

## PRODUCT KEY FACTS

### China Life Franklin Diversified Income Fund

April 2024



This statement provides you with key information about China Life Franklin Diversified Income Fund (the “Trust”).

This statement is a part of the offering document and must be read in conjunction with the Explanatory Memorandum of the Trust.

You should not invest in this product based on this statement alone.

#### Quick facts

<b>Manager:</b>	China Life Franklin Asset Management Co., Limited
<b>Trustee:</b>	China Life Trustees Limited
<b>Custodian:</b>	Bank of China (Hong Kong) Limited
<b>Ongoing charges#:</b>	<u>HKD Class</u> 1.21% per annum (exclusive of performance fees) 1.21% per annum (inclusive of performance fees)  <u>USD Class 1</u> 1.21% per annum (exclusive of performance fees) 1.21% per annum (inclusive of performance fees)  <u>USD Class 2</u> 1.21% per annum (exclusive of performance fees) 1.21% per annum (inclusive of performance fees)  Daily (Hong Kong business day, except for Saturday and Sunday)
<b>Dealing frequency:</b>	HKD
<b>Base currency:</b>	Currently the Manager does not intend to make any distribution, and the income earned will be reinvested in the Trust and reflected in the increased value of unit of the Trust. No distribution will be paid out of the capital of the Trust or effectively out of the capital of the Trust.
<b>Distribution policy:</b>	
<b>Financial year end of the Trust:</b>	31 December
<b>Minimum investment:</b>	HKD Class: HK\$50,000 <sup>^</sup> initial, HK\$10,000 <sup>^</sup> subsequent USD Class 1: US\$6,500 <sup>^</sup> initial, US\$1,300 <sup>^</sup> subsequent USD Class 2: US\$5,000,000 <sup>^</sup> initial, US\$5,000,000 <sup>^</sup> subsequent
<b>Minimum holding:</b>	HKD Class: HK\$1,000 <sup>^</sup> USD Class 1: US\$130 <sup>^</sup> USD Class 2: US\$100,000 <sup>^</sup>
<b>Minimum redemption amount:</b>	HKD Class: HK\$1,000 <sup>^</sup> USD Class 1: US\$130 <sup>^</sup>

USD Class 2: US\$100,000<sup>^</sup>

# The ongoing charges figures represent the ongoing expenses chargeable to each class of Units for a 12-month period ended 31 December 2023 as a percentage of the average net asset value of the relevant class of Units over the same period. It includes all aspects of operating the Trust, including the fees to be paid for investment management and administration. Performance fees to be paid as at year end, if any, may vary subject to the market conditions. The figures may vary from year to year. The Manager will monitor the ongoing charges figures and, if necessary, update the figures in accordance with the relevant SFC guidance.

<sup>^</sup> Or such other amount prescribed by the Manager from time to time, subject to the prior approval of the SFC (where applicable) and/or on giving not less than one month's prior notice.

### What is this product?

The Trust is a single fund which is a Hong Kong domiciled open-ended unit trust established by a trust deed dated 29 July 2014. It is governed by the laws of Hong Kong.

### Investment Objective and Policy

The investment objective of the Trust is to achieve a high level of current income and to provide a steady capital growth to Unitholders by investing primarily in a portfolio of global and regional fixed income securities, including high-yield bonds, which normally carry below investment grade ratings and emerging market debt. The Trust may also invest in equity securities and other types of investments on an ancillary basis. These securities may be denominated in either local currencies or globally traded major currencies.

The Trust intends to hold the following types of assets:

Type of assets	Percentage limits of the net asset value of the Trust
Fixed income securities	70% to 95%
Equity securities	5% to 20%
Other securities (such as convertible bonds and mutual funds)	0% to 5%
Cash and deposits	0% to 25 %

The Trust may invest indirectly in the onshore mainland China securities market, up to 20% of the Trust's net asset value, through investment in securities issued or distributed outside mainland China e.g. Renminbi Qualified Foreign Institutional Investor Funds. The Trust does not invest in securities issued or distributed within mainland China directly.

The Trust intends to invest up to 70 per cent. of its net asset value in the securities that are below investment grade or unrated. The Manager may invest in fixed income securities that are below investment grade or unrated and investors should be aware of the greater risks which may be involved in investing in these securities. "Securities that are below investment grade" refers to securities with a credit rating of BB+ or below from Standard & Poor's, Ba1 or below from Moody's or an equivalent rating from an internationally recognised rating agency. In selecting these securities, the Manager may use its own internal research process and judgment to assess the credit quality of the securities and the issuers thereof.

The Trust may invest up to 5 per cent. of its net asset value in debt instruments with loss-absorption features e.g. contingent convertible bonds. These instruments may be subject to contingent conversion to ordinary shares on the occurrence of trigger event.

The Trust may invest in sovereign debt securities but it does not invest more than 10 per cent. of its net asset value in securities issued by or guaranteed by any single sovereign issuer (including its government, a public or local authority of that country/sovereign/region) with a credit rating below investment grade or unrated.

For the purpose of hedging, the Manager may make use of financial derivative instruments (including futures contracts). The Trust does not intend to invest in derivative instruments (including futures contracts) for investment purposes, asset-backed securities (including asset-backed commercial papers) and/or mortgage-backed securities.

The Manager will not enter into any securities-lending transaction, repurchase agreement, reverse-repurchase agreement or similar over-the-counter transactions in respect of the Trust. The Manager will seek the prior approval of the SFC and provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions.

The Manager actively manages the Trust, which relies on the professional judgment of the Manager in making decisions about the Trust's portfolio investments. Portfolio construction is based on the Manager's view of the macro economy and a combination of top down and bottom-up fundamental analysis. Top-down analysis is based on the Manager's assessment of macroeconomic factors, state policies, market valuation and liquidity. When investing in equities securities, the Manager decides stocks via stock picking which involves bottom up analysis (e.g. research and analysis of individual stocks alongside with financial projection and valuation). When investing in fixed income securities, the Manager seeks to optimise portfolio combination via issuer selection, duration, term-structure. The duration of the fixed income securities investment portfolio is based on the Manager's expectations of the changes in interest rates. Duration measures the sensitivity of bond prices to the change of interest rates (or yields). Term-structure (or yield curve) represents the market's expectation of interest rates (or yields) with different maturities. The Trust will apply analysis in credit risk and liquidity risk to adjust the allocation of investment in fixed income securities and increase returns on investment.

All investments of the Trust are subject to the investment restrictions under the Trust Deed. Please refer to section 2.3 of the Explanatory Memorandum for details of the investment restrictions under the Trust Deed.

#### **Use of derivatives**

The Trust's net derivative exposure may be up to 50 per cent. of the Trust's net asset value.

#### **What are the key risks?**

**Investment involves risks. Please refer to the Explanatory Memorandum for details including the risk factors.**

#### **Investment risk**

The Trust's investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the Trust may suffer losses. There is no guarantee of the repayment of principal.

#### **Currency risk**

Underlying investments of the Trust may be denominated in currencies other than the base currency of the Trust. The net asset value of the Trust may be affected unfavorably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

#### **Risks of investing in fixed income securities**

The Trust mainly invests in fixed income securities which may fall in value. Investors may suffer losses as a result. Investment in the Trust is subject to risks that apply to fixed income securities as follows:

##### *Below investment grade and unrated fixed income securities risk*

The Trust may invest up to 70 per cent. of its net asset value in securities which are below investment grade or which are unrated. Such securities are generally subject to lower liquidity, higher volatility and greater risk of loss of principal and interest than high-rated debt securities.

##### *Interest rate risk*

Investment in the Trust is subject to interest rate risk. In general, the prices of fixed income securities rise when interest rates fall, whilst their prices fall when interest rates rise.

##### *Credit risk of issuers*

The Trust is exposed to the credit/default risk of issuers of the fixed income securities that the Trust invests in.

#### *Downgrading risk*

The credit rating of a debt instrument or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the Trust may be adversely affected. The Manager may or may not be able to dispose of the debt instruments that are being downgraded.

#### *Volatility and liquidity risk*

The fixed income securities may be subject to higher liquidity risk and volatility due to various factors, including but not limited to market event, supply and demand condition in the market. The prices of fixed income securities traded therefore may be subject to fluctuations that lead to widening of bid and offer spreads by which the Trust may in turn incur significant trading cost.

#### *Valuation risk*

Valuation of the Trust's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the net asset value calculation of the Trust.

#### *Credit rating risk*

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

#### **Risks relating to equity securities**

The Trust's investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.

#### **Emerging markets risk**

The Trust invests in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility.

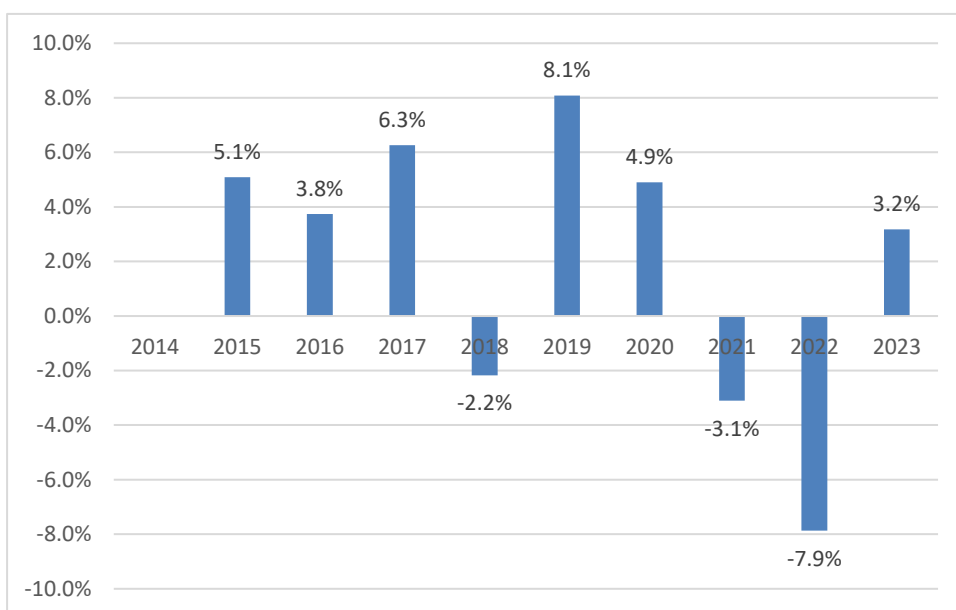
#### **Performance fee risk**

Performance fees may encourage the Manager to make riskier investments than would be the case in the absence of a performance-based incentive system. Given there is no equalisation arrangement for the calculation of the performance fee, a redeeming investor may still incur a performance fee in respect of his investments, even though he has suffered a loss of investment capital. In addition, performance fees may be paid on unrealised gains which may never be realised by the Trust. Furthermore, any decrease in the percentage level of the High Water Mark may increase the frequency of triggering the payment of performance fee and, once such payment is triggered, increase the amount of performance fees payable to the Manager. This may therefore increase the Manager's dependence on remuneration based on the performance of the Trust and further incentivise the Manager to take additional risks when making investment decisions in order to maximise the appreciation of the net asset value of the Trust.

#### **Conflicts of interest**

Potential conflicts of interest may arise as the Manager belongs to the same group as the Trustee. If such conflicts arises, the Trustee will, at all times, have regard in such event to its obligations to the Trust and the Unitholders and will endeavour to ensure that such conflicts are resolved fairly.

## Past Performance of the Trust



Past performance information is not indicative of future performance. Investor may not get back the full amount invested.

The computation basis of the performance is based on calendar year end, NAV-To-NAV, with dividend reinvested.

These figures show by how much the Trust increased or decreased in value during the calendar year being shown. Performance data has been calculated in HKD taking into account charges and excluding subscription charge and redemption charge you might have to pay.

Where no past performance is shown, there was insufficient data available in that year to provide performance.

Fund launch date: 22 September 2014

HKD Class launch date: 22 September 2014

HKD Class has the longest history and is broadly indicative of the Trust's performance characteristics.

### Is there any guarantee?

The Trust does not have any guarantees. You may not get back the amount of money you invest.

### What are the fees and charges?

You will be given not less than one month's prior written notice should there be any increase of the following fees and charges up to a specified permitted maximum level as set out in the Explanatory Memorandum.

#### Charge which may be payable by you

You currently do not have to pay the following fees when dealing in the units of the Trust.

#### Fee

Subscription charge

Switching charge

Redemption charge

#### What you pay

Currently capped at 3% of the issue price for HKD Class, USD Class 1 and USD Class 2

Nil

Nil

### **On-going fees payable by the Trust**

The following expenses will be paid out of the Trust. They affect you because they reduce the return you get on your investments.

	<b>Annual rate (as a % of the relevant class of Units' net asset value)</b>
Trustee Fee	0.4 per cent. per annum for HKD Class and USD Class 1 0.35 per cent. per annum for USD Class 2
Custodian Fee	up to 0.15 per cent.
Management Fee	0.80 per cent. per annum for HKD Class, USD Class 1 and USD Class 2 (Up to a maximum of 5.0 per cent. per annum, paid monthly)
Performance Fee	10 per cent. x Period-End Excess NAV per Unit x Period-End Average Number of Units

Period-End Excess NAV per Unit means, in respect of a performance period, if the net asset value of the Trust per Unit as at the last valuation day of that performance period (net of fees (excluding the performance fee payable in such performance period, if any) paid in respect of such performance period) is higher than the High Water Mark, the excess portion of such net asset value of the Trust over such High Water Mark.

Period-End Average Number of Units means, in respect of a performance period, the average of the number of Units of the Trust in issue on each valuation day in such performance period.

The High Water Mark is 102.8 per cent. of the higher of (a) HK\$10.00 (being the initial offer price); and (b) the net asset value per unit of the Trust on the last valuation day of the preceding performance period in respect of which a performance fee was last paid to the Manager (net of fees paid in respect of that preceding performance period).

The relevant performance period commences on 1 January of a year and ending on the last valuation day of that year (both days inclusive), except that the first performance period will commence on the date of the initial issue of units of the Trust.

The performance fee (if any) chargeable in respect of a performance period will be paid to the Manager as soon as practicable after the end of such performance period.

For Units redeeming during the relevant performance period, any accrued performance fee with respect to such Units will be crystallised on the relevant redemption day and become payable as soon as practicable after the end of the relevant performance period. The High Water Mark is not reset on the relevant redemption day at which the performance fee is crystallised following the redemption of Units.

For the details and illustrative examples of the performance fee calculation, please refer to section 6.5 of the Explanatory Memorandum.

**Other fees**

You may have to pay other fees and charges when dealing in units of the Trust.

**Additional information**

You generally subscribe and redeem units of the Trust at the net asset value per unit of the Trust calculated as at the relevant valuation day after the Trustee has received your request in good order by 5:00 p.m. (Hong Kong time) on such valuation day. However, different distributors may have different dealing cut-off times. Valuation day is a Hong Kong business day which means a day (other than Saturday and Sunday) on which banks in Hong Kong are open for general business or such other day or days as the Manager, in consultation with the Trustee, determines.

The net asset value of the Trust will be determined as at the close of business in the last market to close of all relevant markets in which the Trust is invested (or at such other time as the Manager, in consultation with the Trustee, may determine) on each valuation day. The net asset value per unit is available from the Administrator on request and is published daily in the website <http://www.clamc.com.hk> (the contents of which have not been reviewed by the SFC).

You may obtain the past performance information of other classes of Units offered to Hong Kong investors at <http://www.clamc.com.hk> (the contents of which have not been reviewed by the SFC).

**Important**

If you are in doubt about the contents of this statement, you should seek independent professional financial advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.