regulated activity under Part V of the Securities and Futures Ordinance.

Shares of each class in the Company will be available for subscription at the Net Asset Value per Share on each Dealing Day. The offshore Renminbi market (CNH) rate will be used when determining the Net Asset Value of the Alternative Currency Classes denominated in RMB, not the onshore Renminbi (CNY). The value of CNH could differ, perhaps significantly, from that of CNY due to a number of factors including without limitation those foreign exchange control policies and repatriation restrictions applied by the Chinese government from time-to-time as well as other external market forces. Where the term RMB is used in the Prospectus, it refers to the offshore Renminbi market (CNH).

Shares will be, issued at the Net Asset Value per Share on each Dealing Day, provided that, in order to receive Shares at the Net Asset Value per Share as of any particular Dealing Day, Share applications must be received by the Company at the address specified on the application form prior to the Dealing Deadline on such Dealing Day.

Applications for Shares which are received after the Dealing Deadline, or subscription monies which are not cleared by the Dealing Deadline, may be returned to applicants or held over (without interest) until the next Dealing Day. Monies held over for applicants will be maintained in a segregated non-interest bearing client account and will remain the property of the applicant until the next Dealing Day.

All Shares issued will be in registered form and written confirmation of ownership will be sent to Shareholders within ten days of registration. Share certificates will not be issued unless the Directors otherwise determine. The number of Shares issued will be rounded to 3 decimal places, using

conventional rounding to the nearest thousandths place and any surplus money will be credited to the Company.

Measures aimed towards the prevention of money laundering may require a detailed verification of the applicant's or beneficial owner's identity. Depending on the circumstances of each application, a detailed verification might not be required where (a) the applicant or beneficial owner makes the payment from an account held in the applicant's or beneficial owner's name at a recognised financial institution; or (b) the application is made through a recognised intermediary. These exceptions will only apply if the financial institution or intermediary referred to above are within a country recognised by Ireland as having equivalent anti-money laundering regulations.

The Company, and the Administrator acting on behalf of the Company, reserve the right to request such information as is necessary to verify the identity of an applicant or beneficial owner. The Company also reserves the right to ask at any time for additional information and documentary evidence, such as source of funds and origin of wealth, as may be required in higher risk scenarios or to comply with any applicable laws and regulations. In the event of delay or failure by the applicant or the beneficial owner to produce any information required for verification purposes, the Company and the Administrator acting on behalf of the Company, may refuse to accept the application and all subscription monies.

The Company will not knowingly issue or approve the transfer of any Shares to any US Person except in a transaction which does not contravene US securities laws. Each applicant for Shares will be required to provide such representations, warranties or documentation as may be required by the Company to ensure that these requirements are met prior to the issue of Shares.

#### **Prohibited Persons**

The Company may restrict or prevent the ownership of Shares by any person, firm or corporate body if in the opinion of the Company such holding may be detrimental to the Company or its Shareholders, may result in a breach of any applicable law or regulations or may expose the Company or its Shareholders to liabilities or any other disadvantages that it or they would not have otherwise incurred or been exposed to. Such persons, firms or corporate bodies are herein referred to as "Prohibited Persons".

The actions that the Company may take in order to restrict or prevent the ownership of Shares by Prohibited Persons include (in summary):

- (a) declining to issue Shares and/or register transfers of Shares;
- (b) requiring the furnishing of representations and warranties and/or information, supported by affidavit;
- (c) redeeming all or part of the Shares held by a relevant Shareholder; and
- (d) declining to accept the vote of any Prohibited Person at any meeting of Shareholders of the Company.

FATCA requires FFIs to provide the U.S. Internal Revenue Service with information about accounts held directly or indirectly by certain specified US persons. In addition, a 30% withholding tax is imposed on certain types of U.S. sourced income (including dividends, interest and certain derivative payments) and on gross proceeds of sale of certain US assets that can produce US sourced income paid to an FFI that fails to comply with FATCA.

The Government of Ireland has entered into a Model 1 Intergovernmental Agreement (the "Irish IGA") with the United States for the implementation of FATCA. The Company will have to comply with the Irish IGA and its implementing regulations. More specifically, the Company is required to collect information aiming to identify its direct and indirect Shareholders that are US persons for FATCA purposes ("reportable accounts"). Any such information on reportable accounts will be shared with the Irish tax authorities, who will then exchange that information on an automatic basis with the Government of the United States.



The Company is registered with the IRS and is a deemed-compliant FFI. The Company intends to comply with the terms of the Irish IGA to be deemed compliant with FATCA and not be subject to the 30% withholding tax with respect to its share of any payments attributable to actual and deemed US investments in the Company. To ensure the Company's compliance with FATCA and the Irish IGA, the Company, either directly or through its agents, may:

- (a) request information or documentation, including W-8 tax forms, a Global Intermediary Identification Number, if applicable, or any other valid evidence of a Shareholder's FATCA registration with the IRS or a corresponding exemption, in order to ascertain such shareholder's FATCA status; or
- (b) report information concerning a Shareholder and his account holding in the Company to the Irish tax authorities if such account is deemed a US reportable account under the Irish IGA; and
- (c) if permitted by applicable law or rules, deduct applicable US withholding taxes from certain payments made to a shareholder by or on behalf of the Company in accordance with FATCA and the Irish IGA. The Company in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds.

Although the Company will endeavour to satisfy any obligations imposed on it to avoid the imposition of any FATCA withholding tax, no assurance can be given that the Company will be able to satisfy these obligations. If the Company becomes subject to a withholding tax as a result of the FATCA regime, its net asset value may be adversely affected and Shareholders may suffer substantial losses as a result.

On 29 October 2014, Ireland signed the Multilateral Competent Authority Agreement (the "MCAA") on the implementation of the Global Standard for the automatic exchange of financial account information. By signing the MCAA, Ireland has agreed to implement regulations to enable the adoption of automatic exchange of information with all other MCAA signatory countries (whenever they sign the MCAA).

On 9 December 2014, the European Council adopted Directive 2014/107/EU amending Directive 2011/16/EU in relation to the administrative cooperation in the field of direct taxation. Directive 2011/16/EU now provides for the automatic exchange of account information between EU member states.

Shareholders are hereby notified that the Company is required under Irish law to report various details about Shareholders resident in EU member states or MCAA signatory jurisdictions to the Irish tax authorities. They will share Shareholder account data in accordance with Directive 2011/16/EU or the MCAA with the tax authority of any other EU member state or MCAA signatory jurisdiction where the account holder is tax resident.

This is a complex area and therefore all prospective investors should consult with their own tax advisors regarding the possible implications of FATCA on them and on an investment in the Company. Investors are also recommended to check with their advisers and intermediaries (if applicable) as to their intention to comply with FATCA.

### **Market Timing Generally**

The Company discourages short-term or excessive trading, often referred to as "market timing", and intends to seek to restrict or reject such trading or take other action, as described below, if in the judgment of the Company or the Administrator such trading may interfere with the efficient management of the Company, may materially increase the Company's transaction costs, administrative costs or taxes, or may otherwise be detrimental to the interests of the Company and its Shareholders.

### **Market Timing Consequences**

If information regarding a Shareholder's activity in the Company or in any other Franklin Templeton fund or non-Franklin Templeton fund is brought to the attention of the Company or the Administrator and based on that information the Company or its agents in their sole discretion conclude that such trading may be detrimental to the Company as described in this market timing trading policy, the Company may temporarily or permanently bar a Shareholder's future purchases into the Company. Alternatively, the

Company may limit the amount, number or frequency of any future purchases and/or the method (for example by requiring receipt of redemption requests in original form instead of by facsimile) by which a Shareholder may request future purchases and redemptions (including purchases and/or redemptions by an exchange or transfer between the Company and any other Franklin Templeton fund).

In considering an investor's trading activity, the Company may consider, among other factors, the Shareholder's trading history both directly and, if known, through financial intermediaries, in the Company, in other Franklin Templeton funds, in non-Franklin Templeton mutual funds, or in accounts under common control or ownership.

### **Market Timing Through Financial Intermediaries**

Shareholders are subject to this policy whether they are a direct Shareholder of the Company or are investing indirectly in the Company through a financial intermediary such as a bank, an insurance company, an investment adviser, or any other Distributor that acts as nominee for Shareholders subscribing the shares in their own name but on behalf of its customers (the shares being held in an "omnibus account").

While the Company will encourage financial intermediaries to apply the Company's market timing trading policy to their customers who invest indirectly in the Company, the Company is limited in its ability to monitor the trading activity or enforce its market timing trading policy with respect to customers of financial intermediaries. For example, should it occur, the Company may not be able to detect market timing that may be facilitated by financial intermediaries or made difficult to identify in the omnibus accounts used by those intermediaries for aggregated purchases, exchanges and redemptions on behalf of all their customers. More specifically, unless the financial intermediaries have the ability to apply the Company's market timing trading policy to their customers through such methods as implementing short-term trading limitations or restrictions, monitoring trading activity for what might be market timing, the Company may not be able to determine whether trading by customers of financial intermediaries is contrary to the Company's market timing trading policy.

### **Risks From Market Timers**

Depending on various factors, including the size of the Company, the amount of assets the portfolio Investment Adviser of the Master Fund typically maintains in cash or cash equivalents and the dollar amount and number and frequency of trades, short-term or excessive trading may interfere with the efficient management of the Company's portfolio, increase the Company's transaction costs, administrative costs and taxes and/or impact Company performance.

In addition, if the nature of the Company's portfolio holdings exposes the Company to Shareholders who engage in the type of market timing trading that seeks to take advantage of possible delays between the change in the value of a Company's portfolio holdings and the reflection of the change in the net asset value of the Shares, sometimes referred to as "arbitrage market timing", there is the possibility that such trading, under certain circumstances, may dilute the value of Shares if redeeming Shareholders receive proceeds (and buying Shareholders receive Shares) based upon net asset values which do not reflect appropriate fair value prices. Arbitrage market timers may seek to exploit possible delays between the change in the value of a Company's portfolio holdings and the net asset value of the Shares if there are significant investments in foreign securities because certain foreign markets close several hours ahead of the U.S. markets, and in funds that hold significant investments in small-cap securities, high-yield ("junk") bonds and other types of investments which may not be frequently traded.

The Company is currently using several methods to reduce the risk of market timing. These methods include:

- reviewing Shareholder activity for excessive trading; and
- committing staff to selectively review on a continuing basis recent trading activity in order to identify trading activity that may be contrary to this market timing trading policy.

Though these methods involve judgments that are inherently subjective and involve some selectivity in their application, the Company seeks to make judgments and applications that are consistent with the

interests of the Shareholders. There is no assurance that the Company or its agents will gain access to any or all information necessary to detect market timing in omnibus accounts. While the Company will seek to take actions (directly and with the assistance of financial intermediaries) that will detect market timing, the Company cannot represent that such trading activity can be completely eliminated.

### **Revocation Of Market Timing Trades**

Transactions placed in violation of the Company's market timing trading policy are not necessarily deemed accepted by the Company and may be cancelled or revoked by the Company or the Administrator on the Dealing Days following receipt by the Administrator.

### **Determination Of Net Asset Value Of The Company**

The Net Asset Value of the Company and the Net Asset Value per Share in the Company shall be calculated by the Administrator to the nearest two decimal places in the base currency of the Company. To the extent specified in this Prospectus, the Net Asset Value of the Company, and the Net Asset Value per Share in the Company, shall be calculated by the Administrator as of the Valuation Point on each Business Day in accordance with the valuation provisions summarised below.

The Net Asset Value of the Company shall be calculated by ascertaining the value of the assets of the Company and deducting from such amount the liabilities of the Company, which shall include all fees and expenses payable, accrued and estimated to be payable out of the assets of the Company.

The Net Asset Value per Share in respect of any class will be calculated by dividing the Net Asset Value of the Company by the number of Shares of the relevant class in issue as of the relevant Valuation Point and making such adjustments thereto as are necessary to allocate the relevant fees, charges and expenses to such class, and to take account of any distributions made out of such class.

The Investment Manager may hedge the foreign currency exposure of a Hedged Class into the base currency of the Company in order that investors in that class receive a return in the currency of that class which is not materially affected by changes in value between the Class Currency and the base currency of the Company. As foreign exchange hedging may be utilised for the benefit of a particular class, its cost and related liabilities and/or benefits shall be for the account of that class only. Accordingly, such costs and related liabilities and/or benefits will be reflected in the Net Asset Value per Share for Shares of any such class. The currency exposures of the assets of the Company will not be allocated to separate classes. Foreign exchange hedging shall not be used for speculative purposes. The periodic reports of the Company will indicate how hedging transactions have been utilised.

The Net Asset Value per Share will be published on each Business Day in an appropriate manner (for example, on the website of the Hong Kong Representative) as the Directors may from time to time determine.

The Net Asset Value of the Company is equal to the value of its holding in the Master Fund plus the Company's cash plus net income less expenses (which shall include fees payable by the Company).

Shares in the Master Fund will be valued on the basis of the latest available repurchase price for the Common Shares of the Master Fund.

Shares in collective investment schemes shall be valued on the basis of the latest available redemption price of such Shares after deduction of any redemption charges. If such prices are unavailable the Shares will be valued at their probable realisation value estimated with care and good faith by the AIFM in consultation with the Administrator or by an external valuer appointed for such purpose by the AIFM and approved for such purpose by the Depositary.

Cash deposits and similar assets shall be valued at their face value together with accrued interest unless in the opinion of the AIFM or an external valuer (in consultation with the Administrator and the Depositary) any adjustment should be made to reflect the fair value thereof.

Derivative instruments including swaps, interest rate futures contracts and other financial futures contracts which are traded on a Recognised Market shall be valued at the settlement price at the Valuation Point as determined by the relevant Recognised Market, provided that where it is not the practice of the relevant Recognised Market to quote a settlement price, or if a settlement price is not available for any reason, such instruments shall be valued at their probable realisation value estimated with care and good faith by the AIFM or an external valuer (who shall be approved for such purpose by the Depositary) in consultation with the Administrator. The value of forward foreign exchange contracts which are dealt in on a Recognised Market shall be calculated by reference to the price appearing to the AIFM or an external valuer to be the price at which a new forward contract of the same size, currency and maturity as determined by the relevant Recognised Market could be effected as at the Valuation Point, provided that if such market price is not available for any reason, such value shall be calculated in such manner as the AIFM or an external valuer shall, in accordance with the Administrator, determine with the approval of the Depositary.

Notwithstanding the above provisions the AIFM or an external valuer, with prior notification to the Depositary (a) adjust the valuation of any listed investment or (b) permit some other method of valuation approved by the Depositary to be used if, having regard to currency, applicable rate of interest, maturity, marketability and/or such other considerations as they deem relevant, they consider that such adjustment or alternative method of valuation is required to reflect more fairly the value thereof.

In determining the Company's Net Asset Value per Share, all assets and liabilities initially expressed in foreign currencies will be converted into the base currency of the Company using the latest available exchange rates at the Valuation Point. If quotations are not available, the rate of exchange will be determined in accordance with policies established in good faith by the AIFM or an external valuer.

#### **Determination Of Net Asset Value Of The Master Fund**

The net asset value per share of the Master Fund is calculated as of 1 p.m. Pacific time or the regularly scheduled close of the NYSE, whichever is earlier, each day that the NYSE is open for trading. If the NYSE has a scheduled early close, the Master Fund's share price would be determined as of the time of the close of the NYSE. If, due to weather or other special or unexpected circumstances, the NYSE has an unscheduled early close on a day that it has opened for business, the Master Fund reserves the right to consider that day as a regular business day and accept purchase and redemption orders and calculate its share price as of the normally scheduled close of regular trading on the NYSE. For the purposes of determining the net asset value of Common Shares, the Master Fund's net assets are divided by the total number of Common Shares outstanding at such time.

When determining its net asset value, the Master Fund values cash and receivables at their realisable amounts, and records interest as accrued and dividends on the ex-dividend date. The Master Fund generally utilises two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities listed on a securities exchange, the Master Fund values those securities at the last quoted sale price or the official closing price of the day, respectively, or, if there is no reported sale, within the range of the most recent quoted bid and ask prices. The Master Fund values over-the-counter portfolio securities within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Master Fund values them according to the broadest and most representative market. Prices received by the Master Fund for securities may be based on institutional "round lot" sizes, but the Master Fund may hold smaller, "odd lot" sizes. Odd lots may trade at lower prices than round lots.

Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times before 1 p.m. Pacific time. The value of these securities used in computing the net asset value is determined as of such times. Occasionally, events affecting the values of these securities may occur between the times at which they are determined and 1 p.m. Pacific time that will not be reflected in the computation of the net asset value. The Master Fund relies on third-party pricing vendors to provide evaluated prices that reflect current fair market value at 1 p.m. Pacific time.

## **Fair Valuation – Individual Securities**

Since the Master Fund may invest in securities that are restricted, unlisted, traded infrequently, thinly traded or relatively illiquid, there is the possibility of a differential between the last available market prices for one or more of those securities and the latest indications of market values for those securities. The Master Fund has procedures, approved by the Master Fund Board, to determine the fair value of individual securities and other assets for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities. The Master Fund Board oversees the application of fair value pricing procedures.

The application of fair value pricing procedures represents a good faith determination based upon specifically applied procedures. There can be no assurance that the Master Fund could obtain the fair value assigned to a security if it were able to sell the security at approximately the time at which the Master Fund determines its net asset value per share.

## **Security Valuation – Corporate Debt Securities**

Corporate debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Master Fund may value these portfolio securities by utilizing quotations from bond dealers, information with respect to bond and note transactions and may rely on independent pricing services to assist in determining a current market value for each security. The Master Fund's pricing services may utilize independent quotations from bond dealers and bond market activity to determine current value.

## **Security Valuation – Senior Secured Corporate Loans**

Senior secured corporate loans with floating or variable interest rates generally trade in the over-the-counter market rather than on a securities exchange. The Master Fund may value these portfolio securities by utilizing quotations from loan dealers and other financial institutions, information with respect to bond and note transactions and may rely on independent pricing services to assist in determining a current market value for each security. These pricing services use independent market quotations from loan dealers or financial institutions and may incorporate valuation methodologies that incorporate multiple bond characteristics. These characteristics may include dealer quotes, issuer type, coupon, maturity, weighted average maturity, interest rate spreads and yield curves, cash flow and credit risk/quality analysis.

## **Security Valuation – Foreign Securities – Computation of U.S. Dollar Equivalent Value**

The Master Fund generally determines the value of a foreign security as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of 1 p.m. Pacific time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 1 p.m. Pacific time on the day that the value of the foreign security is determined. If no sale is reported at that time, the foreign security will be valued within the range of the most recent quoted bid and ask prices. Occasionally events (such as repatriation limits or restrictions) may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Master Fund Board.

## **Redemption Of Shares In The Company**

Shareholders may redeem any or all of their Shares on any Dealing Day except when dealings have been temporarily suspended in the circumstances described under the section headed "Temporary Suspension Of Dealings" below at a price per Share equal to the Net Asset Value per Share as of the relevant Valuation Point. Redemption requests may not be withdrawn except in circumstances where dealings are suspended.

Save where expressly provided below to be honoured, redemption request forms must be received by the Company at the address specified in the redemption request form not later than the Dealing *Deadline*. A request for redemption which would result in a shareholding of less than USD1,000 will be deemed a request for redemption of all the Shareholders' outstanding share holdings.

Redemption proceeds will be paid within seven Business Days of the Dealing Day on which redemptions are effected by electronic transfer to the account designated by the Shareholder in the redemption request form or by a distribution of assets of the Company to the Shareholders, provided any such distributions in specie will not materially prejudice the remaining or redeeming Shareholders. Distribution in specie will be made with the approval of the relevant Shareholder (such Shareholder shall be entitled to request the Company to liquidate into cash the assets which are to be distributed) and the Directors.

If the aggregate redemption requests on any Dealing Day equal or exceed 10% or more of the outstanding Shares in issue or deemed to be in issue, the Directors may elect to restrict the total number of Shares to be redeemed to 10% of the outstanding Shares in issue on that Dealing Day, in which case all redemption requests will be reduced pro rata to the size of the request. The balance of the Shares in respect of which redemption requests have been received shall be redeemed on the next succeeding Dealing Day, subject to the same 10% restriction, and in priority to redemption requests received in respect of the next Dealing Day.

In respect of subscription and redemption or other dealing requests received by the Hong Kong Representative, a Dealing Day shall be a Business Day on which the banks in Hong Kong are open for normal banking business unless otherwise determined by the Directors. If a number 8 typhoon signal or higher or a black rain storm or other similar event shall cause the closure of the Hong Kong Representative's office, any dealing request received or sent to the Hong Kong Representative after closure of the Hong Kong Representative's office shall be carried forward and dealt with on the next Dealing Day at the Net Asset Value Per Share applicable to that Dealing Day.

### **Exchange Of Shares**

Shareholders may under certain circumstances, exchange Shares of the Company into shares or units of certain other investment funds as authorized by the SFC and offered by Franklin Templeton Investments. Information on the investment funds into which Shares may be exchanged, and details of the procedure, terms and conditions for exchange may be obtained from the Hong Kong Representative upon request. Exchanges into shares or units of other investment funds may be subject to an exchange charge as disclosed in their offering documentation and investors should read the relevant offering documentation about the exchange charge applicable before submitting any exchange request.

### **Risk Management Process And Liquidity Management**

The AIFM employs a risk management process which enables it to monitor and measure at any time the risk of the positions of the Company.

The AIFM maintains a liquidity management process to monitor the liquidity risk of the Company, which includes, among other tools and methods of measurement, the use of stress tests under both normal and exceptional liquidity conditions. The liquidity management systems and procedures allow the AIFM to apply various tools and arrangements necessary to ensure that the portfolio of the Company is sufficiently liquid to normally respond appropriately to redemption requests. In normal circumstances, redemption requests will be processed as set out in this Prospectus.

Other arrangements may also be used in response to redemption requests, including the temporary suspension or deferral of such redemption requests in certain circumstances or use of similar arrangements which, if activated, will restrict the redemption rights investors benefit from in normal circumstances as set out below under the "Temporary Suspension Of Dealings" section in this Prospectus.

The Company's periodic reports will contain details of the current risk profile of the Company and the risk management systems employed to manage those risks, the percentage of the Company's assets

which are subject to special arrangements arising from their illiquid nature and any new liquidity management arrangements. Upon the request of Shareholders, the Hong Kong Representative will provide further details regarding the risk management process and liquidity management.

### **Operation of the Subscription and Redemption Collection Account**

The Company has established a collection account at company level in the name of the Company (the “**Company Cash Collection Account**”). All subscriptions into and redemptions and distributions due from the Company will be paid into the Company Cash Collection Account. Monies in the Company Cash Collection Account, including early subscription monies received, do not qualify for the protections afforded by the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Investor Money Regulations 2015 for Fund Service Providers.

All subscriptions (including subscriptions received in advance of the issue of Shares) attributable to, and all redemptions, dividends or cash distributions payable will be channelled and managed through the Company Cash Collection Account. Where subscription monies are received in the Company Cash Collection Account without sufficient documentation to identify the investor, such monies shall be returned to the relevant investor within the timescales and as specified in the operating procedure in respect of the Company Cash Collection Account.

Redemptions and distributions, including blocked redemptions or distributions, will be held in the Company Cash Collection Account until payment due date (or such later date as blocked payments are permitted to be paid), and will then be paid to the relevant or redeeming Shareholder. Pending payment of redemption proceeds or distributions, the relevant investor will be an unsecured creditor of the Company in respect of amounts due to it.

Failure to provide the necessary complete and accurate documentation in respect of subscriptions, redemptions or dividends is at the investor’s risk.

The Depositary will perform safekeeping and oversight of the monies in the Company Cash Collection Account in accordance with the Depositary and Custodian Agreement. In conjunction with the Depositary, the Company and the Administrator have agreed an operating procedure in respect of the Company Cash Collection Account that identifies the procedures and protocols to be followed in order to transfer monies from the Company Cash Collection Account, the daily reconciliation processes, and the procedures to be followed where there are shortfalls due to late payment of subscriptions, and/or transfer of money due to timing differences.

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## MANDATORY REDEMPTION OF SHARES

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The Company may take steps to liquidate its holding in the Master Fund with a view to compulsorily redeeming all of the outstanding Shares at the then prevailing Net Asset Value per Share:

- (a) if the Net Asset Value of the Company falls below USD25,000,000 on any Dealing Day;
- (b) if the Depositary has served notice of its intention to retire under the terms of the Depositary and Custodian Agreement (and has not revoked such notice) and no new depositary has been appointed by the Company with the approval of the Central Bank within the period specified in the Articles;
- (c) if the Shareholders have passed a Special Resolution providing for such redemption at the general meeting of the Company or all of the Shareholders have by written resolution approved the redemption;
- (d) on the resignation or termination of the AIFM; or

in the other circumstances provided for under the Articles.

Notwithstanding the foregoing, where the Directors have determined to postpone redemptions in the circumstances described under the section headed "Temporary Suspension Of Dealings" below, the redemption proceeds will be paid within seven Business Days of the first Dealing Day on the expiry of the period of suspension.

Shareholders in the Company are required to notify the Company immediately when at any time following their initial subscription for Shares in the Company (a) they become US Persons or hold Shares for the account or benefit of a US person; or (b) the Declaration made by or on their behalf is no longer valid. Shareholders are also required to notify the Company immediately in the event that they hold Shares in the Company in breach of any law or regulation or otherwise in circumstances having or which may have adverse regulatory, tax or fiscal consequences for the Company or its Shareholders.

Where the Directors become aware that a Shareholder in the Company (a) is a US Person or is holding Shares for the account of a US Person; or (b) is holding Shares in breach of any law or regulation or otherwise in circumstances having or which may have adverse regulatory, tax or fiscal consequences for the Company or its Shareholders; the Directors may (i) direct such Shareholder to dispose of the relevant Shares to a person who is qualified or entitled to own or hold such Shares; or (ii) redeem the relevant Shares at the Net Asset Value of the Shares as at the Valuation Point on any Dealing Day immediately following the date of notification of such mandatory redemption to the relevant Shareholder.

Under the Articles, any person who becomes aware that he is holding Shares in contravention of any of the above provisions and who fails to transfer, or deliver for redemption, his Shares pursuant to the above provisions if so directed by the Directors pursuant to the above provisions or who fails to make the appropriate notification to the Company is obliged to indemnify and hold harmless each of the Directors, the Company, the Administrator, the Depositary, the Investment Manager and the Shareholders of the Company (each an "Indemnified Party") from any claims, demands, proceedings, liabilities, damages, losses, costs and expenses directly or indirectly suffered or incurred by such Indemnified Party arising out of or in connection with the failure of such person to comply with his obligations pursuant to any of the above provisions.

The right of any Shareholders to require the redemption of Shares will be temporarily suspended in the circumstances described under the section headed "Temporary Suspension Of Dealings" below.

### **Temporary Suspension Of Dealings**

The Directors may at any time, with the prior approval of the Depositary, temporarily suspend the issue, valuation, sale, purchase or redemption of Shares during:



- (a) any period when any organised exchange on which a substantial portion of the investments for the time being comprised in the Company are quoted, listed, traded or dealt in is closed otherwise than for ordinary holidays, or during which dealings in any such organised exchange are restricted or suspended;
- (b) any period where, as a result of political, military, economic or monetary events or other circumstances beyond the control, responsibility and power of the Directors, the disposal or valuation of investments for the time being comprised in the Company cannot, in the opinion of the Directors, be effected or completed normally or without prejudicing the interest of Shareholders;
- (c) any breakdown in the means of communication normally employed in determining the value of any investments for the time being comprised in the Company or during any period when for any other reason the value of investments for the time being comprised in the Company cannot, in the opinion of the Directors, be promptly or accurately ascertained;
- (d) any period when the Company is unable to repatriate funds for the purposes of making redemption payments or during which the realisation of investments for the time being comprised in the Company, or the transfer or payment of the fund's involved in connection therewith cannot, in the opinion of the Directors, be effected at normal prices;
- (e) any period when, as a result of adverse market conditions, the payment of redemption proceeds may, in the opinion of the Directors, have an adverse impact on the Company or the remaining Shareholders in that Company; or
- (f) if the Master Fund has suspended the continuous offering of Common Shares or suspended or postponed a redemption of Common Shares.

Notice of any such suspension or postponement shall be published by the Company in an appropriate manner (for example, on the website of the Hong Kong Representative) as the Directors may from time to time determine, if in the opinion of the Directors, it is likely to exceed fourteen days, and shall be notified within the same Business Day to the Central Bank and without delay to the Shareholders. Shareholders who have requested an issue or redemption of Shares will have their subscription or redemption request dealt with on the first Business Day after the suspension has been lifted unless applications or redemption requests have been withdrawn prior to the lifting of the suspension. The Company will take all reasonable steps to bring any period of suspension or postponement to an end as soon as possible.

The Master Fund may suspend the continuous offering of Common Shares at any time without prior notice. Similarly, the Master Fund may resume the offering at any time. If there is a suspension of the offering of Common Shares, common shareholders that reinvest their distributions in additional Common Shares will be permitted to continue to make those reinvestments. All reasonable steps will be taken by the Master Fund Board to bring any suspension to an end as soon as possible.

In unusual circumstances, the Master Fund may temporarily suspend redemptions, or postpone the payment of proceeds, as allowed by federal securities laws. The holders of Common Shares will receive notice of any suspension or postponement and a notice of any redemption after a suspension or postponement.

### **Transfer Of Shares**

Transfers of Shares must be effected by transfer in writing in any usual or common form or in any other form approved by the Directors from time to time. Every form of transfer must state the full name and address of each of the transferor and the transferee and must be signed by or on behalf of the transferor. The Directors will decline to register any transfer of Shares unless the transfer form is deposited at the registered office of the Company, or such other place as the Directors may reasonably require, accompanied by such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain the holder of the Shares until the name of the transferee is entered in the register of members. A transfer of Shares will not be

registered unless the transferee, if not an existing Shareholder, has completed the application form contained in this Prospectus to the satisfaction of the Directors.

Shares are freely transferable except that the Directors or their delegate may decline to register a transfer of Shares:

- (a) if the transfer is in breach of US securities laws;
- (b) if in the opinion of the Directors the transfer would be unlawful or result or be likely to result in any adverse regulatory, tax or fiscal consequences or administrative burden to the Company or the Shareholders;
- (c) in the absence of satisfactory evidence of the transferee's identity; or
- (d) if the transfer is a "chargeable event" giving rise to an obligation on the Company to deduct appropriate tax unless the Company is satisfied that it can levy the aggregate tax on this proposed transferor by way of forfeiture of such number of Shares of the proposed transferor as are necessary to discharge such liability and unless the Company receives a valid Declaration from the proposed transferee see the section headed "Taxation" below.

### **Subscription And Redemption Prices**

The subscription and redemption prices of Shares will be published on each Business Day in an appropriate manner (for example, on the website of the Hong Kong Representative) as the Directors may from time to time determine and shall be made available to Shareholders on request from the Administrator.

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## MANAGEMENT AND ADMINISTRATION

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### The Directors

The Directors are responsible for managing the business affairs of the Company in accordance with the Articles. The Articles provide that the Directors may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property or any part thereof. Under the Articles, the Directors have delegated certain of their powers, duties, and/or discretions. The Directors have delegated the day to day administration of the Company to the Administrator and, consequently, none of the Directors is an executive Director. In particular, the Directors have delegated (i) the day-to-day administration of the Company's affairs (including the calculation of the Net Asset Value and the Net Asset Value per Share, Shareholder registration and transfer agency services and related services) to the Administrator, and (ii) the management of the cash and other assets and investments of the Company to the AIFM.

The Directors are listed below with their principal occupations. Investors should also refer to the section headed "Conflicts Of Interest" below. None of the Directors have entered into a service contract with the Company nor is any such contract proposed and none of the Directors are an executive of the Company. The Company has granted indemnities to the Directors in respect of any losses or damages which they may suffer, save where these result from the Directors' negligence, default, breach of duty or breach of trust. The Articles do not stipulate a retirement age for Directors and do not provide for retirement of Directors by rotation. The address of the Directors is the registered office of the Company:

**Joseph Carrier (US)** is a Senior Vice President, Enterprise Risk Management for Franklin Templeton Investments. Prior to joining Franklin Templeton, he was the Chief Risk Officer and Chief Audit Executive for Legg Mason, Inc. and served on the boards of directors of Martin Currie Investment Management Ltd (United Kingdom) and Legg Mason Investments Ireland Limited (Ireland). He joined Legg Mason after serving as Vice President and Division Head of Investment Operations at T. Rowe Price and Treasurer and Principal Financial Officer of the T. Rowe Price Mutual Funds. Before joining T. Rowe Price, he served as the Industry Chairman for Coopers & Lybrand's Investment Management practice in the United States. He has also served as Assistant Chief Accountant in the Division of Investment Management with the U.S. SEC.

Mr. Carrier is a member of the board of directors of the Investment Company Institute's ("ICI") Mutual Insurance Company; and immediate past chair of the ICI's Risk Management Committee, and the past chair of the ICI's Accounting\Treasurer's Committee. He was also a former member of the Investment Companies Expert Panel of the AICPA, was a member of the AICPA's Investment Companies Committee from 1994-1997 and a contributing author to the Audit and Accounting Guide for Investment Companies.

Mr. Carrier currently serves on the board of GB Charities Inc., the Board of Visitors of the Welch College of Business at Sacred Heart University, and the Board of Advisors for Loyola University's Management and International Business program.

He is a graduate of Loyola University in Baltimore and a Certified Public Accountant.

**Fionnuala Doris (Irish)** is an Assistant Professor of Accounting in the School of Business in Maynooth University, Ireland. Prior to joining Maynooth University, Ms. Doris was Financial Controller and Company Secretary of Temple Bar Properties Ltd, Dublin from 1999 to 2001. She trained with PricewaterhouseCoopers, Dublin from 1993 to 1996 and worked as an Audit Manager in their Asset Management group until 1999 where she specialised in the audit of UCITS funds. Ms. Doris is also a Director of each of the Legg Mason Irish Domiciled Funds. Ms. Doris holds a BA (Hons) in Economics from University College Dublin (1992), a Postgraduate Diploma in Accounting from Dublin City University (1993) and is a Fellow of the Institute of Chartered Accountants in Ireland.

**Joseph Keane (Irish)** provides consultancy services to the mutual and hedge fund industry and acts as an independent director to fund companies. Mr. Keane is also a Director of each of the Legg Mason Irish Domiciled Funds. From March 2004 through April 2007, he was Chief Financial Officer of the Vega Hedge Fund Group. In 2002, he founded CFO.IE, and he acted as its Chief Executive Officer through February 2004. He was Head of Operations for SEI Investments, Global Fund Services from 2000 to

2002 and prior to that Managing Director of ABN AMRO Trust Company (Cayman) in the Cayman Islands from 1995 to 2000. He is a Fellow of the Institute of Chartered Accountants in Ireland. Mr. Keane has forty years' experience in investment funds' management and administration, banking and public accounting.

**Joseph LaRocque (US)** provides US tax consultancy services on behalf of Towson Tax and Consulting in Towson, Maryland, USA. Mr. LaRocque is also a Director of each of the Legg Mason Irish Domiciled Funds. He is the Chairman of the Board and a former Managing Director in charge of Affiliate Strategic Initiatives at Legg Mason. Mr LaRocque also serves as a Director of other fund boards. Mr. LaRocque worked for Legg Mason from 2001 until July 2019. He is a Certified Public Accountant and from 1991 to 2001 was employed by PricewaterhouseCoopers in Boston, Massachusetts, Dublin, Ireland and Baltimore, Maryland in several capacities, most recently as a Senior Manager in their global financial services practice.

**Elinor Murray (UK)** is a Vice President – Global Compliance for Franklin Templeton. Ms. Murray was previously the Managing Director, Head of European Compliance at Legg Mason Global Investors until it was acquired by Franklin Templeton in August 2020. Prior to this Ms Murray held a number of senior compliance roles with other large asset managers. Ms Murray also spent a number of years working at Ernst & Young as a regulatory consultant. Ms Murray holds an LLB (Hons) from Aberdeen University.

**Jaspal Sagger (UK)** is the Head of Global Product Strategy and Development for Franklin Templeton having held a similar role at Legg Mason until it was acquired in August 2020. Mr. Sagger works closely with Franklin Templeton's global investment teams and regional distribution teams to define the firms' global product strategy and deliver investment solutions for Franklin Templeton's clients.

Mr. Sagger joined Legg Mason in February 2014, as Head of International Product Strategy, and assumed the role of Global Head of Product Strategy and Development in January 2019.

Previously, Mr. Sagger was Head of Product, EMEA and Head of Product Strategy at HSBC Global Asset Management, and was a member of the HSBC Asset Management's European Executive Committee. He has a BA (Hons) in Business Studies and a Masters in International Banking and Finance from the London Metropolitan University.

**Jane Trust (US)** is the Senior Vice President – Fund Board Management for Franklin Templeton. Ms. Trust also manages and serves as a Director of each of the Legg Mason Irish Domiciled Funds. She also oversees governance structure and partners closely with internal groups, such as Legal and Accounting, on board areas of focus. Prior to joining Franklin Templeton, Jane was a Senior Managing Director at Legg Mason & Co., LLC. and President and CEO of the Legg Mason – Affiliated Funds.

Since 2019, Ms. Trust served as Legg Mason's Global Head of Product Management and had responsibility for U.S. Fund Board governance since 2015. From 2017 to 2019, she served as the Head of U.S. Product Management.

Ms. Trust joined Legg Mason in 1987. From 2007 to 2014, Ms. Trust held various roles in Legg Mason companies, including senior investment roles within Legg Mason Capital Management ("LMCM"), which became part of ClearBridge Investments in March 2013, and Legg Mason Investment Counsel ("LMIC"). Ms. Trust was an Institutional Portfolio Manager for LMCM, managing accounts on behalf of sovereign wealth funds, pension plans, public funds and mutual funds. At LMIC, Ms. Trust was Head of Investments, supervising a team of equity and fixed income portfolio managers and overseeing the firm's trading desk.

Ms. Trust received an AB in Engineering Sciences from Dartmouth College and a Master of Administrative Science in Finance from The Johns Hopkins University. She is a CFA® charterholder having received the Chartered Financial Analyst (CFA) designation in 1991, and she is also a member of the CFA Institute and the Baltimore CFA Society.

**Craig Tyle (US)** is a Senior Advisor for Franklin Templeton. Prior to his current role, Mr. Tyle was Executive Vice President and General Counsel for Franklin Resources, Inc., overseeing the Legal, Regulatory Compliance and Investment Compliance departments. Mr Tyle is also a director of a Franklin Templeton Luxembourg fund entity.

Mr. Tyle joined Franklin Templeton in 2005. Previously, he was a partner at Shearman & Sterling LLP in Washington D.C., where his clients included investment advisory firms, investment companies and independent directors of investment companies. Before joining Shearman & Sterling, Mr. Tyle was General Counsel for the Investment Company Institute (ICI), the national association of the mutual fund industry. Prior to being appointed General Counsel, Mr. Tyle held various positions in the ICI's legal department. He started his career as an attorney with Sullivan & Cromwell LLP in New York.

Mr. Tyle earned his B.A. with high honors from Swarthmore College and graduated magna cum laude from Harvard Law School.

### **The AIFM**

Franklin Templeton International Services S.à r.l. has been authorised by the Commission de Surveillance du Secteur Financier to act as an AIFM pursuant to the Law of 12 July 2013 and has been appointed by the Company as alternative investment fund manager to perform portfolio and risk management functions as well as activities related to the assets of the Company. The AIFM has delegated the portfolio management services to the Investment Manager. The AIFM and the Investment Manager are members of Franklin Templeton Investments.

The AIFM was incorporated on 17 May 1991 as a société anonyme under the laws of the Grand Duchy of Luxembourg and its articles of incorporation are deposited with the Luxembourg Registre de Commerce et des Sociétés. The AIFM will comply at all times with article 12 (Remuneration) of the Law of 12 July 2013.

The share capital of the AIFM is EUR 3,961,413 and will comply at all times with article 8 of the Law of 12 July 2013.

Franklin Templeton International Services S.à r.l. was authorised on 21 November 2013 as a management company managing UCITS and other investment funds and therefore complies with the conditions set out in Chapter 15 of the Law of 17 December 2010. The corporate object of Franklin Templeton International Services S.à r.l. is to provide investment management, administration and marketing services to undertakings for collective investment.

The AIFM is responsible for the portfolio management and the risk management function of the Company. The AIFM is also responsible for ensuring compliance with the AIFMD.

The AIFM covers potential professional liability risks resulting from those activities the AIFM carries out pursuant to the AIFMD, as transposed by the AIFMD Regulations, through 'own funds'.

As of the date of the Prospectus, the AIFM has also been appointed to act as management company and/or alternative investment fund manager for other investments funds the list of which is available, upon request, at the registered office of the Company and of the AIFM.

The AIFM shall ensure compliance of the Company with the investment restrictions and oversee the implementation of the Company's strategies and investment policy.

The AIFM will receive periodic reports from the Investment Manager detailing the Company's performance and analysing its investments. The AIFM will receive similar reports from the other services providers in relation to the services which they provide.

The AIFM Agreement is governed by the laws of Ireland and Ireland shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the AIFM Agreement.

### **The Investment Manager**

The AIFM has appointed Franklin Advisers, Inc. as the Investment Manager of the Company to assist in investing and managing the cash and other assets and investments of the Company. The Investment Manager of the Company also acts as Investment Adviser of the Master Fund. The Investment Manager continuously conducts investment research and is responsible for the purchase, sale or exchange of portfolio assets.

The Investment Manager provides both equity and fixed-income investment supervisory services to investment companies registered with the SEC pursuant to the 1940 Act, and pooled investment vehicles that are exempt from registration under the 1940 Act. It also acts as sub-adviser to investment companies outside the Franklin Templeton Group of Funds.

The Investment Manager provides investment research and portfolio management services, including the selection of the securities to be purchased, held or sold and the selection of brokers through whom the portfolio transactions are executed.

The portfolios under the Investment Manager's management are constantly reviewed by one or more portfolio managers who are responsible to the chief investment officer, either directly or indirectly.

Reports concerning the portfolio transactions and other activities of each investment company client of the Investment Manager are made at each periodic (generally monthly) meeting of the Board of Directors of the investment companies managed by the Investment Manager.

The Investment Management Agreement dated 17 July 2014 between the AIFM, and the Investment Manager, as amended from time to time (the "Investment Management Agreement") provides that the Investment Manager, its principals, directors, officers and employees and agents shall not be liable for any loss or damage arising directly or indirectly out of the performance of its duties in the absence of negligence, wilful default, bad faith or fraud. Under the Investment Management Agreement, in no circumstances shall the Investment Manager, its principals, directors, officers, employees and agents be liable for special, indirect or consequential damages, or for lost profits or loss of business, arising out of or in connection with the performance of its duties, or the exercise of its powers. The Investment Manager is obligated under the Investment Management Agreement to indemnify and keep indemnified and hold harmless the AIFM and the Company (and each of their principals, directors, officers, employees and agents) against any and all claims, actions, proceedings, damages, losses, liabilities, costs and expenses (including reasonable legal fees or expenses) suffered or incurred by the AIFM or the Company in connection with the negligence, wilful default, bad faith or fraud of the Investment Manager or any of its principals, directors, officers, employees and agents in the performance or non-performance of its duties under the Investment Management Agreement.

For the avoidance of doubt and notwithstanding the provisions of the Investment Management Agreement, for such time as the Company remains authorised by the SFC, the investment management role of the AIFM may be sub-contracted to third parties (including the Investment Manager) but the responsibilities and obligations of the AIFM may not be delegated.

The Investment Manager may refer transactions for the Company's account to brokers or dealers that refer advisory clients to the Investment Manager or that recommend the purchase of shares of the Fund, provided that in each case, the Investment Manager reasonably seeks and believes the broker or dealer will provide best execution for the transaction. This practice may result in a potential conflict of interest between the Company's interest in obtaining best execution and the Investment Manager's interest in obtaining client referrals and selling additional Shares of the Company. A similar conflict of interest may arise when the Investment Manager causes transactions for the Company to be executed through brokers that provide research services to the Investment Manager and who may charge higher commissions than other brokers. The AIFM shall ensure that the identified potential conflicts of interest be managed and monitored pursuant to the AIFM's Conflicts of Interest Policy including (where relevant) separate chains of command for, and information barriers between, persons responsible for selecting brokers or dealers and fund distribution personnel.

The Investment Management Agreement shall continue in force, unless terminated earlier in accordance with its terms.

The AIFM may terminate the Investment Management Agreement immediately at any time by notice in writing to the other party if the Investment Manager shall at any time during the continuance of the Agreement commit any material breach of the Investment Management Agreement or commit persistent breaches of the Investment Management Agreement.

The Investment Management Agreement is governed by the laws of Luxembourg and Luxembourg courts shall have non-exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Investment Management Agreement.

### **The Investment Adviser Of The Master Fund**

The Master Fund has appointed Franklin Advisers, Inc. (the "Investment Adviser of the Master Fund") to act as adviser to the Master Fund pursuant to an Investment Management Agreement dated 1 March 2015 as may be amended from time to time (the "Investment Management Agreement") between the Master Fund and the Investment Adviser of the Master Fund.

The Investment Adviser of the Master Fund shall manage the Master Fund's assets subject to and in accordance with the investment objectives and policies of the Master Fund and any directions which the Master Fund Board may issue from time to time. In pursuance of the foregoing, the Investment Adviser of the Master Fund shall make all determinations with respect to the investment of the Master Fund's assets and the purchase and sale of its investment securities, and shall take such steps as may be necessary to implement the same. Such determinations and services shall include determining the manner in which any voting rights, rights to consent to corporate action and any other rights pertaining to the Master Fund's investment securities shall be exercised. The Investment Adviser of the Master Fund shall render or cause to be rendered regular reports to the Master Fund, at regular meetings of the Master Fund Board and at such other times as may be reasonably requested by the Master Fund Board, of (i) the decisions made with respect to the investments of the Master Fund's assets and the purchase and sale of its investment securities and (ii) the reasons for such decisions and (iii) the extent to which those decisions have been implemented.

The Investment Adviser of the Master Fund, subject to and in accordance with any directions which the Master Fund Board may issue from time to time, shall place, in the name of the Master Fund, orders for the execution of the Master Fund's securities transactions. When placing such orders, the Investment Adviser of the Master Fund shall seek to obtain the best net price and execution for the Master Fund, but this requirement shall not be deemed to obligate the Investment Adviser of the Master Fund to place any orders solely on the basis of obtaining the lowest available commission rate if the other standards set forth in this section have been satisfied. The parties recognise that there are likely to be many places in which different brokers are equally able to provide such best price and execution and that, in selecting among such brokers with respect to particular trades, it is desirable to choose those brokers who furnish research, statistical, quotations and other information to the Master Fund and the Investment Adviser of the Master Fund in accordance with the standards set forth below. Moreover, to the extent that it continues to be lawful to do so and so long as the Master Fund Board determines that the Master Fund will benefit, directly or indirectly by so doing, the Investment Adviser of the Master Fund may place orders with a broker who charges a commission for that transaction which is in excess of the amount of commission that other brokers would have charged for effecting that transaction, provided that the excess commission is reasonable in relation to the value of "brokerage and research services" (as defined in section 28 (e) (3) of the Securities Exchange Act of 1934 (as amended) provided by that broker.

Accordingly, the Master Fund and the Investment Adviser of the Master Fund agree that the Investment Adviser of the Master Fund shall select brokers for the execution of the Master Fund's transactions from among:

- (a) Those brokers and dealers who provide quotations and other services to the Master Fund, specifically including the quotations necessary to determine the value of the Master Fund's net assets, in such amount of total brokerage as may reasonably be required in light of such services.
- (b) Those brokers and dealers who supply research, statistical and other data to the Investment Adviser of the Master Fund or its affiliates which the Investment Adviser of the Master Fund or its affiliates may lawfully and appropriately use in their investment advisory capacities, which relate directly to securities, actual or potential, of the Master Fund, or which place the Investment Adviser of the Master Fund in a better position to make decisions in connection with the management of the Master Fund's assets and securities, whether or not such data may also be helpful to the Investment Adviser of the Master Fund and its affiliates in managing other

portfolios or advising other clients, in such amount of total brokerage as may reasonably be required, provided that if the Master Fund's officers are satisfied that the best execution is obtained, the sale of common shares of the Master Fund may also be considered as a factor in the selection of brokers-dealers to execute the Master Fund's portfolio transactions.

- (c) When the Investment Adviser of the Master Fund has determined that the Master Fund should tender securities pursuant to a "tender offer solicitation", Franklin/Templeton Distributors, Inc. (for the purpose of this paragraph (c), "Distributors") shall be designated as the "tendering dealer" so long as it is legally permitted to act in such capacity under the federal securities laws and rules thereunder and the rules of any securities exchange or association of which the Distributors may be a member. Neither the Investment Adviser of the Master Fund nor Distributors shall be obligated to make any additional commitments of capital, expense, or personnel beyond that already committed (other than normal periodic fees or payments necessary to maintain its corporate existence and membership in the National Association of Securities Dealers, Inc.) as of the date of the Investment Management Agreement. The Investment Management Agreement shall not obligate the Investment Adviser of the Master Fund or Distributors (i) to act pursuant to the foregoing requirement under any circumstances in which the Investment Adviser of the Master Fund or the Distributors reasonably believe that liability might be imposed upon them as a result of so acting, or (ii) to institute legal or other proceedings to collect expenses which may be considered due to the Master Fund from others as a result of such a tender, unless the Master Fund shall enter into an agreement with the Investment Adviser of the Master Fund and/or Distributors to reimburse them for all such expenses connected with attempting to collect such fees, including legal fees and expenses in that proportion of the compensation due to their employees which is attributable to the time involved in attempting to collect such fees.

The Investment Adviser of the Master Fund shall render regular reports to the Master Fund, not more frequently than quarterly, on how much total brokerage business has been placed by the Investment Adviser of the Master Fund, on behalf of the Master Fund, with brokers falling within each of the categories referred to above and the manner in which the allocation has been accomplished.

The Investment Adviser of the Master Fund agrees that no investment decision will be made or influenced by a desire to provide brokerage for allocation in accordance with the foregoing, and that the right to make such allocation of brokerage shall not interfere with the power and duty of the Investment Adviser of the Master Fund to obtain the best net price and execution for the Master Fund.

In the absence of wilful misfeasance, bad faith, gross negligence, or reckless disregard of obligations or duties under the Investment Management Agreement on the part of the Investment Adviser of the Master Fund, the Investment Adviser of the Master Fund shall not be subject to liability to the Master Fund or to any shareholder of the Master Fund for any act or omission in the course of, or connected with, rendering services under the Investment Management Agreement or for any losses that may be sustained in the purchase, holding or sale of any security by the Master Fund.

Notwithstanding the foregoing, the Investment Adviser of the Master Fund agrees to reimburse the Master Fund for any and all costs, expenses and counsel and trustees' fees reasonably incurred by the Master Fund in the preparation, printing and distribution of proxy statements, amendments to its registration statement, holdings of meeting of its shareholders or trustees, the conduct of factual investigations, any legal or administrative proceedings (including any applications for exemptions or determinations by the SEC) which the Master Fund incurs as a result of action or inaction of the Investment Adviser of the Master Fund or any of its affiliates or any of their officers, directors, employees or stockholders where the action or inaction necessitating such expenditures (i) is directly or indirectly related to any transactions or proposed transactions in the stock or control of the Investment Adviser of the Master Fund or its affiliates (or litigation related to any pending or proposed or future transaction in such shares or control) which shall have been undertaken without the prior, express approval of the Master Fund Board; or, (ii) is within the control of the Investment Adviser of the Master Fund or any of its affiliates or any of their officers, directors, employees or stockholders. The Investment Adviser of the Master Fund shall not be obligated to reimburse the Master Fund for any expenditures related to the institution of an administrative proceeding or civil litigation by the Master Fund or a shareholder of the Master Fund seeking to recover all or a portion of the proceeds derived by any stockholder of the Investment Adviser of the Master Fund or any of its affiliates from the sale of his shares of the



Investment Adviser of the Master Fund, or similar matters. So long as the Investment Management Agreement is in effect, the Investment Adviser of the Master Fund shall pay to the Master Fund the amount due for expenses within thirty (30) days after a bill or statement has been received by the Investment Adviser of the Master Fund therefor. This provision shall not be deemed to be a waiver of any claim the Master Fund may have or may assert against the Investment Adviser of the Master Fund or others for costs, expenses or damages hereto incurred by the Master Fund or for costs, expenses or damages the Master Fund may hereafter incur which are not reimbursable to it under the Investment Management Agreement.

The Investment Management Agreement became effective on the 1 March 2015 and shall continue in effect thereafter for periods not exceeding one (1) year so long as such continuation is approved at least annually (i) by a majority of the outstanding voting securities of the Master Fund or by a vote of the Master Fund Board, and (ii) by a vote of a majority of the Master Fund Board who are not parties to the Investment Management Agreement (other than as Trustees of the Trust), cast in person at a meeting called for the purpose of voting on the Investment Management Agreement.

The Investment Management Agreement: (i) may be terminated without payment of any penalty either by vote of the Master Fund Board or by a vote of a majority of the outstanding voting securities of the Master Fund on sixty (60) days' written notice to the Investment Adviser of the Master Fund; (ii) shall immediately terminate with respect to the Master Fund in the event of an assignment; and (iii) may be terminated by the Investment Adviser of the Master Fund on sixty (60) days' written notice to the Master Fund. The terms "assignment", "interested person" and "vote of a majority of the outstanding voting securities" shall have the meanings set forth for any such terms in the 1940 Act. Any notice under the Investment Management Agreement shall be given in writing addressed and delivered, or mailed post-paid, to the other party at any office of such party. Unless otherwise agreed by the Investment Adviser of the Master Fund, upon termination of the Investment Advisory Agreement, the Master Fund shall cease to use the "Franklin" name and logo.

### **The Administrator**

The Company has appointed J.P. Morgan Administration Services (Ireland) Limited to act as administrator and registrar and transfer agent to the Company and will provide accounting, NAV calculation, fund administration and transfer agency services to the Company.

The Administration Agreement between the Company and the Administrator dated 31 July 2009 as amended on 17 July 2014 and as may be further amended from time to time (the "Administration Agreement") was in force for an initial term of two years and automatically renewed for an indefinite term thereafter, unless and until terminated by either party thereto on three months' notice in writing to the other party.

In addition, either party may terminate the Administration Agreement immediately upon written notice to the other party (a) if the other party is declared insolvent, enters into a composition with creditors, obtains a suspension of payment, is put under court controlled management or is the subject of a similar measure; (b) if the other party has its authorisation withdrawn by the Central Bank or any other competent supervisory authority; (c) if the other party commits any material breach of the Administration Agreement and fails to remedy such breach (if capable of remedy) within thirty days of being given written notice of the material breach, unless the parties agree to extend the period to remedy the breach or (d) in certain other circumstances set out in the Administration Agreement.

Under the Administration Agreement, the Administrator will not be liable for any loss or damage suffered by the Company with respect to any matter as to which the Administrator has satisfied its obligation of reasonable care unless the same results from an act of negligence, fraud, wilful default or material breach of the Administration Agreement on the part of the Administrator. The Company has agreed to indemnify the Administrator (and its affiliates and nominees, and their respective directors, officers, employees and agents) against, and hold them harmless from, any liabilities, losses, claims, costs, damages, penalties, fines, obligations, or expenses of any kind whatsoever (including, without limitation, reasonable attorneys', accountants', consultants' or experts' fees and disbursements) that may be imposed on, incurred by or asserted against the Administrator (or its affiliates and nominees, and their respective directors, officers, employees and agents) in connection with or arising out of the Administrator's performance under the Administration Agreement, provided the Administrator (and its

affiliates and nominees, and their respective directors, officers, employees and agents) have not acted with negligence or engaged in fraud, material breach of the Administration Agreement or wilful default in connection with the liabilities in question.

The Administration Agreement is governed by the laws of Ireland and Irish courts shall have non-exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Administration Agreement.

### **The Administrator Of The Master Fund**

The Investment Adviser of the Master Fund has subcontracted with Franklin Templeton Services, LLC., (“FT Services”) (the “Administrator of the Master Fund”) to assist the Investment Adviser of the Master Fund in fulfilling certain of its obligations pursuant to a subcontract for fund administrative services dated 1 May 2014 between the Master Fund and the Administrator of the Master Fund, as may be further amended from time to time (the “Master Administration Subcontract”).

The Administrator of the Master Fund assists the Investment Adviser of the Master Fund in fulfilling its obligations under the Investment Management Agreement to provide certain administrative services and facilities for the Master Fund. These include preparing and maintaining books, records and tax and financial reports and monitoring compliance with regulatory requirements.

The Master Administration Subcontract will terminate immediately upon the termination of the Investment Management Agreement and, in addition, may be terminated by either the Investment Adviser of the Master Fund or the Administrator of the Master Fund on sixty (60) days’ written notice without payment of penalty.

In the absence of wilful misfeasance, bad faith or gross negligence on the part of the Administrator of the Master Fund, or of reckless disregard of its duties and obligations hereunder, the Administrator shall not be subject to liability for any act or omission in the course of, or connected with, rendering services hereunder.

Franklin Templeton Investor Services, LLC., (“Investor Services”) is the Master Fund’s shareholder servicing agent and acts as the Master Fund’s transfer agent and dividend-paying agent.

### **The Depositary**

The Company has appointed J.P. Morgan SE – Dublin Branch (the “Depositary”) to act as depositary of all of the Company’s assets pursuant to an amended and restated Depositary and Custodian Agreement dated 17 July 2014 between the Company, the AIFM and the Depositary, as may be further amended from time to time (the “Depositary Agreement”).

J.P. Morgan SE is a European Company (Societas Europaea) organized under the laws of Germany, having its registered office at Taunustor 1 (TaunusTurm), 60310 Frankfurt am Main, Germany and is registered with the commercial register of the local court of Frankfurt. It is a credit institution subject to direct prudential supervision by the European Central Bank (ECB), the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and Deutsche Bundesbank, the German Central Bank; J.P. Morgan SE, - Dublin Branch is authorized by the Central Bank to act as depositary and is licensed to engage in all banking operations under the laws of Ireland. Its business activities include the provision of custody and banking services, corporate finance and agency treasury management services. The ultimate parent company of the Depositary is JPMorgan Chase & Co. incorporated in Delaware, U.S.A.

The Depositary Agreement is governed by the laws of Ireland and Irish courts shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Depositary Agreement.

The Depositary Agreement contains provisions governing the responsibilities of the Depositary, including its primary responsibilities which are acting as depositary and ensuring the safekeeping of the cash and assets of the Company. The Depositary is obliged to enquire into the conduct of the Company in each financial year and to report thereon to the Shareholders whether in the Depositary’s opinion the Company has been managed in accordance with the limitations imposed on the investment and

borrowing powers of the Company by the Central Bank under the powers granted to the Central Bank under the Act and otherwise in accordance with the provisions of the Articles and the Act.

Under the Act and the Depositary Agreement the Depositary must exercise due care and diligence in the discharge of its duties and shall be liable to the Company and the Shareholders for any loss arising from the Depositary's negligence or its intentional failure to properly fulfil its obligations pursuant to the AIFMD. The Depositary shall not be liable to the Company or any other person if it can prove that the loss of financial instruments held in custody has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary pursuant to the AIFMD. The Depositary must maintain an appropriate level of supervision over the safekeeping agent and make appropriate enquiries from time to time to confirm that the obligations of the agent continue to be competently discharged. The Depositary may, with the prior written consent of the Company, discharge itself of liability in certain circumstances as provided in the Depositary Agreement. The Depositary has not currently contractually discharged itself of liability in accordance with the AIFMD Regulations. The AIFM will inform investors before they invest in the Company of any arrangement made by the Depositary to contractually discharge itself of any liability. The AIFM will also inform Shareholders of any changes with respect to the Depositary's liability without delay. The Company has agreed under the Depositary Agreement to hold harmless and indemnify the Depositary against all loss, liability, claims and demands arising from the communication of proper instructions reasonably and in good faith by facsimile, orally or by any other means of communication, including any failure to confirm the oral instructions received or for any failure of the confirmation to conform with the said oral instructions. The Company have undertaken to hold harmless and indemnify the Depositary against all actions, proceedings and claims (including claims of any person purporting to be the beneficial owner of any part of the relevant assets) and against all costs, demands and expenses (including legal and professional expenses) arising therefrom which may be brought against, suffered or incurred by the Depositary by reason of the performance of the Depositary's duties under the terms of the Depositary Agreement save where any such actions, proceedings, claims, costs, demands or expenses arise as a result of the Depositary's negligence, fraud or wilful default in the performance of its duties or the loss of financial instruments held in custody. The Depositary shall be kept indemnified by and shall be without liability to the Company for any obligations including taxes, withholding and reporting requirements, claims for exemption or refund, additions for late payment, interest, penalties and other expenses (including legal expenses) that may be assessed against the Company or the Depositary as Depositary of the Company.

For the avoidance of doubt and notwithstanding the provisions of the Depositary Agreement, for such time as the Company remains authorised by the SFC, the Depositary shall (i) exercise reasonable care and diligence in the selection, appointment and ongoing monitoring of its nominees, agents and delegates; and (ii) be satisfied that the nominees, agents and delegates retained remain suitably qualified and competent to provide the relevant service.

The Depositary Agreement shall continue in force and may be terminated by either of the parties on giving ninety days prior written notice to the other parties. Either party may also terminate the Depositary Agreement by notice in writing to the other parties if (i) the party notified shall go into liquidation, or be the subject of a court order for its winding up; be the subject of an effective resolution for its winding up except in relation to a voluntary winding up for the purposes of reconstruction or amalgamation upon terms previously approved in writing by the other party; be unable to pay its debts as they fall due or otherwise become insolvent or enter into composition or arrangement with or for the benefit of its creditors or any class thereof; (ii) the party is the subject of an involuntary order for the transfer of all or part of its business by a statutory authority; (iii) have any of its issued shares suspended from trading on any exchange on which they are issued (if applicable); (iv) the party notified shall commit any material breach of the provisions of the Depositary Agreement and shall not have remedied that within thirty days after the service of written notice requiring it to be remedied; or (v) the authorisation of the AIFM, Depositary or the Company has been revoked by the relevant authority; or the AIFM ceases to be the manager of the Company without the consent of the Depositary or ceases to be qualified to act as such under the AIFMD Regulations.

The Company may not terminate the appointment of the Depositary and the Depositary may not retire from such appointment unless and until a successor custodian and depositary shall have been appointed in accordance with the Articles and the Act and approved by the Central Bank. If the Depositary shall have given to the Company notice of its desire to retire from its appointment or the

appointment of the Depositary is terminated pursuant to the terms of the Depositary Agreement and no successor shall have been appointed in accordance with the Articles within ninety days or such other period as may be agreed between the parties from the giving of such notice to the Company, the Company shall redeem all outstanding Shares or appoint a liquidator who shall wind up the Company and shall apply, thereafter, to the Central Bank to revoke the authorisation of the Company. The Depositary's appointment shall not terminate until such revocation.

The Depositary's duties include, amongst others, the following:

- (i) ensuring that the Company's cash flows are properly monitored, and that all payments made by or on behalf of investors upon the subscription of Shares have been received;
- (ii) safekeeping the assets of the Company, which includes (a) holding in custody all financial instruments that can be registered in a financial instrument account opened in the Depositary's books and all financial instruments that can be physically delivered to the Depositary; and (b) for other assets, verifying the ownership of such assets and maintaining a record accordingly (the "Safekeeping Function");
- (iii) ensuring that the sale, issue, re-purchase, redemption and cancellation of Shares are carried out in accordance with applicable Irish law and the Articles;
- (iv) ensuring that the value of the Shares is calculated in accordance with the applicable laws and the Articles;
- (v) carrying out the instructions of the Company and the AIFM, unless they conflict with the applicable Irish law or the Articles;
- (vi) ensuring that in transactions involving the Company's assets any consideration is remitted to the Company within the usual time limits; and
- (vii) ensuring that the Company's income is applied in accordance with the applicable Irish law and the Articles.

The Depositary will comply with applicable laws, including the provisions of the AIFMD that relate to depositary roles and responsibilities in relation to the Company.

The Depositary may enter into written agreements delegating the performance of its Safekeeping Function in respect of certain investments. The liability of the Depositary will not be affected by the fact that it has entrusted the Safekeeping Function to a third party.

### **The Custodian Of The Master Fund**

The Master Fund has appointed JPMorgan Chase Bank, National Association, at its principal office at 270 Park Avenue, New York, NY 10017-2070, and at the offices of its branches and agencies throughout the world (the "Custodian of the Master Fund") to act, effective 10 July 2023, as Custodian of all of the Master Fund's assets pursuant to a Master Custody Agreement dated 1 March 2020, as amended, between the Master Fund and JPMorgan Chase Bank, National Association (the "Master Custodian Agreement"), including cash denominated in U.S. dollars or foreign currency ("cash"), securities the Master Fund desires to be held within the United States ("Domestic Securities") and securities it desires to be held outside the United States ("Foreign Securities").

The Custodian of the Master Fund shall hold and physically segregate from any property owned by the Custodian, for the account of the Master Fund, all non-cash property delivered by the Master Fund to the Custodian other than securities which are held through a registered clearing agency, a registered securities depository, the Federal Reserve's book-entry securities system or held by a sub-custodian or in a foreign securities depository appointed by the Custodian of the Master Fund or a duly appointed delegate of the Custodian of the Master Fund. The assets segregated by the Custodian of the Master Fund, for the account of the Master Fund, will not be available to the Custodian of the Master Fund or its creditors in the event of insolvency.

The Custodian of the Master Fund shall open and maintain a separate bank account for the Master Fund subject only to draft or order by the Custodian acting pursuant to the terms of the Master Custodian Agreement and shall hold in such account or accounts all cash received by it hereunder from or for the account of the Master Fund.

The Custodian of the Master Fund shall be responsible for the performance of only such duties as are set forth in the Master Custodian Agreement or contained in proper instructions and shall use reasonable care in carrying out such duties. The Custodian of the Master Fund shall be liable to the Master Fund for any loss which shall occur as a result of failure of any sub-custodian engaged directly or indirectly by the Master Fund Custodian to exercise reasonable care with respect to the safe-keeping of securities and other assets of the Master Fund to the same extent that the Custodian of the Master Fund would be liable to the Master Fund if the Custodian of the Master Fund itself were holding such securities and other assets. Nothing in the Master Custodian Agreement shall be read to limit the responsibility or liability of the Master Fund Custodian or a sub-custodian for their failure to exercise reasonable care with regard to any decision or recommendation made by the Master Fund Custodian or sub-custodian regarding the use or continued use of Foreign Securities Depositories or Clearing Agencies (each a "Foreign Securities Depository") appointed by the Custodian of the Master Fund or duly appointed delegate of the Custodian of the Master Fund. In the event of any loss to the Master Fund by reason of the failure of the Master Fund Custodian or a sub-custodian to utilize reasonable care, the Master Custodian shall be liable to the Master Fund to the extent of the Master Fund's damages, to be determined based on the market value of the property which is the subject of the loss at the date of discovery of such loss and without reference to any special conditions or circumstances. The Master Custodian shall be held to the exercise of reasonable care in carrying out the Master Custodian Agreement, and shall not be liable for acts or omissions unless the same constitute negligence or wilful misconduct on the part of the Custodian of the Master Fund or any sub-custodian engaged directly or indirectly by the Custodian of the Master Fund. The Master Fund agrees to indemnify and hold harmless the Custodian of the Master Fund and its nominees from all taxes, charges, expenses, assessments, claims and liabilities (including legal fees and expenses) incurred by the Custodian of the Master Fund or its nominees in connection with the performance of the Master Custodian Agreement with respect to the Master Fund, except such as may arise from any negligent action, negligent failure to act or wilful misconduct on the part of the Custodian of the Master Fund or any sub-custodian. The Custodian of the Master Fund shall be entitled to rely, and may act, on advice of counsel (who may be counsel for the Master Fund) on all matters and shall be without liability for any action reasonably taken or omitted pursuant to such advice. The Custodian of the Master Fund need not maintain any insurance for the benefit of the Master Fund.

The Master Custodian Agreement may be terminated by the Master Fund or by the Custodian of the Master Fund by ninety days' notice in writing to the other, provided that any termination by the Master Fund shall be authorized by a resolution of the Master Fund Board, a certified copy of which shall accompany such notice of termination; and provided further, that such resolution shall specify the names of the persons to whom the Custodian of the Master Fund shall deliver the assets of the Master Fund held by the Custodian of the Master Fund. If notice of termination is given by the Custodian of the Master Fund, the Master Fund shall, within ninety days following the giving of such notice, deliver to the Custodian of the Master Fund a certified copy of the resolution of the Master Fund Board specifying the names of the persons to whom the Custodian of the Master Fund shall deliver assets of the Master Fund held by the Custodian of the Master Fund. In either case the Custodian of the Master Fund will deliver such assets to the persons so specified, after deducting therefrom any amounts which the Custodian of the Master Fund determines to be owed to it (including all costs and expenses of delivery or transfer of Master Fund assets to the persons so specified). If within ninety days following the giving of a notice of termination by the Custodian of the Master Fund, the Custodian of the Master Fund does not receive from the Master Fund a certified copy of the resolution of the Master Fund Board specifying the names of the persons to whom the Custodian of the Master Fund shall deliver the assets of the Master Fund held by the Custodian of the Master Fund, the Custodian of the Master Fund, at its election, may deliver such assets to a bank or trust company doing business in the State of California to be held and disposed of pursuant to the provisions of the Master Custodian Agreement or may continue to hold such assets until a certified copy of the resolution as aforesaid is delivered to the Custodian of the Master Fund. The obligations of the parties regarding the use of reasonable care, indemnities and payment of fees and expenses shall survive the termination of the Master Custodian Agreement.

The Master Fund Custodian may appoint other entities to hold assets of the Master Fund (“sub-custodians”), provided that it will exercise reasonable skill, care and diligence in the selection of suitable sub-custodians and shall be responsible to the Master Fund for the duration of any sub-custody agreement for satisfying itself as to the ongoing suitability of the sub-custodian to provide custody services to the Master Fund. The Master Fund Custodian will maintain an appropriate level of supervision over any sub-custodian and will make appropriate enquiries, periodically, to confirm that the obligations of the sub-custodian continue to be completely discharged. If the Custodian of the Master Fund fulfils such responsibility, the Master Fund Custodian will not be responsible for loss of any assets held by any sub-custodian.

The Master Fund may invest in markets where custodial/settlement systems are not fully developed, the assets of the Master Fund which are traded in such markets and which have been entrusted to sub-custodians, in circumstances where the use of such sub-custodians is necessary. In such circumstances the Master Fund’s asset may be exposed to risk in circumstances where the Master Fund Custodian will have no liability. Prospective investors are referred to the section headed “Risk Factors”.

### **Distributor**

Franklin Templeton International Services S.à r.l, will also act as distributor to the Company subject to the provisions of the AIFM Agreement with responsibility for the marketing, distribution and selling of Shares.

### **Hong Kong Representative**

Hong Kong Representative - Franklin Templeton Investments (Asia) Limited represents the Company in Hong Kong generally in relation the affairs of the Company and the distribution of the Shares in Hong Kong. The Hong Kong Representative receives applications for the issue, redemption and switching of Shares of the Company from investors in Hong Kong and also deals with enquiries from Shareholders in Hong Kong. The remuneration that the Hong Kong Representative may receive shall not be paid out of the Company’s property.

### **Shareholder Services Agent**

The Company has also appointed Franklin Templeton International Services S.à r.l. to act as shareholder services agent to the Company.

The shareholder services agreement between the Company and the Shareholder Services Agent dated 23 February 2010 as may be amended from time to time (the “Shareholder Services Agreement”) was in effect for an initial term of two years (the “Initial Term”) and automatically renewed for an indefinite period of time following the end of the Initial Term unless and until it is terminated by either party through the provision of at least three months’ prior notice to the other party.

The shareholder services agreement is governed by the laws of Ireland and Irish courts shall have non-exclusive jurisdiction to settle any dispute which may arise out of or in connection with the shareholder services agreement.

### **Legal Advisers**

The legal advisers to the Company as to matters of Irish law are Matheson of 70 Sir John Rogerson’s Quay, Dublin 2, Ireland.

### **Auditors**

PricewaterhouseCoopers have consented to act as auditors to the Company. The Auditor’s responsibility is to audit and express an opinion on the financial statements of the Company in accordance with applicable law and auditing standards.

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## TAXATION

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The following is a summary of certain Irish and Hong Kong tax consequences of the purchase, ownership and disposal of Shares. The summary does not purport to be a comprehensive description of all of the Irish or Hong Kong tax considerations that may be relevant. Shareholders and potential investors are advised to consult their professional advisers concerning possible taxation or other consequences of purchasing, holding, selling, exchanging or otherwise disposing of Shares under the laws of their country of incorporation, establishment, citizenship, residence, ordinary residence or domicile.

The summary is based on the Irish and Hong Kong tax laws and the practice of the Irish Revenue Commissioners in effect on the date of this Prospectus (and is subject to any prospective or retroactive change). As is the case with any investment, there can be no guarantee that the tax position or proposed tax position at the time of an investment in the Company will not change.

### Taxation Of The Company

The Company intends to conduct its affairs so that it is Irish tax resident. On the basis that the Company is Irish tax resident, the Company qualifies as an 'investment undertaking' for Irish tax purposes and, consequently, is exempt from Irish corporation tax on its income and gains.

The Company will be obliged to account for Irish income tax to the Irish Revenue Commissioners if Shares are held by non-exempt Irish resident Shareholders (and in certain other circumstances), as described below. Explanations of the terms '*resident*' and '*ordinarily resident*' are set out at the end of this summary.

Distributions of income and capital gains on securities issued in countries other than Ireland may be subject to taxes including withholding taxes imposed by such countries. The Company may not be able to benefit from a reduction in the rate of withholding tax by virtue of the double taxation treaties in operation between Ireland and other countries. The Company may not therefore be able to reclaim withholding tax suffered by it in particular countries. If this position changes in the future and the application of a lower rate results in a repayment to the Company, the Net Asset Value of the Company will not be restated and the benefit will be allocated to the then-existing Shareholders rateably at the time of repayment.

The summary below is based on the assumption that the Company is not, and does not intend to be, an Irish real estate fund ("IREF") for Irish tax purposes and that accordingly the proposed new Chapter 1B of Part 27 of the TCA will not apply to the Company. By way of background, an IREF is an investment undertaking, or sub-fund of an investment undertaking, in which 25% or more of the value of the assets at the end of the immediately preceding accounting period is derived directly or indirectly from Irish real estate and related assets, or where it would be reasonable to consider that the main purpose or one of the main purposes of the investment undertaking, or sub-fund, was to acquire such assets or carry on an Irish real estate business.

### Taxation Of Non-Irish Shareholders

Where a Shareholder is not resident (or ordinarily resident) in Ireland for Irish tax purposes, the Company will not deduct any Irish tax in respect of the Shareholder's Shares once the declaration set out in the application form has been received by the Company confirming the Shareholder's non-resident status. The declaration may be provided by an Intermediary who holds Shares on behalf of investors who are not resident (or ordinarily resident) in Ireland, provided that, to the best of the Intermediary's knowledge, the investors are not resident (or ordinarily resident) in Ireland. An explanation of the term '*Intermediary*' is set out at the end of this summary.

If this declaration is not received by the Company, the Company will deduct Irish tax in respect of the Shareholder's Shares as if the Shareholder was a non-exempt Irish resident Shareholder (see below). The Company will also deduct Irish tax if the Company has information which reasonably suggests that a Shareholder's declaration is incorrect. A Shareholder will generally have no entitlement to recover such Irish tax, unless the Shareholder is a company and holds the Shares through an Irish branch and

in certain other limited circumstances. The Company must be informed if a Shareholder becomes Irish tax resident.

Generally, Shareholders who are not Irish tax resident will have no other Irish tax liability with respect to their Shares. However, if a Shareholder is a company which holds its Shares through an Irish branch or agency, the Shareholder may be liable to Irish corporation tax in respect of profits and gains arising in respect of the Shares (on a self-assessment basis).

### **Stamp Duty**

No Irish stamp duty (or other Irish transfer tax) will apply to the issue, transfer or redemption of Shares. If a Shareholder receives a distribution *in specie* of assets from the Company, a charge to Irish stamp duty could potentially arise.

### **Gift And Inheritance Tax**

Irish capital acquisitions tax (at a rate of 33%) can apply to gifts or inheritances of Irish situate assets or where either the person from whom the gift or inheritance is taken is Irish domiciled, resident or ordinarily resident or the person taking the gift or inheritance is Irish resident or ordinarily resident.

The Shares could be treated as Irish situate assets because they have been issued by an Irish company. However, any gift or inheritance of Shares will be exempt from Irish gift or inheritance tax once:

1. the Shares are comprised in the gift or inheritance both at the date of the gift or inheritance and at the 'valuation date' (as defined for Irish capital acquisitions tax purposes);
2. the person from whom the gift or inheritance is taken is neither domiciled nor ordinarily resident in Ireland at the date of the disposition; and
3. the person taking the gift or inheritance is neither domiciled nor ordinarily resident in Ireland at the date of the gift or inheritance.

### **OECD Common Reporting Standard**

The automatic exchange of information regime known as the "Common Reporting Standard" developed by the Organisation for Economic Co-operation and Development applies in Ireland. Under this regime, the Company is required to report information to the Irish Revenue Commissioners relating to all Shareholders, including the identity, residence and tax identification number of Shareholders and details as to the amount of income and sale or redemption proceeds received by Shareholders in respect of the Shares. This information may then be shared by the Irish Revenue Commissioners with tax authorities in other EU member states and other jurisdictions which implement the OECD Common Reporting Standard.

The OECD Common Reporting Standard replaces the previous European information reporting regime in respect of savings income under Directive 2003/48/EC (commonly known as the EU Savings Directive regime).

### **Meaning Of Terms**

#### *Meaning of 'residence' for companies*

A company which has its central management and control in Ireland is tax resident in Ireland irrespective of where it is incorporated. A company which does not have its central management and control in Ireland but is incorporated in Ireland is tax resident in Ireland except where the company is regarded as not resident in Ireland under a double taxation treaty between Ireland and another country.



### *Meaning of 'residence' for individuals*

An individual will be regarded as being tax resident in Ireland for a calendar year if the individual:

1. spends 183 days or more in Ireland in that calendar year; or
2. has a combined presence of 280 days in Ireland, taking into account the number of days spent in Ireland in that calendar year together with the number of days spent in Ireland in the preceding year. Presence in Ireland by an individual of not more than 30 days in a calendar year will not be reckoned for the purposes of applying this 'two year' test.

An individual is treated as present in Ireland for a day if that individual is personally present in Ireland at any time during that day.

### *Meaning of 'ordinary residence' for individuals*

The term 'ordinary residence' (as distinct from 'residence') relates to a person's normal pattern of life and denotes residence in a place with some degree of continuity. An individual who has been resident in Ireland for three consecutive tax years becomes ordinarily resident with effect from the commencement of the fourth tax year. An individual who has been ordinarily resident in Ireland ceases to be ordinarily resident at the end of the third consecutive tax year in which the individual is not resident. For example, an individual who is resident and ordinarily resident in Ireland in 2023 and departs Ireland in that year will remain ordinarily resident in Ireland up to the end of the tax year in 2026.

### *Meaning of 'intermediary'*

An 'intermediary' means a person who:

1. carries on a business which consists of, or includes, the receipt of payments from a regulated investment undertaking resident in Ireland on behalf of other persons; or
2. holds units in such an investment undertaking on behalf of other persons.

## **MASTER FUND**

### *Taxation of the Master Fund*

#### **DISREGARDED ENTITY TAX STATUS**

The Master Fund should be treated as a disregarded entity for U.S. federal income tax purposes based on the Master Fund's organisational documents and the manner in which it intends to operate. The Master Fund will not be a "regulated Investment Company."

#### **TAXATION OF DISREGARDED ENTITY OPERATIONS GENERALLY**

As a disregarded entity, the Master Fund is disregarded as an entity separate from its sole shareholder and is treated as a division or branch of the sole shareholder. The shareholder is treated as owning the Master Fund's assets directly for U.S. federal income tax purposes. If, contrary to expectations, the Master Fund admits one or more additional shareholders so that it has two or more shareholders, the Master Fund would convert to an entity taxable as a new partnership for U.S. federal income tax purposes.

#### **ALLOCATION OF DISREGARDED ENTITY INCOME, GAINS AND LOSSES**

As a disregarded entity, the Master Fund is not subject to U.S. federal income tax. Instead, its sole shareholder reports separately on its own income tax return the Master Fund's income, gains, losses, deductions and credits as such items are realised (including foreign tax credits or deductions for creditable or deductible foreign taxes imposed on the Master Fund).

## ***DISTRIBUTIONS BY THE MASTER FUND; REDEMPTIONS***

Cash distributions by the Master Fund to its sole shareholder are a non-event for U.S. federal income tax purposes and, therefore, result in no income or gain to its sole shareholder. The redemption by the sole shareholder of Master Fund shares is a non-event for U.S. federal income tax purposes and, therefore, results in no income or gain to its sole shareholder.

## **HONG KONG**

### **The Company**

As the Company has been authorised by the SFC, profits of the Company arising from sale or disposal of securities, interest received by or accruing to the Company and certain other profits of the Company (including those under foreign exchange contracts and certain futures contracts) are exempt from Hong Kong profits tax. It is not expected that any other significant profits arising from the activities of the Company will be subject to Hong Kong profits tax.

### **Shareholders**

Shareholders will not be subject to any Hong Kong tax on distributions from the Company or on capital gains realised on the sale of any shares in the Company. If the acquisition and realisation of shares in the Company is or forms part of a trade, profession or business carried on in Hong Kong, gains realised by the relevant shareholders may attract Hong Kong profits tax. Shares will not attract Hong Kong estate duty and no Hong Kong stamp duty will be payable on the issue or transfer of shares in the Company.

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## FEES AND EXPENSES

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### **Fees Of The Master Fund**

As an investor in the Master Fund, the Company will be indirectly subject to all of the fees of the Master Fund as set out below in the section headed "Fees Chargeable By The Master Fund".

### **Investment Management Fees**

The Investment Adviser of the Master Fund has agreed to waive any preliminary charge/initial charge that it may otherwise be entitled to receive in respect of any investment made by the Company in the Master Fund. If the AIFM or Investment Manager receives any commission by virtue of an investment in the Master Fund, such commission will be paid into the assets of the Company. The AIFM/Investment Manager may from time to time pay a part of its investment management fee to various sub-distributors, intermediaries, dealers and/or professional investors as compensation for rendering shareholder services to their respective clients.

### **Administration Fees**

The Company will pay the Administrator a fee of up to 0.60% per annum of the average daily Net Asset Value of the Company in respect of the provision of accounting, NAV calculation, fund administration, transfer agency and shareholder services to the Company. These fees shall be accrued daily and paid monthly in arrears.

The Administrator shall also be entitled to be reimbursed by the Company for all reasonable fees, disbursements and customary, extraordinary or out-of-pocket expenses incurred by it in connection with the ongoing business of the Company and the execution of its duties under the Administration Agreement.

### **Depositary Fees**

The Company will pay to the Depositary a fee of up to 0.025% per annum of the average daily Net Asset Value of the Company for the provision of safekeeping, settlement and trustee services for the Company. These fees shall be accrued daily and paid monthly in arrears. The Depositary shall pay any sub-custodian fee out of the depositary fee.

The Depositary shall also be entitled to reimbursement by the Company of transaction charges and reasonable out-of-pocket expenses incurred for the benefit of the Company. The Company shall also bear the cost of any value added tax applicable to any fees or other amounts payable to the Depositary in relation to the Company. At the date of this Prospectus it is not envisaged that any such value added tax shall be payable.

In the event of the retirement of the Depositary, such retirement shall take effect at the same time as the new Depositary takes up office.

### **AIFM Fees**

The Company will pay to the AIFM a fee of 0.06% per annum of the average daily Net Asset Value of the Company for the provision of management company and principal distribution services.

### **Distribution Fees**

In addition to the AIFM fee of 0.06% per annum above to which it is entitled under the AIFM Agreement, the Distributor shall also be entitled to reimbursement by the Company for all reasonable and vouched out-of-pocket expenses incurred by it for the benefit of the Company in the performance of its distribution duties under the AIFM Agreement.

## Sales Charges And Shareholder Maintenance Fees

No sales charge or commission is payable to any party in respect of investments by the Company in the Master Fund.

The Board of Directors or the Distributor may from time to time waive or vary the sales charges applicable to any class of Shares.

### ***Class A Shares (including Class A Alternative Currency Class Shares)***

Class A Shares may either be distribution Shares (Class A (dis) Shares, Class A (dis) EUR-H1 Shares, Class A (dis) HKD Shares, Class A (dis) RMB-H1 Shares and Class A (dis) SGD-H1 Shares) or accumulation Shares (Class A (acc) Shares). As noted under the section headed “Dividend Distribution Policy of the Company” no distribution of dividends will be made in respect of Class A (acc) Shares but the net investment income received by the Company by way of distribution from the Master Fund attributable to Class A (acc) Shares will be reflected in the increased value of the Shares. All other terms and conditions applicable to Class A (acc) Shares are the same as those which apply for Class A (dis) Shares.

### **Initial Sales Charge**

Class A Shares will be offered at the applicable Net Asset Value plus an initial sales charge of up to 5% of the total amount invested payable to the Distributor.

### **Shareholder Maintenance Fee**

In addition, a shareholder maintenance fee of up to 0.30% per annum of the applicable average Net Asset Value of the Company attributable to Class A Shares is deducted and paid to the Distributor (or such other person as the Distributor may from time to time appoint to defray shareholder servicing costs incurred by the Distributor), in respect of the provision of services to investors on an on-going basis, including assistance in purchasing, redeeming or exchanging Class A Shares, the provision of information in relation to the Company and any other assistance as may be requested by the investors.

### **Fees Chargeable By The Master Fund**

The Investment Adviser and the Administrator of the Master Fund may waive all or a portion of their fees. However, they will not recoup the amounts waived in the previous financial period in a subsequent financial period.

The Master Fund imposes the following annual fund operating expenses (as a percentage of net assets attributable to Common Shares):

| <b>Average daily net assets of the Master Fund for the relevant period (in US dollars)</b> | <b>Investment Adviser’s fee (as a percentage of the average daily net assets of the Master Fund)</b> |
|--|--|
| Up to \$2.5 billion  | 0.53%  |
| Over \$2.5 billion up to \$6.5 billion   | 0.45%  |
| Over \$6.5 billion up to \$11.5 billion  | 0.43%  |
| Over \$11.5 billion up to \$16.5 billion   | 0.40%  |
| Over \$16.5 billion up to \$19 billion   | 0.39%  |
| Over \$19 billion up to \$21.5 billion   | 0.38%  |
| Over \$21.5 billion  | 0.37%  |

Administration Fees: The Investment Adviser is responsible for paying the Administrator of the Master Fund out of its own investment management fee and not out of the assets of the Master Fund.

Custodian Fees: 0.001%

The Custodian of the Master Fund may appoint sub-custodians who will receive fees at normal commercial rates.

### **Redemption Fees**

No redemption fee is payable in respect of the redemption of Common Shares by the Company in the Master Fund.

### **Establishment And Operating Expenses**

The Company will also pay certain other costs and expenses incurred in its operation, including without limitation, withholding taxes that may arise on its investments, registration fees and other expenses due to regulatory, supervisory or fiscal authorities in various jurisdictions, insurance, interest, custodial, brokerage costs and all professional and other fees and expenses in connection therewith and the cost of publication of the Net Asset Value of the Shares.

Under the Articles, the Directors are entitled to a fee in remuneration for their services at a rate to be determined from time to time by the Directors, but so that the aggregate amount of Directors' remuneration in any one year shall not exceed USD50,000 unless otherwise approved by Shareholders. The Directors and any alternate Directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any other meetings in connection with the business of the Company.

### **Cash Rebates And Soft Commissions**

Neither the Investment Manager nor any of its connected persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions to them.

The Investment Manager and any of its connected or associated persons may effect transactions by or through the agency of another person with whom the Investment Manager or any of its connected persons have an arrangement under which that party will from time to time provide to, or procure for, the Investment Manager or any of its connected persons, goods, services or other benefits: for example, research and advisory services, computer hardware associated with specialised software or research services and performance measures etc., the nature of which is such that their provision can reasonably be expected to benefit the Company as a whole and may contribute to an improvement in the Company's performance and that of the Investment Manager or any of its connected persons in providing services to the Company and for which no direct payment is made but instead the Investment Manager or any of its connected persons undertake to place business with that party. Those goods and services do not include travel accommodation, entertainment, general administrative goods and services, general office equipment or premises, membership fees, employee salaries or direct money payments. Details of soft commission arrangements will be disclosed in the Company's accounts.

### **Conflicts Of Interest**

The AIFM, the Custodian, the Administrator and the Investment Manager may from time to time act as manager, registrar, administrator, trustee, custodian, investment manager, adviser or distributor in relation to, or be otherwise involved in, other funds or collective investment schemes which have similar investment objectives to those of the Company. It is, therefore, possible that any of them may, in the due course of their business, have potential conflicts of interests with the Company. Each will at all times have regard in such event to its obligations under the Memorandum and Articles of Association of the Company and/or any agreements to which it is party or by which it is bound in relation to the Company and, in particular, but without limitation to its obligations to act in the best interests of the Shareholders when undertaking any investments where conflicts of interest may arise, will endeavour to ensure that such conflicts are resolved fairly and, in particular, the Investment Manager has agreed to act in a manner which it in good faith considers fair and equitable in allocating investment opportunities to the Company.

The Directors of the Company shall not deal with the Company as principals and the trustees of the Master Fund shall not deal with the Master Fund as principals.

Cash forming part of the property of the assets of the Company and the Master Fund may be placed as deposits with the Depository or with any connected person or with the Investment Manager or with any connected persons of these companies (being an institution licensed to accept deposits) so long as such cash deposits shall be maintained in a manner that is in the best interests of Shareholders, having regard to the prevailing commercial rate for a deposit of similar type and term negotiated at arm's length in accordance with ordinary and normal course of business.

Borrowings may be made from the Depository, Investment Manager, or the Company or any of their connected persons (being a bank) so long as that bank charges interest at no higher rate, and any fee for arranging or terminating the loan is of no greater amount than is in accordance with normal banking practice, the commercial rate for a loan of the size and nature of the loan in question negotiated at arm's length. Any transactions between the Company and the Investment Manager, directors of the Company or any of their connected persons as principal may only be made with the prior written consent of the Depository. All transactions carried out by or on behalf of the Company must be at arm's length and executed on the best available terms. Transactions with persons connected to the Investment Manager or directors of the Company may not be account for more than 50% of the Company's transactions in value in any one financial year of the Company.

The Articles provide that the Administrator may accept the estimate of the AIFM or an external valuer with the approval of the Custodian, when determining the probable realisation value of unlisted securities. The Administrator may accept an estimate provided by the AIFM or the Investment Manager or any other affiliate of the AIFM for these purposes and investors should be aware that in these circumstances a possible conflict of interest may arise as the higher the estimated probable realisation value of the securities the higher the fees payable to the Investment Manager.

There is nothing to prevent the Custodian or its associates from dealing as principal in the sale or purchase of assets to or from the Company, or from acting as custodian and /or trustee in any other capacity for other clients or from buying, holding and dealing in any assets for its own account or for the account of any client notwithstanding that similar or the same assets may be held or dealt in by or for the account of the Company. The Custodian shall not be deemed to be affected by notice of or to be under any duty to disclose to the Company, information which has come to its or its associates' possession as a result of any such arrangements. Neither the Custodian nor any of its associates shall be liable to account to the Company for any profits or advancements made or derived by or in connection with any such transaction. However, any such transactions must be carried out as if effected on normal commercial terms negotiated at arm's length and in the best interest of Shareholders. Transactions permitted are subject to (a) certified valuation by a person approved by the Custodian as independent and competent; (b) execution on best terms on organised investment exchanges under their rules; or (c) where (a) and (b) are not practical, execution on terms which the Custodian is satisfied conform to the principles of execution on normal commercial terms negotiated at arm's length. The

above requirements shall not apply in relation to transactions entered into by the Company and the Master Fund (save that any such transactions must be executed on terms which the Investment Manager is satisfied are on normal commercial terms).

The Custodian may hold funds for the Company subject to the provisions of the Central Banks Act 1942 to 1998, as amended.

Save as disclosed in the section headed "Directors", no director is materially interested in any transaction or arrangement with the Company or in which the Company is interested. A Director may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is interested provided that he has disclosed to the Directors prior to the conclusion of any such transaction or arrangement the nature and extent of any material interest of his therein. Unless the Directors determine otherwise, a Director may not vote in respect of any contract or arrangement or any proposal whatsoever in which he has a material interest. At the date of this Prospectus no Director or any connected person of any Director has any interest, beneficial or non-beneficial, in the share capital of the Company or any material interest in the Company or in any agreement or arrangement with the Company. The Directors shall endeavour to ensure that any conflict of interest is resolved fairly. At the date of this Prospectus, the director Jane Trust is also on the board of the AIFM.

To the extent permitted under applicable laws, where any cash forming part of the property of the Company is transferred to a deposit account with the Depositary, the AIFM, any Investment Delegate or any of their Connected Persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Shareholders of the Company, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with ordinary and normal course of business. Subject thereto the Depositary, the AIFM, any Investment Delegate or their Connected Persons shall be entitled to retain for its or their own use and benefit any benefit which it or they may derive from any cash for the time being in its or their hands (whether on current or deposit account) as part of the property of the Company.

To the extent permitted under applicable laws, borrowing may be effected in respect of the Company from any person approved by the AIFM (including, if a banker, the AIFM, the Depositary, any Investment Delegate or any Connected Persons of any of them provided that the rate of interest on that borrowing and any fee or premium payable to such banker in relation to the arrangement or termination of the borrowing is of no greater amount than is in accordance with its normal banking practice, the commercial rate for a loan of a similar size, nature and duration in circumstances similar to those then prevailing in relation to the Company negotiated at arm's length).

To the extent permitted under applicable laws, in the event that the Depositary or the AIFM or any Connected Persons of either of them shall act as banker, lender or financier or otherwise in respect of the funds, investments or borrowings of the Company, then it shall, in such capacity, be entitled to retain all normal banking, lending or financing profit.

All transactions carried out by or on behalf of the Company must be executed at arm's length, in the best interests of the Shareholders, and on the best available terms.

The AIFM maintains and operates organisational, procedural and administrative arrangements and implements policies and procedures designed to manage actual and potential conflicts of interest. It will take all reasonable steps to identify; record and manage conflicts of interest fairly and in accordance with the group "Conflicts of Interest Policy". It will monitor compliance with its Conflict of Interest Policy on an ongoing basis. It may implement additional controls in respect of the management of conflicts of interest where necessary. Where a conflict of interest cannot be managed and where permissible, the Company may obtain the client's consent to continue with the conflict of interest in place or determine to decline to act for the client.

### **Shareholders Meetings**

All general meetings of the Shareholders shall be held in Ireland and at least one general meeting of the Company shall be held in each year as the Company's annual general meeting. At least twenty one days' notice (inclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given) shall be given to Shareholders. For as long as the Master Fund

remains authorised in Hong Kong, if within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall be adjourned for not less than 15 days (including Shareholders meetings of the Master Fund). The quorum at an adjourned meeting will be those shareholders present at the adjourned meeting in person or by proxy. The notice shall specify the place, day and hour of the meeting and the terms of the resolutions to be proposed. A proxy may attend on behalf of any Shareholder. The voting rights attached to the Shares are set out under the section headed "Voting Rights" above.

The quorum for meetings at which a special or extraordinary resolution is to be considered should be the holders of 25% of the shares in issue and 10% if only an Ordinary Resolution is to be considered. The Directors of the Company, the Depositary, the Investment Manager and their connected persons must be prohibited from voting their beneficiary owned shares at, or counted in the quorum for, a meeting at which they have a material interest in the business to be contracted. An Extraordinary General Meeting should be called for the following purposes: to modify, alter or add to the constitutive documents of the Company (other than changes which are necessary to make possible compliance with fiscal or other statutory or official requirements or do not materially prejudice shareholders' interests or are necessary to correct a manifest error); to terminate the Company; to increase the maximum fees paid to the Investment Manager, the Depositary, or Directors of the Company; or to impose other types of fees.

### **Reports And Accounts**

The Company shall make available to Shareholders monthly statements that provide their portfolio holdings and security valuations within seven Business Days of month end. Further, the Directors shall cause to be prepared an annual report and audited annual accounts for the Company for the period ending on the Accounting Date in each year. The annual report will be made available to Shareholders within four months of the end of the relevant Accounting Period end and at least twenty-one days before the annual general meeting. In addition, the Directors shall cause to be prepared and made available to Shareholders a half-yearly report which shall include unaudited half-yearly accounts for the Company prepared up to 31 January in each year. The annual report and half-yearly report will be made available on the website of the Hong Kong Representative at [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk)\*, within four months and two months respectively after the end of the period covered. These reports are available in English only, and are also available free of charge at the office of the Hong Kong Representative. Subject to applicable Hong Kong requirements, any other Shareholder communication may be sent to Shareholders by electronic mail or other electronic means of communication, although Shareholders and prospective investors may also, on request, receive hard copy reports by mail.

The Master Fund shall provide holders of Common Shares with its audited annual and unaudited semi-annual reports within sixty days of each period end. The periodic reports of the Master Fund will be attached to periodic reports of the Company when they become available. The annual report of the Company will contain details of the investment portfolio of the Master Fund.

### **Fair Treatment Of Shareholders**

The AIFM has established procedures, arrangements and policies to ensure compliance with the principles of fair treatment of investors. The principles of treating investors fairly include, but are not limited to:

- acting in the best interests of the Company and of the investors;
- executing the investment decisions taken for the account of the Company in accordance with the objectives, the investment strategy and the risk profile of the Company;
- taking all reasonable measures to ensure that orders are executed to obtain the best possible result;
- preventing from placing the interests of any group of investors above the interests of any other group of investors;

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\* The website has not been reviewed by the SFC.



- ensuring that fair, correct and transparent pricing models and valuation systems are used for the Company managed;
- preventing undue costs being charged to the Company and investors.

The AIFM maintains and operates organisational, procedural and administrative arrangements and implements policies and procedures designed to manage actual and potential conflicts of interest.

The Company may, in accordance with the requirements of the Central Bank, create further Share classes from time to time. These Share classes may be subject to different terms and conditions, including potentially different fee, dealing, transfer, information disclosure or liquidity arrangements, subject to the requirements of the Central Bank. Such Share classes may be made available to any type of Shareholder, whether or not such Shareholder has legal or economic links to the AIFM or the Company.

### **Shareholders' Rights Against Service Providers**

The Company is reliant on the performance of third party service providers, including the AIFM, the Investment Manager, the Depositary, the Administrator and the Auditor (the "**Service Providers**"). Further information in relation to the roles of the Service Providers is set out above.

Shareholders will not have any direct contractual rights against the Service Providers of the Company appointed from time to time. Any Shareholder who believes they may have a claim against any Service Provider in connection with their investment in the Company, should consult their legal adviser.

The Depositary and Custodian Agreement provides that the Depositary will be liable to the Company for the loss by the Depositary, or a third party to whom it has entrusted custody, of financial instruments held in custody (provided that such liability has not been lawfully discharged). It also provides that this liability can be invoked by the AIFM, both on behalf of the Company and on behalf of the Shareholders. The Depositary and Custodian Agreement imposes further duties and obligations on the Depositary and provides that the AIFM is entitled to pursue the Depositary, on behalf of the Company and on behalf of the Shareholders, in the event that the Depositary fails to carry out these duties and meet these obligations. The Depositary and Custodian Agreement does not create for Shareholders any explicit right of action against the Depositary.

### **Data Protection**

All personal data of Investors ("Data") contained in the application form and all and any further personal data collected in the course of the business relationship with the Company and/or the AIFM may, subject to applicable local laws and regulations, be collected, recorded, stored, adapted, transferred or otherwise processed and used ("processed") by the Company, the AIFM and other companies of Franklin Templeton Investments, including Franklin Resources, Inc. and/or its subsidiaries and associates, the Depositary and any other third parties which provide services to them, any of which may be established outside Hong Kong, Ireland and/or the European Union, including the US and India. Such data shall be processed for the purposes of account administration, development of business relationships, anti-money laundering and counter-terrorist financing identification, tax identification, where appropriate, or for the purpose of compliance with FATCA or similar laws and regulations (e.g. on OECD level). The Company and/or the AIFM, for the purpose of FATCA or other legal compliance, may be required to disclose personal data relating to US Persons and/or non-participant FFIs to the Irish tax authorities which may transfer them to the Internal Revenue Service in the US. The Company and members of the Franklin Templeton Investments group may also use personal data for other purposes set forth in the Franklin Templeton Privacy Notice. All personal data of Hong Kong investors will be processed in accordance with the Personal Data (Privacy) Ordinance in Hong Kong.

The Company asks for investors to consent to the use of information on their religious or philosophical beliefs which may be revealed by compliance checks against politically exposed persons, for the above purposes. This consent is in the application form for Shares.

The Franklin Templeton Privacy Notice provides further information on the Company's and Franklin Templeton Investments' use of personal data and individuals' rights in that regard and is available at [www.franklintempletonglobal.com/privacy](http://www.franklintempletonglobal.com/privacy)\*. A hard copy is available by writing to the registered address of the Hong Kong Representative.

## **Winding Up**

The Articles contain provisions to the following effect:

- (a) if the Company shall be wound up the liquidator shall, subject to the provisions of the Act apply the assets of the Company in such manner and order as they think fit in satisfaction of creditors' claims;
- (b) the assets available for distribution among the Shareholders shall then be applied in the following priority:
  - (i) first, in the payment to the Shareholders, a sum in U.S. Dollars (or in any other currency selected by the liquidator) as nearly as possible equal (at a rate of exchange determined by the liquidator) to the relevant Net Asset Value per Share of the Shares held by the relevant Shareholders as at the date of commencement to wind up provided that there are sufficient assets to enable such payment to be made;
  - (ii) secondly, in the payment to the Shareholders of any balance then remaining, such balance being made in proportion to the number of Shares held;
- (c) if the Company shall be wound up (whether the liquidation is voluntary, under supervision or by the Court) the liquidator may, with the authority of a Special Resolution and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the Company, and whether or not the assets shall consist of property of a single kind, and may for such purposes set such value as they deem fair upon any one or more class or classes of property, and may determine how such division shall be carried out as between the Shareholders or different classes of Shareholders provided always that each Shareholder agrees to accept such division and can request the Depositary to liquidate the assets to cash if they are not in agreement with the distribution in specie. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of Shareholders as the liquidator, with the like authority, shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no Shareholder shall be compelled to accept any assets in respect of which there is liability.

Any unclaimed proceeds or other cash held by the Depositary under the Depositary and Custodian Agreement may at the expiration of six years from the date upon when it first became payable shall be forfeited automatically and form part of the assets of the Company, without the necessity for any declaration or other action by the Company.

## **Material Contracts**

The following contracts, which are summarised in the sections headed "Management And Administration" and "Fees And Expenses Of The Company" above, have been entered into and are, or may be, material:

- (a) AIFM agreement dated 17 July 2014 between the Company and the AIFM, as may be further amended from time to time;
- (b) Investment Management Agreement dated 17 July 2014 between the AIFM and the Investment Manager pursuant to which the Investment Manager was appointed to invest and manage the cash and other assets and investments of the Company, as may be amended from time to time;

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\* The website has not been reviewed by the SFC.

- (c) Administration Agreement dated 31 July 2009 between the Company and the Administrator pursuant to which the Administrator was appointed to provide certain administration services to the Company;
- (d) Amended and restated Depositary and Custodian Agreement dated 17 July 2014 between the Company, the AIFM and the Depositary pursuant to which the Depositary has been appointed as depositary of all of the Company's assets, as may be further amended from time to time;
- (e) Shareholder Services Agreement dated 23 February 2010 between the Company and the Shareholder Services Agent pursuant to which the Shareholder Services Agent was appointed to provide various services in relation to the distribution of Shares of the Company, as may be amended from time to time;
- (f) Investment Management Agreement dated 1 March 2015 between the Master Fund and the Investment Adviser of the Master Fund pursuant to which the Investment Adviser of the Master Fund was appointed to invest and manage the cash and other assets and investments of the Master Fund, as may be amended from time to time;
- (g) Master Custody Agreement dated 1 March 2020, between the Master Fund and the Custodian of the Master Fund pursuant to which the Custodian has been appointed as custodian of all of the Master Fund's assets, as may be amended from time to time;
- (h) Master Administration Subcontract dated 1 May 2014 between the Investment Adviser of the Master Fund and Administrator of the Master Fund pursuant to which FT Services was appointed to assist the Investment Adviser of the Master Fund in fulfilling its obligations under the Investment Management Agreement to provide administration services to the Master Fund, as may be amended from time to time; and
- (i) Representative Agreement between the Company and the Hong Kong Representative, as may be amended from time to time.

#### **Alteration Of Document**

For such time as the Company remains authorised in Hong Kong, the Memorandum and Articles of Association of the Company may be altered by the Company and the Depositary, without consulting shareholders, provided that the Depositary certifies in writing that in its opinion the proposed alteration (i) is necessary to make possible compliance with fiscal or other statutory or official requirements; or (ii) does not materially prejudice shareholders' interests, does not to any material extent release the Depositary, Investment Manager or any other person from any liability to shareholders and does not increase the costs and charges payable from the assets of the Company; or (iii) is necessary to correct a manifest error.

Other alterations to the Memorandum and Article of Association of the Company may be made by a special or extraordinary resolution of the shareholders of the Company or with approval of the SFC. For so long as the Master Fund remains authorised in Hong Kong, the Agreement and Declaration of Trust and By-Laws of the Master Fund may not be altered without the consents of the shareholders of the Master Fund.

#### **Documents For Inspection**

Copies of the following documents may be inspected and obtained at the registered offices of both the Hong Kong Representative and Administrator and the Paying Agent during normal business hours on any Business Day, free of charge and copies of such documents can be purchased at the office of the Hong Kong Representative at a reasonable price.

- (a) the material contracts referred to above;
- (b) the Memorandum and Articles of Association of the Company;
- (c) the Representative Agreement between the Company and the Hong Kong Representative;

- (d) the Act;
- (e) the Constitutive Documents of the Master Fund; and
- (f) the Delaware Business Trust Act.

Copies of any yearly or half-yearly reports may be obtained from the Hong Kong Representative free of charge and may be inspected at the registered office of the Hong Kong Representative during normal business hours on any Business Day.

#### **Enquiries And The Handling Of Complaints**

Shareholders who wish to make an enquiry or complaint may write to the Hong Kong Representative at its address provided in the section "Directory of Parties". The Hong Kong Representative may address any enquiry or complaint verbally or in writing, depending on the nature of such enquiry or complaint, and shall respond as appropriate as soon as reasonably practicable.

**DESCRIPTION OF RATINGS****Corporate Bond Ratings****Moody's:**

- Aaa:** Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt-edged". Interest payments are protected by a large or exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualised are most unlikely to impair the fundamentally strong position of such issues.
- Aa:** Bonds rated Aa are judged to be high quality by all standards. Together with the Aaa group, they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large, fluctuation of protective elements may be of greater amplitude, or there may be other elements present that make the long-term risks appear somewhat larger.
- A:** Bonds rated A possess many favourable investment attributes and are considered upper medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present that suggest a susceptibility to impairment sometime in the future.
- Baa:** Bonds rated Baa are considered medium-grade obligations. They are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. These bonds lack outstanding investment characteristics and, in fact, have speculative characteristics as well.
- Ba:** Bonds rated Ba are judged to have predominantly speculative elements and their future cannot be considered well assured. Often the protection of interest and principal payments is very moderate and, thereby, not well safeguarded during both good and bad times. Uncertainty of position characterises bonds in this class.
- B:** Bonds rated B generally characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.
- Caa:** Bonds raged Caa are of poor standing. These issues may be in default or there may be present elements of danger with respect to principal or interest.
- Ca:** Bonds rated Ca represent obligations that are speculative to a high degree. These issues are often in default or have other marked shortcomings.
- C:** Bonds rated C are the lowest rated class of bonds and can be regarded as having extremely poor prospects of ever attaining any real investment standing.

**Note:** Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through B in its corporate bond ratings. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; modifier 2 indicates a mid-range ranking; and modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

## **S&P**

- AAA: This is the highest rating assigned by S&P to a debt security and indicates an extremely strong capacity to pay principal and interest.
- AA: Bonds rated AA also qualify as high-quality debt securities. Capacity to pay principal and interest is very strong and, in the majority of instances, differ from AAA issues only in a small degree.
- A: Bonds rated a have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.
- BBB: Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.
- BB, B, CCC, CC: Bonds rated BBB, B, CCC and CC are regarded, on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While these bonds will likely have some quality and protective characteristics they are outweighed by large uncertainties or major risk exposures to adverse conditions.
- C: Bonds rated C typically subordinated debt to senior debt that is assigned an actual or implied CCC-rating. The C rating may also reflect the filing of a bankruptcy petition under circumstances where debt service payments are continuing. The C1 rating is reserved for income bonds on which no interest is being paid.
- D: Debt rated d is in default and payment of interest and/or repayment of principal is in arrears.
- Plus(+) or minus(-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

## **Commercial Paper Ratings**

### **Moody's**

Moody's commercial paper ratings are opinions of the ability of issuers to repay punctually their promissory obligations not having an original maturity in excess of nine months. Moody's employs the following designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

- P-1 (Prime 1)*: Superior capacity for repayment.
- P-2 (Prime 2)*: Strong capacity for repayment.

## **S&P**

S&P's ratings are a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from "A" for the highest quality obligations to "D" for the lowest. Issues within the "A" category are delineated with the numbers 1, 2 and 3 to indicate the relative degree of safety, as follows:

- A-1: This designation indicates the degree of safety regarding timely payment is very strong. A "plus" designation indicates an even stronger likelihood of timely payment.
- A-2: Capacity for timely payment on issues with this designation is strong. The relative degree of safety, however, is not as overwhelming as for issues designated A-1.
- A-3: Issues carrying this designation have a satisfactory capacity for timely payment. They are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher obligations.

**ADDITIONAL INVESTMENT RESTRICTIONS**

Notwithstanding the investment restrictions set out in the sub-section headed “Fundamental Investment Policies Of the Master Fund”, for such time as they remain authorised by the SFC, the Company and the Master Fund shall have regard to the following:

**1. Investment limitations**

No holding of any security or asset may be acquired for or added to the Master Fund which would be inconsistent with achieving the investment objective of the Master Fund or which would result in:

- (a) the aggregate value of the Master Fund’s investments in, or exposure to, any single entity (other than government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the Master Fund:
  - (i) investments in securities issued by that entity;
  - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 4.4(c) of this Appendix 2 will not apply to financial derivative instruments that are:

- (A) transacted on an exchange where the clearing house performs a central counterparty role; and
- (B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 6(e) and (j) of this Appendix 2;

- (b) subject to sub-paragraphs 1(a) and 4.4(c) of this Appendix 2, the aggregate value of the Master Fund’s investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available Net Asset Value of the Master Fund:
  - (i) investments in securities issued by those entities;
  - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of sub-paragraphs 1(b) and 1(c) of this Appendix 2, “entities within the same group” means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards.



The requirements under this sub-paragraph 1(b) will also apply in the case of sub-paragraphs 6(e) and (j) of this Appendix 2;

- (c) the value of the Master Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available Net Asset Value of the Master Fund provided that the 20% limit may be exceeded in the following circumstances:
- (i) cash held before the launch of the Master Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested;
  - (ii) cash proceeds from liquidation of investments prior to the merger or termination of the Master Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
  - (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

For the purposes of this sub-paragraph 1(c), "cash deposits" generally refer to those that are repayable on demand or have the right to be withdrawn by the Master Fund and not referable to provision of property or services;

- (d) the Master Fund's holding of any ordinary shares (when aggregated with all other Master Funds' holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity;
- (e) the value of the Master Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a securities market, exceeding 15% of the latest available Net Asset Value of the Master Fund;
- (f) the value of the Master Fund's total holding of government and other public securities of the same issue exceeding 30% of the latest available Net Asset Value of the Master Fund. Subject to the foregoing, the Master Fund may invest all of its assets in government and other public securities in at least six different issues). For the avoidance of doubt, government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise; and
- (g) (i) the value of the Master Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorised by the SFC in aggregate exceeding 10% of its latest available Net Asset Value; and
- (ii) the value of the Master Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorised by the SFC exceeding 30% of its latest available Net Asset Value unless the underlying scheme is authorised by the SFC, and the name and key investment information of the underlying scheme are disclosed in the Offering Document of the Master Fund,

provided that:

- (A) no investment may be made in any underlying scheme the investment

objective of which is to invest primarily in any investment prohibited by Chapter 7 of the SFC's Code on Unit Trusts and Mutual Funds (the "Code");

- (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Master Fund may invest in underlying scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds<sup>1</sup> in compliance with sub-paragraphs 1(g)(i) and (ii) of this Appendix 2;
- (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Investment Adviser of the Master Fund or its connected persons; and
- (E) the Master Fund, or the Investment Adviser of the Master Fund, may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

- (aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Appendix 2 do not apply to investments in other collective investment schemes by the Master Fund;
- (bb) the investment by the Master Fund in a Qualified Exchange Traded Fund will be considered and treated as investments in underlying schemes for the purposes of and subject to the requirements in sub-paragraphs 1(g)(i) and (ii) of this Appendix 2. The investments by the Master Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Appendix 2 and the relevant investment limits in Qualified Exchange Traded Funds by the Master Fund shall be consistently applied;
- (cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Appendix 2 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Appendix 2 apply respectively; and
- (dd) where investments in index-based financial derivative instruments are made, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Appendix 2 provided that the index is in compliance with the requirements under 8.6(e) of the Code.

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<sup>1</sup> "Qualified Exchange Traded Funds" in the context of this Appendix 2 shall mean exchange traded funds that are:

- (a) authorised by the SFC under 8.6 or 8.10 of the Code; or
- (b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of the Code.

Additionally:

- (a) The Master Fund requires that at the end of the close of each business quarter not more than 25% of its total assets will be invested in securities of a single issuer (including corporate loans but excluding US government securities or the securities of regulated investment companies) and in respect of 50% of its total assets, not more than 5% of its assets will be invested in the securities of any one issuer and securities held by the Master Fund will not consist of more than 10% of any single issuer's outstanding voting securities;
- (b) The Master Fund does not intend to invest more than 20% of its assets in the obligations of entities in any single industry, excluding financial institutions;
- (c) The Master Fund may invest, buy or engage in interest rate, currency or credit default swaps (including loan credit default swaps) and options on interest swaps; and
- (d) Although the Franklin Floating Rate Master Trust's board has authorised the Master Fund to invest in credit default swaps, interest rate swaps and options on interest rate swaps, so long as the Master Fund remains authorised by the SFC of Hong Kong, the Master Fund's investments in financial derivative instruments for hedging and non-hedging purposes will comply with the provisions of Chapter 7 of the SFC's Code on Unit Trusts and Mutual Funds, including with respect to limiting the Master Fund's exposure from financial derivatives instruments used for non-hedging purposes to 50% of the Master Fund's net asset value.

## **2. Investment prohibitions**

The Master Fund shall not, unless otherwise specifically provided for in the Code:

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);
- (c) make short sales unless (i) the liability of the Master Fund to deliver securities does not exceed 10% of its latest available Net Asset Value; (ii) the security which is to be sold short is actively traded on a securities market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;
- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Appendix 2, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Appendix 2 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the Master Fund which is unlimited. For the avoidance of doubt, the liability of shareholders of Master Fund is limited to their investments in the Master Fund;
- (g) invest in any security of any class in any company or body if any director or officer

of the Investment Adviser of the Master Fund individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; and

- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Master Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Appendix 2.

### 3. Feeder Funds

The Company which is a feeder fund may invest 90% or more of its total Net Asset Value in a single collective investment scheme ("**underlying scheme**") in accordance with the following provisions:

- (a) such underlying scheme ("**Master Fund**") must be authorised by the SFC;
- (b) no increase in the overall total of initial charges, redemption charges, management fees, or any other costs and charges payable to the Investment Manager or any of its connected persons borne by the Shareholders or by the Company may result, if the Master Fund is managed by the Investment Manager or by a connected person of the Investment Manager; and
- (c) notwithstanding proviso (C) to sub-paragraph 1(g) of this Appendix 2, the Master Fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in sub-paragraphs 1(g)(i) and (ii) and proviso (A),(B) and (C) to sub-paragraph 1(g) of this Appendix 2.

### 4. Use of financial derivative instruments

4.1 The Master Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 4.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

The Investment Adviser of the Master Fund, where it deems necessary, shall cause hedging arrangement to be adjusted or re-positioned, with due consideration on the fees, expenses and costs, to enable the relevant Fund to meet its hedging objective in stressed or extreme market conditions.

4.2 The Master Fund may also acquire financial derivative instruments for non-hedging purposes ("**investment purposes**") subject to the limit that the Master Fund's net exposure relating to these financial derivative instruments ("**net derivative exposure**") does not exceed 50% of its latest available Net Asset Value. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 4.1 of this Appendix 2 will not be counted towards the 50% limit referred to in this sub-paragraph 4.2 so long as there is

no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

- 4.3 Subject to sub-paragraphs 4.2 and 4.4 of this Appendix 2, the Master Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Master Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Appendix 2.
- 4.4 The financial derivative instruments invested by the Master Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:
- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Master Fund may invest according to its investment objectives and policies;
  - (b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
  - (c) subject to sub-paragraphs 1(a) and (b) of this Appendix 2, the Master Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Master Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Master Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
  - (d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the valuation agent, the Investment Adviser of the Master Fund or the Depositary or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Master Fund's initiative. Further, the valuation agent or any person appointed to perform valuation of the financial derivative instruments (including any calculation agent / administrator) should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.
- 4.5 The Master Fund should at all times be capable of meeting all its payment and delivery obligations incurred under transactions in financial derivative instruments (whether for hedging or for investment purposes). The Investment Adviser of the Master Fund shall, as part of its risk management process, monitor to ensure that the transactions in financial derivative instruments in respect of the Master Fund are adequately covered on an ongoing basis. For the purposes of this sub-paragraph 4.5, assets that are used to cover the Master Fund's payment and delivery obligations incurred under transactions in financial derivative instruments shall be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.

4.6 Subject to sub-paragraph 4.5 of this Appendix 2, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Master Fund shall be covered as follows:

- (a) in the case of financial derivative instruments transactions which will, or may at the Master Fund's discretion, be cash settled, the Master Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- (b) in the case of financial derivative instruments transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Master Fund shall hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Investment Adviser of the Master Fund considers the underlying assets to be liquid and tradable, the Master Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation provided further that the Master Fund shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

4.7 The requirements under sub-paragraphs 4.1 to 4.6 of this Appendix 2 shall apply to embedded financial derivative. For the purposes of this Appendix 2, an “**embedded financial derivative**” is a financial derivative instrument that is embedded in another security.

## 5. **Securities financing transactions**

5.1 The Master Fund may engage in securities financing transactions, provided that they are in the best interests of Shareholders to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

5.2 The Master Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

5.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions, shall be returned to the Master Fund.

5.4 The Master Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Master Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

## 6. **Collateral**

In order to limit the exposure to each counterparty as set out in sub-paragraphs 4.4(c) and 5.2 of this Appendix 2, the Master Fund may receive collateral from such counterparty, provided that the collateral complies with the requirements set out below:

- (a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- (b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;
- (c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has

deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;

- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The Master Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Appendix 2;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Investment Adviser of the Master Fund has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Depositary or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Depositary without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the Master Fund shall be subject to the following requirements:
  - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;
  - (ii) non-cash collateral received may not be sold, re-invested or pledged;
  - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in sub-paragraphs 6(b) and 6(j) of this Appendix 2;
  - (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
  - (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;

- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

## **7. Borrowing and Leverage**

The expected maximum level of leverage of the Company and the Master Fund is as follows:

### Cash borrowing

- 7.1 No borrowing shall be made in respect of the Master Fund which would result in the principal amount for the time being of all borrowings made for the account of the Master Fund exceeding an amount equal to 10% of the latest available Net Asset Value of the Master Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Appendix 2 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 7.1.

### Leverage from the use of financial derivative instruments

- 7.2 The Master Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the Product Key Facts Statement of the Company.
- 7.3 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the Master Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.
- 7.4 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

## **8. Name of Fund**

- 8.1 If the name of a Fund indicates a particular objective, investment strategy, geographic region or market, the Fund must, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Fund represents.

The above mentioned restrictions also apply to the Company in respect of its net assets (in particular the borrowings of the Company may not exceed 10% of its Net Asset Value) and the Company and the Master Fund will be deemed a single entity for the purpose of complying with the restrictions.